

PATRIA BANK SA

2018 Board of Directors' Annual Report

Drawn up according to the NBR Order no. 27/2010, the NBR Order no. 7/2016, the FSA Regulation no. 5/2018, the NBR Regulation no. 5/2013 and the (EU) Regulation No. 575/2013

and includes both the Individual and the Consolidated Report of the Board of Directors, as well as the corporate governance statement and the non-financial statement on environmental, social and personnel issues, respecting human rights and the fight against corruption and bribery

Patria Bank S.A. - Social Headquarters: 31 Brezoianu Ion actor street, floors 1, 2 and attic, Bucharest, Romania, postal code 010131
Real Headquarters: 42 Pipera Road, Globalworth Plaza building, floors 7, 8 and 10, Bucharest, Romania, postal code 020112
Bank Deposit Guarantee Fund Bank (FGDB); ORC: J40 / 9252/2016, C.I.F. RO 11447021, Nr. RB-PJR-32-045 / 07.15.1999; Share capital (subscribed and paid) 311,533,057.50 lei; Operator data code ANSPDCP Registry: no. 753. Tel: +40372538725 | Fax: +40 212063902 | info@patriabank.ro | www.patriabank.ro

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Financial year:	2018
Report date:	29.03.2019
Company name:	Patria Bank SA
Registered office:	Bucharest, 31 Ion Brezoianu Actor Street, floors 1, 2 and attic, district 1, Bucharest
Actual office:	42 Pipera Road, Globalworth Plaza, floors 7, 8 and 10, district 2, Bucharest
Tax identification number:	RO 11447021
Trade Register number:	J40/9252/2016
Phone/fax:	+40 372 538 725 // +40 21 206 39 02
Issued and paid-in share capital:	LEI 311,533,057.50
Regulated market on which the issued shares are traded:	Bucharest Stock Exchange - Premium category, under symbol "PBK"
BSE listing date:	09.06.2004 (second category), respectively 26.04.2005 (first category)
Main characteristics of the securities issued by the trading company:	3,115,330,575 registered, ordinary shares, each having a nominal value of LEI 0.1

1. Scope of the report

The purpose of this Report is to ensure compliance with the disclosure requirements, to provide an adequate level of transparency to market participants by publishing information on:

- Performance of the company's activities and its financial position;
- The Corporate Governance' practices, procedures and structure;
- Policy of the selection and recruitment of the members of management structures, diversity policy, and remuneration policy;
- Impact of the company's activity on environmental, social and human resources issues, fulfilling the human rights and the fight against corruption and bribery.
- The main risks and uncertainties faced by the company, its objectives and policies on risk management, as well as the capital and risk assessment processes, in order to provide a complete picture of the risk profile.

Within this context, the Report offers a thorough overview on the current risk profile as well as on the risk administration process at Patria Bank Group level and covers the following main issues:

- a. The organizational structure of the risk administration framework;
- b. The structures and responsibilities of the risk administration function;
- c. Remuneration and recruitment practices;
- d. Capital structure;

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- e. Capital adequacy;
- f. Risk management systems and procedures;
- g. Risk management for each type of risk;
- h. Undertaken risks (risk management policies and objectives, risk appetite and risk profile);
- i. Risk mitigation techniques.

The Report incorporates complementary information to the Financial Statements as of 31.12.2018, as well as complementary information on the risk management objectives and policies at the Bank level. The complementary information covers mainly the following interest areas:

- Structures and policies about the activity's management framework, including objectives, organizational structure, activity management framework, management body's structure and organization, including meetings attendance, as well as the Bank's incentives and remuneration structure;
- The set-up of the business strategy and risk management strategy (including the involvement of the management body) and predictable risk factors;
- The committees established at Bank level, their attributions and competence;
- Internal control framework and organizational structure of the control functions and its main attributions, the way in which their performance is monitored by the management body and any other significant planned changes for these functions;
- The strategies and administration processes applicable in case of these risks;
- The structure and the set-up of the relevant risk management function, including information on the authority and statute or other relevant organizational issues;
- The coverage area and the type of reporting and risk measurement systems;
- Risk coverage and mitigation policies, as well as strategies and processes to monitor the continuity of the effectiveness of risk hedging and mitigating elements;
- The global risk profile associated with the business strategy, including the key risk rates and data to provide a comprehensive overview of how the institution's risk profile interacts with the risk tolerance set by the management body.

2. Disclosure requirements

This Report of the Board of Directors meets the disclosure requirements set by:

- Law no. 24/2017 on issuers of financial instruments and market operations;
- Financial Supervision Authority (FSA) Regulation no. 5/2018 on issuers of financial instruments and market operations;
- Order of the National Bank of Romania (NBR) no. 27/2010 for the approval of the Accounting Regulations in compliance with the International Financial Reporting Standards, applicable to credit institutions, with subsequent modifications and amendments (including the Order of the NBR no. 7/2016);

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- The provisions of the NBR Regulation no. 5/2013 on prudential requirements for credit institutions and Part 8 of Regulation no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending EU Regulation no. 648/2012, hereinafter referred to as CRR.

The information in this report is also presented in accordance with the guidelines and regulations published separately by the European Banking Authority (EBA), fulfilling the following requirements:

- The general information on publishing requirements: EBA/GL/2016/11 Guideline on disclosing requirements under Part-8 of (EUR) Regulation No. 575/2013.
- For the disclosure requirements regarding the information about the own funds: Implementing Regulation No. (EU) 1423/2013 on the disclosure requirements of information on own funds for institutions.
- For the disclosure requirements regarding the information about the leverage effect: Implementing Regulation No. 200/2016 on the disclosure requirements of information on the leverage effect for institutions.
- For the disclosure requirements related to the information on the pledged assets: EBA/GL/2014/03 Guideline on the disclosure of information on pledged and non-encumbered assets as well as the Delegated Regulation (EU) No. 2295/2017 on regulatory technical standards for the publication of bundled and unencumbered assets.
- For the disclosure requirements related to the information on the liquidity coverage indicator: EBA/GL/2017/01 Guideline on the disclosure of the liquidity coverage indicator (LCR) to supplement the liquidity risk management information required by Article 435 of the CRR.
- For the disclosure requirements related to the information about the remuneration policy: EBA/GL/2015/22 Guideline on robust remuneration policies pursuant to Article 74 (3) and Article 75 (2) of Directive 2013/36/EU and disclosure of information according to the Article 450 of Regulation (EU) No. 575/2013.
- For the disclosure requirements on materiality, ownership, confidentiality and frequency of reporting: EBA/GL/2014/14 Guideline on significance, property and confidentiality, and the frequency of reporting under Articles 432 (1), 432 (2) and 433 of Regulation (EU) No. 575/2013 and the NBR instructions of 28 October 2015 on materiality, ownership, confidentiality and frequency of reporting under Articles 432 (1), 432 (2) and 433 of Regulation (EU) 575/2013.

The Bank has adopted a formal procedure to comply with the disclosure requirements of the CRR and has policies to assess the adequacy of the published information, including their verification and frequency. The Bank also has policies to assess whether the published information provides market participants with a full picture of their risk profile. The Bank's transparency procedure formalizes the treatment of information deemed to be below the significance threshold (materially), property or confidential. The Bank does not consider the information required to be published in this report as immaterial, proprietary or confidential.

This report is published annually in Romanian and English, while specific information is published at a higher frequency (quarterly or semi-annual). The Bank chose the internet as a means of publishing this report. It is available

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on the Bank's website (<https://www.patriabank.com/about-patria/investors/results-and-reports/financial-reports>). Some of the information requested by CRR is presented in the Consolidated and Individual Financial Statements of Patria Bank SA as at 31.12.2018, this report referring to them.

The coordination of the preparation of the report is the responsibility of the Capital Markets and Investor Relations Division and the review of the completeness and compliance with the applicable regulations is the responsibility of the Compliance Division through the Compliance Monitoring Department, which requires verification of the legal requirements for publishing the categories and flows of information published in this report.

3. About the Company and the Group

Description of main activity

Patria Bank SA (hereinafter referred to as "the Bank", "the merged Bank" or "PBK") is a joint stock company, being managed under unitary system, authorized as a credit institution for carrying out banking activities on Romanian territory, according to Emergency Ordinance of Government (EOG) no. 99/2006 on credit institutions and capital adequacy.

The Bank's real office is located on 42 Pipera Road, Globalworth Plaza, 7th, 8th and 10th floors, Sector 2, Bucharest, and the Bank's social headquarters is located on 31, Ion Brezoianu Street, 1st floor, 2 and attic, Sector 1, Bucharest.

The Bank performs banking operations and other financial services with individuals and legal entities, having a market share based on assets below 1%. These include: opening of accounts and deposits, internal and external payments, foreign exchange operations, financing for current activity, medium-term financing, issuing letters of guarantee, letters of credit.

Date of establishment

Patria Bank S.A. is the result of the merger by absorption between i) the former Banca Comerciala Carpatica S.A., as an absorbing entity, with fiscal code 11447021, registered with the Trade Registry under no. J40 / 9252/2016 and ii) former Patria Bank S.A. (ex Nextebank), as an absorbed entity, having fiscal code 4786360 and registered with the Trade Registry under no. J23 / 2563/2016, process that took place on 01.05.2017.

Former Banca Comerciala Carpatica SA (absorbing bank) was established in 1999 in Sibiu, being authorized as a credit institution for carrying out banking activities on the territory of Romania, according to GEO no. 99/2006 on credit institutions and capital adequacy. The bank was listed initially on RASDAQ market – III-R category, under the BACR stock exchange symbol and since 2004 it starts trading in the second category of the Bucharest Stock Exchange, under the symbol BCC, and since 2005 it has moved into the Main Segment of the Bucharest Stock Exchange - Premium Category.

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Former Patria Bank SA (absorbed bank) was established in 1993 in Targu Mures under the name Romexterra Credit and Development Bank. In September 2006, MKB Bank Zrt. Hungary (the subsidiary of Bayerische Landesbank) acquired the majority stake of 55.36% of the share capital and from 2007 to 2014 MKB Bank Zrt. increased its stake so that on April 29, 2014 it held 98.41% of the share capital. The bank was initially renamed MKB Romexterra and then Nextebank SA. On April 30, 2014, EEAF Financial Services B.V. became the new majority shareholder of Nextebank S.A., by acquiring the majority stake in MKB Bank Zrt., and in 2016 changed the name of the bank from Nextebank SA to Patria Bank SA. Also in 2016, the former Patria Bank SA acquires a majority stake of 64.16% of the share capital of the former Banca Comerciala Carpatica SA, and after merger with it, the former Patria Bank SA dissolves without liquidation.

With the implementation of the merger, the absorbing company, Banca Comerciala Carpatica S.A., changed its name to Patria Bank S.A. and from 2017 changed its stock exchange symbol from 'BCC' to 'PBK'.

Significant mergers or reorganisations of the Bank, its subsidiaries or controlled companies, during 2018

Nil.

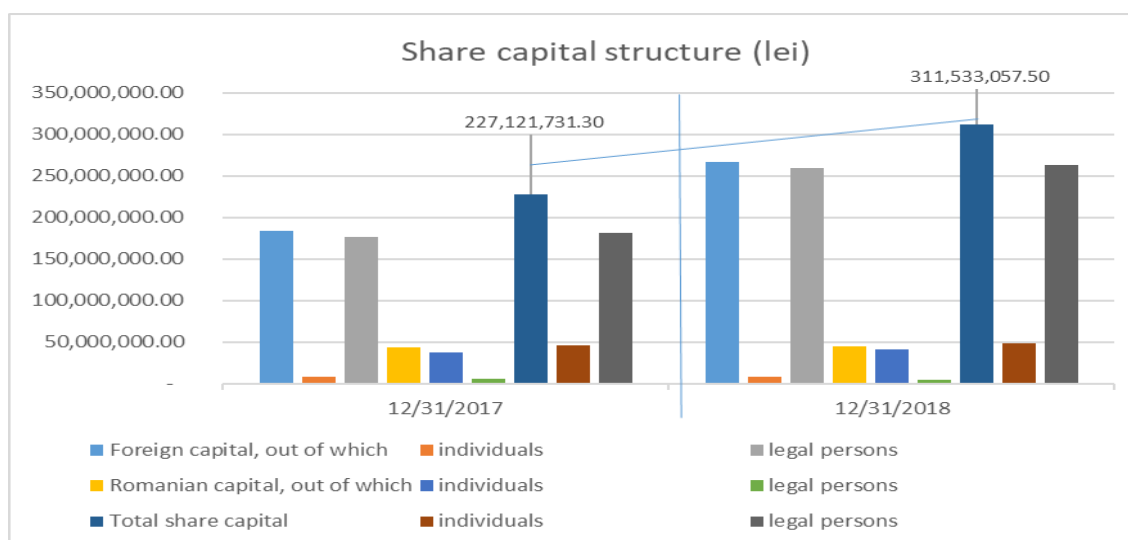
Change of majority shareholder

As at 31.12.2018 the share capital of Patria Bank SA amounts to LEI 311,533,057.50, consisting of 3,155,330,575 ordinary nominative shares, dematerialized, each having a nominal value of LEI 0.1 / share.

As at 31.12.2018, the bank is 82.3373% owned by EEAF FINANCIAL SERVICES BV ("EEAF"), a limited liability company registered in accordance with Dutch law, based in Prins Bernhardplein 200, 1097 JB Amsterdam, Netherlands. EEAF FINANCIAL SERVICES BV is 100% owned by the EMERGING EUROPE ACCESSION FUND COOPERATIEF U.A., a cooperative with the exclusion of liability, set up in accordance with the Dutch legal framework, based in Prins Bernhardplein 200, 1097 JB Amsterdam, Netherlands. The EEAF Investment Fund is the third private equity fund whose investment consultant is Axxess Capital Partners and brings together as major investors important international financial institutions (multilateral development banks) such as:

- EBRD – European Bank for Reconstruction and Development
- EIF – European Investment Fund, part of European Investment Bank Group (EIB)
- BSTDB – Black Sea Trade and Development Bank
- DEG - Development Bank part of KFW Banking Group

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Non-voting rights shareholders

Non-voting rights shareholders as at 31.12.2018 and throughout the year 2018	Shareholder name	No. of shares	Nominal value (RON)	%
	Ilie Carabulea	245.490.909	24,549,090.90	7.88
	Patria Bank SA	35.406*	3,540.60	0.001136

*Own shares

The Group Patria Bank SA belongs to

As at 31.12.2018 the Patria Bank SA Group includes:

- **Patria Bank SA**, a credit institution authorized to perform banking activities on Romanian territory;
- **Patria Credit IFN SA**, a non-bank financial institution authorized by the NBR to perform lending activities on Romanian territory, registered in the General Register of Non-Banking Financial Institutions held by the NBR, specialized in rural lending and microfinance; is a company under the control of Patria Bank SA by taking over the share held by former Patria Bank SA of 99.998072% of the share capital and the voting rights.
- **SAI Patria Asset Management SA (former SAI Carpatica Asset Management SA)** (and the three investment funds controlled by it - FDI Patria Stock, FDI Patria Global, FDI Patria Obligatiuni), authorized by the Financial Supervisory Authority of Romania (FSA) for the management of investment funds; is a company under the control of Patria Bank SA, in proportion of 99.99% of the share capital and voting rights.

As at 31.12.2018, the Bank includes the following companies, currently under liquidation/insolvency procedure:

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- **Patria Investments (former SAI Patria Asset Management SA)**, which is in voluntary liquidation on 31.12.2018, process which was completed in January 2019, when the company was cleared from the Trade Register; the company was under the control of Patria Bank SA, in proportion of 99.99% of the share capital and voting rights.
- **Imobiliar Invest SRL**, company undergoing voluntary liquidation, is a company under the control of Patria Bank SA, in a proportion of 100% of the share capital and voting rights. By decision 51397 / 21.07.2014, Banca Comerciala Carpatica SA, as sole shareholder of IMOBILIAR INVEST SRL, decided the early dissolution of the company followed by voluntary liquidation of the company, process estimated to be completed in the first half of 2019.
- **Carpatica Invest SA (former SSIF Carpatica Invest SA)**, company undergoing dissolution; it is a company under the control of Patria Bank SA, in proportion of 95.68% of the share capital and voting rights. On September 29, 2014, the company's shareholders approved voluntary dissolution and liquidation, as the company had been involved in a scandal about unauthorized transactions by clients, investigated by DIICOT prosecutors. Subsequently, the Bucharest Stock Exchange Council approved the withdrawal of the Participant status in the Spot and Term Regulated Market and its deletion from the Participants' Registry, for both Spot and Term Regulated Market sections. Thus, on 31 December 2018, the courts have some criminal cases pending in connection with this company, whose solving depends on the completion of the insolvency procedure.

Description of acquisitions and / or asset transfers

The gross value of investments in tangible and intangible assets made during the year 2018 amounted to RON 12 million.

The Bank is committed to providing subsidiaries with an adequate level of capitalization. Thus, in 2018 Patria Bank S.A. has increased its stake (in nominal value) in the PATRIA CREDIT IFN SA subsidiary, as follows:

Date	Oct. 2015 – June 17, 2018	June 18, 2018	September 28, 2018
Held shares	29,411	29,411	51,859
Nominal value / share (lei/share)	34	145	145
Nominal value of the participation (lei)	999,974	4,264,595	7,519,555
% of the share capital and voting rights	99.997%	99.997%	99.998%
Type of change	n/a	Share nominal value increase	Increase of the share capital by partial conversion of the subordinated loan granted by PATRIA BANK SA

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On the other hand, on 03.10.2018, Patria Bank SA signed with InvestCapital LTD, part of the KRUK Group, an agreement whereby the bank sells a portfolio of non-performing loans consisting of unsecured consumer loans granted to individuals. The exposure that is the object of the deal concerns about 9,800 contracts and a nominal value of approximately RON 245 million and will be administered locally by KRUK Romania. This transaction has been a success that has helped to achieve business goals and improve profitability indicators, which have already shown a positive trend since the second quarter of 2018. This first transaction will be followed by a new selling portfolio project in 2019, targeting non-performing loans to individuals and legal entities, both secured as well as unsecured.

The main results of the activity assessment

The external auditor of the Bank, Pricewaterhouse Coopers Audit SRL, performed the audit of the individual and consolidated financial statements for the financial year ended 31 December 2018.

The audit opinion expresses the fact that the individual and consolidated financial statements give a true and fair view, in all material respects, of the bank's individual financial position as well as individual results and individual cash flows in accordance with the International Financial Reporting Standards adopted by European Union. The individual and consolidated financial statements are prepared in accordance with the International Financial Reporting Standards adopted by the European Union and with the NBR Order no. 27/2010, as subsequently amended and supplemented.

In short, the most important economic and financial rates on 31.12.2018 are as follows:

Financial indicators evolution 2017-2018 (%)	Dec-18	Dec-17
Total assets	3,453,468	3,645,393
Banking Income	201,041	187,722
Net result	(266)	(42,544)
Market share	0.77%	0.85%
Capital Adequacy Rate	15.78%	10.61%
Liquidity coverage ratio	653%	378%
ROA (return on assets)	-0.01%	-1.17%
ROE (return on equity)	-0.10%	-18.37%
Loans to deposits	57%	45%
Liquid assets/Total asset	45%	53%

Assessment of the technical level

As of 31.12.2018 Patria Bank SA operates through its own network of 81 branches, distributed throughout Romania. The bank also operates through the two operational centers in Sibiu and Targu Mures.

At the end of 2018, the Bank had owned 36 ATMs in operation, 81 Euronet ATMs in the Patria Bank's locations, 16 Euronet ATM's in strategic locations and 1,243 installed POS.

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Bank operations and activities, customer segments, products and services provided

The Bank's business focuses on the retail and corporate segment, integrating technology to streamline customer access to performing financial services and continues to be a solid and trustworthy partner for small and medium-sized Romanian companies, contributing to the development of local entrepreneurship. The new commercial strategy of the Bank aims at the consolidating and differentiating through the microfinance, SME and Agro segments, development of retail by expanding lending to new environments and products (mortgage loans), and maintaining a solid and trustworthy relationship with depositors, the key objectives being financial performance and profitability in the years to come.

Thus, the Bank addresses the following customer segments:

a) Retail segment

- The bank serves the retail segment, taking into account the active base of clients but also by attracting new clients.
- Retail lending (individuals) will be a moderate growth engine in the coming period, given that retail supply has improved significantly over previous pre-merger years and developments planned in 2018 and 2019 are particularly strong in the products area, credit risk control, and customer service area.
- For the next time horizon, the directions of action in the retail area will be:
 - Re-positioning on the market;
 - the target market: employees and retirees from medium and large cities
 - the credit market with a focus on the secured credit area
 - Strengthening customer portfolio and increasing cross-selling with increased focus on wage / pension collection;
 - Quality of service (implementation of quality of service and merchandising standards, improvement of response time, simplification of documentation);
 - Technology: Internet Banking, Mobile Banking, IBA rollout, Partner online platforms, CRM, online and video credit solutions, Self-service solutions for cash and non-cash operations;
 - Simple products, mobility and the development of co-marketing and lead generation partnerships.

b) Micro segment

- In this segment small enterprises and microenterprises as well as individual entrepreneurs are included - represented by authorized natural persons (PFA), family enterprises (IF), individual enterprises (II).
- This business segment has been preserved and developed in 2018, confirming very good and consistent results over the last 8 years (2010-2018), in terms of excellent profitability and low credit risk in relation to

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a portfolio of loans and which recorded a good and constant level of non-performing loans, in the context of a performance of the portfolio higher than the average market level on this segment.

- This type of customer segment, as well as the dedicated sales force, along with the developed credit technology, represent a key segment for the Bank.

c) Agro segment

- It addresses plant and animal farms with medium and large areas or mixed farms. This line of business provides secured loans for financing agricultural activities, for the purchase of agricultural land and equipment, including funding for the implementation of projects from European funds.
- This type of customer segment developed continuously, through partnerships with the main players in the industry, using rapid flows that can easily target such clients in the locations with the traditional presence of the bank and also in areas where the market penetration is desirable in an active way.

d) SME and Corporate segment

- The Bank has focused on the significant development of the SME and Corporate customer base. This type of customers segment had in view the active base of small, medium and large-sized enterprises, as well as the attraction of new customers, who have been offered new, flexible and innovative products.

Therefore, in the Bank's 2018 offer, the following **categories of products and services** were included, having the largest share in the Bank's revenues:

- a) Credit products
- b) Savings products
- c) Complete transactional services (outgoing payments, incoming payments, foreign exchange etc.)
- d) Cards
- e) Remote banking services (assisted internet banking)
- f) Alternative distribution channels

A. The main types of credit products for legal entities:

- working capital loans; mixed loans for microfinance area
- investment loans
- credit lines
- loans for financing European Funds projects
- loans from special financing programs
- loans with local guarantee schemes (e.g. FNGCIMM, FGCR, EXIM etc.) or with an international guarantee (e.g. EaSI with a guarantee issued by the European Investment Fund and the European Commission)

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B. The main types of credit products for individuals:

- consumer loans
- overdraft facilities
- real estate investment loans, including mortgage loans

C. The main savings products for individuals:

- term deposits (with different maturities)
- savings accounts

D. Transactional purpose products:

- Current accounts – same currency multiple accounts
- Special destination accounts (for subsidies and grants)
- Deposit accounts for good execution
- Escrow accounts
- Collateral deposit accounts

As far as saving products are concerned, the Bank continued to offer traditional products: savings accounts, sight and term deposits etc. in a mix of products, currencies and lines of activity that have given the Bank a funding position correlated with the asset structure of the balance sheet.

Excepting the credit products that are offered to customers through both Bank's own distribution network as well as alternative channels consisting of brokers, partnerships and direct sales agents, the rest of the financial products are offered to customers through the Bank's unique distribution network – The Bank developed a wide network of partners, providers of *leads* inclusively using online platforms (<http://www.patriabank.ro/afaceri-mici/patria-partener>).

Assesment of the competitive environment in the financial-banking sector

Patria Bank SA operates in a competitive environment in which banks have developed and adapted their offers according to market requirements, the impact of exogenous factors on the real economy, as well as the ever-increasing pressure of competition on the financial and banking market. Thus, the evolution of the banking system has resulted in the development and diversification of banking products and services, in speeding up and diversification of settlement instruments, but also in increasing the degree of technology.

Assesment of any significant dependence on a single customer or on a group of customers whose loss would have a negative impact on the issuer's income

Nil

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Assesment of the technical - material supply

This issue is not significant for the Bank.

Assesment of the selling activity

As detailed in Chapter 6.

Assesment of the Bank's employees /human resources issues

As detailed in Chapter 5.

Assesment of issues related to the impact of the core activity on the environment

As detailed in Chapter 10.

Assesment of the research and development activity

Research activity – This issue is not significant for the Bank.

In connection with the development activity, in 2018 the Bank considered the objectives set out in the Activity Plan and the Budget of 2018, based on which the Bank mainly envisaged the implementation of the following projects:

- **Improving the credit flows** to individuals by automating the end-to-end process and modifying the IT support flows to comply with the provisions of EU Directive no. 92/2014.
- **The IBA Branches solution at the network level**, following recent legislative changes (EU Directive No. 92/2014 and the Personal Data Protection Regulation) the roll out process started in November 2018 and will be finalized in Q1 2019.
- **The new Internet Banking and Mobile Banking solution** dedicated to individuals with implementation deadline in Q1 2019, followed by the implementation of new modules dedicated to legal entities and asset management products. With the new Internet Banking and Mobile Banking applications, the user has remote access to its accounts and banking operations at any time, with full security and mobility. The application responds to the needs of customers with a dynamic profile. Its purpose is to provide a simple, transparent, natural, personal funds management experience, aiming to increase customer satisfaction.
- **The Cashback Project** - Issuance and Acceptance (in accordance with Law No. 209/2016 by which the Bank will implement the cashback functionality through EPOS and cards, which assumes the certification for both acceptance and payment) is to be finalized in Q1 2019; also, the bank's business strategy aims to issue contactless cards during Q1 2019.
- **The Lead Generation application** was implemented in view of the Bank's development strategy for increasing the volume of products and services sold and the quality of the services provided by the Bank to its clients. Through the application, the new marketing channel developed through lead partner partners

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and external collaborators representing the Bank's interests will transmit leads and be monitored.

Summarising, the main investments in the Bank's development activity during the year 2018 were as follows:

IT and operational systems	<i>Digital banking mode (assisted internet banking)</i>	Digitalised banking operations	Implemented
	<i>Internet Banking/Mobile Banking application</i>	Remote banking operations	Under implementation
	<i>Lead Generation application</i>	Collecting Leads from partners	Implemented
	<i>CRM application</i>	Platform for effectively managing customer interaction with two dedicated business and collection modules in order to maximize the value of customer information, helping to attract new customers and generate new opportunities for existing customers	Under implementation
	<i>Cash Back functionality</i>	According to Emergency Ordinance no. 193/2002 on the introduction of modern payment systems, it is mandatory to implement the "cash back" functionality for the cards issued by Patria Bank S.A. and for EPOS payment terminals	Under implementation
Other investments	<i>The project for the implementation of the EU General Data Protection Regulation (GDPR)</i>	GDPR modifies the current regulatory framework for personal data protection: changing consent rules, data portability rights and the right to delete, documenting the processing of personal data.	Implemented
	<i>Implementation of the 2014/92 / EU Directive Project</i>	Law no. 258/2017 transposing into internal legislation the EU Directive 2014/92 on the comparability of payment account fees, access to basic services and change of payment accounts that regulates the rights and obligations of consumers and payment service providers regarding the change of payment accounts, opening and use of basic payment services accounts, introducing vulnerable / non-vulnerable customer notions with appropriate	Implemented

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	rights and obligations, issues of comparability and transparency of commissions, cross-border opening of payment accounts.	
MIFID II Project	Implementing the provisions of the Financial Markets Directive 2014/65 / EU: it is guaranteed that all entities providing investment services and activities are subject to the same regulatory framework, investor protection and transparency of transactions with financial instruments, clear and strict financial transaction reporting requirements, more stringent sales rules with a distinction between information and consulting activities, customer segmentation rules based on investment risk aversion, growth transparency on client financial instruments costs	Implemented
PSD2 Project	Implementing the provisions of EU Directive 2015/2366 on payment services within the internal market: implementing new requirements in terms of security of transactions and information, increasing the level of consumer access to payment services and developing on-line payment services along with the development of IT technologies, the ability of consumers to consolidate payment services through Payment Initiation Service Provider (PISP) payment service providers, the ability of consumers to consolidate their payment account information through Account Information Service Provider (AISP).	Under implementation

Note: In the above table, for each of the projects, the investment consists of all the costs required for implementation, including consulting for implementation, modification and adaptation of the systems accordingly.

The value of the investments provided in the Revenue and Expenditure Budget for 2018 is EUR 5,877,379 (VAT included) - the degree of approval of the investments compared to the budgeted level was of approx. 65% - related to the following projects:

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Type	Financing source
IT equipments acquisition	Own funds
Software & Licences development	Own funds
Cards related projects	Own funds
Branch rehabilitation	Own funds
Cars aquisition	Own funds
Other	Own funds

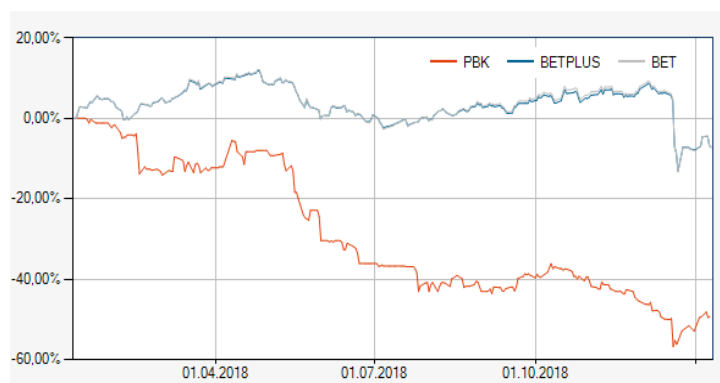
Information on historical investments is available in "Note 22 Investments held to maturity" and "Note 23 Investments in debt instruments at amortized cost" and „Note 24 Real estate investments” in the Financial Statements for the year ended 31.12.2018.

The market of the securities issued by the Bank

Shares

Starting with April 26, 2005, the Bank's shares are listed in the Premium category of the Bucharest Stock Exchange and are continuously traded on the regulated market in Romania, being included in the BETPlus index. Currently the shares are traded on the Bucharest Stock Exchange under “PBK” symbol.

On December 31, 2018, the closing price for PBK share was RON 0.0744 / share. At the same time, the stock market capitalization was RON 231,780,594.78 (≈ EUR 50 mill.).



Source: BSE

As at 31.12.2018, the Bank holds 35,406 own shares at a nominal value of RON 0.1 / share, representing 0.001136% of the Bank's share capital.

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As a result of the Bank's capital increase operations in 2018, the Bank's subsidiaries subscribed pre-emption rights to acquire new shares, the status of the shares issued by Patria Bank SA and held by subsidiaries (entities within the consolidation perimeter) showing:

No.	Name	31.12.2017		31.12.2018	
		No. of shares	Nominal value (lei)	No. of shares	Nominal value (lei)
1	FDI PATRIA GLOBAL- SAI PATRIA Asset Management	560,297	56,029.70	709,642	70,964.20
2	FDI PATRIA STOCK - SAI PATRIA Asset Management	2,392,510	239,251.00	3,030,226	303,022.60

During the year 2018, neither the Bank nor its subsidiaries bought or redeemed their own shares.

Each share gives equal rights, any share conferring the right to vote in the Bank's General Shareholders Meeting, the right to elect and to be elected in the Bank's governing bodies, the right to participate in the distribution of profits (the right to dividends), as well as other rights (such as right of preference, right to information, right of withdrawal etc.), as described in the General Meeting of Shareholders ("AGA") procedures, published on the Bank's website under the section <https://www.patriabank.ro/d/616>, but also in the Corporate Governance Code of the Bank published on the Bank's website under the section <https://en.patriabank.ro/d/967/cod-de-guvernanta-corporativa-octombrie-2018.pdf>

Regarding the right to secure ownership registration and confirmation mechanisms on the shares issued by the Bank, the Bank's shareholders' register is held by an independent company - the Central Depository, authorized and supervised by the FSA to ensure transparency of operations, proper development of activity and investor protection.

Dividends

Dividends may only be distributed if the company records profit as reported in the annual financial statements approved by the Ordinary General Shareholders' Meeting. For the year ended 2018, the Bank recorded losses and therefore cannot distribute dividends. Also, the Bank has not distributed dividends over the past four years. The Bank has published information on the principles and rules for dividends under the section <https://www.patriabank.ro/d/615/politica-de-dividende.pdf>

Bonds

During 2018 the Bank has not issued bonds and/or other debt securities.

4. Corporate Governance

Corporate Governance is the set of principles underlying the management and control framework of the Bank's and the Group's business. Patria Bank SA applies the provisions of the Corporate Governance Code made available to interested parties on the Bank's website under the section <https://en.patriabank.ro/about-patria-bank/investors/corporate-governance/corporate-governance-code-and-reports> drafted in accordance with the principles of the Corporate Governance Code of the Bucharest Stock Exchange (BSE) and reports annually the compliance with its provisions. The Statement of Compliance with the Principles of the Corporate Governance Code of the BSE on 31.12.2018 is presented in Appendix 1 to this report.

Patria Bank SA is managed in a one-tier management system, observing the objectives of corporate governance, the transparency of relevant corporate information, the protection of the interests of various categories of participants and the principles of an efficient functioning on the banking market.

4.1 Corporate Governance structures

The General Meeting of Shareholders (GMS) is the Bank's highest decision-making body that establishes economic and commercial policy and decides on its activity. The Bank has established rules and procedures regarding the General Meeting of Shareholders available on the Bank's website under the section <https://www.patriabank.ro/despre-patria/investitori/adunarii-generale-a-actionarilor/reguli-and-agaprocedures>, which seeks to ensure the fair treatment of shareholders, facilitate and encourage the participation of shareholders in the proceedings of GMS meetings and their dialogue with the management and executive bodies, as well as the exercise of their rights, in compliance with the legal provisions specific to the capital market and issuers.

The general meetings are ordinary and extraordinary. The Ordinary General Meeting meets at least once a year, within 4 months after the end of the financial year, and the Extraordinary General Meeting meets as often as necessary.

During 2018, the Board of Directors convened 4 General Meetings of Shareholders (2 Ordinary General Meetings on 07.05.2018 and respectively on 02.08.2018 and 2 Extraordinary General Meetings on 12.03.2018 and respectively on 02.08.2018). The convocation was made at least 30 days before the scheduled date, in compliance with the legal provisions on advertising and notification of the FSA - the Financial Instruments and Investments Sector and the Bucharest Stock Exchange (BSE).

The Bank provides shareholders with all relevant information regarding the General Meetings of Shareholders and the decisions adopted, both through the media (Official Gazette, national spread newspaper) and in the special section opened on its website under the section <https://www.patriabank.en/about-country/investors/general-meeting-of-shareholders>. Shareholders may personally participate in the General Meeting's works, through a representative or vote by correspondence, the forms of proxy and voting by correspondence being made available to shareholders in the above-mentioned section. The procedures for conducting GSM works are available to

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shareholders and other interested parties on the Bank's website at <https://www.patriabank.com/prespects/investitors/address-general-actionaries/reguli-and-procedures-aga>. In the General Meetings of Shareholders, the dialogue between shareholders and members of the Board of Directors and / or executive management is permitted and encouraged. Each shareholder may ask the management questions about the bank's activity.

In accordance with the size, nature and complexity of the Bank's business and observing corporate governance objectives, the Bank's **Management Body** is represented by the **Board of Directors** and the **Executive Committee**.

On 31.12.2018, the Board of Directors consisted of five members appointed by the General Meeting of Shareholders for a four-year term, with the possibility to be re-elected for subsequent four-year mandates.

The Board of Directors delegates the operational management and the coordination of the Bank's day-to-day business to several directors, appointing a General Director, the rest being Deputy General Directors, these forming the Executive Committee. On 31.12.2018, the Executive Committee was made up of 4 members, who exercise their responsibilities as directors and members of the Executive Committee, being approved by the NBR, in accordance with the provisions of the EOG no. 99/2006 on credit institutions and capital adequacy.

The management body of the bank (the Board of Directors and the Executive Committee) performs its activity on the basis of rules of organization and functioning regulated by the Articles of Incorporation, through the Regulations for the organization and functioning of each, as well as by the Regulation for the organization and functioning of the Bank. The management body promotes high ethical and professional standards and a solid culture of internal control.

The Board of Directors

The management body with supervisory function is the Board of Directors, consisting of 5 members appointed by the ordinary general shareholders meeting and approved by the NBR. A member of the Board of Directors is independent.

The Board of Directors oversees and is responsible for implementing an activity management framework to ensure effective and prudent management of the Bank, including the separation of responsibilities within the Bank and the prevention of conflicts of interest. The organization and functioning is performed on the basis of the Constitutive Act, the applicable laws and its own regulation of organization and functioning.

There are no agreements, understandings or family relationships between administrators and other persons due to which members of the Board of Directors to be appointed administrators.

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Board of Directors as at 31.12.2018

Name, Surname	Position held in the Board of Directors	Approved by	Mandate duration
Dragos Horia Manda	Chairman (1 mandate in the merged bank)	GSM Decision from 02.04.2016 Prior NBR approval of the merger (November 2016)	4 years 26.04.2016 - 26.04.2020
Daniela Elena Iliescu	Non-executive member (1 mandate in the merged bank)		4 years 26.04.2016 - 26.04.2020
Bogdan Merfea	Non-executive member		26.04.2016 - 30.04.2017
	Executive member (1 mandate in the merged bank)		01.05.2017 – 26.04.2020
Nicolae Surdu	Member (1 mandate in the merged bank)	GSM Decision from 27.04.2017 Prior NBR approval of the merger (November 2016)	4 years 01.05.2017 - 27.04.2021
Vasile Iuga	Independent member (1 mandate in the merged bank)	GSM Decision from 27.04.2017 GSM Decision from 28.07.2017 Prior NBR approval (December 2017)	4 years 06.12.2017 - 27.04.2021

As at 31.12.2018 there are no vacant positions within the Board of Directors.

Information on the directors

Dragos Horia Manda **Chairman of the Board of Directors**

Born on 15.07.1960, Residence – Bucharest

Mr. Manda graduated the Bucharest University, Faculty of Physics, with a doctorate in mathematics from the University – VII of Paris France (1993), an MBA (summa cum laude) through the Romanian-Canadian MBA Program (McGill, Quebec University - Montreal, Academy of Economic Studies of Bucharest, 1996) and an M.Sc. in theoretical Physics from University of Bucharest (1984).

With an experience of more than 19 years in private equity investments in Southeast Europe, he has built a successful career in the management and administration, as Chairman or Manager of the Board of Directors, of many companies from the investment funds' portfolio such as RAEF, BAAF and EEAF, with a special emphasis on the financial services sector.

Along his career, Mr. Manda personally supervised capital investments of more than 200 million €, with successful projects in various industries such as financial services, IT, retail, energy and production.

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Mr. Manda has been an administrator and the General Manager of Axxess Capital Partners S.A. and Chairman of the Investment Committee of EEAF since 2006.

Also, he has filled positions such as: Chairman of the Board of Directors of former Patria Bank SA (July 2014 -April 2017), Chairman (non-executive) of the Board of Directors of Patria Credit IFN S.A. (2008 – December 2015), Chairman (non-executive) of the Board of Directors of Emerging Europe Leasing and Finance (EELF) B.V., holding incorporated by BAF, specialised in leasing activity, holding majority package of shares in the companies BM Leasing Bulgaria, Total Leasing Moldova and Landeslease Albania (2006 – June 2014).

Also, he filled positions such as investment officer (1996-1997), vice-president and senior investment officer (1997 – 2002) and prime vice-president and investment manager (2002 – present) within RAEF, non-executive member in the Board of Directors of Banca Romaneasca (1999-2003), non-executive chairman of the Board of Directors of Motoractive S.A. (leasing) (2003-2006), non-executive chairman of the Board of Directors of Domenia Credit S.A. (mortgage loan) (2003-2006).

Between 1986 and 1996 he acted as a researcher in several institutes, such as: the Institute of Mathematics of the Romanian Academy, the National Center of Scientific Research - Paris, the Institute of Atomic Physics of Bucharest.

Relatively permanent engagements and obligations, including executive and non-executive positions in the board of some companies and non-profit institutions on 31.12.2018:

Name	Position in the bank	Companies	Company status	Position in the company
Dragos Horia Manda	Chairman of the Board of Directors	AXXESS CAPITAL PARTNERS SA	Active	General Director & Administrator
		DIESEL ONE MANAGEMENT SA	Active	Associate Legal Representative
		SEACORN LLP	Active	Managing Partner
		SOUTH - EASTERN EUROPE CAPITAL PARTNERS LLP	Active	Managing Partner
		PATRIA BANK S.A.	Active	Administrator

Daniela Elena Iliescu

Member of the Board of Directors

Member of the Audit Committee

Member of the Risk Management Committee

Born on 23.09.1977, Residence – Bucharest

Mrs Iliescu graduated the Academy of Economic Studies of Bucharest, she is a certified member of ACCA, of the Romanian Chamber of Auditors and of the Romanian Organization of Accountants, and graduated the Executive MBA courses of the University of Economics of Wien and of the Business & Carlson Business School - USA.

Mrs Iliescu has been a member of the Board of Directors of former Patria Bank SA (2014 – April 2017), having a vast experience in finance (financial management, reporting and budgeting) for important institutions such as EEAF and BAF, being very actively involved in monitoring the funds' investments in the financial services sector, the most relevant being the investments in Patria Bank and Patria Credit.

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Since 2007 she has been working with Axxess Capital Partners S.A., filling positions such as Chief Financial Officer (2013-Present), senior project manager (2007-2013).

During the period 2000-2007 she worked in PWC Romania, where she was responsible with coordinating the audit and financial consulting services for important customers from the banking sector, leasing, credit companies and asset management companies.

Relatively permanent engagements and obligations, including executive and non-executive positions in the board of companies and non-profit institutions on 31.12.2018:

Name	Position in the bank	Companies	Company status	Position in the company
Daniela Elena Iliescu	Member of the Board of Directors	AXXESS CAPITAL PARTNERS SA	Active	Partner & CFO
		PATRIA CREDIT IFN S.A.	Active	Administrator
		PATRIA BANK S.A.	Active	Administrator

Bogdan Merfea

Executive member of the Board of Directors, General Director

Born on 20.09.1957, Residence – Brasov

Mr. Merfea graduated the Transilvania University of Brasov – Faculty of Machine Manufacturing Technology, he is a doctor of Mechanical Engineering and has a master of Business Management, also attending to courses at the prestigious school INSEAD, IMD Laussane, Harvard, Wharton University.

Being trained as an engineer, Mr. Merfea has academic experience, having worked as a university professor, lecturer and head of works, assistant professor and researcher in the Machine Manufacturing Technology department between 1984 and 1999.

He created and coordinated the Foundation for the Promotion of Small and Medium Enterprises, Brasov and as Executive Manager between 1995 and 1999 he coordinated regional development projects, training programs dedicated to SMEs, he coordinated consulting activities dedicated to micro companies in collaboration with USAID.

Starting with year 1999, he began his banking activity as manager of the branch of Demir Bank in Brasov, until 2001. Between 2001 and 2008, Mr. Merfea filled various management positions within Raiffeisen Bank Romania. Also, Mr. Merfea filled management positions such as the Executive Chairman of Raiffeisen Bank Kosovo and Raiffeisen Leasing Kosovo SA between 2008 and 2009, as well as the position of Sales and Distribution Executive Manager - Retail Division of Raiffeisen Bank between 2006 and 2008 and Branch Network Management Executive Manager between 2005 and 2006. Also, in 2008, Mr. Merfea was a member of the Board of Directors of Raiffeisen Leasing Romania, and between 2007 and 2008 he was a member of the Board of Directors of Raiffeisen Asset Management Romania.

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Mr. Merfea has a vast experience in the micro-financing activity, filling management positions such as that of General Director (between 2009 and 2015) and that of member of the Board of Directors (since 2015 to the present) of Patria Credit IFN SA. Also, since 2013, Mr. Merfea has been a member of the Board of Directors of European Microfinance Network.

Mr. Bogdan Merfea has been a member of the Board of Directors of former Patria Bank SA (Oct. 2014 – April 2017) and has been its General Director (April 2015 -April 2017).

Relatively permanent engagements and obligations, including executive and non-executive positions in the board of companies and non-profit institutions on 31.12.2018:

Name	Position in the bank	Companies	Company status	Position in the company
Bogdan Merfea	Member of the Board of Directors and Executive Committee	PATRIA BANK SA	Active	Director & Administrator
		PATRIA CREDIT IFN S.A.	Active	Administrator

Nicolae Surdu

Member of the Board of Directors

Chairman of the Risk Management Committee

Member of the Audit Committee

Born on 30.07.1961, Residence – Voluntari, Ilfov

Mr. Surdu is an experienced banker with over 20 years of experience in the Romanian banking sector, having an exposure in a number of international and local banks and having expertise both in general banking management and in reorganization, restructuring and organizational recovery (formerly Banca Comerciala Carpatica and former Tiriac Bank), as well as start-up banks, Corporate Banking, SME & Retail Banking, risk management.

Mr. Surdu held the position of member of the Board of Directors of the former Patria Bank SA (2014 - April 2017), and during 2009 - 2012 Mr. Surdu held the position of General Director and Chairman of the former Banca Comerciala Carpatica. In 2009, Mr. Surdu was a partner at First Capital Consulting Partners, and in 2007-2009 he held the position of General Director at Fortis Bank Romania. In the period 2004-2007, Mr. Surdu was vice-president of former Finansbank Romania, and between 2001 and 2004 he held the position as Operations Director at Tiriac Bank. In 2000, Mr. Surdu was Deputy General Manager of Piraeus Bank Romania, and in 1998-1999 he was Deputy General Manager at Pater Banca de Credit and between 1996-1998 he held the position of director at the same institutions. Between 1993 and 1996 Mr. Surdu has worked at the Banca Comerciala Romana SA.

Mr. Surdu is a graduate of the Faculty of Commerce at ASE Bucharest, holding an MBA - Indiana Wesleyan University, USA.

Relatively permanent engagements and obligations, including executive and non-executive positions in the board of companies and non-profit institutions on 31.12.2018:

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 Real Headquarters: 42 Pipera Road, Globalworth Plaza building, floors 7, 8 and 10, Bucharest, Romania, postal code 020112
 Bank Deposit Guarantee Fund Bank (FGDB); ORC: J40 / 9252/2016, C.I.F. RO 11447021, Nr. RB-PJR-32-045 / 07.15.1999; Share capital (subscribed and paid) 311,533,057.50 lei; Operator data code ANSPDCP Registry: no. 753. Tel: +40372538725 | Fax: +40 212063902 | info@patriabank.ro | www.patriabank.ro

Name	Position in the bank	Companies	Company status	Position in the company
Nicolae Surdu	Member of the Board of Directors	FIRST CAPITAL CONSULTING & PARTNERS SRL	Active	Administrator
		PATRIA BANK S.A.	Active	Administrator

Vasile Iuga

Independent member of the Board of Directors

Chairman of the Audit Committee

Member of the Risk Management Committee

Born on 27.09.1954, Residence – Bucharest

Since 1991, Mr. Iuga joined PriceWaterhouseCoopers Romania (PwC), becoming a partner in 1997, and between 2004 and 2015 he was Country Managing Partner for Romania, with more than 600 employees in five regional offices. Between 2008 and 2015, he was PwC Managing Partner for South East Europe, coordinating the company's activity in nine countries, and between 2004 and 2015 he was a PwC CEO for Central and Eastern Europe.

Mr. Iuga was a member of the Board of Directors of Aspen Romania, holding currently treasurer position, and for many years he was Vice President of the American Chamber of Commerce in Romania (AMCHAM). Since 2017, Mr. Iuga has been a member on behalf of Romania of the European Investment Bank's Audit Committee, for a 6 years mandate until 2023.

Financial auditor and consultant, with over 26 years' experience in the field, Iuga is a member of several professional organizations: the Association of Chartered Certified Accountants (ACCA) as Fellow, the Chamber of Financial Auditors of Romania (CAFR), as Financial Auditor, the Body of Chartered Accountants and the Certified Accountants of Romania (CECCAR), as an accounting expert, the National Association of Evaluators in Romania (ANEVAR), as an accredited member; He was also a member of the CAFR Council and CSPAAS.

Financial auditor authorized by NBR and FSA (for banks, insurance companies and listed companies), financial consultant with a complex experience of over 26 years in the field of implementation of international financial reporting standards of financial audit, Mr. Iuga has participated in various business appraisal and restructuring projects in takeovers, mergers, business acquisitions, privatizations and strategic consultancy.

Mr. Iuga is also Professor Honoris Causa - a distinction awarded by Babes-Bolyai University in Cluj-Napoca at the proposal of the Faculty of Business.

Mr. Iuga is a graduate of the Faculty of Aeronautics of the Polytechnic Institute of Bucharest. He graduated from Harvard Business School, London Business School, Institute of Business Administration (INSEAD, Fontainebleau, Paris) and the International Institute for Management Development (IMD, Lausanne).

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Relatively permanent engagements and obligations, including executive and non-executive positions in the board of companies and non-profit institutions on 31.12.2018:

Name	Position in the bank	Companies	Company status	Position in the company
Vasile Iuga	Member of the Board of Directors	PATRIA BANK SA	Active	Administrator
		ASPEN INSTITUTE ROMANIA	Active	Treasurer
		BANCA EUROPEANA DE INVESTITII	Active	Audit Committee Member
		COMITETUL OLIMPIC SI SPORTIV ROMAN	Active	Treasurer

The activity of the Board of Directors

Duties and responsibilities of the Board of Directors

The main competencies of the Board of Directors, including those that cannot be delegated to the members of the executive management, are laid down by the law, the Constitutive Act, the Rules of Organization and Functioning of the Bank, and by the Regulation for the Organization and Functioning of the Board of Directors. In cases permitted by law, the General Meeting of Shareholders may delegate other attributions to the Board of Directors.

The Board of Directors has as main responsibilities the establishment of the Bank's main business and development directions, the establishment of accounting policies and the financial control system, as well as the approval of financial planning, the appointment and dismissal of directors and their remuneration, the supervision of directors' activity, the organization of the general shareholders meeting and the implementation of its decisions and the establishment of the reference date for the shareholders entitled to participate and vote in the general shareholders meeting, the attributions received by the Board of Directors from the Bank's General Shareholders Meeting, the representation of the Bank in relation to the directors, other attributions and responsibilities established by legal provisions and which cannot be delegated to directors, establishment of advisory committees.

Board of Directors meetings

The Board of Directors shall meet regularly at least once every 3 months at the request of the Chairman of the Board of Directors at the motivated request of at least two members of the Board of Directors or the General Director.

The conventions for the meetings of the Board of Directors in 2018 included the venue where the meeting was held, the date and the draft agenda. The meetings of the Board were generally organized at the social headquarters and / or the real headquarters of the Bank, but modern means of communication were used, in order to make the decision-making process more efficient (teleconference, e-mail).

At each meeting a minute was drawn up, which included the names of the participants, the order of the deliberations, the discussions, the decisions taken, the number of votes, the abstentions and the separate opinions.

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During 2018, the Board of Directors met in 81 meetings and 426 decisions were adopted, the decisions of the Council being taken with unanimity of votes. At the Board meetings, members of the Committees of Directors as well as representatives of the structures within the Bank participated as guests.

Thus, the presence of the Board members at its meetings was the following:

- Mr. Dragos Horia Manda - 80 sessions
- Ms. Daniela Iliescu - 81 sessions
- Mr. Bogdan Merfea - 77 sessions
- Mr. Nicolae Surdu - 80 Sessions
- Mr. Vasile Iuga - 78 sessions

The members of the Board of Directors have continuously pursued the continuity of the Bank's activity, supervising the merger process between Banca Comerciala Carpatica SA and Patria Bank SA, implementing the measures ordered by the NBR and other state institutions and monitoring the implementation of the decisions of the Board of Directors.

The Board of Directors approved in 2018 The Regulations for the Organization and Functioning of the Executive Committee, the Regulation on Approval Competencies applicable to the activities of the Restructuring and Workout Directorate and the Regulation for the Organization and Functioning of the Bank, as well as other committees under its subordination. In addition, the Bank's policies and strategies on risk management, conflict of interest policy, know your customer and anti-money laundering and terrorist financing and embargo administration policy of the Group Patria Bank, Business Strategy for the 2018-2020 period, the Asset Revaluation Strategy, the Operational Strategy for IT & Information Security 2018 and the procedures specific to the process of assessing the adequacy of internal capital to risks.

Also, during 2018, the Board of Directors approved a number of reorganization and optimization of the Bank's branch network measures, through the relocation or closure of some non-performing units during 2018.

The Board of Directors approved the periodical (monthly, quarterly, semi-annual) financial reports for 2018 and was informed with regards to the Risk Administration Reports (quarterly).

In terms of its approval powers, in 2018 the Board of Directors approved the sale of some properties taken over by the Bank on the account of the claims receivables for certain clients administered in the workout area and approved the selling of certain fixed assets owned by the bank, including the selling of a off balance sheet non-performing loans portfolio.

Following the increase in brand awareness and in the sales of specific products communicated within the promotional campaign and reaching optimal media indicators that could generate notoriety, increase traffic in units and attract visits and leads on website, the Board of Directors approved the implementation of image

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communication promotional campaigns, with product component. It also approved measures for market research to implement the Patria Rural study.

The Board of Directors did not receive from its members any information regarding their relations with shareholders holding directly or indirectly shares representing more than 5% of the voting rights, reports that could alter the members' position on matters decided by the Board of Directors.

The advisory committees of the Board of Directors

In order to develop and maintain good practices in managing the activity, the Board of Directors has constituted two committees that will assist in the fulfilment of its attributions. The structure, organization and functioning rules and powers of these committees are defined in their own organization and operation regulations.

a) The Audit Committee

On 31.12.2018, the Audit Committee was made up of three non-executive directors, of which one is an independent member, namely:

Name, surname	Position within the Committee	Period
Vasile Iuga	President (independent)	22.11.2017 – up to now
Daniela Elena Iliescu	Member (non-executive)	
Nicolae Surdu	Member (non-executive)	22.06.2017 – up to now

The Audit Committee has an advisory role and it is made up of members of the Board of Directors, with the appropriate expertise in the specific tasks assigned to them within the Committee. The Audit Committee meets on a quarterly basis and whenever appropriate, with the role of assisting the Board of Directors in fulfilling its responsibilities for internal control, internal audit, risk management and internal audit. The Audit Committee's responsibilities are presented in the Corporate Governance Code of the Bank, made available to interested parties on the Bank's website under the section: section <https://en.patriabank.ro/d/967/cod-de-guvernanta-corporativa-octombrie-2018.pdf>.

The Audit Committee of Patria Bank S.A. is responsible for submitting an activity report to the Board of Directors with annual frequency.

In 2018, the Audit Committee met in 14 sessions.

Thus, the presence of the Committee members at its sessions in 2018 was as follows:

- Mr. Vasile Iuga – 14 sessions
- Mrs. Daniela Iliescu – 14 sessions
- Mr. Nicolae Surdu – 14 sessions

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The main topics concerned the evaluation of the internal audit activity in general, including the assessment of the organisational independence of the audit, of the internal control system, the review of the internal audit workflow procedure, the internal audit plan and approval, the monitoring of the recommendations status, the presentation of the internal audit reports including the conclusions resulted from the assessment of the independent functions, namely the risk management function and the compliance function, presentation of the purpose and planning of the bank's financial auditor's activity, issues regarding the bank's financial statements, issues regarding reports submitted to NBR.

b) Risk Management Committee

On 31.12.2018, the Audit Committee was made up of 3 non-executive directors, out of which one is an independent member, namely:

Name, surname	Position within the Committee	Period
Nicolae Surdu	President (non-executive)	06.12.2017 – up to date
Daniela Elena Iliescu	Member (non-executive)	
Vasile Iuga	Member (independent)	

The Risk Management Committee has an advisory role. The Risk Management Committee is made up of members of the Board of Directors, with the appropriate expertise in the specific tasks assigned to them within the Committee. The Risk Management Committee meets monthly or whenever necessary to assist the Board of Directors with regard to risk appetite and global strategy for managing the current and future risks of the Bank and to assist the Board of Directors in overseeing implementation strategy. The responsibilities of the Risk Management Committee are set out in the Corporate Governance Code of the Bank made available to interested parties on the Bank's website under the section: <https://en.patriabank.ro/d/967/cod-de-guvernanta-corporativa-octombrie-2018.pdf>.

Convocations for meetings of the Risk Management Committee in 2018 covered the meeting place, date and draft agenda. The Committee's sessions were organized in general at the Bank's headquarters, but modern means of communication were used to make the decision-making process more efficient (teleconference, e-mail).

At each meeting minutes were drawn up, which included the names of the participants, the order of the deliberations, the discussions, the decisions taken, the number of votes, the abstentions and the separate opinions.

In 2018, the Risk Management Committee met in 20 sessions, each of them was attended by all members of the Committee. 51 decisions were passed, the Committee's decisions being generally taken by unanimity of votes. The members of the Board of Directors, the Executive Committee, as well as representatives of the Bank's Central structures, attended the Committee meetings as guests.

Thus, the presence of the members of the Committee at its meetings in 2018 was the following:

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- Mr. Nicolae Surdu – 19 meetings
- Mrs. Daniela Iliescu – 20 meetings
- Mr. Vasile Iuga – 19 meetings

The main topics discussed were mainly:

- ✓ Monthly reports on risk management and other specific reports;
- ✓ Risk Management Strategy;
- ✓ Revision of the internal capital adequacy risk assessment process (ICAAP);
- ✓ Analysis and endorsement of product records, credit standards for individuals and legal entities;
- ✓ Endorse of the remuneration policy, the Credit Policy, the Regulation regarding the approval competencies at the level of the Workout Division;
- ✓ Risk management policies;
- ✓ Annual reports on compliance/risk activity.

Senior Management Body

The Executive Committee represents the senior management body, ensuring the Bank's operational management. Its competencies and attributions have been regulated by the Articles of Incorporation, by its own Statute and by the Bank's Rules of Organization and Operation.

Thus, on 31.12.2018 the operational management and coordination of the daily activity of the Bank was delegated by the Board of Directors to several directors who together formed the Executive Committee.

There are no agreements, understandings or family relationships between administrators and other persons due to which members of the Board of Directors to be appointed administrators.

The Executive Committee

Name, surname	Position within the Executive Committee	Position within the Bank	Mandate duration
Bogdan Merfea	Member 1 mandate	General Director	01.05.2017- up to date
Valentin Grigore Vancea	Member 1 mandate	Deputy General Director – IT and Operations Division	01.05.2017- up to date
Bogdan Constantin Neacsu	Member 1 mandate	Deputy General Director – Risk Division* *begins to exercise its attributions on 06.07.2017, when obtains the prior approval of NBR; starting with 1.12.2018 concludes its mandate with the consent of the parties	01.05.2017- 30.11.2018
Diana Maria Kallos	Member 1 mandate	Deputy General Director - Financial Division** **starting with 16.01.2018 concludes its mandate with the consent of the parties	01.05.2017- 15.01.2018
Lucica Cristina Pitulice	Member 1 mandate	Deputy General Director - Financial Division*** ***begins to exercise its attributions on 07.05.2018, when obtains the prior approval of NBR	16.01.2018 – up to date
Codrut Stefan Nicolau	Member 1 mandate	Deputy General Director – Commercial Division**** ****begins to exercise its attributions on 24.08.2018, when obtains the prior approval of NBR	1.07.2018 – up to date

On 31.12.2018 the position of Deputy General Manager - Risk Division was vacant, which was occupied by Mr. Codin – Radu Nastase, starting with 07.01.2019; the exercise of the specific responsibilities of the function will be performed from the date of obtaining the prior approval of the National Bank of Romania.

Information about Executives

Executive management members have relevant experience in the banking sector, as well as extensive technical expertise in the financial services sector, both in credit institutions and non-bank financial institutions, as follows:

Bogdan Merfea

General Director

Member of Retail Credit Committee / Legal entities

Member of Asset and Liability Management Committee

Member of the Credit Workout and Recovery Committee

Mr. Merfea's professional experience and carrier has been detailed above.

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Valentin Grigore Vancea
Deputy General Director – IT and Operation Division
Member of the Executive Committee
Member of Asset and Liability Management Committee
Chairman of the Committee on Safety and Health at Work

Born on 19.07.1975
 Residence – Bucharest

Mr. Vancea graduated from the Faculty of International Economic Relations of the Bucharest Academy of Economic Studies, holding an MBA from City University of Washington in Financial Management. Between 1999 and 2000, Mr. Vancea was an auditor at KPMG Romania and during the period 2000-2003, he worked in the audit area within HVB Romania. In 2003-2007, Mr. Vancea has held the position of internal audit director at HVB Bank. During this period he coordinated the implementation of the merger projects between HVB Bank Romania S.A. and Banca Comerciala Ion Tiriac S.A, respectively Unicredit Bank. In 2008-2011, Mr. Vancea held the position of Vice President at Volksbank Romania as Chief Operations Officer. Being specialized in Operations, IT and Information Security, starting with 2012, he has held leadership positions within ANSSI - National Association for Information Security, Cloud Security Alliance, Romania Chapter. He also coordinated the business development and strategy segment of Star Storage during 2014-2015, from the Chief Executive position. Starting with 2015 Mr. Vancea served as Chief Executive Officer on Operations and IT, a member of the Executive Committee within Patria Bank SA and from 04.07.2016 until the date of the merger, he held the position of Executive Director of Banca Comerciala Carpatica SA, leading the area Operations and IT, member of the Board of Directors and after the merger with former Patria Bank SA, Mr. Vancea holds the position of Deputy General Director within Patria Bank SA, coordinating the operations and IT area, for a four-year term.

Relatively permanent engagements and obligations, including executive and non-executive positions in the board of companies and non-profit institutions on 31.12.2018:

Name	Position in the bank	Companies	Company status	Position in the company
Valentin Grigore Vancea	Deputy General Director Operation and IT Division	CLOUD SECURITY ALLIANCE ROMANIA CHAPTER	Active	Vicepresedint
		SAI PATRIA ASSET MANAGEMENT S.A.	Active	Administrator
		PATRIA BANK SA	Active	Director

Bogdan Constantin Neacsu
Deputy General Director – Risk Division (until ceasing the mandate in 30.11.2018)
Member of the Executive Committee (until ceasing the mandate in 30.11.2018)
Chairman of Retail/Corporate Credit Committee (until ceasing the mandate in 30.11.2018)
Chairman of Credit Workout and Recovery Committee (until ceasing the mandate in 30.11.2018)
Member of Asset and Liability Management Committee (until ceasing the mandate in 30.11.2018)

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Born on 03.05.1979

Residence – Bucharest

Mr. Neacsu graduated in 2002 from the Faculty of Finance, Banks and Stock Exchange, Academy of Economic Studies, Bucharest. He then attended Dofin Master Courses, Specialization "Risks of Financial and Foreign Markets", as well as other training courses. Mr. Neacsu held the position of Deputy General Director - member of the Management at Garanti Bank Romania (October 2015 - April 2017) coordinating the risk area as well as the Vice-President - member of the Volksbank Directorate (July 2014 - May 2015), coordinating the corporate business area, having an important role in the integration of Volksbank with Banca Transilvania, as well as in the development and growth of the Corporate and SME segment. Between July 2012 and July 2014, Mr. Neacsu was the coordinator of the internal control system at Volksbank Romania and from October 2009 to July 2012 he held leading positions in the risk management area within the same bank. Between September 2007 and September 2009, he was a project manager at BRD Societe Generale and from July 2006 to September 2007 he held the position of Risk Officer within Volksbank Romania. In the period October 2004 - July 2006, Mr. Neacsu has worked within the NBR, holding the position of Economist - Regulatory and Authorization Department, Banking Supervision Service. Between 2002 and 2004, Mr. Neacsu has worked at Soter & Partners Bucharest, working in the field of tax and business consultancy. Starting with 2017 Mr. Neacsu served as Deputy General Manager - Risk area, member of the Executive Committee of Patria Bank SA and from 01.12.2018 ceased to hold office.

Relatively permanent engagements and obligations, including executive and non-executive positions in the board of companies and non-profit institutions, upon termination of mandate:

Name	Position in the bank	Companies	Company status	Position in the company
Bogdan Constantin Neacsu	Deputy General Director Risk Division	PATRIA BANK S.A.	Active	Director

Diana Maria Kallos

Deputy General Director - Financial Division (until ceasing the mandate on January 15, 2018)

Member of the Executive Committee (until ceasing the mandate on January 15, 2018)

Chairman of the Assets and Liabilities Committee (until the end of his mandate on 15.01.2018)

Born on 27.06.1975

Residence - Voluntari, Ilfov

Mrs. Kallos graduated from the Faculty of Economics at Babeş-Bolyai University in Cluj and in 2007 she graduated from the Executive MBA program of ASSEBUSS in collaboration with Kenesaw State University Atlanta. Mrs. Kallos began her career in 1996, working in the financial-accounting area of several Romanian companies, holding the position of chief accountant. Between 2000 and 2006 Mrs. Kallos held the position of Financial Director within RALFI

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IFN SA (consumer credit company, which operates under the Estima Finance brand) and then as Financial Planner and Price Analyst and Financial Manager at GE Money Romania during 2006 – 2007. During the period 2007-2010 he held positions as manager of operations within a consumer loans broker or financial director within Industrial Access SA. During 2010-2014 Mrs. Kallos served as Deputy General Director within Patria Credit IFN SA and since 2015 is a member of the Board of Directors of this non-banking financial institution. In the period 2014-2016 Mrs. Kallos was Deputy General Director of Patria Bank SA, coordinating the financial, treasury and ALM. From 04.07.2016 until the merger, Mrs. Kallos was Deputy General Director of former Banca Comerciala Carpatica SA, leading the financial and risk area and, after merging with former Patria Bank SA, Mrs. Kallos held the position of Deputy General Director of Patria Bank SA, member of the Executive Committee, coordinating the financial area, until 15.01.2018, when Mrs Kallos ceased the management contract with the consent of the parties.

Relatively permanent engagements and obligations, including executive and non-executive positions in the Board of non-profit societies and institutions, upon termination of mandate:

Name	Position in the bank	Companies	Company status	Position in the company
Diana Maria Kallos	Deputy General Director Financial Division	PATRIA BANK S.A.	Active	Director
		PATRIA CREDIT IFN S.A.	Active	Administrator

Lucica Cristina Pitulice

Deputy General Director - Financial Division (since 16.01.2018; starting to exercise her duties on 07.05.2018, when the prior approval of the NBR is obtained)

Member of the Executive Committee

Chairman of the Assets and Liabilities Committee

Born on May 15, 1972

Residence – Bucharest

Having a vast banking, consulting and audit experience, gained in 20 years of experience, Mrs. Pitulice graduated from the Academy of Economic Studies, Faculty of Finance, Banking and Accounting.

Between 1995 and 1998, Mrs. Pitulice worked in the field of financial audit and consultancy within Deloitte Romania, and between 1998 and 1999 held the Financial Controller position at Chase Manhattan Bank Bucharest Branch. Between 2002 and 2011, Mrs. Pitulice served as Financial Director at RBS Bank Romania (previously ABN Amro Bank), and in the period 1999-2001 worked in the area of compliance and market risk within ABN Amro Bank Romania.

Mrs Pitulice has previously held the position of Executive Director, Financial Division, Bancpost S.A. (2011-2014), Executive Director, Financial Division, Banca Romana de Credite si Investitii S.A. (2014), manager consulting - KPMG Romania (2015-2016), Executive Director - Financial Division and MIS Banca Romaneasca (2016-2017). From

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16.01.2018 Mrs. Pituce holds the position of Deputy General Director of Patria Bank SA, member of the Executive Committee, leading the financial area, for a four-year term.

Relatively permanent engagements and obligations, including executive and non-executive positions in the Board of non-profit societies and companies, as of 31.12.2018:

Name	Position in the bank	Companies	Company status	Position in the company
Lucica Cristina Pitulice	Deputy General Director Financial Division	PATRIA BANK SA	Active	Director

Codrut Stefan Nicolau

Deputy General Director - Commercial Division (since 01.07.2018; starting to exercise his duties on 24.08.2018, when the prior approval of NBR is obtained)

Member of the Executive Committee

Member of the Credit Committee/Legal entities

Born on 06.05.1974

Residence - Voluntari, Ilfov

Mr. Nicolau graduated from the Faculty of Economic Studies at Transilvania University of Brasov and is a graduate of the “Young Talents” MBA program at SDA Bocconi University Milan. Mr. Nicolau has a vast banking experience, working within Banca Transilvania – Brasov Branch – credit officer (1999), Unicredit Romania – Brasov Branch – marketing officer (1999-2002), Unicredit Romania – Magheru Branch – Branch Director (2002-2005), Unicredit Romania Bucuresti – Corporate Middle Market – Director (2009-2011), Unicredit Tiriac Bank –Deputy Director of Corporate Network & Development (2007-2009), Unicredit Tiriac Bank – Corporates Director, EU Funds & Real Estate (2011-2012), Unicredit Tiriac Bank - Retail Sales Director (2012-2013), Unicredit Tiriac Bank - Retail Commercial Strategy Director (2013-2014), Unicredit Tiriac Bank - business consultant (2014). In the period 2015-2016, Mr. Nicolau held the position of director of the sales department of SMEs and Micro-enterprises in the former Patria Bank and from 2016 until the moment of the merger served as the Director of commercial relations at the Banca Comerciala Carpatica and after the merger held the position of Director of the Commercial Division – Legal Entities within Patria Bank. From 01.07.2018 Mr. Nicolau holds the position of Deputy General Director of Patria Bank SA, member of the Executive Committee, leading the commercial area, for a four-year term.

Starting with 16.12.2016 Mr. Nicolau is member of the Board of Directors of Patria Credit IFN.

Relatively permanent engagement and obligations, including executive and non-executive positions in the Board of companies and non-profit Institutions, as at 31.12.2018:

Name	Position in the bank	Companies	Company status	Position in the company
Nicolau Codrut - Stefan	Deputy General Director Commercial Division	PATRIA BANK S.A.	Active	Director
	Member of the Board of Directors	PATRIA CREDIT IFN S.A.	Active	Administrator

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Executive Committee activity

The Executive Directors are responsible for taking all measures related to the management of the Bank within the limits of the object of activity and respecting the competencies that the law or the constitutive act reserves to the Board of Directors and the General Shareholders Meeting. The directors are invested with powers to act on behalf of the Bank and to represent it in the relations with third parties in the activities they coordinate, in compliance with the legal provisions, the constitutive act and their own statute of organization and functioning.

The meetings of the Executive Committee are held on a weekly basis or whenever the Bank's activity requires it. Decisions of the Executive Committee shall be taken by an absolute majority (N.B. half + 1 of the total number of members of the EC) of the votes of its members. If the Executive Committee cannot take valid decisions due to failure to meet the quorum requirements, the matter will be subject to the approval of the Board of Directors, together with the divergent views expressed by each Director, if any.

The convocations for the meetings of the Executive Committee in 2018 covered the meeting place, the date and the draft agenda. The Committee's sessions were generally organized at the social headquarters and / or at the real headquarters of the Bank, but modern means of communication were used to make the decision-making process more efficient (teleconference, e-mail). At each meeting minutes were drawn up, which included the names of the participants and the guests (where applicable), the order of the materials proposed for approval / endorsement / information, the discussions, the decisions taken, the number of votes, the abstentions and the separate opinions (where applicable). The minutes of the meeting are signed by the attending directors as soon as they are written.

During the year 2018, 175 meetings of the Executive Committee were held and 1217 decisions were adopted, the Committee's decisions being taken generally by unanimity of votes. At the meetings of the Executive Committee, besides the members of the Committee and the representatives of the Bank's central structures participated as guests.

Thus, the presence of the members of the Committee at its meetings was as follows:

- Mr. Bogdan Merfea – 173 meetings
- Mr. Valentin Vancea – 174 meetings
- Mrs. Diana Kallos – 4 meetings (mandate ceased on 16.01.2018)
- Mr. Bogdan Neacsu – 146 meetings
- Dna Lucica Pitulice - 125 meetings (voting right attendance since 07.05.2018)
- Dl. Codrut Nicolau - 70 meetings (voting right attendance since 24.08.2019)

The members of the Executive Committee have constantly pursued the continuity of the Bank's business, supervising the merger and post-merger process between the former Banca Comerciala Carpatica and former Patria Bank SA, implementing the measures taken by the NBR and other state institutions.

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The main areas of action of the Executive Committee were:

- Endorsed the Organization and Functioning Regulation, the KYC/AML/CFT Regulation, the Statute of the Audit Committee and the Regulation of for the Organization and Functioning of the Audit Committee of the Bank, as well as other committees under its authority. In addition, the Bank's policies and strategies on risk management, the conflict-of-interest policy were reviewed;
- Also, through its approval powers, the Executive Committee has reviewed and endorsed / approved a number of sales of real estate taken over by the Bank on the account of claims receivables, for certain clients administered in the workout area, including the sale of off balance sheet non-performing loans;
- proposed and implemented measures established to remedy the shortcomings found in the NBR oversight missions, within the internal audit missions or the external auditor's;
- analyzed and closely monitored the financial indicators of the bank, the degree of implementation of the approved budget, as part of a continuous process of cost reduction and efficiency of the Bank's activity.

The Executive Committee has regularly and comprehensively provided the Board of Directors with detailed information on all important aspects of the Bank's activities, including those relating to risk management, potential risk assessment and compliance issues, implemented and recommended measures, irregularities identified in fulfilling its duties.

Any event of major importance is immediately communicated to the Board of Directors.

Committees supporting the Executive Committee

The Committees set up in support of the Executive Committee assist in fulfilling the tasks assigned to its various lines of activity, especially with regard to the Bank's operational activity. These Committees include members of the Executive Committee and representatives of the management of the involved structures. The responsibilities and competencies of each committee are set by its own rules.

a) Asset and Liability Management Committee (ALCO)

The Asset and Liability Management Committee is a permanent committee that assists the Executive Committee in fulfilling its responsibilities for managing the structure of assets and liabilities, the management of liquidity and funding sources in order to ensure the balance of the financial risks assumed by the Bank to meet its goals.

During 2018, the Asset and Liability Management Committee met in 14 sessions. 27 topics were analysed and a total of 21 decisions were taken.

b) Credit Committee

The Bank has a Corporate Credit Committee and a Retail Credit Committee. The Bank's Credit Committees are organized and operate in accordance with the provisions of their own organizational and operational regulations.

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Credit Committees are permanent committees consisting of 5 members and 1-2 non-voting guests. Through their activity, according to the established responsibilities and competencies, the Credit Committees ensure the implementation of the risk management strategy, the Bank's lending policy, as well as other related policies and regulations.

The Credit Committees support the Board of Directors and Executive Committee in all aspects of credit risk management. Credit Committees are responsible for operational and methodological tasks. They have a decision-making role and / or make recommendations according to their field of responsibility.

The Credit Committees have the following competencies and responsibilities:

- approves the credit limits that fall within their competence according to the rules on the credits approval competences;
- endorse credit proposals that go beyond their approval competencies;
- endorse the proposals on the limits of the counterparty bank and assimilated;
- take all other operational and methodological decisions on credit risks, the importance of which does not require a decision at the level of the Executive Committee or of the Board of Directors .

Credit Committees meet whenever deemed necessary. The quorum at the Credit Committees is ensured by the presence of at least 3 of their members and the sitting is mandatory. In order to make more substantiated decisions, other specialists from various departments of the Bank may be invited to meetings.

In 2018, the Retail Credit Committee met in 35 sessions. A total of 28 individuals related cases were analysed and 20 approval decisions and 8 notices were issued. Also 11 notifications were communicated to the Retail Credit Committee.

In 2018, The Legal Entities Committee met in 147 sessions. A total of 272 legal entities related cases were analysed and 179 approval decisions, 5 rejection decisions and 88 notices were issued.

At the same time, the Credit Committee also works through sub-committees whose competencies are established by its own organization and functioning regulations.

c) Credit Restructuring and Workout Committee

The Credit Restructuring and Workout Committee (CRWC) is a committee that has approval powers delegated by the Executive Committee, ensuring an adequate credit portfolio management, including the exposures portfolio managed by the Restructuring and Workout Division, the loan portfolio that require restructuring operations, as well as the portfolio of assets owned by the bank and intended to be sold or being under selling procedures.

The main function of the CRWC consists in analyzing and deciding on (i) the restructuring of loans granted to legal entities proposed and submitted by the Restructuring and Workout Division or the commercial structures, (ii) the

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non-performing exposures recovery operations managed by the Restructuring and Workout Division and (iii) proposals for the capitalization of the assets owned by the bank, included in the portfolio managed by the Restructuring and Workout Division.

The Credit Restructuring and Workout Committee meets whenever necessary, at the express request of any member, to discuss issues that are within its competence.

During 2018, the Credit Restructuring and Workout Committee met in 24 meetings, a total of 27 requests were analysed and 26 decisions were issued.

d) Other committees:

The Committee on Safety and Health at Work, which operates in accordance with the provisions of Law no. 319/2006 of the Methodological Norms for Law Enforcement, approved by GD no. 1425/2006, as well as of the provisions of its own regulation.

4.2 Recruitment and diversity policy

The appointment and evaluation of the suitability of the members of the management body is based on a rigorously defined process in the "Appointment and succession policy of the members of the management body and of the key persons" and in the "Appraisal policy of the members of the management body and of the persons holding key positions", which answer the provisions of the NBR Regulation no. 5/2013 on prudential requirements for credit institutions (Articles 15 and 16) and the principles of the Corporate Governance Code of the BSE.

The main objective of the selection process is to ensure the right candidates for the vacant positions or to ensure the succession of the existing members. The selection of candidates excludes any discrimination regarding gender, age, ethnicity and any other type of discrimination, in accordance with the legal provisions.

The members of the management body meet the eligibility conditions and criteria necessary for the efficient management of the Bank's activity:

- Have a good reputation and expertise to exercise their responsibilities in accordance with the rules of a prudent and healthy banking practice;
- Have professional experience that requires theoretical and practical knowledge appropriate to the nature, size and complexity of the bank's activity and the responsibilities entrusted to it, as well as experience in management positions;
- Ensures the conditions of the collective authority of the Management Body for an efficient management and performance of the Bank's activity;
- Allocate sufficient time to exercise the responsibilities of the law and the statutory bodies;

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- Demonstrate involvement and commitment to the exercise of the responsibilities of the law and the statutory bodies.

Candidates for membership in the Board of Directors are nominated by shareholders or existing members of the Board of Directors and may only be natural persons who must have a good reputation, knowledge, skills and experience appropriate to the nature, extent and complexity the Bank's activities and the responsibilities entrusted to it, in order to ensure a prudent and healthy management of the Bank.

The selection of independent administrators is subject to compliance with the requirements of Law no. 31/1990 on companies, NBR Regulation no. 5/2013 on prudential requirements for credit institutions (Article 7 paragraph 4) and the Corporate Governance Code of BVB.

The responsibilities are exercised by the members of the management body subject to the prior approval of the NBR.

In order to encourage independent opinions and criticism, it is intended to ensure a sufficiently diversified structure of the Board of Directors and the Executive Committee in terms of age, gender, education and professional experience. The bank ensures that there is a balance of knowledge, competence, diversity and experience within the management body. Diversity within the Board of Directors and Executive Committee is ensured by the Bank through the selection process in terms of: age, the type of candidates, their studies and their professional experience.

The proposed goals for achieving diversity are as follows:

1. selecting people of both genres (feminine and masculine);
2. selecting people whose higher education covers different areas (financial, management, marketing, technical etc.);
3. selecting people whose experience covers different areas of activity (commercial, financial, audit, risk, IT etc.) and different levels of management (the highest level being the previous experience in a position at the management body level in a credit institution).

With regard to 2018, the way in which diversity goals have been achieved is detailed below:

1. Both the Board of Directors and the Executive Committee have appointed a female gender person;
2. Both the Board of Directors and the Executive Committee have people with various studies (economic, technical, mathematical, etc.);
3. Both the Board of Directors and the Executive Committee have experience in various areas (commercial, audit, IT, financial, risk);
4. There are more than 3 experienced people at different levels of management (in a management position in a credit institution) both within the Board of Directors and within the Executive Committee.

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4.3 Assessing the suitability of the members of the management body

The Bank has a policy of assessing the suitability of the management body's members and key personnel by establishing the criteria and processes that the Bank observes in assessing the suitability of the proposed and appointed members of the management body and the persons holding key functions.

The assessment of the suitability of the members of the Board of Directors and the Executive Committee and of the key personnel implies their inclusion in the evaluation criteria set out in the Policy for Assessing the Suitability of the Members of the Management Body and the persons holding key functions and in the Policy on appointment and succession of the members of the management body and of the persons holding key positions and is made in the following situations:

- ✓ prior to the appointment / hiring of the person on the respective position;
- ✓ whenever necessary, or when events that determine the need for re-evaluation occur, to check the continued suitability of the person.

Thus, in order to perform the respective function and responsibilities, in 2018 and subsequently, the NBR approved two new members of the Executive Committee (Deputy General Director, Financial Division in May 2018 and Deputy General Director, Commercial Division in August 2018).

4.4 Remuneration of the members of the management body

The Bank's General Shareholders Meeting approves the amount and the conditions for granting the indemnities due to the members of the Board of Directors. The remuneration of members of the Executive Committee is determined by the Board of Directors. The remuneration of the members of the management bodies (Board of Directors / Executive Committee) - gross remuneration in 2018 is as follows:

2018 (gross RON)	
Total, out of which:	5,328,475
- fixed remuneration (gross LEI)	5,328,475
- variable remuneration (gross LEI), out of which:	0
- cash	0
- shares	0
- other securities	0

4.5 Participation of the members of the management body in the share capital

On 31.12.2018 the members of the management body (the Board of Directors and the Executive Committee) hold the following participations in the share capital of Patria Bank SA:

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Name	Position	No. of shares	Value (LEI)
Bogdan Merfea	General Director, member of the Board of Directors	13,385,302	1,338,530.20
Valentin Grigore Vancea	Deputy General Director	8,031,180	803,118.00
Stefan Codrut Nicolau	Deputy General Director	3,614,032	361,403.20

4.6 Transparency and communication with shareholders and investors

The Bank has on its own website (www.patriabank.ro), a section dedicated to its investors, where documents related to the GSM, the periodical and annual financial statements prepared according to the legislation in force, as well as all the Bank's communications according to the capital market legislation can be accessed and downloaded. The Bank also complies with all disclosure requirements under bank and capital market legislation.

To this end, the Bank has established and maintains a structure dedicated to the relationship with investors, shareholders and other interested parties within the Investor Relations and Financial Institutions Team. Shareholders / investors may address their requests to the Bank, both by e-mail and by telephone, to their contact details displayed on the Bank's website (capital@patriabank.ro).

Financial calendar and communication with shareholders and investors

In order to inform shareholders and investors, the bank sets out at the beginning of the year a financial reporting schedule and sends it to the BSE and the FSA.

The updated financial reporting timetable communicated by the Bank for the year 2018 was as follows:

- Presentation of *preliminary* financial results 2017 **15 February 2018**
- GSM for approving the *annual* financial results 2017 **07 May 2018**
- Presentation of *annual* financial results 2017 **07 May 2018**
- Presentation of *half-year* financial results 2018 **16 August 2018**
- Presentation of *quarterly* financial results
 - 2018 1st Quarter **15 May 2018**
 - 2018 2nd Quarter **15 November 2018**

On 13.03.2018, the Bank held a meeting with financial analysts, investment advisors, brokers and investors to present the preliminary financial results for year ended 2017 and bank's future development perspectives.

4.7 Other corporate governance issues

Transactions with affiliated parties

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The Bank has procedures for identifying and dealing with the Bank's affiliated parties and their transactions. The competence of approving the credits granted to the persons affiliated to the Bank is the responsibility of the Board of Directors. Members of the Board of Directors in conflict of interest are excluded from the approval process. No shareholder may be granted preferential treatment over other shareholders in relation to transactions and agreements entered into by the company with shareholders and their affiliates.

In accordance with the NBR Regulation no. 5/2013, the affiliated party category includes at least:

- a) any entity over which the Bank exercises control;
- b) any entity in which the Bank holds interests;
- c) entities exercising control over the Bank;
- d) any entity in which the entities referred to in point c) above exercise control or hold participations;
- e) shareholders having qualifying holdings in the Bank's capital;
- f) any entity in which the shareholders referred to in point e) above exercise control or hold participations;
- g) members of the management body, as well as those holding key positions, together with:
 - (i) the entities in which they have direct or indirect interests or are interested in having such interest; and
 - (ii) close members of their families who are expected to influence or be influenced by them in relation to the credit institution; they may include: the life partner and the children of the respective person; the children of the person's life partner; dependents of the person or his / her life partner.

Thus, on 31.12.2018 the parties affiliated to the Bank are mainly:

- Majority shareholder EEAF Financial Services BV;
- Bank's subsidiaries: Patria Credit IFN SA, SAI Patria Asset Management SA, Patria Investments SA, Imobiliar Invest SRL, Carpatica Invest SA;
- The members of the Board of Directors and of the Executive Committee and the companies in which the management has a significant influence;
- The key management personnel;
- The qualified shareholders (>10%):

All transactions with related parties have been concluded in similar terms to transactions with unrelated parties, taking into account interest rates and related guarantees. Transactions with affiliated parties are disclosed in a separate note to the separate financial statements for the year ended 31 December 2018 and also for comparative periods.

The list of parties affiliated to the Bank is presented in Appendix 2 to this report.

Insiders transactions

Through internal procedures of the Bank, persons exercising management responsibilities as well as persons having a close relationship with them have the obligation to notify the Bank of any transaction performed on their behalf in connection with the Bank's shares or debt securities or derivative financial instruments or other financial instruments related, in respect of the Bank.

On the other hand, through the internal procedure for insiders and market abuse, the Bank informs these persons about their obligations regarding the regime of privileged information in case of transactions with shares issued by the Bank. Thus, there are specific provisions regarding the periods during which the Bank's securities are traded by persons initiated or employees of the Bank. The blackout periods are closely linked to the financial reporting periods.

Thus, in 2018 no cases were found that would be contrary to the interests of the Bank as regards the persons initiated, the persons exercising management responsibilities, as well as the persons who have a close connection with them that did not make in 2018 transactions on their behalf in connection with the Bank's shares or debt securities or derivative financial instruments or other financial instruments related thereto, in respect of the Bank.

Conflict of interests

In line with the business strategy, objectives, values and long-term interests of Patria Bank S.A., in 2018, the internal regulatory framework for the management of conflicts of interest was revised. In order to prevent conflict of interest, employees must avoid and abstain from any activity that is contrary to the interests of Patria Bank and / or its clients, having the obligation to report any situation of the nature of the conflict of interest and to collaborate with the organizational structures responsible, in order to solve and manage effectively any such situation.

Among the responsibilities of the members of the Bank's Management Bodies (members of the Board of Directors and the Executive Committee) are:

- the obligation to notify the other members of the Board of Directors, respectively of the Executive Committee regarding any conflict of interest situations the are found;
- the obligation to abstain when decisions are taken regarding transactions that can determine a potential conflict of interests.
- the obligation not to apply to Patria Bank SA for granting loans, securing loans or other financial benefits.

During 2018, situations of conflict of interest between some members of the Management Bodies and the interests of the Bank were identified, which is why immediate measures were taken to prevent and mitigate the related risks, such as the abstaining of those members of the Management Bodies to take decisions during the course of achievement of their current attributions, thus leading to maintaining the quality of the management framework.

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Thus, when the Board of Directors approved the loans granted to Patria Credit IFN SA, in which the Bank holds a 99,998% stake, Mrs. Daniela Iliescu, Mr. Bogdan Merfea and Mr. Codrut Nicolau abstained from the voting process, considering their status as shareholders or members of the Board of Directors of Patria Credit IFN.

With respect to the subordinated loans amounting to EUR 12.3 million granted in 2018 by the Bank's shareholder EEAF Financial Services BV, approved by the Board of Directors, we mention that the interest of the shareholder in granting it is not its own interest, in conflict with the interest of the company, but on the contrary, the interest of the company was pursued, as well as the conditions for setting the costs for the transactions with affiliates. However, Mr. Vasile Iuga (member of the BoD) abstained from the voting process when the Board of Directors approved the subordinated loans contracted from the majority shareholder, EEAF Financial Services BV, considering the quality of its membership of the European Investment Bank's Audit Committee.

Contestations or administrative proceedings of members of the management body

On the basis of the merger project, the two banks provided the shareholders who did not vote in favour of the merger, procedures for their withdrawal from the former Banca Comerciala Carpatica SA, respectively from former Patria Bank SA. In accordance with the provisions of these procedures, during the exercise of the right of withdrawal, they have expressed their right of withdrawal:

- from the former Banca Comerciala Carpatica SA - a number of 3 shareholders, holding together 414,699,946 shares in the former Banca Comerciala Carpatica SA, representing 18.83% of the share capital of the absorbing bank before the merger, the Bank having the obligation to acquire these shares from the respective shareholders at a price of RON 0.0896 / share, which will lead to the restitution of the capital to the shareholders in the amount of RON 37,157,115.17; the price of RON 0.0896 / share to which the Bank has the obligation to repurchase has been established by an independent authorized expert, appointed by the judge delegated in accordance with the Companies Act (Law 31/1990) at the request of the banks involved in the merger;
- from former Patria Bank SA - a number of 2 shareholders, holding together 303,758 shares in the former Patria Bank SA, representing 0.0003% of the subscribed and paid-up share capital of the bank absorbed before the merger, the merged bank having the obligation to purchase these shares at a price of RON 0.2702 for each share issued by the absorbed bank (representing the withdrawal price for the 3.0566 shares issued by the absorbing bank in exchange for a share issued by the absorbed bank), which will lead to the restitution of capital to shareholders in a total amount of RON 82,075.41; the price of RON 0.2702 / share to which the merged Bank has a redemption obligation was established by an independent authorized expert, appointed by the judge delegated in accordance with the Companies Act (Law 31/1990) at the request of the banks involved in the merger.

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In order to fulfill the obligation to redeem the shares for which the right of withdrawal has been exercised in total amount of RON 37,239,190.57, the Bank has the obligation to comply with the requirements of art. 77 and 78 of CRR. This implies taking steps aimed at the prior approval of the NBR and presenting evidence that the Bank's own funds, after performing the redemption operation, will be at a prudentially acceptable level.

Given that on 26.10.2017 there was a reduction in the share capital of the merged Patria Bank, to cover the accumulated historical losses of the former Banca Comerciala Carpatica, by reducing the number of shares and, having in view that at the time of capital reduction, the shares for which it had been expressed the right of withdrawal weren't redeemed, as part of the capital reduction operation, the minority shareholders' rights on the value of the shares for which the right of withdrawal was expressed were preserved. Thus, for a number of 250,899,063 shares of the total of 3,115,330,575 shares resulted after the capital reduction, there have been expressed rights of withdrawal, namely 8.053% of the share capital of the bank resulted from the merger.

Until the date of this report, the Bank did not announce the redemption operation of its own shares from the shareholders who exercised their right of withdrawal.

In this context, on 07.08.2017 Patria Bank SA received in the civil file no. 4435/85/2017 registered at the Sibiu Court, the payment injunction made by Mr. Ilie Carabulea, by which the latter, as a plaintiff, requests that Patria Bank SA, in its capacity as a defendant, jointly and severally with its directors, to pay the sums of "(a) LEI 40,666,949.8 the price of the shares redeemed by the company (b) the penalty interest on the amount due, equal to the NBR reference rate increased by 4% from the date of the application and up to the effective payment and (c) the court fees representing the stamp duty and the lawyer's fee". The Sibiu Court declined jurisdiction to solve the petition in favor of the Bucharest Court, filed under no. 45821/3/2017 to the Bucharest Court. On March 16, 2018, the court passed the following judgment: "It rejects as unreasonable the exception of the lack of passive procedural quality of individual debtors. Dismisses as inadmissible the creditor's request to issue a payment injunction. Dismisses as unfounded the claim of the creditor to award the costs incurred." The plaintiff filed an appeal and on 10.10.2018 the court dismissed the application as unfounded, the ruling being final.

Also on 18.09.2017 Patria Bank SA received in the civil file no. 4874/85/2017, registered at the Sibiu Court, the payment injunction made by Mr. Dican Octavian by which the latter, as a plaintiff, requests that Patria Bank SA, in its capacity as a defendant, jointly and severally with its directors to pay the sums "(a) LEI 318,866.2 but not less than LEI 285,704.1152 (b) the penalty interest on the amount due, equal to the NBR reference rate increased by 4% from the date of the application and until the effective payment, and (c) the court fees representing the stamp duty and the lawyer's fee". The Sibiu Court declined jurisdiction to solve the petition in favour of the Bucharest Court, filed under no. 43476/3/2017 at the Bucharest Court. On March 2, 2018, the court passed the following judgment: "Admits the exception of the lack of passive procedural quality of debtors Horia Dragos Manda, Daniela Elena Iliescu, Bogdan Merfea, Nicolae Surdu and Vasile Iuga. Rejects the claim made in disagreement with these debtors as being brought against persons without a procedural passive status. Rejects the claim filed in contradiction with the debtor Patria Bank SA as unreasonable. Dismisses the creditor's claim for costs as unreasonable". The plaintiff filed an appeal and on 24.10.2018 the court dismissed the application as unfounded, the ruling being final.

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In addition, on 25.09.2017 Patria Bank SA received within the civil file no. 4875/85/2017, registered at the Sibiu Court, the payment injunction made by Mrs. Ciobanu Liliane Christine by which the latter, as a plaintiff, requests that Patria Bank SA, in its capacity as a defendant, jointly and severally with its directors, to pay the sums "(a) LEI 484,178.60 but not less than LEI 433,824.0256 (b) the penalty interest related to the due amount, equal to the NBR reference rate increased by 4% starting with the date of the present application and until the effective payment; and (c) the court fees representing the stamp duty and the lawyer fee". The Sibiu Court declined jurisdiction to solve the petition in favour of the Bucharest Tribunal, filed under no. 45815/3/2017. On January 31, 2018, the court passed the following judgment: "Dismisses the exception to the lack of passive procedural quality, an exception invoked by private individuals debtors as unfounded; rejects the application for the payment injunction as inadmissible; dismisses the creditor's request that the debtor should be ordered to pay the court fees as unfounded; declare that the debtor is separately requesting the court fees. With the right to file an application for annulment, within 10 days from the moment of communication". Until this date, there was no claim for cancellation.

Other litigations of the Bank with the shareholders

On May 2, 2018, Patria Bank S.A. received in the file no. 11872/3/2018, filed with the Bucharest Tribunal, the request made by the plaintiff, Mr. Carabulea Ilie, requesting the cancellation of the Extraordinary General Meeting of Shareholders of Patria Bank S.A. from 12.03.2018 approving the increase of the Bank's share capital by the amount of approx. EUR 13 million. By civil sentence no. 2464 / 04.09.2018, the Bucharest Tribunal took note of the waiver of the applicant's claim, who was ordered to pay a sum of RON 7,000 representing court expenses.

On May 8, 2018, Patria Bank S.A. received in the file no. 11873/3/2018, filed with the Bucharest Tribunal, the application filed by the applicant, Carabulea Ilie, requesting, by way of presidential ordinance, the suspension of the effects of the Extraordinary General Meeting of Shareholders of Patria Bank S.A. from 12.03.2018 approving the increase of the Bank's share capital by the amount of approx. EUR 13 million, until a solution for the annulment of this decision is taken. By civil sentence no. 1832 / 14.06.2018, the Bucharest Tribunal took note of the waiver of the plaintiff's sue, who was charged for court costs in the amount of RON 1,563. The applicant, Carabulea Ilie, appealed against this decision. By civil decision no. 407 / 01.11.2018 Bucharest Court of Appeal found null the appeal.

On 18.10.2018 Patria Bank S.A. received in the file no. 22659/3/2018 filed at the Bucharest Court of Appeal, the petition for request for summons brought by the plaintiff, Ilie Carabulea, claiming payment of a debt he calculated at the amount of lei 36,437,587.02 lei, corresponding to the price of 406,669,498 nominative shares in respect of which he exercised his right of withdrawal from the former Banca Comerciala Carpatica SA at the time of the merger with former Patria Bank SA.

5. Human Resources

As at December 31, 2018, PATRIA BANK SA had 920 employees¹ (at 31.12.2017 the Bank had 1,018 employees), of which 81 employees are members of the "Unitate" Union within the Bank. Regarding the level of training, out of 920 employees about 890 employees of the Bank have higher education. The number of active personnel at 31.12.2018 was 840 (vs. 926 as at 31.12.2017) (without members of the Board of Directors and the Executive Committee).

Relationships between employees and managers are characterized by respecting appropriate activities and attributions, based on the principle of good faith. In the Human Resources Department, there is a working relationship coordinator position who manages any request-issue related to the employee / employer relationships.

The main activity of the Human Resources Department in the year 2018 consisted in:

- ✓ Ensuring resources at the level of the Bank's structures in order to fulfill the activity plan;
- ✓ Implementing the process of streamlining the activity of all organizational structures;
- ✓ Supervising the recruitment and selection processes, performance assesment, loyalty and rewarding of employees
- ✓ Continuing professional development and training programs and increasing motivation and commitment of employees with the help of specific programs;
- ✓ Performing specific fraud prevention and control activities in the field of activity developed in accordance with the provisions of the Anti-Fraud Policy of the Bank.

Professional development programs were continued through the e-learning management system as an alternative to "classroom" courses, with two important benefits being pursued: organization-wide addressability and cost-effectiveness. The e-learning programs aimed at transmitting and checking information on compliance, money laundering and terrorism financing risk administration and control as well as specific modules within the induction program, retail and Western Union products, mortgage loans, credit products to individuals, health and safety at work, information security, emergency situations. Thus, a number of 8 e-courses and also 8 tests were conducted through the e-learning application.

Also, training programs were organized by the Bank in collaboration with institutions, trainers and external resources, as well as internal programs, which aimed at developing the general competencies for fulfilling the responsibilities of the banking activity, as well as the specific abilities that targeted the technical area of activity. Additionally, the activities on identifying solutions appropriate to the needs of the Bank's external and internal clients continued, improving the quality of services, managing the Bank's portfolio of projects and developing new operational models within the organization.

¹ Including suspended employment contracts and part-time employment contracts

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In terms of assessing the professional performances of the Bank's employees, this is done annually and aims at measuring the achievement of business objectives, as well as the skills needed to fulfill the responsibilities. The evaluation process is addressed to all employees of the Bank.

5.1 Remuneration policy

The Bank's remuneration policy takes into account the legal requirements regarding the observance and fulfillment of legal transparency criteria on remuneration.

Remuneration policy aims to model working relationships in accordance with the organizational chart and to support them by establishing a fair balance between the outcome of the work and the model of remuneration, the employees' loyalty being a consequence of strengthening the organizational culture oriented towards individual and collective performance.

The main purpose of the remuneration policy is to create a remuneration and incentive system for all employees (including the "Personnel Identified"), in which long-term objectives are prioritized rather than short-term interests. The policy also provides for the possibility of making further adjustments for variable remuneration based on risks.

The Bank's remuneration policy is accessible to all employees, and the performance assessment process is conducted in accordance with the Evaluation Procedure and is transparent to all employees.

When establishing and applying total remuneration policies for staff categories whose professional activities have a material impact on the Bank's risk profile (the "Identified Personnel"), including the members of the Executive Committee, the staff who expose the credit institution to risks, internal control functions personnel and any employee who receives a total remuneration that leads to the same remuneration category as that of the members of the Executive Committee and the staff who expose the Bank to risks, the Bank shall observe, in a manner and to a degree appropriate to its size and its internal organization, as well as the nature, extent and complexity of the performed activities, the following principles:

1. the level of remuneration allows and promotes sound and effective risk management without encouraging risk-taking that exceeds the Bank's risk tolerance level;
2. the variable remuneration of the risk manager, compliance and internal audit coordinators shall be supervised directly by the Board of Directors;
3. if the remuneration is correlated with performance, the total amount of the remuneration is based on a combination of the individual performance and collective performance evaluation, i.e. the performance of the operational unit to which the employee belongs, as well as the overall outcome of the Bank, and the assessment of individual performance should take into account both financial and non-financial criteria (personal development, compliance with the Bank's systems and controls, involvement in the Bank's business strategies etc.);
4. the annual performance bonus is awarded on the basis of the performance evaluation, the performance of which will be assessed multi-annually in accordance with specific internal regulations, to ensure that the assessment process is based on long-term performance and that the effective payment of performance-based

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- remuneration components extends over a period that takes into account the Bank's business cycle and the risks specific to its business;
5. the total variable remuneration does not limit the bank's ability to strengthen its capital base;
 6. the variable remuneration guaranteed to be of an exceptional nature and to occur only when hiring personnel, limited to its first year of activity and only when the Bank has a sound and healthy capital base; the power to approve guaranteed variable remuneration rests with the Board of Directors;
 7. The variable component of the total (annual) remuneration must not exceed 100% of the fixed component of the total (annual) remuneration;
 8. the performance measurement used for the calculation of variable remuneration components shall include an adjustment for current and potential risks and take into account the cost of capital and liquidity required;
 9. in the case of variable remuneration, at least 50% of the variable remuneration must be given in the form of non-cash instruments; The Board of Directors is to analyze and establish the variable remuneration to members of the Executive Committee, including its non-cash component;
 10. a substantial part that represents at least 40% of the variable remuneration component shall be postponed for a period of three years and shall be adequately correlated with the nature of the activity, its risks and the activities of the personnel concerned. These employees are entitled to the rights to be paid the due remuneration, according to the deferral agreements, no faster than they would enter on a proportional basis. In the case of a component of variable remuneration in excess of EUR 100,000, at least 60% of the amount will be deferred. The duration of the deferral period will be determined in accordance with the business cycle (3 years), the nature of the activity, its risks and the activities of the staff concerned;
 11. the personnel identified to be paid or entitled to the variable remuneration rights, including its deferred part, unless the variable remuneration can be sustained in accordance with the Bank's financial situation as a whole and if it can be justified in accordance with the performance of the structure of the activity and the employee in question; this principle will be included in the *malus* and *clawback* agreements between the Bank and the employees eligible for the bonus;
 12. staff identified by a written own responsibility statement not to use personal hedging strategies or insurance policies related to remuneration and liability in order to counteract the risk alignment effects of this policy and its remuneration arrangements;
 13. if management members are eligible for incentives linked to the performance of the Bank, the level of their remuneration must be subject to relevant and objective conditions and should not be excessively correlated with the short-term performance of the credit institution. The Board of Directors will define the framework for setting and evaluating annual and multi-annual performance targets.
 14. deferred amounts may not be paid through an accelerated procedure, at the same time with the conclusion of the labor contract, unless this contract ceases due to death.
 15. the ratio between the components of fixed remuneration and performance-related remuneration is defined by the Bank's management on the basis of the functions of the operational unit in question, but without exceeding the 1: 1 ratio (variable remuneration may not exceed 100% of the fixed remuneration of the total remuneration).

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16. if an employee belonging to the identified staff falls within the incentive scheme (due to the specificity of the sales / collection / execution), as it cannot be eligible for the incentive scheme and the annual bonus performance, then he/she will only be eligible for the annual performance bonus.

The "Identified Personnel" list is drawn up in accordance with European Regulation 604/2014 of the Human Resources Division in collaboration with the Risk Management Division, the Legal Division, endorsed by the Executive Committee and approved by the Board of Directors. The list is updated annually or whenever necessary.

The annual performance bonus is linked to the annual performance appraisal and can be awarded after the evaluation process has been completed, depending on the achievement of the quantitative and qualitative individual objectives, the financial result or the evolution of the financial position of the company (i.e. RoE > 0 and RoE in positive growth versus the previous year) and the budget allocated to the bonus fund.

The quantitative and qualitative annual objectives derive from the strategic objectives of the Bank and are agreed with the direct managers and directors of divisions, within the deadline provided by the procedure for the evaluation of the employees' professional performances. The annual employee assessment measures the degree of achievement of the individual objectives (which must be specific, measurable, accessible, relevant and timely framed) and the level of skills required by the job position, held by the employee. The quantitative and qualitative objectives have a 75% weight in the final score and measure the degree to which they have been reached. Thus, if the result is the same with the target set, the performance is standard and 3 points are awarded. In the final score, the share of the quantitative targets is 75% and the qualitative targets are 25%. The objectives of each employee derive from the bank's objectives, which are gradually spread from the bank's highest hierarchical level to the management and then to the execution functions. Professional competencies have a weight of 25% in the final score, these being predefined, of the most relevant for the work done by the employee and which will be subject to evaluation.

Ratings must be given fairly and impartially, without discrimination of gender, ethnic origin, age, sexual orientation or religion, and the degree of achievement of the objectives and skills demonstrated and the behaviors demonstrated during the evaluation year. The annual evaluation of professional performance is done by 2 evaluators.

Professional performance appraisal is in direct relation to the whole activity of the employees, it must be a process known and understood by them and a motivating factor for the development of the performances and professional abilities of the employees. The evaluation process is an opportunity to set up actions to maintain / improve professional performance or develop employee skills, it is a feedback on the expected performance for the job, but also an opportunity to establish career opportunities. Thus, it is possible to identify the strengths and behaviors / performance that did not meet the expected standards. The Human Resources Division, along with the hierarchical boss of the evaluated employee, will recommend in this case future action directions to improve the results.

The identified staff can receive an annual performance bonus, can not benefit from the bonus scheme depending on the sales / recovery / execution. The annual performance bonus can be awarded according to the rating received

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by each employee (rating at least "at the level of expectations") and the budget allocated and approved by the Board of Directors for the annual performance bonus.

Also for the year 2018, in the case of project bonuses for identified personnel, the Bank took into account the achievement of the individual objectives set by the annual performance management program and the involvement in the strategic projects of the bank.

The total bank-level budget for the annual performance bonus is approved by the Board of Directors. For members of the Board of Directors and managers of internal control functions, the budget is allocated by the Board of Directors. For the rest of the functions, the budget is allocated by the Board of Directors for each Independent Directorate / Department, on a yearly basis, according to:

- The annual performance bonus budget approved by the Board of Directors;
- Annual financial results of the Bank;
- Results of professional performance assessments (distribution of ratings / division / independent department in general total vs. staff expenses budget / division / independent department in total staff budget).

Employees / members of the Board of Directors who are part of the " Identified Personnel " category may not have variable remuneration higher than fixed remuneration (1: 1 ratio). In the case of the identified personnel, 40% of the value of the variable remuneration must be postponed, according to the provisions of the Bank's Remuneration Policy. In the case of variable remuneration over EUR 100,000, the immediate component must be at most 40% and the deferred component should be at least 60%. The immediate component is only paid if the following conditions are met:

- To have not been under a disciplinary sanction in the year in which the immediate share of variable remuneration is paid;
- To not have been initiated / conducted a disciplinary investigation procedure on the date on which the immediate share of variable remuneration is paid. If the disciplinary sanction does not apply following the prior investigation, then the variable part shall be paid on the wage payment corresponding to the month in which the disciplinary investigation was completed;
- to not have a request for termination of the contract on the date of the payment of the immediate part of the variable remuneration (except for the employees who terminate the individual contract with the bank but are hired within the Group);

The deferred component is paid as follows (with the approval of the Board of Directors, it may be set for certain employees and other deferral schemes): 35% in the year following the immediate component of the variable part, 35% in the second year, 30% the third year, only if the employee fulfills the following conditions:

- To have not been under a disciplinary sanction in the year in which the immediate share of variable remuneration is paid;

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- To not have been initiated / conducted a disciplinary investigation procedure on the date on which the immediate share of variable remuneration is paid. If the disciplinary sanction does not apply following the prior investigation, then the variable part shall be paid on the wage payment corresponding to the month in which the disciplinary investigation was completed;
- to not have a request for termination of the contract on the date of the payment of the immediate part of the variable remuneration (except for the employees who terminate the individual contract with the bank but are hired within the Group);

The centralization of the results obtained in the annual performance evaluation is done by the Human Resources Division, which centralizes the related amounts for the eligible employees according to the results obtained and the budget / allocation criteria approved by the Executive Committee. The related amounts are subject to the approval of the Board of Directors within the limits of the budget approved by the Board of Directors and the financial results of the Bank.

In the case of the members of the Executive Committee and the managers of internal control functions, the amounts are approved by the Board of Directors. If the total amount of the annual performance bonus exceeds the budget approved by the Board of Directors for this type of variable payment, the Bank, through the Executive Committee, respectively the Board of Directors, for the members of the Board of Directors and the managers of internal control functions reserves the right to reduce the amount of bonus mentioned above.

The annual performance bonus is calculated pro-rata, according to the office time spent - number of months worked in the bank (which must be at least 6 months to be eligible) or the time period worked following internal staff transfers.

Up to 100% of the variable remuneration is subject to malus and clawback arrangements:

- Malus agreements apply both to cash and to parts of deferred payment instruments. Malus agreements operate by affecting the getting into rights process and can not work after the end of the deferred period. The agreement takes into account the risk results of the performance underlying the bank as a whole, the organizational structure and, where possible, the employee.
- The clawback agreement is usually applied only in the case of detection of fraud or in the case of misleading information, serious violation of internal regulations and / or a prejudice caused to the bank and applies to both the immediate variable remuneration, as well as the deferred remuneration.

Evaluation of remuneration policies and practices is carried out by the coordinators of the independent control functions and by the Risk Management Committee, taking into account the following objectives:

- preventing the provision of incentives for excessive risk taking and other behaviors contrary to the Bank's interests;
- revising the principles governing remuneration policy;

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- alignment of remuneration practices with the long-term objectives and strategy, the culture and the internal control environment of the Bank;
- compliance with the provisions of the NBR Regulation no. 5/2013, from the perspective of the following, but not limited to:
 - risk management;
 - a correlation of revenue with: the duties and responsibilities of the job, type and complexity of the job, qualification of employees, individual or collective performance;
 - types of income.

The active involvement of control functions in designing, supervising and reviewing remuneration policies in accordance with specific internal regulations and applicable legislation in the field is very important, with the remuneration policy being reviewed when changes in business strategies and risk management of the Bank occur. The control function coordinators will forward the proposed modifications to the Human Resources Division (as the case may be), thus contributing to the determination of the overall remuneration strategy applicable to the Bank. The collaboration between the Managing Body (Board of Directors and the Executive Committee), the coordinators of the control functions and the Human Resources Division, has the role of establishing an efficient framework for performance management, risk adjustment and their linking to the rewarding system.

Procedures on remuneration practices must, in particular, enable risk management and compliance functions to have a significant contribution, in line with their roles, to the establishment of bonuses portfolio, performance criteria and awarding of remuneration where these functions concern the impact on staff conduct and the risky nature of the activity being carried out.

The Bank's remuneration policy is endorsed by the Executive Committee, the Risk Management Committee and approved by the Board of Directors on the basis of the proposal for revision submitted by the Human Resources Division, a proposal evaluated by the Compliance Division, the Legal Division, the Risk Management Division and the Internal Audit Division.

The quantitative information on remuneration for the financial year 2018 for members of senior management bodies and members of staff whose actions have a significant impact on the institution's risk profile are presented in the table below (the total number of persons remunerated during 2018 was 36, on 31.12.2018 the number of them being 25):

No		Members of the management body in its supervision function	Members of the management body in its execution function	Investment banking services	Retail banking services	Assets administration	Corporate functions	Independent control functions	All other activity segments
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1)	Number of members within staff	5	4	0	0	0	0	0	0
(2)	Number of Identified personnel members, in full time equivalent	0	0	1	3	0	6	6	0
(3)	Number of Identified personnel members that hold positions within management bodies	0	0	0	2	0	1	0	1
(4)	Total fix remuneration (gross RON), out of which:	1,240,502	4,087,973	396,367	1,612,679	0	1,927,220	1,424,044	0
(4.1)	- cash	1,240,502	4,087,973	396,367	1,612,679	0	1,927,220	1,424,044	0
(4.2)	- shares and shares related instruments	0	0	0	0	0	0	0	0
(4.3)	- other type of instruments	0	0	0	0	0	0	0	0
(5)	Total fix remuneration (gross RON), out of which:	0	0	0	0	0	119828	0	0
(5.1)	- cash	0	0	0	0	0	119828	0	0
(5.2)	- shares and shares related instruments	0	0	0	0	0	0	0	0
(5.3)	- other type of instruments	0	0	0	0	0	0	0	0
(6)	Total amount of the variable remuneration granted in 2018 and deferred (gross RON), out of which:	0	0	0	0	0	0	0	0
(6.1)	- cash	0	0	0	0	0	0	0	0
(6.2)	- shares and shares related instruments	0	0	0	0	0	0	0	0
(6.3)	- other type of instruments	0	0	0	0	0	0	0	0
(7)	Art. 450 para (1) h) pct.(iii) of UE Regulation no. 575/2013 - total amount of the deferred variable remuneration, due and unpaid, granted in previous years and not in 2018 (gross RON)	0	0	0	0	0	0	0	0
(8)	Total amount of the explicit adjustments based on ex-post type performance applied in 2018 to the remunerations granted in the previous years (gross RON)	0	0	0	0	0	0	0	0
(9)	Number of beneficiaries of the guaranteed variable remunerations (new payments for employment)	0	0	0	0	0	0	0	0
(10)	Total amount of the guaranteed variable remunerations (new payments for employment) (gross RON)	0	0	0	0	0	0	0	0
(11)	Number of beneficiaries of compensatory payments	0	0	0	0	0	1	0	0
(12)	Total amount of the compensatory payments granted in 2018 (gross RON)	0	0	0	0	0	352,737	0	0
(13)	Art. 450 para (1) h) pct.(vi) of UE Regulation no. 575/2013 - the highest compensatory payment granted to a single person (gross RON)	0	0	0	0	0	352,737	0	0
(14)	Number of beneficiaries of the contributions to the discretionary benefits such as pensions in 2018	0	0	0	0	0	0	0	0
(15)	Total amount of the contributions to the discretionary benefits such as pensions (gross RON) in 2018	0	0	0	0	0	0	0	0
(16)	Total amount of the variable remuneration granted on multianual periods as per the programs which are not annually reviewed (gross RON)	0	0	0	0	0	0	0	0

For the year 2018 compensatory payments at the termination of the labor contract were in the total gross value of RON 352,737 (1 person, the highest amount paid to a person being RON 352,737 gross).

Also, for 2018:

- there were no cases of deferred and unpaid due salary.
- There were no cases of deferred remuneration lowered through performance adjustments for the members of the management body and the identified staff members.
- there were no members of the management body or identified staff members who would benefit from a salary of EUR 1 million or more.

6. Patria Bank Group's activity and results in 2018

6.1 Macroeconomic and banking sector context in 2018

The international economic and financial context

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This has been favorable, which has contributed to a certain degree of protection in case of Romania, along with the countries of the region, in times when the investor sentiment towards the emerging markets has deteriorated at international level.

The internal economic and financial context

According to INS², consumer prices in December 2018 compared with December 2017 increased by 3.3%. The annual rate calculated on the basis of the Harmonized Consumer Prices Index (HCPI) is 3.0%. The average inflation rate in the last 12 months (January 2018 - December 2018) compared to the previous 12 months (January 2017 - December 2017), calculated on the basis of CPI (Consumer Price Index), is 4.6% and based on HCPI, the average rate is 4.1%. Despite the favorable evolution, the quarterly dynamics of core inflation was in the last three months of 2018 above the multiannual average of 2010-2017, amid continued labor market tensions - reflected in the substantial advance of labor costs per unit - and the persistence of the surplus demand in the economy. Against this background, although reaching 2.5% in December 2018, latent pressures persist at the level of the component, which may lead to a re-inflationary rise in prices over the next period³.

In the NBR Board of Directors meeting of January 8, 2019, the most recent assessments reconfirmed the medium-term forecast in the previous Inflation Report (November 2018). The assessment was still under the burden of significant risks and uncertainties, associated with the growth rate of the Euro area and global economy, as well as with the conduct of the monetary policy of the ECB and central banks in the region. Relevant were also the risks associated with the fiscal and revenue policy behavior, including the failure to complete the budget draft for 2019, as well as the unexpected character and content of the set of fiscal and budgetary measures that came into force on January 1, 2019. Based on available data at that time and in the context of the risks and uncertainties highlighted, the NBR Board of Directors decided to maintain the monetary policy rate at 2.5% per annum. At the same time, the Board of Directors reiterated that a balanced mix of macroeconomic policies and the implementation of structural reforms to stimulate long-term growth potential are essential to maintaining macroeconomic stability and strengthening the Romanian economy's ability to cope with potential adverse developments.

According to NBR⁴ data, the economic growth in the third quarter of 2018 continued to accelerate slightly in annual terms up to 4.3%, from 4.1% in the previous quarter, but especially in quarterly terms, solely on the back of the increase, much higher than expected, of agricultural production. On the demand side, the major contribution to GDP growth continued to be due to the stock changes, followed by household consumption, while gross fixed capital formation diminished its negative contribution.

Net exports grew their negative contribution to GDP growth amid a relatively more pronounced slowdown in the growth in exports of goods and services, leading to the deterioration of the primary and secondary income balances and to the widening of the current account deficit as compared to the similar period of 2017. The consolidated

² Institutul National de Statistica (National Institute for Statistics) – Press release January 2019

³ Report on inflation – NBR, February 2019

⁴ NBR BoD decisions on monetary policy issues – 08.01.2019

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general budget recorded a deficit of RON 1.8 billion (equivalent to 0.2% of GDP) in the third quarter of 2018, significantly lower than the one recorded in the previous three months (RON 10.5 billion, respectively 1, 1% of GDP). Therefore, the intra-annual relaxation of the budget execution, including the pattern of the previous year, continued in this interval, but at a more moderate pace. The decrease in the deficit mainly reflected the increase in total budgetary revenues, supported predominantly by the increase of non-tax and VAT revenues. In turn, total government spending has been slightly reduced, mainly due to a fall in interest expenses, in the opposite direction actioning the increase of the capital expenses.

The main quotes of the interbank money market narrowed the positive spread over the monetary policy rate in the last two months of 2018, mainly due to the change in liquidity conditions and the likely adjustment of banks' expectations regarding the prospects for monetary policy parameters.

At the same time, credit to the private sector continued to rise steadily in the first two months of the fourth quarter of 2018, at a year-on-year marginally superior level than the average level in the previous quarter, as the dynamics of credit extended to non-financial corporations revigorated – based on its foreign currency component - but also the prolongation of the robust advance of the credit to individuals. The RON component share in total credits increased its advance, reaching 65.6% in November 2018.

The RON/EUR exchange rate remained relatively stable until the end of 2018.

The most recent evaluations reveal the prospect of the continuing decrease of the annual inflation rate and of keeping it on the very short horizon slightly below the upper limit of the inflation target range (2.5% +/- 1%), in line with the most recent forecast in the medium term, published in the November 2018 Inflation Report.

The uncertainties and risks associated with the inflation outlook are amplified by the growth rate of the Euro area and the global economy and by the monetary policy conduct of the ECB and central banks in the region. Relevant are the conduct of fiscal and incomes policy, including the failure to complete the budget draft for 2019, as well as the unexpected character and content of the set of fiscal and budgetary measures that came into force on January 1, likely to influence future inflation, the main ones being: the establishing of a tax on the financial assets of credit institutions; changes to the regulation of privately managed pension funds; introducing a 2% turnover contribution for economic operators operating in the field of electric and thermal energy; introducing a fee for gambling organizers; increasing the monitoring tariff paid by telecoms to ANCOM; fixation of the sale price of natural gas extracted from the territory of Romania to 68 lei / MWh between 01.04.2019 - 28.02.2022; exemption from January 1, 2019 to December 31, 2028 from income tax for construction employees; increase the pension point since September 1, 2019 by 15%; setting up / expanding the scope of some funding funds.

According to the INS, the unemployment rate has kept its downward trend and reached 3.9% in the third quarter of 2018, down 0.2% from the previous quarter, and the employment rate (population between 20-64 years) followed the same improvement trend seen in previous periods, registering a 71.3% value in the third quarter of 2018, above the 70% threshold set for 2018 and close to the 75% target set in the framework of the Europe 2020 Strategy.

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In the context of CPI growth, we can see a rise in short- and medium-term interest rates, the ROBOR level at 3 months reaching 3.02% and at 6 months 3.30% for 31.12.2018. Obviously, with the rise in minimum wages and salary incomes in the public sector - which has led to an increase in inflation - interest rates on the interbank market have increased accordingly.

Banking sector⁵

The banking sector has been healthy. Solvency and liquidity remained in adequate parameters while improving asset quality (the rate of non-performing loans declined from 6.41% in December 2017 to 5.56% in September 2018).

Liquidity is supported by funding coming particularly from internal saving and the holding of liquid assets. The quality of bank assets has improved and the coverage ratio has improved and remains adequate. Continuing the resolution process of non-performing loans remains a priority for both banks and the NBR, similar to European concerns.

The profitability of the banking sector is well above the EU average (return on capital was 15.7% in September 2018 versus 7.2% EU average in June 2018). The main reason for this profitability is to continue reducing net expenses by adjusting for expected losses, while maintaining robust credit growth. However, fiscal measures adopted at the end of December 2018 are expected to significantly influence the profitability of banks, following the introduction of the financial asset tax with immediate effect from January 2019.

Interest income remains the main source of operating income, with business models being predominantly characterized by traditional activities. The low financial intermediation is associated with the existence of a high difference between the interest rates of loans and deposits, especially for the segment of the population. Operational efficiency places the Romanian banking sector in a medium-risk environment and has room for improvement, especially in small and medium-sized banks.

The bank business model continues to target retail lending in particular on the background of a more favorable history of risk-adjusted returns. Real economy lending has boosted, including the non-financial business segment, but a significant concentration of exposures towards government administration is maintained. The consolidation process of the banking sector has been maintained without disturbing competition, and this trend may continue.

The Loans to Deposits ratio ("L / D") in the banking system shows a stabilization around the level of 75% -80%, with a higher density compared to the RON / foreign currency lending (mainly EUR).

In terms of the Return on Equity ratio, the banking system saw a consolidation at 14,85% (December 2018). The Capital Adequacy Ratio shows a stabilization around the 20% level in recent years, which again shows the constancy of the financial system in Romania, with a high level of CAR compared to the banking systems in the surrounding

⁵ As per NBR data – Report in financial stability – December 2018.

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countries. Another ratio showing the robustness of the banking system is the rate of return on its core business, standing at around 181%, with a significant increase in the fourth quarter of 2018 (186,92%).

6.2 Bank's main achievements in 2018

Objectives established through the Activity Plan and Budget

In less than two years from the merger, as a result of the increase in commercial activity (especially credit growth), optimization in the area of non-productive fixed assets and the recovery of non-performing loans, the Bank has reached a break-even point (registering a marginal loss of RON 266 thousand), entering in the second half of 2018, in positive territory of operational profitability on a monthly basis.

The Bank's profitability continues to be under pressure on the backdrop of the under-optimal structure of assets in the Bank's balance sheet where the significant liquidity surplus is invested in short-term government bonds, which however, generates lower interest income than the average returns of credits portfolios. The increase in the loan portfolio during 2018 has created the premises for this pressure to gradually decrease as the Bank implements its lending growth strategy. At the same time, during 2018 operational issues were identified that are already in the attention of management as part of the continuous optimization process and will be calibrated accordingly in the next period in the context of the implications generated by the new asset tax so that the business model to generate viable results.

Achieving a near-break even represents the cumulative strategic decisions the Bank has made, materializing in the following financial milestones achieved in 2018 compared to 2017:

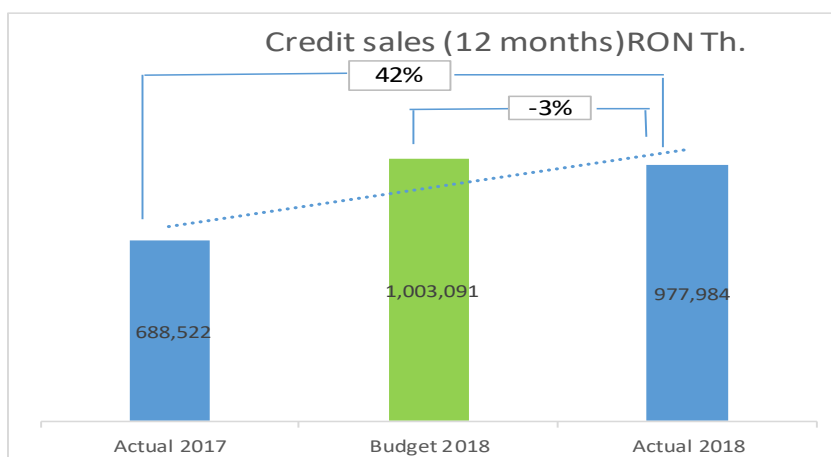
- Organic growth on all lines of business through sales of loans over RON 978 mill. in the year 2018 which led to an increase in the net credit portfolio by 16% compared to 2017;
- Increase of operational revenues by RON 6,746 thousand, + 4% compared to 2017;
- Optimization and decrease of the operating expenses with 8%, -RON 14,223 thousand;
- Improvement of the Operating result by 92%, RON +20,969 thousand by both components: the increase of the operational revenues and the reduction of the costs;
- Depreciation adjustments for financial assets show a positive value generated by the impact of debt assignment and non-performing loans sold by the Bank during 2018.

Achievements in the commercial activity

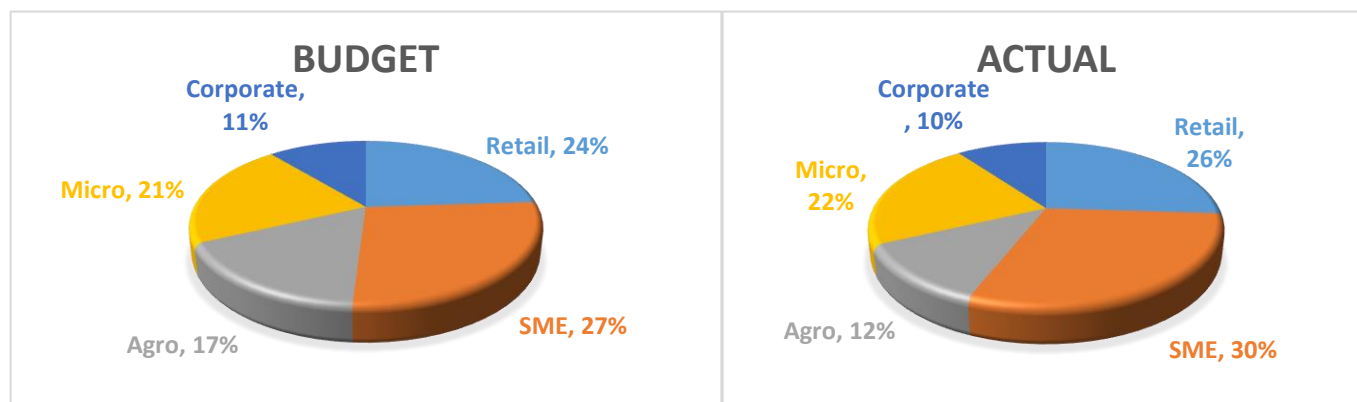
At the end of 2018, Patria Bank SA is present in 67 cities, through 81 branches, being an active and innovative participant on the agro, microenterprise and SME segments and developing the retail segment in the urban environment and especially in small towns and rural areas. By implementing the new post-merger business model, both in terms of strategy, size, product and market approach, in 2018 the Bank pursued the use of various distribution channels and strategic partnerships to penetrate niches not covered by the market in order to allow for the achievement of the established strategic direction, to be a significant presence in the segment of less-bankarised customers, both in the urban and rural areas, and to support local entrepreneurs.

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During 2018 the lending activity had a growing dynamics compared to 2017, with new credits granted amounting to RON 978 million. This volume assured the achievement of the budgeted sales plan for 2018, together with a 42% increase in the volume of new loans granted compared to 2017.



The breakdown on client segments is as follows:



The Retail segment

The Bank **increased its current credits balance by more than RON 45 million**, registering a 14% increase over the retail credit market. This increase took place mainly in terms of the financing of non-guaranteed consumer loans in **volume of RON 138 million lei**, out of a total of **RON 177 million** (representing **78% of total sales of credits**). Guaranteed loans (credits for acquisitions and mortgage-backed consumer loans) have increased both in volume and weight since September 2018, so that at the level of the year they represent **18%** of the total sales with a volume of **RON 33 million**.

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Regarding the distribution network in 2018, the evolution was in the direction of reducing the DSA / Broker alternative channels and increasing the importance of the territorial units network, having as main motivation the superior quality of the loan portfolio generated by its own units. During the same period, the "Lead provider" partnership type was developed, by launching a program and a working platform with these partners.

The development of new products and the improvement of the existing ones has been and remains one of the main concerns of the bank, with initiatives such as: insurance intermediation, mortgage rebranding, SMS Info services, Internet Banking / Mobile Banking and Deposit and Unit Funds Packages. Such products and services have been launched or are very close to becoming operational.

In the **non-lending area**, the main directions of action were and will continue in 2019 as follows:

- **Technological development and improvement of product and service functionalities** mainly: Card Contactless, Internet and Mobile Banking, IBA-Standard rollout;
- Quality of services and programs such as "**Excellence in services**" and "**Customer care**";
- **Facilities** - zero or lower commissions than those of the market, for those who collect income in accounts opened with the bank;
- **Increasing the share of customers who benefit from Current Account Packages**, so as to result in a significant increase in product use, cross sell and non-lending incomes;
- **Loyalty programs (Multi Bonus, Catena)** to provide additional benefits to card holders and change their behavior (from "card holder" to "card user");
- **Launching new products in partnership with insurers (life insurance and others)** (including CASCO, RCA, Journey) and packages in partnership with Patria Assets Management;
- Savings account type products that provide complementary life insurance.

In the area of attracting term sources, the bank included the promotion of RON products with deposit-withdrawal facilities, terms of choice and products with very good interest rates over 1 year. The products at 15-month and 24-month terms, along with the Centenary Deposit, were the products with the highest increases in 2018. At the end of 2018, the volume of sight and term sources from **individual clients exceeds ROL 2.3 billion**.

The Corporate segment

The year 2018 also implied a steady increase in operations in the corporate segment. Excluding non-performing loans (managed by the workout area), the Bank increased the balance of credits by more than RON 225 million in 2018. Thus, in the microfinance area, the Bank continued to be one of the main players in the market and started an extensive training and enrollment process for retail staff to increase its ability to generate a small and very small business portfolio in geographic areas not covered by micro specialized personnel.

New flows and new products have also been launched to optimize the production of new loans and to ensure the premises of a sustained growth in 2019. The Bank remains one of the main financiers of the microenterprise segment, especially small loans, including partnerships with different centers of regional and international expertise (EFSE, FEI, EMN, etc.). The process of implementing a proprietary IT platform for the superior management of the

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recommendations / leads received through alternative sales channels has continued, leading to better monitoring of the transactions thus generated, increasing partner satisfaction and optimizing sales processes.

In the agro financing area, the Bank continued to expand its relationship with agricultural equipment partners, following the extremely favorable 2017 experience. Due to the fact that the Bank has agronomist specialists and engineers, the process of creating new products, designed together with customers partners / collaborators, combining the specificities of the agricultural field with the usual bank financing, so that the credit products meet the needs of the industry, both in terms of structuring and the seasonal reimbursement plans.

In 2018, the share of credits extended to firms that applied for projects with European funds increased, and the same trend will continue in 2019. The Bank has also become one of the main partners of the National Rural Credit Guarantee Fund - FGCR (2nd in Romania, according to the value of the guarantees provided by FGCR).

In the area of SMEs and Corporate Companies, the Bank is constantly focusing on the significant development of the customer base through personalized offers and the development of customer relationship quality as the main differentiator, which is why there is already a recognition in the market, both the point of view of the competition and the perception of customers who enjoy a quality customer care. The Bank retained an optimal combination of guaranteed and unsecured financing, without exceeding a comfortable level of the credit voucher, maintaining a balanced portfolio in terms of the value of each transaction and the areas of activity funded.

Operational and IT achievements

From an operational point of view, the Bank continued its strategy of streamlining processes and significantly reducing operational costs by:

- Completion of the consolidation of the Bank's data centers;
- Continuation of investments in the IT infrastructure (data center / communication channels / information storage capabilities / increasing the security of the IT system / adapting the IT system to GDPR requirements);
- Optimization of card renewal streams (centralization of process) and ATM supply (including reconciliation process);
- Automation for the purpose of reducing operational risks (in respect of requests for issuance of unprocessed cards, porting accounts, expired insurance policies);
- Completion of the implementation of a dedicated solution for the improvement of the level of cyber security (Mobile-Device-Management - by which the remote access to the e-mail and file-sharing systems of the bank is secured);
- Rebuilding of the Activity Continuity Plan and appropriate testing;
- Improvement of the credit flows of individuals with the automation of the end-to-end process and modification of the computer flows support for compliance with the provisions of the EU Directive no. 92/2014.
- Implementation of security measures according to PSD2 standards for the new Internet Banking platform.

The Bank has launched new packages of current account products based on market analysis and best practices at international level. The Bank is in the process of implementing the IBA Mobility solution that will allow the use of the mobile sales force application, as well as the implementation of qualified electronic signatures, which will allow

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the transformation of full-paperless flows (with impact on operational efficiency, the realization of transactions and, last but not least, the significant mitigation of operational risks). In this way, new alternatives will be provided for opening the current account, giving the client superior experience in terms of the actual process, reducing processing time, along with process optimization, by simplifying the required documentation.

In terms of card business, the Bank has implemented or is pursuing the implementation of projects such as: Fast Funds Processing Transaction of OCTs - VISA Issuance, Cashback Issuance and Acceptance, 3D Secure Dynamic Password (to provide customers with a dynamic password for authentication transactions on Internet); issuing contactless cards; PIN by SMS (sending the PIN code of the card via SMS to the bank's clients) etc.

Strategic partnerships have also been launched to increase the use of cards (for example, partnership with the Catena chain of pharmacies, Ardeal Pharmacy etc.) and will continue to develop permanent activation campaigns for both business cards and those used by individuals.

From the point of view of IT technology, the Bank is in the process of developing new projects to be implemented in the course of 2019, such as the Internet Banking and Mobile Banking application (for individuals and for legal entities), the user having remote access to its accounts and banking operations at any time, with full security and mobility. The application will meet the needs of customers with a dynamic profile, the purpose of which is to provide a simple, transparent, natural, personal fund management experience, aiming to increase customer satisfaction.

Also, Patria Partner and Lead Generation will help increase the volume of products and services sold through alternative channels. Through it, the new marketing channel developed through lead partner and external collaborators representing the Bank's interests will transmit leads and be able to monitor their quality.

At the same time, during 2018, the bank undertook a series of efforts to update customer data, as Patria Bank inherited from the former Banca Comerciala Carpatica (especially in the area of individuals) a significant portfolio of dormant clients or outdated data. The main purpose is to diagnose the actual post-merger client base, which has led to:

- closing a significant number of contractual relationships with dormant clients that could not be activated;
- activation and loyalty of a customers category group taken over as inactive from the former Banca Comerciala Carpatica.

Treasury activity

As regards the Bank's treasury activity during 2018, it focused on two main directions:

1) Managing liquidity both on short as well as medium and long term. The net positive position on the main currencies has made the Bank focus its attention on making its management more efficient, finding the optimal and high liquidity placements. Consequently, the bank chose as investment alternatives, the placements in government bonds and money market instruments.

- Having a rather conservative policy, given the uncertain economic environment during 2018, the Treasury Division decided to gradually reduce the duration of the fixed income asset portfolio to reduce the risks related to higher interest rates in the coming period;

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- In terms of commercial liabilities, the Bank has paid particular attention to changing its current structure by focusing liabilities rather on the RON national currency to the detriment of the EUR and USD currencies. The Bank also paid special attention to maintaining a high duration of commercial liabilities, as well as an appropriate balance between deposits and current accounts. In this respect, comparing the weight of deposits made by individuals with the legal entities ones, we find a high degree of "stickiness" of Patria Bank SA liabilities, especially on the individuals segment, which is further proof of the stability of the institution with regards to commercial liquidity.

2) With reference to the **trading activity**, the Bank has focused its attention on the diversification of the counterparties with which it can trade as well as the counterparty limits (limits for transactions on the foreign exchange market or the money market).

- Revenues from the trading activity in the FOREX market have seen significant increases in relation to budgeted revenues. This shows a consolidation of the Bank's trading position, in the context of declining financial markets in terms of traded volumes.
- Trading with non-bank customers has seen significant growth, in order to streamline Treasury operations and to more effectively cover the clients of the foreign exchange business.
- As regards the trading activity of fixed income instruments, there are positive figures in the context of a difficult market, with a serious correction of the interest rate curve on RON.

On the other hand, during 2018, the integration of trading activities, treasury sales and management of assets and liabilities within the same Division – i.e. the Treasury Division - was completed, the Bank having a functional system and a well welded team. The Bank also completed the process of implementing the front-office system. This will enable the Bank to pursue more effectively the work of the division in 2019.

Early Collection and workout activity

Regarding **the activity of early collection for the outstanding claims**, this is managed at the level of the Credits Early Collection Department and had considered for 2018 the following:

- ✓ identification of the best solutions for the recovery of overdue receivables within a reasonable timeframe, based on the analysis of the actual and current payment capacities of the borrowers as well as the creation of the necessary framework for the ongoing recovery and monitoring activity of the overdue receivables from the lending activity;
- ✓ managing customers with late payment of over 1 day of the credit rates for the entire loan portfolio.

In 2018, the Credits Early Collection Department managed a portfolio of 29,900 clients (2,500 clients per month) with delays predominantly between 1 and 90 days. Also, in 2018, following the recovery activities undertaken at the level of the Credit Early Collection Department, RON 43.8 million (RON 36.7 million for legal entities and RON 7.1 million for individuals) were recovered.

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Also, several projects have been launched to increase the revenues level, reduce the volume of customers with overdue debts and automate the activities carried out at the department level, as follows:

- Implementation of the specific monitoring application of the overdue credits collection activity (completion in the first part of 2019);
- Outsourcing of the amicable recovery services for individuals with unsecured loans, with delays over 120 days (to be implemented in the first part of 2019).

In respect of the **workout activity**, it's worth mentioning the following:

In 2018, the Restructuring and Workout Division aimed to manage the portfolio of borrowers facing financial difficulties, as well as all non-performing loans of the Bank in order to reduce the rate of non-performing loans.

In the second half of 2018, the efforts of the Restructuring and Workout Division focused on the project for the sale of non-performing loans portfolios, aimed at achieving the business objectives and improving the bank's ratios.

At the beginning of 2018, the Restructuring and Workout Division managed a portfolio of about 14,000 credits, with a total exposure of EUR 432.6 million, and at the end of 2018, mainly as a result of the completion of the first phase of the non-performing loans portfolio selling project, but also of other recovery actions, the remaining portfolio is about 3,800 credits, with an exposure of EUR 126 million.

In October 2018 the Bank completed the first stage of the debt assignment transaction by selling a portfolio of non-performing loans with a nominal value of RON 245 million (approx. EUR 53.2 million), coming from a number of approx. 9,800 credit contracts for unsecured non-performing loans previously granted to natural persons.

Thus, in 2018, the Bank recovered sums totaling approx. EUR 21.8 million, as follows:

- from the effective monitoring activity of debtors (contracts for assignment of receivables, capitalization of buildings in insolvency proceedings and forced execution);
- selling the property owned by the bank;
- from the sale of nonperforming portfolios.

The second phase of the non-performing loans portfolio selling project continued with the conclusion of a binding commitment for the second tranche of the non-performing loans whose settlement materialised in February 2019 targeting a non-performing debt package consisting of guaranteed loans to individuals and companies (934 credit agreements with a nominal value of approximately RON 331.5 million).

Marketing and communication activity

The communication of Patria Bank brand continued to be a priority in 2018 also and a new communication campaign was launched in the first part of the year, while product offerings (saving and lending) dominated the second half of the year.

In 2018, new projects and partnerships aimed at sustaining the mission and positioning of Patria Bank in the small and rural urban area were actively launched and communicated:

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- **"Banca la piata"** (the Bank at the market), launched together with the Romanian Market Managers Association, was a first courageous pilot project whereby the central markets of 24 cities across the country benefited from banking presence through physical presence or presence of Patria Bank sale representatives among manufacturers and retailers as well as all those who buy from the market. The partnership will continue in 2019;
- **"Patria Partner"** was launched - a new "recommend and win" tool, which allowed PFAs and Romanian companies to be rewarded for the leads sent to Patria Bank. The novelty of this tool was that it allowed access to the platform not only for broker business partners (with financial intermediation activity) but also for other legal entities that can come in contact with clients who need financing (accounting firms, advertising agencies, consultancy firms, lawyers etc) or lending, in the case of individuals;
- the **"Mall Taranesc in Patria Bank"** (Peasant Mall in Patria Bank) was the project by which the cooperation with *Asociatia Crestem Romania Impreuna* reached next level and supported the platform www.malltaranesc.ro through a further involvement and exposure in selected units of the bank (from big cities), of products made by households and craftsmen present in the platform;
- **Partnership with Catena pharmacies network** started by offering to all those who pay with the card at the Catena pharmacies an extra 5% guaranteed discount in the form of money back on the card. The partnership, a strategic and long-term strategy, aims to provide benefits to common clients (new and existing) concerned about their health and who go on a monthly basis in pharmacies for medicines and cosmetics.

Other actions and results achieved in 2018:

- Patria Bank continued to be present at the main AGRO Events of the year (fairs and exhibitions) and to be present in community life by participating in dedicated local events or self-organised (over 30 direct sales actions carried out);
- The presence of Patria Bank in media (print media, online and TV) recorded 2,197 media outlets, of which 661 positive (30.08%) and 1,471 neutral (66.95%), the positive messages in 2018 being double as compared to 2017;
- The Bank continued to be involved in sustainability and volunteering projects by supporting civic, educational and promotional projects of Romanian values and traditions and implementing internal communication actions that could help consolidate the Patria Bank team and create an organizational culture based on respect, engagement and sustainable development. More details on these projects are presented in the Bank's Sustainability Report for 2018.

6.3 2018 Results

6.3.1. Basis of preparation of financial statements – going concern principle

The preparation of the consolidated and individual financial statements is based on the going concern assumption that involves management's assessments, estimates and hypotheses related to the income, expenses, assets,

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liabilities, cash flows, liquidity and capital requirements of the Bank. The uncertainty in relation to these hypotheses and estimates could determine results that require significant adjustments of the assets, liabilities and capital requirements in the future periods.

The Bank's ability to continue its planned activity depends, as presented below, on leveraging the activities that helped the Bank achieve breakeven point 2018, on the shareholder's financial support, on attracting Tier II capital instruments from new investors, as well as the compliance with the regulations of the National Bank of Romania.

(1) Operational considerations

In 2018, the Bank has reached the breakeven point with a marginal loss for the year of RON 0.266 million being recorded in 2018. This point was reached amid increased commercial activity (especially credit growth), optimization in the area of non-productive fixed assets and increased recovery of non-performing loans, leading to a period of monthly operational profitability during the second half of 2018.

The net operating income increased by 4% compared with 2017 while the operating expenses base has registered a decrease of 8% as result of the optimizations measures undertaken during the year. The operating result in 2018 has improved substantially from a loss of RON 22.7 million to a loss of RON 1.8 million (+92%).

During 2018 the loan portfolio continued its upward trend noted during 2017 after the completion of the merger process (1 May 2017) recording as of 31 December 2018 a net exposure 16% higher than the net exposure at the end of 2017. This led to an increase of the weight of the net loans in total assets (from 36% as of 31 December 2017 to 45% as of 31 December 2018) and to an improvement of the gross loans / deposits ratio (57% as of 31 December 2018 compared to 46% as of 31 December 2017). The performing portfolio (gross exposure) increased in 2018 by 24% compared with 31 December 2017.

The Bank considered in the 2018 budget a set of actions that, by their achievement or overachievement during 2018, contributed in reaching the breakeven point. These included: sale of the non-productive assets (land & buildings) and sale of non-performing loans, the sale of loan portfolios generated a positive net impact of RON 32.9 million on the net result for the year.

The Bank's profitability continued to be under pressure during 2018, due to the under-optimal structure of assets in the Bank's balance sheet, where the significant liquidity surplus invested in short-term government bonds generated lower interest earnings than average yields of the loan portfolio.

The increase of the loan portfolio during 2018 has created the basis for this pressure to decrease gradually as the Bank implements its lending growth strategy.

(2) Capital Ratios considerations

Strengthening the Bank's capital base during 2018

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To ensure compliance with the capital ratios imposed by the National Bank of Romania based on regulations applicable to EU credit institutions, during 2018 the Bank's capital base was increased in 2 phases.

Following the first phase of the capital increase process concluded in the first half of the year, the Bank's share capital was increased by RON 47,043,960.90 of which: i) RON40,309,000 was through the conversion of two subordinated loans totalling EUR 8,650,000 granted to the Bank by the majority shareholder EAAF Financial Services BV (of which EUR 4,350,000 loan granted in 2016 and EUR 4,300,000 loan granted in February 2018); ii) RON 6,734,960 was contributed in cash (of which: RON 5,825,000.90 cash contribution from the majority shareholder EAAF Financial Services BV and RON 909,960.00 cash contribution of the minority shareholders).

In the second phase of the capital increase process concluded by the end of October 2018, the Bank's share capital was increased by RON 37,367,365.30 of which: i) RON 23,329,000 through the conversion of one subordinated loan in amount of EUR 5,000,000 granted in 2018 to the Bank by the majority shareholder EAAF Financial Services BV; and ii) RON 14,038,365.30 contribution in cash (of which: RON 13,965,000 cash contribution of the majority shareholder EAAF Financial Services BV and RON 73,365.30 cash contribution of the minority shareholders).

Also, in December 2018, the majority shareholder granted a new subordinated loan of EUR 3,000,000.

Thus, the total increase of the capital base during 2018 was RON 84,411,326.20, of which the contribution of the majority shareholder was RON 83,428,000.90.

As of 31 December 2018:

At an individual level the Bank's Capital Adequacy Ratio (Total Capital Ratio) is 15.78%, being over the TSCR limit (10.93%) and over the minimum OCR limit of 12.81% (TSCR plus capital conservation buffer of 1.875%), registering an increase compared to 10.61% level at the end of 2017. The increase of the TCR was supported by the share capital increases that took place during 2018 (as mentioned above) and the improvement of the net result of 2018. The TSCR limit for the Total Capital Requirements has been increased starting with February 2018 from 10.57% to 10.93% following the completion of the Surveillance and Evaluation Process (SREP) conducted by the National Bank of Romania in 2017.

The CET 1 ratio is 14.59%, above TSCR limit (6.12%) and above OCR limit (8.0%).

At the consolidated level the Bank's Capital Adequacy Ratio (Total Capital Ratio) is 15.69%, being over the TSCR limit (11.13%) and over the minimum OCR limit of 15.01% (TSCR plus capital conservation buffer of 1.875% plus 2% systemic shock buffer introduced since 30 June 2018). The level of the systemic buffer of 2% is set according to the current NBR methodology for the calculation of one of the parameters that define the matrix of the systemic shock buffer i.e. of the coverage ratio. In March 2019 the regulation covering the calculation methodology of the coverage ratio specifically applicable to banks which acquired loan portfolios (of which value incorporated a market value adjustment) has been modified (through NBR Order 2/26.02.2019 published in the Official Gazette no.213 Part I/18.03.2019). The Bank will qualify for the level of 1% systemic risk buffer until the end of 2019. This will have a positive impact in the level of minimum capital requirements at consolidated level.

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The CET 1 ratio is 14.44%, above TSCR limit (6.23%) and above OCR limit (10.11%).

As of 28 February 2019 the Bank complies with capital ratios requirements.

(3) Other considerations

Starting with January 2019 the Bank has implemented a set of measures in order to comply with the provisions of NBR requirements addressed to the Bank. These requirements address operational as well as business aspects and their implementation comes in line with management's objectives. There are requirements related to: lending activity (limitation on unsecured lending, specifically no new originations), the loan book structure (any business segment should not exceed 30% of the total portfolio of loans granted to legal entities) and cost-to-income ratio (that needs to register a decreasing trend during 2019). The Bank adjusted its risk strategy according to the above requirements.

The requirements also address the minimum capital level, which is in the management attention on a continuous basis. In order to ensure compliance with this level a combined set of measures will be implemented: (i) intended adherence to a business plan which generates a positive result, excluding the impact of the tax on financial assets introduced by the Government Emergency Ordinance No. 114/2018 ("OUG 114") issued at the end of December 2018 (the "Tax on Financial Assets"); (ii) optimisation of the risk weighted assets base; and (iii) measures to further strengthen the capital base.

OUG 114 affects various sectors of the economy such as energy, telecommunications, private pensions (second pillar) and the banking sector. As regards the financial and banking sector, the Tax on Financial Assets is applied using the ROBOR levels at 3 months and 6 months as a benchmark. Practically, the method of calculation links the payment of a fee by financial institutions to ROBOR. Thus, considering the ROBOR level at 3 and 6 months for the observation period, the estimated tax rate is 0.3% of the financial assets per quarter (1.2% on an annualised basis). On this basis, the impact in 2019 on the Bank is estimated at around RON 36 million. This level is estimated by the Bank in the absence of the methodological norms for the application of the OUG 114.

Note that, the above impact of the provisions of OUG 114 on the Bank's 2019 financial results has been assessed using the form of OUG 114 published on 21 December 2018. At the date of issuance of these financial statements a draft revised version of the OUG 114 has been publicly released being subject to Government approval. If the published amendments will be approved as such, then the impact in 2019 of the revised tax on the Bank is estimated to be approximately in the range RON 3 million – 8 million. The full and actual impact of the new form of the OUG 114 will be assessed and included in the 2019 financial performance of the Bank once known.

In 2019, compliance with capital ratios and the additional NBR requirements described above will be influenced by the financial result (which is turn will be materially negatively impacted by the Tax on Financial Assets) as well as by the implementation of the other planned measures described above. Failure to comply with these collective requirements may create a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal

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course of business. Nevertheless, management of the Bank believes that it is appropriate for the going concern principle to be applied in the preparation of the consolidated and separate financial statements, due to: (1) the adopted plans to strengthen the tier 2 capital base, (2) the plans to continue growing the business while optimizing the cost base such that the Bank achieves sustained profitability (excluding the effect of the Tax on Financial Assets); and (3) its comfortable liquidity position. These factors are set out below:

i) 3 year business plan with positive returns (excluding the impact from Tax on Financial Assets)

The Board of Directors of the Bank has approved the Bank's 3 years business plan whereby it expects to generate profits in the period 2019-2021 (excluding the effect of the Tax on Financial Assets); the impact of the Tax on Financial Assets was included in the business plan using the current provisions of the OUG 114. The plan is designed only based on organic growth and also based on a plan for right sizing the footprint and the entire organization of the Bank in order to create the optimal balance between the income base and the cost base.

For 2019, the Bank plans to leverage on the income drivers developed during 2018, as it plans to continue to increase the weight of the higher yielding assets (loans to customers) in its total assets, implying also a corresponding increase of the risk weighted assets. The increase in the size of the loan book is expected to lead to an increase of the operating income of the Bank, while in parallel the management aims to continue the optimization of the operating costs of the Bank, including the cost of risk and cost of funding, in order to achieve the profitability targets. The business plan also includes a continuation of actions started in 2018 for decreasing the size of the non-productive assets through a strategy of sale (for those properties classified as repossessed assets) or a strategy of lease-out (for those classified as investment property). Through the sale actions the usage of the capital base of the Bank will be improved, as these assets are also very capital intensive.

ii) Strengthening the Bank's Tier 2 capital base during 2019

Included in 2019 business plan of the Bank (approved by Board of Directors on 15 March 2019) is an increase of the capital base by EUR 10,000,000 in the form of Tier 2 capital attracted from new investors.

Complementary to the above actions the main shareholder of the Bank - EEA Financial Services BV demonstrated its ongoing commitment to support the Bank's operations through a support letter dated 27 March 2019. The main shareholder of the EEA Financial Services BV is the investment fund Emerging Europe Accession Fund Cooperatief U.A. (EEAF), whose main investors are the following international financial institutions:

- EBRD - European Bank for Reconstruction and Development
- EIF - European Investment Fund part of European Investment Bank (EIB)
- BSTDB - Black Sea Trade and Development Bank
- DEG – Development Bank part of the group KFW.

The above mentioned actions aim to strengthen the capital base required to maintain compliance with the regulatory capital during the process of driving lending book growth to reach an optimal balance sheet structure

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although the size of the balance sheet and of the network footprint will be adjusted downwards following also the implications on the total financial result of the introduction of the Tax on Financial Assets.

iii) Liquidity considerations

As noted above, the Bank has a very strong liquidity position demonstrated by the level of key liquidity indicators such as LCR (653% at the end of December 2018 – well above the Romanian market average level and the minimum level required for this indicator of 100%) and a ratio of liquid assets to total assets of 45%. For LCR in 2019 the Bank will have to maintain a level of minimum 100% for the main currencies (RON and EUR) and a minimum level of 400% for all currencies in equivalent reporting currency lei. The extra liquidity placed at the end of 2018 in low yielding assets will be gradually shifted to lending book thus the estimated projection of the ratio of liquid assets to total assets for 31 December 2019 is of 32%.

Based on all of the above, the Bank's management has made an assessment regarding the going concern principle and has concluded that the going concern principle is appropriate as basis for the preparation of the consolidated and separate financial statements as at and for the period ended 31 December 2018.

6.3.2. The effect of application the IFRS 9 “Financial instruments” standard

The Bank adopted IFRS 9 Financial Instruments following the issuance by IASB (International Accounting Standards Board) in July 2014, with transition date 1 January 2018; this change led to changes in accounting policies and value adjustments on items recognized in the previous year's financial statements. The Bank has not adopted any provisions of IFRS 9 before the mandatory date of implementation - January 1, 2018.

The implementation of IFRS 9 has led to changes that have resulted in changes in accounting policies for the recognition, classification and presentation of financial assets and liabilities, and the depreciation calculation model (expected loss). IFRS 9 brings significant changes to other standards that deal with financial instruments such as IFRS 7 *Financial Instruments: Presentation*.

Under the transient provisions of IFRS 9, the Bank chose not to redeem comparative amounts. Any adjustments to the carrying amounts for financial assets and liabilities at the date of transition have been recognized in the initial balance of the retained earnings or other reserves of the current period.

Consequently, the disclosure notes required by IFRS 7 were applied only to the current period (the 12-month period ended 31.12.2018). For the comparative period (financial year ended December 31, 2017) the notes of the previous year were used. Additional information is included in Notes to Consolidated and Separate Financial Statements for the period ended December 31, 2018 - Note 3.a.)

The impact of adopting IFRS 9 for the Patria Bank Group is represented by:

- the differences in the valuation of the book value of the balance of credits granted to the clients:

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- o Patria Bank S.A. RON (4,887) thousand
- o for Patria IFN SA subsidiary RON (1,058) thousand
- differences in the reclassification of financial assets at fair value through other comprehensive income ("FVOCI") in financial assets at amortized cost:
 - o Patria Bank S.A. RON 4,078 thousand
 - o for Patria IFN SA subsidiary no reclassifications were made

The impact of the implementation of IFRS 9 on the Patria Bank Group is of RON (1,867) thousand and for Patria Bank S.A. is of RON (809) thousand.

More information is presented in Note 3 a) of the Patria Bank Group's Individual and Consolidated Financial Statements for the period ended on 31.12.2018.

6.3.3 Consolidation perimeter and own funds – as detailed in Annex 7

6.3.4. Financial Position as at 31.12.2018

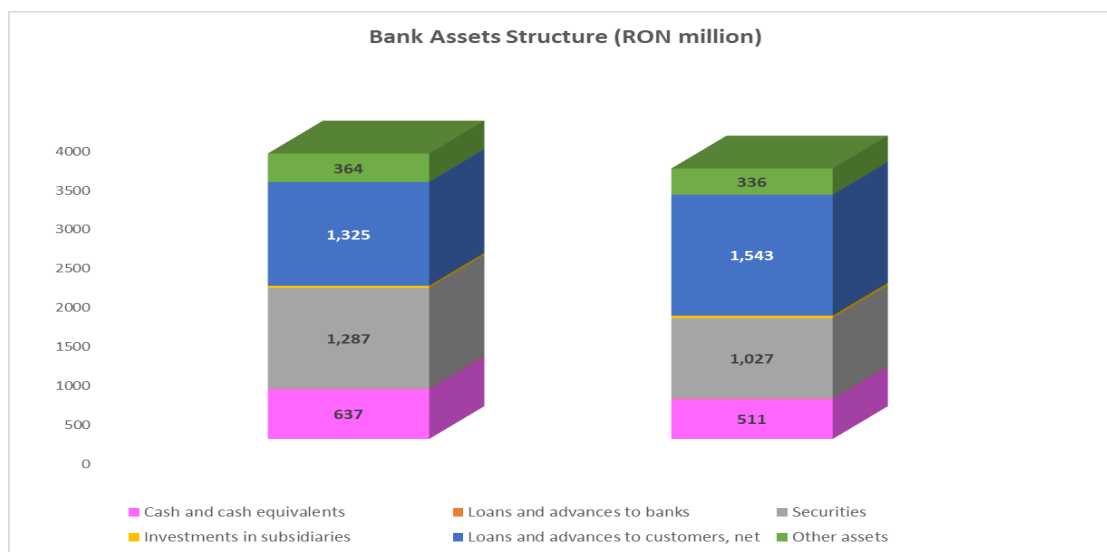
BANK

FINANCIAL POSITION								
RON thousand								
ASSETS	31.dec.18	31.dec.17	<i>dec.18/ dec.17 (abs.)</i>	<i>dec.18/ dec.17 (%)</i>	Budget 31.dec.18	<i>Actual / Budget (abs.)</i>	<i>Actual / Budget (%)</i>	
Cash and cash equivalents	510,747	636,525	(125,778)	(20%)	377,731	133,016	35%	
Loans and advances to banks	5,613	5,076	537	11%	134,129	(128,516)	(96%)	
Securities	1,026,814	1,287,407	(260,593)	(20%)	1,262,022	(235,208)	(19%)	
Investments in subsidiaries	31,725	27,505	4,220	15%	26,931	4,794	18%	
Loans and advances to customers, net	1,543,019	1,325,216	217,803	16%	1,716,233	(173,214)	(10%)	
Other assets	335,550	363,664	(28,114)	(8%)	314,489	21,061	7%	
Total ASSETS	3,453,468	3,645,393	(191,925)	(5%)	3,831,535	(378,067)	(10%)	
LIABILITIES								
	31.dec.18	31.dec.17	<i>dec.18/ dec.17 (abs.)</i>	<i>dec.18/ dec.17 (%)</i>	Buget 31.dec.18	<i>Actual / Buget (abs.)</i>	<i>Actual / Buget (%)</i>	
Due to banks and REPO	6,951	95,967	(89,016)	(93%)	48,106	(41,155)	(86%)	
Due to customers	3,064,601	3,256,296	(191,695)	(6%)	3,364,274	(299,673)	(9%)	
Borrowings and other liabilities (incl. subordinated loans)	64,042	61,579	2,463	4%	87,255	(23,213)	(27%)	
Total Liabilities	3,135,594	3,413,842	(278,248)	(8%)	3,499,635	(364,041)	(10%)	
Total Equity	317,874	231,551	86,323	37%	331,899	(14,025)	(4%)	
Total LIABILITIES AND EQUITY	3,453,468	3,645,393	(191,925)	(5%)	3,831,535	(378,067)	(10%)	

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- As at December 31, 2018 the Total Assets amounted to RON 3,453,468 thousand, slightly lower (5%) as compared to the end of 2017, but there was a change in the balance sheet structure by increasing of the share of commercial credits and diminishing liquidity in excess, combined with a decrease in resources attracted from institutional players in the market with a higher volatility profile;
- The net value of **Loans and advances to customers increased by 16%, RON +217,803 thousand** versus December 31, 2017, the positive evolution being the result of sales teams efforts on all business lines of activity: MICRO, Agro, IMM & Small Corporate and Retail that generated **new credits in 2018 of over RON 978,000 thousand**. There is a transfer of the liquidity excess towards the lending activity. Optimizing the balance sheet structure is an action that strives to achieve strategic goals by redistributing part of excess liquidity into loans and advances to customers, leading to **increase the share of gross loans in total assets from 41% on December 31, 2017 to 50% on December 31, 2018**;
- During 2018, the Bank considered actions aimed at improving the rate of non-performing loans affecting off-balance-sheet loans fully covered by depreciation adjustments (for a total gross value of RON 41 million).
- Deposits attracted from customers** recorded a 6% drop on December 31, 2018 compared to the beginning of the year, with the decline mainly being concentrated on a few counterparts in Corporate and Financial Institutions segment.

The financing sources were diversified through REPO operations on government bonds with market's counterparties and the subordinated loan of EUR 3 million granted in December 2018 by the majority shareholder of Patria Bank SA, EAAF Financial Services BV.

The Bank has paid significant attention to commercial resources by maintaining a high duration of the deposit portfolio, as well as of the share of current accounts in total. By contrast, by comparing the share of deposits made by individuals in total deposits (79% at the end of 2018 versus 74% at the end of 2017), we find a high degree of „stickiness” of the liabilities of Patria Bank SA, which confirms the stable character of the base of the attracted sources from the clients; the evolution of the balance of credits and deposits led to an improvement in Gross Loans / Deposits ratio as of December 31, 2018 to 57% compared to December 31, 2017 when its level was 45%;

- **Strengthening the capital base** - During 2018, the Bank carried out two phases of consolidation of the capital base, which resulted in a capital increase of RON 84.41 million (from RON 227.12 million to RON 311.53 million) through the conversion of subordinated loans (RON 63.64 million) and by cash contribution (RON 20.77 million). Also, in December 2018, the majority shareholder granted a new subordinated loan of EUR 3 million.
- The **Total Capital Adequacy Ratio (individual level) on December 31, 2018 was 15.78%**, exceeding the TSCR limit (10.93%) and the OCR level of 12.81% (TSCR plus 1.875% capital buffer) and registering an increase compared to 10.61% level at the end of 2017, supported by the share capital increase process from 2018. The TSCR limit for the Total Own Funds has been increased starting with February 2018 from 10.57% to 10.93% following the completion of the Surveillance and Evaluation Process (SREP) conducted by the National Bank of Romania in 2017.

Based on the completion of the second capital increase process in October 2018 and improvement of the financial performance, the Bank is compliant with the OCR at the individual level.

GROUP

FINANCIAL POSITION				
-thousands RON-				
ASSETS	31.dec.18	31.dec.17	dec.18/ dec.17 (abs.)	dec.18/ dec.17 (%)
Cash and cash equivalents	517,436	642,914	(125,478)	(20%)
Loans and advances to banks	5,613	8,408	(2,795)	(33%)
Securities	1,087,940	1,358,738	(270,798)	(20%)
Investments in subsidiaries	-	-	-	-
Loans and advances to customers, net	1,593,914	1,370,125	223,789	16%
Other assets	338,847	367,405	(28,558)	(8%)
Total ASSETS	3,543,750	3,747,590	(203,840)	(5%)
LIABILITIES	31.dec.18	31.dec.17	dec.18/ dec.17 (abs.)	dec.18/ dec.17 (%)
Due to banks & REPO	6,951	95,967	(89,016)	(93%)
Due to customers	3,057,030	3,231,281	(174,251)	(5%)
Borrowings and other liabilities (including subordinated)	173,905	195,890	(21,985)	(11%)
Total Liabilities	3,237,886	3,523,138	(285,252)	(8%)
Total Equity	305,864	224,452	81,412	36%
Total LIABILITIES AND EQUITY	3,543,750	3,747,590	(203,840)	(5%)

- As at December 31, 2018 the **Total Assets** at Group level amounted to RON 3,543,750 thousand, slightly lower (5%) as compared to the end of 2017, but there was a change in the balance sheet structure by increasing of the share of commercial credits and diminishing liquidity in excess, combined with a decrease in resources attracted from institutional players in the market with a higher volatility profile;
- The net value of **Loans and advances to customers increased by 16%, RON +223,789 thousand** versus December 31, 2017, the positive evolution being the result of sales teams efforts on all business lines of activity: MICRO, Agro, IMM & Small Corporate and Retail as well as within Patria Credit IFN.
- Deposits attracted from customers** recorded a 5% drop on December 31, 2018 compared to the beginning of the year, with the decline mainly being concentrated on a few counterparts in Corporate and Financial Institutions segment.

Location and main features of the production capacities owned by the Bank

As at 31.12.2018, the Bank owns 20 tangible assets of the nature of the buildings, representing the space in which the branches / agencies operate in Alba, Arad, Bucuresti (2), Bacau, Bihor, Bistrita Nasaud, Brasov, Buzau, Cluj, Dambovita, Dolj, Gorj, Galati, Iasi, Maramures, Mures, Timisoara, but also the ones belonging to the Bank's social headquarters in Bucharest, and the two Operational Centers in Sibiu and Targu Mures. The rest of the premises where the Bank's units operate are leased premises.

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The Bank also owns 64 assets (reposed on the account of the receivables or kept for investment purposes) by the nature of industrial halls and productive spaces, land with or without buildings, apartments and dwellings, commercial spaces and office buildings / premises.

Description and analysis of the usage ratio of the Bank's properties

Net tangible assets at 31 December 2018 amounted to RON 143 million (classified as per IAS 16), of which 87% represents buildings and land. Most of the buildings are recently built or upgraded. Beginning with 2017, following the merger process, a renovation and rebranding project of the Bank's territorial units was launched.

A detailed analysis of the bank's fixed assets is presented in the Notes to the Financial Statements.

Potential issues related to the ownership of the Bank's tangible assets

In the case of some of the properties owned by the Bank as a result of their taking over on the account of the Bank's receivables (repossessed assets), litigations are in progress concerning either the property right or its extent.

Assets encumbered and unencumbered by liens

On December 31, 2018, the Bank reports a total of assets encumbered by liens amounting of RON 4.8 million, according to art. 443 of the CRR, representing debt securities encumbered in order to guarantee the fulfillment of payment obligations deriving from the settlement of FX Forward and SWAP foreign exchange operations with maturities higher than SPOT.

The Bank records a high liquidity position, with 45% of the assets being liquid assets and mainly government bonds portfolio (30%). The Loan To Deposit ratio is at 57% (Dec 2017: 45%), well below the banking system level of 73.56% (2017: 74.74%), reflecting a high liquidity position of the Bank and a deleverage level for the attracted resources, which also brings a lower level of liquidity and credit risk for the bank, compared to banks of similar size. In this context, the liquidity coverage ratio (LCR) is at 653% as of 31 December 2018, compared to the minimum regulated limit of 100%.

Total Own Funds Rate at 31 December 2018: Specific details are included in Section 6.3.1 "Basis of preparation the financial statements – going concern principle".

On 31.12.2018 the Bank has the following own funds instruments based on contractual conditions:

- Subordinated debt of the Bank to its majority shareholder, EEAF Financial Services BV, amounting to RON 13,991 thousand - the equivalent of EUR 3 million, with a maturity of 6 years and a margin of 550 bps plus EURIBOR at 6 months and, respectively, the amount of RON 54,000 remaining after the partial conversion into shares of the contract signed on February 23, 2018, with a maturity of 6 years, maturing on 23 February 2024 and a margin of 585 bps plus EURIBOR at 6 months.

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- Subordinated debt of the Bank to Mr. Horia Manda, Chairman of the Board of Directors, amounting to RON 9,328 thousand - the equivalent of EUR 2 million, a contract signed on 28.11.2017, with a maturity of 6 years maturing on 29 November 2023 and a margin of 585 bps plus EURIBOR at 6 months.

6.3.5 Financial performance analysis for 2018

BANK

FINANCIAL PERFORMANCE STATEMENT -thousands RON-	31.dec.18	31.dec.17	dec.18/ dec.17 (abs.)	dec.18/ dec.17 (%)	Budget 31.dec.18	Actual / Budget (abs.)	Actual / Budget (%)
Net interest income	102,274	104,502	(2,228)	-2%	107,399	(5,125)	(5%)
Net fees and commission income	23,628	22,787	841	4%	27,934	(4,306)	(15%)
Net gains from financial activity & other income	34,101	25,968	8,133	31%	27,063	7,038	26.0%
Net banking Income	160,003	153,257	6,746	4%	162,396	(2,393)	(1%)
Staff costs	(73,551)	(80,893)	7,342	-9%	(76,311)	2,760	(4%)
Other operating and administrative expenses	(69,531)	(79,472)	9,941	-13%	(64,267)	(5,265)	8%
Depreciation and amortization	(18,677)	(15,617)	(3,060)	20%	(17,184)	(1,493)	9%
Total operating expense	(161,759)	(175,982)	14,223	-8%	(157,761)	(3,999)	3%
Operating Result	(1,756)	(22,725)	20,969	-92%	4,636	(6,392)	(138%)
Net impairment of financial assets	1,490	(19,819)	21,309	-108%	557	933	167%
Loss before tax	(266)	(42,544)	42,278	-99%	5,193	(5,459)	(105%)
Expense from deferred tax	-	-	-		(1,676)	1,676	(100%)
Profit/(Loss) for the year	(266)	(42,544)	42,278	-99%	3,517	(3,783)	(108%)

- **Net interest income: -2%, RON -2.2 million compared to the previous year of which:**
 - **from commercial credits increased by + 17%, RON + 18 million**, excluding the impact of the resumption of fair value adjustments for the loan portfolio taken from the former Banca Comerciala Carpatica (BCC) which shows a decrease of RON 16 million compared to the same period of the previous year. This evolution is justified by the evolution of the balance of credits taken over during the acquisition of the former BCC, as well as by the modification of the treatment for the POCI⁶ exposures according to IFRS 9 (reversal of value adjustments related to POCI loans is recognized in the cost of risk starting with 01.01.2018);
 - **from the debt securities portfolio** decreased by 5%, RON -0.8 million in line with the liquidity excess management strategy by identifying the best investment options but also in line with the change in the balance sheet structure → decrease in the balance in 2018 compared to 2017 by RON 261 million, -20%.

⁶ Purchased or Originated Credit-Impaired

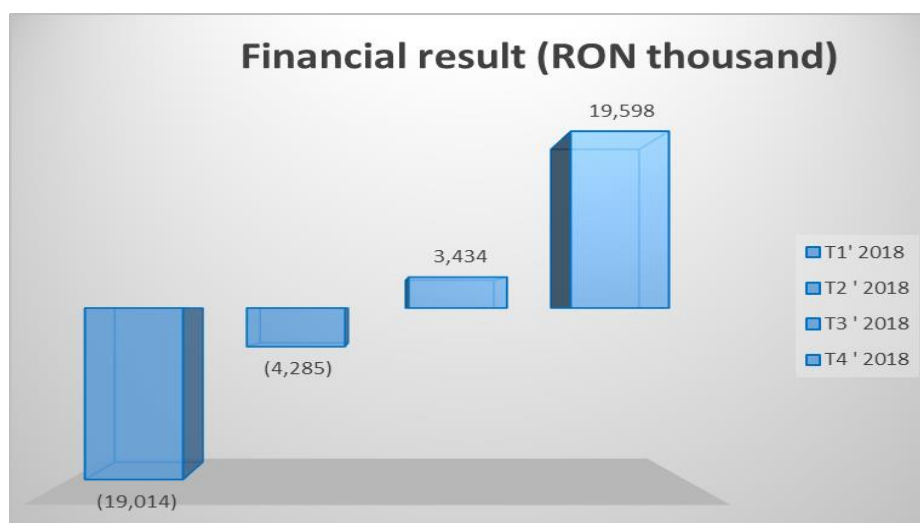
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- **Interest expenditures: + 14%, (RON 4 million)** as compared to the previous year are influenced by the financing strategy: deposits in RON attracted from clients (where the financing cost increased during 2018 compared to 2017 in line with the evolution of interest rates on the market), the increase in interbank market deposits, REPO operations, new subordinated loans received by the Bank; for the foreign currency resources attracted from customers, the Bank reduced interest rates in line with the objectives of optimizing the financing cost and the currency structure of the balance sheet.
- **Net commission income** recorded a positive trend + 4%, RON +0.8 million compared to the previous year (this economic parameter being influenced by the decrease by 27 of the number of territorial units by the end of 2017);
- **Other operating revenues** - registered a substantial increase from 2017 + **31%, RON + 8 million**. Compared to the budget, there is a significant increase of + 26%, RON +7 million, with favorable developments being recorded in the amount of the proceeds from the capitalization of the fixed assets of the bank's patrimony and the assets taken over on the account of the receivables after the execution process, of the dividend income.
- **Operating expenses decreased by 8%, RON - 14 million** compared to the same period of the previous year. The level of depreciation expenses includes a non-recurrent item generated by the Bank's revaluation of buildings and land at the end of the year, amounting to RON -5.7 million. The Bank continues to identify new opportunities to optimize operational processes to maximize synergies resulting from the merger process.
- **The cost of the risk: it records positive values** above the forecasts in the budget, influenced by the recovery of non-performing loans, the Bank recovering from the legacy portfolio from the former Banca Comerciala Carpatica and from the sale of a non-performing loans portfolio carried out in October 2018. In December 2018, the Bank concluded a binding offer for the 2nd non-performing loan tranche, the settlement of which will materialize on 26 February 2019. The positive impact of these transactions is at a value of RON 33 million. More information on these transactions can be found in Note 13 of the Financial Statements.

The positive evolution in the year 2018 is evidenced by the quarterly results of 2018 where the third and fourth quarter earnings are recorded against the reported losses of RON 19 million in Q1 and RON 4 million in Q2.



FINANCIAL PERFORMANCE STATEMENT -thousands RON-	31.dec.18	31.dec.17	<i>dec.18/ dec.17 (abs.)</i>	<i>dec.18/ dec.17 (%)</i>
Net interest income	116,393	117,421	(1,028)	-1%
Net fees and commission income	23,147	22,233	914	4%
Net gains from financial activity & other income	26,567	21,280	5,287	25%
Net banking Income	166,107	160,934	5,173	3%
Staff costs	(77,737)	(85,124)	7,387	-9%
Other operating and administrative expenses	(72,995)	(82,565)	9,570	-12%
Depreciation and amortization	(19,145)	(16,042)	(3,103)	19%
Total operating expense	(169,877)	(183,731)	13,854	-8%
Operating Result	(3,770)	(22,797)	19,027	-83%
Net impairment of financial assets	580	(19,950)	20,530	-103%
Loss before tax	(3,190)	(42,747)	39,557	-93%
Expense from deffered tax	(788)	(853)	65	-8%
Loss for the year	(3,978)	(43,600)	39,622	-91%

At Patria Bank Group level, the same positive trend is noted in 2018 as compared to the previous year, as well as at the level of the Bank in the evolution of financial performance, as follows:

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- Increase in Total Operating Income + 3%, RON +5 million in 2018 versus 2017
- Reduced operating expenses by 8%, RON -14 million
- Reduction of the operational loss by 83%, RON 19 million
- Improvement of expenses with depreciation adjustments by 103%, RON 21 million
- Reducing the loss of the financial year by 91%, by RON 40 million.

The Bank's financial statements are audited by an independent financial auditor. The Financial Auditor of the Bank is since 2017 PricewaterhouseCoopers Audit SRL, J40 / 17223/1193, CUI RO4282940, based in Lakeview Office, Barbu Vacarescu Street, No. 301-311, Bucharest, Romania, member of the Chamber of Financial Auditors of Romania with authorization no. 6 of 25.06.2001. Currently he is acting as an external financial auditor of the Bank on the basis of the appointment made by the OGSM Decision no. 4 of 28.07.2017, for a period of 3 years.

In accordance with art. 30 of the Accounting Law no. 82/1991 republished and art. 63 par. (1) c) of Law no. 24/2017 regarding issuers and art. 223 lit. para 1 c) of FSA Regulation 5/2018 on issuers of financial instruments and market operations, as subsequently amended and supplemented, the Board of Directors assumes responsibility for the preparation of the annual and consolidated financial statements as of 31.12.2018, according to Annex 4.

6.4 The activity of the Bank's subsidiaries in 2018

PATRIA CREDIT IFN

Patria Credit IFN SA is a company registered in Romania since February 12, 2004 and it is authorized by the NBR to carry out lending activities. Until February 2016, the company is registered with the NBR's General Register and the NBR's Non-banking Financial Institution Register when the company was released from the Special Register as a result of the decrease of the specific rates of the registration in the Special Register. Subsequently, Patria Credit IFN met the criteria for registration in the Special Register and was, therefore, re-inscribed in the Special Register on 18.05.2018.

In the year 2018, Patria Credit IFN SA maintained its profitable business and developed its credit portfolio balance up to EUR 13.8 million, up 26% from 2017, in the context of increasing competition in the agriculture credit granting segment, with an impact on the reduction of the interest margin.

The company continued its current microfinance activity in 2018 with a network of its own units, opened in rural and small urban areas, mainly serving the farmers and individuals with limited access to financial services from the financial point of view, but also geographically. In order to make the activity more efficient and to ensure optimal territorial coverage, the company's lending activity expanded in 2018 through several distribution channels, including Patria Bank SA's territorial units and the new microfactor partnership.

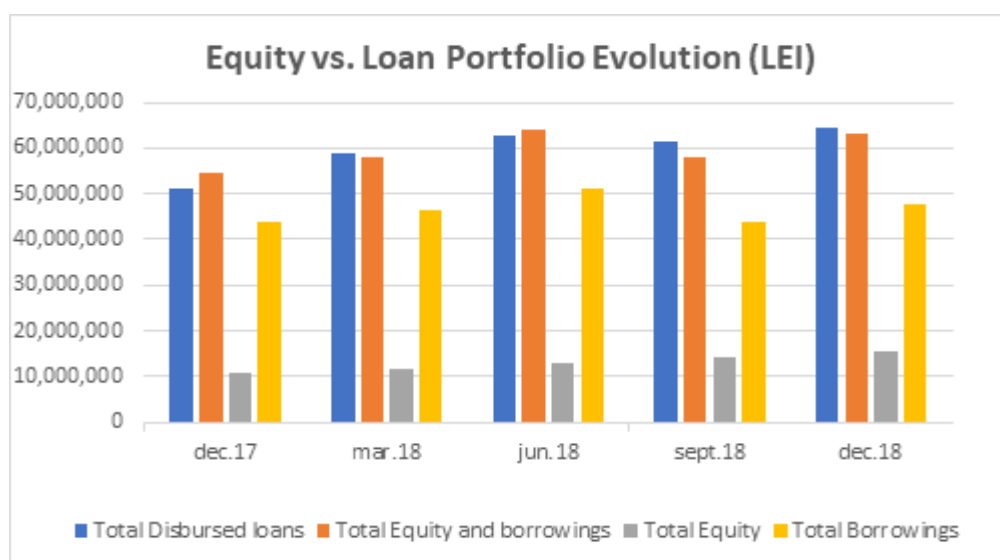
The volume of new loans granted during 2018 was EUR 10.4 million, up 22% compared with the 2017 achievements and was the result of improving the efficiency of sales in the territorial units through various internal projects for improving and streamlining processes, flows, products and, last but not least, training. An important role in the

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commercial activities achieved in 2018 had its marketing activities especially aimed at improving the brand capital both internally and internationally, Patria Credit IFN SA benefiting from a good position in this respect being one of the bigger players specialized in financing farmers and microenterprises, a Non-Banking Financial Institution (IFN) with more than 15 years of experience in the field of loans to farmers and small businesses.

As far as credit risk is concerned, the company has maintained a prudent and appropriate policy of its risk profile. Thus, the company recorded an annual cost of risk of 1.34% in 2018, decreasing compared to 2.26% in 2017, calculated as a ratio between the level of expenditures on loan provisions and the average annual portfolio, which demonstrates a efficient internal control, collection and monitoring process.

Patria Credit IFN SA owns a solid capital base, 24% of the total assets being covered by own funds, and the rest by the medium-term stable sources of financing (2-3 years), the processes control and the improvement of the credit risk and operational risk profiles constitute the needed support to further increase the loan portfolio and market share in the microfinance sector of agricultural producers.



Increasing profitability is a major goal for both shareholders and the management of the institution, the positive result of 2018 being achieved by implementing the development strategy aimed at streamlining sales activities and controlling operational costs, as well as improving the collection of outstanding or doubtful claims.

SAI Patria Asset Management SA

S.A.I. Patria Asset Management (former SAI Carpatica Asset Management SA) was authorized by the National Securities Commission in 2008 as an investment management company. The share capital is RON 800,100, of which

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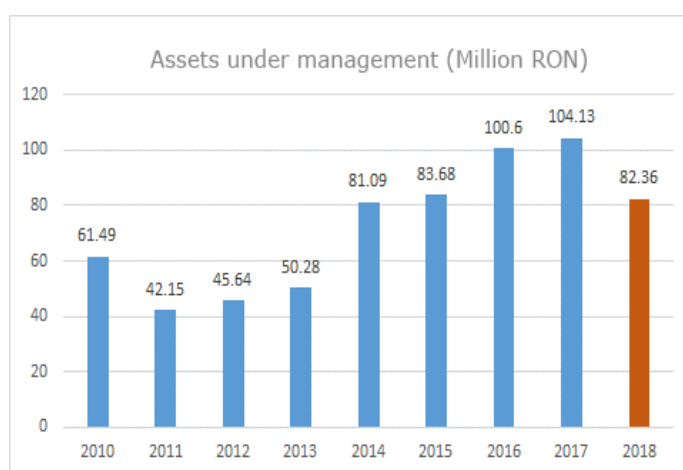
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99.99% is owned by Patria Bank SA and its equity was of RON 1,739,096.33 at the end of 2018. The main objective of activity is the management of the collective investment undertakings in securities (O.P.C.V.M.) established in Romania or in another Member State - CAEN Code 6430 - Mutual Funds and other financial entities assimilated.

S.A.I. Patria Asset Management SA manages three open-end investment funds within the Bank's consolidation perimeter, namely:

- FDI Patria STOCK - dynamically diversified fund, high average risk, approx. 40% of the fund's assets are placed in shares;
- FDI Patria GLOBAL - diversified defensive fund, low average risk, equity investments, mainly in the energy sector, accounting for 20% of the fund's assets;
- FDI Patria Obligatiuni - bond fund, low risk, invests at least 90% in fixed income instruments (bonds, deposits, government bonds).



Net administered assets declined in 2018 as a result of the unfavorable financial environment this year, characterized mainly by rising market interest rates, which resulted in a corresponding decrease in the value of fixed income instruments from mutual fund assets, as well as a sharp fall in stock prices listed on the Bucharest Stock Exchange in the last month of the year. All these elements generated total withdrawals from mutual funds managed by SAI in Romania of RON 3.3 billion during 2018.

The actions undertaken by SAI Patria Asset Management SA for the development of the activity included:

- the launch of the Patria Invest mixed product, consisting of a bank deposit with attractive interest rates and fund units in the FDI Patria Global fund. Patria Invest is available in two versions, with a 6-month deposit and a 12-month deposit;
- Improving the promotion of funds managed by SAI in the Patria Bank SA network, by printing and distributing flyers and product posters;
- correctly managing the changes and events occurring on the financial market that affected the managed funds;

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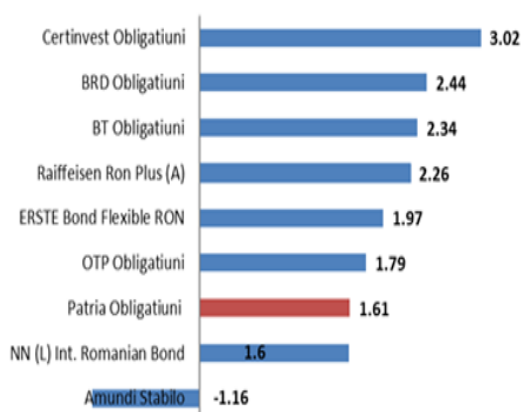
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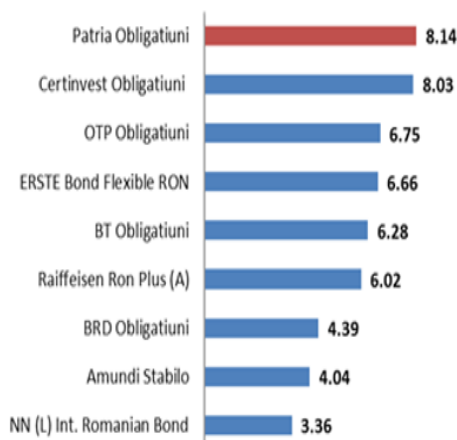
- Development of the collaboration with Patria Bank SA as asset management products distributor;
- Completion of organizational and administrative projects related to the activity of SAI - relocation of the social headquarters from Sibiu to Bucharest, establishment of a working place in Sibiu, modification of the name of the SAI and of the funds related to the new identity of the Patria Bank Group etc.;
- Implementation of major legislative changes at the level of Patria Bank SA, changes affecting also the activity of SAI, including the implementation of the MIFID II and GDPR Directives;
- Implementation of legislative changes that directly affect the activity of the SAI.

FDI PATRIA OBLIGATIUNI PERFORMANCE (bonds and fixed income instruments fund)

Fund vs. competition - 12 Month Returns



Fund vs. competition 36 month returns



At the end of December 2018, the net asset value was RON 65.23 million, down compared with RON 84.44 million at the end of 2017. The number of investors registered at the end of 2018 was 1,068. The decline in the asset was due to developments in the financial market in 2018, which negatively affected the fund. Thus, the increase of the interest rates on the market during the year caused, on one hand, the decrease of the value of the instruments from the fund's assets and, on the other hand, more attractive alternative investments for investors in this period - bank deposits, government securities for the population etc. In fact, fixed income instruments in the market recorded, in general, a negative evolution of the net asset.

As far as the structure of the assets of the fund is concerned, at the end of December 2018, the share of money and fixed income instruments is 99.96%, being divided as follows:

- 90.02% government bonds;

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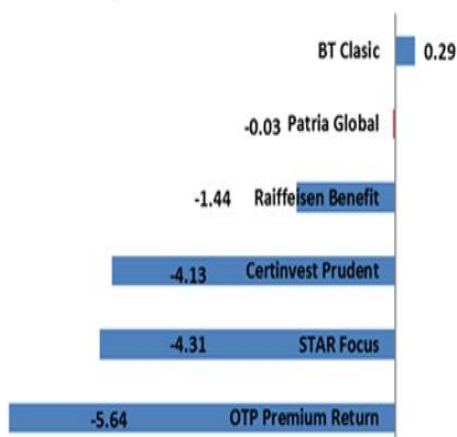
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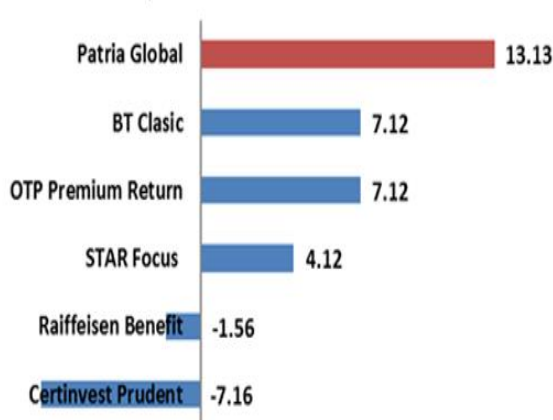
- 7.56% deposits;
- 19.98% bank deposits;
- 2.42% other assets.

FDI Patria Global (diversified fund, maximum 40% shares exposure)

Fund vs. competition - 12 Month Returns



Fund vs. competition 36 month returns



Note: In order to highlight the evolution of the fund, in contrast to the competing funds, funds with a share exposure of less than 45% were taken into account, according to the portfolio structure of the FDI Carpatica Global

At the end of December 2018, the value of the net assets registered the level of RON 9.25 million, recording a decrease compared with the level of RON 11.77 million at the end of 2017. The assets come from a total of 520 investors. The fund asset was affected by the general trend registered in 2018 to withdraw funds from mutual funds, as well as the oscillating evolution of equities listed on the stock exchange during the year (2018 ended with sharp declines in stock prices).

As of December 31, 2018, the structure of fund assets, depending on the type of portfolio instruments, is as follows:

- 23.62% traded shares;
- 53.05% government, municipal and corporate bonds;
- 12.54% deposits;
- 10.79% equities and other assets.

FDI Carpatica Stock (dynamic diversified fund – high exposure on shares)

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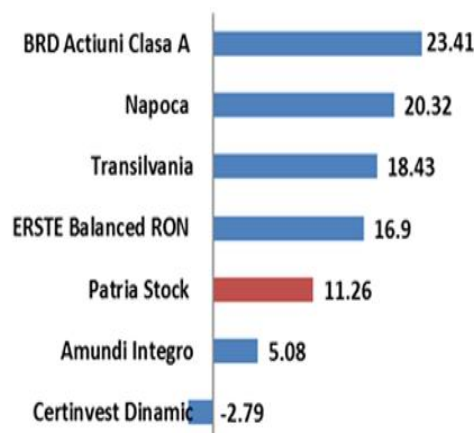
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Fund vs. competition - 12 Month Returns



Fund vs. competition 36 month returns



At the end of December 2018 the value of the net assets registered the level of RON 6.52 million, recording a decrease compared to the end of last year level of RON 7.91 million, coming from 228 investors. The Fund's activity was influenced by the same financial developments that affected the FDI Patria Global Fund.

As of 31.12.2018, the fund assets structure, depending on the type of portfolio instruments, is as follows:

- 40.65% traded shares,
- 29.15% bank deposits;
- 19.39% bonds;
- 10.81% equities and other assets.

SC PATRIA INVESTMENTS SA (former SAI PATRIA ASSET MANAGEMENT SA)

The Company operated until 23.11.2017 as an Investment Management Company (SAI) authorized in Romania by the Financial Supervisory Authority (FSA), in accordance with the provisions of Law no. 31/1990 and Law no. 297/2004 regarding the capital market.

On September 19, 2017, the Extraordinary General Meeting of Shareholders of Patria Investments SA approved the request for the withdrawal of the authorization issued by FSA as an Investment Management Company, and FSA by Decision no. 1671 / 23.11.2017, decided to withdraw the authorization of the company's operation at the request of the shareholders and the deletion from the Public Register of the FSA. Consequently, through the Extraordinary General Meeting of the Shareholders no. 1 / 12.01.2018 and the Decision of the Extraordinary General Meeting no. 1 / 23.04.2018 of SC Patria Investments SA, the dissolution and liquidation of SC Patria Investments S.A. In accordance with Art. 227 lit d), art. 233 and art. 252 of Law no. 31/1990 was decided.

Following the commencement of the voluntary liquidation process of SC Patria Investments SA, on 27.09.2018 was published in the Official Gazette of Romania, Part IV, no. 4502 / 27.09.2018 "Final Financial Liquidation Situation"

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(Liquidation Report) and on 04.01.2019 the dissolution and liquidation procedure of Patria Investments SA was finalized, the company being currently cleared from the National Trade Registry Office.

SC IMOBILIAR INVEST SRL

During 2014, the former Banca Comerciala Carpatica SA, as sole shareholder of SC IMOBILIAR INVEST SRL, approved by Decision no. 51397 / 21.07.2014 published in the Official Gazette 5011 / 28.08.2014, the following: the company's early dissolution, followed by the voluntary liquidation and the commencement of its liquidation procedure, in order to be deleted from the Trade Registry; extinguishing the liability and distributing the remaining asset to the sole associate; appointing the liquidator; empowering the designated liquidator to perform the appropriate disclosure, dissolution and liquidation of the company.

Due to the Bank's priorities for the period 2015-2017 related to the merger process, as well as to the organizational changes in the Bank structure, the asset distribution and winding-up process of IMOBILIAR INVEST SRL has not been finalized. Therefore, the Bank's Board of Directors approved on 07.11.2018 the plan of measures for the liquidation of IMOBILIAR INVEST SRL, namely: i) the capitalization of the real estate assets owned by IMOBILIAR INVEST, ii) the distribution to the Bank of cash and fixed assets remained uncapped. As a result of this decision, in 2018 the company started the valorization of some assets held in the patrimony, so by the end of 2018 it partially refunded to the associate the amount of 2.3 million lei, following that the rest of the assets to be capitalised / distributed to the sole shareholder.

7. Bank and Group outlook for 2019

7.1 The Bank's objectives and business plan for 2019

The Bank aims to improve and consolidate its financial performance by increasing the productive assets, the superior capitalization of the non-productive assets, the permanent optimization of the business model and the organizational structure of the Bank, so that the increase in efficiency leads to a sustainable cost / income ratio. Thus, in 2019, the Bank will pursue an optimal capital adequacy by observing the legal parameters (OCR, TSCR) by releasing the "immobilized" capital into non-productive assets and optimally allocating it to productive assets with higher returns. The Bank is proposing an increase in the loan portfolio, provided it achieves a significantly higher level of efficiency.

Further details on the bank's objectives and prospects for the future are presented in the Income and Expense Budget for 2019, subject to the approval of the General Meeting of Shareholders.

7.2 Subsidiaries objectives for 2019

SAI PATRIA ASSET MANAGEMENT SA

In 2019, The team's efforts will be focused into the continuation of active management of the funds to generate added value for investors, as follows:

- Increase of the assets managed and of the returns of the 3 existing funds, through strategies adapted to the current developments in the financial market;
- Development of the distribution activity through the distributor Patria Bank SA;
- Development of an asset management module in Patria Bank SA's Internet Banking service, which will allow the structure and performance of the Patria funds' unit funds portfolio and the extensive information on the managed funds to be consulted
- Training Patria Bank SA employees and providing permanent support in the sales process;
- Marketing campaign to promote SAI products among potential investors.

PATRIA CREDIT IFN SA

For 2019 Patria Credit IFN SA aims to further develop the business model, increasing sales of approx. 20% and profitability by expanding geographic coverage through the Bank's network, as well as through franchise type partners alternative channel. It will aim to increase efficiency by optimizing flows and contributing to financial and entrepreneurial education, continuing to offer its customers in rural areas specific products.

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8. Risk management

8.1 Risk management objectives and policies

The main objective of the risk management activity is to ensure that all risks are managed in an appropriate way to meet the interests of all parties involved.

Risk management within Patria Bank SA is governed by the Board of Directors, supported by the Audit Committee and the Risk Management Committee, which supports the management body in fulfilling their responsibilities for managing and controlling risks.

Also, the specialized risk management committees supporting the Executive Committee ensure the management of the assets and liabilities structure, liquidity management and sources of financing, structural risk management (interest rate risk and foreign exchange risk outside the trading portfolio) and capital management (The Assets and Liabilities Management Committee) and, respectively, the assessment and improvement of the performance of the Bank's lending activity (Credit Committee).

8.2 Risk management strategies and processes

Risk strategy

The risk strategy is an essential part of the global risk management framework. It establishes the general principles according to which the risk assumption takes place at the level of the Bank and the main elements of the management framework in order to ensure an adequate and consistent implementation of the risk strategy. The risk strategy also includes the wording of Risk Appetite and Risk Profile for all risks identified in the context of the general business strategy and defines for each major risk category the risk profile.

The main activity at the Bank's level is to assume risks in a selective and conscious manner and to manage risks in a professional approach. Risk policies and strategy at the Bank level proactively pursue a balanced ratio between risk and profit in order to generate sustainable and adequate return of capital.

The Bank uses a forward-looking risk management and control system appropriate to its risk and business profile. This system is based on a clear risk strategy that is consistent with business strategy and is focused on early identification and risk and trend management. In addition to the effective risk management objective, the risk management activity and the internal control framework have been developed to meet the external requirements and, in particular, the regulatory requirements.

The global risk management strategy aims at:

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- to contribute to the development of professional skills aimed at comprehensive and adequate risk management at the level of the entire staff of the Bank;
- to create and maintain a general framework for sound and prudent risk management, which may positively affect the Bank's activity.

The main objectives of the risk management strategy include:

- ensuring and sustaining the coverage of capital risks so that the Bank has a stable long-term risk-taking capacity;
- limiting the risks assumed by the Bank so that, in the long run, the bank's capital and profitability will not be impaired;
- establishing a risk structure that is suited to the business model and which must define a risk profile and the patterns needed to properly manage the significant risk concentrations;
- ensuring at any time the appropriate level of the Bank's equity rate.

The Bank promotes and develops an integrated risk culture both at the individual and at the overall credit institution level, based on a full understanding of the risks and how they are managed.

Every person within the Bank is aware of his responsibilities in terms of risk management. Responsibility for risk management is not limited to risk specialists or control functions. Operational units, under the coordination of the management body, are responsible for day-to-day risk management, taking into account the risk / tolerance / risk appetite of the credit institution and in accordance with the credit institution's internal policies, procedures and regulations.

Business strategy

The business strategy defines the bank's business orientation as well as the goals and plans for a three-year horizon. This sets out the customer segments with which the Bank intends to operate and the planned business volumes on each segment. It also includes the Bank's expectations regarding business developments, such as planned volumes, risks and profit. Thus, the main objective, on short and medium term established by the Bank's business strategy, is the consolidation of the profitability of the Bank in order to preserve capital and increase the Bank's productive assets, keeping within reasonable limits the risks generated by the re-launching and development of the lending activity.

In order to achieve this objective, the Bank has proposed for 2018 the following:

- ✓ Organic growth of productive assets (in conditions of keeping the risks that will be generated by the development of credit activity at reasonable levels);
- ✓ Better capitalisation of non-productive assets;

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- ✓ Permanent optimization of the business model and organizational structure of the bank, including through the resizing of the structure / number of branches and the headquarters so that the increase in efficiency to lead to a sustainable cost / income ratio;
- ✓ Optimal capital adequacy.

For the period of 2019-2021, the Bank will approach the following business lines, adjusting its products and organizational arrangements to service them:

- Retail;
- SME, Mid Market and Corporate;
- Agro;
- Micro.

Risk policies

The risk management policies implemented by the Bank are part of the internal control framework and corporate governance. Risk policies underpin the risk management process and document the roles and responsibilities of the management structure and other key stakeholders involved in the process. These policies also include key aspects of the risk management process and identify the main reporting procedures.

The Bank has developed a framework of risk policies in line with its risk management strategy. The framework for risk management policies defines the methodologies and responsibilities needed to achieve strategic objectives.

Risk management processes

In order to achieve the objectives of the risk strategy, the Bank follows the observance of the following principles when performs its business operational activities:

- The Bank has as a priority the fulfillment of the relevant legal regulations regarding both its objectives as well as the assumption of risks;
- The Bank assumes only the risk that it is able to account for and manage and that does not exceed its risk-taking capacity;
- In the lending area, the activity will be oriented on the high quality of the portfolio, considered more important than the increase of the volume, as well as the proper management of the existing portfolio, in order to improve its quality;
- The Bank targets a balanced loan portfolio focused on Retail, SME, Agro and Micro clients and to a limited extent on the Corporate segment, with a low exposure concentration and a corresponding spread of credit risk. Also, through cross-selling activities, diversification and sustainability of revenues were pursued;
- Business activity must be maintained in an optimal framework, well established both by individual transaction as well as portfolio limits;

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- The Bank provides funding for real estate investment projects with a closer look at residential real estate projects whose source of reimbursement is based exclusively on the income generated by the respective project;
- Reducing risks from both financial institutions area, except for cash and liquidity activities necessary for purposes of liquidity and treasury, as well as from collateralization for export financing area. The core principle of exposures to credit institutions used to ensure the need for liquidity is that of connectivity and reciprocity. Occasionally, in order to ensure the need for liquidity, the Bank enters into secured repo / reverse-repo transactions;
- Acquisition of participations in other companies for the sole purpose of generating income (speculative reasons, purely financial investments) is not part of the Bank's strategic investment activities.

The risk management process is realised on two levels:

- at individual level (per customer, transaction or product);
- globally (on the whole Bank, at portfolio level).

The stages of the risk management process involve:

- the existence and development of a culture of risks;
- existence, development and maintenance of an adequate and prudent risk management framework;
- The existence and implementation of a new product approval policy.

Effects of adequate risk management:

- setting up depreciation adjustments in order to cover the expected loss;
- adequate capital allocation to cover unexpected losses;
- measures to mitigate existing risks and improve control systems.

8.3 Risk management and internal control function's governance structure

Risk control and risk management at the Bank's level are based on the business strategy and risk appetite approved by the Board of Directors. Risk monitoring and control is carried out within a clear organizational structure, with defined roles and responsibilities, delegated authorities and risk limits.

Governance of risk management at the Bank's level is based on the following lines:

- Assume the risks within the limits set by the risk appetite approved by the Board of Directors;
- Active involvement of the Bank's management body in the risk management system and the promotion of risk culture throughout the organization, from the level of the Board of Directors to the level of the operational teams;
- Clearly defined internal rules and procedures;
- Communicating information on risk management at the organization level in a timely manner and in a precise, understandable and relevant manner;

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- Continuous supervision by an independent entity which will monitor risks and enforce the rules and procedures.

Risk management governance is based on the three defense lines model, which strengthens the separation of responsibilities between the various control functions.

The first line of defense is represented by operational units that are primarily responsible for continuously managing the risks of their daily activity, taking into account the Bank's risk appetite and in accordance with existing policies, procedures and controls.

The organizational structures of the Bank are responsible for the day-to-day management of the risks associated with the activity in their area of responsibility and are concerned with the implementation / application of developed internal policies, processes and procedures. Permanently, the executive management and the management bodies of commercial / support / control structures must understand the nature and level of risks they manage.

The second line of defense is represented by independent risk monitoring functions, which are responsible for identifying, measuring, monitoring and risk subsequent risk reporting, ensuring both compliance with internal and external requirements and the role of support for business/operational lines in the exercise of their responsibilities.

- **The risk management function**, organized within the Risk Management Division, which also includes the risk control activity;
- **The compliance function**, assisting the Board of Directors in identifying, evaluating, monitoring and reporting the compliance risk associated with the Bank's activities, in particular by providing advice on the compliance of the business with the provisions of the regulatory framework, its own standards and regulations, as well as codes of conduct established by markets or industry and by providing information on developments in this field.

The third line of defense is represented by the internal audit function that independently and objectively evaluates the quality and effectiveness of the Bank's internal control system as well as the first two lines of defense and the risk management framework. The Internal Audit function reports and functions according to the mandate received from the Board of Directors.

- **The Internal audit function** that ensures that the Bank's policies and processes are respected in all activities and structures, proposing, if necessary, their review and control mechanisms so that these tools remain sufficient and appropriate to the activity.

Risk management activities are governed by the Management Body of the Bank, assisted by the Audit Committee and the Risk Management Committee.

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The Board of Directors has a role in establishing the general framework of risk management and control, approving the risk management strategy, risk profile and administration policies for each significant risk, as well as organizing risk control and management systems at the Bank level.

- **The Executive Committee**, primarily responsible for the development of management policies for each significant risk, the implementation of the risk management strategy, the risk profile and the risk management policies, ensuring the involvement of all the Bank's organizational structures in order to implement them.
- The Audit Committee with main responsibilities in evaluating the internal audit activity in general, including the assessment of the organizational independence of the audit, the evaluation of the internal control system, the revision of the procedural framework related to the internal audit activity, the analysis and approval of the internal audit plan, the presentation of the internal audit reports including the conclusions of the independent functions evaluation, namely the risk management function and the compliance function, the presentation of the purpose and the planning of the bank's financial auditor's activity, aspects regarding the Bank's financial statements.

The Risk Management Committee, with responsibilities for monitoring the risk to which the Bank is exposed, and reviewing the risk information in order to assess the Bank's risk profile.

Bank's independent control functions

The framework for internal control is developed in all areas of activity of the Bank and involves the involvement of both the management body and all operational units in the internal control process, thus ensuring the fulfilment of the performance objectives (effectiveness and efficiency of the activities carried out and also the performance of the activity in a prudent mode), information (credibility, integrity and timely provision of reported financial and non-financial information, both internally and externally), compliance (complying with legal and regulatory frameworks, supervisory requirements and also internal rules and decisions).

The responsibility for developing and maintaining an adequate and effective framework for internal control rests with the management body of the Bank, in which respect the management body organizing:

- the control at the level of each operational unit. To this end, it approves internal regulations describing the processes taking place within the Bank's structures, describing control procedures (self-control, chain control and hierarchical control) and developing job descriptions detailing the responsibilities of each position;
- the following three internal control functions: the risk management function, the compliance function and the internal audit function. The Executive Committee is responsible for the resources required for internal control functions (sufficient, qualified and experienced staff, appropriate data and support systems, access to internal and external information).

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The Board of Directors of the Bank oversees the work of the Executive Committee and monitors the consistent implementation of established policies and strategies, as well as maintaining performance standards consistent with long-term financial interests.

The Executive Committee ensures that the internal control system provides for a proper separation of responsibilities, with the aim of preventing conflicts of interest. Areas that may be impaired by potential conflicts of interest are subject to identification and are subject to independent monitoring exercised by the Compliance Division. The results of independent monitoring are reported to the Executive Committee and the Board of Directors.

The internal control activities of the Bank are structured according to the three lines of defense (3LoD) as follows:

1. First line of defence - the internal control system organized at the level of each line of activity. They engage risks within the assigned risk exposure limits and are responsible for identifying risk assessment and control at the level of the line of activity / operational unit. It takes place on a transactional, permanent basis. Responsibility: business / activity lines, operational units.

2. Second line of defence

- internal control functions: risk management, compliance, Anti-money laundering, anti-fraud;
- internal control assimilated functions: legal, human resources, financial, accounting;
- support functions: operations, information technology.

Each of these functions, in close relation with business lines and operational units, ensures by control that risks at the latter are properly identified and managed. It is run on a risk basis, permanently or periodically.

3. Third line of defence - the internal audit function (through the Internal Audit Department) that independently evaluates the effectiveness of the processes created at the level of the first and second defence line, providing support to these processes. It takes place on a risk basis, periodically.

The internal control functions are independent of the activity lines they monitor and control and are organically independent from each other.

✓ ***Internal audit function***

The Board of Directors and the Executive Committee are responsible for establishing an efficient internal control system appropriate to the size and complexity of the Bank's activities. The Board of Directors and the Executive Committee are supported in fulfilling their responsibilities by the internal audit function. The basic principle is that the internal audit function is independent and has a permanent role within the Bank.

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The Internal Audit function is carried out at the level of the Bank by the Internal Audit Department and it is organized as a separate organizational structure independent of the Bank's activities, according to the specific provisions in the field and to the national and international professional standards.

The Internal Audit function verifies, independently and objectively, whether the quality level of the internal control framework is effective and efficient and contributes to the Bank's objectives and to improving governance, risk management and control processes across all activities and structures, in the framework of insurance audit or advisory engagements carried out at the level of the entities within the Bank Group.

The main objectives are:

- assessing the compliance with the Bank's policies and procedures of all Bank's activities and operational units (including the risk management function and compliance function), as well as the assessment of the activities of the entities within the Bank Group;
- assessing whether existing policies and procedures remain appropriate and comply with legal and regulatory requirements;
- verifying in particular the integrity of the processes that ensure the credibility of the credit institution's methods and techniques, assumptions and sources of information used in its internal models;
- assessing the quality and use of qualitative tools for risk identification and assessment.

Outsourced activities are subject to evaluation by the audit function.

In order to ensure its independence, the Internal Audit Department has the appropriate authority to carry out specific tasks and direct reporting lines and without restrictions to the Management Body and the Audit Committee.

Main attributions and responsibilities:

- elaborates the audit plan according to a risk-based methodology, in order to be approved by the Audit Committee and the Board of Directors and implements it;
- regularly reports to the management body and the Audit Committee on the implementation of the annual audit plan, the major weaknesses of the internal control system ascertained on the planned and unplanned internal audit missions, other relevant activities;
- informs the middle management of the results of the planned and unplanned audit missions in order to promptly remedy them and according to the distribution circle of the reports;
- monitors and evaluates the level of implementation of all audit recommendations and reports to the Management Body and the Audit Committee on this issue.

All branches of the bank are audited by the bank's audit function. To Patria Credit IFN SA subsidiary, common internal auditing methodologies and standards are applied to those of the Bank in all aspects of the internal audit activity (communication of results, avoidance of any conflict of interest situation, exchange of information).

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✓ ***Risk management function***

The Risk Management function is performed at the Bank's level by the Risk Management Division, being an independent control function under the Deputy General Manager - Risk Division. The attributions of this structure are mainly aimed at identifying, analysing and evaluating the different types and areas of risk arising from the Bank's current activity.

The global risk management strategy approved in 2018 is designed to create the overall framework for sound and prudent risk management that may impair the Bank's business. The Bank promotes and develops an integrated risk culture, both individually and at the Bank's overall level, based on a full understanding of the risks and how they are managed, taking into account the institution's risk tolerance / risk appetite credit.

The Risk Management Division is organized in 2 departments:

- ✓ Credit Risk Control Department
- ✓ Other Risks than Credit Risk Management Department

Main attributions of the Risk Management Division are:

- ✓ To validate, from the perspective of their area of expertise, the draft of internal regulations elaborated by all the operational units of the Bank, in order to implement the Bank's strategy and policies;
- ✓ Identifying, evaluating, monitoring and controlling / preventing, through specific work methodologies, significant risks that may impair the bank's activity;
- ✓ Elaboration of crisis simulation scenarios to assess the potential impact on the bank of a specific event or change of a set of financial variables;
- ✓ Presents regular reports on the risks to which the Bank is exposed to the Risk Management Committee and / or the Board of Directors of the Bank;
- ✓ Elaboration of proposals for the implementation of the necessary measures / actions in order to facilitate management decisions regarding the reduction of identified risks.

Responsibility for risk management is not limited to risk or control functions specialists. Operating units, under the coordination of the management body, are responsible for day-to-day risk management, taking into account the Bank's risk tolerance / appetite and in accordance with the Bank's internal policies, procedures and regulations.

✓ ***Compliance function***

The compliance function is performed at the Bank's level by the Compliance Division and has the role of controlling and monitoring the compliance risk what may occur as a result of non-compliance with the legal or regulatory framework, advises the Management Board on the provisions of the legal and regulatory framework, ensures professional training of compliance personnel in order to disseminate a culture of legality and compliance within the organization.

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Through the Compliance Division Coordinator, the Compliance function is subordinated to the Deputy General Manager - Risk Division and reports directly to the Management Board and the Risk Management Committee and the Audit Committee, regarding the compliance risk.

Until July 2018, the Compliance Division incorporated 3 (three) departments: Compliance Monitoring Department, Money Laundering Prevention Department and Anti-Fraud Department. Subsequent to this date, the Division was reorganized and consists of the following departments: Compliance Monitoring and Money Laundering Prevention.

The main responsibilities of the Compliance Division are:

- defining risk assessment methodologies for compliance with regulations;
- identification and evaluation of the regulatory framework applicable to the Bank's business;
- Advising and assisting the Management Bodies on significant matters for compliance risk and issues related to their obligations;
- Evaluation of new products, services and projects;
- Preventing and managing conflicts of interest both between the various activities carried out by the bank, as well as with regard to the employees;
- checking the compliance of the remuneration and bonus system of the staff;
- Monitoring and control on a continuous basis of the clients' operability through the services and products granted by the Bank, in order to prevent and combat money laundering and financing of acts of terrorism;
- Collaboration within the professional training of staff activity on the provisions applicable to the activities carried out in order to promote a corporate culture based on the principles of honesty, fairness and respect for the law.

8.4 Risk measurement, monitoring and reporting systems

The risk management function ensures that all material risks are properly identified, measured and reported and play a key role at the Bank's level, being involved in developing and reviewing strategies and decision-making processes, in material risk management decisions the Bank is confronted with in its operations and commercial activities. The Bank ensures that all risks are managed and reported in a coordinated manner through risk management processes. The Bank's material risk assessment is an essential condition for the risk coverage analysis with the aim of completing their aggregation to determine the risk profile.

At the same time, the Risk Management Division carries out on a quarterly basis the internal assessment process of the adequacy of internal capital to risks and crisis simulations and presents the outcome of this process to the Executive Committee, the Risk Management Committee and the Board of Directors. The Bank has established its own patterns of quantification of the domestic capital requirement. An important role in this exercise is the crisis simulations, which the Bank carries out on a quarterly basis.

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The Risk Management Division presents to the Executive Committee and the Board of Directors monthly and quarterly reports on risk exposures, the current overall risk profile and for each significant risk, as well as risk reports that have exceeded the alert thresholds (whenever they occur), with the purpose of framing within the risk tolerance limit set by the Risk strategy, proposing measures to mitigate risks that exceed the approved risk appetite. At the same time, the Risk Management Committee analyses monthly / quarterly or whenever it is convened, the exposures to risks.

Reports contain information on the following:

- Risk exposures and their evolution;
- Evolution of key risk rates and specific limits;
- Results of stress test exercises; and
- Adequacy of internal capital (i.e. the ability to hedge risks).

Risks are constantly changing and for this reason a review is needed in a timely and appropriate manner. The risks and process of implementing risk mitigation recommendations are kept under review and all new actions are evaluated. This allows the Bank to monitor whether the actions have had expected effects to mitigate the risks and create a more stable environment for its activities. Monitoring and review are part of the planning of a risk management process and involve regular checks. The results are recorded and reported externally or internally and are also used as information to review and continue to improve the Bank's risk management framework. Monitoring and review of risks is necessary to assess any changes in the risk or control environment. Risk management requires regular monitoring of risks through new developments, providing early warning signals if these levels change.

The Bank has a system of risk limits that are monitored periodically (daily / weekly / monthly / quarterly) through IT applications, and the results of these monitoring are the subject of information both to decision-makers and to the addressees of these limitations. Through the Risk Management Strategy, the Bank has determined the level of risk appetite (the absolute level of risk that the Bank is prepared to assume in advance) both at global / general level and at each significant risk level identified by the Bank, a system of rates for calculating the Bank's risk tolerance (the real limits of the risk appetite assumed by the Bank) and a system of limits including warning thresholds and absolute levels.

The Risk Management Division is responsible for calculating, verifying, monitoring and reporting the appetite, tolerance and risk limits of the Bank's global exposures, while support units have the obligation to check the risk limits set by internal working methodologies (policies, procedures and manuals).

The Risk Management Division reports non-compliance with the established level of appetite, tolerance and risk limits as soon as they are ascertained by the Bank's management and the beneficiaries of these limitations, also setting recommendations / measures to be taken to reinforce the established levels, monitor and report to the management of the Bank how to fulfil them.

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8.5 Risk hedging and mitigation policies

The Bank aims to achieve a balanced ratio between risk and profit in order to generate sustainable economic growth and capital adequacy. Therefore, the purpose of the risk strategy is to ensure that risks are assumed in the context of business sales, recognized at an early and appropriately managed stage. This goal is achieved by integrating risk management activity into daily business activities, strategic planning and business development in line with defined risk appetite.

In this respect, the Bank has implemented risk management procedures for their identification, measurement and monitoring, in order to control and manage material risks. The principles of risk management include:

- ✓ **Risk awareness:** The Bank aims to maintain an environment where it promotes a full understanding and awareness of the risks inherent in its activity. This is done by providing relevant information through transparent processes and by applying appropriate methods and tools. In a non-transparent and unclear situation, the principle of prudence prevails;
- ✓ **Taking risks:** The Bank promotes a prudent attitude towards risk-taking and any assumption of risk should aim at achieving a minimum return. Risks are assumed by the Bank as described in existing risk strategies and policies. The Bank assumes risks only if (i) there are adequate methods for assessing those risks and (ii) the estimated return exceeds the expected losses plus a rate applied to the capital used to cover the unexpected losses;
- ✓ **Risk management:** The methods of managing, limiting and monitoring the different risks are tailored to the materiality of those risks for the Bank. Also, risk management, control and limitation methodologies are constantly improved, whether quantitative or qualitative.
- ✓ **Legal requirements:** The Bank incorporates in its activity and fulfills all prudential requirements in terms of risk management.
- ✓ **Integrated approach:** Based on the risk assessment process, the main risk categories for the Bank are: credit risk, market risk, liquidity risk, interest rate risk from non-trading activities, operational risk and reputational risk. At the same time, the Bank pursues strategic risk and the risk of excessive leverage in business planning and compliance risk in day-to-day business, as well as macroeconomic risk in the crisis simulation program.
- ✓ **Unitary approach:** Risks are treated unitarily in both ex-ante and ex-post calculations. This allows for transparent and acceptable measures for business lines if the risks do not fall within the set limits.
- ✓ **Independent control:** The Bank strictly and explicitly separates risk-taking activities from risk management and control activities. This functional and organizational separation is also ensured at the level of the management structure
- ✓ **Regular review:** All risk policies are reviewed at least once a year, taking into account the process of budgeting and activity planning and may be reviewed at greater frequency if events that require it occur.
- ✓ **New products:** Any launch of a new product involving risk taking is preceded by an analysis of the risks involved.

Risk quantification has the general role of allowing for the measurement of risk-adjusted performance. Thus, the Bank ensures that the assumption of excessive risks is not encouraged and that the activity is carried out taking into

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account the risk - profit ratio. Policies are structured to cover all areas of identification, assessment, monitoring, control and reduction of the level of these risks.

The management structure of the Bank is responsible for establishing the risk profile and strategies / policies, each Bank structure has to manage the risk of its own business. A risk control function that manages global risk (Risk Management) is established within the Bank.

In order to reduce the risk, in line with its policy and risk profile, the Bank uses as a mitigating risk factor the value adjustments of value and the amount of the guarantees accepted at financing. Also, under the operational risk insurance is used.

Risk appetite

Starting from the strategic objectives, the Bank has set an absolute level of risk that it is willing to accept (the risk appetite) and the real limits of the appetite it can assume (risk tolerance). The Bank assesses the adequacy of the internal capital in accordance with the internal capital adequacy assessment process (hereinafter referred to as "ICAAP"), designed in accordance with regulatory requirements.

The ICAAP model determines the internal capital requirements for the significant risks to which the Bank is exposed by providing fundamental information for the Bank's governing body to take the necessary steps to ensure capital adequacy and, in particular, to optimize the use of available capital.

The amount of internal capital is monitored quarterly to ensure that decision-makers and relevant committees are promptly informed about the risk appetite for equity ratios, the risk profile of the Bank, and whether strategic risk objectives have been approached. Half-yearly, the ICAAP report is also drawn up at a consolidated level.

The Bank has defined its appetite for risk as being the absolute level of risk that the Bank is prepared to assume in the first place. The first stage of the risk appetite process is self-assessment of risks. Self-assessment of risks is part of the ICAAP process and aims to identify all the significant risks the Bank faces, so that risk appetite can incorporate all the risks that can significantly impair the Bank.

The risk assessment is differentiated under Pillar I and II, in accordance with the regulations in force. As a consequence, following the evaluation carried out within the ICAAP, the Bank has been or may be exposed to the following risks: credit risk; operational risk; market risk; the risk resulting from the application of less sophisticated approaches under Pillar I; the risk of underestimation for loss from default in times of crisis; the residual risk associated with credit risk mitigation techniques; the risk of credit concentration; country risk; interest rate risk from non-trading activities; liquidity risk; reputational risk; strategic risk; external (macroeconomic) risks; the risks associated with foreign currency borrowers exposed to foreign exchange risk; the risk associated with excessive leverage.

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The Bank considers significant, following a qualitative analysis, based on the Risk Strategy, at least all the risks regulated and addressed under the NBR Regulation no. 5/2013.

Thus, the Bank establishes a general risk appetite, as well as a risk appetite at each level of significant risk to which it may be exposed. In addition, for each significant risk category, relevant rates are established for the Bank's risk tolerance check, as well as early monitoring rates and warning thresholds to help identify the areas in the Bank's activity in which additional to Bank's strategy risk exposures are outlined.

Additionally, for a series of monitoring rates, the Bank also sets maximum limits in order to strategically orientate the Bank's future work (for example, sectorial concentration limits). The early warning thresholds and maximum limits for these rates are reviewed along with the risk strategy. This approach ensures the timely provision of information to the governance structure, as well as the implementation of effective remedial measures. Violation of a defined limit triggers an immediate escalate to the governance structure and prompt implementation of remedial actions.

Furthermore, risk rates for crisis situations are defined and integrated into the assessment of crisis test results. These are reported as early warning signals in order to ensure a proactive management of the risk and capital profile. Therefore, the strategic limits and principles of the risk strategy are defined on the basis of risk appetite. These limits and principles support the implementation of medium to long-term risk strategy. The risk governance framework ensures full oversight of all risk decisions, as well as an adequate implementation of risk strategies. Risk mitigation actions are undertaken as part of their management process to ensure that the Bank remains within the defined risk appetite.

Risk profile

The risk profile is represented by the current and potential aggregate exposures of the Bank. The risk profile is the result of the risk assessment process in combination with the limits set by the business strategy and the risk appetite framework. The risk profile is an important factor in setting the business objectives, policies, risk appetite and the Bank's internal control environment.

The measures that are undertaken within the risk mitigation process, without being limitative, are:

- Reducing likelihood of occurrence of risks by improving the actions, operations, processes and / or functions impaired by the identified risks;
- Reducing the impact of risk through the use of risk transfer methods and / or instruments such as specific insurance policies, derivative financial instruments, additional capital injections or other;
- Transferring or sharing risks with third parties;
- Accepting residual risks and monitoring the correlation between them and the allocated capital;
- Accepting risks as inherent to business;

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- Evaluating the occurrence of the identified risk by stopping, temporarily or definitively, the activity, process or risk-generating function.

The Bank uses various tools to measure or assess and quantify risks:

- Quantification of risks is done by the Bank through the risk profile. The methodology for determining the Bank's risk profile is included in the Risk Management Strategy and is reviewed annually to match the Bank's risk appetite.
- Risk-to-profit ratio. For its monitoring, the Risk Management Division calculates the ratio between the risk-adjusted income and the capital requirement for each line of activity carried out at the Bank level, as determined by the Bank's Revenue and Expenditure Budget. This rate is calculated quarterly, and the result is presented to the Risk Management Committee and the Board of Directors. Risk-adjusted income is the total of revenues earned on that line of business (interest, commissions, other related income) diminished by depreciation adjustments for that business. The capital requirement represents the capital requirement allocated to that business line.
- The Internal Risk Assessment Process (ICAAP): it is the component of the Bank's governance framework that aims that the management structure ensures that risks are adequately identified, measured, aggregated and adequately monitored, that an adequate internal capital is in place for the profile risk management and the use and development of sound risk management systems;
- Crisis simulations: The risk management technique used to assess the potential effects on the Bank's financial condition of a particular event and / or to modify a set of financial variables;
- Capital plan: It is designed to ensure adequate capital and to meet strategic plans in view of the Bank's objectives and the time horizon required to achieve them. The Capital Plan is prepared for each financial year on the basis of the Bank's planned Income and Expenses Budget and updated whenever new relevant information emerges that may have an impact on the development of the Bank's business.
- Strategy for maintaining the level of the capital: It is designed to ensure an adequate and appropriate level of capital, taking into account the Bank's planned Income and Expenses Budget and updated whenever new relevant information emerges that may have an impact on the development of the Bank's business.
- The risk limits are set according to the portfolio structure and include: the warning threshold and the maximum accepted risk level;
- Back testing for the assesment / calibration of the used models;
- Stress testing involves creating stress / crisis scenarios and assessing the influence of scenarios on revenue and expenditures.

The risk management, compliance and internal audit functions play an important role in ensuring compliance with the regulations governing risk management and control activities and in implementing internal measures to ensure the consistency between the risk parameters assumed in the Bank's current activities and the risk set by the Bank's management structure.

Information on the activity framing into the appetite / tolerance / warning levels related to significant risks is made by the Risk Management Division to the Executive Committee, the Risk Management Committee, the Board of Directors, the rates / limit situation at the end of the previous month, and if the limits were exceeded during the month of analysis and how these situations were solved being presented. In the case of non-compliance within the risk limits, as well as in the tolerance / appetite risk of the Bank for the monitored risks, the Risk Management Division informs the management body on a monthly basis, both on the causes that led to the non-compliance within limits / tolerance / appetite and proposed measures and the expected term for reinforcement.

Portfolio and risk analysis

The Bank uses systems and processes to actively identify, control and manage the risks in its portfolio. Portfolio and risk analysis processes are designed to quantify, qualify and substantiate the risks in order to draw the attention of the management body in a timely manner.

Risk materiality analysis

The Bank has continuously implemented and developed the risk material assessment framework. This process is not limited to the risk management function and therefore various entities within the Bank are involved in order to ensure the efficiency of this process. Such broad involvement at Bank level has led to improved understanding of risk sources, clarifying how these risks are related to specific activities. Assessing the materiality of risks is a complex process that uses a combination of qualitative and quantitative factors in assessing each type of risk.

This assessment is a starting point for the ICAAP process, as the types of material risk identified have to be taken into account either directly by the allocation of capital or indirectly by appropriately being taken into account in other elements of the ICAAP framework. The information resulting from this assessment is used to improve risk management practices and further to mitigate risks within the Bank. The assessment is also the starting point for designing and defining the Bank's risk strategy and risk appetite.

Concentration risk analysis

The Bank's concentration risk analysis highlights the measures needed to identify, measure, monitor and mitigate concentration risks, whose implementation is essential to ensure the long-term viability of any financial institution, especially in times of economic crisis. Risk concentration is addressed through the Bank's limits framework and specific concentration risk analysis.

Simulations under crisis conditions

Crisis tests are essential tools for risk management within financial institutions, supporting them to address a future-oriented risk perspective as well as business strategy, risk planning, capital and liquidity planning. Crisis testing of the bank's vulnerability to major but plausible damage of the economic environment helps to understand the sustainability and solidity of the bank and to develop and implement timely alternative plans and risk control

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measures. The results of stress tests need to be analyzed for later use, especially in the planning and budgeting process, as well as in the risk material assessment process or in the calculation of the risk coverage capacity.

Risk planification and forecasting

The planning of key relevant data referring to risk is also part of the risk management activity and ensures that risks are properly reflected in the management process of the bank. The risk management forecast is used by the Bank to take strategic decisions. The implementation of financial forecasts for risk data that ensure the link between the capital / liquidity and the changing macroeconomic conditions represents a way to acknowledge the risks.

The Bank ensures that there is a close relation between the capital planning, budgeting and strategic planning strategies. The Bank's responsibility for risk management includes ensuring sound planning and forecasting processes. Risk planning and forecasting processes include both an anticipatory component as well as a retrospective component, focusing on portfolio and environmental changes.

Risk weighted assets management

In order to identify the capital requirements required for compliance with the banking prudential rates, the process of calculating the regulated capital requirement and the internal capital requirement is performed periodically.

Since risk-weighted assets (RWAs) determine the current capital requirements of a bank and influence the capital rate as a key performance rate, it is particularly important to meet the planning and forecasting objectives and capabilities for this parameter. Monthly risk analysis data on risk-weighted assets are used to improve calculation infrastructure, input parameters quality and data quality and more effective application of the Basel framework as a whole.

The primary objective in calculating the capital requirement is to strictly and permanently observe the permanent setting in the minimum regulated level of the bank's own funds (expressed as a percentage of the risk exposure total value) and reporting requirements. Planning, evaluation and monitoring of capital, as well as the generation of risk positions, are performed in order to achieve this objective.

The monitoring of risk positions should ensure that the rates of regulated own funds are permanently observed. Based on the continuous monitoring and reporting process, relevant decision makers are informed early on the adequacy ratio of the regulated capital. During the regular capital adequacy risk monitoring process, if there is a downward trend in solvency, close to the minimum allowed capital ratios, this movement must be identified in advance so that all necessary measures can be taken to prevent these limits from being exceeded.

Capital planification and allocation

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On the basis of identified material risks, the Bank assesses capital adequacy as a whole and develops a strategy to maintain adequate capital levels in line with its risk profile and business plans. This is reflected in the process of planning the bank's capital and setting internal capital targets.

The Bank ensures that a well-defined process is implemented to translate the risk forecasts into the capital adequacy risk assessment process.

The capital planning process is dynamic and of perspective in relation to the Bank's risk profile. A solid capital planning is critical to determining the prudent value, type and composition of capital, in line with the Bank's long-term strategy, so that business objectives, including under macroeconomic stress conditions, are met.

The capital planning process aims at estimating a possible addition to the capital requirement. On the one hand, this is based on a forecast of the evolution of the existing capital and, on the other hand, on a forecast of the evolution of the capital constraints that may occur during the forthcoming financial years.

The prognosis of capital evolution starts from the current regulated capital level existing at the beginning of the annual budgeting process. The subsequent forecasts of the commercial plan, the individual situation of the overall result, the individual situation of the financial position of the investment projects, the financing plan and the evolution of the operational expenditures are made through the budgeting process (or drawing up the annual Budget) and their impact on the capital at the end of the financial exercises included in the planning horizon is then evaluated and allocated. In conclusion, this stage ends with an assessment of the level of capital at the end of each year of the planning horizon.

Recovery Plan

The Bank has a Comprehensive Recovery Plan, developed on the basis of the Banking Law (EOG No. 99/2006), the Banking Recovery and Resolution Directive 2014/59 / EU (BRRD), as well as the EBA guidelines and Law no.312 / 2016 on the recovery and resolution of credit institutions and investment firms, as well as for the modification and completion of some normative acts in the financial field.

The Governance of the Bank's Recovery Plan serves as a framework for its development and implementation as the main pillar of consolidating the Bank's financial position, respectively, to restore it after a significant deterioration. This plan identifies a set of recovery measures that can be applied to maintain the financial strength and viability of the Bank when it faces a severe crisis.

8.6 Adequacy of the risk management framework and risk profile

The Bank should monitor risk management systems to ensure that they are performing well. This objective is achieved by the Bank through continuous monitoring activities and by a regular evaluation of these systems. The

continuous monitoring process is in most cases effective when it takes place in real time (where applicable) as it allows a dynamic reaction to changing conditions.

The Bank has implemented an appropriate risk management system that includes policies, procedures, limits, and controls to adequately, continuously and timely ensure a process of identifying, measuring and evaluating, diminishing, monitoring, and reporting risks involved by the banking activities both at the level of business lines and at the level of the institution as a whole.

An effective risk management process requires a clear articulation of the Bank's risk appetite, as well as identifying how the Bank's risk profile is managed in relation to this appetite. The Bank has implemented an effective risk appetite framework that is communicated at Bank level, as well as to all other shareholders, and incorporating the risk appetite in the Bank's financial risk profile.

Both the Declaration of Risk Appetite and Risk Tolerance are parts of the Risk Awareness Framework and are incorporated into the Bank's Risk Strategy. Risk appetite is based on relevant risk factors and key risk rates and ensures that the Bank operates within the established strategic objectives and does not exceed the aggregate risk tolerance.

In this regard, the Bank presents a statement approved by the management body on the adequacy of its risk management systems to ensure that the systems in place are appropriate to the risk profile and strategy of the institution, as well as a description of the Bank's overall risk profile, which provides a comprehensive overview of how the Bank manages its risks, including how the Bank's risk profile interacts with established risk tolerance (Annex 3).

8.7 Specific market risk factors

Both the Bank and the Patria Bank Group are exposed to the risks associated with the functioning of the local financial market as well as those associated with global and local economic conditions in general.

The Romanian economy has shown itself vulnerable to the decline of the financial and capital markets as well as to the slowing of the growth of the global economy. The impact of global economic developments is often felt more strongly in emerging markets, such as Romania, compared to how it is felt in more developed markets. In particular, in times of economic uncertainty, consumers reduce their spending and debt levels. As the Patria Bank Group carries out all its activities in Romania, its performance is influenced by the level and cyclicity of the economic activity in Romania, which in turn is impaired by the local and international economic and political events.

The impact and the precise nature of all the risks and uncertainties to which the Patria Bank is subjected as a result of current economic conditions cannot be foreseen and many of these risks are beyond its control. According to the NBR Financial Stability Report of December 2018, the country's macroeconomic and financial context has remained

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favorable, which has contributed to a certain protection of Romania, along with the countries of the region, in times when international investors' sentiment towards emerging markets has deteriorated.

Considering the above, the main risks from the banking system are the structural vulnerabilities associated with the specific profitability of the last year, which could contribute to the continuation of the banking consolidation process and those of the existence of a strong competitive environment in which the consolidation process will continue the next period, the financing costs will remain at a similar level in the next period, leading to a significant competition on the credit market and attracting the resources available from non-bank customers. Also, given the significant degree of exposure to existing government securities at the level of the entire banking system, there is a risk of imposing some banking system constraints on this component, which will result in significant competition in investing in other assets with high liquidity and, implicitly, an increase in the cost of this component.

A series of recent legislative changes, aimed at the banking sector and focused on protecting the borrowers, could affect financial stability as a result of the uncertainty inherent in the legal framework in which banks operate and the impact on investors' perceptions. Among these initiatives, the bank asset tax, which can have adverse domino effects for the entire economy, may be introduced recently, especially against the backdrop of rising macroeconomic imbalances that need to be addressed through prudent policies. Also, the legislation assimilated to the allocation of non-performing loans and tax deductibility for banks (which influences the continuation of the resolution process of non-performing loans), as well as the intention to cap the interest rates by criteria that would affect the market mechanisms. As a result, domestic credit institutions identify the uncertain and unpredictable legislative framework in the financial and banking field, with implications for the solvency of the banking sector, as the most important systemic risk, this assessment remaining constant over the past two years.

Any change in the local financial market, global and local economic conditions could have a significant negative effect on the Bank's activity, financial situation or operating results.

Market fluctuations, liquidity and volatility may have a negative impact on the value of the Bank's assets, may reduce profitability and make difficult to measure the fair value of certain assets

Financial markets have been subject to significant stress factors in recent years and despite a return of economic and financial conditions on the market over the last three years in Romania, the value of financial assets may continue to fluctuate significantly or have a significant impact on the Bank's total capital and income if the market value of the financial assets decreases.

Volatility and lack of market liquidity may make it difficult to reassess certain exposures and the value actually realized by the Bank may be significantly different from the current or estimated fair value. In addition, the Bank's estimates of the fair value may differ significantly from both similar estimates made by other financial institutions and from the values that would have been used if a market for these assets had already been available. Any of these factors may cause the Bank to recognize losses from future revaluations and to provision for impairment, any of which may impair the Bank's operations, financial statement, operating results, liquidity, or Banks's prospects.

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A possible non-recovery of the deferred tax could lead to the loss of certain tax benefits of the Bank

Deferred tax is based on the fact that the Bank will make future profits and will use the tax losses that were the basis for recognizing this deferred tax. As future profits result from the implementation of the Bank's business plan, depending on the existence of additional own funds, there is a risk that the asset will be overstated and if the Bank does not make profits and the risk materializes, this aspect could have a negative impact on the Bank's financial position and operating results, including the capital adequacy ratio. An incident of this nature may have a material adverse effect on the Bank's activity, financial condition or operational results.

The bank faces intense competition in all areas of activity

The Bank and the Patria Bank Group compete with a large number of international financial institutions with local presence in Romania, but also with local competitors, banks whose services address both individuals and companies, mortgage banks, investment banks and other companies active in the financial services sector. Certain banks have a stronger presence in Romania than Patria Bank Group, with a larger number of branches, offering clients a wide range of products and services.

The competitive pressure is manifested in particular by the adjustment by the Bank's competitors of the price to certain products and services offered by the Patria Bank Group in order to attract customers and increase the market share, which is likely to impair the Patria Bank Group's ability to maintain or increase profitability. Although the Patria Bank Group strives to maintain customer loyalty, customer retention may be influenced by a number of factors including the range of services offered and their quality, the prices and characteristics of the products and services offered, the financial strength and the actions taken by the competitors.

At the same time, the recent trend to strengthen the financial services sector at the international and local level may create competitors with extensive product and service portfolios with greater financial, technical, and operational resources, access to lower costs financing, and greater efficiency and power of pricing. Due to their global presence, these competitors may seem more attractive to key clients that the Patria Bank Group also intends to attract.

Competitiveness of financial institutions will largely depend on their ability to adapt quickly to new developments and market trends. The inability of the Patria Bank Group to compete effectively with its major local competitors would have a negative impact on the Bank's assets, financial position and operating results.

The Bank operates in a regulated environment and any new regulatory requirements or any changes to current regulations may subject the Bank to greater capital and liquidity requirements or standards and may result in significant compliance costs.

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Given the evolution and transformation of the financial crisis into the sovereign debt crisis of the euro zone, there has been a need for a better integration of the single market and the European banking system. Thus, the European institutions have decided to create the Banking Union, based on a single set of regulations.

The Banking Union is based on the following three pillars: (i) the introduction of a single supervisory system ("SSM") set up at the level of the European Central Bank ("ECB"), which takes over prudential supervision tasks of euro area credit institutions, (ii) the consolidation of deposit guarantee schemes and (iii) the establishment of a unique resolution mechanism. With regard to SSM, in November 2014, the ECB is responsible for overseeing all credit institutions (either directly for significant credit institutions or indirectly for other credit institutions through collaboration with competent national authorities). At the level of the competent national authorities, it remains the exclusive exercise of specific tasks, such as prevention of money laundering and supervision of payment services.

The purpose of the single Deposit Guarantee Scheme is to provide increased resilience to future systemic crises compared to national schemes and it will be less dependent on public finances as risks will be more dispersed and contributions will be collected from more institutions.

The unique resolution mechanism aims at the orderly resolution of banks in difficulty, so as to minimize the negative consequences for taxpayers and the real economy.

The bank must comply with a wide range of regulations issued by the Romanian legislative and regulatory authorities in the financial-banking sector and its activity is supervised by the NBR and other regulators. The legal rules applicable to the Bank include, *inter alia*, regulations on capital adequacy, risk management and money laundering prevention. Complying with these regulations involves significant expenses and could limit potential operations.

The Bank also has to comply with European Union directives with direct application in Romania and European directives that are transposed into national legislation.

Following the 2008 financial crisis, this broad regulatory framework has been the subject of a continuous process of change by imposing operational, governance, and complex reporting requirements that require significant financial resources to be allocated by financial institutions for compliance purposes.

Moreover, regulators (in particular the NBR) carry out ongoing or regular analyzes of the Bank's operations. If regulatory authorities identify a violation of the law, whether intentional or not, severe penalties or sanctions, including suspension or withdrawal of banking authorization, may be imposed. As a rule, the NBR has at its disposal a range of constraints in case of breach of regulatory requirements. The Bank may, *inter alia*, take over the special management measures of the NBR, the procedure under which administrator (on behalf of the NBR) may, *inter alia*, negotiate the restructuring of the Bank's debts, suspend the activity of attracting deposits or granting credits, sell assets etc.

Any significant changes in the legislative and regulatory framework governing the Bank's business may limit the Bank's growth and may have a significant impact on the financial position, the operating results and the possibility

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to implement business opportunities. This could have a negative impact on assets, financial position and operating results.

The bank is subject to major capital and liquidity requirements and incur significant expenses with monitoring and meeting these requirements

Starting with 2014, capital requirements are governed by the European regulatory framework known as CRD IV / CRR and which includes the European Parliament and Council Directive no. (EU) No 2013/36 / EU on the access to credit institutions' activities and the prudential supervision of credit institutions and investment firms (CRD IV), and by the CRR, some requirements being applicable during a transitional period 2014-2019. In December 2013, the NBR issued Regulation no. 5/2013 which transposes into CRD IV national legislation, while CRR is directly applicable.

CRD IV / CRR predict, among other things, the increase in the minimum own funds level, i.e. (i) a 4.5% Tier 1 own funds ratio; (ii) a 6% Tier 1 own funds ratio and (iii) a total own funds ratio of 8%. With regard to the capital adequacy rates provided in the previous regulatory framework known as Basel II, the new CRD IV / CRR legislative package complements the set of capital adequacy ratios calculated on the basis of the total risk exposure by introducing the "leverage" rate, initially as an additional feature at the discretion of the supervisory authorities, following to migrate to a binding measure starting with 2018. The minimum level of the leverage ratio is set by the Basel Committee on Banking Supervision at 3%, and as a result of the Committee's calibrations, they will have to review this level or set a level of the capital requirement for this ratio.

In December 2014, the European Banking Authority issued the guide no. 13/2014 on common procedures and methodologies for the Surveillance and Evaluation Process (SREP), under which each national supervisory authority *calculates for each credit institution the global capital requirement (OCR) tailored to the specific risks to which it is exposed, representing the sum of the total capital requirement SREP (TSCR), the capital buffer and the macro-prudential requirements.*

In addition, CRD IV / CRR increases risk capital coverage, in particular in relation to trading and securitization activities and counterparty credit risk exposures resulting from derivative financial instruments, repo operations and securities lending operations. Moreover, the CRD IV / CRR package introduces, among other things: (i) a minimum level of the short-term liquidity requirement and (ii) a minimum level on the net stable funding requirement to increase banks' longer time horizon endurance, both having a gradual implementation that will end in 2019.

Stricter requirements on capital, liquidity, risk-weighted assets and other legal or regulatory developments could have a negative impact on the Bank's business, operating results and financial position.

Any change in consumer protection regulations or interpretations of these regulations by tribunal or government authorities may lead to a reduction in the Bank's ability to provide certain products and / or services

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Any changes in consumer protection laws or the interpretation of these laws by the courts or governmental authorities could restrict the Bank's ability to provide certain products and services or to apply certain clauses and could reduce the net income from commissions and interest rates of the Bank, which could have a negative effect on its operational results. In particular, if a court finds that a contract between a consumer and a professional (such as the Bank) contains abusive clauses from the perspective of consumer protection, the court may oblige the professional to modify all its ongoing adhesion contracts with consumers with such abusive clauses and to remove them from adhesion contracts intended for use in the professional activity. This legislative change could have a negative impact on the Bank's business, financial position and operating results.

At the same time, as new laws and amendments to existing laws are adopted to maintain the pace of continuous transition, existing laws and regulations, as well as amendments to these laws and regulations, may be applied non-uniformly or interpreted in a more restrictive way. Any changes in consumer protection regulations or interpretations of these regulations by courts or governmental authorities at the expense of Patria Bank may affect the Bank's activity, financial condition and financial performance.

The Romanian legislation on the insolvency procedure of individuals may lead to the adoption of measures at the expense of the Bank in relation to individual clients

In 2015, the Romanian Parliament adopted Law 151/2015 on Insolvency Procedure for Individuals. This law was published in the Official Gazette of Romania on 26 June 2015 and entered into force on January 1, 2018. This normative act establishes a collective procedure for the recovery of the financial situation of the debtor, as individual, the good faith, the coverage to a greater extent of its liability and the discharge of debts under the law. Application of the law could lead to measures being taken at the expense of credit institutions in dealing with individual clients, such as a significant reduction in the debtor's liability or suspension of forced execution procedures. In addition, the lack of any judicial practice in this field, as well as possible procedural practices, could lead to the Bank experiencing difficulties in recovering its receivables in relation to individual borrowers, which could have a negative effect on the operations and the financial statements of the Bank.

Regulatory changes in areas such as employee protection, labor law, social security, competition law and taxation could generate additional costs for the Bank

In addition to the requirements specifically applicable to companies in the financial services sector, the Bank must also comply with the requirements of the general regulatory framework applicable to all companies, such as employee protection, labor law, social security, competition law and taxation, as well as specific capital market legislation. Because these laws and regulations and also the way they are applied or interpreted, are subject to continual changes by competent authorities and, generally, become more stringent, the costs involved in complying with such laws and regulations are expected to grow in the future.

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Any failure to comply with applicable laws and regulations could result in fines or other sanctions imposed by competent regulatory and supervisory authorities and could impair the Bank's reputation. If compliance costs will increase or fines will be imposed for non-compliance with the Bank, they may have a negative impact on its assets, financial position and operational results, as well as its reputation. Any changes to employee protection legislation, labor law, social security, competition law and taxation could affect the Bank's business, financial situation and financial performance.

Significant costs are being incurred and significant efforts are being made to comply with increasingly stringent regulations on the prevention of money laundering and terrorist financing.

The Bank is subject to strict regulations on money laundering, terrorist financing and other such acts. The NBR, in cooperation with the National Anti-Money Laundering Office, in the field of monitoring the application of international sanctions, prevention of money laundering and terrorism financing, checks the compliance of credit institutions with the applicable legislative framework. In the event of the Bank's breach of the regulations on money laundering, terrorist financing and other criminal acts, the sanctions imposed on the Bank by the competent authorities in this area could have the effect of limiting the Bank's conduct of operations. In addition, controlling compliance with all these regulations entails significant financial costs and represents an operational challenge for the Bank. Although the Bank does all the necessary diligence, it cannot provide any assurances that it will at all times comply with all the existing regulations on money laundering and terrorist financing operations, or that all its employees will apply these regulations and the Bank's internal rules in this domain. Any breach of these regulations and even the mere suspicion of a breach may have legal consequences or a negative impact on the Bank's reputation and could impair the Bank's assets, financial position and operating results.

Investing in emerging markets, including Romania, involves certain risks that may be greater than the risks inherent in more developed markets

An investment in emerging markets, including Romania, is subject to higher risks than an investment in a country with a more developed economy and political and legal systems. Although progress has been made in reforming the Romanian economy and political and legal systems, the development of legal infrastructure and the regulatory framework is still under way. Generally, investments in developing countries such as Romania are only suited to sophisticated investors who can fully appreciate the risks involved.

In addition, the reactions of international investors to events taking place in a country sometimes demonstrate the existence of a "contamination" effect, where a whole region or investment class is disadvantaged by international investors. Therefore, investments could be affected by negative economic or financial developments in other countries. There is no certainty that the circumstances of any crisis similar to the global economic and financial crisis that began in 2008 will not affect the economic performance of emerging markets, including Romania, or investors in these markets. The occurrence of these circumstances could have a significant negative effect on the Bank's business, operating results and financial position.

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The value of investments in Romania, including investment in the Bank's shares, could be affected by political and economic uncertainty

Romania has undergone major changes in its recent history. Despite the many political and economic reforms implemented, the Romanian economy still has a number of structural weaknesses. These include: dependence on industrial exports, population aging, which will lead to increased state budget spending for social assistance and healthcare in the future, and historically current account imbalance as well as delayed absorption of EU funds and a lack of key reforms, each of which could affect Romania's solvency.

Judicial system and legislation in Romania is in the process of development and therefore constantly changing, creating an uncertain environment for investment and business

The uncertainties that characterize the judiciary system in Romania could have a negative effect on the economy and could therefore create an uncertain environment for investment and business. The judiciary system is underfunded compared to the jurisdictions with a developed economy. Since Romania is a jurisdiction that has implemented the civil law system of French origin, judgments delivered under Romanian law do not usually have a judicial precedent. For the same reason, the courts usually have no obligation to comply with previous court rulings pronounced by the courts in identical or similar situations. The Romanian judiciary system has undergone several reforms to modernize and strengthen its independence. However, these reforms do not go far enough to effectively address the issue of non-EU jurisprudence. The new procedure codes introduce a new mechanism for unifying jurisprudence, but effective measures to achieve the expected results are underway. Thus, uncertainties are fueled by repeated and frequent changes to laws, including issues that have a direct impact on the Bank and which often have an immediate effect, ambiguities in the law, and the inconsistent interpretation and application of rules. Uncertainties related to the Romanian legal and judicial system and the additional costs necessary to adapt to changing legal requirements could have a significant negative effect on the Bank's business, operational results and financial situation.

8.8 Bank's specific risk factors and their management process

Taking into account the performed activity, the Bank is exposed to the following risks:

- market risk (including foreign exchange risk);
- the interest rate risk outside the trading portfolio;
- credit risk and associated risks (residual risk, concentration risk, foreign exchange lending of borrowers exposed to foreign exchange risk);
- liquidity and fund management risk;
- operational risk;
- reputational risk;
- strategic risk;

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- compliance risk;
- the risk of excessive use of leverage.

Market risk

It represents the risk of recording losses on balance sheet and off-balance sheet positions due to unfavourable market fluctuations in prices (such as shares prices, interest rates, exchange rates).

Price risk - the market risk component that arises as a result of market fluctuations in the price of equity securities in the bank's trading portfolio.

Interest rate risk - the market risk component that arises as a result of market fluctuations in the interest rate associated with instruments in the bank's trading portfolio.

Foreign exchange risk - the component of market risk that arises as a result of fluctuations in the exchange rate for the entire activity of the bank.

The main components of the market risk management process documented in the Market Risk Management Policy regarding market risk management are as follows: identifying market risks, assessment, control process, monitoring and reporting.

Market risks identification is based on identifying and evaluating internal and external factors that may impair the risk market, even from the assesment phase of an asset or liability. The market risk assessment is carried out using the Value at Risk (VaR) Model and the exposure limit. The Bank uses for the calculation of VaR the last 255 closing prices of financial instruments, for each of the financial instruments held. For the calculation of the VaR rate, the profit distribution is considered normal, the confidence level as 99% and the holding period as 10 days.

For the purpose of monitoring market risk, the Bank has a limits system for its individual components. Depending on the size of the bank's activities, while aiming at correlating it with the prudential banking limits and limitations and the risk profile chosen. The Risk Management Division together with the Treasury Division monitors daily compliance with the approved limits system and reports any non-compliance, monitoring the entire period until the reinstating within the approved work limits.

The regulated capital requirement is based on the standard approach and within the calculation methodology of the internal capital requirement, the Bank considers both the capital requirement regulated under CRR, as well as an underestimation of the results obtained based on this methodology, further calculating a potential loss from the market risk exposure using VaR model methodology with various levels of confidence (95%, 99%, 99.9%).

Foreign exchange risk

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Foreign exchange risk is the risk that the value of financial instruments to fluctuate due to exchange rate changes. Open foreign exchange positions are a source of foreign exchange risk.

In the Financial Stability Report issued in December 2018, the NBR considers that the impact of foreign exchange risk on the banking system is still low. Thus, the average level of the expected loss over the VaR level, at the level of the Romanian banking system, is around 0.15% of the own funds, calculated at the 99-th percentile, based on data available in June 2018.

During 2019, the banking system and Patria Bank may be exposed to the foreign currency risk caused by the oscillating evolution of the exchange rate, for which CFA Romania expects an exchange rate increase from 4.74 lei / eur on 05.02.2019 at a level of 4.75 lei / eur for the end of 2019., with a high volatility at the beginning of 2019.

The Bank has established a set of limits to manage foreign exchange risk and the positions are monitored daily to ensure that they are framing within the limits set for the end of each calendar month - a foreign exchange position of up to 2% of the value of the own funds for each currency and 4% aggregate foreign exchange position. The bank protects against swap fluctuations through swap and forward transactions. The main currencies in which the Bank performs operations are EUR and USD.

The interest rate risk outside the trading portfolio

The interest rate risk is the current or future risk of impairment of profits and equity as a result of adverse changes in interest rates.

The sensitivity of the sensitive assets and liabilities portfolio at the interest rate of the Romanian banking system is asymmetrical, an increase in interest rates having a lower impact than a reduction of them, a fact that is highlighted both in terms of total impact as well as of impact variation limit.

The Bank may be exposed to interest rate risk due to the Bank's balance sheet items, which derive from the volatility of interest rate evolution (ROBOR, EURIBOR and LIBOR) and the potential imbalance that may occur in volume and the residual maturity terms of the balance sheet items in lei and foreign currency that bear fixed or variable interest rates, which could have a significant negative effect on the Bank's activity, financial statements or operating results.

The Bank classified exposures to interest rate risk in exposures related to the trading portfolio and exposures outside it. Risks in the first category are managed and monitored using the Value-at-Risk (VaR) model described above. The risks in the second category are managed and monitored using other sensitivity analyses, using the standard methodology regulated by the provisions of the NBR Regulation no. 5/2013 on calculating the potential change in the Bank's economic value using a standard shock interest rate of +/- 200 bps on instruments exposed to interest rate risk and in shock changing interest rate crises simulations of +/-300 +/-500 bps. The Bank uses the values obtained from the simulations carried out in the calculation of the internal capital requirement.

As at 31.12.2018, the potential change in the economic value, calculated on the standard methodology provided by the NBR Regulation no. 5/2013 was the following:

Rates	Values (RON Thou.)
Own funds level	286,911
Economic value potential change, out of which split on reference currencies:	28,718
EUR	13,384
LEI	15,291
USD and other currencies	43
% of the own funds	10.01%

In the process of assessing and quantifying the exposure to interest rate risk, proceed as follows:

a) All non-trading portfolio assets and liabilities and all off-balance sheet items outside the trading portfolio that are sensitive to changes in interest rates - including all derivatives on the interest rate financial instruments- are matched on the maturity bands (0-1] month, (1-3] months, (3-6] months, (6-12] months, (1-2] years, (2-3] years, (3-4] years and (4-5] years, (5-7] years, (7-10] years, (10-15] years, (15-20] years and over 20 years. The maturity band framing is made separately for each currency in which more than 5% of assets or liabilities outside the trading portfolio are denominated.

b) The balance sheet items are treated at book value, net of the specific and general provisions recognized as such in the credit institution's financial statements in accordance with the applicable accounting framework.

c) Fixed interest rate instruments are allocated according to the residual period until maturity and instruments with the variable interest rate according to the residual period until the next revaluation date – repricing date.

d) Exposures that create practical processing problems due to the significant number and relatively small individual value, such as mortgage loans or loans repayable in installments, may be allocated on the basis of estimation methods with statistical support.

e) stable deposits - core deposits - are framed according to a presumed maturity of no more than 5 years.

Current accounts will be on the first repricing band and deposit accounts / deposit certificates will be on the band corresponding to the remaining period until their maturity.

f) derivative financial instruments are translated into positions on the relevant underlying instrument. Values taken into account are either the principal amount of the underlying financial instrument or that of its notional;

g) futures and forward contracts, including forward rate agreements -FRA, are treated as a combination of a long and a short position. The maturity of a futures or FRA is the period until the delivery or the performance of the contract plus the life span of the underlying financial instrument, if applicable;

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h) swaps are treated as two notional positions with relevant maturities. Thus, an interest rate swap, in which the bank receives a variable interest rate and pays a fixed interest rate, is treated as a long position on the variable interest rate and with a maturity equivalent to the period until the next interest rate fixing date and a short position on the fixed interest rate with maturity equivalent to the residual life of the swap. Separate segments of a cross currency swap are matched to the maturity bands relevant to the respective currencies;

i) options are taken into account according to the delta equivalent of the underlying financial instrument or that of its notional.

The Bank calculates on monthly basis the exposure to interest rate risk outside the trading portfolio as part of the Bank's risk profile.

Credit and counterparty risk

Credit risk is the risk of a negative impact on profits and capital as a result of non-fulfilment by the debtors of contractual obligations or their failure to meet contractual conditions. The main risks in lending activity, with a direct impact on the Bank's incomes and its capital, come from at least the following elements:

- the quality of the counterparty (including its creditworthiness) and the customer selection policy
- submission of false documents / information by the client during the analysis of the credit documentation
- non-compliance / breach by the counterparty of the contractual clauses / obligations
- changes / uncertainties of the legal framework with direct implications on the customer's income / source of repayment
- decreasing the demand on the profile market of the client / segment of activity, which leads to the decrease of the income of a category of clients
- the degree of concentration of exposure on certain categories / customer typologies
- the inadequate framework for monitoring and reporting of the risk elements that may arise over the life span of a credit / loan portfolio in order to solve the difficulties of the clients in a timely manner
- limitation / lack of adequate supervision of borrowing activities
- insolvency / bankruptcy due to poor client management
- loss of the quality of the employee / reduction of the income / illness / death for the retail clients
- macroeconomic crises with direct effect on clients' incomes and implicitly on their ability to repay the loan

To manage this risk, the Bank applies its own policy, the risk management being structured in stages of identification, assessment, control and reduction. In conclusion, each transaction is subject to special procedures by which the Bank attempts to secure the position created by the assumed exposure. Identification procedures mainly refer to the use of information sources to identify risk factors that have overwhelming influence on the quality of the exposure to be assumed.

The assessment procedures aim to determine the degree of risk for the underlying transaction. The risk assessment for each transaction under review is performed independently by the Credit Risk Assessment Division and materialized in the risk opinion.

In order to control the risk, the main measure is the limitation of individual exposures, both absolute and relative in relation to own funds, as well as the limitation of exposure on industries and geographical areas. Monitoring of these limits is ensured within the Risk Management Division. Also under the control procedures, the Bank carries out the subsequent procedures for monitoring the quality of the exposures, represented by the client's analysis, the revision of the value and the inspection of the guarantees, as well as the manner in which the client has fulfilled his contractual obligations. The Bank has defined a system of credit quality deterioration rates / warning signals, as well as restructuring procedures for problematic clients.

In the internal risk capital adequacy assessment, the Bank takes into account all risks to which it may be exposed towards the credit risk, including the counterparty risk:

- ✓ Entry under the incidence of the "*Darea in plata*" Law (debt discharge law) (the internal capital requirement is calculated for loans falling within the scope of Law No 77/2016);
- ✓ The concentration risk (scorecard model based on the application of the exposure risk assessment methodology to the risk profile of the Bank's risk profile and, depending on the score, a percentage of the capital requirement associated with the loan portfolio is calculated);
- ✓ The risk associated with the worsening of the loan portfolio (assessment of the worsening indicator of the quality of the financing portfolio's performance (loans migrated into non-performing loans, assigned and off balance sheet / financing portfolio loans) in the last 6 months and, depending on the achievement of a materiality threshold, a capital requirement over the credit portfolio is calculated based on the standard method;
- ✓ The risk associated with insufficient coverage with guarantees (the weighting coefficient for exposures classified in the category of "residential real estate mortgage-backed exposures" for the entire loan portfolio (legal persons and retail) is increased);
- ✓ The risk associated with restructured loans (a scorecard model based on the application of the exposure assessment methodology to the risk associated with restructured loans within the Bank's risk profile and, depending on the obtained score, a percentage of the capital requirement associated with the restructured loan portfolio is calculated);
- ✓ The residual risk (score card model based on the application of the risk exposure assessment methodology to the risk associated with the residual risk within the Bank's risk profile, and depending on the obtained score, a percentage of the capital requirement associated with the guaranteed loan portfolio is calculated);
- ✓ The risk of loss in the event of a default due to crisis conditions or the risk associated with foreign currency lending of the debtors exposed to foreign currency risk (scorecard model based on the application of the exposure assessment methodology to the risk generated by the foreign currency lending activity within the risk profile of the Bank and, depending on the obtained score, a percentage of the capital requirement associated with the loan portfolio in the currency is calculated).

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The Bank also carries out a macroeconomic simulation (aimed at 20% PD growth concurrently with a 10% decrease in collateral value), taking into account assumptions that could have an impact on the Bank's portfolio, thus constituting the internal capital requirement in the ICAAP process.

Regarding credit limits, the Bank uses a credit risk exposures limitation system, taking into account the following aspects: focusing on a limited group of debtors, focusing on geographic regions, focusing on sectors of activity of debtors, focusing on foreign currencies, focusing on guarantee type, focusing on customer type / segment, focusing on residual maturity of credit contracts, focusing on product type.

As far as the bank's collaterals policy is concerned, the general principle is that the loans granted by the Bank must be covered by guarantees, differentiated based on the quality of the counterparty. The main guarantees accepted by the Bank are mortgages on real estate, pledges on movable assets, pledges on assignment of receivables / securities / collateral deposits, guarantees issued by guarantee funds and comfort elements (pledges, promissory notes, pledge on claim receivables or comfort letters).

The goods are accepted as collateral at the accepted / adjusted value and must ensure a minimum guarantee coverage degree of the financing granted by the Bank, which differs depending on the type of guarantee / type of client / type of credit product granted by the bank.

In the calculation of IFRS 9 depreciation adjustments, the value of the collateral accepted is updated to Net Present Value (NPV).

The Bank has an appropriate regulatory framework for the credit area for identifying, evaluating, controlling, reporting and monitoring credit risk, which addresses:

- the existence and permanent maintenance of an appropriate framework for the identification, assessment and management of credit risk
- continuous improvement of procedures, processes and flows of analysis / approval / granting of financing in order to structure a solid and stable loan portfolio (the process of analyzing, approving and granting loans at the Bank's level is centralized)
- the existence and maintenance of an adequate process of credit administration, control and monitoring, including a credit risk limits system
- the use of an adequate protection in case of the financing granted by the bank depending on the client's credit risk (guarantees and insurances)
- the existence of a process and methodology for calculating provisions and adjustments for appropriate and comprehensive depreciation in case of Bank's financing.

The Bank manages credit risk by setting credit limits against counterparties corresponding to an acceptable level of risk. Risks are regularly monitored and subject to annual or more frequent revisions when deemed necessary.

Credit risk limits also cover settlement risk, as well as counterparty credit exposure at counterparty level.

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Measures for the determination of the exposure value

The Bank determines the exposure value for derivative instruments resulting from the counterparty credit risk, using the original exposure method, as described in art. 275 of CRR.

On 31.12.2018, the Bank recorded in the balance sheet the following exposure from derivative financial instruments: RON 10,591,360.

Risk credit value adjustments

The balance as at 31.12.2018 of the total exposure, broken down by type of clients - business segments of the Bank, was the following:

Reporting segment	Balance sheet exposure (RON thousand)
Consumer loans	233,566
Mortgage loans	169,382
Entrepreneurs loans	109,949
Corporates loans	1,170,875
Municipalities	51,182
Total	1,734,954

As at 31.12.2018, the focus on geographic regions was as follows:

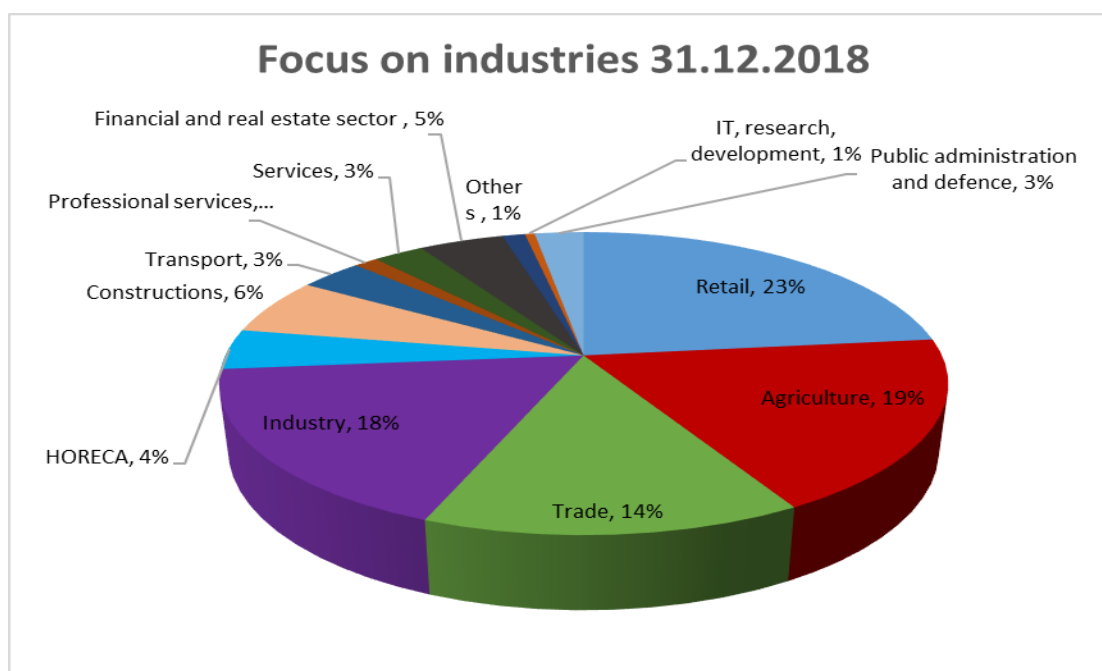
Region	% in total portfolio
CENTER	29.93%
WEST	13.84%
SOUTH	42.52%
EAST	13.71%

As of 31.12.2018, the total balance sheet exposure, depreciation adjustments for the Bank's customers, the distribution of outstanding clients and in default customers from the geographic concentration point of view is the following:

Region	Total exposure (RON thou)	Impairments (RON thou)
CENTER	519,284	61,834
WEST	240,040	12,237
SOUTH	737,712	91,987
EAST	237,918	25,877
TOTAL	1,734,954	191,935

As at 31.12.2018, the concentration by the activity sectors was as follows:

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As of December 31, 2018, the classification of current, overdue and depreciated loans, according to the category of clients was the following:

RON thousand	Consumer loans	Mortgage loans	Entrepreneurs loans	Corporate loans	Municipalities	Total
Current and not-impaired	201,784	118,693	90,072	831,185	51,182	1,292,916
<i>(-) Provisions for impairment</i>	<i>4,952</i>	<i>1,457</i>	<i>1,292</i>	<i>8,494</i>	<i>-</i>	<i>16,196</i>
<i>Current and not-impaired net total</i>	<i>196,832</i>	<i>117,236</i>	<i>88,780</i>	<i>822,691</i>	<i>51,182</i>	<i>1,276,720</i>
Overdue and not-impaired	21,060	26,653	12,227	74,436	-	134,376
<i>(-) Provisions for impairment</i>	<i>5,658</i>	<i>1,568</i>	<i>963</i>	<i>2,432</i>	<i>-</i>	<i>10,622</i>
<i>Overdue and not-impaired net total</i>	<i>15,402</i>	<i>25,085</i>	<i>11,264</i>	<i>72,003</i>	<i>-</i>	<i>123,754</i>
Impaired loans	10,722	24,036	7,650	265,254	-	307,662
<i>(-) Provisions for impairment</i>	<i>9,672</i>	<i>16,086</i>	<i>5,902</i>	<i>133,457</i>	<i>-</i>	<i>165,118</i>
<i>Impaired net total</i>	<i>1,049</i>	<i>7,950</i>	<i>1,748</i>	<i>131,797</i>	<i>-</i>	<i>142,544</i>
Gross total of loans and advances to customers	233,566	169,382	109,949	1,170,875	51,182	1,734,954
Total provizions for impairment	20,282	19,111	8,158	144,383	-	191,935
Net total of loans and advances to customers	213,284	150,271	101,791	1,026,492	51,182	1,543,019

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As at 31 December 2018, the distribution of the loans balances on maturities until the residual maturity was the following:

Reporting Segment	Up to 1 year residual maturity (%/amount)		1 - 5 years residual maturity (%/amount)		Over 5 years residual maturity (%/amount)	
	%	RON thou	%	RON thou	%	RON thou
Retail	5%	28,783	26%	171,688	41%	202,476
Corporate	95%	554,195	74%	480,457	59%	297,354
Total	100%	582,978	100%	652,146	100%	499,830

The table below shows the total exposure and impaired exposures as of 31.12.2018, as well as, broken down by performing/non-performing and counterparty types.

RON thousand

Bank	Gross carrying amount			Accumulated impairment, accumulated changes in fair value due to credit risk and provisions		
	Total	Performing	Nonperforming	Total	on performing exposures	on non-performing exposures
Debt securities	368,148	368,148	-	(33)	(33)	-
Loans and advances	2,196,157	1,868,957	327,199	(171,933)	(29,510)	(142,424)
Central Banks	352,732	352,732	-	-	-	-
Public Administrations	51,415	51,408	6	(6)	-	(6)
Credit institutions	39,642	39,642	-	-	-	-
Other financial companies	19,611	17,721	1,890	(1,067)	(257)	(810)
Nonfinancial companies	1,145,280	870,974	274,306	(124,518)	(13,711)	(110,807)
Households	587,476	536,480	50,996	(46,342)	(15,541)	(30,801)
Debt instruments, other than the ones held for trading	3,208,195	2,880,996	327,199	(172,009)	(29,585)	(142,424)
Debt instruments at amortised cost	2,564,304	2,237,105	327,199	(171,966)	(29,542)	(142,424)
Debt instruments at fair value other than HFT	643,891	643,891	0	(42)	(42)	-
Off balance sheet total exposures	313,999	313,844	155	2,596	2,593	3
Loan commitments given	300,171	300,016	155	2,529	2,526	3
Financial guarantees given	13,812	13,812	-	67	67	-
Other commitments given	16	16	-	-	-	-

(*) as per Individual Financial Statements FINREP

A credit is considered to be overdue from the first day of delay to pay the obligations assumed under the credit agreement (principal / interest / commissions related to the credit agreement).

An asset is considered impaired when it meets cumulatively the following conditions:

- ✓ There is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset;

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- ✓ If the loss event(s) has(have) an impact on future estimated treasury cash flows of the financial asset or group of financial assets that can be forecasted reliably. Losses expected as a result of future events, no matter how likely, are not recognized.

Affiliated parties transactions

The Bank shall not record, after taking into account the credit risk mitigation effect, an exposure to the affiliated parties group whose value exceeds 25% of the eligible capital.

If the group of affiliated parties includes one or more institutions, the exposure value to that group may not exceed either 25% of the eligible capital of the Bank or the equivalent of EUR 150 million, whichever is greater, provided that, in case of application of the absolute limit, the sum of the exposure amounts to all affiliated parties who are not institutions does not exceed 25% of the eligible capital of the Bank, after taking into account the credit risk mitigation effect.

If the equivalent of EUR 150 million is greater than 25% of the eligible capital of the Bank, the exposure value shall not exceed, after taking into account the credit risk mitigation effect, a limit of 100% of the eligible capital.

Usage of External Credit Assessment Institution (ECAI)

The bank uses the external ratings provided by an ECAI. Their definition and the date from which they are valid are published on the official websites of the three external credit assessment institutions (ECAIs) recognized by NBR to date (Moody's, Fitch, Standard & Poor's). Framing in rating is as shown in the table below:

Recognized External Credit Assessment Institutions (ECAI)		Standard and Poor's	Moody's	Fitch
Main market segments	Public financing	X	X	X
	Commercial entities (including commercial and financing companies)	X	X	X
	Structured financing (including securitisation)	X	X	X
Mapping of the credit quality level – Long term credit assessment	1	AAA to AA-	Aaa to Aa3	AAA la AA-
	2	A+ to A-	A1 to A3	A+ to A-
	3	BBB+ lto BBB-	Baa1 to Baa3	BBB+ to BBB-
	4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
	5	B+ to B-	B1 to B3	B+ to B-
	6	CCC+ and below	Caa1 and below	CCC+ and below
Mapping of the credit quality level – Short term credit assessment	1	A-1+, A-1	P-1	F1+, F1
	2	A-2	P-2	F2
	3	A-3	P-3	F3

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	4	All short term ratings below A-3	NP	under F3
	5			
	6			
Mapping of the specific credit quality level for long term positions coming from securitisation	1	AAA to AA-	Aaa to Aa3	AAA to AA-
	2	A+ to A-	A1 to A3	A+ to A-
	3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
	4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
	5	B+ and below	B1 and below	B+ and below
Mapping of the specific credit quality level for short term positions coming from securitisation	1	A-1+, A-1	P-1	F1+, F1
	2	A-2	P-2	F2
	3	A-3	P-3	F3
	All other credit assessments	All short term ratings below A-3	NP	below F3
Mapping of the specific credit quality level for CIU (Collective Investment Undertakings)	1	AAA la AA- (m or f)	Aaa to Aa3	AAA to AA-
	2	A+ la A- (m or f)	A1 to A3	A+ to A-
	3	BBB+ la BBB- (m or f)	Baa1 to Baa3	BBB+ to BBB-
	4	BB+ la BB- (m or f)	Ba1 to Ba3	BB+ to BB-
	5	B+ la B- (m or f)	B1 to B3	B+ to B-
	6	CCC+ and under (m or f)	Caa1 and under	CCC+ and under

Exposures to companies for which a credit assessment by an appointed ECAI is available shall be assigned a risk weight according to the table below:

Credit quality level	1	2	3	4	5	6
Risk weight	20%	50%	50%	100%	100%	150%

Exposures to companies for which a credit assessment by an appointed ECAI is not available shall be assigned a risk weight according to the credit quality level assigned to exposures to the central administration of the jurisdiction in which the institution is registered in accordance with the table below:

Credit quality level	1	2	3	4	5	6
Risk weight	20%	50%	100%	100%	100%	150%

Exposures to companies for which a credit assesment by an appointed ECAI is available shall be assigned a risk weight in accordance with below table:

Credit quality level	1	2	3	4	5	6
Risk weight	20%	50%	100%	100%	150%	150%

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As at 31.12.2018, the value of the exposures associated with each credit quality level is the following:

ECAI Level	Exposure value (RON)
1	-
2	11.183.282
3	1.404.182.139
4	13.215.428
5	84.071
Total	1.428.664.920

Liquidity and financing risk

Liquidity risk is the current or future risk of adverse impact on profits and capital due to the credit institution's inability to meet its obligations at maturity.

The main factors directly affecting the liquidity risk are the internal political instability / conflicts, the repeated changes in the legislative framework, as well as the budgetary policy, which may lead to a negative / distrustful perception by internal and external investors, which may cause withdrawals of liquidity in the Romanian banking system and implicitly can also affect the liquidity of Patria Bank.

Also, focusing on a single source of funding, as well as any imbalances / uncertainties at European or global macroeconomic level, failure to adapt to market fluctuations / changes may lead to liquidity crises for the bank, which may be affected by the lack of reaction / the ability to adapt to the new conditions, including the possible early liquidation of assets, to limit potential losses and to establish a significant basis for cash availability. If the internal or external macroeconomic conditions are tightening or changing, the Bank may face difficulties in accessing additional funding or may obtain this funding at higher costs, which could have a significant negative effect on activity, financial situation or operational results of the Bank.

The Bank monitors its liquidity risk through both GAP analysis - by comparing fund inflows and outflows on maturity bands of the assets, liabilities and off-balance sheet items depending on residual maturity - and by running liquidity crisis scenarios (regulated - such as the Liquidity Cover Ratio LCR rate or bank-specific assumptions, including severe market stress tests).

The Bank ensures that it holds a stock of liquid assets that can be used as collateral to finance liabilities with immediate exigibility or to cover unexpected / non-anticipated cash requirements.

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As a financing solution for emergencies, the Bank owns a portfolio of government securities classified as held to maturity (*held to maturity in accordance with IAS 39 or held to collect in accordance with IFRS 9*), free of any encumbrances, separated from current liquidity reserves and government bonds available for sale, portfolio for which it annually tests financing mechanism (through repo)

Strategies and processes in managing the liquidity risk

To manage the liquidity risk, the Bank has policies, regulations, procedures and systems to identify, measure, manage and monitor the liquidity risk for an appropriate time horizon, including for intra-day positions such as: Risk Management Strategy, Liquidity Risk Management Policy and the Liquidity Position Assessment and Monitoring Procedure, including the intra-day liquidity position.

The structure and organization of the liquidity risk management function (authority, status, and other measures)

The management, quantification, monitoring and control of liquidity risk is carried out at the following structures:

- ✓ The Risk Management Division - Risk Management Department other than Credit Risk - Identifies, evaluates, monitors and controls / diminishes events / activities that generate other risks than credit and assimilated risk that could adversely impact the Bank's objectives;
- ✓ the Risk Management Committee, the Board of Directors, the ALCO (Asset and Liability Management Committee) and the Board of Directors - through information provided by the Risk Management Division on the Bank's exposure to this risk;
- ✓ Treasury Division, Asset and Liability Department and Operations Division at operational level.

Scope of coverage and type of liquidity risk reporting and measurement systems

The liquidity risk is identified, evaluated, managed, and monitored differently according to the factors that determine it, in accordance with the Bank's Policy on Liquidity Risk Management. For identification, the Bank uses a set of analyzes of elements / situations/ events / developments / of the indicators (Early Warning System) that support the process of identifying the increase in risk or vulnerabilities in terms of liquidity position or potential funding needs. Also, in assessing liquidity risk, the Bank uses a series of indicators that provide relevant information about liquidity status.

The main tools for managing this risk are: setting limits and early warning levels, performing periodic stress tests, and maintaining a proper liquidity reserve at the Bank level.

Quantification and monitoring of liquidity risk is done using the following instruments or indicators, which are calculated on a daily, weekly and monthly basis: the liquidity gap model; the intra-day liquidity position model; the liquidity indicator determined in accordance with the national regulations of the NBR transposed at internal level; the immediate liquidity indicator; the Liquidity coverage ratio (LCR); other structure indicators such as credits / total

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assets, external sources / total assets, credits / sources, liquidity ratio (liquid assets /attracted deposits), deposits / credits, liquid assets/ gross assets etc.

The tracking of the approved internal limits is done (daily) within the Treasury Division and the Operations Division and independently at the level of the Risk Management Division. Daily monitoring is done by making calculations of existing data / indicators at the end of the previous day. Monthly monitoring is done by making calculations of existing data / indicators at the end of the previous month.

In the event of exceeding limits, the Risk Management Division communicates to the involved factors (the Treasury Division, the Operations Division) the non-compliance within the limits, and they inform about the causes that led to the non-compliance within the established limits, the measures taken to frame within the established limits and the deadline. Information on the activity within the established limits is made by the Risk Management Division to the Executive Committee (monthly) and to the Risk Management Committee and the Board of Directors (quarterly), with the status of the indicators / limit being presented.

Liquidity risk coverage and mitigation policies, as well as strategies and processes to monitor the continuity of hedging effectiveness and mitigation elements

Liquidity risk monitoring is done through the following instruments: liquidity risk exposure limits (including warning thresholds or warning levels); oversight of the high liquidity risk towards a single person (single creditor); a reporting system for liquidity risk generating events or indicators.

The measures taken by the Bank to reduce liquidity risk are:

- ✓ Ensure the existence of a stock of assets that can be used as financial guarantees
- ✓ Ensuring a liquidity reserve
- ✓ Ensure a good diversification of resources
- ✓ Running crisis scenarios
- ✓ Establishing the Liquidity Crisis Plan
- ✓ Concluding alternative financing agreements in the event of a liquidity crisis

The liquidity risk statement, which briefly describes the Bank's overall liquidity risk profile associated with the business strategy, including key indicators and key data, which provides external stakeholders with a comprehensive overview of how the Bank manages its risk including the manner in which the Bank's liquidity risk profile interacts with the risk tolerance set by the management body is presented in Annex 5. The Liquidity Coverage Ratio (LCR) is presented in Annex 6.

Operational risk

Operational risk is the risk of loss determined by the use of inadequate human processes, systems and resources, or that have failed to fulfil its function properly, or by external events and actions. The operational risk includes also:

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- Information technology (IT) risk - a sub-category of operational risk that refers to the current or future risk of negative profits and capital damage caused by inadequate IT strategy and policy, information technology and information processing, with reference to the management, integrity, controllability and continuity, or inappropriate use of information technology.
- Legal risk - risk of loss due to both the fines, penalties and sanctions that the credit institution is liable to in case of failure to apply or defective application of the legal or contractual provisions, as well as the fact that the credit institution's contractual rights and obligations and/or of its counterparty, are not properly established.
- Model risk - which is a possible loss that the Bank may record as a result of decisions that may be based mainly on the results of internal models due to errors in the development, implementation or use of these models.

The operational risk management process contains the following steps: the identification process, the evaluation process, the monitoring and reporting process, the control / mitigation and prevention process. The main causes that may determine the occurrence of operational risk are:

- Internal factors (inside the Bank): inadequate separation of staff attributions, insufficient staff training, inadequate internal control, inadequate security measures, improper systems design, inappropriate policies on human resources, lack of internal regulations / inappropriate regulations, internal regulations not adjusted to legislation in force.
- External Factors (outside the Bank): false documents or presentation of forged money, information theft / computer piracy, robbery / theft / vandalism and destruction of bank property, fire / floods / earthquakes / natural factors or events, terrorism.

In the operational risk management process, the Bank uses the following approaches:

Proactive approach:

Oversight of the risk factors → Identification and assessment of the operational risk → Quantification of the risks (potential effects and occurrence probabilities) → control/risk factors mitigation => *Oversight of the risk factors*

Reactive approach:

Consequences → Event ascertainment and operational risk rate monitoring → Causes research → Control/risk factors mitigation => *Consequences*

Risk identification should be made by analysing the potential operational risk that arises from the Bank's activities and the recording of emerging operational risk events.

Identifying operational risk consists of detecting operational risk events, classifying them, investigating the causes that determined them, the resulting consequences and determining the recorded losses.

The procedures involve the conduct of the potential operational risk assessment, the effective operational risk assessment, the operational risk assessment of the new products / services / outsourcing, the operational risk self-assessment.

The Bank's procedural framework contains procedures for monitoring and reporting of the operational risk. The procedures refer to the implementation and management of a system of limits, a system of rates with warning levels (monitoring the compliance within the approved internal limits and the warning levels associated with the rates is done monthly at centralized level by the Risk Management Division), as well as of a system of reporting and analysis of the operational risk generating events (loss-making and loss-free). Each reported event is subject to an analysis at the Risk Management Division, which looks at how the involved structures solve and take action. Where appropriate, the division may propose additional remedial measures or setting up of operational risk provisions.

The procedural framework at the Bank level develops the measures envisaged by the Bank for operational risk control. These are, but are not limited to, the following:

- measures to mitigate the consequences of the risk in case of operational risk events recorded;
- preventive measures, before the risk is produced;
- risk hedging measures by making operational risk provisions;
- external risk transfer measures by providing insurance for buildings, bank's cars, ATMs and / or complex insurance policies for banks.

Other measures to control / mitigate and prevent operational risk consist of: implementing the anti-fraud framework; using the profitability and revenue and expense budgeting system; the use of the control and operational risk self-assessment process in order to identify, assess the operational risk within the bank and develop actions plan to eliminate / mitigate operational losses/ risks.

The Bank cannot fully eliminate the effects of operational risk, but has control and limitation tools for this type of risk and monitors through a permanent process all events that generate operational risk, applying additional internal capital requirements depending on the incidence of such operational risk events, with a quarterly frequency.

In calculating the regulated capital requirement, the bank uses the BIA relevant rate approach, not using the regulated internal rating methodology and within the ICAAP the bank analyzes the establishment of an internal capital requirement.

To limit the effects of operational risk, the Bank also considers the conclusion of specific insurance policies.

Reputational risk

Reputational risk represents the current or future risk of adverse impact on profits and capital due to unfavourable perception of the Bank's image by customers, counterparties, shareholders, investors or the supervision authority.

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The Bank calculates monthly the reputational risk to which the bank is exposed, based on a measurement indicator framework for exposure to this risk and according to its level, quarterly proceeds to the allocation of additional internal capital within the ICAAP process.

The process of managing reputational risk includes the identification process, the evaluation process, the monitoring and reporting process, the control / mitigation and prevention process.

Identifying reputational risk involves the set of measures adopted to determine phenomena, factors and events that have a negative influence on the Bank's image, using specific rules, methods, procedures and tools.

The identification of exposure to risk occurs mainly through the analysis of reputational risk generating events. At the same time, for the new products and services offered by the Bank, in the event of significant changes in the features of existing products or services or outsourcing of activities, the Risk Management Division identifies and assesses factors that may contribute to increasing exposure to reputational risk.

In assessing reputational risk, the Bank should consider the following reputational risk generating factors (internal and external):

Internal factors:

- Lack of compliance or breach of the regulatory framework may lead to the application of contravention sanctions which, in the local and central press, may affect the reputation and perception of the Bank;
- Lack of effective communication between the Bank and its shareholders;
- Application by the regulator of sanctions or prohibitions to its shareholders;
- Providing inadequate or incorrect information to clients on how to use and operate the Bank's services;
- Inappropriate behavior of employees in the relationship with the Bank's clients;
- unawareness or insufficient knowledge of the product characteristics of the Bank within the product portfolio and of the internal and / or external regulations;
- Transmission by the Bank of erroneous / non-conforming information to the media, clients and various external bodies.

External factors:

- Negative advertising in mass-media, whether or not it conforms to reality, which can target, mainly:
 - Significant shareholders of the Bank;
 - Bank's business practice and/or related persons to them;
- Deliberate actions of an individual or interest group aimed at reducing the credibility of the Bank;
- Negative publicity of an institution / company in the Bank group that can be assimilated to it
- Serious damage to the Bank's security following internal or external attacks on the IT system

- Encountering problems by clients in using certain products / services, without having sufficient information about them and without knowing the procedures for remedying the problems;
- Misinterpretations by the public of certain information, thus affecting the perception of the Bank;
- Triggering processes in which the Bank may be involved in targeting highly-traded companies or publics or the occurrence of lawsuits involving employees of the Bank investigated for committing offenses;
- Potential crisis situations in which the Bank lost its image of a viable, credible and solvent partner capable of providing stability;
- Changes in the economic conditions, legislative changes or related to the competitive environment in the banking sector, technological progress.

The Bank's procedural framework contains monitoring and reporting procedures for the reputational risk and refer to the implementation and management of a system of reputational risk rates, to which are assigned levels of warning, a system of limits, a reporting system and analysis of reputational risk generating events (loss-making and loss-free).

The Bank's procedural framework develops the measures envisaged by the Bank to control / mitigate reputational risk. These are, without limitation, measures to mitigate the consequences of risk occurrence in the event of reputational risk-generating events, as well as preventive measures, before the risk is produced, as follows:

- The Bank, through specialized structures, develops customer education tools to use the new products and services provided, including knowledge of commissions / fees, to identify issues that may arise and how to address them.
- taking steps to attract the best partners, both in terms of customers and suppliers;
- ensuring optimal prices for products and / or services;
- recruitment and retaining the best employees.

The Bank has thus set out to ensure and maintain a positive perception of its image, of its recognition as a credit institution in line with its reputation and the values it promotes. To achieve these objectives, the bank proceeds to:

- ✓ promoting and enforcing corporate values, social responsibilities and appropriate business practices
- ✓ achieving a high degree of customer satisfaction with its products and services, staff behavior and working environment in territorial units
- ✓ fulfilling the obligations to clients and third parties at an adequate quality level, its products and services to be well defined and to meet the needs of the clients in order to allow the Bank to continuously improve its image in the market
- ✓ avoiding damage caused by image deterioration, by paying special attention to complaints and articles in the local and central press.

Strategic risk

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Strategic risk is the current or future risk of adverse impacted profits and capital damage caused by changes in business environment or unfavourable business decisions, inappropriate implementation of decisions or lack of responsiveness to business changes.

The strategic risk to which the Bank may be exposed may be caused by the following factors:

- forecasting of unrealistic or unconditioned working conditions and hypotheses in the changes of the competitive / business / legislative and economic environment in which the Bank operates;
- incorrect / inappropriate determination of the main strategic indicators;
- lack of balance between resources and placements;
- the non-correlation of indicators from the income and expenditure budget with those of other Bank planning documents.

In order to control the strategic risk, the Bank is constantly concerned with increasing the efficiency of planning and monitoring of market developments so that it can adapt to new developments properly and on time.

The management of the strategic risk includes the processes of identification, evaluation, monitoring and reporting, as well as strategic risk management.

The bank identifies strategic risk from four perspectives:

- ✓ Establishing unrealistic or uncorrelated strategic objectives with internal and / or external factors that may influence their realization (e.g. setting sales targets for loans uncorrelated with the forecast of market evolution, establishing a level of interest on deposits uncorellated with the needs of financing, establishing a level of administrative costs inappropriate to the size of the planned activity);
- ✓ existence of deviations from the achievement of the strategic objectives provided in the annual budget of revenues and expenditures as a result of the adoption of inadequate strategic decisions with the internal and external risk factors;
- ✓ deviations from the achievement of the strategic objectives provided in the annual budget of revenues and expenditures due to the inadequate implementation of strategic decisions;
- ✓ deviations from the achievement of the strategic objectives provided in the annual budget of revenues and expenditures as a result of the lack of reaction or a delayed reaction to changes in the business environment.

Strategic risk assessment is carried out using the following tools:

- ✓ Monthly analysis and presentation to the Bank's management of the degree of achievement of the budgetary projections set at the beginning of the financial year for the main groups of expenditures and incomes, as well as the main targets set by the Bank;
- ✓ Evaluation of the strategic risk profile, described in the risk assessment methodology of the Risk Management Strategy;

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- ✓ Strategic risk is determined to be always significant and the Bank calculates the internal capital requirement for strategic risk;
- ✓ Crisis simulation within the process of assessing the adequacy of internal capital to risks.

The Bank calculates within the internal risk assessment process, an internal capital requirement specific to the strategic risk degree recorded by the Bank.

Strategic risk monitoring is carried out through:

- ✓ monthly analysis of the strategic risk profile to ensure that its level is consistent with the strategic risk objectives outlined in the Risk Management Strategy;
- ✓ within the budgetary planning process through:
 - a monthly follow-up of Revenue and Expenditures Budget;
 - monitoring of the fulfillment of the objectives by the bank's branches / sales structures;
 - monitoring the market situation (the competitive changes in the banking market that may impair the implementation of strategic decisions of the bank);
 - an analysis of new products and services.

Strategic risk management is carried out qualitatively within the budgetary planning processes and in the implementation of the decision-making strategy in order to achieve the strategic objectives.

Compliance risk

According to the NBR Regulation no. 5/2013 on prudential requirements for credit institutions, which provides for compliance risk management obligations, provisions transposed into Patria Bank's internal regulatory framework (revised in 2018), it ensures the maintenance of an adequate risk control system compliance. Compliance risk represents the current or future risk of impairment of results and equity, which may result in fines, damages and / or termination of contracts or that may affect the Bank's reputation as a result of breaches or noncompliance with the legal and regulatory framework, with agreements, recommended practices or ethical standards.

It is the responsibility of the Managing Board of Patria Bank to ensure an adequate and effective framework for the compliance function, as well as the responsibility for the regular assessment of the effectiveness of compliance risk management. It actively promotes a culture of compliance risk within the organization as an essential and integral part of the Bank's business, establishing its employees and employees with high standards of professionalism and integrity.

The Bank continuously assesses the compliance risk and compliance with regulatory frameworks, recommended agreements, practices, or ethical standards, while setting a comprehensive internal regulatory framework that it continually reviews and adapts to changes in the legislative framework.

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The compliance risk, assessed monthly through a set of qualitative and quantitative rates, was determined to be of medium level, consistent with the risk appetite defined in the Risk Management Strategy.

Risk of excessive usage of leverage effect

The risk associated with the excessive usage of leverage effect is the risk resulting from the Bank's vulnerability towards a leverage effect or a contingent leverage effect that may require unplanned business plan corrections, including the sale of assets in an emergency, which could lead to losses or revaluations of the remaining assets.

This risk may arise as a result of the excessive use of the bank's assets against the level of own funds available to it.

The Bank is constantly concerned to assess this risk, which is basically quantified by calculating of the so-called leverage ratio, which is determined by dividing the capital measurement rate by the total exposure rate of the institution and it is expressed as a percentage. This rate is a calculation method complementary to the rates of the regulated own funds ratios, indicating a minimum capital level that the Bank has to hold compared to the Bank's total exposure, while the solvency ratios limit the assuming of excessive risks by the Bank.

9. Bank's capital adequacy and other prudential rates

Internal Capital Adequacy Assessment Process (ICAAP)

The internal assessment of the internal capital adequacy to risks is carried out on a quarterly basis and allows the Bank to permanently ensure an internal capital level covering the significant risks to which the Bank is exposed.

The current and projected level of ICAAP (quantified by the internal capital adequacy ratio) is a key element of the Bank's risk management strategy and must be properly implemented and taken into account.

The capital adequacy assessment process has the following structure:

- identifying the risks to which the Bank is or may be exposed;
- establishing methods (quantitative and / or qualitative) for assessing risks and establishing their materiality;
- capital adequacy: the relationship between own funds needs and own funds;
- regular reporting of the internal capital adequacy to the Board of Directors and the Management Committee;
- description of the internal capital planning process.

Capital requirements

To determine the credit risk capital requirements, Patria Bank SA applies the standard approach. Thus, according to the standard approach of CRR, in the table below are mentioned 8% of the risk-weighted exposure amounts for each exposure category referred to in Art. 112 of CRR:

<i>Exposure category</i>	<i>8% of the risk-weighted exposure value (RON)</i>	
	<i>Individual</i>	<i>Consolidated</i>
Central administrations or central banks	8,480,478	9,603,408
Local administrations or local authorities	1,864,389	1,864,389
Units or shares held in collective investments undertakings	293,814	293,814
Companies	13,596,156	12,786,669
Exposures guaranteed with real estate mortgage	11,529,623	11,533,106
Exposures in default	15,859,403	16,030,218
Equity securities	4,559,241	705,956
Exposures associated with a high level of risk	615,841	617,189
Institutions	1,021,164	1,065,744
Other elements	23,054,058	23,203,247
Retail	41,143,840	43,903,796
Multilateral development banks		

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<i>Exposure category</i>	<i>Individual</i>	<i>Consolidated</i>
International institutions		
Public sector entities		
Positions coming from securitization		
Exposures towards institutions and companies with a short term credit assesment		
Guaranteed bonds		
TOTAL	122,018,009	121,607,536

To determine the minimum capital requirements for operational risk, Patria Bank SA uses the basic approach. According to this approach, the minimum capital requirement as at 31.12.2018 is RON 24,492,058 (on individual basis) and respectively RON 26,696,156 (on consolidated basis).

The Bank does not calculate the countercyclical capital buffer established by art. 440 of the CRR.

RON thousand

31 December 2018

<i>Tier 1 capital</i>	267,114
Ordinary share capital	313,780
Share premium	2,050
Merger premium	(67,569)
Reserves	86,179
Retained earnings	(21,624)
Current year result	(267)
Intangible assets & Goodwill	(41,049)
IFRS9 Transitional approach filter allocation	5,375
Equities deductions	(9,134)
DTA deductions	(5,281)
Minority interests	-
Other prudential deductions	(656)
<i>Tier 2 capital</i>	21,956
Subordinated debt included in Tier 2 capital	23,151
(-) Subordinated loan	(1,195)
Total own funds	289,072
Exposure value to credit risk	1,525,225
Exposure value to market risk, currency risk	-
Exposure value to operational risk	306,151
Exposure value to credit valuation adjustment (CVA)	-
Total Risk Exposure	1,831,376
Total capital requirement	146,510
Capital Adequacy Ration	15,78%

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The leverage effect

In addition to the minimum capital requirements, CRR has introduced the leverage ratio as an instrument for limiting the risk of excessive indebtedness. The leverage effect is the excessive accumulation of exposures by banks in relation to their own funds. The leverage ratio can be considered a simplified solvency rate because it measures the volume of risk unweighted assets compared to Tier 1 own funds.

The leverage effect ratio is the relation between Tier 1 capital and the exposure related to the leverage effect, according to the Article 429 of the CRR. Basically, the exposure to leverage effect is the sum of unweighted on and off balance-sheet positions, taking into account the evaluation and risk adjustments as defined in the CRR.

The risk management process associated with the excessive usage of leverage effect

The Bank monitors the level and changes in the leverage effect ratio as well as the risk on leverage effect as part of the internal capital adequacy assessment process (ICAAP). Depending on the calculated level of the leverage effect ratio, the Bank calculates an internal capital requirement for that risk.

The leverage effect ratio, calculated for 31.12.2018, based on the Bank's own Tier 1 funds - the transitional approach (RON 267.114.154) was of 7.73% on individual basis and respectively of 7.65% (RON 267,669,437) on consolidated basis.

The breakdown of the total exposure rate for on and off balance-sheet elements and derivatives financial instruments:

Exposure item	Individual	Consolidated
	Value (RON)	
Derivative financial instruments: initial exposure method*	211,827	211,827
Off balance sheet items with a credit conversion factor of 10% as per art. 429 para. (10) of CRR (EU Reg. 575/2013)**	23,006,642	23,006,642
Off balance sheet items with a credit conversion factor of 20 % as per art. 429 para. (10) of CRR (EU Reg. 575/2013)**	6,810,981	6,810,981
Off balance sheet items with a credit conversion factor of 50 % as per art. 429 para. (10) of CRR(EU Reg. 575/2013)**	21,531,511	19,637,761
Off balance sheet items with a credit conversion factor of 100 % as per art. 429 para. (10) of CRR (UE Reg. 575/2013)**	5,852,829	9,339,079
Other assets***	3,398,656,960	3,438,356,146
Total exposure measurement indicator	3,456,070,750	3,497,362,436

*as per initial exposure method of EU Reg. 575/2013, represents 2% of the notional value of the exposure

**the amounts in column "value" are calculated after applying the credit conversion factors

***contains the sum of all asset balance sheet items, with the exception of the ones below and netted of all the value adjustments and including the IFRS9 transitional approach filter allocation

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Individual:

Asset items	Debit balance (before value adjustments)	Value adjustments	Net value adjustments	Out of which, the value not included in the total exposure calculation ratio	Reason for non inclusion
Equity shares held in subsidiaries	47,149,897	15,425,535	31,724,362	8,814,537	amount deducted from own funds
Equity shares held in associated entities	1,062,200	0	1,062,200	319,521	amount deducted from own funds
Intangible assets (including intangible assets in progress and goodwill)	77,892,765	36,843,707	41,049,058	41,049,058	amount deducted from own funds
Subordinated loans on term	1,195,040	0	1,195,040	1,195,040	amount deducted from own funds
Deferred profit tax	23,215,040	0	23,215,040	5,281,481	amount deducted from own funds

The value of the allocation of the the IFRS9 transitorial approach filter (=0.95*(filter value as per UE 2017/2395 Regulation – tax on profit)	5,374,950

Consolidated:

Assets items	Debit balance (before value adjustments)	Value adjustments	Net value adjustments	Out of which, the value not included in the total exposure calculation ratio	Reason for non inclusion
Intangible assets (including intangible assets in progress and goodwill)	80,719,203	37,942,951	42,776,252	42,776,252	amount deducted from own funds

The value of the allocation of the the IFRS9 transitorial approach filter (=0.95*(filter value as per UE 2017/2395 Regulation – tax on profit)	6,270,703

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Between 1 January 2018 and 31 December 2018, the value of the leverage effect was mainly influenced by the increase of the own funds.

The Bank considers that it has used "excessive" leverage when this leverage effect rate records a value below 5% at the end of a quarter. Because the Bank is lower than 5%, but above the 3% threshold, the Bank's exposure to this risk is considered to be "medium-high" at present.

Exposures from equity securities not included in the trading book

These are detailed in the Notes 19 and 26 of the Audited Financial Statements for year ended 2018

Exposures to securitization positions

The bank does not have securitization positions in the portfolio.

10. Social responsibility – nonfinancial statement

The non-financial statement drawn up by the Bank for 31.12.2018 in accordance with the Order of the NBR no. 27/2010 with subsequent changes and amendments (Order of the NBR no. 7/2016) is presented in Annex 8.

DRAGOS HORIA MANDA

CHAIRMAN OF THE BOARD OF DIRECTORS

ANNEXES

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**Statement of compliance with the principles
of the Corporate Governance Code of the Bucharest Stock Exchange on 31.12.2018**

Provision to comply with		Complies	Does not comply or complies partially	Explanations (for non-compliance)
A.1	All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A	x		
A.2	Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	x		
A.3	The Board of Directors or the Supervisory Board should have at least five members.	x		
A.4	The majority of the members of the Board of Directors should be non-executive. At least one member of the Board of Directors or Supervisory Board should be independent, in the case of Standard Tier companies. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors or Supervisory Board, as the case may be, should submit a declaration that he/she is		Complies partially	As at 31.12.2018, the Board of Directors is made of five non-executive members, out of which only one member is independent.

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	independent at the moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgement in practice and according to the following criteria:			
A.4.1.	Not to be the CEO/executive officer of the company or of a company controlled by it and not have been in such position for the previous five years;	x		As per the independent administrator statement.
A.4.2.	Not to be an employee of the company or of a company controlled by it and not have been in such position for the previous five (5) years;	x		As per the independent administrator statement.
A.4.3.	Not to receive and not have received additional remuneration or other advantages from the company or from a company controlled by it, apart from those corresponding to the quality of non-executive director;	x		As per the independent administrator statement.
A.4.4.	Is not or has not been an employee of, or has not or had not any contractual relationship, during the previous year, with a significant shareholder of the company, controlling more than 10% of voting rights or with a company controlled by it;	x		As per the independent administrator statement.
A.4.5.	Not to have and not have had during the previous year a business or professional relationship with the company or with a company controlled by it, either directly or as a customer, partner, shareholder, member of the Board/ Director, CEO/executive officer or employee of a company having such a relationship if, by its substantial character, this relationship could affect his/her objectivity;	x		As per the independent administrator statement.
A.4.6.	Not to be and not have been in the last three years the external or internal auditor or a partner or salaried associate of the current external financial or internal auditor of the company or a company controlled by it;		Partially complies	In the period 1997-2016 Mr. Vasile Iuga, independent administrator, was the partner of PwC Audit Romania, a company that was the financial auditor of the former Patria Bank SA between 2015 and 2017. According to the independent administrator's statement, Vasile Iuga was not

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				involved in the audit work carried out by this company for former Patria Bank SA.
A.4.7.	Not to be a CEO/executive officer in another company where another CEO/executive officer of the company is a non-executive director;	x		As per the independent administrator statement.
A.4.8.	Not to have been a non-executive director of the company for more than twelve years;	x		As per the independent administrator statement.
A.4.9	Not to have family ties with a person in the situations referred to at points A.4.1. and A.4.4.	x		As per the independent administrator statement.
A.5.	A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	x		Detailed in the administrator's annual report
A.6.	Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.	x		The Board of Directors did not receive such information from its members
A.7	The company should appoint a Board secretary responsible for supporting the work of the Board.	x		
A.8	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	x		Detailed in the administrator's annual report

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A. 9	The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	x		Detailed in the administrator's annual report
A. 10	The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors or of the Supervisory Board.	x		Detailed in the administrator's annual report
A.11	The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the nomination committee should be independent.		Does not comply	According to the art. Art. 24 - (1) of NBR Regulation no. 5/2013 "The credit institutions which are significant in terms of size, internal organization and nature, extent and complexity of their activities, should establish a nomination committee composed of members of the management body who do not exercise any executive function in the respective credit institution". In this context, given the size, the scale and the complexity of the Bank's activity, there isn't any nomination committee in its structure.
B.1	The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.		Complies partially	Most members, including the chairman, have adequate qualifications relevant to the functions and responsibilities of the committee. Two members of the audit committee have proven and appropriate audit or accounting experience. The chairman of the audit committee is a non-executive independent member.
B.2	The audit committee should be chaired by an independent non-executive member.	x		
B.3	Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.	x		

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B.4	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.	x		
B.5	The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	x		
B.6	The audit committee should evaluate the efficiency of the internal control system and risk management system.	x		
B. 7	The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.	x		
B. 8	Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards.	x		
B. 9	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	x		
B.10	The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.	x		
B. 11	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	x		

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B.12	To ensure the fulfilment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.	x		
C.1	The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. The remuneration policy should be formulated in such a way that allows stakeholders to understand the principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems. It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stock-linked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause. The remuneration report should present the implementation of the remuneration policy vis-à-vis the persons identified in the remuneration policy during the annual period under review. Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.	x		The Bank has a remuneration policy, approved and periodically reviewed by the Board of Directors. In the Board of Directors' report, the principles regarding the remuneration and the remuneration's level of the members of the Board of Directors and identified persons are included.
D. 1	The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:	x		

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D.1.1	Principal corporate regulations: the articles of association, general shareholders' meeting procedures;	x		
D.1.2	Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive and non-executive Board positions in companies and not-for-profit institutions;	x		
D.1.3	Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the present Code;	x		
D.1.4	Information related to general meetings of shareholders: the agenda and supporting materials; the procedure approved for the election of Board members; the rationale for the proposal of candidates for the election to the Board, together with their professional CVs; shareholders' questions related to the agenda and the company's answers, including the decisions taken;	x		
D.1.5	Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;	x		
D.1.6	The name and contact data of a person who should be able to provide knowledgeable information on request;	x		
D.1.7	Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.	x		
D.2	A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the	x		

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	distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website.			
D.3	A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.		Complies partially	The Bank has a strategic risk management policy as well as revenue and expense budget procedures, based on which the Bank's effective performance against the budget plan is reviewed periodically (at monthly frequency) in order to monitor and adjust its decisions properly and appropriate to the changes that have occurred. If the effective performance deviates from the estimated (or planned), the Bank adjusts the target or revises the decision in order to adapt to the changing environment or circumstances. These policies and procedures are not published on the company's website
D. 4	The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.	x		
D. 5	The external auditors should attend the shareholders' meetings when their reports are presented there.	x		
D.6	The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	x		The internal control system and the significant risks administration are detailed in the Annual Report of the Board of Directors
D.7	Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.		Does not comply	At the GSM are entitled to attend only the shareholders registered in the Shareholders Register at the reference date, the Bank's management body's members, the bank's employees involved in the meeting process organization and the consultants/external auditors invited by management.
D.8	The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other	x		

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	relevant financial rates, both on quarter-on-quarter and year-on-year terms.			
D.9	A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR section of the company website at the time of the meetings/ conference calls.		Complies partially	In 2018 Patria Bank SA organised a meeting with analysts and investors. The Bank will organize two such events during 2019, in accordance with the financial communication timetable, in the form of meetings and/or teleconferences.
D.10	If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.	x		The Bank has in place a general communication policy which includes aspects specific to the sustainability activity. In 2018 the Bank involved in actions in the fields of: artistic, cultural and social, detailed in the Sustainability Report available on the Bank's website. For 2019, the bank will have specific instructions regarding sand other non-financial aspects.

DRAGOS HORIA MANDA

CHAIRMAN OF THE BOARD OF DIRECTORS

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Annex 2

LIST OF AFFILIATES AS OF 31.12.2018

AGRI MERFEA SRL
ASOCIATIA MESAGERII SANATATII
ASPEN INSTITUTE ROMANIA
AXXESS CAPITAL PARTNERS
BANCA EUROPEANA DE INVESTITII
BARDASAN IOAN-DANIEL
BD SOFT NV
BUFTEA THEO-DORIAN
BUMBAC ALEXANDRU-NICUSOR
BVI
CARPATICA INVEST SA
CLOUD SECURITY ALLIANCE ROMANIA CHAPTER
CODIN NASTASE
COMITETUL OLIMPIC SI SPORTIV ROMAN
DIESEL ONE MANAGEMENT
DUMITRU MINERVA
DUMITRU TICA
EAD.RO INTERACTIVE SRL
EEAF FINANCIAL SERVICES BV
ELEFANT ONLINE SA (ROMANIA)
EMERGING EUROPE ACCESSION FUND COOPERATIEF U.A
EMERO INTERNATIONAL
ENDLESSPLAY SRL
EUROPAINT INTERNATIONAL GROUP BV
FDI PATRIA GLOBAL-SAI PATRIA ASSET MANAG SA
FDI PATRIA OBLIGATIUNI- SAI PATRIA ASSET MANAGEMENT
FDI PATRIA STOCK SAI PATRIA ASSET MANAG SA
FIRST CAPITAL CONSULTING
FRONTEX INTERNATIONAL EAD (BULGARIA)
FRONTEX INTERNATIONAL SERVICES EOOD (BULGARIA)
FRONTEX INTERNATIONAL B.V. (OLANDA)
GASOIL EXPLORATION & PRODUCTION SRL
GASOIL SERVICE SRL - INCIDENTA LEGII 85/2014
ILIESCU DANIELA-ELENA
ILIESCU V. DANIELA ELENA - AUDITOR FINANCIAR
IMOBILIAR INVEST SRL

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INTERCAPITAL INVEST SA
LAZAR CRISTINA
MANDA DRAGOS-HORIA
MERFEA BOGDAN
MERFEA BOGDAN PERSOANA FIZICA AUTORIZATA
MERFEA CONSTANTIN BOGDAN
MILTONIA SARL
MOARA CORBEANCA COMMERCIAL CENTER SRL
NICOAU CODRUT-SETEFAN PERSOANA FIZICA AUTORIZATA
NICOLAU CODRUT STEFAN
OLIF B.V.
PATRIA CREDIT IFN SA
PITULICE LUCICA CRISTINA
PRODEA CORALIA IUNIA
PRODEA RAZVAN VASILE
QUALLA HOLDING&FINANCE
ROM WASTE SOLUTIONS NETHERLANDS B.V. (OLANDA)
ROM WASTE SOLUTIONS SA
SAI GLOBINVEST SA
SAI PATRIA ASSET MANAGEMENT SA
SC. QUATRO CONSULTING SRL
SEACORN LLP MAREA BRITANIE
SOUTH - EASTERN EUROPE CAPITAL PARTENERS LLP MAREA BRITANIE
STANCIULESCU GEORGIANA MIHAELA
STAR ACCESSION B.V. (OLANDA)
STAR STORAGE SA
STEFAN GEORGETA GINA
SURDU NICOLAE
TEPELUS ELENA-COSMINA
VANCEA GRIGORE VALENTIN
VANCEA GRIGORE-VALENTIN PFA
VASILE IUGA
WEB TRADING OFFICE SRL

DRAGOS HORIA MANDA

CHAIRMAN OF THE BOARD OF DIRECTORS

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Annex 3

Statement on the adequacy of the risk management framework

In accordance with the requirements of the NBR Regulation no. 5/2013 on the prudential requirements for credit institutions, corroborated with the provisions of art. 435 lit. e) of the European Parliament and Council Regulation 575/2013 on prudential requirements for credit institutions and investment companies and with the Guide on the publication of the liquidity coverage indicator (LCR) - EBA / GL / 2017/1 - 21.06.2017

Through this statement, the Board of Directors of Patria Bank SA certifies that the existing risk management systems are in line with the Bank's risk strategy and risk profile.

The risk management framework is one of the basic components of the Bank's activity management framework, being adapted to the institution's structure activity, and the nature and complexity of the risks inherent in the business model. It ensures the sound and prudent management of the Bank's activity, including the separation of responsibilities within the organization, the prevention of conflicts of interest and, at the same time, the pursuit of the strategic risk objectives in order to be included in the Bank's target risk profile.

The implementation of the risk profile at the Bank's level is achieved by establishing the strategy for each significant risk and by implementing the related policies. The Bank has adopted significant risk management policies to ensure the implementation of the appropriate risk profile. The main objective of the risk management activity is to maintain an adequate capital level in relation to the risks assumed.

As of 31.12.2018, the individual risk profile of the Bank was as follows:

		Consolidated		Individual	
Individual profile	Weight	Rating	Mark	Rating	Mark
Credit Risk	0.35	1.86	0.65	1.84	0.64
Market Risk	0.05	1	0.05	1	0.05
Interest Rate Risk BB	0.15	2.33	0.35	2	0.3
Liquidity Risk	0.05	1	0.05	1	0.05
Operational Risk	0.15	2.7	0.41	2.7	0.41
Reputational Risk	0.1	3.72	0.37	3.72	0.37
Strategic Risk	0.1	2.2	0.22	2.2	0.22
Compliance Risk	0.05	3	0.15	3	0.15
TOTAL		2.25	Medium	2.19	Medium

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and the overall risk profile of the Bank was:

		Consolidated		Individual	
General profile	Weight	Rating	Mark	Rating	Mark
Individual profile	40%	2.25	0.90	2.19	0.88
Leverage effect	10%	1.00	0.10	1.00	0.10
Solvency level	30%	3.20	0.96	2.80	0.84
Profitability level	20%	3.20	0.64	3.20	0.64
TOTAL		2.60	Medium High	2.46	Medium

The Bank frames within the risk appetite and the risk profile degree, set at both individual and general level for the year 2018.

Regarding the developing of the ICAAP process, on 31.12.2018, the Bank reports the following key indicators: Internal capital in amount of K RON 286,911 at consolidated level, respectively K RON 289,085 at individual level.

Required internal capital K RON 180,914 at consolidated level, respectively K RON 179.931 at individual level, out of which:

- ✓ 76% at consolidated / individual level related to the credit risk and other associated risks (including concentration risk, FX lending, residual risk);
- ✓ 15% at consolidated level, respectively 14% at individual level related to the operational risk;
- ✓ 0% at consolidated/individual level related to the market risk;
- ✓ 3.2% at consolidated level, respectively 3.5% at individual level related to the interest rate risk outside the trading portfolio;
- ✓ 5.8% at consolidated level, respectively 6.5% at individual level related to other risk categories addressed in the internal capital adequacy to risks assessment process (ICAAP).

As the internal capital (M RON 287 at consolidated level, respectively M RON 289) is higher than the internal capital requirement (totaling M RON 181), as at December 31, 2018, Patria Bank S.A. had an adequate level of internal capital to hedge risks.

DRAGOS HORIA MANDA

CHAIRMAN OF THE BOARD OF DIRECTORS

Annex 4

Statement

I, the undersigned, Dragos Horia Manda, Chairman of the Board of Directors, as the legal representative of Patria Bank S.A., in accordance with the provisions of art. 30 of the Accounting Law no. 82/1991 republished and art. 1121 par. 1 c) of the Regulation no. 1/2006, with the subsequent modifications and completions, I assume the responsibility for the preparation of the annual and consolidated financial statements as at 31.12.2018 and certify that, to my knowledge:

- a) The accounting policies used to prepare the individual and consolidated annual financial statements as at 31.12.2018 are in accordance with the accounting regulations applicable to credit institutions, based on the NBR Order no. 27/2010 for approving the accounting regulations in compliance with the International Financial Reporting Standards adopted by the European Union;
- b) The financial statements as at 31.12.2018 present a fair view of the financial position, financial performance and other information regarding the activity of Patria Bank SA and its subsidiaries included in the consolidation of the financial statements;
- c) Patria Bank SA operates in terms of continuity;
- d) the Board of Directors' report on the aforementioned financial statements includes an accurate analysis of the evolution and performance of the Bank and the Group, as well as a description of the main risks and uncertainties specific to the business performed.

DRAGOS HORIA MANDA

CHAIRMAN OF THE BOARD OF DIRECTORS

Annex 5

Statement on the liquidity risk

In accordance with the requirements of the NBR Regulation no. 5/2013 on the prudential requirements for credit institutions, corroborated with the provisions of art. 435 of the European Parliament and Council Regulation 575/2013 on prudential requirements for credit institutions and investment companies and EBA / GL / 2017/1 - 21.06.2017 Guideline on the publication of the liquidity coverage ratio (LCR)

With this statement, the Board of Directors of Patria Bank SA certifies that the Bank has an adequate setting for the liquidity risk management framework in accordance with the Bank's risk profile and strategy. The bank manages its liquidity in a cautious manner, allowing sufficient access to liquidity at any time and also pursuing the diversification of financing sources so that the Bank is not exposed to excessive risk.

The Risk Management Strategy presents the indicators that determine the liquidity risk profile and the level of appetite for liquidity risk.

The Bank has proposed a low level of the risk liquidity appetite and throughout the year 2018 it has observed the established limits. Also throughout the year 2018, the Bank recorded an appropriate level of prudential ratios on the liquidity risk management line and has permanently observed within the optimal levels (above the regulated minimum limit) of these ratios.

As regards the determination of the Bank's liquidity risk profile, this is established according to the following ratios:

Liquidity Risk ratios	Low level (Score 1)	Medium level (Score 2)	Medium-high level (Score 3)	High level (Score 4)	Weight
Financing Risk ratio	<=1.5	(1.5-2.5]	(2.5-3.5]	>3.5	50%
Liquidity Risk ratio	<=1.5	(1.5-2.5]	(2.5-3.5]	>3.5	50%

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Financing Risk ratios

No.	Financing risk ratios	Low level (Score 1)	Medium level (Score 2)	Medium-high level (Score 3)	High level (Score 4)	Weight	Risk tolerance
1	Encumbered assets in total assets	<=1.5%	1.5%-2%	2%-2.5%	>2.5%	10%	<=1.5%
2	Financial institutions deposits in total deposits	<=15%	15%-20%	20-25%	>25%	10%	<=15%
3	Customer deposits in total debt	>=85%	80%-85%	75%-80%	<75%	20%	>=85%
4	Debt-to-Equity ratio	<10	[10-12]	[12-14]	>=14	20%	<10
5	Loan-to-Deposits ratio	<100%	[100%-120%]	[120%-140%]	>=140%	20%	<100%
6	The 10 biggest deponents in total funds attracted from non-bank customers	<=20%	(20-25%]	(25%-33%]	>33%	20%	<=20%

Liquidity Risk ratios

No.	Liquidity risk ratios	Low level (Score 1)	Medium level (Score 2)	Medium-high level (Score 3)	High level (Score 4)	Weight	Risk tolerance
1	LCR (Liquidity coverage ratio)	>=500%	[450%-500%]	[400%-450%]	<400%	25%	>=500
2	Quick liquidity ratio	>=35%	[30%-35%]	[25%-30%]	<25%	25%	>=35%
3	NBR liquidity ratio (the lowest value from all maturity ranges)	>=1.5	[1.25-1.5)	(1.25-1.10]	<1.10	25%	>=1.5
4	Liquid assets / Total attracted sources from customers	>=35%	[30%-35%]	[25%-30%]	<25%	25%	>=35%

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Risk profile ratios status as at la 31.12.2018

1. Financing risk ratios	Ratio calculation method	31.12.2018					
		Count (RON thou)	Denominator (RON thou)	Value	Score	Weight	Rating
Encumbered assets in total assets	Encumbered asset/ total assets	4.757	3.454.050	0,14%	1	10%	0,1
Financial institutions deposits in total deposits	Deposits attracted from financial institutions / Total debt	466	3,135,594	0,01%	1	10%	0,1
Customer deposits in total debt	Deposits attracted from other customers than financial institutions / Total debt	3.058.805	3,135,594	97,56%	1	20%	0,2
Debt-to-Equity ratio	Total debt / Total equity	3.135.414	317,874	9,84	1	20%	0,2
Loan-to-Deposits ratio	Total loans and advances / Total deposits	1.781.252	3,064,601	58%	1	20%	0,2
The 10 biggest deponents in total funds attracted from non-bank customers	Total balance of first 10 biggest deponents (non-bank customers) / Total debts from customers	210.255	3,135,414	7%	1	20%	0,2
Subcategory rating						1,0	Low

2. Liquidity risk ratio	Ratio calculation method	Count (RON thou)	Denominator (RON thou)	Value	Score	Weight	Rating
Liquidity Coverage Ratio LCR (2018)	Liquidity reserve / Net outflows of liquidity (as per EU regulations)	1.214.250	185.838	653%	1	25%	0,25
Quick liquidity ratio	Liquid assets total balance / Total attracted and borrowed sources	1.432.875	3.126.213	46%	1	25%	0,25
NBR liquidity ratio (the lowest level from all maturity ranges)	Effective liquidity / Required liquidity (as per NBR regulation no. 25)	1.564.535	527.922	2.96	1	25%	0,25
Liquid assets / Total attracted sources from customers	Total balance of liquid assets (as per quick liquidity ration definition/Total deposits attracted from customers)	1.432.875	3.064,601	47%	1	25%	0,25
Subcategory rating						1	Low

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	31.12.2018			
	Score	Weight	Rating	
Liquidity risk ratio				
Financial risk ratio	1,0	50%	0,5	
Liquidity risk ratio	1	50%	0,5	Target
Subcategory rating		1.00	Low	Low

DRAGOS HORIA MANDA

CHAIRMAN OF THE BOARD OF DIRECTORS

Annex 6

Liquidity Coverage Ratio

In accordance with the requirements of the NBR Regulation no. 5/2013 on the prudential requirements for credit institutions, corroborated with the provisions of art. 435 of the European Parliament and Council Regulation 575/2013 on prudential requirements for credit institutions and investment companies and EBA / GL / 2017/1 - 21.06.2017 Guideline on the publication of the liquidity coverage ratio (LCR)

With this statement, the Board of Directors of Patria Bank SA certifies that the Bank has the following liquidity coverage ratios:

Area of Consolidation (Consolidated)	Total Unweighted Value	Total Unweighted Value	Total Unweighted Value	Total Unweighted Value	Total Unweighted Value
Currency and Units (RON millions)	(Average)	(Average)	(Average)	(Average)	(Average)
Ending Trimester (dd/mm/yyyy)		31 March 2018	30 June 2018	30 September 2018	31 December 2018
Number of data points used in the calculation of averages		12	12	12	12
		TOTAL ADJUSTED VALUE	TOTAL ADJUSTED VALUE	TOTAL ADJUSTED VALUE	TOTAL ADJUSTED VALUE
21 LIQUIDITY RESERVE		1,326.81	1,181.11	1,142.85	1,214.25
22 TOTAL NET CASH INFLOWS		347.85	188.35	118.25	186.69
23 LIQUIDITY COVERAGE RATIO (%)		381%	627%	967%	650%
Area of Consolidation (Individual)	Total Unweighted Value	Total Unweighted Value	Total Unweighted Value	Total Unweighted Value	Total Unweighted Value
Currency and Units (RON millions)	(Average)	(Average)	(Average)	(Average)	(Average)
Ending Trimester (dd/mm/yyyy)		31 March 2019	30 June 2019	30 September 2019	31 December 2019
Number of data points used in the calculation of averages		12	12	12	12
		TOTAL ADJUSTED VALUE	TOTAL ADJUSTED VALUE	TOTAL ADJUSTED VALUE	TOTAL ADJUSTED VALUE
21 LIQUIDITY RESERVE		1,326.81	1,181.11	1,142.85	1,214.25
22 TOTAL NET CASH INFLOWS		347.85	188.99	123.22	185.84
23 LIQUIDITY COVERAGE RATIO (%)		381%	625%	927%	653%

DRAGOS HORIA MANDA

CHAIRMAN OF THE BOARD OF DIRECTORS

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Annex 7

Consolidation perimeter and own funds

Starting January 1, 2012, the Bank applies International Financial Reporting Standards (IFRS) as its accounting basis, in accordance with Order 27/2010 of the NBR, thus the analysis of the financial position below is based on the individual and consolidated financial statements in accordance with the Bank's IFRS for the period ended on 31 December 2018 and for the comparative periods.

The Patria Bank Group in Romania consists of all the entities included in the consolidation perimeter as presented in the consolidated financial statements. Due to the different applicable regulations, two categories of consolidated groups are distinguished:

- Consolidated group for the purpose of accounting - IFRS 10 "Consolidated Financial Statements"
- Consolidated group for the purpose of prudential regulations - Articles 18 and 19 of the CRR.

The main regulated features of own funds

Capital instruments

Common Equity Tier 1 (CET1) include Tier 1 capital instruments, following the progressive application of the rules that are provided in the CRR for the purpose of adapting to the new European Union regulations and deductions from CET1 after the application of exemptions under Article 48 CRR.

All the instruments included are eligible under Article 28 CRR. Changes in equity during the reporting period are available in the table "Equity changes report" in the consolidated financial statements.

Tier 1 capital

Tier 1 capital include CET1 plus additional Tier 1 (AT1), less deductions from additional Tier 1, mainly consisting of intangible assets and goodwill.

At end-of year 2018, the Group's Tier 1 capital amounted to RON 267,671 thousand (2017: RON 157,002 thousand) and the Bank's CET1 amounted to RON 267,116 thousand (2017: RON 152,155 thousand).

Tier 2 Capital

The Group's Tier 2 capital after deductions amounted to RON 23.151 thousand (2017: RON 19,766 thousand), mainly consisting of subordinated loans.

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The Bank's Tier 2 capital after deductions amounted to RON 21,956 thousand (2017: RON 15,316 thousand), mainly consisting of subordinated loans.

At the individual level, own funds also include the difference between prudential adjustments and IFRS depreciation adjustments for exposures based on the standard approach.

Starting with January 1, 2018, the Bank and the Group have fully used the Transitional Approach in the implementation of IFRS 9. This means that between this date and December 31, 2022, the Bank and the Group include in its Tier 1 Capital the entire amount (less the charge and adjustment with a variable factor of 0.95 for 2018) calculated in accordance with and permitted by EU Regulation 2017/2395. On December 31, 2018, the amount after tax and the 0.95 factor is of RON 5,374,950.

Consolidated group for accounting purposes

(i) Subsidiaries

Subsidiaries are entities under the control of the Group. The control exists when the Group has the power to manage, directly or indirectly, the financial and operating policies of an entity to obtain benefits from its operations. At the time of the control assessment, the potential or convertible voting rights that can be exercised at present also have to be taken into account. The Group consolidated the financial statements of its subsidiaries in accordance with IFRS 10 "Consolidated Financial Statements".

All of the bank's subsidiaries presented below, including the three investment funds managed by SAI Patria Asset Management SA (former SAI Carpatica Asset Management), were included in the accounting consolidation perimeter of the consolidated financial statements for 2018.

Subsidiaries excluded from the consolidation perimeter

Carpatica Invest SA (former SSIF Carpatica Invest SA) is a company that is currently under dissolution, being under the control of Patria Bank SA, by taking over the share held by the former Banca Comerciala Carpatica SA of 95.68% of the share capital and the voting rights. By decision A/394/16.05.2014, FSA decided to suspend, for a period of 90 days, the authorization for the operation of SSIF CARPATICA INVEST SA (granted by CNVM Decision 1826 / 16.06.2003), in order to remedy the financial situation and to attract new capital resources. On September 29, 2014, SSIF Carpatica Invest shareholders approved the dissolution of the company and the voluntary liquidation, as the company had been involved in a scandal involving unauthorized transactions by clients, investigated by DIICOT prosecutors. Subsequently, the BSE Board approved the request of SSIF Carpatica Invest SA to withdraw its status of Participant to the Regulated spot market and to the Regulated term market and its deletion from the Participants' Registry, on the Regulated spot market and the Regulated futures market sections. Currently, the liquidator of the company is Grup Insolv SPRL of Sibiu, 8 Justitiei Street.

Considering the dissolution decision and the insignificant impact of consolidation of Carpatica Invest SA, the Group took the decision to modify the consolidation perimeter in 2016, excluding Carpatica Invest SA, fully provisioning its net asset.

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(ii) Joint ventures

The group does not have joint ventures.

(iii) Associated entities

Associated entities are those entities in which the Group may exercise significant influence but not control over financial and operating policies.

The Bank owns a 20% stake in SAI Globinvest SA, which was not included in the consolidation due to the fact that the Bank does not have control over the financial and operational policies of this company.

Consolidated group for prudential regulations purposes

The basis for consolidation for the purpose of prudential regulation is CRR. Unlike the consolidated group for accounting purposes, only the companies specialized in banking activities and other financial activities should be considered in the prudential consolidation perimeter. This means that affiliated companies that do not carry out banking or other financial activities should not be included in the consolidated group for prudential purposes.

The consolidated group for the purpose of **prudential** regulations includes only **Patria Bank SA** and **subsidiary Patria Credit IFN SA**.

Global consolidation

Currently, the consolidated Group for the purposes of prudential regulations applies the **global consolidation** for

- Patria IFN SA
- Patria Investments SA (formerly SAI Patria Asset Management SA).
- SAI Patria Asset Management SA (former SAI Carpatica Asset Management) together with three investment funds managed (FDI Patria Stock, FDI Patria Global, FDI Patria Obligatiuni)
- Imobiliar Invest SRL

Proportional consolidation

Under Article 18 (2) and Article 18 (4) of CRR, competent authorities may grant permission to carry out proportional consolidation on a case-by-case basis.

Currently, the Group **does not apply proportional consolidation**.

Stake deducted from own funds items

As per art. 36 (1) f-i of the CRR, an institution's direct, indirect and synthetic holding of own instruments of CET1 should be deducted from CET1. The deduction value depends on the threshold calculated in accordance with art. 46 and 48 of CRR.

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Patria Bank S.A. deducts from own funds items the values resulted from the application of art. 46 and 48 of the CRR, the values of direct holdings in the following subsidiaries: Patria Credit IFN, SAI Patria Asset Management SA, SAI Globinvest SA and Patria Investments.

Neither consolidated nor deducted

Not applicable

Transfer of own funds

Currently, no significant practical or legal impediments, actual or potential, are being identified within the Group that impede the prompt transfer of own funds or the repayment of debts between the parent company and its subsidiaries.

With the exception of the capital distribution restriction regulations resulting from the CRR and applicable to all financial institutions in Romania, including those relating to the redemption of shares held by minority shareholders who have expressed their withdrawal rights as a result of the merger, the Patria Bank Group does not have any significant restrictions on its ability to access or use its assets and to settle the Group's debts. Also, interest holders not controlling the Group's subsidiaries have no protective rights that could significantly restrict the Group's ability to access or use the assets and settle the Group's debts.

Total capital deficit per total subsidiaries not included in consolidation

As at December 31, 2018, Patria Bank SA recorded a level of the total own funds rate of 15.78% over the OCR level of 12.81% (TSCR of 10.93% plus 1.875% capital conservation buffer).

As at December 31, 2018, the Patria Bank Group recorded at consolidated level a total own funds rate of 15.69% over the OCR level of 15.01% (TSCR of 11.13% plus 1.875% capital conservation buffer and 2% systemic risk buffer).

For the other companies within the Group there was no capital deficit recorded.

Reconciliation of own funds items (in accordance with the provisions of Article 436 of the CRR) published in the Consolidated and Separate Financial Statements as at 31.12.2018.

The Bank's own funds as at 31 December 2018 amounted to RON 289,072 thousand (2017: RON 167,471 thousand) and consisted of Common Equity Tier 1 (CET1) instruments and Tier 2 capital, classified according to CRR.

The main features and details of the capital instruments are presented below:

Annex I - Reconciliation of Own Funds items with audited financial statements					
	BANK		GROUP		
BALANCE SHEET ITEMS	Accounting value (FINREP)	Value included in Own Funds	Accounting value Financial Statements (accounting consolidation)	Accounting value FINREP (prudential consolidation)	Value included in Own Funds
Paid-in share capital	313,779,676.00	313,779,676	312,646,028	313,779,676	313,779,676.00
Share premiums	2,049,596.00	2,049,596	2,049,596	2,049,596	2,049,596.00
Reserve from the revaluation of tangible assets included in Common Equity Tier 1 (CET1)	52,028,518.00	52,028,518	53,826,531	52,028,518	52,028,518.00
Reserve related to the available financial assets for sale included in CET1	-2,389,615.00	-2,403,003	-2,389,615	-2,389,615	-2,403,002.00
Retained earnings	-21,624,302.00	-21,624,302	-30,587,876	-32,310,194	-32,310,194.00
Other reserves	-25,703,625.00	-25,703,625	-25,703,625	-25,703,625	-25,703,625.00
Profit or (-) loss related to the financial year Intangible assets deducted from CET1	-266,914.00	-266,914	-3,977,489	-2,610,037	-2,610,037.00
Intangible assets deducted from CET1	41,049,058.00	-41,049,058	-42,799,000	-42,776,252	-42,776,252.00
Items deductible from CET1		-14,415,539			0.00
Eligible deductions from Additional Tier 1 capital (AT1) that exceeds the institution's AT1		0			0.00
Value adjustments due to prudent valuation requirements		-656,145			-656,146.00
Total Common Equity Tier 1 (CET1)		5,374,950			6,270,703.00
Intangible assets deducted from Additional Tier 1 (AT1)		267,114,154			267,669,237.00
Provisions prudential filter (50%)	0.00	0		0	0.00
Eligible deductions exceeding the institution's Additional Tier 1 (AT1)		0			0.00
Total Additional Tier 1 capital (AT1) Total Tier 1 Equity		0			0.00
Total Tier 1 Equity		0			0.00
Tier 2 capital items:		267,114,154			267,669,237.00
Paid capital instruments and subordinated loans					
(-) Tier 2 capital instruments of entities from the financial sector where the institution d	23,150,925	23,150,925	23,150,925	23,150,925	23,150,925.00
Additional deductions and prudential filters	-1,195,040	-1,195,040	0	0	0.00
Excess of deductions from Tier 2 capital		0			0.00
Total Tier 2 capital		21,955,885			23,150,925.00
Total Own Funds		289,070,039			290,820,162.00

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Annex II - Capital instruments' main features	
Capital instruments main features template ⁽¹⁾	
1 Issuer	PATRIA BANK SA
2 Unique identifier (eg. CUSIP, ISIN or Bloomberg identifier for private placement)	ROBACRACNOR6
3 Governing law(s) of the instrument	Law no. 24/2017
Regulatory treatment	
4 Transitional CRR rules	Common Equity Tier 1
5 Post-transitional CRR rules	Common Equity Tier 1
6 Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo
7 Instrument type (types to be specified by each jurisdiction)	Common Equity Tier 1 Reg. EU 575/2013, art. 26 and 28
8 Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	313.78 million lei
9 Nominal amount of instrument	0.1000
9a Issue price	0.1000
9b Redemption price	according to the capital market legislation
10 Accounting classification	Shareholders' equity
11 Original date of issuance	15.07.1999
12 Perpetual or dated	Perpetual
13 Original maturity date	no maturity
14 Issuer call subject to prior supervisory approval	no
15 Optional call date, contingent call dates and redemption amount	N/A
16 Subsequent call dates, if applicable	N/A
Coupons/dividends	
17 Fixed or floating dividend/coupon	floating
18 Coupon rate and any related index	N/A
19 Existence of a dividend stopper	no
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	fully discretionary
20b Fully discretionary, partially discretionary or mandatory (in terms of timing)	fully discretionary
21 Existence of step up or other incentive to redeem	no
22 Noncumulative or cumulative	noncumulative
23 Convertible or non-convertible	Nonconvertible
24 If convertible, conversion trigger(s)	N/A
25 If convertible, fully or partially	N/A
26 If convertible, conversion rate	N/A
27 If convertible, mandatory or optional conversion	N/A
28 If convertible, specify instrument type convertible info	N/A
29 If convertible, specify issuer of instrument it converts into	N/A
30 Write-down features	yes, according to the Law no. 31/1990
31 If write-down, write-down trigger(s)	covering losses or refunds to shareholders
32 If write-down, full or partial	Fully or partially
33 If write-down, permanent or temporary	permanent
34 If temporary write-down, description of write-up mechanism	N/A
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	subordination specific for shares, according to the legislation
36 Non-compliant transitioned features	no
37 If yes, specify non-compliant features	N/A
⁽¹⁾ Insert "N/A" if the question is not applicable	

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Annex VI - Transitional own funds disclosure template				
Common equity Tier 1 capital: instruments and reserves		(A)		(B)
		Amount at disclosure date		Regulation (EU) No 575/2013 Article
		GROUP	BANK	
1	Capital instruments and the related share premium accounts	315,829,272.00	315,829,272.00	Art. 26 (1), art. 27, 28, 29, ABE list from art
	of which: instrument type 1	313,779,676.00	313,779,676.00	List ABE from art 26 (3)
	of which: instrument type 2	2,049,596.00	2,049,596.00	List ABE from art 26 (3)
	of which: instrument type 3	0.00	0.00	List ABE from art 26 (3)
2	Retained earnings	-32,310,194.00	-21,624,302.00	Art 26 (1) letter (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	12,046,709.00	12,046,708.00	Art 26 (1)
3a	Funds for general banking risk	11,875,182.00	11,875,182.00	Art 26 (1) letter (f)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	307,440,969.00	318,126,860.00	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
8	Intangible assets (net of related tax liability) (negative amount)	-42,776,252.00	-41,049,058.00	Art 36 (1) letter (b), art 37, art 472 (4)
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.00	-9,134,058.00	Art 36 (1) letter (i), art 43, 45, 47, art 48 (1) letter (b), art 49 (1) - (3), art 79, 470, art 472 (11)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	0.00	-5,281,481.00	Art 36 (1) letter (c), art 38, art 48 (1) letter (a), art 470, art 472 (5)
25	Losses for the current financial year (negative amount)	-2,610,037.00	-266,914.00	Art 36 (1) letter (a), art 472 (3)
	Value adjustments due to the prudential evaluation requirements	-656,146.00	-656,145.00	
	Other transitional adjustments related to CET1	6,270,703.00	5,374,950.00	
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	-39,771,732.00	-51,012,706.00	
29	Common Equity Tier 1 (CET1) capital	267,669,237.00	267,114,154.00	
Additional Tier 1 (AT1) capital: regulatory adjustments				
45	Tier 1 capital (T1 = CET1 + AT1)	267,669,237.00	267,114,154.00	
Tier 2 (T2) capital: regulatory adjustments				
52	Direct or indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	23,150,925.00	23,150,925.00	Art 63 letter (b) pct (i), art 66 letter (a), art 67, art 477 (2)
55	Direct or indirect holdings by an institution of own T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0.00	-1,195,040.00	Art 66 letter (d), art 69, 79, art 477 (4)
57	Total regulatory adjustments to Tier 2 (T2) capital	23,150,925.00	21,955,885.00	
58	Tier 2 (T2) capital	23,150,925.00	21,955,885.00	
59	Total capital (TC = T1 + T2)	290,820,162.00	289,070,039.00	
59 a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) no. 575/2013 (i.e. CRR residual amounts)	63,598,284.00	99,368,147.00	
	1. receivables related to deferred tax based on future profitability, excluding related tax obligations	58,870,498.00	44,833,898.00	
	2. common equity Tier 1 instruments, including own common Tier 1 instruments which an institution has a real or contingent obligation to acquire under an existing contractual obligation	0.00	0.00	
	3. common equity Tier 1 instruments of the entities in the financial sector where the institution does not have a significant investment in those entities	1,457,361.00	1,457,361.00	
	4. common equity Tier 1 instruments of the entities in the financial sector in which the institution has a significant investment in those entities	3,270,425.00	53,076,888.00	
60	Total risk weighted assets	1,853,796,149.00	1,831,375,840.00	
Capital ratios and buffers				
61	Common equity Tier 1 capital (as percentage of the risk exposure value)	14.44%	14.59%	
62	Additional Tier 1 capital (as percentage of the risk exposure value)	14.44%	14.59%	
63	Total own funds (as percentage of the total risk exposure value)	15.69%	15.78%	
64	Institution-specific buffer requirement (CET1 requirement 1 under Art 92 (1) (a) plus the capital conservation buffer and the countercyclical buffer requirement plus the systemic importance institutions' buffer (G-SII or O-SII), expressed as% of the risk	3.88%	1.88%	
65	out of which: capital conservation buffer requirement	1.88%	1.88%	
66	out of which: countercyclical buffer requirement			
67	out of which: systemic risk buffer requirement	2.00%	0.00	
Capital ratios and buffers				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	1,484,643.60	1,484,644.00	Art 36 (1) letter (h), art 45, 46, art 472 (10) art 56 letter (c), art 59, 60, art 475 (4) art 66 letter (c), art 69, 70, art 477 (4)
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	1,964,328.40	30,364,813.00	Art 36 (1) letter (i), art 45, 48, 470, art 472 (11)
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	26,139,853.40	27,615,474.00	Art 36 (1) letter (c), art 38, 48, 470, art 472 (5)

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Annex 8

Non-financial statement

In accordance with the requirements of the NBR Order no. 27/2010 with subsequent changes and amendments and of NBR Order no. 7/2016, which transpose the provisions of Directive 2014/95/EU, the large enterprises that are entities of public interest and which, at the balance sheet date, exceed the criterion of having an average of 500 employees during the financial year, include in their Board of Directors report a non-financial statement containing, to the extent that they are necessary to understand the development, performance and position of the enterprise and the impact of its activity, information on at least environmental, social and personnel aspects, respect for human rights and the fight against corruption and bribery, including:

- a. a brief description of the business model of the enterprise;
- b. a description of the policies adopted by the enterprise in relation to these aspects, including the necessary diligence procedures applied;
- c. the results of those policies;
- d. the main risks associated with these issues;
- e. key non-financial performance indicators relevant to the specific activity of the enterprise.

In this context, the Bank has prepared the first Sustainability Report of the Patria Bank Group for 2017, available on the Bank's official website www.patriabank.ro.

DRAGOS HORIA MANDA

CHAIRMAN OF THE BOARD OF DIRECTORS



Sustainability Report

Together for a sustainable Patria Bank!

2018

SUSTAINABILITY REPORT 2018

Together for a responsible future!

Statement of the General Manager

Dear friends,

I am pleased to present again Patria Bank's Second Corporate Social Responsibility Report.

We continue to report on the sustainability of the Patria Group under the same slogan "Together for a Sustainable Homeland" and we include in the pages of this report the most important financial and non-fiscal results of the group.

This report has the same structure as the previous year, so you will find a series of general information about the bank, as well as details on economic performance, anti-corruption measures, diversity of workforce and equal opportunities, anti-competitive behavior, data protection personal development and professional development for employees, actions in local communities, aspects of financial inclusion, innovation and technology, and financial security of the client. We have practically followed the same reporting pillars as last year, and we have the same themes that outline the sustainability criteria of a sustainable bank.

For us, 2018 was a very important one, as the results brought us to a break-even point, amid the intensification of commercial activity (especially credit growth), optimization in the area of unproductive fixed assets and intensification recovery of non-performing loans. The profit recorded in the last two quarters of the year determined the loss coverage in the first half of the year, so that at the end of 2018 Patria Bank achieved profit.

In 2018, we continued to engage in projects that support the development of local communities and entrepreneurship. Together with the projects supported by the bank, the involvement of employees in volunteer projects has grown. It is the method by which we show that we care and keep involved for a better world. Each of the employees who have chosen to be part of the # Good Factories are promoters of an organizational culture based on respect, engagement and sustainable development.

Despite the unpredictable context and challenges ahead of us in 2019, it is important to joyfully mark the results achieved in 2018, thanks to all those involved, colleagues and partners for their contribution.

Bogdan Merfea

CEO Patria Bank

Introduction

In all the aspects of our activities in the Patria Bank Group, we promote and support a sustainable, responsible and transparent behaviour, according with our brand and the values that define us. We continuously and constantly seek to achieve a high level of satisfaction of all actors and we take into account the market in which we operate, based on the **4C Principle – Company, Customers, Community, Context**, as follows:

- **Company. We include here the management, shareholders, bank strategy and institutional partners.** A solid and sustainable development and growth are the Bank's priorities, which is why the way the management team is involved in all 4Cs, the transparent information we provide to our shareholders and the responsibility with which we cooperate with our institutional partners and public authorities are very important to us. The bank management is constantly focused on monitoring closely the activity, performance and results of the company.
- **Customers. We include here our customers and partners.** Whether we are talking about the bank customers (individuals and legal entities) or about its commercial partners, the Bank is constantly striving to develop optimum collaboration relations and to provide high quality services. To this end, we implement training programs on a regular basis, we invest in technology and financial solutions to simplify the way we interact, we promote ethical and responsible behaviour among our employees and we select our commercial partners responsibly.
- **Community.** We want to be close to the community in which we operate because we are aware of the importance of its development, which can create benefits for the local economy and implicitly for the Bank. We are focused on, and we get involved in educational, cultural and sports projects and we believe that Romania will be able to develop and grow if we are all focused on education and personal and professional development, we respect our past and the Romanian cultural values and we have an active and dynamic life. Supporter of performance in every field of activity, our Bank seeks to leave its mark on the communities in which it operates through financial support or simply through employee and partner involvement in projects that can create added value and help the community in a practical way. We develop projects in every type of community and we give special attention to rural areas and small towns, small communities that we want to not only provide with financial products, but also to help them grow.

In terms of internal community (the Patria Bank employees), our human resource philosophy is an integral part of the management philosophy. It expresses our openness to diversity and innovation, as well as the emphasis we put on training and the professional development needs of our employees. This philosophy is embedded in our organizational culture and reflected in the management team's attitude towards identifying and meeting employees' training needs.

- **Context in which we operate. We include here our attention to the environment and the market in which we operate.** We respect the environment and we seek in everything we do to minimize our impact on it by complying with applicable rules and moreover by building employees' awareness about the responsible use of resources. Regarding the market in which we operate, we develop an open collaboration relationship, based on ethical principles and professional deontology. We are aware that a good collaboration among all those who operate on the financial banking market (besides the fact that we are competitors) leads to market development and better services for customers. In this respect we are actively involved in banking associations and banking industry projects.

This report covers the Bank's financial and non-financial performance in all the 4C points that guide our activity.

I. COMPANY

- *General information*
- *Economic performance*
- *Anti-corruption measures*
- *Anti-competitive behavior*

II. INTERNAL MATERIALITY ANALYSIS. ESTABLISH PRIORITY TOPICS

III. CUSTOMERS. External Customers and Partners

- *Personal data protection*
- *Financial inclusion*
- *Innovation and technology*
- *Customers' financial security*

IV. COMMUNITY

- *Local communities*
- *Community involvement strategy*
- *Internal community – workforce; diversity and equal chances; employee personal development*

V. CONTEXT

- *Evaluation of funding applications based on criteria of compliance with environmental standards*
- *The environment and the market in which we operate*
- *Compliance with environmental protection standards, laws and regulations*
- *Materials utilized in operations*

CHAPTER I. Company

I.1. About Us

Patria Bank S.A. is the result of the merger by absorption between the former “Banca Comercială Carpatica S.A.”, as an acquiring firm, and the former Patria Bank S.A., as an acquired firm. This process was implemented on May 1, 2017. Once the merger was implemented, the absorbing company, “Banca Comercială Carpatica S.A.” changed its name to “Patria Bank S.A.”.

The former “Banca Comercială Carpatica S.A.” (the acquiring bank) was established in 1999 in Sibiu and it was authorized as a credit institution to develop banking activities in Romania in compliance with the Government Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy. It was listed in the Premium Category of the Bucharest Stock Exchange.

The former Patria Bank SA (acquired bank) was established in 1993 in Târgu Mureș under the name of Romexterra Credit and Development Bank. In September 2006 MKB Bank Zrt. Hungary (subsidiary of Bayerische Landesbank) bought the majority stake of 55.36% of the share capital and from 2007 to 2014 MKB Bank Zrt. increased its shareholding so that on April 29, 2014, it had 98.41% of the share capital of Romexterra Credit and Development Bank. The bank was initially renamed MKB Romexterra and then Nextebank S.A. On April 30, 2014 EEA Financial Services B.V. became the new majority shareholder of Nextebank S.A. after acquiring the majority stake of MKB Bank Zrt. and in 2016 it changed the name of the bank from Nextebank SA to Patria Bank S.A. Also in 2016 the former Patria Bank S.A bought a majority stake of 64.16% of the share capital of the former “Banca Comercială Carpatica SA” and as a result of the merger with the latter, the former Patria Bank SA dissolved without liquidation.

As a result of the merger between the two banks, on December 31, 2017, 76.2058% of Patria Bank SA was held by the EEA Financial Services BV (“EEA”) private equity fund, a limited liability company registered under Dutch law, with its registered office at 200 Prins Bernhardplein 200, 1097 JB in Amsterdam, The Netherlands. 100% of the EEA Financial Services BV stock is held by the EMERGING EUROPE ACCESSION FUND COOPERATIEF U.A. equity fund, a cooperative with excluded liability, set up in accordance with the legislation in The Netherlands, with its registered office at 200 Prins Bernhardplein, 1097 JB in Amsterdam, The Netherlands. EEA is the third private equity fund whose investment consultant is Axxess Capital Partners and it has among its main investors major reputed international financial institutions (the European Bank for Reconstruction and Development EBRD, European Investment Fund - EIF, Black Sea Trade and Development Bank BSTD and DEG).

Patria Bank SA operates solely in Romania. The Bank registered office is in Bucharest, at 31 Brezoianu Ion, actor, St., Floors 1, 2 and attic, sector 1 and the physical office is located in Bucharest at 42 Pipera Road, Floors 7, 8 and 10, sector 2.

I.2. What Defines Us, What Types of Products We Provide, Where We Have a Presence and Who We Target

Patria Bank SA (hereinafter referred to as “the Bank”, “the merged Bank” or “PBK”) is a joint stock company, being managed under unitary system, authorized as a credit institution for carrying out banking

activities on Romanian territory, according to Emergency Ordinance of Government (EOG) no. 99/2006 on credit institutions and capital adequacy.

The Bank's real office is located on 42 Pipera Road, Globalworth Plaza, 7th, 8th and 10th floors, Sector 2, Bucharest, and the Bank's social headquarters is located on 31, Ion Brezoianu Street, 1st floor, 2 and attic, Sector 1, Bucharest.

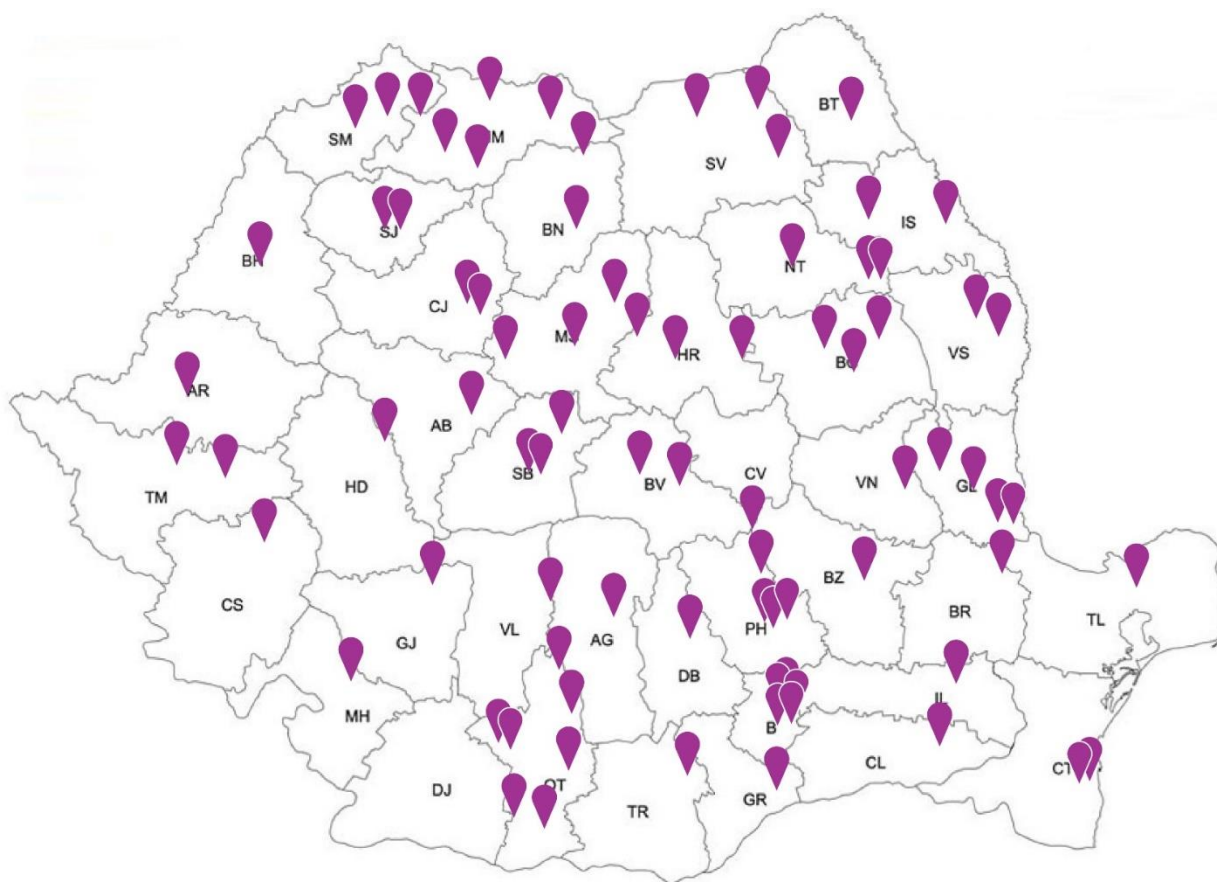
The Bank performs banking operations and other financial services with individuals and legal entities, having a market share based on assets below 1%. These include: opening of accounts and deposits, internal and external payments, foreign exchange operations, financing for current activity, medium-term financing, issuing letters of guarantee, letters of credit.

I.3. Our Products

The Bank's business focuses on the retail segment, integrating technology to streamline customer access to performing financial services and continues to be a solid and trustworthy partner for small and medium-sized Romanian companies, contributing to the development of local entrepreneurship. The new commercial strategy of the Bank aims at the development of retail by expanding lending to new environments, consolidating and differentiating through the microfinance, SME and Agro segments and maintaining a solid and trustworthy relationship with depositors, the key objectives being financial performance and profitability in the years to come.

I.4. Where We Have a Presence and Who We Target

Patria Bank SA operates exclusively in Romania. The Bank registered office is located in Bucharest at 31, Ion Brezoianu actor Str., floors 1, 2 and attic, sector 1 and the physical office is located in Bucharest at 42 Pipera Road, Floors 7, 8 and 10, sector 2. We also have two operational centers in Sibiu and Târgu Mureş and a network of 81 branches in 67 cities and towns in Romania.



The main market for the Bank products and services is the Romanian banking market. Except for lending products, which we provide to customers both through our own distribution network and through alternative channels such as brokers, partnerships and direct sales agents, all the other financial products are provided through the Bank's own distribution network

Thus, the Bank addresses the following customer segments:

a) Retail segment

- The bank serves the retail segment, taking into account the active base of clients but also by attracting new clients.
- Focus on low-income clients segment, outsourced model for sale and servicing of the rural population.

b) Micro segment

- In this segment small enterprises and microenterprises as well as individual entrepreneurs are included - represented by authorized natural persons (PFA), family enterprises (IF), individual enterprises (II).
- This business segment has been preserved and developed in 2018, confirming very good and consistent results over the last 8 years (2010-2018), in terms of excellent profitability and low credit risk in relation to a portfolio of loans and which recorded a good and constant level of non-

performing loans, in the context of a performance of the portfolio higher than the average market level on this segment.

- This type of customer segment, as well as the dedicated sales force, along with the developed credit technology, represent a key segment for the Bank.

c) *Agro segment*

- It addresses farms with medium and large areas or mixed farms. This line of business provides secured loans for financing agricultural activities, for the purchase of agricultural land and equipment, including funding for the implementation of projects from European funds.
- This type of customer segment continued to be present in the Bank's products offer with rapid flows that can easily target such clients in the locations with the traditional presence of the bank and also in areas where the market penetration is desirable in an active way.

d) *SME and Corporate segment*

- The Bank has focused on the significant development of the SME and Corporate customer base. This type of customers segment had in view the active base of small, medium and large-sized enterprises, as well as the attraction of new customers, who have been offered new, flexible and innovative products.

Therefore, in the Bank's 2018 offer, the following categories of products and services were included, having the largest share in the Bank's revenues:

- a) Credit products
- b) Savings products
- c) Complete transactional services (outgoing payments, incoming payments, foreign exchange etc.)
- d) Cards
- e) Remote banking services (assisted internet banking)
- f) Alternative distribution channels

A. The main types of credit products for legal entities:

- working capital loans; mixed loans for microfinance area
- investment loans
- credit lines
- loans for financing European Funds projects
- loans from special financing programs

B. The main types of credit products for individuals:

- consumer loans
- overdraft facilities
- real estate investment loans

C. The main savings products for individuals:

- term deposits (with different maturities)
- savings accounts

D. Transactional purpose products:

- Current accounts – same currency multiple accounts
- Special destination accounts (for subventions and grants)
- Deposit accounts for good execution
- Escrow accounts
- Collateral deposit accounts

As far as saving products are concerned, the Bank continued to offer traditional products: savings accounts, sight and term deposits etc. in a mix of products, currencies and lines of activity that have given the Bank a funding position correlated with the asset structure of the balance sheet.

The main market for the Bank's products and services is the Romanian banking market. Excepting the credit products that are offered to customers through both Bank's own distribution network as well as alternative channels consisting of brokers, partnerships and direct sales agents, the rest of the financial products are offered to customers through the Bank's unique distribution network.

I.7. Organization Size

Patria Bank SA is an organization which is development-oriented. We pay attention to the evolution of the numbers that are playing organization size and manage closely increase each indicator. On December 31, 2018, the Bank serves 215,759 clients (approximately 30% less than last year, after starting a campaign Closing dormant accounts) through with 840 active employees. The products promotion strategy is oriented both to the classic model of promotion of banking products through own network of units as well the distributors model.

Patria Bank

FINANCIAL POSITION							
RON thousand							
ASSETS	31.dec.18	31.dec.17	dec.18/ dec.17 (abs.)	dec.18/ dec.17 (%)	Budget 31.dec.18	Actual / Budget (abs.)	Actual / Budget (%)
Cash and cash equivalents	510,747	636,525	(125,778)	(20%)	377,731	133,016	35%
Loans and advances to banks	5,613	5,076	537	11%	134,129	(128,516)	(96%)
Securities	1,026,814	1,287,407	(260,593)	(20%)	1,262,022	(235,208)	(19%)
Investments in subsidiaries	31,725	27,505	4,220	15%	26,931	4,794	18%
Loans and advances to customers, net	1,543,019	1,325,216	217,803	16%	1,716,233	(173,214)	(10%)
Other assets	335,550	363,664	(28,114)	(8%)	314,489	21,061	7%
Total ASSETS	3,453,468	3,645,393	(191,925)	(5%)	3,831,535	(378,067)	(10%)
LIABILITIES	31.dec.18	31.dec.17	dec.18/ dec.17 (abs.)	dec.18/ dec.17 (%)	Budget 31.dec.18	Actual / Budget (abs.)	Actual / Budget (%)
Due to banks and REPO	6,951	95,967	(89,016)	(93%)	48,106	(41,155)	(86%)
Due to customers	3,064,601	3,256,296	(191,695)	(6%)	3,364,274	(299,673)	(9%)
Borrowings and other liabilities (incl. subordinated loans)	64,042	61,579	2,463	4%	87,255	(23,213)	(27%)
Total Liabilities	3,135,594	3,413,842	(278,248)	(8%)	3,499,635	(364,041)	(10%)
Total Equity	317,874	231,551	86,323	37%	331,899	(14,025)	(4%)
Total LIABILITIES AND EQUITY	3,453,468	3,645,393	(191,925)	(5%)	3,831,535	(378,067)	(10%)

FINANCIAL PERFORMANCE STATEMENT	31.dec.18	31.dec.17	dec.18/ dec.17 (abs.)	dec.18/ dec.17 (%)	Budget 31.dec.18	Actual / Budget (abs.)	Actual / Budget (%)
-thousands RON-							
Net interest income	102,274	104,502	(2,228)	-2%	107,399	(5,125)	(5%)
Net fees and commission income	23,628	22,787	841	4%	27,934	(4,306)	(15%)
Net gains from financial activity & other income	34,101	25,968	8,133	31%	27,063	7,038	26.0%
Net banking Income	160,003	153,257	6,746	4%	162,396	(2,393)	(1%)
Staff costs	(73,551)	(80,893)	7,342	-9%	(76,311)	2,760	(4%)
Other operating and administrative expenses	(69,531)	(79,472)	9,941	-13%	(64,267)	(5,265)	8%
Depreciation and amortization	(18,677)	(15,617)	(3,060)	20%	(17,184)	(1,493)	9%
Total operating expense	(161,759)	(175,982)	14,223	-8%	(157,761)	(3,999)	3%
Operating Result	(1,756)	(22,725)	20,969	-92%	4,636	(6,392)	(138%)
Net impairment of financial assets	1,490	(19,819)	21,309	-108%	557	933	167%
Loss before tax	(266)	(42,544)	42,278	-99%	5,193	(5,459)	(105%)
Expense from deferred tax	-	-	-		(1,676)	1,676	(100%)
Profit/(Loss) for the year	(266)	(42,544)	42,278	-99%	3,517	(3,783)	(108%)

FINANCIAL POSITION

-thousands RON-

ASSETS

	31.dec.18	31.dec.17	dec.18/ dec.17 (abs.)	dec.18/ dec.17 (%)
Cash and cash equivalents	517,436	642,914	(125,478)	(20%)
Loans and advances to banks	5,613	8,408	(2,795)	(33%)
Securities	1,087,940	1,358,738	(270,798)	(20%)
Investments in subsidiaries	-	-	-	-
Loans and advances to customers, net	1,593,914	1,370,125	223,789	16%
Other assets	338,847	367,405	(28,558)	(8%)
Total ASSETS	3,543,750	3,747,590	(203,840)	(5%)

(0)

LIABILITIES

	31.dec.18	31.dec.17	dec.18/ dec.17 (abs.)	dec.18/ dec.17 (%)
Due to banks & REPO	6,951	95,967	(89,016)	(93%)
Due to customers	3,057,030	3,231,281	(174,251)	(5%)
Borrowings and other liabilities (including subordinated)	173,905	195,890	(21,985)	(11%)
Total Liabilities	3,237,886	3,523,138	(285,252)	(8%)
Total Equity	305,864	224,452	81,412	36%
Total LIABILITIES AND EQUITY	3,543,750	3,747,590	(203,840)	(5%)

FINANCIAL PERFORMANCE STATEMENT

-thousands RON-

	31.dec.18	31.dec.17	dec.18/ dec.17 (abs.)	dec.18/ dec.17 (%)
Net interest income	116,393	117,421	(1,028)	-1%
Net fees and commission income	23,147	22,233	914	4%
Net gains from financial activity & other income	26,567	21,280	5,287	25%
Net banking Income	166,107	160,934	5,173	3%
Staff costs	(77,737)	(85,124)	7,387	-9%
Other operating and administrative expenses	(72,995)	(82,565)	9,570	-12%
Depreciation and amortization	(19,145)	(16,042)	(3,103)	19%
Total operating expense	(169,877)	(183,731)	13,854	-8%
Operating Result	(3,770)	(22,797)	19,027	-83%
Net impairment of financial assets	580	(19,950)	20,530	-103%
Loss before tax	(3,190)	(42,747)	39,557	-93%
Expense from deferred tax	(788)	(853)	65	-8%
Loss for the year	(3,978)	(43,600)	39,622	-91%

I.8. Changes in the Share Capital Structure and Capital Formation Structure

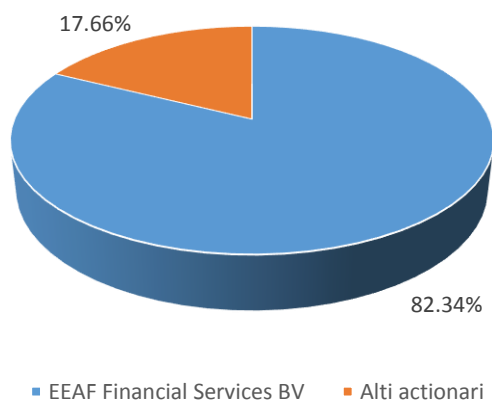
In 2018 Patria Bank SA implemented two corporate changes in its share capital, as follows:

1. The increase of the share capital from lei 227,121,731.30 to lei 274,165,692.20, respectively from 2,271,217,313 to 2,741,656,922 shares, by issuing 470,439,609 new shares with a nominal value of 0.1000 lei / share. The capital increase was decided by the Extraordinary General Meeting of Shareholders dated 12.03.2018. This resulted in the conversion of Patria Bank SA debt to EEAF Financial Services BV amounting to RON 40,309,000 and underwriting in cash for the difference. The new shares related to the share capital increase were recorded in the Central Depository's system on 17.07.2018, following all the formalities related to the registration of the increase.

2. The increase of the share capital from lei 274,165,692.20 to lei 311,533,057.50, respectively from 2,741,656,922 to 3,115,330,575 shares, by issuing a number of 373,673,653 new shares with a nominal value of 0, 1000 lei / share. The capital increase was decided by the Extraordinary General Meeting of Shareholders dated 02.08.2018. This resulted in the conversion of Patria Bank SA debt to EEAF Financial Services BV in amount of RON 23,329,000 and underwriting in cash for the difference. The new shares related to the share capital increase were recorded in the Central Depository system on 20.11.2018, following all the formalities related to the registration of the increase.

On December 31, 2018, according to the data registered with the Central Depository, Patria Bank SA's shareholder structure was as follows

Shareholder structure for Patria Bank at
31.12.2018



I.9. Patria Bank Group

As at 31.12.2018 the Patria Bank SA Group includes:

- **Patria Bank SA**, a credit institution authorized to perform banking activities on Romanian territory;
- **Patria Credit IFN SA**, a non-bank financial institution authorized by the NBR to perform lending activities on Romanian territory, registered in the General Register of Non-Banking Financial

Institutions held by the NBR, specialized in rural lending and microfinance; is a company under the control of Patria Bank SA by taking over the share held by former Patria Bank SA of 99,997% of the share capital and the voting rights.

- **SAI Patria Asset Management SA** and the three investment funds controlled by it - FDI Patria Stock, FDI Patria Global, FDI Patria Obligatiuni), authorized by the Financial Supervisory Authority of Romania (FSA) for the management of investment funds; is a company under the control of Patria Bank SA, in proportion of 99.99% of the share capital and voting rights.

I.10. Corporate Governance

Corporate Governance is the set of principles underlying the management and control framework of the Bank's and the Group's business. Patria Bank SA applies the provisions of the Corporate Governance Code made available to interested parties on the Bank's website under the section <https://en.patriabank.ro/about-patria-bank/investors/corporate-governance/corporate-governance-code-and-reports> drafted in accordance with the principles of the Corporate Governance Code of the Bucharest Stock Exchange (BSE) and reports annually the compliance with its provisions. The Statement of Compliance with the Principles of the Corporate Governance Code of the BSE on 31.12.2018 is presented in Appendix 1 to this report.

Patria Bank SA is managed in a one-tier management system, observing the objectives of corporate governance, the transparency of relevant corporate information, the protection of the interests of various categories of participants and the principles of an efficient functioning on the banking market.

Corporate Governance structures

The General Meeting of Shareholders (GMS) is the Bank's highest decision-making body that establishes economic and commercial policy and decides on its activity. The Bank has established rules and procedures regarding the General Meeting of Shareholders available on the Bank's website under the section <https://www.patriabank.ro/despre-patria/investitori/adunarii-generale-a-actionarilor/reguli-and-agaprocedures>, which seeks to ensure the fair treatment of shareholders, facilitate and encourage the participation of shareholders in the proceedings of GMS meetings and their dialogue with the management and executive bodies, as well as the exercise of their rights, in compliance with the legal provisions specific to the capital market and issuers.

The general meetings are ordinary and extraordinary. The Ordinary General Meeting meets at least once a year, within 4 months after the end of the financial year, and the Extraordinary General Meeting meets as often as necessary.

During 2018, the Board of Directors convened 4 General Meetings of Shareholders (2 Ordinary General Meetings on 07.05.2018 and respectively on 02.08.2018 and 2 Extraordinary General Meetings on 12.03.2018 and respectively on 02.08.2018). The convocation was made at least 30 days before the scheduled date, in compliance with the legal provisions on advertising and notification of the FSA - the Financial Instruments and Investments Sector and the Bucharest Stock Exchange (BSE).

The Bank provides shareholders with all relevant information regarding the General Meetings of Shareholders and the decisions adopted, both through the media (Official Gazette, national spread newspaper) and in the special section opened on its website under the section <https://www.patriabank.en/about-country/investors/general-meeting-of-shareholders>. Shareholders may personally participate in the General Meeting's works, through a representative or vote by correspondence, the forms of proxy and voting by correspondence being made available to shareholders

in the above-mentioned section. The procedures for conducting GSM works are available to shareholders and other interested parties on the Bank's website at <https://www.patriabank.com/prespects/investitors/address-general-actionaries/reguli-and-procedures-aga>. In the General Meetings of Shareholders, the dialogue between shareholders and members of the Board of Directors and / or executive management is permitted and encouraged. Each shareholder may ask the management questions about the bank's activity.

In accordance with the size, nature and complexity of the Bank's business and observing corporate governance objectives, the Bank's **Management Body** is represented by the **Board of Directors** and the **Executive Committee**.

On 31.12.2018, the Board of Directors consisted of five members appointed by the General Meeting of Shareholders for a four-year term, with the possibility to be re-elected for subsequent four-year mandates.

The Board of Directors delegates the operational management and the coordination of the Bank's day-to-day business to several directors, appointing a General Director, the rest being Deputy General Directors, these forming the Executive Committee. On 31.12.2018, the Executive Committee was made up of 4 members, who exercise their responsibilities as directors and members of the Executive Committee, being approved by the NBR, in accordance with the provisions of the EOG no. 99/2006 on credit institutions and capital adequacy.

The management body of the bank (the Board of Directors and the Executive Committee) performs its activity on the basis of rules of organization and functioning regulated by the Articles of Incorporation, through the Regulations for the organization and functioning of each, as well as by the Regulation for the organization and functioning of the Bank. The management body promotes high ethical and professional standards and a solid culture of internal control.

The Board of Directors

The management body with supervisory function is the Board of Directors, consisting of 5 members appointed by the ordinary general shareholders meeting and approved by the NBR. A member of the Board of Directors is independent.

The Board of Directors oversees and is responsible for implementing an activity management framework to ensure effective and prudent management of the Bank, including the separation of responsibilities within the Bank and the prevention of conflicts of interest. The organization and functioning is performed on the basis of the Constitutive Act, the applicable laws and its own regulation of organization and functioning.

There are no agreements, understandings or family relationships between administrators and other persons due to which members of the Board of Directors to be appointed administrators.

Board of Directors as at 31.12.2018

Name, Surname	Position held in the Board of Directors	Approved by	Mandate duration
Dragos Horia Manda	Chairman (1 mandate in the merged bank)		4 years 26.04.2016 - 26.04.2020

Daniela Elena Iliescu	Non-executive member (1 mandate in the merged bank)	GSM Decision from 02.04.2016	4 years 26.04.2016 - 26.04.2020
Bogdan Merfea	Non-executive member	Prior NBR approval of the merger (November 2016)	26.04.2016 - 30.04.2017
	Executive member (1 mandate in the merged bank)		01.05.2017 – 26.04.2020
Nicolae Surdu	Member (1 mandate in the merged bank)	GSM Decision from 27.04.2017 Prior NBR approval of the merger (November 2016)	4 years 01.05.2017 - 27.04.2021
Vasile Iuga	Independent member (1 mandate in the merged bank)	GSM Decision from 27.04.2017 GSM Decision from 28.07.2017 Prior NBR approval (December 2017)	4 years 06.12.2017 - 27.04.2021

As at 31.12.2018 there are no vacant positions within the Board of Directors.

The activity of the Board of Directors

Duties and responsibilities of the Board of Directors

The main competencies of the Board of Directors, including those that cannot be delegated to the members of the executive management, are laid down by the law, the Constitutive Act, the Rules of Organization and Functioning of the Bank, and by the Regulation for the Organization and Functioning of the Board of Directors. In cases permitted by law, the General Meeting of Shareholders may delegate other attributions to the Board of Directors.

The Board of Directors has as main responsibilities the establishment of the Bank's main business and development directions, the establishment of accounting policies and the financial control system, as well as the approval of financial planning, the appointment and dismissal of directors and their remuneration, the supervision of directors' activity, the organization of the general shareholders meeting and the implementation of its decisions and the establishment of the reference date for the shareholders entitled to participate and vote in the general shareholders meeting, the attributions received by the Board of Directors from the Bank's General Shareholders Meeting, the representation of the Bank in relation to the directors, other attributions and responsibilities established by legal provisions and which cannot be delegated to directors, establishment of advisory committees.

The advisory committees of the Board of Directors

In order to develop and maintain good practices in managing the activity, the Board of Directors has constituted two committees that will assist in the fulfilment of its attributions. The structure, organization and functioning rules and powers of these committees are defined in their own organization and operation regulations.

a) The Audit Committee

On 31.12.2018, the Audit Committee was made up of three non-executive directors, of which one is an independent member, namely:

Name, surname	Position within the Committee	Period
Vasile Iuga	President (independent)	22.11.2017 – up to now
Daniela Elena Iliescu	Member (non-executive)	
Nicolae Surdu	Member (non-executive)	22.06.2017 – up to now

The Audit Committee has an advisory role and it is made up of members of the Board of Directors, with the appropriate expertise in the specific tasks assigned to them within the Committee.

Risk Management Committee

On 31.12.2018, the Audit Committee was made up of 3 non-executive directors, out of which one is an independent member, namely:

Name, surname	Position within the Committee	Period
Nicolae Surdu	President (non-executive)	06.12.2017 – up to date
Daniela Elena Iliescu	Member (non-executive)	
Vasile Iuga	Member (independent)	

The Risk Management Committee has an advisory role. The Risk Management Committee is made up of members of the Board of Directors, with the appropriate expertise in the specific tasks assigned to them within the Committee.

Senior Management Body

The Executive Committee represents the senior management body, ensuring the Bank's operational management. Its competencies and attributions have been regulated by the Articles of Incorporation, by its own Statute and by the Bank's Rules of Organization and Operation.

Thus, on 31.12.2018 the operational management and coordination of the daily activity of the Bank was delegated by the Board of Directors to several directors who together formed the Executive Committee.

There are no agreements, understandings or family relationships between administrators and other persons due to which members of the Board of Directors to be appointed administrators.

The Executive Committee

Name, surname	Position within the Executive Committee	Position within the Bank	Mandate duration

Bogdan Merfea	Member 1 mandate	General Director	01.05.2017- up to date
Valentin Grigore Vancea	Member 1 mandate	Deputy General Director – IT and Operations Division	01.05.2017- up to date
Bogdan Constantin Neacsu	Member 1 mandate	Deputy General Director – Risk Division* *begins to exercise its attributions on 06.07.2017, when obtains the prior approval of NBR; starting with 1.12.2018 concludes its mandate with the consent of the parties	01.05.2017- 30.11.2018
Diana Maria Kallos	Member 1 mandate	Deputy General Director - Financial Division** **starting with 16.01.2018 concludes its mandate with the consent of the parties	01.05.2017- 15.01.2018
Lucica Cristina Pitulice	Member 1 mandate	Deputy General Director - Financial Division*** ***begins to exercise its attributions on 07.05.2018, when obtains the prior approval of NBR	16.01.2018 – up to date
Codrut Stefan Nicolau	Member 1 mandate	Deputy General Director – Commercial Division**** ****begins to exercise its attributions on 24.08.2018, when obtains the prior approval of NBR	1.07.2018 – up to date

On 31.12.2018 the position of Deputy General Manager - Risk Division was vacant, which was occupied by Mr. Codin – Radu Nastase, starting with 07.01.2019; the exercise of the specific responsibilities of the function will be performed from the date of obtaining the prior approval of the National Bank of Romania.

Remuneration of the members of the management body

The Bank's General Shareholders Meeting approves the amount and the conditions for granting the indemnities due to the members of the Board of Directors. The remuneration of members of the Executive Committee is determined by the Board of Directors. The remuneration of the members of the management bodies (Board of Directors / Executive Committee) - gross remuneration in 2018 is as follows:

2018 (gross RON)	
Total, out of which:	5,328,475
- fixed remuneration (gross LEI)	5,328,475
- variable remuneration (gross LEI), out of which:	0
- cash	0
- shares	0
- other securities	0

I. 12. Partners for Sustainability

At the time of writing this report, Patria Bank SA is not a signatory of any charter that promotes environmental or social principles. However we intend to support such initiatives in the future, in line with the Bank's sustainability strategy, because we believe that social and financial inclusion is important in our work, as part of the sustainability strategy of the Patria Group.

Patria Bank is affiliated to:

- ✓ Romanian Association of Banks (RAB)
- ✓ Bank Deposit Guarantee Fund (BDGF)
- ✓ Association of Electronic Payments in Romania (AEPRO)
- ✓ Romanian Exporters' Association (REXA)
- ✓ Romanian Factoring Association (RFA).

Patria Credit IFN is affiliated to:

- ✓ European Microfinance Network (EMN), a European organization that assists in the fight against social and financial exclusion and plays an active role in building a legal and regulatory framework at the European level for the microfinance market. It includes over 90 members and partners from over 21 European countries.
- ✓ Microfinance Centre (MFC), a regional microfinance resource organization that brings together 106 organizations (including 77 non-banking financial institutions) in 34 countries in Europe, Central Asia and beyond, which together provide responsible microfinance services to over 1,000,000 low-income customers.

SAI – Patria Asset Management is affiliated to:

- ✓ The Fund Managers' Association in Romania (FMA)

I.13. Impact, Risks and Major Opportunities

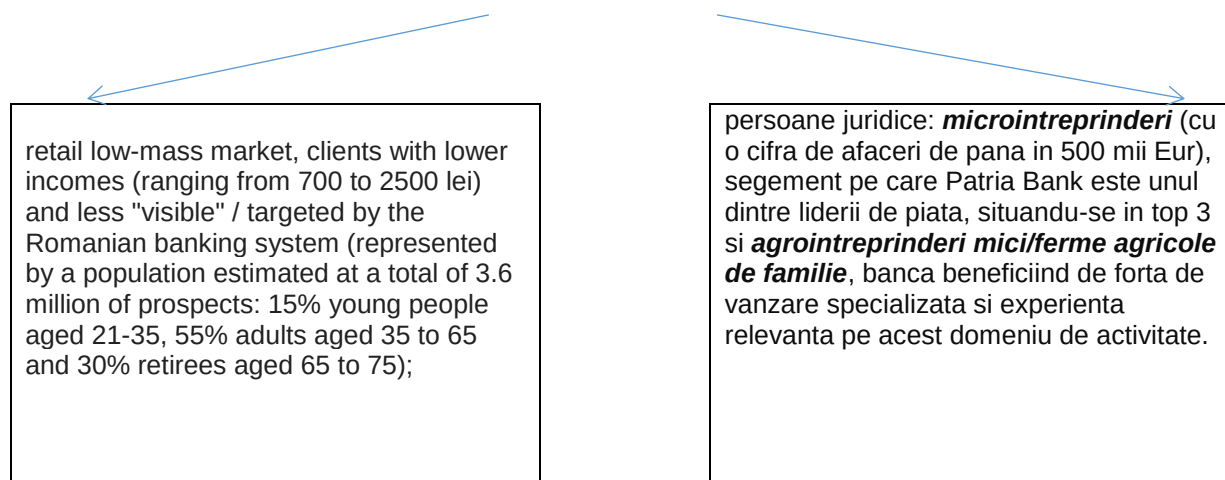
Patria Bank SA operates in accordance with the provisions of Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy, as subsequently amended and supplemented, the National Bank of Romania Regulation no. 5/2013 on prudential requirements for credit institutions and investment companies, Law no. 24/2017 on issuers of financial instruments and market operations, as well as other national and international legal requirements and social risks and environmental protection standards.

Patria Bank SA has a market share of about 1% by the volume of managed assets and it ranks in the top 20 banking institutions in Romania.

Patria Bank's activity is conducted in compliance with the provisions of the Ordinance Emergency no. 99/2006 on credit institutions and capital adequacy, with changes and additions subsequently, the Regulation NBR no. 5/2013 on prudential requirements for credit institutions, EBA Regulation no. 575/2013 on requirements prudential for credit and credit institutions investment firms, as well as other legal requirements national and international, as well as standards on social and health risks Impact, risks and major opportunities protection of the environment. Patria Bank has an important role in the banking market in Romania, benefiting from a market share of approximately 1% relative to the share in the volume of assets managed and is located in the top 20 banking institutions in Romania.

For this, Patria Bank plays an important role in supporting communities and local businesses in particular those in small urban and rural areas, benefiting by a territorial coverage network, represented by 81 territorial units and a solid base of liquidity from a mix of capital from shareholders and one the strategic base of depositors. From a strategic point of view, the Bank aimed to grant of traditional customer credits (retail, legal entities: SMEs, Corporate and Agro), but also the continuation of funding in a small area exploited by the Romanian banking system, aiming to offer bank products to fewer customers attractive for the banking industry: retail low-mass market, customers who benefit lower incomes (ranging from interval 700 - 2,500 lei) and which are less "visible" targeted by the banking system Romanian (represented by of an estimated population of a total of 3.6 million

Prospective: 15% young people with ages 21-35 years, 55% of adults with age between 35 and 65 and 30% pensioners with ages 65 to 75 for years); Legal entities: micro - enterprises (with turnover up in 500 thousand euros), segment which Patria Bank is one of the market leaders, being in the top 3 and small agro-enterprises / family farm farms, the bank benefiting from the force specialized sale and relevant experience on this area of activity. Throughout 2018, the bank granted the following funding to the two entities mentioned above:



During 2018, the Bank granted the following funding to the two entities mentioned above:

- for the low mass market clients a number of 3,062 credits, representing a cumulative value of 51 million lei (EUR 11 million), increasing by approx. 30% of the previous year's volume;

- for micro-enterprises a total of 2,731 credits, representing a cumulative value of 221 million lei (47 million euros), increasing by approx. 60% of the number / volume recorded last year.

Thus, the Bank has been involved in financing small-scale producers to support their access to banking products. For this segment, the Bank has tested and validated products over the past 7 years, and includes products with European Union guarantees (through the EaSI program) as well as guarantee schemes provided by local guarantee funds (FNGCMM, FGCR). On the sub-segment of microenterprises with a turnover of up to 500 thousand euro annually, Patria Bank is one of the market leaders, according to our estimates in TOP 3 specialized banks.

Regarding the financing granted by the Bank during 2018, the situation is as follows:

I.14. Strategy to Combat Potential Impact on Society

After the merger of Patria Bank (former Nextebank) and the “Banca Comerciala Carpatica SA”, the new entity took the role of bringing its banking products close and accessible to all social categories and types of businesses and to promote transparent and responsible business policies in relation with the environment, customers, partners and employees.

To this end the Bank has established credit policies that restrict the provision of funding for activities involving a high level of environmental or social risk, such as:

- Pornography;
- Production of ammunition and weapons, explosives, military combat vehicles;
- Casinos, gambling and betting;
- Trade in endangered wild animals and plants protected by national and international legislation;
- Oil transport by oil tankers without IMO certificates;
- Production and trade of asbestos fibers and products containing asbestos;
- Production, storage, treatment, disposal or trade of radioactive products and radioactive waste;
- Production of nuclear fuel energy;
- Marine fishing with floating nets, using nets longer than 2.5 km;
- Processing of rough stones, waste rock and precious metal residues using cyanide ;
- Activities of employee trade unions;
- Activities of religious organizations;
- Activities of political organizations.

On the other hand, the Bank has implemented a Corporate Governance Code and a Code of Business Ethics that discourage anti-competitive and corruption practices while encouraging cooperation with entities in the Romanian banking system, as well as with national and international institutions/authorities.

Concerning the relationship with its employees, the Bank has implemented a Human Resource Policy that encourages diversity and equal rights, combating discrimination, encouraging training and professional development, developing appropriate labor and management relations, an adequate salary policy and an organizational culture based on trust and performance.

Also in its relationship with suppliers, the Bank has an Investment Policy that ensures the establishment and maintenance of fair and transparent relations in the process of selection and execution of contracts with suppliers of goods, works and/or services.

Overall the Bank has policies and procedures to implement the promoted products and at the same time ensure the confidentiality of customers' personal data/information. It also has responsible lending/deposit practices and fair, comprehensive and transparent promotion practices for its customers.

I.15. Values, Principles, Standards and Rules of Conduct

The Patria Bank Group has defined a set of ethical values to which each employee adheres and is responsible for their implementation.

It also bases its actions, from strategic decisions to daily activities, on sound ethical principles, such as : impartiality and nondiscrimination, professionalism and transparency, compliance with the current regulatory framework, confidentiality and information protection, prevention and combat of money laundering and terrorism financing, exercising caution in financial transactions, social responsibility, avoiding conflict of interest, avoiding fraud, fair treatment of customers, in compliance with the current legislation, cooperation with authorities, fair competition.

I.16. Anticorruption Measures

Patria Bank has a strict approach to identifying incorrect practices. Thus, the members of the management team have encouraged and promoted the identification and reporting of frauds and corrupt acts. Employees are encouraged to report violations regarding fraud, bribery and corruption whenever they happen, through the internal systems made available to them. Patria Bank staff can file reports both directly to the attention of their manager, to the antifraud officers within the Antifraud Division and by escalation to the members of the Board of Directors. These reports may also take the anonymous form of "whistleblower" and be addressed through this channel to the Manager of the Compliance Division and the Manager of the Internal Audit Division. In all these cases, the Bank is committed to protect the identity and legitimate interests of the complainant.

During the reporting period the Patria Bank Group did not register any corruption incidents involving its employees or business partners and no public lawsuits were brought against the organization or its employees for corruption. The Bank Group will continue its efforts to maintain and improve these standards.

I.17. Anti-Competitive Behavior

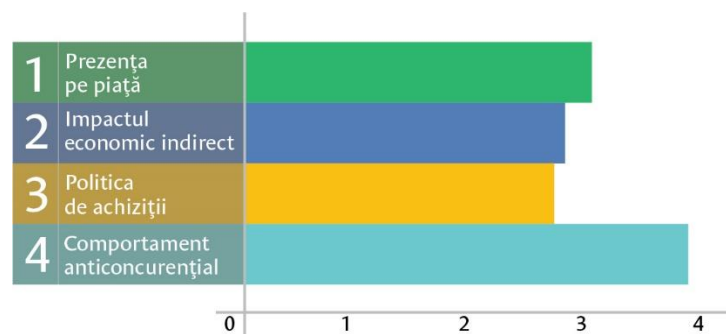
During the reporting period there were no court cases on anti-competitive behavior or violations of the antitrust and monopoly legislation in which the organization was identified as a participant.

The Corporate Governance Code and the Business Ethics Code of the Patria Group discourage anti-competitive and corruption practices by encouraging cooperation with the other entities in the Romanian banking system, as well as with national and international institutions/authorities.

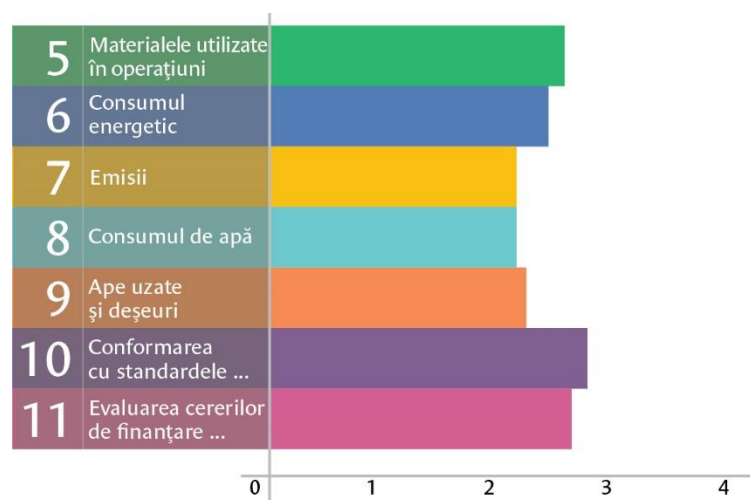
CHAPTER II. Internal Materiality Analysis. Establish Priority Topics

This report is based on an internal analysis of the main topics to be included in this report. For this first reporting exercise we conducted an internal materiality analysis. Therefore the report covers the topics that greatly influence the economic, social and environmental impact of our operations.

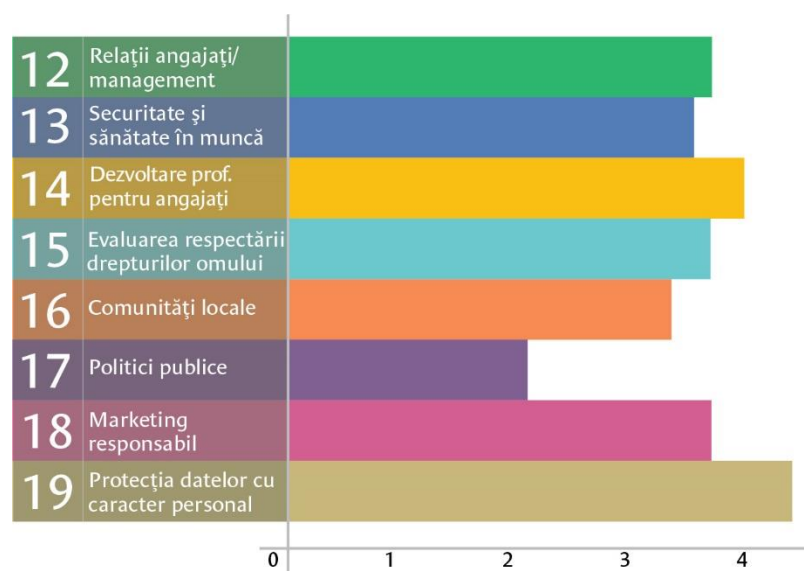
ECONOMIC ASPECTS



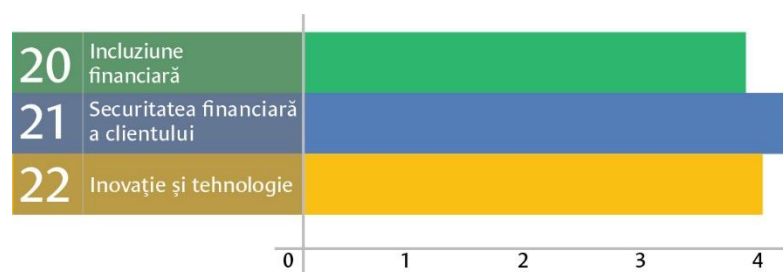
ENVIRONMENTAL ASPECTS



SOCIAL AND PERSONNEL ASPECTS



ASPECTS SPECIFIC TO THE FINANCIAL SECTOR



III. CUSTOMERS. External customers and partners

III. 2. External Customers

III.2.2. Protection of Personal Data

Starting May 2018, Romania applies the principles of EU Regulation 2016/679 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

Since then, the Bank's policies and procedures reflect the importance and priority given by Patria Bank SA as a Personal Data Operator as well as an entity belonging to the Patria Group, complying with the applicable law on the processing of personal data and ensuring the protection of rights and the fundamental freedoms of individuals.

Patria Bank SA cooperates with the National Authority for Personal Data Processing Supervision (ANSPDCP) and follows with maximum priority the notifications received from it in order to establish the necessary measures to ensure the protection of the fundamental rights and freedoms of its clients and to carry out the activity under optimum conditions.

After analyzing the complaints about possible violations of personal data protection rules, it is noticed that Patria Bank SA received two notifications in 2018 from the National Supervisory Authority for Personal Data Processing, without fines or warnings from this authority. Also, complaints received from other regulatory bodies have not been reported and no security incidents have been reported regarding the protection of personal data.

Information about the processing of personal data by Patria Bank SA is publicly available on the Bank's website <https://www.patriabank.ro/datepersonal> and reflects the Bank's efforts to ensure that all its customers are informed and in control of the data which we transmit to us and which the Bank processes in its commercial relations.

During the year 2018 there were 9 notifications of Patria Bank from ANSPDCP. As of 2017, in Patria Bank, the legislative framework for the regulation of personal data protection is more complex, while maintaining the low number of complaints.

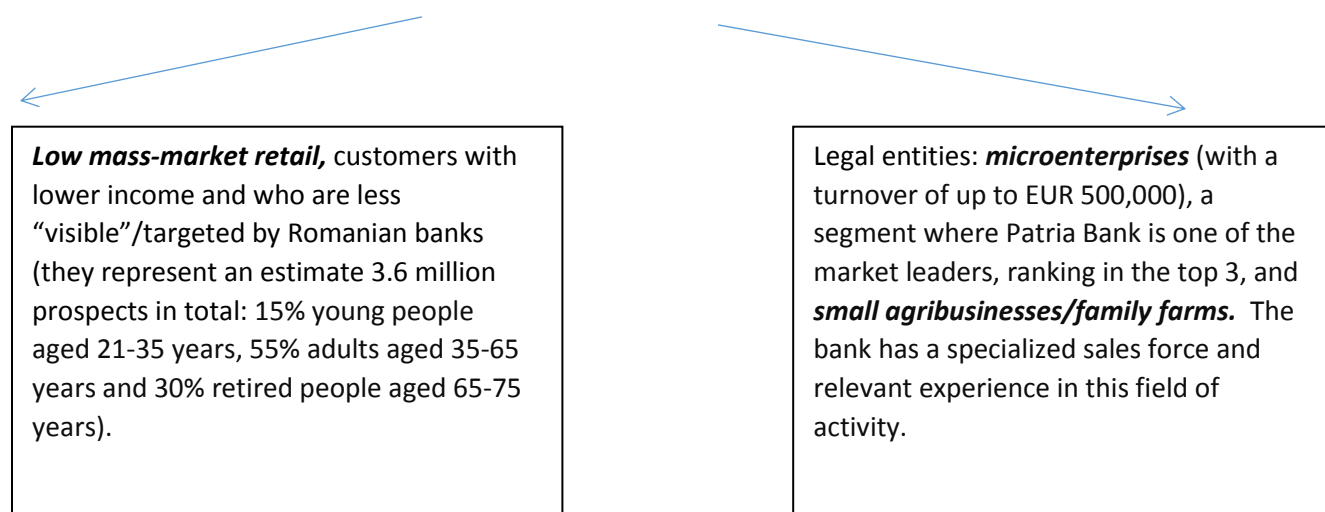
III.2.3. Financial Inclusion

Although cities are becoming more and more crowded, much of Romania's population still lives in rural areas, namely 43%, meaning 9.7 million Romanians. That being the case, 50% of the Patria Bank SA branches are located in small towns and rural areas and they meet the population's need for access to banking services.

About 61% of the Romanians who live in rural areas represent active population, out of which 23% work in agriculture. In comparison with urban areas, rural areas have a low rate of bank penetration - 60% of the total population does not hold a current account or a debit card.

Patria Bank plays an important role in supporting local communities and businesses, especially those in small towns and rural areas, taking advantage of its network which covers the entire country, and a strong liquidity base consisting of a mix of resources from a strategic base of depositors.

From a strategic point of view, the Bank has aimed to provide lending to traditional customers (retail and legal entities: SMEs, Corporate and Agribusinesses), as well as to continue financing in a less popular zone among Romanian banks, seeking to provide banking services to less attractive customers for the banking industry:



III.2.4. Innovation and Technology

From an operational point of view, the Bank continued its strategy of streamlining processes and significantly reducing operational costs by:

- Completion of the consolidation of the Bank's data centers;
- Continuation of investments in the IT infrastructure (data center / communication channels / information storage capabilities / increasing the security of the IT system / adapting the IT system to GDPR requirements);
- Optimization of card renewal streams (centralization of process) and ATM supply (including reconciliation process);
- Automation for the purpose of reducing operational risks (in respect of requests for issuance of unprocessed cards, porting accounts, expired insurance policies);
- Completion of the implementation of a dedicated solution for the improvement of the level of cyber security (Mobile-Device-Management - by which the remote access to the e-mail and file-sharing systems of the bank is secured);
- Rebuilding of the Activity Continuity Plan and appropriate testing;
- Improvement of the credit flows of individuals with the automation of the end-to-end process and modification of the computer flows support for compliance with the provisions of the EU Directive no. 92/2014.
- Implementation of security measures according to PSD2 standards for the new Internet Banking platform.

The Bank has launched new packages of current account products based on market analysis and best practices at international level. The Bank is in the process of implementing the IBA Mobility solution that will allow the use of the mobile sales force application, as well as the implementation of qualified electronic signatures, which will allow the transformation of full-paperless flows (with impact on operational efficiency, the realization of transactions and, last but not least, the significant mitigation of operational risks). In this way, new alternatives will be provided for opening the current account, giving the client superior experience in terms of the actual process, reducing processing time, along with process optimization, by simplifying the required documentation.

In terms of card business, the Bank has implemented or is pursuing the implementation of projects such as: Fast Funds Processing Transaction of OCTs - VISA Issuance, Cashback Issuance and Acceptance, 3D Secure Dynamic Password (to provide customers with a dynamic password for authentication transactions on Internet); issuing contactless cards; PIN by SMS (sending the PIN code of the card via SMS to the bank's clients) etc.

Strategic partnerships have also been launched to increase the use of cards (for example, partnership with the Catena chain of pharmacies, Ardeal Pharmacy etc.) and will continue to develop permanent activation campaigns for both business cards and those used by individuals.

From the point of view of IT technology, the Bank is in the process of developing new projects to be implemented in the course of 2019, such as the Internet Banking and Mobile Banking application (for individuals and for legal entities), the user having remote access to its accounts and banking operations at any time, with full security and mobility. The application will meet the needs of customers with a dynamic profile, the purpose of which is to provide a simple, transparent, natural, personal fund management experience, aiming to increase customer satisfaction.

Also, Patria Partner and Lead Generation will help increase the volume of products and services sold through alternative channels. Through it, the new marketing channel developed through lead partner and external collaborators representing the Bank's interests will transmit leads and be able to monitor their quality.

At the same time, during 2018, the bank undertook a series of efforts to update customer data, as Patria Bank inherited from the former Banca Comerciala Carpatica (especially in the area of individuals) a significant portfolio of dormant clients or outdated data. The main purpose is to diagnose the actual post-merger client base, which has led to:

- closing a significant number of contractual relationships with dormant clients that could not be activated;
- activation and loyalty of a customers category group taken over as inactive from the former Banca Comerciala Carpatica.

III.2.5. Customers' Financial Security

Organizational Policy Regarding the Fair Development and Sale of Financial Products and Services

The Bank policy regarding the development of products and services is regulated internally. The fundamental principles taken into consideration when developing and modifying the Patria Bank products and services are defined in such a way as to ensure an adequate general framework of the development process, with a view to increase the level of satisfaction of current and potential customers, to ensure the competitive advantage of the Bank, which would favorably impact the bank's position in the banking system, and to increase product and implicitly bank profitability, by developing and maintaining a quality portfolio from the risk-profitability standpoint and in line with the Bank business strategy.

Another significant objective regards the risk component, namely the identification, assessment, monitoring and control or mitigation of risks arising from the development of a new product or the modification of a product or service provided by the Bank, such as: credit risk, market risk, liquidity risk, operational risk, reputational risk, strategic risk, compliance risk (including money laundering and terrorism financing risk).

Customer Solutions

The Bank constantly grows and adapts its products and services in order to stay connected to its customers' needs and this is also reflected in its approach to the relationship with them. The Bank has developed and continues to develop its products and services in order to adapt to the needs of its customers, to provide them with comfort and to stay alert and answer promptly their requests. To this end, the Bank has defined specific segments both in terms of customers and related products and the structure of its personnel, in order to meet the needs of its customers, grouped in the following strategic segments:

- Retail;
- Microenterprises;
- Agribusiness;
- SMEs and Corporate.

The range of products provided by the Bank meets its customers' needs both in terms of lending (mortgage/ consumer credit/ credit cards and overdraft for retail customers; investment credits/ working capital loans/ permanent operational credits for corporate customers) and savings (deposits, current accounts, savings accounts).

The Bank understands that unpredictable events can occur in every individual's life. Therefore it provides solutions for customers who want to pay their credit but experience financial difficulties and are temporarily unable to reimburse the payment because of momentary situations: job loss, income decline, sickness or permanent situations, such as death. Under such circumstances Bank employees work

together with the customers to find the best conditions for reviewing the credit repayment schedule, so that the latter can then continue to repay his/her loan.

CHAPTER IV. Community

The Patria People

The figures below illustrate the situation of the Patria Group employees and their distribution by gender, age group and type of employment contract.

Patria Bank SA

At the end of 2018, Patria Bank had a number of 840 active employees, as follows:

- a. Total number of employees by type of employment contract (permanent or temporary) and by gender:
 - 591 women, out of which 20 with a fixed-term employment contract and 571 with an open-ended employment contract;
 - 249 men, out of which 2 with a fixed-term employment contract and 247 with an open-ended employment contract;
- b. Total number of employees by type of employment contract (permanent or temporary) and by region:
 - 22 employees with a fixed-term employment contract, out of which 8 are employed by the head office and 14 by the branches;
 - 818 employees with an open-ended employment contract, out of which 492 are employed by the head office and 326 by the branches.
- c. Total number of employees by type of employment contract (full-time or part-time) and by gender:
 - 809 employees with a full-time contract, out of which 573 women and 236 men;
 - 31 employees with a part-time contract, out of which 18 women and 13 men.

There is a very small number of workers who are not Patria Bank employees, but they provide services for the bank, namely the employees of the cleaning companies and those in charge with security.

Patria Credit IFN SA

At the end of 2018, Patria IFN SA had a number of 135 active employees, as follows:

- a. Total number of employees by type of employment contract (permanent or temporary) and by gender:
 - 78 women with an open-ended employment contract;
 - 57 men, out of which 2 with a fixed-term employment contract and 55 with an open-ended employment contract;
- b. Total number of employees by type of employment contract (permanent or temporary) and by region – split between head office and branches network:
 - 2 employees with a fixed-term employment contract, employed by the head office;
 - 133 employees with an open-ended employment contract, out of which 49 are employed by the head office and 84 by the branches.

- c. Total number of employees by type of employment contract (full-time or part-time) and by gender:
- 35 employees with a full-time contract, out of which 24 women and 11 men;
 - 100 employees with a part-time contract, out of which 54 women and 46 men.

SAI PATRIA ASSET MANAGEMENT SA.

At the end of 2018, SAI PATRIA ASSET MANAGEMENT SA had a number of 7 active employees, as follows:

- a. Total number of employees by type of employment contract (permanent or temporary) and by gender:
- 3 women with an open-ended employment contract;
 - 4 men, out of which 2 with a fixed-term employment contract and 2 with an open-ended employment contract;
- b. Total number of employees by type of employment contract (permanent or temporary) and by region:
- 5 employees work at the Bucharest office, out of which 4 have an open-ended employment contract and 1 employee has a fixed-term employment contract;
 - 2 employees work at the Sibiu office and they have an open-ended employment contract;
- c. Total number of employees by type of employment contract (full-time or part-time) and by gender:
- 7 employees with a full-time contract, out of which 3 women and 4 men.

New Employees and Staff Turnover

2018 was an important year for the Bank reorganization and development, which was reflected also in staff turnover. Thus during 2018 the Bank faced a 25.19 % staff turnover, as follows: 29.41% staff turnover in the head office and 22.62 % in the branches network.

Patria Bank SA

During 2018 256 people were hired, as follows:

New hires by region:

- 112 at the head office (7 management and 105 staff),
- 144 in the branches network (18 management and 126 staff)

New hires by gender:

- 194 women (18 management and 176 staff),
- 62 men (7 management and 55 staff)

New hires by age group:

- Under 30 years: 46 employees
- Between 30 and 50 years: 180 employees
- Over 50 years: 30 employees

Patria Credit IFN SA

During 2018 24 people were recruited (23 staff and 1 management), as follows:

New hires by region:

- 10 at the head office;

- 14 in the branches network

New hires by gender:

- 15 women;
- 9 men.

New hires by age group:

- Under 30 years: 5 employees
- Between 30 and 50 years: 18 employees
- Over 50 years: 1 employee.

SAI

No new staff were hired in the above-mentioned period of time.

Total number of employees who left the company in the reporting period, by gender, age group and region (if applicable)

Patria Bank SA

In the reporting period 362 employment contracts were terminated, as follows:

Terminated employment contracts by region:

- 183 in the head office (34 management, 149 staff);
- 179 in the branches (17 management, 162 staff)

Terminated employment contracts by gender:

- 261 women (28 management, 233 staff);
- 101 men (23 management, 78 staff).

Terminated employment contracts by age group:

- Under 30 years: 56 employees
- Between 30 and 50 years: 256 employees
- Over 50 years: 50 employees

Patria Credit IFN SA

In the reporting period 34 employment contract were terminated (31 management and 3 staff), as follows:

Terminated employment contracts by region:

- 15 at the head office;
- 19 in the branches.

Terminated employment contracts by gender:

- 24 women;
- 10 men.

Terminated employment contracts by age group:

- Under 30 years: 6 employees
- Between 30 and 50 years: 28 employees
- Over 50 years: 0 employees

SAI

In the reporting period one employment contract was terminated.

Terminated employment contracts by gender:

- 1 woman

Terminated employment contracts by age group:

- Under 30 years: 1 employee

Staff turnover in the reporting period is 10 %.

Benefits for the Patria Group Employees

Employees receive the following benefits:

- A number of 21 up to 25 annual paid vacation days, depending on the employee's seniority;
- Loans accessible to Patria Group employees under favorable conditions;
- Medical services subscription;
- Company cell phone;
- Special deals negotiated with various services providers for Patria Group employees (telephone services, beauty products, gym subscriptions and so on).

Benefits for the SAI Employees:

Only SAI employees have the following additional benefits:

- Meal vouchers in the amount of 15 RON/workday;
- Christmas gift vouchers in the amount of 150 RON per employee.

Number and percentage of people in management positions in each of the following diversity categories:**Patria Bank SA**

Distribution by gender:

- 79 women
- 52 men

Distribution by age group:

- Under 30 years: 1 employee
- Between 30 and 50 years: 111 employees
- Over 50 years: 15 employees

Patria Credit IFN SA

Distribution by gender:

- 5 women
- 8 men

Distribution by age group:

- Under 30 years: 0 employees
- Between 30 and 50 years: 10 employees
- Over 50 years: 3 employees

SAI Management

Distribution by gender:

- 1 woman
- 3 men

Distribution by age group:

- Under 30 years: 0 employees
- Between 30 and 50 years: 4 employees
- Over 50 years: 0 employees

Number and percentage of staff by categories of employees in each of the following diversity categories:

Patria Bank SA

Distribution by gender:

- 591 women (311 at the head office and 280 in the branches network)
- 249 men (189 at the head office and 60 in the branches network)

Distribution by age group:

- Under 30 years: 102 employees (57 at the head office and 45 in the branches)
- Between 30 and 50 years: 617 employees (395 at the head office and 222 in the branches)
- Over 50 years: 121 employees (48 at the head office and 73 in the branches)

Patria Credit IFN SA

Distribution by gender:

- 73 women (21 at the head office and 52 in the branches)
- 49 men (24 at the head office and 25 in the branches)

Distribution by age group:

- Under 30 years: 20 employees (17 women and 3 men)
- Between 30 and 50 years: 96 employees (52 women and 44 men)
- Over 50 years: 6 employees (4 women and 2 men)

SAI Management

Distribution by gender:

- 2 women
- 1 man

Distribution by age group:

- Under 30 years: 1 employee
- Between 30 and 50 years: 2 employees
- Over 50 years: 0 employees

The ratio between men's and women's salaries, depending on their position in the company:

Patria Bank SA

For management positions, the ratio between women's and men's salary is 0.83;

For staff, the ratio between women's and men's salary is 0.76.

Patria Credit IFN SA

For management positions, the ratio between women's and men's salary is 1.28;

For staff, the ration between women's and men's salary is 0.81.

SAI Management

For management positions, the ratio between women's and men's salary is 0.87;

For staff, the ratio between women's and men's salary is 1.07.

Patria Bank Policy on Staff's Professional Development

During 2008 Patria Bank continued to develop high quality ethical and professional standards in order to promote professional and responsible behavior at the Bank level and thus it contributed to reducing the risks to which the company is exposed.

Patria Bank has developed training programs per both the legislation on corporate governance and prudential requirements for credit institutions in order to facilitate for its employees, including senior management and internal control staff, ongoing training, understanding and awareness of all the risks to which the Bank can be exposed, as well as ways to mitigate them. These programs aim to meet the training needs identified in employees both in the branches and in the head office.

Training is a key element that supports us in achieving the Bank goals, in furthering our line of business and successfully implementing the Bank strategy while meeting on an on-going basis the criteria of prudential management of related risks.

Training is a means by which positive changes are promoted and a new organizational culture based on growth, performance and excellence is created.

In 2018 the Bank continued to provide specific financial-banking and IT courses to its employees, through its e-learning application, which ended with mandatory tests that verified the participants' degree of knowledge acquisition, as well as classroom learning sessions, combined with experimental learning and games.

Also in 2018 we continued the service education program by improving the internal and external services of the organization. This program started in 2017 and it will continue also in 2019. It is delivered by two internal trainers.

Community Involvement

In 2018 we continued to get involved in projects that support the development of local communities and entrepreneurial spirit.

Besides the projects supported by the bank, the employees' involvement in volunteer projects has grown. This is our way of showing that we care and we stay involved for a better world. Each of the employees who have chosen to be part of the #PatriaFaptelorBune („Patria of Good Deeds”) is a promoter of an organizational culture based on respect, involvement and sustainable development.

Community Involvement Strategy

As far as our community involvement is concerned, our strategy was based on continuing to support cultural and social projects that promote Romanian cultural values. Through volunteer work and funding we supported people, ideas and projects that are fully aligned with our mission. We aim to help Romania grow in four important directions for us: culture, education, social sphere and environment.

At the same time, we believe that our employees' involvement in volunteer work or sporting activities increases their well-being, which we care about very much. In an unpredictable market, people are the only constant resource, so team building and motivation activities are our priorities both now and for the future.

Cultural Projects

Under the concept #PatriaTalentelor (“Patria of Talents”) we got involved in cultural projects that bring added value to such events in Romania.

We sponsored the editing of the book titled *„Another Song of Mars. The Song of Love”* by Paolo Isotta. This book is a sequel of *”La virtu dell’elefante”*, which pushed Isotta one more time as a music historian and a top personality of Italian literature. The book is meant to be a love song for music and life. Paolo Isotta recalls in exquisite passages some of his favorite composers, from Alessandro Scarlatti to Joseph Haydn and Wolfgang Amadeus Mozart, from Ludwig van Beethoven, Franz Schubert and Piotr Ilici Ceaikovski to Giuseppe Verdi and Richard Wagner.

The second event we sponsored is the extraordinary concert titled *Magic Winter*, a new and unusual fairy tale atmosphere show, during which the Romanian Youth Orchestra conducted by Cristian Mandeal has turned musical notes into magic during a first rate performance.

Educational Projects

2019 was dedicated to promoting the Malltaranesc.ro community of small producers and, implicitly, to supporting traditional Romanian products. At the same time we supported the employees' involvement in sporting events which enhance the well-being of the internal community.

Through the partnership with “Creștem România Împreună” (“We Grow Romania Together”), we have contributed to an increase in the number of producers registered on the **Malltaranesc.ro** (“Peasant Mall”) platform and the number of purchased products. Through a pilot project, in six of the Patria Bank branches in Bucharest and in the country, we set up a booth with products purchased directly from the producers.

Redirecționare.ro (“Redirect.ro”) is a platform developed by Code4Romania that supports non-governmental organizations to raise 2% of the profit tax. Promoted by Patria Bank, the platform brought together over 500 NGOs during the campaign and over 3000 forms were downloaded to help redirect the 2%. In this respect we carried out an internal communication campaign to collect forms for the 2%.

Through the #PatriaSanatoasa (“Healthy Patria”) platform we support the involvement of our employees in sporting activities and the development of healthy practices that maintain balance. In 2018, our employees took part in sports competitions such as Bucharest Half Marathon (in May) and Bucharest

Marathon (in October), where over 60 of our colleagues ran in support for the cause of children from the “Asociația Învingem Autismul” (“We Overcome Autism Association”).

Social and Environmental Projects

The “Plantează în România” (“Plant in Romania”), developed by **“Creștem România Împreună” (“We Grow Romania Together”)**, is an initiative dedicated to protecting nature, our encouragement for people to get educated about environment protection. The planting activities that took place in the cities of Dragalina, Prisăcani, Apahida and Ghimbav in October – November 2018 brought together over 800 people and we managed to plant over 35,000 saplings.

Initiatives in the local communities – as we care supporting the communities in which we do business, in the **#PatriaResponsabilă (“Responsible Patria”)**, we were glad to support the communities of Ungheni, by building a playground at the Cerghizel Elementary School, Moțăței, by purchasing equipment for the city football team and Matca, by purchasing medical equipment for a children’s clinic. We were delighted to see the openness of public institutions and local people who supported our initiatives in these communities.

Banners converted into promotional items – the recycling of banners used during the 2017 communication campaign was carried out with the support of “Ateliere fără Frontiere” (“Workshops without Borders”) employees, who skillfully produced promotional items (bags, pencil holders, handbags and briefcases).

Blood donation campaigns – during 2018 Patria Bank hosted 3 blood donation campaigns which mobilized over 200 volunteer donors from both the Bank and the entire Globalworth building, who donated together over 90 liters of blood. A simple gesture that helped a total of over 600 people in need.

Charity Fairs – On March 1, a Fair of Ideas and Martisor Gifts was organized, where non-governmental organizations were invited to exhibit their seasonal products. Social causes were promoted and the money raised from product sale was directed to these causes.

In December we organized a food market with products prepared by our colleagues from Bucharest. We raised 3,300 RON and we donated it to a social cause.

Total Investment

In total, the Patria Bank SA investments for the community amounted to about 30,000 euro and the projects we got involved in or we sponsored impacted approximately 10,000 people (direct support).

CHAPTER V. The Context

Evaluation of Funding Applications Using Environmental Compliance Criteria

In order to identify the impact of customers’ activities on the environment, the Patria Group classifies them according to their field of activity, as follows:

-Class A: customers engaging in activities that have a strong impact on the environment, which can be considered irreversible. This category comprises activities that can affect the environment on a great scale, such as: construction of reservoirs, production of chemicals such as pesticides, herbicides and so on, forestry and mining activities and so on.

- **Class B:** customers engaging in activities with a low, but specific impact on the environment and which can rarely have irreversible effects. This category includes activities that use in the production process chemicals that can affect the environment, such as textile production, metal processing, food processing and so on.

- **Class C:** customers performing activities with a minimal impact on the environment: consulting services, technical assistance, IT systems development, food and non-food shops, small scale farming and so on.

Classification in these classes is based on two criteria:

1. CANE Code (according to the Classification of Activities in the National Economy CANE) – the Bank classifies these final beneficiary codes depending on their field of activity and impact on the environment, as described above.

2. Site visits by Bank Counselors/Credit Officers.

In the case of loans provided by PATRIA CREDIT IFN, following the site visit and discussions with the customers, our employees fill in a questionnaire titled “Environmental Impact”, which specifies both the activities that have an impact on the environment and the actions to be undertaken by the customers in order to reduce the negative impact, which the customers commit to observe.

In case the risk class is:

Class A – customers in this category, which have the potential to negatively impact the environment, will not receive a loan unless they have all the authorizations/ licenses to operate.

Class B – customers in this impact category will be subject to an annual monitoring process.

Class C – customers are eligible for credit from an environmental impact point of view, without requiring further action.

For **A, B** or **C** risk class activities that require additional measures meant to reduce the negative impact on the environment, Counselor/ Credit Officers propose and reach an agreement with the customers on actions aiming to reduce this impact.

Office Supplies Used in Operations

Total volume of office supplies used in bank operations

- About 56 tons of paper

The Organization’s Policy Regarding the Procurement of Office Supplies Used in Operations

The centralized and uniform management of the procurement of goods, works and/or services is designed to ensure an effective approach and an adequate monitoring and control of the procurement of goods, works and/or services by the Bank, as well as of the expenditures incurred.

The principles underlying the award of contracts are:

- Non-discrimination;
- Equal treatment;
- Transparency;
- Promoting competition;
- Mutual recognition;

- Planning;
- Standardization;
- Applying best practices;
- Efficient use of available funds;
- Taking responsibility;
- Ethics, conduct and social responsibility.

The process of procurement of goods, works and/or services must meet a series of criteria determined according to the specificity of each good/work/service, such as:

- To meet the Bank's needs in terms of quantity and quality;
- To obtain an optimal price-quality ratio;
- To be compatible with the bank's systems, if applicable, depending on the type of procurement;
- If the acquisition is repetitive, it will take into account the bank's existing contracts for that particular type of goods/works and/or services;
- Providers who have relevant experience for the purchased goods, works and/or services will be used;
- The assessment of entry into a business relation with a potential supplier will be conducted based on an analysis that takes into account financial, commercial and technical and risk elements. Contractual relationships with suppliers will be evaluated yearly in order to determine the timeliness and need to continue such collaborations.



PATRIA BANK GROUP

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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

***INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF PATRIA BANK S.A.***

Report on the audit of the financial statements

Our opinion

In our opinion:

- The consolidated financial statements give a true and fair view of the consolidated financial position of Patria Bank S.A. (the “Bank”) and its subsidiaries (together the “Group”) as of 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the requirements of the International Financial Reporting Standards as adopted by the European Union (IFRS) and National Bank of Romania Order (“NBR”) 27/2010 “for approving accounting Regulations in accordance with International Financial Reporting Standards, applicable to credit institutions” and subsequent amendments (“NBR Order 27/2010”); and
- the separate financial statements give a true and fair view of the financial position of the Bank as of 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with IFRS and NBR Order 27/2010.

Our opinion is consistent with our additional report to the Bank’s Audit Committee dated 27 March 2019.

What we have audited

The Group’s consolidated financial statements and the Bank’s separate financial statements (collectively the “financial statements”), set out on pages 1 to 204, comprise:

- the Consolidated and Separate Statement of Profit or Loss for the year ended 31 December 2018;
- the Consolidated and Separate Statement of Other Comprehensive Income for the year ended 31 December 2018;
- the Consolidated and Separate Statement of Financial Position as at 31 December 2018;

- the Consolidated and Separate Statement of Changes in Equity for the year ended 31 December 2018;
- the Consolidated and Separate Statement of Cash Flows for the year ended 31 December 2018; and
- the notes to the consolidated and separate financial statements for the year ended 31 December 2018, which include significant accounting policies and other explanatory information.

The consolidated financial statements as at 31 December 2018 are identified as follows:

- Total equity and reserves: RON 305,864 thousand;
- Net loss for the year: RON 3,978 thousand.

The separate financial statements as at 31 December 2018 are identified as follows:

- Total equity and reserves: RON 317,874 thousand;
- Net loss for the year: RON 266 thousand.

The Bank's registered office is in 31 Brezoianu Ion actor Street, floors 1, 2 and attic, District 1, Bucharest, Romania and the Bank's unique fiscal registration code is RO11447021.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs), Regulation EU No 537/2014 of the European Parliament and of the Council ("the Regulation") and Law 162/2017 regarding statutory audit of annual financial statements and annual consolidated financial statements and regarding changes to other regulations ("the Law"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and the ethical requirements that are relevant to our audit of the financial statements in Romania, including the Regulation and the Law and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code.

To the best of our knowledge and belief, we declare that the non-audit services that we have provided to the Group and the Bank are in accordance with the applicable law and regulations in Romania and that we have not provided non-audit services that are prohibited under Article 5(1) of the Regulation.

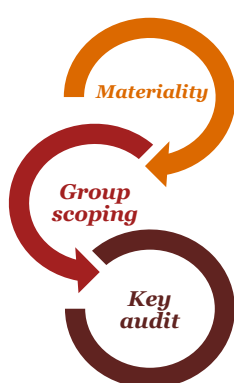
The non-audit services that we have provided to the Group and the Bank, in the period from 1 January 2018 to 31 December 2018, are disclosed in Note 15 – “Administrative and other operating expenses” to the financial statements.

Material uncertainty relating to going concern

We draw attention to Note 2 d) “Basis of preparation – Going concern” (“Note 2 d)”) to the financial statements, which indicates that the Group incurred a net loss of RON 3,978 thousand and the Bank incurred a net loss of RON 266 thousand during the year ended 31 December 2018 and, that as of that date, there were certain requirements addressed by the National Bank of Romania (“NBR”) to the Bank described in the aforementioned Note to the financial statements. Note 2 d) further refers to Management’s planned actions to comply with NBR’s requirements. As these actions will only be completed in the future, these matters described in Note 2 d), indicate that, until such time as the NBR measures are fully met, a material uncertainty exists which may cast significant doubt about the ability of the Bank to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



Overall materiality:

RON 3,100 thousands for both consolidated and separate financial statements.

Group scoping:

We planned and scoped our audit for 2018 reflecting the Group’s current structure whereby the Bank represents a very significant part of the Group’s assets, liabilities and net operating income. Hence we defined the Bank as the sole significant component within the Group and so it was subject to a full scope audit of its financial information.

Key audit matters:

- Application of IFRS 9 in the calculation of expected credit loss allowances for loans and advances to customers;
- Recoverability of the deferred tax asset; and
- Liability for non-controlling shareholders’ redemption rights.

These key audit matters were considered key for both the audit of the consolidated and separate financial statements.

Group scoping

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where Management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits, we also addressed the risk of Management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group and of the Bank, the accounting processes and controls, and the industry in which the Group and the Bank operate.

We planned and scoped our audit for 2018 reflecting the Group's current structure whereby the Bank represents the vast majority of the Group's assets (97%+), liabilities (96%+) and net operating income (96%+). Hence, we defined the Bank as the sole significant component within the Group and so the Bank was subject to an audit of its complete financial information, no other procedures being deemed necessary on the remaining components. We also performed procedures on the consolidation process including checking intra-group eliminations.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	RON 3,100 thousands for both consolidated and separate financial statements.
How we determined it	Approximately 1% of net assets per the consolidated and separate statement of financial position as at 31 December 2018
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because, given that the current financial position of the Bank and Group, it is of key interest to stakeholders. We chose 1% because, in our experience, this is an acceptable quantitative materiality threshold for this benchmark.

We agreed with the Audit Committee, that we would report to them misstatements identified during our audit above RON 159 thousands as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Application of IFRS 9 in the calculation of expected credit loss allowances for loans and advances to customers We focused on this area because the Management makes complex and subjective judgements over both the timing of recognition of expected credit losses ('ECL') and the estimation of the amount of ECL On 1 January 2018, IFRS 9 was adopted by the Group and replaced the previously applied IAS 39 for credit loss allowance (which is still applied in the financial statements for the 2017 comparative period). Under IFRS 9, the basis of recognition of expected credit losses is significantly different from the previous standard and the new disclosure requirements are also significantly different. Therefore we focused on the design and application of the new	In relation to implementation of the new ECL models, we assessed the compliance of key methodologies and models with the requirements of IFRS 9. We engaged our credit risk technical experts to assist us in undertaking this assessment. Model performance monitoring controls were tested including overall model governance for IFRS 9. Our credit risk technical experts performed independent back-testing of the performance of the IFRS 9 models. We also assessed the updated methodology and reasonableness of the multiple economic scenarios including the severity and magnitude of modelled scenarios and how they are

comprehensive ECL models introduced by the Management to assist them to comply with IFRS 9.

An assessment of the credit loss allowance for Stage 1, Stage 2 and non-significant Stage 3 loans and advances to customers is performed collectively, with the key assumptions being the probability of an account falling into arrears and subsequently defaulting, definition of significant increase in credit risk, exposure at the moment of default and the estimated recoveries from defaulted loans. Statistical models are used for determination of the key assumptions including different future macro economic scenarios.

For individually significant loans and advances in Stage 3, ECL are assessed individually based on probability weighted scenarios of cash flow forecasts. The key assumptions here are the expected cash flows (from both operating cash flows and recoveries from collateral) and the weight attached to the different scenarios.

As this is the first year of adoption of IFRS 9, there is limited experience available to back-test the estimate of ECL against actual results. There is also a significant increase in the number of data inputs required for the impairment calculation. The data is sourced from the core system of the Bank into a new ECL calculation application that has not been used previously for the preparation of the accounting records. This increases risk around completeness and accuracy of certain data used to create assumptions and operate the models.

Note 3 “Significant accounting policies”, Note 4 “Financial Risk Management”, Note 5 “Use of estimates and judgements” and Note 21 “Loans and advances to customers” to the financial statements provide detailed information on the ECL for loans and advances to customers and the effect of adoption of new ECL models.

considered and applied to the assumptions obtained from statistical models used in arriving at the overall ECL at the balance sheet date.

We tested on a sample basis the key controls over the inputs of critical data into source systems, and the flow and transformation of data between source systems to the impairment calculation software engine. Substantive testing was performed over the critical data used in the year-end ECL calculation.

We tested a sample of the statistical models used by the Management to determine key assumptions (probability of default, loss given default and exposure at default) to assess whether the calculation process was consistent with our expectations.

We also independently recomputed ECL for the entire portfolio of collectively assessed loans using the key assumptions determined by Management.

We assessed Management’s user acceptance testing over the ECL calculation software engine to ensure it is performed in line with business requirements.

We verified the reconciliation of the output of the ECL calculation application with the accounting records.

We tested the approval of the key inputs, assumptions and discounted cash-flows from both operating cash flows and recoveries from collateral that support the significant individual impairments, and substantively tested a sample of individually assessed loans.

Recoverability of the deferred tax asset

We have identified the recoverability of the deferred tax assets as a key audit matter due to the significant judgement involved in Management's assessment of the likelihood of the realization of the deferred tax asset, especially with respect to the utilization of carried forward tax losses. The Bank has RON 321,993 thousands of carried forward tax losses as at 31 December 2018 which expire in stages up to and including 2023. This judgement is based on a number of factors, including whether there will be sufficient taxable profits in future periods to support recognition of a deferred tax asset.

As disclosed in Note 16 "Income tax" to the financial statements, as at 31 December 2018 the Bank and the Group have recognized RON 23,215 thousand and RON 22,995 thousand, respectively of deferred tax assets in the separate and consolidated statements of financial position.

See also Note 3 – "Significant accounting policies", Note 5 – "Use of estimates and judgements" and Note 16 – "Income Tax" to the financial statements.

Our procedures in relation to Management's assessment about the recoverability of deferred tax assets included:

- reviewing the calculation of the deferred tax asset;
- evaluating the estimated manner in which the deferred tax asset would be utilized by comparing Management's assessment to the approved business plan and profit forecast in light of the periods in which the unutilized tax losses will expire;
- considering the assumptions embedded in the approved budget in light of recent historical results, actions taken by Management as a response to NBR's imposed measures and our knowledge of the business and the industry in which the Group and the Bank operate (including the existing tax regime); and
- validating the periods in when the unutilized tax losses will expire.

While we do not take exception to Management's conclusion that the recorded deferred tax asset is recoverable, nevertheless its ultimate recovery is contingent upon the successful realization of Management's future plans which are subject to inherent uncertainty such that the future utilization of the deferred tax asset may not be in line with Management's current assessment.

Liability for non-controlling shareholders' redemption rights

We have focused on the liability towards non-controlling shareholders as it implies significant judgement and assumptions about the recognition

With respect to the non-controlling shareholders' redemption rights, in order to assess the accounting and legal implications of the transaction on the separate and consolidated financial statements of the Bank and the Group, we:

and measurement of the liability. The liability to the above mentioned shareholders may arise in respect of those shareholders who did not vote in favour of the creation of the merged Bank. As set out in Note 36 – Liabilities to minority shareholders for redemption rights to the financial statements, as at 31 December 2018 the liability has a value of RON nil due to the financial position of the Bank. However, as further disclosed in the Note, future improvements in the Bank's financial position could lead to recognition of a liability up to RON 37,239 thousand. See also Note 36 "Liabilities to minority shareholders for redemption rights" to the financial statements.

- participated in various meetings and discussions with Bank's Management to update our understanding of the details of the redemption rights;
- in 2017 we obtained and reviewed, together with our legal experts, the related documents with regards to the minority shareholders' redemption rights including communications with the NBR on this matter. We confirmed no significant changes occurred in 2018;
- obtained an updated understanding of Management's assessment of the size of the liability to minority shareholders as at 31 December 2018; and

evaluated the reasonableness of key assumptions used by the Management and the calculations supporting the decision to not recognise a liability in respect of this obligation as at 31 December 2018.

Reporting on other information including the Administrators' Report

The administrators are responsible for the other information. The other information comprises the Administrators' Report and the Non-Financial Statement but does not include the financial statements and our auditor's report thereon. We obtained the other information prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the Administrators' Report and the Non-Financial Statement.

In connection with our audit of the financial statements, our responsibility is to verify whether the Non-Financial Statement was provided. The Non-Financial Statement has been prepared by the Administrators.

In connection with our audit of the financial statements, our responsibility is to read the Administrators' Report identified above and, in doing so, consider whether the Administrators' Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Administrators' Report, we read it and we report whether this was prepared in all material respects, in accordance with NBR Order 27/2010 articles 37 and 38.

Based exclusively on the work undertaken in the course of our audit of the financial statements, in our opinion:

- the information given in the Administrators' Report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements;
- the Administrators' Report has been prepared, in all material respects, in accordance with NBR Order 27/2010 articles 37 and 38.

In addition, in light of the knowledge and understanding of the Group and Bank and its environment obtained in the course of the audit of the financial statements for the financial year ended 31 December 2018, we are required to report if we have identified material misstatements in the Administrators' Report. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation of these financial statements that give a true and fair view in accordance with IFRS and the NBR Order 27/2010 , and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and 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 Group or the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's or 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 Group's or the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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. We describe these matters in our auditor's report unless

law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Bank on 7 May 2015. Our appointment has been renewed annually by Ordinary General Shareholders' resolution representing a total period of uninterrupted engagement appointment of 4 years covering the financial years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018.

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

**Refer to the original
signed Romanian version**

Paul Facer
Financial auditor registered with
the Public Electronic Register of financial auditors and audit firms under no. 3371

On behalf of

PricewaterhouseCoopers Audit SRL
301 – 311 Barbu Văcărescu Street, Bucharest
Audit firm registered with
the Public Electronic Register of financial auditors and audit firms under no. 6

Bucharest, 2 April 2019

**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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CONSOLIDATED AND SEPARATE STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018 (All amounts are in thousand RON)

Thousand RON	Note	Group		Bank	
		31 December 2018	31 December 2017	31 December 2018	31 December 2017
Interest income	8	156,051	152,009	139,362	137,148
Interest expense	8	(39,658)	(34,588)	(37,088)	(32,646)
Net interest income	8	<u>116,393</u>	<u>117,421</u>	<u>102,274</u>	<u>104,502</u>
Fee and commission income	9	28,814	28,184	27,578	27,278
Fee and commission expense	9	(5,667)	(5,951)	(3,950)	(4,491)
Net fee and commission income	9	<u>23,147</u>	<u>22,233</u>	<u>23,628</u>	<u>22,787</u>
Net trading income	10	7,900	9,096	9,152	10,545
Net gain from disposal of investment securities at fair value through other comprehensive income ("FVOCI")	11	(2,346)	471	(2,374)	468
Net gains/(losses) on derecognition of financial assets measured at amortised cost		152	-	152	-
Net gains/(losses) on investment properties		8,226	(1,205)	7,795	(1,207)
Net gains/(losses) on repossessed assets		(1,065)	3,923	(1,123)	3,923
Other operating income	12	13,700	8,995	20,499	12,240
Net Operating income		<u>166,107</u>	<u>160,934</u>	<u>160,003</u>	<u>153,258</u>
Staff costs	14	(77,737)	(85,124)	(73,551)	(80,893)
Administrative and other operating expenses	15	(72,995)	(82,565)	(69,531)	(79,472)
Depreciation and amortization	-	(19,145)	(16,042)	(18,677)	(15,617)
Operating expenses		<u>(169,877)</u>	<u>(183,731)</u>	<u>(161,759)</u>	<u>(175,982)</u>
(Charge) / Release with adjustments for impairment of financial assets	-	580	(19,950)	1,490	(19,819)
Loss before tax		<u>(3,190)</u>	<u>(42,747)</u>	<u>(266)</u>	<u>(42,544)</u>
Income tax charge for the year	16	(788)	(853)	-	-
Net loss for the period	16	<u>(3,978)</u>	<u>(43,600)</u>	<u>(266)</u>	<u>(42,544)</u>

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**CONSOLIDATED AND SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018 (All amounts are in thousand RON)**

Thousand RON	Note	Group		Bank	
		31 December 2018	31 December 2017	31 December 2018	31 December 2017
Net Loss for the period		(3,978)	(43,600)	(266)	(42,544)
<i>Other elements of the comprehensive income</i>					
Items that may be reclassified to profit and loss:					
Net gains in investments on available for sale assets		-	(468)	-	(468)
Net gains on debt instruments measured at FVOCI		2,374	-	2,374	-
Net gain /(loss) on investments in debt instruments measured at FVOCI		2,796	2,796	(11,631)	
Net gains on investments in debt instruments designated at fair value through other comprehensive income		42	-	42	-
Income tax recorded directly in other comprehensive income		(827)	1,901	(827)	1,901
Items that may not be reclassified to profit and loss account:					
Changes in revaluation reserve of tangible assets		(1,704)	(2,155)	(1,704)	(2,155)
Income tax recorded directly in other comprehensive income		394	405	394	405
Other elements of the comprehensive income, net of tax		<u>3,075</u>	<u>(11,948)</u>	<u>3,075</u>	<u>(11,948)</u>
Total comprehensive (expense)/ income for the period		<u>(902)</u>	<u>(55,548)</u>	<u>2,810</u>	<u>(54,492)</u>
Total comprehensive income attributable to:					
-Equity holders of the parent entity		(902)	(55,548)	2,810	(54,492)
-Non-controlling interests		-	-	-	-
Total comprehensive (expense)/income for the period		<u>(902)</u>	<u>(55,548)</u>	<u>2,810</u>	<u>(54,492)</u>
Loss per share (base and diluted)	39	(0.0018)	(0.0147)	(0.0001)	(0.0143)

The financial statements were approved by the Board of Directors on 27th of March 2019 and were signed on its behalf by:

Bogdan Merfea
General Manager

Lucica Pitulice
Deputy General Manager

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CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(All amounts are in thousand RON)

Thousand RON	Note	Group		Bank	
		<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
Assets					
Cash and cash equivalents	17	517,436	642,914	510,747	636,525
Financial assets held for trading	18	67,809	99,966	6,785	28,635
Financial asset measured at "FVOCI"	19	652,016	-	651,914	-
Financial asset available for sale ("AFS")		-	1,151,064	-	1,151,064
Due from other banks	20	5,613	8,408	5,613	5,076
Loans and advances to customers	21	1,593,914	1,370,125	1,543,019	1,325,216
Investments in debt instruments at amortized cost	23	368,115	-	368,115	-
Investments held to maturity	22	-	107,708	-	107,708
Investment property	24	79,942	76,541	77,326	73,476
Reposessed assets	25	20,090	29,068	20,090	29,068
Investment in subsidiaries	27	-	-	31,725	27,505
Other financial assets	28	13,209	11,658	13,026	11,429
Other assets	29	16,114	14,037	17,525	15,658
Deferred tax assets		22,995	22,716	23,215	22,936
Intangible assets	30	42,799	45,280	41,049	43,211
Premises and equipment	31	143,698	168,105	143,319	167,886
Total assets		<u>3,543,750</u>	<u>3,747,590</u>	<u>3,453,468</u>	<u>3,645,393</u>
Liabilities					
Due to other banks	32	6,951	95,967	6,951	95,967
Customer deposits	33	3,057,030	3,231,281	3,064,601	3,256,296
Loans from banks and other financial institutions	34	37,403	39,893	-	59
Other financial liabilities	35	77,985	98,972	8,015	6,892
Provisions for other risks, credit commitments and financial guarantees	37	10,384	11,827	9,964	10,979
Other liabilities	38	24,760	15,609	22,690	14,060
Subordinated debt	39	23,373	29,589	23,373	29,589
Total liabilities		<u>3,237,886</u>	<u>3,523,138</u>	<u>3,135,594</u>	<u>3,413,842</u>
Equity					
Share capital	40	315,829	231,418	315,829	231,418
Merger premium	40	(67,569)	(67,569)	(67,569)	(67,569)
Redeemed own shares	40	(1,134)	(1,055)	-	-
Accumulated losses	40	(34,565)	(33,069)	(21,890)	(25,226)
Revaluation reserve	43	51,438	52,862	49,639	51,063
Reserves for general banking risks	43	15,301	15,301	15,301	15,301
Statutory legal reserve	43	11,886	11,886	11,886	11,886
Other reserves	43	14,678	14,678	14,678	14,678
Total equity		<u>305,864</u>	<u>224,452</u>	<u>317,874</u>	<u>231,551</u>
Total liabilities and equity		<u>3,543,750</u>	<u>3,747,590</u>	<u>3,453,468</u>	<u>3,645,393</u>

The financial statements were approved by the Board of Directors on 27th of March 2019 and were signed on its behalf by:

Bogdan Merfea
General Manager

Lucica Pitulice
Deputy General Manager

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CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in thousand RON)

Group													
Thousand RON	Note	Share capital	Merger premium	Redeemed Own shares	Revaluation Reserves AFS securities	Revaluation reserve for Premises	Statutory Legal reserve	Reserves for general banking risks	Other reserves	Accumulated loss	Owners of the Bank	Non-controlling interest	Total Equity
Balance at 1 January 2017		<u>199,218</u>	-	-	<u>(2,934)</u>	<u>21,375</u>	<u>23,503</u>	<u>11,683</u>	<u>30,290</u>	<u>(62,476)</u>	<u>220,659</u>	<u>61,515</u>	<u>282,174</u>
Loss for the financial year pre-merger		-	-	-	-	-	-	-	-	(14,311)	(14,311)	(4,246)	(18,557)
Decrease of reserve from revaluation of available-for-sale assets	41	-	-	-	(212)	-	-	-	-	-	(212)	(261)	(473)
Transfer from revaluation surplus to retained earnings	41	-	-	-	-	(523)	-	-	-	523	-	-	-
Other changes in Equity		-	-	-	-	-	-	-	-	1,269	1,269	710	1,979
Balance at 1 May 2017 absorbed company		<u>199,218</u>	-	-	<u>(3,146)</u>	<u>20,852</u>	<u>23,503</u>	<u>11,683</u>	<u>30,290</u>	<u>(74,995)</u>	<u>207,405</u>	<u>57,718</u>	<u>265,123</u>
Dissolution of the absorbed company	45	(199,218)	-	-	156	(22,416)	(23,503)	(11,683)	(30,290)	54,352	(232,602)	-	(232,602)
Capital of the absorbing company attributable to the controlling entity	45	146,293	-	-	2,808	41,704	7,626	9,817	15,038	(79,081)	144,205	-	144,205
Capital of the absorbing company attributable to non-controlling interests	45	81,720	-	-	(102)	22,420	4,260	5,484	(360)	(55,704)	57,718	-	57,718
Merger effect (share issuance)	45	155,966	(67,569)	-	-	-	-	-	-	-	88,397	-	88,397
Parrent Initial balance after merger		<u>383,979</u>	<u>(67,569)</u>	-	<u>(284)</u>	<u>62,560</u>	<u>11,886</u>	<u>15,301</u>	<u>14,678</u>	<u>(155,428)</u>	<u>265,123</u>	-	<u>265,123</u>
Group Initial balance after merger		<u>383,979</u>	<u>(67,569)</u>	<u>(1,055)</u>	<u>(284)</u>	<u>64,359</u>	<u>11,886</u>	<u>15,301</u>	<u>14,678</u>	<u>(155,428)</u>	<u>265,867</u>	<u>57,718</u>	<u>322,841</u>
Loss for the financial year of the		-	-	-	-	-	-	-	-	(31,836)	(31,836)	-	(31,836)
Comprehensive income statement of financial year, net													
Decrease of the reserves from revaluation of available-for-sale	41	-	-	-	(9,986)	-	-	-	-	407	(9,579)	-	(9,579)
Other items of comprehensive income, net of tax:		-	-	-	<u>(9,986)</u>	-	-	-	-	<u>407</u>	<u>(9,579)</u>	-	<u>(9,579)</u>
Transfer from revaluation surplus to retained earnings	41	-	-	-	-	(1,227)	-	-	-	1,227	-	-	-
Decrease of share capital	38	(152,561)	-	-	-	-	-	-	-	152,561	-	-	-
Balance at 31 December 2017		<u>231,418</u>	<u>(67,569)</u>	<u>(1,055)</u>	<u>(10,270)</u>	<u>63,132</u>	<u>11,886</u>	<u>15,301</u>	<u>14,678</u>	<u>(33,069)</u>	<u>224,452</u>	-	<u>224,452</u>

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CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in thousand RON)

Group

Thousand RON	Share Capital	Merger Premium	Redeemed Own shares	Revaluation n reserves AFS securities	Revaluation reserves for debt instruments at FVOCI	Revaluati on reserve for Premises	Statuto ry legal reserve	Reserves for general banking risks	Other reserves	Accumulated loss	Owners of the Bank	Non- controlling interest	Total Equity
Balance at 1 January 2018	<u>231,418</u>	<u>(67,569)</u>	<u>(1,055)</u>	<u>(10,270)</u>	-	<u>63,132</u>	<u>11,886</u>	<u>15,301</u>	<u>14,678</u>	<u>(33,069)</u>	<u>224,452</u>	-	<u>224,452</u>
Changes due to initial application of IFRS 9	-	-	-	10,270	(6,777)	-	-	-	-	(6,887)	(3,394)	-	(3,394)
Restated balance at 1 January 2018	231,418	(67,569)	(1,055)	-	(6,777)	63,132	11,886	15,301	14,678	(39,956)	221,058	-	221,058
Loss for the period	-	-	-	-	-	-	-	-	-	(3,978)	(3,978)	-	(3,978)
Other comprehensive income, net of tax	-	-	-	-	4,386	(1,310)	-	-	-	-	3,076	-	3,076
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,386</u>	<u>(1,310)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,978)</u>	<u>(902)</u>	<u>-</u>	<u>(902)</u>
Share capital increase through share issue	84,411	-	-	-	-	-	-	-	-	-	84,411	-	84,411
Transfer from revaluation surplus to retained earnings	-	-	-	-	-	(7,993)	-	-	-	7,993	-	-	-
Release of deferred tax asset due to the revaluation reserves transfer	-	-	-	-	-	-	-	-	-	1,376	1,376	-	1,376
Acquisition of own shares	-	-	(79)	-	-	-	-	-	-	-	(79)	-	(79)
Balance at 31 December 2018	<u>315,829</u>	<u>(67,569)</u>	<u>(1,134)</u>	<u>-</u>	<u>(2,391)</u>	<u>53,829</u>	<u>11,886</u>	<u>15,301</u>	<u>14,678</u>	<u>(34,565)</u>	<u>305,864</u>	<u>-</u>	<u>305,864</u>

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CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in thousand RON)

Bank

Thousand RON	Note	Share capital	Merger premium	Revaluation reserves AFS securities	Revaluation reserve for Premises	Statutory legal reserve	Reserves for general banking risks	Other reserves	Accumulate loss	Owners of the Bank	Non-controlling interest	Total Equity
Balance at 1 January 2017		<u>199,218</u>	-	<u>(2,934)</u>	<u>21,375</u>	<u>23,503</u>	<u>11,683</u>	<u>30,290</u>	<u>(62,476)</u>	<u>220,659</u>	<u>61,515</u>	<u>282,174</u>
Loss for the financial year pre-merger		-	-	-	-	-	-	-	(14,311)	(14,311)	(4,246)	(18,557)
Decrease of reserve from revaluation of available-for-sale assets	41	-	-	(212)	-	-	-	-	-	(212)	(261)	(473)
Transfer from revaluation surplus to retained earnings	41	-	-	-	(523)	-	-	-	523	-	-	-
Other changes in Equity		-	-	-	-	-	-	-	1,269	1,269	710	1,979
Balance at 1 May 2017 absorbed company		<u>199,218</u>	-	<u>(3,146)</u>	<u>20,852</u>	<u>23,503</u>	<u>11,683</u>	<u>30,290</u>	<u>(74,995)</u>	<u>207,405</u>	<u>57,718</u>	<u>265,123</u>
Dissolution of the absorbed company	45	(199,218)	-	156	(22,416)	(23,503)	(11,683)	(30,290)	54,352	(232,602)	-	(232,602)
Capital of the absorbing company attributable to the controlling entity	45	146,293	-	2,808	41,704	7,626	9,817	15,038	(79,081)	144,205	-	144,205
Capital of the absorbing company attributable to non-controlling interests	45	81,720	-	(102)	22,420	4,260	5,484	(360)	(55,704)	57,718	-	57,718
Merger effect (share issuance)	45	155,966	(67,569)	-	-	-	-	-	-	88,397	-	88,397
Initial balance after merger		<u>383,979</u>	<u>(67,569)</u>	<u>(284)</u>	<u>62,560</u>	<u>11,886</u>	<u>15,301</u>	<u>14,678</u>	<u>(155,428)</u>	<u>265,123</u>	<u>57,718</u>	<u>322,841</u>
Loss for the financial year after merger		-	-	-	-	-	-	-	(23,993)	(23,993)	-	(23,993)
Comprehensive income statement of financial year, net of tax:												
Decrease of the reserves from revaluation of available-for-sale assets	41	-	-	(9,986)	-	-	-	-	407	(9,579)	-	(9,579)
Other items of comprehensive income, net of tax		-	-	<u>(9,986)</u>	-	-	-	-	<u>407</u>	<u>(9,579)</u>	-	<u>(9,579)</u>
Transfer from revaluation surplus to retained earnings	41	-	-	-	(1,227)	-	-	-	1,227	-	-	-
Decrease of share capital	38	(152,561)	-	-	-	-	-	-	152,561	-	-	-
Balance at 31 December 2017		<u>231,418</u>	<u>(67,569)</u>	<u>(10,270)</u>	<u>61,333</u>	<u>11,886</u>	<u>15,301</u>	<u>14,678</u>	<u>(25,226)</u>	<u>231,551</u>	-	<u>231,551</u>

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CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in thousand RON)

Bank
Thousand RON

For period closed at 31 December 2018	Share capital	Merger premium	Revaluation reserves AFS securities	Revaluation reserves for debt instruments at FVOCI	Revaluation reserve for Premises	Statutory legal reserve	Reserves for general banking risks	Other reserves	Accumulated loss	Total equity attributable to entities that control
Balance at 1 January 2018	<u>231,418</u>	<u>(67,569)</u>	<u>(10,270)</u>	=	<u>61,333</u>	<u>11,886</u>	<u>15,301</u>	<u>14,678</u>	<u>(25,226)</u>	<u>231,551</u>
Ifrs 9 modification	-	-	10,270	(6,777)	-	-	-	-	(5,767)	(2,274)
Restated balance at 1 January 2018	231,418	(67,569)	-	(6,777)	61,333	11,886	15,301	14,678	(30,993)	229,277
Profit of the period	-	-	-	-	-	-	-	-	(266)	(266)
Comprehensive income, net of tax	=	=	=	4,386	(1,310)	=	=	=	=	<u>3,076</u>
Total global result for the period	-	-	-	4,386	(1,310)	-	-	-	(266)	2,810
Capital increase	84,411	-	-	-	-	-	-	-	-	84,411
Transfer to retained earnings from revaluation of tangible assets	-	-	-	-	(7,993)	-	-	-	7,993	-
Release of the deferred tax debt related to the asset revaluation reserve	-	-	-	-	-	-	-	-	1,376	1,376
Balance at 31 December 2018	<u>315,829</u>	<u>(67,569)</u>	=	<u>(2,391)</u>	<u>52,030</u>	<u>11,886</u>	<u>15,301</u>	<u>14,678</u>	<u>(21,890)</u>	<u>317,874</u>

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**CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR
ENDED 31 DECEMBER 2018
(All amounts are in thousand RON)**

<i>Thousand RON</i>	Group	Bank
	31 December	31 December
	2018	2017
	31 December	31 December
	2018	2017
Cash flows from operating activities		
Interest received	160,122	137,259
Interest paid	(38,223)	(32,607)
Fees and commissions received	28,814	28,184
Fees and commissions paid	(5,667)	(5,951)
Gain/Loss from financial derivatives	(217)	617
Net trading and other operating income	15,036	17,578
Recoveries from off balance sheet items	40,012	13,574
Cash payments to employees	(78,785)	(90,958)
Cash payments to suppliers	(41,517)	(81,181)
Income taxes paid	(715)	(853)
Net cash-flow from operating activities before changes in operating assets and liabilities	<u>78,860</u>	<u>(14,338)</u>
Changes of operating assets		
<i>(Increase)/Decrease of:</i>		
- loans and advances to banks	2,804	(1,472)
- financial assets held for trading	32,013	15,317
- loans and advances to customers	(262,956)	(143,709)
- other financial assets and other non-financial assets	(7,063)	(9,376)
Total changes of operating assets	<u>(235,202)</u>	<u>(139,240)</u>
Changes of operating liabilities		
<i>(Increase)/Decrease of:</i>		
- due to other banks	(88,996)	53,844
- deposits from customers	(175,561)	(2,101)
- other financial liabilities and other non-financial liabilities	(11,909)	1,610
Total changes of operating liabilities	<u>(276,466)</u>	<u>53,353</u>
Net cash flow used in operating activities	<u>(432,808)</u>	<u>(100,225)</u>
Cash flows from investing activities		
Acquisition of investment securities at FVOCI	(286,345)	(989,352)
Proceeds from investment securities at FVOCI	584,883	1,008,836
Redemption of investments held to maturity	-	2,158
Acquisitions of debt instruments at amortized cost	(170,458)	-
Proceeds from debt instruments at amortized cost	112,688	112,688
Acquisition of equity investment securities	-	(1,078)
Sale of equity investment securities	-	2,299
Proceeds from dividend	1,971	2,352
Sale of investment property	449	1,730
Acquisition of tangible and intangible assets	(11,530)	(6,496)
Net cash from investing activities	<u>231,658</u>	<u>18,150</u>

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**CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR
ENDED 31 DECEMBER 2018**
(All amounts are in thousand RON)

	Group		Bank	
<i>Thousand RON</i>	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Cash flows from financing activities				
Drawdowns from loans from other financial institutions	-	18,343	-	-
Repayments of loans from other financial institutions	(2,476)	(25,980)	(45)	(15,207)
Proceeds from subordinated debt	57,368	9,136	57,369	9,136
Issue of shares capital	20,762	-	20,841	-
Net cash generated from /used in financing activities	<u>75,654</u>	<u>1,499</u>	<u>78,165</u>	<u>(6,071)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>18</u>	<u>6,603</u>	<u>20</u>	<u>6,603</u>
Net (decrease) in cash and cash equivalents	(125,478)	(73,973)	(125,778)	(51,513)
Cash and cash equivalents at 1 January	<u>642,914</u>	<u>716,887</u>	<u>636,525</u>	<u>688,038</u>
Cash and cash equivalents at 31 December	<u>517,436</u>	<u>642,914</u>	<u>510,747</u>	<u>636,525</u>

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in thousand RON)**

1. REPORTING ENTITY

At 31 December 2018 - The Group Patria Bank ("The Group") includes Patria Bank S.A. (resulted from the 2017 reverse merger between Banca Comerciala Carpatica and Patria Bank former Nextebank until 2016), –"Patria Bank", ("The Bank"/"PBK"), Patria Credit IFN SA ("IFN"), Patria Investments SA (former SAI Patria Asset Management SA), Imobiliar Invest SRL, Carpatica Invest SA and SAI Patria Asset Management SA (former SAI Carpatica Asset Management) together with managed investment funds: FDI Patria Stock, FDI Patria Global si FDI Patria Obligatiuni).

Patria Bank SA is the Parent of the Group.

At 31 December 2017 - The Group Patria Bank ("The Group") includes Patria Bank S.A. (resulted from the 2017 reverse merger between Banca Comerciala Carpatica and Patria Bank former Nextebank until 2016), –"Patria Bank", ("The Bank"/"PBK"), Patria Credit IFN SA ("IFN"), Patria Investments SA (former SAI Patria Asset Management SA), Imobiliar Invest SRL, Carpatica Invest SA and SAI Carpatica Asset Management SA (together with managed investment funds: FDI Carpatica Stock, FDI Carpatica Global and FDI Carpatica Obligatiuni).

At 31 December 2018 the Structure of the Patria Bank Group is the following:

- **Patria Bank S.A. – Parent** – is a Romanian credit institution resulted from the merger by absorption between the former Banca Comerciala Carpatica S.A. (as an absorbing entity) and former Patria Bank S.A. (as an absorbed entity), which took place on 1st of May 2017.
According to the decision of the General Meeting of Shareholders regarding the approval of the merger, the decision to change the name of the absorbing company from Banca Comerciala Carpatica S.A. in Patria Bank S.A. was implemented at the same time with the merger date.
The Registered office: Bucharest, District 1, 31 Ion Brezoianu Actor Street, floors 1, 2 and attic.

As of 31 December 2018 and 31 December 2017 the Bank is ultimately controlled by Emerging Europe Accession Fund Cooperatief U.A. ("EEAF") 100% owner of EEAF Financial Services B.V.. The main investors in EEAF are EBRD - European Bank for Reconstruction and Development, EIF - European Investment Fund (part of the European Investment Bank group), DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH, Black Sea Trade and Development Bank. These four institutions held joint control over the Emerging Europe Accession Fund Cooperatief U.A.

The Group provides banking services and other financial services to SMEs, microenterprises and retail clients. These services include: deposit accounts, domestic and international payments, foreign exchange transactions, working capital loans, medium term lending, bank guarantees, letters of credit.

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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- **Patria Credit IFN SA – Subsidiary** - is registered in Romania as of February 12, 2004 and is authorized by the National Bank of Romania ("NBR") to carry out lending activities. Starting with September 28, 2007, IFN is registered with the General Register of the NBR's Non-banking Financial Institutions ("IFN"), and as of February 26, 2008 Patria Credit IFN was also registered with the NBR Special Register.

Starting February 2016, Patria Credit IFN was de-registered from the Special Register of Non-Banking Financial Institutions in accordance with the NBR address 428/2 / 15.02.2016, as a result of the decrease of the specific indicators of the registration in the Special Register.

Subsequently, on 31.12.2017, Patria Credit IFN fulfilling the criteria for registration in the Special Register for the third consecutive quarter was re-registered in the NBR Special Registry starting with 18.05.2018. Patria Credit IFN is specialized in rural lending and microfinance and is under the control of Patria Bank SA, by taking over 99.998072% of the share capital and voting rights held by the former Patria Bank SA.

- **Patria Investments SA – Subsidiary** – (Voluntary Liquidation) (former SAI Patria Asset Management SA, former SAI Intercapital Investment Management SA) to which the ASF (Financial Supervisory Authority of Romania) revoked on 23.11.2017 the authorization for the operation (administration of investment funds) at the request of the company and is currently in the process of voluntary liquidation; it is a company under the control of Patria Bank SA, by taking over the share held by former Patria Bank SA of 99.99% of the share capital and the voting rights. Following the decision of the Extraordinary General Meeting of Shareholders of S.A.I. Patria Asset Management SA dated 19 September 2017, the company decided to withdraw from the capital market. The investment fund management activity was discontinued starting with 19 October 2017, the company requesting and obtaining the withdrawal of the authorization from the ASF at the end of 2017. At the same time, at the General Meeting of the Company's Shareholders dated 19 September 2017, it was decided to change the scope of activity of SAI Patria Asset Management SA in "Management consultancy activities", as well as a name of the company from SAI Patria Asset Management in SC Patria Investments SA. During 2018, Patria Bank has taken the necessary steps to liquidate the Patria Investments subsidiary, according to the legal procedures, a process that was completed in January 2019. For the purpose of 2018 consolidated statement of comprehensive income, the Group included the subsidiary's 2018 result in the Group results; its impact is not material to the results of the Group.
- **SAI Patria Asset Management SA - Subsidiary** - (former SAI Carpatica Asset Management) (and the three investment funds managed by it - FDI Patria Stock, FDI Patria Global, FDI Patria Obligatiuni), authorized by the Romanian Financial Supervisory Authority (ASF) for the management of investment funds; it is a company under the control of Patria Bank SA by taking over 99.99% of the share capital and voting rights held by the former Banca Comerciala Carpatica SA. In 2018 the company changed its name from SAI Carpatica Asset Management to SAI Patria Asset Management, with a corresponding change in the name of the three managed fund.

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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- **Imobiliar Invest SRL (Voluntary liquidation) – Subsidiary** - based in Sibiu, Autogarii street, no 1, having the main activity of buying and selling of own real estate, a company in the process of voluntary liquidation, having the main activity of buying and selling its own real estate; it is a company under the control of Patria Bank SA, by taking over the stake held by former Banca Comerciala Carpatica SA of 100% of its share capital and voting rights. By Decision 51397 / 21.07.2014, Banca Comerciala Carpatica SA, as the sole shareholder of IMOBILIAR INVEST SRL, decided the early dissolution and the voluntary liquidation of the company.
- **Carpatica Invest SA (Dissolution) – Subsidiary** - Carpatica Invest S.A. with its headoffice in Sibiu, 5 Mihai Viteazu Street. Carpatica Invest S.A. was a financial investment services company authorized, regulated and supervised by the Financial Supervisory Authority (“ASF”); the Group owns 95.68% of the shares (2017: 95.68%). The Financial Supervisory Authority has ruled to suspend the trading activity of Carpatica Invest SA, considering that the company is not compliant with the legal requirements regarding the level of own funds. Thus, the main shareholder, Banca Comerciala Carpatica SA, has decided to dissolve the company. Considering the dissolving decision and the insignificant impact of consolidating Carpatica Invest SA, the Group has decided to modify the scope of the consolidation by excluding Carpatica Invest SA for the 2017 and 2018 statements.

2. BASIS OF PREPARATION

a) Statement of compliance

In order to be compliant with the National Bank of Romania Order no 27/16.12.2010, the financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”).

The accounts of the Group are maintained in RON in accordance with Romanian accounting law and National Bank of Romania’s banking regulations. These accounts of the Group are defined hereafter as the statutory accounts.

Patria Bank S.A. is the result of the merger by absorption between the former Banca Comerciala Carpatica SA (as the absorbing entity) and the former Patria Bank S.A. (as the absorbed entity), merger which was implemented on the 1st of May 2017.

In the context of the above merger, the comparative statement of financial position of Patria Bank SA is the statement of the bank resulting from the merger for the year end 2017 and, from the perspective of the statement of comprehensive income, the statement was prepared as if the merger were performed from the beginning of the year 2017, this being the Bank’s accounting policy choice adopted for accounting for the merger and for the presentation of the financial statements of the entity resulting from this merger.

With respect to comparatives in the statement of Comprehensive income for to the same period of the previous year and with respect to the Balance Sheet comparatives as of the end of 2017, they were prepared as consolidated amounts for the two banks for periods prior to the merger, using carrying amounts from the highest level of consolidated financial statements.

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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Patria Bank Group prior to the merger was controlled by EEAF, the majority shareholder of Patria Bank SA, and the consolidation perimeter included the two banks: Patria Bank SA and Banca Comerciala Carpatica SA, as well as their subsidiaries Patria Credit IFN, Patria Investenta SA, SAI Carpatica Asset Management SA, Imobiliar Invest SRL and the 3 funds FDI Carpatica Stock, FDI Carpatica Global and FDI Carpatica Obligatiuni. The highest level of consolidated financial statements are Patria Bank's consolidated financial statements, with Patria Bank being the highest parent of the Group.

Patria Bank SA as the entity resulted from the merger adopted as accounting policy applied to the merger process between Patria Bank SA and Banca Comerciala Carpatica SA the method of *Predecessor accounting*, according to which the financial statements of the entity resulted from the merger represent a continuation of the consolidated financial statements of the two pre-merger entities, resulting from the application of IFRS 3 which identifies the acquisition date as March 2016 and the buyer as Patria Bank SA, in other words the Consolidated Financial Statements of Patria Bank SA *) represents the Predecessor of the Separate Financial Statements (Separate) of Patria Bank post-merger.

*) at a sub-consolidated level including only the consolidation of Patria Bank and Banca Comerciala Carpatica and excluding other Patria Bank Group subsidiaries as shown in the next paragraph.

b) Basis of measurement

These financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of properties and equipment, financial assets at fair value through other comprehensive income, and financial instruments at fair value through profit or loss and non-current assets held for sale. The main accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

The Group prepared these financial statements in accordance with NBR Order No. 27/2010 and The Accounting Law No. 82/1991 republished, with subsequent modifications and according with IFRS.

In the Group's financial statements, subsidiary undertakings (those entities in which the Group, directly or indirectly, has an interest of more than half of the shares and voting rights or has the power to exercise control over their activity) will be consolidated.

c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Patria Bank SA and all its subsidiaries for the year ended December 2018 and December 2017.

In the separate financial statements the Bank records the participations in subsidiaries separately at cost.

All balances between Group companies, transactions, income and expenses, losses and gains arising from transactions between Group companies are eliminated in full.

Subsidiaries are entities controlled by the Bank. An investor controls an investee when it has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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(All amounts are in thousand RON)**

The entities in the Group are incorporated in Romania, keep their accounting books and prepare their statutory financial statements as follows:

- the Bank, SAI Patria Asset Management, FDI Patria Stock, FDI Patria Global, FDI Patria Obligatiuni in accordance with IFRS as adopted by the European Union ;
- Patria Credit IFN SA , Imobiliar Invest S.R.L. in accordance with Romanian accounting regulations.

The Bank consolidates the financial statements of its subsidiaries in accordance with IFRS 10. The list of Group subsidiaries is presented in Note 1.

The Group presents the non-controlling interest in its consolidated financial position within equity, separated from the equity of the parent company's owners.

The non-controlling interest is measured proportionally with the percentage held in the net assets of the subsidiary. Changes in a parent's ownership interest in a subsidiary, which do not result in the loss of parent control of the subsidiary, are reflected as equity transactions.

d) Going concern

The preparation of the consolidated and individual financial statements is based on the going concern assumption that involves management's assessments, estimates and hypotheses related to the income, expenses, assets, liabilities, cash flows, liquidity and capital requirements of the Bank. The uncertainty in relation to these hypotheses and estimates could determine results that require significant adjustments of the assets, liabilities and capital requirements in the future periods.

The Bank's ability to continue its planned activity depends, as presented below, on leveraging the activities that helped the Bank achieve breakeven point 2018, on the shareholder's financial support, on attracting Tier II capital instruments from new investors, as well as the compliance with the regulations of the National Bank of Romania.

(1) Operational considerations

In 2018, the Bank has reached the breakeven point with a marginal loss for the year of RON 0.266 million being recorded in 2018. This point was reached amid increased commercial activity (especially credit growth), optimization in the area of non-productive fixed assets and increased recovery of non-performing loans, leading to a period of monthly operational profitability during the second half of 2018.

The net operating income increased by 4% compared with 2017 while the operating expenses base has registered a decrease of 8% as result of the optimizations measures undertaken during the year. The operating result in 2018 has improved substantially from a loss of RON 22.7 million to a loss of RON 1.8 million (+92%).

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During 2018 the loan portfolio continued its upward trend noted during 2017 after the completion of the merger process (1 May 2017) recording as of 31 December 2018 a net exposure 16% higher than the net exposure at the end of 2017. This led to an increase of the weight of the net loans in total assets (from 36% as of 31 December 2017 to 45% as of 31 December 2018) and to an improvement of the gross loans / deposits ratio (57% as of 31 December 2018 compared to 46% as of 31 December 2017). The performing portfolio (gross exposure) increased in 2018 by 24% compared with 31 December 2017.

The Bank considered in the 2018 budget a set of actions that, by their achievement or overachievement during 2018, contributed in reaching the breakeven point. These included: sale of the non-productive assets (land & buildings) and sale of non-performing loans, the sale of loan portfolios generated a positive net impact of RON 32.9 million on the net result for the year.

The Bank's profitability continued to be under pressure during 2018, due to the under-optimal structure of assets in the Bank's balance sheet, where the significant liquidity surplus invested in short-term government bonds generated lower interest earnings than average yields of the loan portfolio. The increase of the loan portfolio during 2018 has created the basis for this pressure to decrease gradually as the Bank implements its lending growth strategy.

(2) Capital Ratios considerations

Strengthening the Bank's capital base during 2018

To ensure compliance with the capital ratios imposed by the National Bank of Romania based on regulations applicable to EU credit institutions, during 2018 the Bank's capital base was increased in 2 phases.

Following the first phase of the capital increase process concluded in the first half of the year, the Bank's share capital was increased by RON 47,043,960.90 of which: i) RON40,309,000 was through the conversion of two subordinated loans totalling EUR 8,650,000 granted to the Bank by the majority shareholder EEAF Financial Services BV (of which EUR 4,350,000 loan granted in 2016 and EUR 4,300,000 loan granted in February 2018); ii) RON 6,734,960 was contributed in cash (of which: RON 5,825,000.90 cash contribution from the majority shareholder EEAF Financial Services BV and RON 909,960.00 cash contribution of the minority shareholders).

In the second phase of the capital increase process concluded by the end of October 2018, the Bank's share capital was increased by RON 37,367,365.30 of which: i) RON 23,329,000 through the conversion of one subordinated loan in amount of EUR 5,000,000 granted in 2018 to the Bank by the majority shareholder EEAF Financial Services BV; and ii) RON 14,038,365.30 contribution in cash (of which: RON 13,965,000 cash contribution of the majority shareholder EEAF Financial Services BV and RON 73,365.30 cash contribution of the minority shareholders).

Also, in December 2018, the majority shareholder granted a new subordinated loan of EUR 3,000,000.

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Thus, the total increase of the capital base during 2018 was RON 84,411,326.20, of which the contribution of the majority shareholder was RON 83,428,000.90.

As of 31 December 2018:

At an individual level the Bank's Capital Adequacy Ratio (Total Capital Ratio) is 15.78%, being over the TSCR limit (10.93%) and over the minimum OCR limit of 12.81% (TSCR plus capital conservation buffer of 1.875%), registering an increase compared to 10.61% level at the end of 2017. The increase of the TCR was supported by the share capital increases that took place during 2018 (as mentioned above) and the improvement of the net result of 2018. The TSCR limit for the Total Capital Requirements has been increased starting with February 2018 from 10.57% to 10.93% following the completion of the Surveillance and Evaluation Process (SREP) conducted by the National Bank of Romania in 2017.

The CET 1 ratio is 14.59%, above TSCR limit (6.12%) and above OCR limit (8.0%).

At the consolidated level the Bank's Capital Adequacy Ratio (Total Capital Ratio) is 15.69%, being over the TSCR limit (11.13%) and over the minimum OCR limit of 15.01% (TSCR plus capital conservation buffer of 1.875% plus 2% systemic shock buffer introduced since 30 June 2018). The level of the systemic buffer of 2% is set according to the current NBR methodology for the calculation of one of the parameters that define the matrix of the systemic shock buffer i.e. of the coverage ratio. In March 2019 the regulation covering the calculation methodology of the coverage ratio specifically applicable to banks which acquired loan portfolios (of which value incorporated a market value adjustment) has been modified (through NBR Order 2/26.02.2019 published in the Official Gazette no.213 Part I/18.03.2019). The Bank will qualify for the level of 1% systemic risk buffer until the end of 2019. This will have a positive impact in the level of minimum capital requirements at consolidated level.

The CET 1 ratio is 14.44%, above TSCR limit (6.23%) and above OCR limit (10.11%).

As of 28 February 2019 the Bank complies with capital ratios requirements.

(3) Other considerations

Starting with January 2019 the Bank has implemented a set of measures in order to comply with the provisions of NBR requirements addressed to the Bank. These requirements address operational as well as business aspects and their implementation comes in line with management's objectives. There are requirements related to: lending activity (limitation on unsecured lending, specifically no new originations), the loan book structure (any business segment should not exceed 30% of the total portfolio of loans granted to legal entities) and cost-to-income ratio (that needs to register a decreasing trend during 2019). The Bank adjusted its risk strategy according to the above requirements.

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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The requirements also address the minimum capital level, which is in the management attention on a continuous basis. In order to ensure compliance with this level a combined set of measures will be implemented: (i) intended adherence to a business plan which generates a positive result, excluding the impact of the tax on financial assets introduced by the Government Emergency Ordinance No. 114/2018 (“OUG 114”) issued at the end of December 2018 (the “Tax on Financial Assets”); (ii) optimisation of the risk weighted assets base; and (iii) measures to further strengthen the capital base.

OUG 114 affects various sectors of the economy such as energy, telecommunications, private pensions (second pillar) and the banking sector. As regards the financial and banking sector, the Tax on Financial Assets is applied using the ROBOR levels at 3 months and 6 months as a benchmark. Practically, the method of calculation links the payment of a fee by financial institutions to ROBOR. Thus, considering the ROBOR level at 3 and 6 months for the observation period, the estimated tax rate is 0.3% of the financial assets per quarter (1.2% on an annualised basis). On this basis, the impact in 2019 on the Bank is estimated at around RON 36 million. This level is estimated by the Bank in the absence of the methodological norms for the application of the OUG 114.

Note that, the above impact of the provisions of OUG 114 on the Bank’s 2019 financial results has been assessed using the form of OUG 114 published on 21 December 2018. At the date of the approval of these financial statements a draft revised version of the OUG 114 has been publicly released being subject to Government approval. If the published amendments will be approved as such, then the impact in 2019 of the revised tax on the Bank is estimated to be approximately in the range RON 3 million – 8 million. The full and actual impact of the new form of the OUG 114 will be assessed and included in the 2019 financial performance of the Bank once known.

In 2019, compliance with capital ratios and the additional NBR requirements described above will be influenced by the financial result (which is turn will be materially negatively impacted by the Tax on Financial Assets) as well as by the implementation of the other planned measures described above. Failure to comply with these collective requirements may create a material uncertainty that may cast significant doubt on the Bank’s ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Nevertheless, management of the Bank believes that it is appropriate for the going concern principle to be applied in the preparation of the consolidated and separate financial statements, due to: (1) the adopted plans to strengthen the tier 2 capital base, (2) the plans to continue growing the business while optimizing the cost base such that the Bank achieves sustained profitability (excluding the effect of the Tax on Financial Assets); and (3) its comfortable liquidity position. These factors are set out below:

i) 3 year business plan with positive returns (excluding the impact from Tax on Financial Assets)

The Board of Directors of the Bank has approved the Bank’s 3 years business plan whereby it expects to generate profits in the period 2019-2021 (excluding the effect of the Tax on Financial Assets); the impact of the Tax on Financial Assets was included in the business plan using the current provisions of the OUG 114. The plan is designed only based on organic growth and also based on a plan for right sizing the footprint and the entire organization of the Bank in order to create the optimal balance between the income base and the cost base.

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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For 2019, the Bank plans to leverage on the income drivers developed during 2018, as it plans to continue to increase the weight of the higher yielding assets (loans to customers) in its total assets, implying also a corresponding increase of the risk weighted assets. The increase in the size of the loan book is expected to lead to an increase of the operating income of the Bank, while in parallel the management aims to continue the optimization of the operating costs of the Bank, including the cost of risk and cost of funding, in order to achieve the profitability targets. The business plan also includes a continuation of actions started in 2018 for decreasing the size of the non-productive assets through a strategy of sale (for those properties classified as repossessed assets) or a strategy of lease-out (for those classified as investment property). Through the sale actions the usage of the capital base of the Bank will be improved, as these assets are also very capital intensive.

ii) Strengthening the Bank's Tier 2 capital base during 2019

Included in 2019 business plan of the Bank (approved by Board of Directors on 15 March 2019) is an increase of the capital base by EUR 10,000,000 in the form of Tier 2 capital attracted from new investors.

Complementary to the above actions the main shareholder of the Bank - EEAF Financial Services BV demonstrated its ongoing commitment to support the Bank's operations through a support letter dated 27 March 2019. The main shareholder of the EEAF Financial Services BV is the investment fund Emerging Europe Accession Fund Cooperatief U.A. (EEAF), whose main investors are the following international financial institutions:

- EBRD - European Bank for Reconstruction and Development
- EIF - European Investment Fund part of European Investment Bank (EIB)
- BSTDB - Black Sea Trade and Development Bank
- DEG – Development Bank part of the group KFW.

The above mentioned actions aim to strengthen the capital base required to maintain compliance with the regulatory capital during the process of driving lending book growth to reach an optimal balance sheet structure although the size of the balance sheet and of the network footprint will be adjusted downwards following also the implications on the total financial result of the introduction of the Tax on Financial Assets.

iii) Liquidity considerations

As noted above, the Bank has a very strong liquidity position demonstrated by the level of key liquidity indicators such as LCR (653% at the end of December 2018 – well above the Romanian market average level and the minimum level required for this indicator of 100%) and a ratio of liquid assets to total assets of 45%. For LCR in 2019 the Bank will have to maintain a level of minimum 100% for the main currencies (RON and EUR) and a minimum level of 400% for all currencies in equivalent reporting currency lei. The extra liquidity placed at the end of 2018 in low yielding assets will be gradually shifted to lending book thus the estimated projection of the ratio of liquid assets to total assets for 31 December 2019 is of 32%.

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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Based on all of the above, the Bank's management has made an assessment regarding the going concern principle and has concluded that the going concern principle is appropriate as basis for the preparation of the consolidated and separate financial statements as at and for the period ended 31 December 2018.

e) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the Notes 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The Bank's accounting policies are similar with Patria Bank Group.

a. CHANGES IN ACCOUNTING POLICIES – TRANSITION TO IFRS

The Group has adopted IFRS 9 as issued by IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current year (12 months ended 31 December 2018). The comparative period notes disclosures (the financial year ended 31 December 2017) repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

The transition note presents below the impact of IFRS 9 adoption for Patria Bank.

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The impact of IFRS 9 adoption for the Group is represented by:

- Remeasurement differences related to the carrying amount of loans and advances to customers
 - Patria Bank: RON (4,887) thousand
 - For the subsidiary Patria IFN SA: RON (1,058) thousand
- Differences resulted from the reclassification of financial assets as financial assets at amortised cost (IFRS 9) from the previous classification as financial assets available for sale (IAS 39)
 - Patria Bank : RON 4,078 thousand
 - For the subsidiary Patria IFN SA no such classification differences occurred
 -

The Group's subsidiaries do not have any other remeasurement or reclassification differences except for the computation of impairment for loans and advances in Patria IFN SA detailed above.

The impact of IFRS 9 adoption at Group level is RON (1,867) thousand (overall net impact in equity) and for Patria Bank the net impact in equity is RON (809) thousand.

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(a) Classification and measurement of financial instruments

Bank

Thousand RON	IAS 39		IFRS 9	
	31 December 2017		1 January 2018	
Assets	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and cash equivalents	Amortised cost	636,525	Amortised cost	636,525
Financial assets at fair value through profit or loss (FVPL)	AFS	28,635	FVPL	28,635
Financial assets at fair value through other comprehensive income (FVOCI)	(AFS)	1,151,064	FVOCI	956,692
Due from other banks	Amortised cost	5,076	Amortised cost	5,076
Loans and advances to customers	Amortised cost	1,325,216	Amortised cost	1,320,291
Investments held to maturity	Amortised cost	107,708	Amortised cost	-
Investments in debt instruments at amortised cost	Amortised cost	-	Amortised cost	306,129
Equity instruments at fair value through other comprehensive income	AFS	27,505	FVOCI	27,505
Other financial assets	Amortised cost	9,065	Amortised cost	9,132
Total assets		3,290,794		3,289,985

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(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

Bank

<i>Thousand RON</i>	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 Carrying amount 1 January 2018
<i>Amortised cost</i>				
Cash and cash equivalents				
Opening balance under IAS 39 and closing balance under IFRS 9	636,525	-	-	636,525
Due from other banks				
Opening balance under IAS 39 and closing balance under IFRS 9	5,076	-	-	5,076
Loans and advances to customers				
Opening balance under IAS 39	1,325,216	-	-	-
- Remeasurement: ECL allowance	-	-	(4,925)	-
Closing balance under IFRS 9	-	-	-	1,320,291
Investments in debt instruments at amortised cost				
Opening balance under IAS 39	-	-	-	-
- Addition: from held to maturity (IAS 39)	-	107,708	(29)	-
- Addition: from available for sale (IAS 39)	-	198,450	-	-
Closing balance under IFRS 9	-	-	-	306,129
Investments held to maturity				
Opening balance under IAS 39	107,708	(107,708)	-	-
- Subtraction: to amortised cost IFRS 9	-	-	-	-

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<i>Thousand RON</i>	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 Carrying amount 1 January 2018
Other Financial Assets				
Opening balance under IAS 39	9,065	-	-	-
- Remeasurement: ECL allowance	-	-	67	-
Closing balance under IFRS 9	-	-	-	9,132
Total financial assets measured at amortised cost	2,083,590	198,450	(4,887)	2,277,153
Financial assets at fair value through profit or loss (FVTPL)	-	-	-	-
Held for trading				
Opening balance under IAS 39 and closing balance under IFRS 9	28,635	-	-	28,635
Debt instruments at fair value through other comprehensive income				
Opening balance under IAS 39	-	-	-	-
- Addition: from available for sale IAS 39	-	956,692	-	-
Closing balance under IFRS 9	-	-	-	956,692
Equity instruments at fair value through other comprehensive income				
Opening balance under IAS 39 and closing balance under IFRS 9	27,505	-	-	27,505
Financial assets available for sale				
Opening balance under IAS 39	1,178,569	-	-	-
- Reclassification at amortised cost (IFRS 9)	-	(194,372)	-	-
- Reclassification to FVOCI (IFRS 9)	-	(984,197)	-	-
Closing balance under IFRS 9	-	-	-	-
Reclassifications to amortised cost	-	-	-	2018
Fair value as at 31 December 2018	-	-	-	101,975
Fair value loss that would have been recognised in the period if the financial asset had not been reclassified				618

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b. SIGNIFICANT ACCOUNTING POLICIES

Financial assets and liabilities in accordance with IFRS 9

A financial instrument is any contract which generates simultaneously a financial asset for one entity and a financial liability or an equity instrument for the other entity. According to IFRS 9 (as well as IAS 39) all the financial assets and liabilities – including derivatives – must be recognised in the statement of financial position and measured according to the assigned categories.

Measurement methods

Amortised cost and effective interest rate

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect the contractual cash flows and the contractual cash flows are SPPI.

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired financial assets (“POCI”) the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

In the statement of financial position these assets are measured at amortised cost which is the gross carrying value less impairment allowances. These assets are included within the following statement of financial position line items: “Investments in debt instruments at amortised cost”, “Loans and advances to customers”, “Cash and cash equivalents”, “Due from other banks”.

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In Patria Bank SA the financial assets at amortised cost represent the largest financial asset category; these include: the largest majority of loans and advances to customers (except for certain loans mandatory measured at fair value through profit or loss), interbank loans (including reverse repo transactions), deposits with Central Bank, amounts in course of settlement, trade receivables and other receivables. Investments in securities measured at amortised cost may be acquired for different business purposes such as: compliance with internal/external liquidity risk requirements, efficient investment of surplus liquidity, strategic position set by the Bank's management, origination and support for client relationships, replacement of loan activity with other activities in order to improve the yield.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- Financial assets that are not POCI but have subsequently become credit-impaired (or stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Interest income for these assets are valued using the effective interest rate and are included in the line item "Net interest income" in the statement of comprehensive income.

Gains or losses from impairment are included in the line item "Gains or losses from impairment of financial instruments".

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or liability, such as fees and commissions.

Transaction costs of financial assets and liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

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When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Group recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

i. *Classification and subsequent measurement*

From 1 January 2018, the Group has implemented IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss („FVPL”);
- Fair value through other comprehensive income („FVOCI”); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- The Group's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in the (ii) *Impairment* section below. Interest income from these financial assets is included in “Interest income” using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in “Net investment income”. Interest income from these financial assets is included in “Interest income” using the effective interest rate method.

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- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within “Net trading income” in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in “Net investment income”. Interest income from these financial assets is included in “Interest income” using the effective interest rate method.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group’s objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of ‘other’ business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include :

- Past experience on how the cash flows for these assets were collected
- How the asset’s performance is evaluated and reported to key management personnel
- How risks are assessed and managed
- How managers are compensated

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments’ cash flows represent solely payments of principal and interest (the “SPPI test”). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Group considers the following factors in applying the SPPI benchmark test:

- Whether payment terms are “not genuine” or “de minimis”
- Rights in bankruptcy or when non-payment happens
- Arrangements denominated in a foreign currency
- Prepayment and term extending options
- Other contingent payment features
- Non-recourse arrangements
- The time value of money element of interest
- Contractually linked instruments (tranches) and negative interest rates.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

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Fair value option for financial assets

The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. The Group does not hold financial assets designated at fair value through profit or loss using the fair value option.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Basic ordinary shares held by the Group are such equity instruments.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the "Net trading income" line in the statement of profit or loss.

ii. *Impairment of financial instruments in accordance with IFRS 9*

The Group assesses the expected credit losses ("ECL") using a prospective methodology. IFRS 9 impairment model applies to financial assets measured at amortized cost or at FVOCI and to certain credit commitments and financial guarantees. IFRS 9 introduces a significant change in relation to IAS 39, namely that the expected loss should also be calculated for financial assets measured at fair value through other items of comprehensive income (FVOCI). As stated by IFRS 9, for FVOCI assets "5.5.2 The calculated loss is recognized in other comprehensive income and should not reduce the carrying amount of the financial asset in the statement of financial position." IFRS 9 B5.6.1 explicitly mentions that impairment gains and losses are recognized using the same methodology that applies to financial assets measured at amortized cost.

Expected credit losses on assets measured at amortized cost are recognized in the income statement and reduces the value of the asset.

For credit commitments and financial guarantees, the expected credit losses are recognized as liabilities.

Expected credit losses on assets measured at amortized cost are recognized in the income statement and reduces the value of asset.

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The main assets to which the depreciation model applies are:

- Loans to customers
- Due to banks (current accounts, deposits)
- Government securities
- Corporate bonds
- Other assets (other receivables, cash in transit etc.)

IFRS9 requires the determination of an expected credit loss for a financial instrument in a way that it reflects:

- An objective and weighted value based on the probability determined by evaluating possible scenarios; ==> (B5.5.28) Expected credit losses are a weighted estimate of the probability of a credit loss (i.e. the present value of future cash loss) over the estimated life of the financial instrument. A cash deficit is the difference between the cash flows due to an entity under the contract and all the cash flows that the entity expects to receive. Because estimated credit losses consider the value and timing of payments, a credit loss occurs even if the entity expects to be fully paid but later than when it is contractually owed.
- Time value of money; ==> (B5.5.44) estimated credit losses will be updated at the reporting date using the effective interest rate determined on initial recognition or an approximation of it. Where a financial instrument has a variable interest rate, the expected credit losses are updated using the effective interest rate determined in accordance with paragraph B5.4.5.
- Reasonable and possible information available at no cost or unjustified effort at the time of reporting on past events, current conditions and projections for future economic conditions. ==> (B5.5.52) Historical information is an anchor or an important basis to measure ECL. Historical data (such as credit loss experience) should be adjusted based on current observable data to reflect the effects of current conditions and projections on future conditions that did not affect the period on which historical data is based and to eliminate the effects of conditions during the period which are not relevant for future contractual cash flows.
- Collective evaluation ==> (B5.5.1 B.5.5.5) requires that the ECL determination is made at the individual level for financial instruments. However, a collective evaluation of financial instruments with similar risk characteristics is permitted. These risk factors should be relevant for estimating future cash flows for each group.
- Measurement of expected credit losses uses complex models based on historical statistical information about probabilities of default and loss given default, their extrapolation in case the number of observations is not sufficient, individual assessment of modified cash flows and probabilities of different scenarios, including prospective information. In addition to this, the duration of the instrument must be modelled based on the possibilities of early repayment and the pattern/behaviour of the revolving facilities.

iii. *Modification of loans*

If the Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

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- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

iv. *Derecognition other than on a modification*

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

Control is retained when the other party does not have the practical ability to sell the asset in its entirety to a third party, without imposing restrictions to selling the asset.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

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v. *Derecognition of non-recoverable loans*

The Group performs derecognition of non-recoverable loans by recording them off balance sheet (and their respective impairment losses) when the Bank's Risk Committee / Board of Directors decides that they are irrecoverable. This decision is made after analysing information such as the occurrence of significant changes in the debtor / issuer's financial position so that the debtor / issuer is no longer able to pay the obligation, or that the income from guarantees will not be enough to pay the entire exposure. For lower value credits with homogeneous characteristics, decisions are made based on the number of days of late payment at the specific product level.

For loans that are 100% impaired, the Group closes the book value of the loans directly in counterparty with the impairment allowance. Subsequently, the Group records all receipts from debtors directly to the profit or loss account under "(Charge) / Release with adjustments for impairment of financial assets".

vi. *Restructured loans*

Restructured loans are considered impaired after at least 6 months since the date of the restructuring. Renegotiated loans are loans that have been restructured due to a deterioration in the debtor's financial position and if the Group has made concessions that in other conditions it would not have made. Once the loan is restructured, it remains in this category independent of the subsequent satisfactory performance, for a minimum of 2 years, the period called the trial period.

Financial liabilities

i. *Classification and subsequent measurement*

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies.
- Financial guarantee contracts and loan commitments

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ii. ***Derecognition***

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described by IFRS 9); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15. The Group defers the income on a straight-line basis in profit or loss account.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in this note – the ECL model). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Derivatives

Derivatives, including foreign exchange contracts, forward rate agreements, foreign exchange swaps and interest rate swaps, and options exchange rate and interest rate contracts, are accounted for at their fair values.

All derivatives are accounted for as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in the fair value of financial derivatives are included in the current period result (earnings minus losses from derivatives). The Group does not apply hedge accounting for derivative financial instruments.

Certain derivatives embedded in other instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the framework contract.

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Subsidiaries

Subsidiaries are those investees that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Bank has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made.

Investments in subsidiaries are measured at cost less any impairment loss. The investments are tested for impairment whenever there are indicators that the carrying amount of an investment may not be recoverable. If the recoverable amount of an investment (the higher of its fair value less cost to sell and its value in use) is less than its carrying amount, the carrying amount is reduced to its recoverable amount.

The carrying amount of an investment is derecognized on disposal. The difference between the fair value of the sale proceeds and the disposed share of the carrying amount of the investment is recognized in profit or loss as gain or loss on disposal. The same applies if the disposal result in a step down from subsidiary to joint venture or an associate measured at cost.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted and recognized at cost.

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are prepared and presented in Romanian RON ("RON"), which is the Group's functional and presentation currency, rounded to the nearest thousand.

Monetary assets and liabilities are translated into RON currency at the official exchange rate of the National Bank of Romania ("NBR") at the end of the respective reporting period.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into RON at the official exchange rates of year-end, are recognized in profit or loss (as foreign exchange translation gains less losses). Translation at the official exchange rate does not apply to non-monetary items that are measured at historical cost.

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Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The exchange rates of major foreign currencies were:

Currencies	31 December 2018		31 December 2017	% Increase/(Decrease)	
Euro (EUR)	1: RON 4,6639		1: RON 4,6597	0.09%	
US Dollar (USD)	1: RON 4,0736		1: RON 3,8915	4.68%	

	31 December 2018		31 December 2017		% Increase/ (Decrease)	
	EUR	USD	EUR	USD	EUR	USD
At 31 December	4.6639	4.0736	4.6597	3.8915	0.09%	4.68%
Average for the period	4.6535	3.9433	4.5681	4.0525	1.87%	-2.74%
Maximum for the period	4.6695	4.1469	4.6597	4.3408	0.21%	-4.47%
Minimum for the period	4.6206	3.7170	4.4888	3.8116	2.94%	-(2.48%

Income tax expense

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The tax rate used to calculate the current and deferred tax position at 31 December 2018 and 31 December 2017 is 16%.

Investment property

On recognition in the balance sheet, an investment property is accounted at cost or fair value in the case of repossessed assets. The investment property cost includes the trading costs and any expenses directly attributable to the investment property. Subsequent to initial recognition, investment property is measured using the revaluation model (fair value model). The gains or losses from the change in the fair value of the investment property are included in the other operating income of consolidated statement of profit or loss.

If a property held by the owner becomes an investment property, the Group will treat that property in accordance with the policy established for tangible assets, until the date when the use is changed.

In the case of assets that were originally earmarked for lease and that subsequently change their destination and are to be used for a long period or they are intended to be realized by sale, a transfer from investment property to tangible assets or inventory, as the case may be, will be accounted for accordingly. The transfer is made at the date when the destination is changed, at the asset value booked in the accounting records.

The investment property is derecognized when they were either sold or permanently withdrawn from use and no economic benefit is expected from their sale. The difference between the cash obtained from the sale and the carrying amount of the asset is recognized in the consolidated statement of profit or loss and other comprehensive income for the period of derecognition.

The Group is identifying among the repossessed assets those assets considered by the Group to be investment property to ensure the value recovery in time from future lease income, as an alternative more profitable than the sale.

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Control over investment funds

The Group manages the assets invested in the investment funds on behalf of investors. The analysis regarding the control over the investment funds consisted of the following: the Group's power to coordinate the relevant activities of the investment funds, exposure to variable returns according to the investment decisions and the Group's ability to coordinate relevant activities of funds in order to obtain benefits - in making decisions the Group acts as a principal or as an agent of the owners of fund units. Given the fact that holders of fund units can't revoke the appointment of the Group as manager of the investment funds and also the fact that the liquidation of the funds' administrator (SAI Patria Asset Management SA is the administrator of the three investment funds that the Group is consolidated) can only be carried out by the Group in its capacity as shareholder, the Group concluded that it acts as principal in the management activity of the investment funds and decided it has control over the funds, thereby the funds (FDI Patria Stock, FDI Patria Global, FDI Patria Obligatiuni), are consolidated.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Income and expense recognition

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method.

This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the Group relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis
- interest on financial assets at fair value through other comprehensive income calculated on an effective interest basis
- interest income on impaired loans is recognized according to the provisions of IFRS 9

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Interest income and expense on all trading assets and liabilities are considered to be adjacent to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Dividends

Dividend income is recognized in profit or loss when the right to receive dividends payment is established. Dividends income are reflected as a component of other operating income.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include mandatory reserve deposits with the National Bank of Romania, all interbank placements.

Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Due from other banks

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Due from other banks are carried at amortized cost.

Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Reposessed assets

Reposessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognized at fair value when acquired. The Group's intention in respect of reposessed assets is to sell these properties.

The Group applies its accounting policy for non-current assets held for sale to reposessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

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Credit related commitments

The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable commitment to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Goodwill

Goodwill is carried at cost less accumulated impairment losses, if necessary. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment

Buildings are carried at revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Equipment is stated and measured at cost less accumulated depreciation and provision for impairment, where required.

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If an item of property and equipment is revalued, the entire class of property and equipment to which that asset belongs shall be revalued.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

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The Group recognizes in the carrying value of a tangible cost of replacing it when that cost is incurred or is likely that future economic benefits embodied in the asset will be transferred to the Group and the cost of this asset can be measured reliably. All other costs are recognized as an expense in the profit or loss account as incurred.

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

At the end of each reporting period, management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss for the year (within other operating income or expenses).

Amortization

The lands and constructions in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method and charged to profit and loss of the year to allocate their cost or revalued amounts over their estimated useful lives:

	<u>Useful lives in years</u>
Buildings	48 - 60 years
Equipment's	4 years
Motor vehicles	5- 6 years
Other tangible fixed assets(*)	3 – 30 years

(*) Other tangible fixed assets includes bright lights, mobile phones, with a useful live time of 3 years, and also safes deposits with a useful live time of 30 years.

Leased assets are depreciated over the shorter of the lease term and their useful lives.

When premises and land are revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Depreciation methods, useful lives and residual values are reassessed at each financial year and adjusted if appropriate.

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Intangible assets

The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalized costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight line basis over expected useful lives of three to seven years.

Impairment of non-financial assets

The carrying amounts of non-financial assets, other than investment property and 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. For Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

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.

For the purpose of impairment test, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit" or "CGU").

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Deposits from customers and from banks, loans from banks and other financial institutions, subordinated liabilities

Deposits from customers, loans from banks and subordinated liabilities are initially measured at fair value plus incremental directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method.

Employee benefits

i) Short term service benefits

Short-term employee benefits include wages, salaries, bonuses and social security contributions. Short-term employee benefits are measured on an un-discounted basis and recognized as expense when services are rendered.

A liability is recognized for the amount 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.

ii) Provisions for employees' benefits

The Group assesses the cost of employees' benefits (performance bonuses, prizes in cash or kind, retirement benefits, severance package) based on algorithms that take into consideration historic data for such benefits. For the estimated amount, the Group sets a provision for the employees' benefits.

The Group assess the cost of the employees' untaken holiday related to the previous periods as the amount payable according to the standard pay scheme. For the estimated amount, the Group sets a provision for the untaken holiday.

iii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

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The Group, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension, 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 (State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognized as an expense as incurred in the profit or loss account of the year. The Group does not have any further obligations.

The Group has no legal or constructive obligation to make pension, post retirement or similar benefit payments beyond the payments to the statutory defined contribution scheme.

iv) Other long-term employee benefits

The Group's net defined benefit obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

Operating leases

The decision to consider an agreement to be or not leasing depends on the substance of the contract and requires to establish that the agreement performance depends on the use of a specific asset or group of assets and that agreement establishes the right of use of the good.

The Group as a lessor

The financial leases that substantially transfer to the Group all risks and rewards of a leased item are capitalised at the beginning of the lease at the fair value of the leased item or, if that value is lower, at the present value of the future minimum lease payments and included in intangible assets, tangible assets or other assets, the lessee's debt being included under „Loans”. The lease payments are divided between financial expenses and the reduction of the lease debt. The interests payable under the lease agreements, calculated according to the contractual terms that have not reached maturity are amortized using the effective interest rate method.

The financial expenses are directly recognized in the consolidated statement of profit or loss and other comprehensive income in „Interest expenses”.

The capitalized leased assets are amortized on a basis consistent with the amortization policy for similar assets.

The operating lease payments are not recognized in the consolidated statement of financial position. Any debt related to rents is recognized on a straight-line basis during the lease agreement and is included under „Administrative and other operating expenses”.

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

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The Group as a lessee

The leases under which the Group does not transfer substantially all risks and rewards of the ownership of the asset are classified as operating lease. Contingent rents are recognized as income in the period when they are obtained, under „Other operating income”.

Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset, and the present value of the minimum lease payments. Minimum lease payments under finance leases are divided proportionally between lease expense and lease reduction. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of future finance charges, are included in other borrowed funds. The interest cost is charged to profit or loss for the year over the lease period using the effective interest method.

The assets acquired under finance leases are depreciated over their useful life, or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Non-current assets classified as held for sale

The Group's treatment for an asset previously classified as held for sale and for which the criteria are no longer met (IFRS 5) is to reclassify the respective asset in repossessed assets category until the management reassess the available options: selling the asset, keeping the asset until the real estate market appreciation, etc.

Other financial and non-financial liabilities

Other liabilities are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital

Ordinary shares are classified as equity. Share capital represents the total shares subscribed and paid by the shareholders. The share capital is recorded separately in accounting, based on the constitution and supporting documents relating to the payments of capital.

The capital increase is done through subscription and issue of new shares, incorporation of reserves and other operations, according to the law. The capital decrease is achieved mainly by reducing the number of shares or reducing their nominal value following the withdrawal of shareholders, accounting losses from previous years or other operations, according to the law. In all cases of change in capital, this is done based on the decision of the General Assembly of Shareholders. Gains or losses related to the issuance or cancellation of shares are not recognized in the income statement. Consideration paid or received after such operations are recognized directly in equity.

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Classification of financial assets and liabilities in accordance with IAS 39 applied for comparative financial information

The Group classifies its financial assets and liabilities in the following categories:

Financial assets or financial liabilities at fair value through profit or loss

The financial assets or liabilities held for trading are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are included in „Net trading income”. The interest and dividend income or costs are recorded in „Net trading income” according to the contractual terms or when the right to payment is established. This classification may include the government bonds, other bonds, shares and short positions in bonds and shares, including fund units, that were purchased for the purpose of sale or repurchase in the near future.

The financial assets or liabilities are included in the assets held for trading those assets or liabilities are purchased in order to be traded in the short term (a period of maximum 6 months) and have the following characteristics:

- the Group intends to obtain short-term benefits from the price movements;
- they are free of encumbrances (are not subject to any guarantee, contract, etc.);
- are assessed at fair value;
- are actively managed/ administered;
- there is an active market for them.

Subsequent to the initial recognition, the financial assets and liabilities held for trading are measured at amortized cost. The favourable or unfavourable differences in the monthly measurement of the financial assets and liabilities held for trading, are recorded in designated accounts of gains or losses from revaluation and related transfer, as the case may be.

The fixed and variable income financial instruments held for trading are derecognised upon sale using the weighted average cost method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- a. those that the Group intends to sell immediately or in the near term, those that the Group, upon initial recognition, designates as at fair value through profit and loss,
- b. those that the Group, upon initial recognition, designates as available for sale or
- c. those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans and receivables comprise due from other banks and customers, net investments in finance lease, trade receivables and other receivables.

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The financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group intends and is able to hold to maturity. The Group will not classify a financial asset as held-to-maturity if during the current financial year or the two previous financial years it sold or reclassified a significant number of the held-to-maturity financial assets before maturity. This prohibition is not applicable if that sale or reclassification is in one of the following situations:

- it is so close to the maturity of the financial assets (for example less than three months before maturity) that the changes in the interest rate on the market could not have had a significant effect on the fair value of the financial asset;
- it occurs after the value of the principal financial asset is substantially recovered by scheduled payments or prepayments;
- is attributed to a separate event, that is not repetitive, outside the control of the Group and which could not have been reasonably foreseen.

On initial recognition, the assets held-to-maturity are measured at fair value comprising the purchase price and the transaction costs.

Subsequent to initial recognition, the assets held-to-maturity are measured at amortised cost using the effective rate method less the impairment allowance. The amortised cost is calculated considering any discount or premium upon purchase and fees and costs that should be part of the effective interest rate. The amortization is included in "Interest income" in the consolidated statement of profit or loss and other comprehensive income. Impairment allowances are recorded if impairment losses occur.

The financial instruments held-to-maturity are derecognised by using the specific identification method (asset-by-asset).

The gains or losses from derecognition of held-to-maturity financial assets are recorded in the consolidated statement of profit or loss and other comprehensive income under "Gains/ losses from held-to-maturity assets".

Available-for-sale financial assets are those financial assets that the Group intends to keep for an indefinite period of time and which can be sold according to liquidity needs, interest rate changes, foreign exchange or share price which form the equity. These assets are designated as available for sale or are not classified as loans and advances, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale instruments include treasury bills and other

Bonds eligible for discounting with central banks, investments in unit funds and other investment securities that are not at fair value through profit and loss or held-to-maturity.

Available for sale financial assets sale are measured at fair value.

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortized cost as described below.

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. The best evidence of fair value is price in an active market.

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An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). All financial instruments are fair value measured.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses.

Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

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The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments

Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Identification and measurement of impairment

At each balance sheet date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

If there is objective evidence that an impairment loss on loans and receivables 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 (i.e. the effective interest rate computed at initial recognition). If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the variable interest rate at reporting date.

When a subsequent event causes the amount of impairment to decrease, the impairment loss is reversed through profit and loss.

The Group considers the identification and measurement of impairment for loans and advances to customers at individual and collective level.

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The Group, based on its internal impairment assessment methodology, has included observable data on the following loss events that comes to its attention as objective evidence that loans to customers or groups of loans to customers are impaired:

- (a) significant financial difficulty of the borrower such as breach of contract, default or delinquency in interest or principal payments of the borrowers (individually and in the same group of borrowers);
- (b) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that the lender would not otherwise consider such as the rescheduling of the interest or principal payments;
- (c) is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (d) observable data indicating that there are economic or social conditions that can influence adversely the industry in which the borrower operates and that affect these borrowers.

The Group first assesses whether objective evidence of impairment exists as described above, individually for loans 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 an individually assessed financial asset, whether significant or not, it includes the loans to customers in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

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

For the purpose of a collective evaluation of impairment, loans 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. on the basis of customer type or collateral held).

Management considers that these characteristics chosen are the best estimate of similar credit risk characteristics relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans to customers that are collectively assessed for impairment are estimated on the basis of historical loss experience for loans with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The loan impairment assessment considers the observable effects on current market conditions on the individual collective assessment of loans and advances to customers' impairment.

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Write-off of loans

According to IAS 39, if there is objective evidence that an impairment loss on loans has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the loans can be reduced either directly or through use of an allowance account. The carrying amount of impaired loans is reduced through an allowance account for loans that are not 100% provisioned.

The Group writes off a loan (and any related allowances for impairment losses) when the Risk Committee/ Board of Directors determines that the loans / securities are uncollectible. This decision is made after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standard loans, charge off decisions generally are based on a product specific past due status.

For the loans that are provided 100%, the Group offsets the provision (the allowance account) directly against the carrying amount of the loans. Subsequently, the Group records any amounts recovered from such previously written-off loans directly in the profit or loss as a revenue, presented net against "Provision for impairment of loans and advances".

Restructured loans

Restructured loans are considered impaired for at least 6 months from the restructuring date.

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring for a period of minimum 2 years called *probation period*.

Accounting treatment of interest income on impaired loans and advances to customers

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

Investment securities available for sale

This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Investment securities available for sale are carried at fair value.

Treasury bills issued by the Ministry of Public Finance of Romania are classified as available-for-sale assets and measured at fair value using bid market quotations from active markets. Securities such as investments in mutual funds are classified as available-for-sale assets and are carried at their market prices.

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Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognized in profit or loss for the year.

Dividends on available-for-sale equity instruments are recognized in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected.

All other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognized in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale.

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognized in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognized in other comprehensive income. 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 is reversed through profit or loss for the year.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Changes in presentation

Where necessary, corresponding figures have been adjusted to conform to the presentation of the Group current year amounts.

The effect of reclassifications for the Group presentation purpose was as follows on amounts at 31 December 2017:

Statement of Financial Position

Thousand RON	As originally presented	Reclassification	As reclassified at 31 December 2017
Reposessed assets	-	29,068	29,068
Other financial assets	9,294	2,364	11,658
Other assets	45,469	(31,432)	14,037

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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Statement of Profit or Loss

Thousand RON	As originally presented	Reclassification	As reclassified at 31 December 2017
Net gains/(losses) on investment properties	-	(1,205)	(1,205)
Net gains/(losses) on repossessed assets	-	3,923	3,923
Other operating income	9,041	(46)	8,995
Staff costs	(85,286)	162	(85,124)
Administrative and other operating expenses	(79,731)	(2,834)	(82,565)

Presentation of statement of financial position in order of liquidity

The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period.

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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Group

	31 December 2018			31 December 2017		
	<u>Amounts expected to be recovered or settled</u>			<u>Amounts expected to be recovered or settled</u>		
	<u>Within 12 months after the reporting period</u>	<u>After 12 months after the reporting period</u>	<u>Total</u>	<u>Within 12 months after the reporting period</u>	<u>After 12 months after the reporting period</u>	<u>Total</u>
Assets						
Cash and cash equivalents	517,436	-	517,436	642,914	-	642,914
Financial assets held for trading	4,256	63,553	67,809	1,859	98,107	99,966
Financial assets at fair value through other comprehensive income	310,265	341,751	652,016	504,975	646,089	1,151,064
- <i>Debt securities</i>	310,265	339,095	649,360	504,975	643,535	1,148,510
- <i>Equity investments</i>	-	2,656	2,656	-	2,554	2,554
Due from other banks	5,613	-	5,613	8,408	-	8,408
Loans and advances to customers	771,249	822,665	1,593,914	402,012	968,113	1,370,125
Investments in debt instruments at amortised cost	51,010	317,105	368,115	-	-	-
Investments held to maturity	-	-	-	11,114	96,594	107,708
Investment property	-	79,942	79,942	-	76,541	76,541
Reposessed assets	20,090	-	20,090	29,068	-	29,068
Other financial assets	13,209	-	13,209	11,658	-	11,658
Other assets	16,114	-	16,114	14,037	-	14,037
Deferred tax assets	-	22,995	22,995	-	22,716	22,716
Intangible assets	-	42,799	42,799	-	45,280	45,280
Premises and equipments	-	143,698	143,698	-	168,105	168,105
Total assets	<u>1,709,242</u>	<u>1,834,508</u>	<u>3,543,750</u>	<u>1,626,045</u>	<u>2,121,545</u>	<u>3,747,590</u>
Liabilities						
Due to other banks	6,951	-	6,951	95,967	-	95,967
Customer deposits	2,913,902	143,128	3,057,030	3,105,194	126,087	3,231,281
Loans from banks and other financial institutions	9,987	27,416	37,403	59	39,834	39,893
Other financial liabilities	77,985	-	77,985	98,972	-	98,972
Current income tax liabilities	-	-	-	-	-	-
Provisions for other risks, credit commitments and financial guarantees	10,384	-	10,384	11,827	-	11,827
Other liabilities	24,760	-	24,760	15,609	-	15,609
Subordinated debt	-	23,373	23,373	-	29,589	29,589
Total Liabilities	<u>3,043,969</u>	<u>193,917</u>	<u>3,237,886</u>	<u>3,327,628</u>	<u>195,510</u>	<u>3,523,138</u>

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Bank	31 December 2018			31 December 2017		
	<u>Amounts expected to be recovered or settled</u>			<u>Amounts expected to be recovered or settled</u>		
	<u>Within 12 months after the reporting period</u>	<u>After 12 months after the reporting period</u>	<u>Total</u>	<u>Within 12 months after the reporting period</u>	<u>After 12 months after the reporting period</u>	<u>Total</u>
Assets						
Cash and cash equivalents	510,747	-	510,747	636,525	-	636,525
Financial assets held for trading	-	6,785	6,785	-	28,635	28,635
Financial assets at fair value through other comprehensive income	310,265	341,649	651,914	504,975	646,089	1,151,064
- <i>Debt securities</i>	310,265	339,095	649,360	504,975	643,535	1,148,510
- <i>Equity investments</i>	-	2,554	2,554	-	2,554	2,554
Due from other banks	5,613	-	5,613	5,076	-	5,076
Loans and advances to customers	771,249	771,770	1,543,019	393,666	931,550	1,325,216
Investments in debt instruments at amortised cost	51,010	317,105	368,115	-	-	-
Investments held to maturity	-	-	-	11,114	96,594	107,708
Investment property	-	77,326	77,326	-	73,476	73,476
Reposessed assets	20,090	-	20,090	29,068	-	29,068
Investment in subsidiaries	-	31,725	31,725	-	27,505	27,505
Other financial assets	13,026	-	13,026	11,429	-	11,429
Other assets	17,525	-	17,525	15,658	-	15,658
Deferred tax assets	-	23,215	23,215	-	22,936	22,936
Intangible assets	-	41,049	41,049	-	43,211	43,211
Premises and equipments	-	143,319	143,319	-	167,886	167,886
Total assets	1,699,525	1,753,943	3,453,468	1,607,511	2,037,882	3,645,393
Liabilities						
Due to other banks	6,951	-	6,951	95,966	-	95,966
Customer deposits	2,921,473	143,128	3,064,601	3,130,209	126,087	3,256,296
Loans from banks and other financial institutions	-	-	-	59	-	59
Other financial liabilities	8,015	-	8,015	6,892	-	6,892
Current income tax liabilities	-	-	-	-	-	-
Provisions for other risks, credit commitments and financial guarantees	9,964	-	9,964	10,979	-	10,979
Other liabilities	22,690	-	22,690	14,060	-	14,060
Subordinated debt	-	23,373	23,373	-	29,589	29,589

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Total Liabilities	<u>2,969,093</u>	<u>166,501</u>	<u>3,135,594</u>	<u>3,258,165</u>	<u>155,676</u>	<u>3,413,841</u>

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Accounting for the effects of hyperinflation

Prior to 31 December 2003, the Romania met the definition of a hyperinflationary economy as defined by International Accounting Standard ("IAS") 29, "Financial Reporting in Hyperinflationary Economies". IAS 29 suggests that economies should be regarded as hyperinflationary if, among other factors, the cumulative inflation rate over a period of three years exceeds 100%. IAS 29 requires that financial statements prepared on a historical cost basis be adjusted to take into account the effects of inflation, for entities reporting in hyperinflationary economies.

The Group has utilized the general price index reported by the Statistics National Institute of Romania in the application of IAS 29 restating non-monetary items from the date of acquisition or contribution.

Effective 1 January 2004, the economy of Romania ceased to meet the criteria of hyperinflationary economy. Accordingly, beginning 1 January 2004, the Group ceased to apply IAS 29 on a prospective basis. As a result of this change, the carrying amounts of non-monetary assets expressed in the RON current at 31 December 2003 formed the basis for the respective assets from 1 January 2004 onwards.

The Group has restated its share capital in accordance with the requirements of IAS 29

Adoption of New or Revised Standards and Interpretations

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018, effective for the EU for annual periods beginning 1 January 2018). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed. The Group considers not material the impact of standard on its financial statements.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group considers not material the impact of standard on its financial statements.

Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety. Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group considers not material the impact of standard on its financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach). The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the IASB is developing for IFRS 4. These concerns include temporary volatility in reported results. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued. In addition, the amended Standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard—IAS 39. The amendments to IFRS 4 supplement existing options in the Standard that can already be used to address the temporary volatility.

Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis. The Group considers not material the impact of standard on its financial statements.

IFRIC 22 "Foreign currency transactions and advance consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018. This standard is not yet endorsed by the EU). The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related assets, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of transaction for the purpose of determining the exchange rate to use on initial recognition of the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment of receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in determining whether an item is monetary or non-monetary. The Group considers not material the impact of standard on its financial statements.

Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018). The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence. The Group considers not material the impact of standard on its financial statements.

New Accounting Pronouncement

Certain new standards and interpretations have been issued and are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Group has not early adopted.

IFRS 14, Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. The Group is currently assessing the impact of the amendments on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture -

Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the new standard on its financial statements.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using

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either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its financial statements.

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in a gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group is currently assessing the impact of the amendments on its financial statements.

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Group does not expect a material impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group is currently assessing the impact of the amendments on its financial statements.

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Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan—an amendment, curtailment or settlement—takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a ‘concentration test’. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments are prospective and the Group will apply them and assess their impact from 1 January 2020.

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

4. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

According to the Risk Strategy for the year 2018, the Group has exposure to the following risks from its use of financial instruments:

- credit risk (including credit concentration);
- FX Risk;
- interest rate risk in the banking book ;
- liquidity risk;

In this sense, the Group has established a general risk appetite, an individual appetite (for each category of significant risk), a risk tolerance established to most important risk indicators for all significant risks and a risk limits to the level of each and every risk indicator that is used to assess the Group's risk exposure.

b) Risk management policies

The level of tolerance established for most important risk indicators will be considered also an early warning level in order to contribute to the process of identifying those areas where the risk exposure is increasing compared to the assumed level through the risk strategy. These risks are managed and controlled through dedicated policies and procedures together with specific processes, tools and indicators. Part of the risks described to letter a) are assigned a dedicated risk profile and also for them is set an risk appetite in the risk admin Strategy, while for the others the Group has decided towards a qualitative/quantitative assessment, dedicated monitoring and set up a specific capital requirement under the Pillar II (ICAAP) in order to properly cover the respective risk exposure.

In 2018 the Group has aligned the risk policies so they are consistent across all entities in the Group. The Board of Administration established an overall risk appetite for the Group and also individual risk appetite for each and every significant risks identified by the Group and detailed in its Risk Strategy.

Therefore, for 2018, the Group has established the following individual target risk appetites for each significant financial risk:

<u>No.</u>	<u>Risk</u>	<u>Risk appetite level</u>
1	Credit risk	Medium-High
2	FX risk;	Low
3	Interest rate risk from banking book	High
5	Liquidity risk	Low

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing financial risks, and the Group's capital management principles and processes.

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Risk management framework

The bank is one tier board structure. The Board of Administration has overall responsibility for the establishment and oversight of the risk management framework. The Board of Administration has established different consultative committees such as:

- Risk Management Committee
- Audit Committee

The Risk Management Committee shall advise the management body on the risk appetite and the overall credit risk management strategy of the credit institution and assist the management body in overseeing the implementation of that strategy by the senior management (The Executive Committee).

The Audit Committee main purpose, without being limited is subject to ensure:

- monitor the effectiveness of internal control, internal audit and risk management;
- oversee the external auditors of the credit institution;
- recommend the approval by the governing body or shareholders of the appointment, remuneration and revocation of external auditors;
- analyze and approve the scope and frequency of internal audit;
- to analyze the internal audit reports;
- verify the timely adoption by the senior management of the necessary corrective measures to address the control deficiencies, non-compliance with the legal and regulatory framework, policies and other issues identified by the auditors.

The Audit Committee is assisted in these functions by Internal Audit function. 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 Executive Committee ensures the operative management and coordination of the Bank's day-to-day business. The Executive Committee takes the necessary measures regarding the operative management of the Bank's activity, subject to the limitations imposed on the Bank's business scope and the exclusive competencies of the Board of Administration and the General Meeting of Shareholders. The Executive Committee has established different consultative committees such as:

- Asset and Liability Committee (ALCO);
- Committee on Restructuring and Recovery Credits
- Credit Committee

Asset and Liability Committee (ALCO) performs activities of efficient management of assets and liabilities in respect of all the business units of the bank, capital adequacy to risk, the risk appetite of the Bank, and coordinates the activity of asset and liability management, on a current and continuous basis.

Committee on Restructuring and Recovery Credits ensures a proper management of the overall credit portfolio, including the portfolio of exposures managed by the Restructuring and Workout Department ("DRWO"), the loan portfolio that requires reorganization operations and the portfolios of assets owned by the bank and intended to be sold or in the course of being sold.

Credit Committee approves the exposures from the credits / their modification which fall within their competence according to the provisions of the Rules on the credits approval competences; endorse credit proposals that go beyond their approval competencies; take all other operational and methodological decisions regarding credit risks whose importance does not require a decision at the level of the The Executive Committee or the Board of Administration.

The Group's risk management policies are established to identify and measure the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, at least once a year, in order 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.

c) Credit risks

Credit risk is the current or future risk which negatively affects profit and capital as a consequence of the debtors' default or failure in fulfilling their contractual conditions.

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. The credit risk is mitigated by collateral and other credit enhancements.

Management of credit risks

The Credit Analysis and Risk Management Divisions are responsible for monitoring of the credit risk including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorization structure* for the approval and renewal of credit facilities. Authorization limits are allocated on different levels to Credit Committee, Directors' Committee and Board of Directors, as appropriate.

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- *Reviewing and assessing credit risk.* Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, and collateralization.
- *Developing the Group's risk provisioning policy* on the main product categories according to the degree of homogeneity. The provisioning policy is subject to regular reviews function also of the statutory regulations.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected geographies areas, economic sectors and maturities.
- Regular reports are provided to Risk Management Committee, Directors' Committee and to the Board of Administration on the credit risk exposure development and risk profile level
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk.

The Group is exposed to credit risk through its lending and investments activities and in cases where it acts as an intermediary on behalf of customers or other third parties or it issues guarantees. The Group's primary exposure to credit risk arises through its lending activity. 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 debt securities investments (i.e. Treasury Bills issued by the Romanian Government) or money market placements, financial assets held for trading, investments held to maturity, 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.

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 to customers.

Maximum credit risk exposure until 31 december 2017 was in amount of RON 40,763 thousand, representing 14.10% of own funds.

I. Expected Credit Loss (ECL) measurement

IFRS 9 outlines a "three stage" model for impairment based on changes in credit quality from initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified as "Stage 1" and has its credit risk continuously monitored by the Group
- If a significant increase in credit risk ("SICR") since initial recognition is identified the financial instrument is moved in "Stage 2" but it is not yet deemed credit-impaired. See Note "Staging" for a description of how the Group determines when a significant increase in credit risk occurred.

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- If the financial instrument is credit-impaired then it is moved in “Stage 3”. See Note “Default definition”.
- Financial instruments in Stage 1 have their ECL measured as an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Financial instruments in Stages 2 or 3 have their ECL measured as based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is the fact that the model should also consider forward-looking information.
- Financial assets classified as POCI are those assets impaired at initial recognition. Their ECL is always measured using lifetime assessment (Stage 3).

The following chart presents the requirements regarding impairment under IFRS 9:

Change in credit quality since initial recognition



Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition – SICR)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

II. Default definition

The Standard does not directly define default status but mentions that the definition must be aligned with internal credit risk management practices.

Under the Group's policy on asset identification and management, as well as segmentation of borrowers and credit portfolio, default applies to a financial asset when one or both of the following conditions are met:

- The Group considers it unlikely that the client will comply with its contractual payment obligations in full, without the Group taking enforcement;
- The customer records a delay of more than 90 days at the end of the month for any contractual credit obligation.

The following items are considered for unlikeliness to pay:

- a) For credit obligations without restructuring measures
 - The Group recognized a specific provision resulting from a significant deterioration in the credit quality. If ECL recognition was achieved as a result of the Group's decision to analyse and determine the individual provision for certain clients, returning from the default will be based on the Group's decision;
 - The group stops posting interest; this event may only take place for clients in insolvency proceedings or forced execution procedures;
 - The Group sells receivables from credit obligations with significant accounting loss (more than 20% of the balance sheet exposure);
 - The client is in general insolvency / judicial reorganization procedure;
 - The client is in bankruptcy;
 - The Group initiated legal procedures for recovering the receivables related to the client's contractual loan obligations;
 - The Client notified the Group of the intention to transfer ownership of the real estate in order to settle the credit contract debt, in accordance with "Law No. 77/2016 on the payment of real estate in order to settle the obligations assumed by credits".
- b) For credit obligations with restructuring measures:
 - all listed criteria applicable to the default status for credit obligations without restructuring measures;
 - registering a delay of more than 60 days at the end of the month for client's contractual credit obligations;
 - a new restructuring of a credit obligation classified as non-performing and / or default on the date of the restructuring.

III. Risk parameters

Probability of default (PD)

In order to determine the loss from collective valuation and completing the segmentation of the exposure as the 3 stages, it is important to group the credit exposure according to the common risk characteristics. The main step for estimating PDs is the selection of relevant risk factors (generators).

PD is a key component when calculating the ECL and assessing whether there has been a significant increase in credit risk.



For ECL calculation, two different PDs are required:

- PD calculated for a 12-month period: the probability that default will occur within the next 12 months (or over the remaining life of the financial instrument if it is less than 12 months and the facility type is not revolving);
- Life expectancy PD (LT PD): the probability of default occurring over the entire life of the financial instrument.

Loss given default (LGD)

LGD reflects cash flows that are collected from the customer, after the default date.

For unsecured portfolio, cash flows include earnings during the recovery cycle while for secured portfolio cash flows includes amounts obtained from collateralization. All amounts are net of recovery costs and consider time value of money.

Exposure at default (EAD)

IFRS 9 does not explicitly require an entity to model the EAD, but it is important to create a model that highlights how exposures are expected to change over time to achieve adequate ECL result.

On the one hand, for "Stage 2" exposures, when credit loss is estimated over the entire lifetime of the asset, it is essential to model lifetime exposure, corresponding to the amortization of the contractual maturity schedule. On the other hand, an increase in estimated in EAD (withdrawals of funding commitments under agreed credit limits) is required to be considered..

IV. Staging

According to IFRS 9, the expected credit losses are based on the expected total loss for the entire lifetime of the credit or expected credit losses over a 12-month period, depending on whether the credit risk of that financial instrument has increased significantly or not since the initial recognition.

The Group assesses the impairment loss for a financial instrument at an amount equal to the lifetime expected loss of credit, if the credit risk of that financial instrument has increased significantly since the initial recognition.

If at the reporting date the credit risk of a financial instrument has not increased significantly since the initial recognition, the Group will measure the expected loss for that financial instrument at an amount equal to the expected credit loss of over a 12-month period.

As such, the Group will measure and assess a significant increase in credit risk by comparing the default risk at "initial recognition date" with the default risk at the reporting date.

The following approach is implemented at financial asset level:

- If at the "reporting date," the asset is considered "default" (see definition below), it will be included in "Stage 3" and an impairment loss will be assessed at an amount equal to the credit loss expected for the entire life of the financial asset.
- If the credit risk of the financial asset at the "reporting date" is greater than the credit risk at "initial recognition date", it will be included in "Stage 2" and an expected loss of credit will be calculated for the entire duration life of the asset.
- If the financial asset is POCI and is not in default at the reporting date, it will be included in Stage 2 and an expected loss of life will be calculated for the entire lifetime of the asset
- All other financial assets will be included in "Stage 1" and will be calculated a credit loss estimated at an amount equal to the expected credit losses over a 12-month period.

The Group will classify assets in the POCI category if any of the following criteria apply:

- The financial assets acquired were in the state of default at the acquisition date
- Financial assets are in default at the date of derecognition

Modification of the terms and conditions of the credit agreement may be considered to be meeting the requirements of derecognition in IFRS, if any of the following applies:

- Change of debtor: the debtor of the new financial asset is different from that of the changed asset;
- Change in currency denomination: the currency of the new financial asset is different from that of the changed asset;
- Strengthening or dividing the existing financial assets: several credit facilities of the same customer are consolidated into a new credit agreement or a client's contract is split into several credit agreements.

In the case of restructured assets, the Group will not derecognise assets if the derecognition requirements are not met. If the asset is in default at the date of the restructuring, it will be reflected as "Stage 3," and when the default will be corrected, it will be reflected as "Stage 2" or "Stage 1" if the criteria is met.

The staging model of the Group is based on combination of quantitative and qualitative criteria, as follows:

Quantitative criteria

Although IFRS 9 does not require the use of an explicit non-payment probability of default to perform this assessment, the quantitative analysis of the Group is based on the comparison between the current estimate of the life time PD and the life time PD estimates at initial recognition.

A loan will be transferred to "Stage 2" when:

1. there is an increase in the value of PDs over its entire lifetime as follows: (i) the relative increase is higher than 100%; and (ii) the increase in absolute value is higher than 1%, by comparing the values of the current PDs with the values of estimated PDs at initial recognition date.
2. LTV for mortgage loans is higher than 100%
3. the loan was overdue, at least once, more than 30 days in the last 6 months excepting for mortgages

Qualitative criteria

The group opted for the following indicators to be used in the qualitative approach to Stages classification.:

- More than 30 days of delay recorded at reporting date
- Restructuring measures recorded at reporting date
- Significant increase of credit risk for companies, based on early warning signals, resulting from monitoring reports
- Other criteria such as: breach of the contract, requiring additional collateral or guarantees, significant change in price, as result of increase of the credit risk, significant changes in the value of the collateral

V. Forward-looking information incorporated in ECL models

The assessment of SICR and the calculation of ECL must both incorporate past, current and also forward-looking information that is available without undue cost and effort. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each defined portfolio.

These economic variables and their associated impact on risk parameters vary by portfolio type and the selection process has been determined by statistical regressions between historic default rates and macroeconomic variables. Expert judgement has also been applied in this process.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of uncertainty and therefore the actual outcomes may be significantly different to those projected.

d) Market risk

Market risk is the risk that the fair value or the future cash flow related to the financial instruments will fluctuate due to changes in the variables of the market (currency risk, price of shares, interest rates, etc).

The Group is inherently exposed to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products (still the main exposure being towards the foreign currency risk), all of which are exposed to general and specific market movements. Management sets limits on the value of risk and trading book portfolio level that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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Currency risk

The Group's main goal is to close its currency positions and ensure that open foreign exchange positions remain within conservative limits all the time.

The foreign currency risk is the risk to record losses or not to achieve the estimated profits due to the fluctuations on the market of the foreign exchange rate. The object of the identification, assessment, monitoring and management of the foreign currency risk is represented, according to the Group's policies and procedures, by the elements denominated in foreign currency from the banking book portfolio of the Group.

The Group is exposed to currency risk through transactions in foreign currencies against RON. The Group manages its exposure to movements in exchanges rates by modifying its assets and liabilities mix. On the Romanian market, exchange rates have a moderate volatility; therefore open foreign exchange positions represent a source of currency risk. In order to limit losses arising from adverse movements in exchange rates, the Group is currently pursuing the policy of maintaining an overall balanced foreign exchange position.

Capital requirements for currency risk is calculated using regulated model, named Standard Approach, and bank's policy is to maintain a level lower than 2% in own funds for overall FX risk exposure. For internal risk management purposes the Group employs a VaR model for all currencies with a confidence level of 99% and a holding period of one year. FX VaR is calculated using a daily database for a one year period exchange rate differences compared with the same date of the previous year (currency position is considered in absolute value).

As VaR is an integral part of the market risk management, VaR limits have been set at individual level, and exposures are compared daily with the limits by the management. VaR is a model used by Bank only to measure potential loss, given level of confidence used and time period analysed, without any interdependence or interrelations with other risks.

The following table shows dominant (for EUR) foreign currency VaR model as 31 December 2018 at different confidence level:

Confidence Level	95.0%	99.0%	99.9%
Eur FX position	1.343.040	1.813.104	2.148.864
The estimated impact for confidence level	42.925	67.934	97.091
Fx VAR for EUR/own funds	0.015%	0.023%	0.034%
	Low Risk	Low Risk	Low Risk
	<=1%	<=1%	<=1%

The following table shows dominant (for EUR) foreign currency VaR as 31 December 2017 at different confidence level:

Confidence Level	95.0%	99.0%	99.9%
Eur FX position	104,328	140,842	166,924
The estimated impact for confidence level	3,073	4,916.70	8,297
Fx VAR for EUR/own funds	0.002%	0.003%	0.005%
	Low Risk	Low Risk	Low Risk
	<=1%	<=1%	<=1%

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The table below summarises the Group's assets and liabilities expressed in RON and foreign currency at the end of the 31 December 2018:

Thousand RON	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Financial Assets				
Cash and cash equivalents	316,753	164,130	36,553	517,436
Financial assets held for trading	59,346	8,463	-	67,809
The financial asset evaluated at fair value through other comprehensive income	356,856	281,208	13,952	652,016
Due from other banks	246	-	5,367	5,613
Loans and advances to customers	1,276,406	304,401	13,107	1,593,914
Investments held to maturity	197,251	170,864	-	368,115
Investment in subsidiaries	-	-	-	-
Other financial assets	11,254	698	1,257	13,209
Total financial assets	<u>2,218,112</u>	<u>929,764</u>	<u>70,236</u>	<u>3,218,112</u>
Financial liabilities				
Due to other banks	3,007	3,039	905	6,951
Customer deposits	2,066,927	881,712	108,391	3,057,030
Loans from banks and other financial institutions	37,403	-	-	37,403
Other financial liabilities	77,825	95	65	77,985
Subordinated debt	-	23,373	-	23,373
Total liabilities	<u>2,185,162</u>	<u>908,219</u>	<u>109,361</u>	<u>3,202,742</u>
Net financial assets/(liabilities)	<u>32,950</u>	<u>21,545</u>	<u>(39,125)</u>	<u>15,370</u>
Off Balance sheet items				
Loans commitments to customers	254,085	46,086	-	300,171
Guarantees issued	10,989	945	-	11,934

Amounts disclosed in respect of derivatives represent the fair value, at the end of the reporting period, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount) before netting of positions and payments with the counterparty. The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk. The Group close the open position with currency swaps.

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The table below summarises the Group's exposure to currency risks at the end of the 31 December 2017:

Thousand RON	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Assets				
Cash and cash equivalents	353,774	258,213	30,927	642,914
Financial assets held for trading	91,456	8,510	-	99,966
Financial assets, available-for-sale, thereof :	718,189	428,769	4,106	1,151,064
- Pledged securities (REPO contracts)	50,584	-	-	50,584
Due from other banks	3,332	-	5,076	8,408
Loans and advances to customers	1,035,666	294,372	40,087	1,370,125
Investments held to maturity	107,708	-	-	107,708
Investment in subsidiaries	-	-	-	-
Other financial assets	9,534	900	1,224	11,658
Total financial assets	<u>2,319,659</u>	<u>990,764</u>	<u>81,420</u>	<u>3,391,843</u>
Financial liabilities				
Due to other banks	91,166	4,498	302	95,966
Customer deposits	2,151,017	949,771	130,493	3,231,281
Loans from banks and other financial institutions	39,834	-	59	39,893
Other financial liabilities	98,705	185	82	98,972
Subordinated debt	-	29,589	-	29,589
Total liabilities	<u>2,380,722</u>	<u>984,043</u>	<u>130,936</u>	<u>3,495,701</u>
Net financial assets/(liabilities)	<u>(61,063)</u>	<u>6,721</u>	<u>(49,516)</u>	<u>(103,858)</u>
Off Balance sheet items				
Loans commitments to customers	251,447	23,170	24	274,641
Guarantees issued	9,642	2,367	-	12,009

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The table below summarises the Bank's assets and liabilities expressed in RON and foreign currency at the end of the 31 December 2018:

Thousand RON

Financial Assets	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Cash and cash equivalents	311,348	162,845	36,554	510,747
Financial assets held for trading	6,785	-	-	6,785
The financial asset evaluated at fair value through other comprehensive income	356,754	281,208	13,952	651,914
Due from other banks	246	-	5,367	5,613
Loans and advances to customers	1,225,900	304,043	13,076	1,543,019
Investments held to maturity	197,251	170,864	-	368,115
Investment in subsidiaries	31,725	-	-	31,725
Other financial assets	11,071	698	1,257	13,026
Total financial assets	<u>2,141,080</u>	<u>919,658</u>	<u>70,206</u>	<u>3,130,944</u>
 Financial liabilities				
Due to other banks	3,007	3,039	905	6,951
Customer deposits	2,074,498	881,712	108,391	3,064,601
Loans from banks and other financial institutions	-	-	-	-
Other financial liabilities	8,001	-	14	8,015
Subordinated debt	-	23,373	-	23,373
Total liabilities	<u>2,085,506</u>	<u>908,124</u>	<u>109,310</u>	<u>3,102,940</u>
 Net financial assets/(liabilities)	<u>55,574</u>	<u>11,534</u>	<u>(39,104)</u>	<u>28,004</u>
 Off Balance sheet items				
Loans commitments to customers	254,085	46,086	-	300,171
Guarantees issued	10,989	945	-	11,934

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The table below summarises the Bank's assets and liabilities expressed in RON and foreign currency at the end of the 31 December 2017:

Thousand RON	<u>RON</u>	<u>EUR</u>	<u>Other</u>	<u>Total</u>
Assets				
Cash and cash equivalents	347,385	258,213	30,927	636,525
Financial assets held for trading	28,635	-	-	28,635
Financial assets, available-for-sale, thereof:	718,189	428,769	4,106	1,151,064
- Pledged securities (REPO contracts)	50,584	-	-	50,584
Due from other banks	-	-	5,076	5,076
Loans and advances to customers	991,535	293,652	40,029	1,325,216
Investments held to maturity	107,708	-	-	107,708
Investment in subsidiaries	27,505	-	-	27,505
Other financial assets	9,305	900	1,224	11,429
Total financial assets	<u>2,230,262</u>	<u>981,534</u>	<u>81,362</u>	<u>3,293,158</u>
Financial liabilities				
Due to other banks	91,166	4,498	302	95,966
Customer deposits	2,176,032	949,771	130,493	3,256,296
Loans from banks and other financial institutions	-	-	59	59
Other financial liabilities	6,625	185	82	6,892
Subordinated debt	-	29,589	-	29,589
Total liabilities	<u>2,273,823</u>	<u>984,043</u>	<u>130,936</u>	<u>3,388,802</u>
Net financial assets/(liabilities)	<u>(43,561)</u>	<u>(2,509)</u>	<u>(49,574)</u>	<u>(95,644)</u>
Off Balance sheet items				
Loans commitments to customers	251,397	23,170	24	274,641
Guarantees issued	9,642	2,367	-	12,009

The following table presents the sensitivity of profit or loss and equity of the Group to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
	Impact on profit	Impact on profit	Impact on equity	Impact on equity
	or loss	or loss		
Euro strengthening by 5%	774	977	774	977
Euro weakening by 5%	(774)	(977)	(774)	(977)
Other strengthening by 5%	108	379	108	379
Other weakening by 5%	(108)	(379)	(108)	(379)

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The following table presents the sensitivity of profit or loss and equity of the Bank to reasonably possible changes in exchange rates applied at the end of the reporting period, with all other variables held constant:

	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	Impact on profit or loss	Impact on profit or loss	Impact on equity	Impact on equity
Euro strengthening by 5%	725	971	725	971
Euro weakening by 5%	(725)	(971)	(725)	(971)
Other strengthening by 5%	99	379	99	379
Other weakening by 5%	(99)	(379)	(99)	(379)

On sensitivity calculation the change of FX rate was 5% in weakening/ strengthening FX currencies, taken in consideration that maximum change in FX rate for EUR (as difference between max and min FX rate) is 3% for the last 2 years (2018 and 2017), so the Bank consider a 5% sensitivity exchange is adequate for purpose of this disclosure.

e) Interest rate risk in the banking book

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

The main sources of interest rate risk are imperfect correlation between the maturity (for fixed interest rates) or re-pricing date (for floating interest rates) of the interest-bearing assets and liabilities, adverse evolution of the slope and shape of the yield curve (the nonparallel shift of the interest rate yields of the interest-earning assets and interest-earning liabilities), correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics. Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes.

The Group generally grants loans with floating interest rates, according to the Group's policy, with re-pricing based on reference interest rates like ROBOR, EURIBOR and LIBOR. On the deposits side, the Group offers fixed interest rates only on short periods with maturity lower than 1 year. For longer maturities, deposits have variable interest rates (according to Group's policy or indexed interest rates reference.)

In order to measure the impact of non-trading book interest rate risk, the Group uses the analysis of the potential change in the economic value as a result of the change in interest rates, this instrument is based on the standardized methodology described in Annex 1 to the NBR Regulation 5/2013 regarding prudential requirements for credit institutions, with subsequent amendments and completions.

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During 2018, the Group was within the limits of prudence, and did not record exceedances of the maximum level stipulated by Regulation 5/2013 - and according to risk appetite/profile established for this risk.

The interest rates related to the local currency and the major foreign currencies as at 31 December 2018 and 2017 were as follows:

Currency	Interest rate	31 December 2018	31 December 2017
Leu (RON)	Robor 3 months	3.02%	2.05%
Euro (EUR)	Euribor 3 months	(0.31%)	(0.33%)
Euro (EUR)	Euribor 6 months	(0.24%)	(0.27%)
American Dollar (USD)	Libor 6 months	2.88%	1.84%

The following table shows the average interest rates obtained or offered by the Group's and Bank's as at 31 December 2018 and 31 December 2017 for its interest-bearing assets and liabilities:

	31 December 2018			31 December 2017		
	RON	EUR	USD	RON	EUR	USD
Group						
Financial Assets						
Cash and cash equivalents	0.30%	2.04%	2.05%	1.25%	0.00%	0.00%
Due from other banks	n/a	n/a	0.00%	1.06%	0.00%	n/a
Loans and advances to customers	8.23%	4.82%	8.12%	8.88%	6.29%	6.40%
Financial assets measured at fair value through other comprehensive income	3.80%	2.63%	6.75%	4.26%	4.93%	n/a
Investments in debt instruments at amortised cost	4.83%	1.53%	n/a	n/a	n/a	n/a
Investments held to maturity	n/a	n/a	n/a	5.51%	n/a	n/a
Liabilities						
Due to other banks	n/a	0.00%	n/a	0.00%	0.00%	0.00%
Current accounts from customers	0.02%	-0.01%	0.00%	0.02%	-0.01%	0.00%
Term deposits from customers	2.09%	0.35%	0.66%	1.58%	0.61%	0.64%
Loans from banks and other financial institutions	4.02%	n/a	n/a	5.91%	0.00%	1.39%
Subordinated Debt	n/a	5.64%	n/a	n/a	n/a	n/a

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Bank	31 December 2018			31 December 2017		
	LEI	EUR	USD	LEI	EUR	USD
Financial Assets						
Cash and cash equivalents	0.20%	2.04%	2.05%	0.00%	0.00%	n/a
Due from other banks	n/a	n/a	0.00%	1.06%	0.00%	n/a
Loans and advances to customers	8.02%	4.82%	8.12%	8.44%	6.28%	6.40%
Financial assets measured at fair value through other comprehensive income	3.80%	2.63%	6.75%	4.26%	4.93%	n/a
Investments in debt instruments at amortised cost	4.83%	1.53%	n/a	n/a	n/a	n/a
Investments held to maturity	n/a	n/a	n/a	5.51%	n/a	n/a
Liabilities						
Deposits from banks	n/a	0.00%	n/a	0.00%	0.00%	0.00%
Current accounts from customers	0.02%	-0.01%	0.00%	0.02%	-0.01%	0.00%
Deposits from customers	2.11%	0.35%	0.67%	1.58%	0.61%	0.64%
Borrowings	n/a	n/a	n/a	n/a	n/a	1.39%
Subordinated debt	n/a	5.64%	n/a	n/a	4.27%	n/a

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates at 31.12.2018:

Thousand RON	Carrying value	Less 3 months	3-12 month	1-5 years	More 5 year	Non- interest bearing
Financial assets						
Cash and cash equivalents	517,436	50,530	283	-	-	466,623
Financial asset measured at fair value through other items of comprehensive income	652,016	154,731	155,535	317,409	16,174	8,167
Due from other banks	5,613	-	-	-	-	5,613
Investments in debt instruments at amortized cost	368,115	-	51,043	258,536	58,569	(33)
Loans and advances to customers	1,593,914	855,790	380,235	229,141	70,884	57,864
Other financial assets	13,209	-	-	-	-	13,209
Total financial assets	3,150,303	1,061,051	587,096	805,086	145,627	551,443
Financial liabilities						
Due to other banks	6,951	-	-	-	467	6,484
Customer deposits	3,057,030	1,243,799	1,073,165	156,679	11,830	571,557
Loans from banks and other financial institutions	37,403	23,028	7,375	7,000	-	-
Other financial liabilities	77,985	-	-	-	-	77,985
Subordinated debt	23,373	54	23,319	-	-	-
Total financial liabilities	3,202,742	1,266,881	1,103,859	163,679	12,297	656,026
Net Interest rate risk position	(52,439)	(205,830)	(516,763)	641,407	133,330	(104,583)

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The Group closely assesses the net interest rate risk position in order to reduce the risk and optimize the net interest margin. As of 31st of December 2018, the Group records a negative interest rate risk position on the first two buckets, higher financial liabilities compared to the financial assets, mainly due to the deposits from customers with fixed interest rate. Consequently, the customers deposits at the maturing date are roll-overed at the standard/negotiated interest rate communicated by the Group and the interest rate is not automatically updated at a market benchmark.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates at 31.12.2017:

Thousand RON	Carrying value	Less 3 months	3-12 month	1-5 years	More 5 year	Non- interest bearing
Financial assets						
Cash and cash equivalents	642,914	479,124	-	-	-	163,790
Financial assets, available-for-sale	1,151,064	34,853	455,940	630,271	30,000	-
Due from other banks	8,408	4,687	3,721	-	-	-
Investments held to maturity	107,708	22,708	-	35,000	50,000	-
Loans and advances to customers	1,370,125	1,044,724	131,007	175,647	12,573	6,174
Other financial assets	11,658	-	-	-	-	11,658
Total financial assets	3,291,877	1,586,096	590,668	840,918	92,573	181,622
Financial liabilities						
Due to other banks	95,967	86,050	0	0	0	9,917
Customer deposits	3,231,281	1,410,512	1,144,525	115,057	22,126	539,061
Loans from banks and other financial institutions	39,893	39,570	0	0	0	323
Other financial liabilities	98,972	0	0	0	0	98,972
Subordinated debt	29,589	20,270	9,319	0	0	0
Total financial liabilities	3,495,702	1,556,402	1,153,844	115,057	22,126	648,273
Net Interest rate risk position	(203,825)	29,694	(563,176)	725,861	70,447	(466,651)

The Group presented as non-interest bearing assets the following: customer loans that no longer accrue interest, accrued interest on loans and T-bills, unit funds administrated by Globinvest SAI and equity investments.

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The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates at 31.12.2018:

Bank

Thousand RON	Carrying value	Less 3 months	3-12 month	1-5 years	More 5 year	Non- interest bearing
Financial assets						
Cash and cash equivalents	510,747	45,853	-	-	-	464,894
Financial asset measured at fair value through other items of comprehensive income	651,914	154,731	155,535	317,409	16,174	8,065
Due from other banks	5,613	-	-	-	-	5,613
Investments held to maturity	-	-	-	-	-	-
Investments in debt instruments at amortized cost	368,115	-	51,043	258,536	58,569	(33)
Loans and advances to customers	1,543,019	866,389	371,281	175,482	70,884	58,983
Other financial assets	13,026	-	-	-	-	13,026
Total financial assets	3,092,434	1,066,973	577,859	751,427	145,627	550,548
Financial liabilities						
Due to other banks	6,951	-	-	-	467	6,484
Customer deposits	3,064,601	1,247,507	1,073,549	156,679	11,830	575,036
Loans from banks and other financial institutions	-	-	-	-	-	-
Other financial liabilities	8,015	-	-	-	-	8,015
Subordinated debt	23,373	54	23,319	-	-	-
Total financial liabilities	3,102,940	1,247,561	1,096,868	156,679	12,297	589,535
Net Interest rate risk position	(10,506)	(180,588)	(519,009)	594,748	133,330	(38,987)

(*) The Group closely assesses the net interest rate risk position in order to reduce the risk and optimize the net interest margin. As of 31st of December 2018, the Group records a negative interest rate risk position on the first two buckets, higher financial liabilities compared to the financial assets, mainly due to the deposits from customers with fixed interest rate.

Consequently, the customers deposits at the maturing date are roll-overed at the standard/negotiated interest rate communicated by the Group and the interest rate is not automatically updated at a market benchmark.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates at 31.12.2017:

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Thousand RON	Carrying value	Less 3 months	3-12 month	1-5 months	More than 5 years	Non-interest bearing
Financial assets						
Cash and cash equivalents	636,525	472,735	-	-	-	163,790
Financial assets, available-for-sale	1,151,064	34,853	455,940	630,271	30,000	-
Due from other banks	5,076	4,687	389	-	-	-
Investments held to maturity	107,708	22,708	-	35,000	50,000	-
Loans and advances to customers	1,325,216	1,046,989	112,211	148,479	12,573	4,964
Other financial assets	11,429	-	-	-	-	11,429
Total financial assets	3,237,018	1,581,972	568,540	813,750	92,573	180,183
Financial liabilities						
Due to other banks	95,967	86,050	-	-	-	9,917
Customer deposits	3,256,296	1,425,643	1,149,897	115,057	22,126	543,573
Loans from banks and other financial institutions	59	45	-	-	-	14
Other financial liabilities	6,892	-	-	-	-	6,892
Subordinated debt	29,589	20,270	9,319	-	-	-
Total financial liabilities	3,388,803	1,532,008	1,159,216	115,057	22,126	560,396
Net Interest rate risk position	(151,785)	49,964	(590,676)	698,693	70,447	(380,213)

The management of interest rate risk through limits is enhanced by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios. The interest rate risk management uses monthly GAP model of interest rate risk and sensitivity analyzes of the Group's financial asset and liability to various interest rates scenarios, as exemplified below:

The impact on the Group's financial results at 31 December 2018 by applying a possible change in interest rate of +/- 100 bps (as a percentage of the Group's own funds) for items with a maturity of up to 12 months could lead to a impact of RON 4.608 thousand, respectively 1.59% impact on own funds assuring a low risk profile in accordance with internal rules regarding interest rate risk (as of 31 December 2017: RON 3,363 thousand impact and respectively 2.01% impact on own funds assuring a low risk profile according to internal rules).

A sensitivity in interest rates change of 100 bps is reasonable given the fact that average evolution for maximum levels in 2016-2018 period (as difference between maximum level in year for 3M and 6M ROBOR) was 104/89 bps, and 13 bps for main FX currency EUR (for both 3M and 6M EURIBOR) and also considering the balance sheet structure in main currencies.

Liquidity risk**i) Management of liquidity risk**

Liquidity risk is the risk that the Group will not be able to fulfil their obligations at maturity or will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or a financial asset.

Liquidity risk can arise from providing general funding of the Group's activities and in the process of management of the asset positions. It includes both the risk of being unable to fund assets at appropriate maturities or/and rates and the risk of being unable to liquidate an asset at a reasonable price (eliminating/reducing potential loss) and in an appropriate time frame.

The Group has access to a diversified funding base. Funds are raised using a broad range of instruments including deposits, borrowings and share capital. This improves funding flexibility, limits dependence on a single source of funding and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding, diversifying the funding base, limiting the concentrations.

The liquidity position and intraday liquidity position are monitored on daily basis. All liquidity policies and procedures are subject to at least annual review and approved by The Executive Committee, Risk Management Committee and Board of Administration.

A contingency funding plan (CFP) has been elaborated that establishes tasks and measures to be followed in the case of sudden event or/and unexpected emergencies of unusual market and operating conditions in order to maintain a proper level for liquidity in every given circumstances. This plan covers the management of special conditions caused by the "unusual" changes in markets conditions and in the general economic, political and regulatory environment, as well as the management of situations originating from the loss of trust in the Group.

ii) Exposure to liquidity risk

One of the key measures used by the Group for managing liquidity risk is Loan to Deposits ratio.

Details of the reported ratio of loans to deposits at the reporting date and during the reporting period were as follows:

	Group		Bank	
	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
At 31 December	58.61%	46.48%	56.61%	44.62%
Average for the period	53.84%	46.12%	52.43%	44.60%
Maximum for the period	58.61%	49.39%	56.61%	47.89%
Minimum for the period	48.40%	43.94%	46.80%	42.37%

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The Group maximum recorded level of 58.61 % of gross loans to deposits ratio was as of the end of December 2018, while the minimum recorded level of 48.40 % was as of the end of January 2018.

The Bank maximum recorded level of 56.61 % of gross loans to deposits ratio was as of the end of December 2018, while the minimum recorded level of 46.80 % was as of the end of January 2018.

The table below shows liabilities at 31 December 2018 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

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The residual maturity analysis of the monetary assets and liabilities of the Group at 31 December 2018 is presented below:

Group	31 December 2018						
Thousand Ron	<u>Due on demand</u>	<u>Up to 3 Months</u>	<u>3 Months to 1 Year</u>	<u>1 Year to 5 Years</u>	<u>Over 5 Years</u>	<u>No fixed maturity</u>	<u>Total</u>
31 December 2018							
Financial Assets							
Cash and cash equivalents	517,436	-	-	-	-	-	517,436
Financial assets held for trading	-	1,206	3,050	44,380	13,212	5,961	67,809
Financial assets evaluated at fair value through other comprehensive income	-	10,092	300,174	317,409	16,174	8,167	652,016
Due from other banks	-	9	5,604	-	-	-	5,613
Loans and advances to customers, including future interest	-	348,839	543,168	528,900	513,912	-	1,934,819
Investments in debt securities at amortised cost	-	-	51,010	258,536	58,569	-	368,115
Other financial assets	-	13,209	-	-	-	-	13,209
Total financial assets	<u>517,436</u>	<u>373,355</u>	<u>903,006</u>	<u>1,149,225</u>	<u>601,867</u>	<u>14,128</u>	<u>3,559,017</u>
Financial liabilities							
Due to other banks	-	6,951	-	-	-	-	6,951
Customer deposits, including future interest	579,065	1,263,662	1,082,941	136,127	19,055	-	3,080,850
Loans from banks and other financial institutions, including future interest	-	362	9,625	27,416	-	-	37,403
Other financial liabilities	-	8,015	-	-	-	69,970	77,985
Subordinated debt, including future interest	-	-	1,262	4,994	24,091	-	30,347
Total financial liabilities	579,065	1,278,990	1,093,828	168,537	43,146	69,970	3,233,536
Liquidity excess/deficit	<u>(61,629)</u>	<u>(905,635)</u>	<u>(190,822)</u>	<u>980,688</u>	<u>558,721</u>	<u>(55,842)</u>	<u>325,481</u>

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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Derivatives are presented based on their contractual maturities.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

Thousand Ron	<u>Due on</u>	<u>Up to 3</u>	<u>3</u>	<u>1 Year</u>	<u>Over 5</u>	<u>No fixed</u>	<u>Total</u>
Off-Balance items	<u>demand</u>	<u>Months</u>	<u>Months</u>	<u>to 5</u>	<u>Years</u>	<u>maturity</u>	
Loans Commitments given to customers	300,200	-	-	-	-	-	300,200
Guarantees issued to customers	11,933	-	-	-	-	-	11,933
Loan commitments received from customers	-	-	-	-	(46,639)	-	(46,639)

Based on the historical evolution, at the maturity date, a significant part of the customer deposits are rollover resulting that the remaining contractual maturity of the deposits is in average 3-6 months.

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The residual maturity analysis of the monetary assets and liabilities of the Group at 31 December 2017 is presented below:

Group	Due on demand	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Total
Thousand Ron							
31 December 2017							
Financial Assets							
Cash and cash equivalents	642,914	-	-	-	-	-	642,914
Financial assets held for trading	-	3,978	735	37,414	40,377	17,462	99,966
Financial assets available-for-sale, including future interest	-	27,498	477,476	605,548	33,274	7,268	1,151,064
Due from other banks	-	-	8,408	-	-	-	8,408
Loans and advances to customers, including future interest	-	176,520	333,612	642,103	390,354	-	1,542,589
Investment held to maturity	-	10,315	-	39,204	58,189	-	107,708
Other financial assets	-	11,658	-	-	-	-	11,658
Total financial assets	<u>642,914</u>	<u>229,969</u>	<u>820,231</u>	<u>1,324,269</u>	<u>522,194</u>	<u>24,730</u>	<u>3,564,307</u>
Financial liabilities							
Due to other banks	-	95,967	-	-	-	-	95,967
Customer deposits, including future interest	577,223	1,389,420	1,163,498	107,061	22,627	-	3,259,829
Loans from banks and other financial institutions, including future interest	-	2,798	22,341	16,619	-	-	41,758
Other financial liabilities	153	7,166	-	-	-	91,653	98,972
Subordinated debt, including future interest	-	-	-	-	36,570	-	36,570
Total financial liabilities	<u>577,376</u>	<u>1,495,351</u>	<u>1,185,839</u>	<u>123,680</u>	<u>59,197</u>	<u>91,653</u>	<u>3,533,096</u>
Liquidity excess/deficit	<u>65,538</u>	<u>(1,265,382)</u>	<u>(365,608)</u>	<u>1,200,589</u>	<u>462,997</u>	<u>(66,923)</u>	<u>31,211</u>

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	Due on	Up to 3	3	1 Year	Over 5	
Off-Balance items	<u>demand</u>	<u>Months</u>	<u>Months</u>	<u>to 5</u>	<u>Years</u>	<u>Total</u>
			<u>to 1 Year</u>	<u>Years</u>	<u>Years</u>	
Loans Commitments						
given to customers	324,592	-	-	-	-	324,592
Guarantees issued to						
customers	12,008	-	-	-	-	12,008
Loan commitments						
received from customers	-	-	-	-	(46,594)	(46,594)

The Group presents a shortage of liquidity on “up to three months” and “3 months to 1 year” group, as result of a large amounts of commercial deposits in this category. Management expects this deficit to be covered through renewal of deposits.

As has already been mentioned, the liquidity is eliminated by the renewal for liabilities for private individuals or companies in a significant proportion (around 90%). Generally, the renewal takes place through the extension of the existing structure of deposits, for amount and due date, too.

To manage liquidity risk, the Group holds liquid assets comprising cash and cash equivalents and investment securities (treasury bills issued by the Minister of Public Finance of Romania) for which there is an active liquid market. These assets can be readily sold to meet liquidity requirements.

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The residual maturity analysis of the monetary assets and liabilities of the Bank at 31 December 2018 is presented below:

Bank
31 December 2018

Thousand Ron	<u>Due on demand</u>	<u>Up to 3 Months</u>	<u>3 Months to 1 Year</u>	<u>1 Year to 5 Years</u>	<u>Over 5 Years</u>	<u>No fixed maturity</u>	<u>Total</u>
Financial Assets							
Cash and cash equivalents	510,747	-	-	-	-	-	510,747
Financial assets held for trading	-	-	-	-	-	6,785	6,785
Financial assets evaluated at fair value through other comprehensive income	-	10,092	300,174	317,409	16,174	8,065	651,914
Due from other banks	-	9	5,604	-	-	-	5,613
Loans and advances to customers, including future interest	-	345,602	516,419	494,723	513,912	-	1,870,656
Investments in debt securities at amortised cost	-	-	51,010	258,536	58,569	-	368,115
Other financial assets	-	13,026	-	-	-	-	13,026
Total financial assets	<u>510,747</u>	<u>368,729</u>	<u>873,207</u>	<u>1,070,668</u>	<u>588,655</u>	<u>14,850</u>	<u>3,426,856</u>
Financial liabilities							
Due to other banks	-	-	-	-	-	-	-
Customer deposits, including future interest	-	6,951	-	-	-	-	6,951
Loans from banks and other financial institutions, including future interest	582,542	1,267,756	1,082,941	136,127	19,055	-	3,088,421
Other financial liabilities	-	-	-	-	-	-	-
Subordinated debt, including future interest	-	8,015	-	-	-	-	8,015
	-	-	1,262	4,994	24,091	-	30,347
Total financial liabilities	<u>582,542</u>	<u>1,282,722</u>	<u>1,084,203</u>	<u>141,121</u>	<u>43,146</u>	<u>-</u>	<u>3,133,734</u>
Liquidity excess/deficit	<u>(71,795)</u>	<u>(913,993)</u>	<u>(210,996)</u>	<u>929,547</u>	<u>545,509</u>	<u>14,850</u>	<u>293,122</u>
	<u>Due on demand</u>	<u>Up to 3 Months</u>	<u>3 Months to 1 Year</u>	<u>1 Year to 5 Years</u>	<u>Over 5 Years</u>		<u>Total</u>
Off-Balance items							
Loans Commitments given to customers	300,171	-	-	-	-		300,171
Guarantees issued to customers	11,933	-	-	-	-		11,933
Loan commitments received from customers	-	-	-		(46,639)		(46,639)

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The residual maturity analysis of the monetary assets and liabilities of the Bank at 31 December 2017 is presented below:

Bank	Due on demand	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Total
Thousand Ron							
31 December 2017							
Financial Assets							
Cash and cash equivalents	636,525	-	-	-	-	-	636,525
Financial assets held for trading	-	-	-	5,062	16,369	7,204	28,635
Financial assets available-for-sale, including future interest	-	27,498	477,476	605,548	33,274	7,268	1,151,064
Due from other banks	-	-	5,076	-	-	-	5,076
Loans and advances to customers, including future interest	-	173,739	310,242	608,728	390,354	-	1,483,063
Investment held to maturity	-	10,315	-	39,204	58,189	-	107,708
Other financial assets	-	11,429	-	-	-	-	11,429
Total financial assets	636,525	222,981	792,794	1,258,542	498,186	14,472	3,423,500
Financial liabilities	-	-	-	-	-	-	-
Due to other banks	-	95,967	-	-	-	-	95,967
Customer deposits, including future interest	582,863	1,408,795	1,163,498	107,061	22,627	-	3,284,844
Loans from banks and other financial institutions	-	-	59	-	-	-	59
Other financial liabilities	-	6,892	-	-	-	-	6,892
Subordinated debt, including future interest	-	182	1,081	5,060	30,247	-	36,570
Total financial liabilities	582,863	1,511,836	1,164,638	112,121	52,874	-	3,424,332
Liquidity excess/deficit	53,662	(1,288,855)	(371,844)	1,146,421	445,312	14,472	(832)

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			3			
Off-Balance items	<u>Due on demand</u>	<u>Up to 3 Months</u>	<u>Months to 1 Year</u>	<u>1 Year to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Loans Commitments given to customers	274,592	-	-	-	-	274,592
Guarantees issued to customers	12,008	-	-	-	-	12,008
Loan commitments received from customers	-	-	-	-	(46,594)	(46,594)

f) Taxation risk

On 1 January 2007 Romania became a member of the European Union and therefore has to apply detailed and complex rules on the basis of the EU Treaties, Regulations and Directives. The Group has to conform to EU legislation from 1 January 2007 and, therefore, it has prepared to apply the changes arising from the EU legislation. These changes have been implemented, however the tax authorities have up to 5 years to audit the way these changes were implemented.

Interpretation of the text and practical implementation procedures of the newly enforced EU tax regulations could vary, and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Group's treatment.

Furthermore, the Romanian Government has a number of agencies that are authorized to conduct audits (controls) of companies operating in Romania.

These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. It is likely that the Group will continue to be subject to regular controls as new laws and regulations are issued.

The Group's management considers that the tax liabilities included in these financial statements are fairly stated, and they are not aware of any circumstances which may give rise to a potential material liability in this respect.

g) Capital management

The Group is active in the Romanian banking sector, which is regulated by The National Bank of Romania ("NBR"), acting as local regulator under the EU regulation for the sector, which requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets.

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The Group's and Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, retained earnings, reserve after deductions intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities.

At 31 December 2018 and 31 December 2017 the Group's own fund calculated as per statutory regulations and capital requirement for 31 December 2018 and 31 December 2017, are presented below:

Thousand RON	31 December 2018	31 December 2017
<i>Tier 1 capital</i>	267,671	157,002
Ordinary share capital (*)	313,780	229,368
Share premium	2,050	2,050
Merger premium	(67,569)	(67,569)
Reserves	91,491	89,868
Result of period	(32,310)	9,050
Current year loss	(2,610)	(44,125)
Less: Intangible assets & Goodwill	(42,776)	(45,202)
Less : Subordinated debt	-	-
Less: Prudential filters (**)	6,271	(9,823)
Less: Equity investment	-	-
Less: Deferred tax assets	-	(5,438)
Other prudential deductions	(656)	(1,177)
<i>Tier 2 capital</i>	23,151	19,766
Subordinated debt included in Tier 2 capital	23,151	29,589
Less: Subordinated loan	-	-
Less: Prudential Filter (**)	-	(9,823)
Total regulatory capital	<u>290,822</u>	<u>176,768</u>
Exposure value to credit risk	1,520,094	1,272,033
Exposure value to market risk, currency risk and goods risks	-	-
Exposure value to operational risk	333,702	336,749
Exposure value to credit valuation adjustment (CVA)	-	-
Total Risk Exposure	<u>1,853,796</u>	<u>1,608,782</u>
Total capital requirement	148,304	128,703
Capital adequacy ratio	<u>15.69%</u>	<u>10.99%</u>

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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At 31 December 2018 and 31 December 2017 the Bank's own fund calculated as per statutory regulations and capital requirement for 31 December 2018 and 31 December 2017, are presented below:

Thousand RON	<u>31 December 2018</u>	<u>31 December 2017</u>
<i>Tier 1 capital</i>	267,116	152,155
Ordinary share capital (*)	313,780	229,368
Share premium	2,050	2,050
Merger premium	(67,569)	(67,569)
Reserves	91,491	89,868
Result of period	(21,624)	17,317
Current year loss	(267)	(42,544)
Less: Intangible assets & Goodwill	(41,049)	(43,211)
Less : Subordinated debt	-	-
Less: Prudential filters (**)	5,375	(9,823)
Less: Equity investment	(9,134)	(11,426)
Less: Deferred tax assets	(5,281)	(10,698)
Other prudential deductions	(656)	(1,177)
<i>Tier 2 capital</i>	21,956	15,316
Subordinated debt included in Tier 2 capital	23,151	29,589
Less: Subordinated loan	(1,195)	(4,450)
Less: Prudential Filter (**)	-	(9,823)
Total regulatory capital	<u>289,072</u>	<u>167,471</u>
Exposure value to credit risk	1,525,225	1,259,051
Exposure value to market risk, currency risk and goods risks	-	-
Exposure value to operational risk	306,151	320,110
Exposure value to credit valuation adjustment (CVA)	-	-
Total Risk Exposure	<u>1,831,376</u>	<u>1,579,161</u>
Total capital requirement	146,510	126,333
Capital adequacy ratio	<u>15.78%</u>	<u>10.61%</u>

(*) Capital considered in the calculation of own funds at December 2018 represents the share capital subscribed and paid.

(**) As per NBR Regulation 11/2011 and NBR Regulation 16/2012, a "Prudential filter" deduction was applied starting 1 January 2012. According NBR Regulation 5/2013, starting 1 January 2014 transitional provisions apply to this deduction from regulatory capital, from 80% in 2014 to 0% in 2018. As of December 2017 a 20% deduction is applicable for prudential filters.

Beginning 1 January 2018, the Bank and the Group have used the full Transitional Approach in implementing IFRS 9. This means that between this date and 31 December 2022, the Bank and the Group includes in the Common Equity Tier 1 Capital the full amount (minus tax and adjusted with a variable factor which is 0,95 for 2018) calculated according to and permitted by EU Regulation 2017/2395. At 31 December 2018, the amount, after tax and the 0,95 factor, is 5.374.950 lei.

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5. USE OF ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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 circumstances.

Expected credit loss on loans and advances to customers

In accordance with the internal impairment assessment methodology (refer to Note 4), the Group reviews its loan portfolios to assess impairment and determines whether an impairment loss should be recorded in the profit or loss.

Measurement of expected credit losses for financial assets at amortised cost is an area where complex models and significant assumptions about forward-looking events (macro-economic conditions, credit behaviour – PD, LGD) are used.

A series of significant decisions are also used in ECL measurement, such as:

- Establishing criteria for SICR
- Choosing the models and adequate assumptions for ECL measurement
- Establishing the number and weight of forward-looking macroeconomic scenarios
- Establishing the homogenous groups of financial assets for the purpose of ECL measurement.

Deferred income tax asset recognition

Deferred income tax asset represents tax recoveries from future deductions of taxable profit and are recognized in the statement of financial position.

The deferred tax asset is recognized if future taxable profits are available so that the deferred tax assets are realized. Deferred tax assets are reduced accordingly if it is not probable that such future taxable profits will exist.

The future taxable profits and the amount of tax benefits that are probable in the future are based on:

- The expected fiscal profit of 2019 year according to the transactions of selling of non-performing loans disclosed in notes 13 and 46
- a medium term business plan prepared by management

Going concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group. For other details please refer to note 2.d).

6. FAIR VALUE DISCLOSURES

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

The management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a level three measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

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(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

The level in the fair value hierarchy into which the recurring fair value measurements are categorized is as follows:

Group Thousand RON	31 December 2018				31 December 2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets at fair value								
Financial assets								
Financial assets held for trading	67,809	-	-	67,809	99,966	-	-	99,966
The financial asset is measured at fair value through other items of comprehensive income	<u>649,360</u>	=	<u>2,656</u>	<u>652,016</u>	<u>1,148,510</u>	=	<u>2,554</u>	<u>1,151,064</u>
- Treasury bills issued by the Ministry of Public Finance of Romania	643,848	-	-	643,848	1,143,797	-	-	1,143,797
- Investments in unit funds	5,512	-	-	5,512	4,713	-	-	4,713
- Equity investments	-	-	2,656	2,656	-	-	2,554	2,554
Non-financial assets	-	-	-	-	-	-	-	-
Investment Property	-	-	79,942	79,942	-	-	76,541	76,541
Tangible Assets (Land & Buildings)	-	-	124,603	124,603	-	-	151,413	151,413
Reposessed assets	-	-	20,090	20,090	-	-	29,068	29,068
Total active la valoarea justa	<u>717,169</u>	=	<u>227,291</u>	<u>944,460</u>	<u>1,248,476</u>	=	<u>259,576</u>	<u>1,508,052</u>
Liabilities at fair value	-	-	-	-	-	-	-	-
-Repo contracts	-	-	-	-	50,584	-	-	50,584
- Foreign exchange forward contracts	-	-	(67)	(67)	-	-	190	190
Total liabilities at fair value	=	=	<u>(67)</u>	<u>(67)</u>	<u>50,584</u>	=	<u>190</u>	<u>50,774</u>

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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(All amounts are in thousand RON)
Bank

	31 December 2018				31 December 2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets at fair value								
Financial assets								
Financial assets held for trading	6,785	-	-	6,785	28,635	-	-	28,635
The financial asset is measured at fair value through other items of comprehensive income	<u>649,360</u>	-	<u>2,554</u>	<u>651,914</u>	<u>1,148,510</u>	-	<u>2,554</u>	<u>1,151,064</u>
- Treasury bills issued by the Ministry of Public Finance of Romania	643,848	-	-	643,848	1,143,797	-	-	1,143,797
- Investments in unit funds	5,512	-	-	5,512	4,713	-	-	4,713
- Equity investments	-	-	2,554	2,554	-	-	2,554	2,554
Non-financial assets	-	-	-	-	-	-	-	-
Investment Property	-	-	77,326	77,326	-	-	73,476	73,476
Tangible Assets (Land & Buildings)	-	-	124,669	124,669	-	-	151,366	151,366
Reposessed assets	-	-	20,090	20,090	-	-	29,068	29,068
Total active la valoarea justa	<u>656,145</u>	-	<u>224,639</u>	<u>880,784</u>	<u>1,177,145</u>	-	<u>256,464</u>	<u>1,433,609</u>
	-	-	-	-	-	-	-	-
Liabilities at fair value								
-Repo contracts	-	-	-	-	-	-	-	-
- Foreign exchange forward contracts	-	-	72	72	50,584	-	-	50,584
Total liabilities at fair value	-	-	<u>72</u>	<u>72</u>	<u>50,584</u>	-	<u>32</u>	<u>50,616</u>

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Financial asset measured at fair value through other items of comprehensive income

Treasury bills denominated in RON, EUR, USD issued by the Ministry of Public Finance of Romania.

The carrying amount of Group's financial assets available for sale would be an estimated RON 9,057 thousand lower (31 December 2017: RON 9,266 thousand lower) and RON 8.811 thousand higher (31 December 2017: RON 9,347 thousand higher) in the case of a +/- 100 basis points change in interest rates.

Investments in unit funds

For the unit funds administrated by Globinvest S.A. (Napoca Investments Fund and TehnoGlobinvest Investment Fund) is using public available quotations (e.g. VUAN-Unitary Value of Net Assets-quotations).

These mutual funds are collective investment in transferable securities, whose units are subject to continue issuing and repurchasing. The return obtained from operations with fund units is given by the difference between the redemption price (VUAN) and subscription price (VUAN).

VUAN is determined as the ratio between net assets of the fund and the number of shares in circulation at a given time; the Fund's asset and, implicitly, the VUAN is evaluated on a daily basis and certified by the fund depository.

Equity investments

Equity securities available for sale include securities that are not traded in on an active market. Due to the nature of local capital markets, it is not possible to obtain the market value for these securities. Shares are not listed and recent values regarding their trading prices are not publicly available. Management does not intend to sell these shares in the near future. The Group determined the fair value using the fair value of the net assets based on published financial statements.

Financial assets held for trading

The financial assets held for trading are recorded in the consolidated statement of financial position at fair value. This classification may include the treasury bills issued by Ministry of Public Finance of Romania, bonds, shares and short positions in bonds and shares, including fund units, that were purchased for the purpose of sale or repurchase in the near future.

The financial assets are included in the assets held for trading if those assets are purchased in order to be traded in the short term (a period of maximum 6 months) and have the following characteristics:

- the Group intends to obtain short-term benefits from the price movements;
- they are free of encumbrances (are not subject to any guarantee, contract, etc.);
- are assessed at fair value;
- are actively managed/ administered;
- there is an active market for them.

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Other financial assets

As of 31 December 2018 and 31 December 2017, the value of securities available for sale is assessed using interest rates ROBID/ROBOR/EURIBOR as well as official exchange rates published by NBR in order to compute forward rates for remaining period of outstanding contracts.

Non- financial assets***Premises and Equipment***

Tangible assets include land and buildings held by the Group that it uses to carry out current activities. These are reviewed regularly to reflect their fair value accounting.

Based on the analysis of the changes in the real estate market as at 31 December 2018 and based on the revaluation of the buildings and land owned by the Group, performed by a certified evaluator in December 2018 the Group's management considers that the value of land and buildings as at 31 December 2018 represents a correct estimation of their fair value at reporting date.

There were no changes in valuation technique for level three recurring fair value measurements during the year ended 31 December 2018 (2017: none).

Investment property

The Group accounts for the investment property at fair value, the changes in fair value being recognized in the comprehensive income. The land and buildings are subject to revaluation, and the changes in fair value are recognized in other comprehensive income. The assets taken over during foreclosure proceedings are recognised in other assets and are subject to fair value revaluation; the impairment, if any, is recognized in the comprehensive statement of profit or loss. The Group appointed expert appraisers to determine the fair value on 31 December 2018. The appraisers used the direct capitalization method and the sales comparison method, in compliance with the valuation principles and techniques provided by the International Valuation Standards.

In view of the current market conditions, including the low liquidity of the actual asset transactions, the prices of the recent market transactions and the lack of actual offers for these types of assets, the future cash flows estimated to be recovered could be different from those considered by external appraisers when determining the market value of these types of assets.

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(b) *Assets and liabilities not measured at fair value but for which fair value is disclosed*

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

Group

Thousand RON	31 December 2018				31 December 2017			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Financial Assets								
Cash and cash equivalents	393,450	123,986	-	517,436	484,403	158,511	-	642,914
Placements with banks	=	<u>5,613</u>	=	<u>5,613</u>	=	<u>8,408</u>	=	<u>8,408</u>
- Short-term placements with other banks with original maturities of more than three months	-	5,613	-	5,613	-	8,408	-	8,408
Loans and advances to customers	=	=	<u>1,593,914</u>	<u>1,593,914</u>	=	=	<u>1,370,125</u>	<u>1,370,125</u>
- Corporate loans	-	-	1,023,110	1,023,110	-	-	910,667	910,667
- loans to individuals – consumer loans	-	-	213,551	213,551	-	-	188,633	188,633
- loans to individuals – entrepreneurs	-	-	155,801	155,801	-	-	72,718	72,718
- Mortgage loans	-	-	150,270	150,270	-	-	135,690	135,690
- State and municipal organizations	-	-	51,182	51,182	-	-	62,417	62,417
Investments in debt instruments at amortized cost	368,115	-	-	368,115	-	-	-	-
Investments held to maturity	-	-	-	-	107,708	-	-	107,708
Other financial assets	-	-	13,209	13,209	-	-	11,658	11,658
Premises and equipments	-	-	19,095	19,095	-	-	16,692	16,692
Total	<u>761,565</u>	<u>129,599</u>	<u>1,626,218</u>	<u>2,517,382</u>	<u>592,111</u>	<u>166,919</u>	<u>1,398,475</u>	<u>2,157,505</u>

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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(All amounts are in thousand RON)
Group
Thousand RON

	31 December 2018				31 December 2017			
Financial liabilities	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Deposits from banks:	=	<u>6,951</u>	=	<u>6,951</u>	=	<u>45,383</u>	=	<u>45,383</u>
- Correspondent accounts and overnight placements of other banks	-	6,485	-	6,485	-	29,914	-	29,914
- Term deposits from bank	-	-	-	-	-	15,003	-	15,003
- Collateral Deposits from banks	=	466	-	466	-	466	-	466
Customer deposits:	=	=	<u>3,057,025</u>	<u>3,057,025</u>	=	=	<u>3,231,281</u>	<u>3,231,281</u>
- Current accounts and transitory amounts of state and municipal organizations	-	-	202	202	-	-	187	187
- Current accounts and transitory amounts of companies	-	-	298,110	298,110	-	-	314,365	314,365
- Term deposits of companies	-	-	353,042	353,042	-	-	504,526	504,526
- Current accounts and transitory amounts of individuals	-	-	285,930	285,930	-	-	240,683	240,683
- Term deposits of individuals	-	-	2,119,741	2,119,741	-	-	2,171,520	2,171,520
Loans from banks and other financial institutions:	=	=	<u>37,403</u>	<u>37,403</u>	=	=	<u>39,893</u>	<u>39,893</u>
- Loans from banks	-	-	2,316	2,316	-	-	-	-
- Loans from other financial institutions	-	-	35,087	35,087	-	-	39,893	39,893
Subordinated debt	-	-	23,373	23,373	-	-	29,589	29,589
Other financial liabilities:	=	=	<u>77,985</u>	<u>77,985</u>	=	=	<u>98,972</u>	<u>98,972</u>
- Financial liabilities to owners of fund units	-	-	69,928	69,928	-	-	91,653	91,653
- Other financial liabilities	-	-	8,057	8,057	-	-	7,319	7,319
Total	=	<u>6,951</u>	<u>3,195,786</u>	<u>3,202,737</u>	=	<u>45,383</u>	<u>3,399,735</u>	<u>3,445,118</u>

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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(All amounts are in thousand RON)
Bank

	31 December 2018				31 December 2017			
	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Thousand RON								
Financial assets								
Cash and cash equivalents	386,762	123,985	-	510,747	478,014	158,511	-	636,525
Placements with banks	=	5,613	=	5,613	=	5,076	=	5,076
- Short-term placements with other banks with original maturities of more than three months	-	5,613	-	5,613	-	5,076	-	5,076
Loans and advances to customers	=	=	1,543,019	1,543,019	=	=	1,325,216	1,325,216
- Corporate loans	-	-	1,026,493	1,026,493	-	-	866,034	866,034
- loans to individuals – consumer loans	-	-	213,283	213,283	-	-	188,357	188,357
- loans to individuals – entrepreneurs	-	-	101,791	101,791	-	-	72,718	72,718
- Mortgage loans	-	-	150,270	150,270	-	-	135,690	135,690
- State and municipal organizations	-	-	51,182	51,182	-	-	62,417	62,417
Investments in debt instruments at amortized cost	368,115	-	-	368,115	-	-	-	-
Investments held to maturity	-	-	-	-	107,708	-	-	107,708
Other financial assets	-	-	13,026	13,026	-	-	11,429	11,429
Premises and equipments	-	-	18,650	18,650	-	-	16,520	16,520
Total	754,877	129,598	1,574,695	2,459,170	585,722	163,587	1,353,165	2,102,474

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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(All amounts are in thousand RON)
Bank
Thousand RON

	<u>31 December 2018</u>				<u>31 December 2017</u>			
	<u>Nivel 1</u>	<u>Nivel 2</u>	<u>Nivel 3</u>	<u>Carrying value</u>	<u>Nivel 1</u>	<u>Nivel 2</u>	<u>Nivel 3</u>	<u>Carrying value</u>
Financial liabilities								
Deposits from banks:	=	6,951	=	6,951	=	45,383	=	45,383
- Correspondent accounts and overnight placements of other banks	-	6,485	-	6,485	-	29,914	-	29,914
- Term deposits from bank	-	-	-	-	-	15,003	-	15,003
- Collateral Deposits from banks	-	466	-	466	-	466	-	466
Customer deposits:	=	=	3,064,601	3,064,601	=	=	3,256,296	3,256,296
- Current accounts and transitory amounts of state and municipal organizations	-	-	202	202	-	-	187	187
- Current accounts and transitory amounts of companies	-	-	302,206	302,206	-	-	318,876	318,876
- Term deposits of companies	-	-	356,522	356,522	-	-	525,030	525,030
- Current accounts and transitory amounts of individuals	-	-	285,930	285,930	-	-	240,683	240,683
- Term deposits of individuals	-	-	2,119,741	2,119,741	-	-	2,171,520	2,171,520
Loans from banks and other financial institutions:	=	=	=	=	=	=	59	59
- Loans from banks	-	-	-	-	-	-	-	-
- Loans from other financial institutions	-	-	-	-	-	-	59	59
Subordinated debt	-	-	23,373	23,373	-	-	29,589	29,589
Other financial liabilities:	=	=	7,943	7,943	=	=	6,860	6,860
- Financial liabilities to owners of fund units	-	-	-	-	-	-	-	-
- Other financial liabilities	-	-	7,943	7,943	-	-	6,860	6,860
Total	=	6,951	3,095,917	3,102,868	=	45,383	3,292,804	3,338,187

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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Placements with banks

The Group's short-term placements with Banks include current accounts and deposits. The fair value of floating rate placements and overnight deposits is their carrying amount. Fixed interest bearing deposits mature in less than three months and it is assumed that their fair values are not significantly different from its carrying value and are convertible into cash or are settled without significant transaction costs.

Investments in debt instruments at amortized cost

The financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group intends and is able to hold to maturity.

On initial recognition, the investments held-to-maturity are measured at fair value comprising the purchase price and the transaction costs.

Subsequent to initial recognition, the investments held-to-maturity are measured at amortised cost using the effective rate method less the impairment allowance. The amortised cost is calculated considering any discount or premium upon purchase and fees and costs that should be part of the effective interest rate. The amortization is included in "Interest income" in the consolidated statement of profit or loss and other comprehensive income. Impairment allowances are recorded if impairment losses occur.

Loans and advances to customers

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

Evolution for the principal balance (and thus staggering cash flow) was estimated considering reductions mainly generated by the following elements: principal repayments, early repayment and impairment of loans outstanding (PD - probability of default). For each category of credit was considered a discount rate specified, starting from the interest rate practiced that was later adjusted to eliminate adjustments for impairment at a level estimated by management for the new loans production and the cost of origination for loan portfolio. The fair value of the portfolio was calculated by aggregating the discounted cash flow for the forecast period.

Due to other banks, deposits from customers and loans from banks and other financial institutions.

Deposits from banks and customers

For demand deposits and deposits with no defined maturities, fair value is considered to be the amount payable on demand at the balance sheet date. For deposits maturing within one-year, it is assumed that their fair value is not significantly different from carrying value. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on current cash flows using current rates available for deposits with similar residual maturities.

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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(All amounts are in Thousand RON)**

Financial assets and liabilities

The management considered that the fair value is not significantly different from accounting value considering that these financial assets and liabilities are expected to be settled within one month or with no fixed maturity and the carrying amount is not materially different from fair value.

7. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

In the comparative information, for the purposes of measurement, IAS 39 “Financial Instruments: Recognition and Measurement”, classifies financial assets into the following categories:

- (a) loans and receivables;
- (b) financial assets at fair value through profit or loss (“FVTPL”);
- (c) available-for-sale financial assets;
- (d) financial assets held to maturity
- (e) financial assets at fair value through profit or loss have two sub-categories:
 - (i) assets designated as such upon initial recognition, and
 - (ii) those classified as held for trading. In addition, finance lease receivables form a separate category.

For the purposes of measurement, IFRS 9 classifies financial assets into the following categories:

- (a) financial assets at amortised cost
- (b) financial assets at fair value through profit or loss (“FVTPL”)
- (c) financial assets measured at fair value through other comprehensive income (“FVOCI”)

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The following table provides a reconciliation of Group's financial assets with these measurement categories as of 31 December 2018:

Group	31 December 2018		Financial assets measured at fair value through other comprehensive	
Thousand RON	Financial assets at amortized cost	Assets held for trading	income	Total
Financial assets				
<u>Cash and cash equivalents</u>	517,436	-	-	517,436
<u>Placements with banks having short term maturity</u>	5,613	-	-	5,613
<u>Loans and advances to customers:</u>	<u>1,593,914</u>	-	-	<u>1,593,914</u>
- Corporate loans	1,023,110	-	-	1,023,110
- loans to individuals – consumer loans	213,551	-	-	213,551
- loans to individuals – entrepreneurs	155,801	-	-	155,801
- Mortgage loans	150,270	-	-	150,270
- State and municipal organizations	51,182	-	-	51,182
Financial assets measured at fair value through other items of comprehensive income	-	-	<u>652,016</u>	<u>652,016</u>
- <i>Treasury bills</i>	-	-	643,848	643,848
- <i>Investments in unit funds</i>	-	-	5,512	5,512
- <i>Equity investments</i>	-	-	2,656	2,656
<u>Financial assets held for trading</u>	-	<u>67,809</u>	-	<u>67,809</u>
<u>Investments in debt instruments at amortized cost</u>	<u>368,115</u>	-	-	<u>368,115</u>
<u>Other Financial assets:</u>	<u>13,209</u>	-	-	<u>13,209</u>
- <i>Other Financial assets</i>	8,380	-	-	8,380
- <i>Other debtors</i>	2,490	-	-	2,490
- <i>Amounts to be recovered from banks and customers</i>	2,339	-	-	2,339
Total financial assets	<u>2,498,287</u>	<u>67,809</u>	<u>652,016</u>	<u>3,218,112</u>

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

The following table provides a reconciliation of Group's financial assets with these measurement categories as of 31 December 2017:

Group	31 December 2017				
Thousand RON	<u>Loans and receivables</u>	<u>Available-for-sale assets</u>	<u>Trading assets</u>	<u>Held to maturity</u>	<u>Total</u>
Financial assets					
<u>Cash and cash equivalents</u>	642,914	-	-	-	642,914
<u>Placements with banks having short term maturity</u>	8,408	-	-	-	8,408
<u>Loans and advances to customers:</u>	<u>1,370,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,370,125</u>
- Corporate loans	910,667	-	-	-	910,667
- loans to individuals – consumer loans	188,633	-	-	-	188,633
- loans to individuals – entrepreneurs	72,718	-	-	-	72,718
- Mortgage loans	135,690	-	-	-	135,690
- State and municipal organizations	62,417	-	-	-	62,417
<u>Financial assets, available-for-sale:</u>	<u>-</u>	<u>1,151,064</u>	<u>-</u>	<u>-</u>	<u>1,151,064</u>
- Treasury bills	-	1,143,797	-	-	1,143,797
- Investments in unit funds	-	4,713	-	-	4,713
- Equity investments	-	2,554	-	-	2,554
<u>Financial assets held for trading</u>	<u>-</u>	<u>-</u>	<u>99,966</u>	<u>-</u>	<u>99,966</u>
<u>Investments held to maturity</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,708</u>	<u>107,708</u>
<u>Other Financial assets:</u>	<u>11,658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,658</u>
-Other financial assets	6,558	-	-	-	6,558
- Other debtors	2,770	-	-	-	2,770
-Amounts to be recovered from banks and customers	2,330	-	-	-	2,330
Total financial assets					
Financial assets	<u>2,033,105</u>	<u>1,151,064</u>	<u>99,966</u>	<u>107,708</u>	<u>3,391,843</u>

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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(All amounts are in Thousand RON)

The following table provides a reconciliation of Bank's financial assets with these measurement categories as of 31 December 2018:

Bank Thousand RON	31 December 2018		Financial assets measured at fair value through other comprehensive income	Total
	Financial assets at amortized cost	Assets held for trading		
Financial assets				
Cash and cash equivalents	510,747	-	-	510,747
Placements with banks having short term maturity	5,613	-	-	5,613
Loans and advances to customers:	1,543,019	-	-	1,543,019
- Corporate loans	1,026,493	-	-	1,026,493
- loans to individuals – consumer loans	213,283	-	-	213,283
- loans to individuals – entrepreneurs	101,791	-	-	101,791
- Mortgage loans	150,270	-	-	150,270
- State and municipal organizations	51,182	-	-	51,182
Financial assets measured at fair value through other items of comprehensive income	-	-	651,914	651,914
- Treasury bills	-	-	643,848	643,848
- Investments in unit funds	-	-	5,512	5,512
- Equity investments	-	-	2,554	2,554
Financial assets held for trading	-	6,785	-	6,785
Investments in debt instruments at amortized cost	368,115	-	-	368,115
Other Financial assets:	13,026	-	-	13,026
- Other Financial assets	8,380	-	-	8,380
- Other debtors	1,471	-	-	1,471
- Amounts to be recovered from banks and customers	3,175	-	-	3,175
Total financial assets	2,440,520	6,785	651,914	3,099,219

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

The following table provides a reconciliation of Bank's financial assets with these measurement categories as of 31 December 2017:

Bank Thousand RON	31 December 2017				
	<u>Loans and receivables</u>	<u>Available-for-sale assets</u>	<u>Trading assets</u>	<u>Held to maturity</u>	<u>Total</u>
Financial assets					
Cash and cash equivalents	636,525	-	-	-	636,525
Placements with banks having short term maturity	5,076	-	-	-	5,076
Loans and advances to customers:	<u>1,325,216</u>	-	-	-	<u>1,325,216</u>
- Corporate loans	866,034	-	-	-	866,034
- loans to individuals – consumer loans	188,357	-	-	-	188,357
- loans to individuals – entrepreneurs	72,718	-	-	-	72,718
- Mortgage loans	135,690	-	-	-	135,690
- State and municipal organizations	62,417	-	-	-	62,417
Financial assets, available-for-sale:	-	<u>1,151,064</u>	-	-	<u>1,151,064</u>
- Treasury bills	-	1,143,797	-	-	1,143,797
- Investments in unit funds	-	4,713	-	-	4,713
- Equity investments	-	2,554	-	-	2,554
Financial assets held for trading	-	-	28,635	-	28,635
Investments held to maturity	-	-	-	107,708	107,708
Other Financial assets:	<u>11,429</u>	-	-	-	<u>11,429</u>
-Other financial assets	6,558	-	-	-	6,558
- Other debtors	1,671	-	-	-	1,671
-Amounts to be recovered from banks and customers	3,200	-	-	-	3,200
Total financial assets	<u>1,978,246</u>	<u>1,151,064</u>	<u>28,635</u>	<u>107,708</u>	<u>3,265,653</u>

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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Presentation of Group's Financial Instruments by Measurement Category:

Group	<u>31 December 2018</u>		<u>31 December 2017</u>	
Thousand RON	Items measured at amortised cost	Financial instruments designated at fair value through profit or loss	Items measured at amortised cost	Financial instruments designated at fair value through profit or loss
Financial Liabilities				
<u>Due to other banks</u>	6,951	-	45,383	50,584
<u>Customer deposits</u>	<u>3,057,030</u>	=	<u>3,231,281</u>	=
- Current accounts and transitory amount of municipalities	207	-	187	-
- Current accounts and transitory amount of companies	298,110	-	314,365	-
- Deposits of companies	353,042	-	504,526	-
- Current accounts and transitory amount of private individuals	285,930	-	240,683	-
- Deposits of private individuals	2,119,741	-	2,171,520	-
<u>Loans from banks and other institutions</u>	37,403		39,893	
<u>Other financial liabilities</u>	78,052	(67)	98,782	190
<u>Subordinated debt</u>	23,373	-	29,589	-
Total financial liabilities	<u>3,202,809</u>	<u>(67)</u>	<u>3,444,928</u>	<u>50,774</u>

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Presentation of Bank's Financial Instruments by Measurement Category:

Bank	31 December 2018		31 December 2017	
Thousand RON	Items measured at amortised cost	Financial instruments designated at fair value through profit or loss	Items measured at amortised cost	Financial instruments designated at fair value through profit or loss
Financial Liabilities				
<u>Due to other banks</u>	6,951	-	45,383	50,584
<u>Customer deposits</u>	<u>3,064,601</u>	-	<u>3,256,296</u>	-
- Current accounts and transitory amount of municipalities	202	-	187	-
- Current accounts and transitory amount of companies	302,206	-	318,876	-
- Deposits of companies	356,522	-	525,030	-
- Current accounts and transitory amount of private individuals	285,930	-	240,683	-
- Deposits of private individuals	2,119,741	-	2,171,520	-
<u>Loans from banks and other institutions</u>	-	-	59	-
<u>Other financial liabilities</u>	7,943	72	6,860	32
<u>Subordinated debt</u>	23,373	-	29,589	-
Total financial liabilities	<u>3,102,868</u>	<u>72</u>	<u>3,338,187</u>	<u>50,616</u>

8. NET INTEREST INCOME

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Interest and similar income				
Loans and advances to customers (*)	137,355	133,636	123,672	121,438
Financial assets at fair value through other comprehensive income	10,453	13,831	7,604	11,560
Investments held to maturity	-	3,086	-	3,086
Debt instruments at amortised cost	6,279	-	6,279	-
Due from other banks	1,964	1,456	1,807	1,064
Total interest and similar income	<u>156,051</u>	<u>152,009</u>	<u>139,362</u>	<u>137,148</u>
Interest and similar expense	-	-	-	-
Customer deposits	36,304	33,450	33,734	31,508
Loans from banks and other financial institutions	991	243	991	243
REPO operations	2,008	782	2,008	782
REPO operations	355	113	355	113
Total interest and similar expense	<u>39,658</u>	<u>34,588</u>	<u>37,088</u>	<u>32,646</u>
Net interest income	<u>116,393</u>	<u>117,421</u>	<u>102,274</u>	<u>104,502</u>

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(*) Interest income at Group level includes RON 11,810 thousand (2017: RON 25,843 thousand) interest income recognized on impaired loans to customers and an expense representing unwinding of interest adjustment for the impaired loans to customers amounting to RON 1,670 thousand (2017: RON 13,716 thousand).

(*) Interest income at Bank level includes RON 11,171 thousand (2017: RON 25,404 thousand) interest income recognized on impaired loans to customers and an expense representing unwinding of interest adjustment for the impaired loans to customers amounting to RON 1,670 thousand (2017: RON 13,716 thousand).

Interest income from loans to customers includes fair value premium amortization in amount of RON 1,267 thousand (2017: RON 17,533 thousand).

9. NET FEE AND COMMISSION INCOME

Thousand RON	Group		Bank	
	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Fee and commission income				
Cards activity (VISA & MC)	6,515	6,590	6,515	6,590
Non-cash transactions	10,180	10,172	10,186	10,246
Non-deferrable commissions related to loans	250	843	250	843
Cash transactions	5,165	5,646	5,165	5,647
Income from other financial services	5,229	3,337	3,458	2,356
Bank assurance services	-	-	530	-
Issuing financial guarantees	319	212	319	212
Interbank settlements	1155	1384	1,155	1,384
Total fee and commission income	<u>28,813</u>	<u>28,184</u>	<u>27,578</u>	<u>27,278</u>
Fee and commission expense	0	0	-	-
Cards activity (VISA & MC)	879	1,779	879	1,779
Interbank settlements	1,994	1,973	1,993	1,972
Expenses from other financial services	2,314	1,713	639	276
Other	479	486	439	464
Total fee and commission expense	<u>5,666</u>	<u>5,951</u>	<u>3,950</u>	<u>4,491</u>
Net fee and commission income	<u>23,147</u>	<u>22,233</u>	<u>23,628</u>	<u>22,787</u>

Non-deferrable commissions related to loans represent fees and commissions that are not subject of amortization according to the Effective Interest Rate methodology and consist mainly on fees charged for services provided (administration fees) that are recognized in the period when they were incurred, fees for credit commitments when the probability of disbursement is not certain, fees charged for early repayments, etc. The Group has internal procedures that classifies all commission types and specifies the accounting treatment to be applied for each class.

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10. NET TRADING INCOME

	Group		Bank	
	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Net gain/ (loss) from foreign exchange transactions	9,216	9,152	9,243	9,152
Net gain/(loss) from monetary exchange position	-	27	-	(167)
Net gain from financial assets held for trading	(1,058)	(324)	364	1,216
Net gain/(loss) from derivatives	(258)	241	(455)	344
Net trading income	<u>7,900</u>	<u>9,096</u>	<u>9,152</u>	<u>10,545</u>

11. NET GAIN FROM DISPOSAL OF INVESTMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
Thousand RON	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Gains from disposals of investment securities at fair value through other comprehensive income	553	1,956	525	1,953
Losses from disposals of investment securities at fair value through other comprehensive income	(2,899)	(1,485)	(2,899)	(1,485)
Gain/losses from disposals of investment securities at fair value through other comprehensive income	<u>(2,346)</u>	<u>471</u>	<u>(2,374)</u>	<u>468</u>

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12. OTHER OPERATING INCOME

Thousand RON	Group		Bank	
	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
Dividend income	2,693	2,352	9,615	5,755
Other operating Income	1,357	2,414	1,252	2,256
Gain / (Losses) from disposal of premises and equipment sales	4,876	(274)	6,625	(273)
Income from rental of real estate	4,774	4,503	3,007	4,502
Total	<u>13,700</u>	<u>8,995</u>	<u>20,499</u>	<u>12,240</u>

Dividend income of RON 9,615 thousand (2017: RON 5,755 thousand) represents share of profits paid proportionally to the participation of the Bank, as follows:

- RON 6,055 Thousand, received from Patria Credit IFN
- RON 1,590 Thousand, received from SAI Patria Asset Management SA
- RON 1,386 Thousand, received from TRANSFOND SA
- RON 540 Thousand, received from GLOBINVEST SA
- RON 45 Thousand, received from other participations

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13. (CHARGE)/RELEASE WITH THE ADJUSTMENTS FOR IMPAIRMENT OF FINANCIAL ASSETS

Thousand RON	Group		Bank	
	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
(Charge)/Release with the adjustments for impairment of loans and advances to customers:	51,806	31,852	50,794	30,376
-SME loans	29,607	28,684	30,934	25,083
-Consumer loans	13,845	9,942	13,755	9,944
-Loans to entrepreneurs	4,888	(1,454)	2,639	669
-Mortgage loans	3,515	(5,369)	3,515	(5,369)
-State and municipal organizations	(49)	49	(49)	49
Loss from written off loans	9,655	1,269	9,719	1,257
Recoveries from loans previously written off	(14,768)	(14,246)	(14,742)	(14,217)
Impact selling transaction of non-performing loans "ELARA Tranche_B"	(21,502)	-	(21,502)	-
Recognition gross exposure from off balance at the recovery value "ELARA Tranche_A"	(16,557)	-	(16,557)	-
Recognition gross exposure from off balance at the recovery value "ELARA Tranche_A - other exposures"	(7,272)	-	(7,272)	-
(Charge)/Release with the adjustments for impairment of debt instruments at amortised cost	31	-	31	-
(Charge)/Release with the adjustments for impairment of financial asset measured at fair value through other items of comprehensive income	38	-	38	-
(Charge)/Release with the adjustments for impairment of credit commitments and financial guarantees	(2,011)	1,056	(1,999)	1,056
Impairment adjustment for equity investments	-	19	-	1,347
(Charge)/Release with the adjustments for impairment of financial assets	<u>(580)</u>	<u>19,950</u>	<u>(1,490)</u>	<u>19,819</u>

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In 2018 year, the Group performed a transaction of selling of non-performing loans, named “ELARA_Tranche B”. The reference date of this transaction was 31st of May 2018 and the settlement date was on 26th of October 2018.

The gross exposure of this portfolio was in amount of RON 246,365 thousand representing 9,734 loan contracts, out of which:

- RON 67 thousand on balance exposures
- RON 246,298 thousand off balance exposures

The price received for this transaction was RON 24,460 thousand and the net impact of the transaction was RON 21,723 thousand.

Also, in 2018 the Group initiated a second transaction of selling of non-performing loans as follow:

- Transaction of selling of non-performing loans of a Group’s client exposure named “ELARA_Tranche A – Group of clients” with total gross exposure in amount of RON 74,528 thousand representing 10 loan contracts. The selling price is RON 11,000 thousand and the transaction was settled on 23 January 2019.
- Transaction of selling of non-performing loans named “ELARA_Tranche A” with total gross exposure in amount RON 258,186 thousand representing 926 loan contracts. The selling price is RO 37,140 thousand and the transaction was settled on 26th of February 2019.

As of 31st of December 2018, there were recognized loans (gross exposure less repayments) in amount of RON 23,829 thousand in Balance Sheet from Off-Balance at the recovery value in accordance with the bidding offer received by the Group. For the on balance loans there were booked additional impairments in amount of RON 12,650 thousand.

The net impact of the transaction ELARA Tranche_A and Tranche_A – other exposures as 31st of December 2018, included in the above note is RON 11,179 thousand.

14. STAFF COSTS

Thousand RON	<u>31 December</u> <u>2018</u>	<u>Group</u> <u>31 December</u> <u>2017</u>	<u>31 December</u> <u>2018</u>	<u>Bank</u> <u>31 December</u> <u>2017</u>
Wages and salaries	73,971	73,624	69,955	70,291
Social security taxes	2,561	16,972	2,455	16,231
Charge/ (release) staff costs provisions	(576)	(5,599)	(488)	(5,755)
Other staff expense	1,781	127	1,629	126
Total	<u>77,737</u>	<u>85,124</u>	<u>73,551</u>	<u>80,893</u>

The Group number of employees at 31 December 2018 was 998 employees (31 December 2017: 1,247 employees).

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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15. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

Thousand RON	Group		Bank	
	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Third parties services	45,948	47,282	44,740	45,750
Rent	12,104	13,300	11,665	13,026
Materials and small inventories	2,722	3,413	2,502	3,161
Annual contribution to Guarantee Fund	1,986	2,021	1,986	2,021
Other taxes	4,111	9,993	3,735	9,624
Advertising and publicity	2,574	2,673	2,375	2,547
Depreciation charge on other assets	-	(349)	-	(193)
Net charge/(release) of litigation provisions	366	1,709	366	1,723
Net charge/(release) of other provisions	233	-	233	-
Losses from disposal and disposal of tangible assets	-	86	-	135
Other operating expenses	2,951	2,437	1,929	1,678
Total	<u>72,995</u>	<u>82,565</u>	<u>69,531</u>	<u>79,472</u>

The non-audit fees from PricewaterhouseCoopers incurred in 2018 are in total amount of RON 386 thousand, in 2017 are in total amount of RON 59 thousand.

16. INCOME TAX

(a) Components of income tax expense / (credit)

Income tax expense / (credit) recorded in profit or loss for the year comprises the following:

Thousand RON	Group		Bank	
	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Deferred tax	-	(59)	-	-
Current tax expense	788	912	-	-
Net income tax	<u>788</u>	<u>853</u>	<u>-</u>	<u>-</u>

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

A reconciliation between the expected and the actual taxation charge is provided below.

	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Loss before income tax	(3,190)	(42,747)	(266)	(42,544)
Standard fee	(510)	(6,840)	(43)	(6,807)
Tax effect of items which are not deductible				
- Non-deductible expenses	6,541	7,972	5,853	7,471
- Income which is exempt from taxation	(7,942)	(9,140)	(7,347)	(9,041)
- Elements similar with taxable income	26,631	21,285	26,631	21,285
- Elements similar with deductible expenses	(69)	-	(69)	-
Unrecognised tax loss carry forwards	(22,995)	(14,384)	(23,215)	(14,809)
Recognised tax loss carry forwards	(827)	1,960	(827)	1,901
Other adjustments	(41)	-	(983)	-
Income tax expense/(credit) for the year	<u>788</u>	<u>853</u>	<u>-</u>	<u>-</u>

(c) Tax loss carry forwards

Fiscal year loss:

- 2012 fiscal year loss of RON 78,441 thousand will expire in 2019
- 2013 fiscal year loss of RON 79,571 thousand will expire in 2020
- 2014 fiscal year loss of RON 138,822 thousand will expire in 2021
- 2015 fiscal year loss of RON 4,957 thousand will expire in 2022
- 2016 fiscal year loss of RON 46,583 thousand will expire in 2023
- 2017 fiscal year profit of RON (80,674) thousand - utilization from the 2010 fiscal loss that expired in 2017
- 2018 fiscal year profit of RON (156,839) thousand – utilization of:
 - o RON 130,459 thousand from the 2011 fiscal loss that expired in 2018 (fully utilisation)
 - o RON 26,381 thousand from the 2012 fiscal loss that will expire in 2019 (partially utilisation)

At the end of 2018, Patria Bank has a total fiscal loss for 2012 – 2018 period of RON 321,993 thousand (at the end of 2017 year had RON 478,833 thousand).

The potential deferred tax assets in respect of unused tax loss carry forwards is of RON 51,519 thousand (2017: RON 76,613 thousand).

The Bank and the Group assessment regarding the recoverability of the deferred tax asset in amount of RON 23,215 thousand (Bank) and amount of RON 22,995 thousand (Group) is based on the expected fiscal profit for 2019 year that incorporates the impact of assignment of receivables transactions that will be implemented in the first months of 2019 year.

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(d) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Romania give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

Group Thousand RON	<u>1 January</u> <u>2017</u>	<u>The merger</u> <u>effect</u>	<u>Income to profit or</u> <u>loss</u>	<u>Charged to</u> <u>comprehensive</u> <u>income</u>	<u>Charged</u> <u>directly</u> <u>to equity</u>	<u>31 December 2017</u>
Tax effect of deductible temporary differences						
Revaluation reserve for Premises	(11,518)	-	-	405	-	(11,113)
Revaluation reserve securities at fair value through other comprehensive income	559	(504)	-	1,901	-	1,956
Tax loss carry forwards	28,199	-	-	-	-	28,199
Purchase Price allocation adjustment	1,808	-	-	-	1,468	3,276
Other temporary differences	(304)	-	59	-	-	(245)
Recognized deferred tax asset	-	-	-	-	643	643
Net deferred tax asset/(liability)	<u>18,744</u>	<u>(504)</u>	<u>59</u>	<u>2,306</u>	<u>2,111</u>	<u>22,716</u>
Group Thousand RON	<u>1 January</u> <u>2018</u>	<u>The merger</u> <u>effect</u>	<u>Income to profit or</u> <u>loss</u>	<u>Charged to</u> <u>comprehensive</u> <u>income</u>	<u>Charged</u> <u>directly</u> <u>to equity</u>	<u>31 December 2018</u>
Tax effect of deductible temporary differences						
Revaluation reserve for Premises	(11,113)	-	-	394	1,377	(9,342)
Revaluation reserve securities at fair value through other comprehensive income	1,956	-	-	(827)	(665)	464
Tax loss carry forwards	28,199	-	-	-	-	28,199
Purchase Price allocation adjustment	3,276	-	-	-	-	3,276
Other temporary differences	(245)	-	-	-	-	(245)
Recognized deferred tax asset	643	-	-	-	-	643
Net deferred tax asset/(liability)	<u>22,716</u>	<u>-</u>	<u>-</u>	<u>(433)</u>	<u>711</u>	<u>22,995</u>

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Bank	1 January	The merger	Charged to	Charged to	Charged directly	31 December
Thousand RON	2017	effect	profit or	comprehensive	to equity	2017
			loss	income		
Tax effect of deductible temporary differences						
Revaluation reserve for Premises	(11,518)	-	-	405	-	(11,113)
Revaluation reserve securities at fair value						
through other comprehensive income	559	(504)	-	1,901	-	1,956
Tax loss carry forwards	28,199	-	-	-	-	28,199
Purchase Price allocation adjustment	1,808	-	-	-	1,468	3,276
Other temporary differences	(25)	-	-	-	-	(25)
Recognized deferred tax asset	-	-	-	-	644	644
Net deferred tax asset/(liability)	<u>19,023</u>	<u>(504)</u>	-	<u>2,306</u>	<u>2,112</u>	<u>22,937</u>
			Charged to	Charged to	Charged directly	31 December
Bank	1 January	The merger	profit or	comprehensive	to equity	2018
Thousand RON	2018	effect	loss	income		
Tax effect of deductible temporary differences						
Revaluation reserve for Premises	(11,113)	-	-	394	1,376	(9,343)
Revaluation reserve securities at fair value						
through other comprehensive income	1,956	-	-	(827)	(665)	464
Tax loss carry forwards	28,199	-	-	-	-	28,199
Purchase Price allocation adjustment	3,276	-	-	-	-	3,276
Other temporary differences	(25)	-	-	-	-	(25)
Recognized deferred tax asset	644	-	-	-	-	644
Net deferred tax asset/(liability)	<u>22,937</u>	<u>-</u>	<u>-</u>	<u>(433)</u>	<u>711</u>	<u>23,215</u>

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17. CASH AND CASH EQUIVALENTS

Thousand RON	<u>31 December 2018</u>	<u>Group 3 December 2017</u>	<u>31 December 2018</u>	<u>Bank 3 December 2017</u>
Cash on hand	35,924	57,680	35,923	57,680
Cash in ATMs	88,062	100,831	88,062	100,831
Mandatory minimum reserve	352,487	452,051	352,487	452,051
Correspondent accounts and sight deposits with other banks	26,803	26,465	16,342	25,963
Placements with other banks with original maturities of less than three months	14,160	5,887	17,933	
Total Cash and Cash Equivalents	<u>517,436</u>	<u>642,914</u>	<u>510,747</u>	<u>636,525</u>

(i) The mandatory minimum reserve is maintained in accordance with Regulation no. 6/2002 issued by the National Bank of Romania and the subsequent changes and amendments. According to this regulation, the Group is required to maintain a minimum average balance of mandatory reserve throughout the reporting period (monthly basis). The amounts from the mandatory reserve accounts are readily available for the use of the group according to the liquidity needs and strategy, subject to achieving the minimum reserve as an average for the reporting period.

As of 31 December 2018 the mandatory minimum reserve requirement was 8% (2018: 8%) for RON funds attracted from customers and 8 % (2017: 8%) for foreign currency denominated funds attracted.

For the current account in EUR, the National Bank of Romania granted during 2018 an interest of 0.02% p.a. (2017 between 0.02% and 0.05% p.a.). For the current account in USD, the National Bank of Romania granted during 2018 an interest between 0.09 % and 0.14 % p.a. (2017 between 0.07% and 0.10% p.a.).

As of 31 December 2018 the amounts presented in the statement of financial position of cash and equivalents and cash at Central Banks are neither past due no impaired.

In higher credit quality grade category of the Group's investments are included the credit institution with the following ratings: AAA, AA+, AA, AA-, A+, A-, A, BBB+, BBB, BBB-. In lower credit quality grade category of the Group's investments are included in the credit institution with the following ratings: BB+, BB, BB-, B+, B, B-, CCC.

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The credit quality analysis is performed by external institutions eligible for credit assessment (Fitch, Moody's and Standard and Poor's) and is presented below:

Thousand RON	Cash on hand and ATMs	Mandatory minimum reserve	Group 31 December 2018 Correspondent accounts and sight deposits with other banks	Placements with other banks with original maturities of less than three months	Total Cash and Cash Equivalents	Cash on hand and ATMs	Mandatory minimum reserve	Group 31 December 2017 Correspondent accounts and sight deposits with other banks	Placements with other banks with original maturities of less than three months	Total Cash and Cash Equivalents
<i>Neither impaired nor past due</i>										
Higher credit quality grade	-	352,487	22,511	14,160	389,158	-	452,051	18,138	-	470,189
Lower credit quality grade	-	-	-	-	-	-	-	373	546	919
Unrated	123,986	-	4,292	-	128,278	158,511	-	7,954	5,341	171,806
Total	123,986	352,487	26,803	14,160	517,436	158,511	452,051	26,465	5,887	642,914
<i>Neither impaired nor past due</i>										
Higher credit quality grade	-	352,487	13,589	17,933	384,009	-	452,051	17,927	-	469,978
Lower credit quality grade	-	-	-	-	-	-	-	342	-	342
Unrated	123,985	-	2,753	-	126,738	158,511	-	7,694	-	166,205
Total	123,985	352,487	16,342	17,933	510,747	158,511	452,051	25,963	-	636,525

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18. FINANCIAL ASSETS HELD FOR TRADING

Thousand RON	<u>31 December 2018</u>	<u>3 December 2017</u>	<u>31 December 2018</u>	<u>3 December 2017</u>
		Group		Bank
Listead shares (i)	0	8,469	0	0
Fund units	5,961	694	6,785	7,204
Debt instruments (ii)	61,848	90,803	0	21,431
Total Financial Assets Held for Trading	67,809	99,966	6,785	28,635

- (i) The listed shares include shares listed at the Bucharest Stock Exchange;
(ii) Debt instruments includes:

- Bonds issued in RON, EUR and USD by financial and non-banking financial institutions as well as central and local public authorities;
- Treasury bills issued by the Ministry of Public Finance of Romania

Analysis by credit quality of financial assets held for trading is as follows:

Thousand RON	<u>Group</u> <u>31 December 2018</u>			<u>Group</u> <u>31 December 2017</u>			
	Fund units	Debt instruments	Total	Fund units	Debt instruments	Listead shares	Total
<i>Neither impaired nor past due</i>							
- Higher credit quality grade	-	61,848	61,848	-	84,247	8,469	92,716
- Lower credit quality grade	-	-	-	-	4,278	-	4,278
- Unrated	5,961	-	5,961	694	2,278	-	2,972
						-	-
Total	5,961	61,848	67,809	694	90,803	8,469	99,966

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Thousand RON	Bank 31 December 2018			Bank 31 December 2017			
	Fund units	Debt instruments	Total	Fund units	Debt instruments	Listead shares	Total
<i>Neither impaired nor past due</i>							
-Higher credit quality grade	-		-	-	21,431	-	21,431
-Lower credit quality grade	-		-	-	-	-	-
- Unrated	6,785		6,785	7,204	-	-	7,204
Total	<u>6,785</u>	=	<u>6,785</u>	<u>7,204</u>	<u>21,431</u>	=	<u>28,635</u>

**19. FINANCIAL ASSETS EVALUATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE
INCOME (2017 :AVAILABLE FOR SALE)**

Thousand RON	31 December 2018	Group 31 December 2017	31 December 2018	Bank 31 December 2017
<i>Debt securities at fair value through other items of comprehensive income:</i>				
<i>Treasury bills issued by the Ministry of Public (i) out of which:</i>	643,848	1,143,797	643,848	1,143,797
<i>Equity instruments at fair value through other items of comprehensive income</i>				
<i>Investments in unit funds</i>	541	607	541	607
<i>Visa</i>	4,971	4,106	4,971	4,106
<i>Total</i>	649,360	1,148,510	649,360	1,148,510
<i>Equity investments at fair value through other items of comprehensive income:</i>				
<i>Equity investments (ii)</i>	2,752	2,650	2,650	2,650
<i>Impairment adjustments for equity investments</i>	(96)	(96)	(96)	(96)
<i>Total</i>	2,656	2,554	2,554	2,554
Total financial assets at fair value through other comprehensive income	<u>652,016</u>	<u>1,151,064</u>	<u>651,914</u>	<u>1,151,064</u>

During 2018 or 2017, the Group has not made portfolio transfers between trading portfolio and the financial assets evaluated at fair value through other comprehensive income.

- i) Treasury bills are issued by the Ministry of Public Finance of Romania and includes listed discounted treasury bills and bonds denominated in RON, EUR and USD.

As presented above, as of 31st of December 2018 the Bank has not pledged titles Repo contracts (31 December 2017: RON 50,584 thousand, denominated in local currency) .

- ii) The Group held at 31 December 2017 investments in unit funds at Napoca Investments Fund amounting to RON 274 thousand (31 December 2017: RON 287 thousand) and TehnoGloinvest Investments Fund amounting to RON 267 thousand (31 December 2017: RON 320 thousand).
- iii) The Group held the following equity investments FVOCI (2017; Available for sale) at 31 December 2018 and at 31 December 2017.

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Thousand RON		<u>31 December 2018</u>		<u>31 December 2017</u>		<u>31 December 2018</u>		<u>31 December 2017</u>	
	Nature of business	Carring amount	Effective Holding (%)	Carring amount	Effective Holding (%)	Carring amount	Effective Holding (%)	Carring amount	Effective Holding (%)
Transfond SA	Clearing House	1,404	5.69	1,404	5.69	1,404	5.69	1,404	5.69
Bursa Romana de Marfuri S.A.	Commodity stock exchange	42	0.29	42	0.29	42	0.29	42	0.29
Globinvest	Investments fund administrator	1,062	20	1,062	20	1,062	20	1,062	20
SWIFT	Payment activities	7		7		7		7	
Biroul de credit S.A.	Collection and processing of customer data	32	0.32	32	0.32	32	0.32	32	0.32
BIOFARM S.A.	Pharmaceutical Company	7	0.01	7	0.01	7	0.01	7	0.01
Total equity investments		<u>2.554</u>	-	<u>2.554</u>	-	<u>2.554</u>	-	<u>2.554</u>	-

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Analysis by credit quality of debt securities outstanding is as follows:

Thousand RON	Group <u>31 December 2018</u>				Group <u>31 December 2017</u>			
	Treasury bills issued by the Ministry of Public Finance of Romania	Capital instruments available- for-sale	Equity investments, available- for-sale	Total	Treasury bills issued by the Ministry of Public Finance of Romania	Capital instruments available- for-sale	Equity investments, available- for-sale	Total
Neither impaired nor past due								
-Higher credit quality grade	643,848	4,971	-	648,819	1,143,797	4,106	-	1,147,903
- Unrated	-	541	2,656	3,197	-	607	2,554	3,161
Total	643,848	5,512	2,656	652,016	1,143,797	4,713	2,554	1,151,064
Neither impaired nor past due								
-Higher credit quality grade	643,848	4,971	-	648,819	1,143,797	4,106	-	1,147,903
- Unrated	-	541	2,554	3,095	-	607	2,554	3,161
<u>Total</u>	<u>643,848</u>	<u>5,512</u>	<u>2,554</u>	<u>651,914</u>	<u>1,143,797</u>	<u>4,713</u>	<u>2,554</u>	<u>1,151,064</u>

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The debt securities are not collateralized.

Interest rate analysis of investment securities available for sale is disclosed in Note 4.

The movements in financial assets evaluated at FVOCI are as follows:

	Group		Bank	
Thousand RON	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Carrying amount at 1 January	1,151,064	1,171,727	1,151,064	1,171,727
Impact transition to IFRS 9	(194,372)	-	(194,372)	-
Fair value gains less losses	6,481	(2,039)	6,481	(2,039)
Interest income accrued	30,434	44,694	30,434	44,694
Interest income received	(38,681)	(60,520)	(38,681)	(60,520)
Purchases	261,637	944,658	261,535	944,658
Disposals of financial assets evaluated at fair value through other comprehensive income	(564,547)	(947,456)	(564,547)	(947,456)
Carrying amount at 31 December	<u>652,016</u>	<u>1,151,064</u>	<u>651,914</u>	<u>1,151,064</u>

20. DUE FROM OTHER BANKS

The deposits to banks presented below include collateral deposits for settlement amounts from Visa and MasterCard related to cards activity.

Analysis by credit quality of amounts outstanding is as follows:

	Group		Bank	
Thousand RON	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
- Collateral deposit Banca Transilvania S.A.	416	389	416	389
- Collateral deposit Unicredit Tiriac Bank S.A.	246	-	246	-
- Collateral deposit U.S. Bank N.A.	4,951	4,687	4,951	4,687
- Term deposit Credit Europe Bank	-	458	-	-
- Term deposit Credit OTP Bank	-	1,474	-	-
- Term deposit Credit LIBRA BANK	-	200	-	-
- Term deposit Credit INTESA SAN PAOLO	-	1,200	-	-
Total	<u>5,613</u>	<u>8,408</u>	<u>5,613</u>	<u>5,076</u>

Interest rate analysis of Due from other banks is disclosed in Note 4.

Thousand RON **Group** **Bank**

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	<u>31 December 2018</u>	<u>31 December 2017</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Neither impaired nor past due				
-Higher credit quality grade	5,197	4,687	5,197	4,687
-Lower credit quality grade	416	389	416	389
- Unrated	-	3,332	-	-
Total neither impaired nor past due	5,613	8,408	5,613	5,076

21. LOANS AND ADVANCES TO CUSTOMERS

	Group		Bank	
Thousand RON	<u>31 December 2018</u>	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
		<u>2017</u>	<u>2018</u>	<u>2017</u>
Gross carrying amount of loans and advances to customers at AC	1,791,793	1,542,844	1,734,954	1,494,058
Credit loss allowance	(197,879)	(172,719)	(191,935)	(168,842)
Total net loans and advances to customers	1,593,914	1,370,125	1,543,019	1,325,216

The Group performed the business model assessment to determine whether financial assets meet the criteria for classification as subsequently measured:

- at amortised cost or
- at fair value through other comprehensive income (FVOCI).

The financial assets that do not meet the criteria of amortised cost or FVOCI are classified as FVTPL (Fair value through Profit or Loss).

The term "Business Model" refers to the way an entity manages its financial assets in order to generate cash flows --> collecting contractual cash flows, selling the financial assets or both.

Based on the assessment performed by the key management personnel, the Group classified the loans and advances to customers at amortised costs. The entire loan portfolio meet the criteria of the SPPI test.

The SPPI test was performed at the adoption of the IFRS 9. After, all the new products launch by the Group must be analysed from the IFRS 9 perspective applying the SPPI test. Also, the Group performs an assessment of the changes performed on the existing loan contracts in order to assure an accurate classification of the financial assets.

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The structure of loan portfolio classified per main business lines is as follows:

Thousand RON	Group	Bank		
	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>	<u>31 December 2018</u>	<u>31 December</u> <u>2017</u>
Consumer loans	234,131	203,654	233,566	203,103
Mortgage loans	169,382	152,300	169,382	152,300
Loans to entrepreneurs	168,984	119,516	109,949	79,204
SME loans	1,168,114	1,004,907	1,170,875	996,984
State and municipal organizations	51,182	62,467	51,182	62,467
Total gross loans and advances to customers	1,791,793	1,542,844	1,734,954	1,494,058
Less: Provision for loan impairment	(197,879)	(172,719)	(191,935)	(168,842)
Total net loans and advances to customers	1,593,914	1,370,125	1,543,019	1,325,216

Group	31 December 2018			31 December 2017		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
<i>Thousand RON</i>						
<i>Loans to corporate customers</i>	1,388,280	(158,187)	1,230,093	1,186,890	(141,089)	1,045,801
Loans to entrepreneurs	168,984	(13,183)	155,801	119,516	(9,271)	110,245
SME loans	1,168,114	(145,004)	1,023,110	1,004,907	(131,768)	873,139
State and municipal organizations	51,182	-	51,182	62,467	(50)	62,417
<i>Loans to individuals</i>	403,513	(39,691)	363,822	355,954	(31,630)	324,324
Consumer loans	234,131	(20,580)	213,551	203,654	(15,020)	188,634
Mortgage loans	169,382	(19,111)	150,270	152,300	(16,610)	135,690
Total loans and advances to customers at AC	1,791,793	(197,879)	1,593,914	1,542,844	(172,719)	1,370,125

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Bank <i>Thousand RON</i>	31 December 2018			31 December 2017		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
<i>Loans to corporate customers</i>	1,332,006	(152,541)	1,179,465	1,138,655	(137,488)	1,001,168
Loans to entrepreneurs	109,949	(8,158)	101,791	79,204	(6,486)	72,719
SME loans	1,170,875	(144,383)	1,026,492	996,984	(130,952)	866,033
State and municipal organizations	51,182	-	51,182	62,467	(50)	62,416
<i>Loans to individuals</i>	402,948	(39,393)	363,553	355,403	(31,355)	324,048
Consumer loans	233,566	(20,282)	213,283	203,103	(14,745)	188,358
Mortgage loans	169,382	(19,111)	150,270	152,300	(16,610)	135,690
Total loans and advances to customers at AC	1,734,954	(191,935)	1,543,019	1,494,058	(168,843)	1,325,216

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Risk concentrations by economic sectors within the customer loan portfolio as at 31 December 2018 and 31 December 2017 were as follows:

Group Thousand RON	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Loans to individuals	403,513	22.5%	355,954	23.1%
Loans to corporate customers:	1,388,279	77.5%	1,186,890	76.9%
<i>Agriculture</i>	384,846	21.5%	310,359	20.1%
<i>Trade</i>	246,828	13.8%	215,485	14.0%
<i>Industry</i>	305,602	17.10%	262,162	17.0%
<i>Hotels and restaurants</i>	75,380	4.2%	65,100	4.2%
<i>Constructions</i>	105,040	5.9%	76,298	4.9%
<i>Transport</i>	58,990	3.3%	43,569	2.8%
<i>Professional Services</i>	22,343	1.2%	30,290	2.0%
<i>Services</i>	46,677	2.6%	31,016	2.0%
<i>Financial and real estate activities</i>	67,479	3.8%	72,545	4.7%
<i>Others</i>	21,005	1.2%	17,491	1.1%
<i>IT, research and development</i>	9,037	0.5%	7,039	0.5%
<i>Public Administration and Defence</i>	45,052	2.5%	55,536	3.6%
Total loans and advances to customers before provisions	1,791,793	100%	1,542,844	100%
Less provision for impairment losses on loans	(197,879)		(172,719)	
Total	1,593,914		1,370,125	

Bank Thousand RON	31 December 2018		31 December 2017	
	Amount	23.2%	Amount	%
Loans to individuals	402,948	76.8%	355,403	23.8%
Loans to corporate customers:	1,332,007	18.6%	1,138,655	76.2%
<i>Agriculture</i>	322,209	14.2%	261,176	17.5%
<i>Trade</i>	245,919	17.6%	214,663	14.4%
<i>Industry</i>	304,765	4.3%	261,546	17.5%
<i>Hotels and restaurants</i>	74,743	6.0%	64,404	4.3%
<i>Constructions</i>	104,627	3.4%	75,926	5.1%
<i>Transport</i>	58,432	1.3%	43,254	2.9%
<i>Professional Services</i>	21,844	2.7%	29,871	2.0%
<i>Services</i>	46,465	4.5%	30,744	2.1%
<i>Financial and real estate activities</i>	78,090	1.2%	77,005	5.2%
<i>Others</i>	21,005	0.5%	17,491	1.2%
<i>IT, research and development</i>	8,856	2.6%	7,039	0.5%
<i>Public Administration and Defence</i>	45,052		55,536	3.7%
Total loans and advances to customers before provisions	1,734,954		1,494,058	
Less provision for impairment losses on loans	(191,935)		(168,842)	
Total	1,543,019		1,335,216	

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The structure of the Group's loan portfolio classified per main business lines is as follows:

Consumer loans
Group

Thousand RON	31 December 2018						31 December 2017	
	Stage 1	Individual	Stage 2	Individual	Stage 3	POCI	Total	Total
	Collectiv		Collectiv		Collectiv			
Performing loans	204,347	-	16,627	-	-	549	221,523	189,203
Non-performing loans	35	-	321	6,314	4,435	1,503	12,608	14,451
Total gross exposure	204,382	-	16,948	6,314	4,435	2,052	234,131	203,654
Less: Provision for loan impairment	(5,878)	-	(4,669)	(5,420)	(3,629)	(985)	(20,581)	(15,020)
Net Exposure	198,504	-	12,279	894	806	1,067	213,550	188,634

Mortgage Loans
Group

Thousand RON	31 December 2018						31 December 2017	
	Stage 1	Individual	Stage 2	Individual	Stage 3	POCI	Total	Total
	Collectiv		Collectiv		Collectiv			
Performing loans	92,121	-	45,046	-	-	575	137,742	117,731
Non-performing loans	84	-	5,694	21,757	2,898	1,207	31,640	34,569
Total gross exposure	92,205	-	50,740	21,757	2,898	1,782	169,382	152,300
Less: Provision for loan impairment	(166)	-	(2,822)	(14,504)	(960)	(660)	(19,112)	(16,610)
Net Exposure	92,039	-	47,918	7,253	1,938	1,122	150,270	135,690

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)
**Loans to entrepreneurs
Group**

Thousand RON	Stage 1 Collectiv	Individual	<u>31 December 2018</u>			POCI	<u>31 December 2017</u>	
			Stage 2 Individual	Collectiv	Stage 3 Individual		Total	Total
Performing loans	147,498	-	10,320	-	-	-	157,818	108,394
Non-performing loans	107	-	255	5,593	3,115	2,096	11,166	11,123
Total gross exposure	147,605	-	10,575	5,593	3,115	2,096	168,984	119,516
Less: Provision for loan impairment	(3,640)	-	(1,519)	(3,816)	(2,484)	(1,724)	(13,183)	(9,271)
Net Exposure	143,965	-	9,056	1,777	631	372	155,801	110,245

**SME loans
Group**

Thousand RON	<u>31 December 2018</u>					<u>31 December 2017</u>			
	Stage 1 Collectiv	Individual	Stage 2 Collectiv	Individual	Stage 3 Collectiv	POCI	Total	Total	Total
Performing loans	760,076	612	108,937	-	-	28	869,653	686,959	686,959
Non-performing loans	27	-	396	149,191	4,009	144,838	298,461	317,948	317,948
Total gross exposure	760,103	612	109,333	149,191	4,009	144,866	1,168,114	1,004,907	1,004,907
Less: Provision for loan impairment	(7,904)	-	(2,974)	(81,883)	(2,092)	(50,151)	(145,004)	(131,768)	(131,768)
Net Exposure	752,199	612	106,359	67,308	1,917	94,715	1,023,110	873,140	873,140

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

State and municipal organizations
Group

Thousand RON	<u>31 December 2018</u>							<u>31 December 2017</u>
	Stage 1 Collectiv	Individual	Stage 2 Collectiv	Individual	Stage 3 Collectiv	POCI	Total	Total
Performing loans	48,500	-	2,682	-	-	-	51,182	62,303
Non-performing loans	-	-	-	-	-	-	-	164
Total gross exposure	48,500	-	2,682	-	-	-	51,182	62,467
Less: Provision for loan impairment	-	-	-	-	-	-	-	(50)
Net Exposure	48,500	-	2,682	-	-	-	51,182	62,416

Total Loans
Group

Thousand RON	<u>31 December 2018</u>							<u>31 December 2017</u>
	Stage 1 Collectiv	Individual	Stage 2 Collectiv	Individual	Stage 3 Collectiv	POCI	Total	Total
Performing loans	1,252,542	612	183,612	-	-	1,152	1,437,918	1,164,590
Non-performing loans	254	-	6,666	182,855	14,457	149,644	353,876	378,254
Total gross exposure	1,252,796	612	190,278	182,855	14,457	150,796	1,791,793	1,542,844
Less: Provision for loan impairment	(17,588)	-	(11,984)	(105,622)	(9,165)	(53,519)	(197,878)	(172,719)
Net Exposure	1,235,208	612	178,294	77,233	5,292	97,277	1,593,914	1,370,125

The structure of the Bank's loan portfolio classified per main business lines is as follows:

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)
**Consumer loans
Bank**

Thousand RON	31 December 2018						31 December 2017	
	Stage 1 Collectiv	Individual	Stage 2 Collectiv	Individual	Stage 3 Collectiv	POCI	Total	Total
Performing loans	204,347	-	16,627	-	-	549	221,523	189,203
Non-performing loans	35	-	321	6,314	3,870	1,503	12,043	13,900
Total gross exposure	204,382	-	16,948	6,314	3,870	2,052	233,566	203,103
Less: Provision for loan impairment	(5,878)	-	(4,669)	(5,420)	(3,331)	(985)	(20,581)	(14,745)
Net Exposure	198,504	-	12,279	894	539	1,067	213,283	188,358

**Mortgage Loans
Bank**

Thousand RON	31 December 2018						31 December 2017	
	Stage 1 Collectiv	Individual	Stage 2 Collectiv	Individual	Stage 3 Collectiv	POCI	Total	Total
Performing loans	92,121	-	45,046	-	-	575	137,742	117,731
Non-performing loans	84	-	5,694	21,757	2,898	1,207	31,640	34,569
Total gross exposure	92,205	-	50,740	21,757	2,898	1,782	169,382	152,300
Less: Provision for loan impairment	(166)	-	(2,822)	(14,504)	(960)	(660)	(19,112)	(16,610)
Net Exposure	92,039	-	47,918	7,253	1,938	1,122	150,270	135,690

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

Loans to entrepreneurs
Bank

Thousand RON	31 December 2018					POCI	Total	31 December 2017
	Stage 1	Individual	Stage 2	Collectiv	Stage 3			Total
	Collectiv		Individual		Individual			
Performing loans	93,352	-	8,035	-	-	-	101,387	69,453
Non-performing loans	107	-	133	5,593	633	2,096	8,562	9,752
Total gross exposure	93,459	-	8,168	5,593	633	2,096	109,949	79,205
Less: Provision for loan impairment	(1,387)	-	(868)	(3,816)	(363)	(1,724)	(8,158)	(6,486)
Net Exposure	92,072	-	7,300	1,777	270	372	101,791	72,719

SME loans
Bank

Thousand RON	31 December 2018					POCI	Total	31 December 2017
	Stage 1	Individual	Stage 2	Individual	Stage 3			Total
	Collectiv		Collectiv		Collectiv			
Performing loans	764,829	612	108,122	-	-	28	873,591	680,253
Non-performing loans	27	-	396	149,191	2,832	144,838	297,284	316,731
Total gross exposure	764,856	612	108,518	149,191	2,832	144,866	1,170,875	996,984
Less: Provision for loan impairment	(7,977)	-	(2,923)	(81,883)	(1,449)	(50,151)	(144,383)	(130,952)
Net Exposure	756,879	612	105,595	67,308	1,383	94,715	1,026,492	866,033

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)
State and municipal organizations
Bank

Thousand RON	<u>31 December 2018</u>						<u>31 December 2017</u>	
	Stage 1		Stage 2		Stage 3		POCI	Total
	Collectiv	Individual	Collectiv	Individual	Collectiv			Total
Performing loans	48,500	-	2,682	-	-	-	51,182	62,303
Non-performing loans	-	-	-	-	-	-	-	164
Total gross exposure	48,500	-	2,682	-	-	-	51,182	62,467
Less: Provision for loan impairment	-	-	-	-	-	-	-	(50)
Net Exposure	48,500	-	2,682	-	-	-	51,182	62,417

Total Loans
Bank

Thousand RON	<u>31 December 2018</u>						<u>31 December 2017</u>	
	Stage 1		Stage 2		Stage 3		POCI	Total
	Collectiv	Individual	Collectiv	Individual	Collectiv			Total
Performing loans	1,203,148	612	180,513	-	-	1,152	1,385,425	1,118,943
Non-performing loans	254	-	6,544	182,855	10,232	149,644	349,529	375,115
Total gross exposure	1,203,402	612	187,057	182,855	10,232	150,796	1,734,954	1,494,058
Less: Provision for loan impairment	(15,408)	-	(11,282)	(105,622)	(6,104)	(53,519)	(191,935)	(168,842)
Net Exposure	1,187,994	612	175,775	77,233	4,128	97,277	1,543,019	1,325,216

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

Structure of the Group's loans outstanding classified on business lines and stages is as follow:

Consumer loans

		31 December 2018						31 December 2017
Group								
Thousand RON								
	Stage 1	Individual	Stage 2	Individual	Stage 3	POCI	Total	Total
	Collectiv		Collectiv		Collectiv			
Neither past due nor impaired	196,978	-	4,599	-	-	208	201,785	172,283
Less impairment provisions	(4,815)	-	(131)	-	-	(7)	(4,953)	(2,951)
Net exposure	192,163	-	4,468	-	-	201	196,832	169,332
Past due but not impaired	7,404	-	12,350	846	111	461	21,170	20,474
- less than 30 days overdue	7,404	-	6,958	-	-	130	14,492	13,037
- 30 to 90 days overdue	-	-	5,392	-	-	324	5,716	6,685
- 91 to 180 days overdue	-	-	-	-	-	-	-	63
- 181 to 360 days overdue	-	-	-	-	-	-	-	134
- over 360 days overdue	-	-	-	846	111	7	964	555
Less impairment provisions	(1,063)	-	(4,538)	-	-	(57)	(5,658)	(3,051)
Net exposure	6,341	-	7,811	846	111	403	15,512	17,422
Loans individually determined to be impaired	-	-	-	5,468	4,324	1,384	11,175	10,897
- less than 30 days overdue	-	-	-	6	114	3	122	512
- 30 to 90 days overdue	-	-	-	-	404	13	417	639
- 91 to 180 days overdue	-	-	-	30	3,352	5	3,387	2,735
- 181 to 360 days overdue	-	-	-	5,356	-	7	5,363	4,900
- over 360 days overdue	-	-	-	76	454	1,356	1,886	2,111
Less impairment provisions	-	-	-	(5,420)	(3,629)	(921)	(9,970)	(9,018)
Net exposure	-	-	-	48	695	463	1,206	1,880
Total loans (gross)	204,382	-	16,948	6,314	4,434	2,052	234,131	203,654
Less impairment provisions	(5,878)	-	(4,669)	(5,420)	(3,629)	(985)	(20,581)	(15,020)
Total loans (net)	198,504	-	12,279	894	806	1,067	213,551	188,634

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)
Mortgage loans
Group

Thousand RON	31 December 2018						31 December 2017	
	Stage 1		Stage 2		Stage 3			
	Collectiv	Individual	Collectiv	Individual	Collectiv	POCI	Total	Total
Neither past due nor impaired	81,003	-	37,474	-	-	216	118,693	101,450
Less impairment provisions	(75)	-	(1,374)	-	-	(9)	(1,458)	(451)
Net exposure	80,928	-	36,100	-	-	207	117,235	100,999
Past due but not impaired	11,202	-	13,266	1,310	188	258	26,653	17,989
- less than 30 days overdue	11,202	-	9,258	-	188	258	20,906	16,854
- 30 to 90 days overdue	-	-	4,008	-	328	101	4,437	7,531
- 91 to 180 days overdue	-	-	-	-	-	-	-	304
- 181 to 360 days overdue	-	-	-	5	-	-	5	90
- over 360 days overdue	-	-	-	1,305	-	-	1,305	741
Less impairment provisions	(91)	-	(1,448)	-	-	(29)	(1,568)	(672)
Net exposure	11,111	-	11,818	1,310	516	330	25,085	24,848
Loans individually determined to be impaired	-	-	-	20,447	2,381	1,207	24,036	25,330
- less than 30 days overdue	-	-	-	1,089	-	-	1,089	2,102
- 30 to 90 days overdue	-	-	-	588	1,937	266	2,791	3,429
- 91 to 180 days overdue	-	-	-	127	444	-	571	797
- 181 to 360 days overdue	-	-	-	1,378	-	-	1,378	3,701
- over 360 days overdue	-	-	-	17,265	-	941	18,206	15,301
Less impairment provisions	-	-	-	(14,504)	(960)	(622)	(16,086)	(15,487)
Net exposure	-	-	-	5,944	1,421	585	7,950	9,843
Total loans (gross)	92,205	-	50,740	21,757	2,898	1,782	169,382	152,300
Less impairment provisions	(166)	-	(2,822)	(14,504)	(960)	(660)	(19,112)	(16,610)
Total loans (net)	92,039	-	47,918	7,254	1,937	1,122	150,270	135,690

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

**Loans to entrepreneurs
Group**

Thousand RON	<u>31 December 2018</u>						<u>31 December 2017</u>	
	Stage 1 Collectiv	Individual	Stage 2 Collectiv	Individual	Stage 3 Collectiv	POCI	Total	Total
Neither past due nor impaired	140,218	-	3,173	-	49	68	143,508	91,441
Less impairment provisions	(3,185)	-	(155)	-	-	-	(3,340)	(2,196)
Net exposure	137,033	-	3,018	-	49	68	140,168	89,245
Past due but not impaired	7,387	-	7,402	536	127	-	15,451	19,392
- less than 30 days overdue	7,387	-	5,014	-	1	-	12,402	13,288
- 30 to 90 days overdue	-	-	2,388	-	23	-	2,410	4,509
- 91 to 180 days overdue	-	-	-	19	62	-	81	280
- 181 to 360 days overdue	-	-	-	49	-	-	49	194
- over 360 days overdue	-	-	-	468	41	-	509	1,120
Less impairment provisions	(454)	-	(1,365)	-	-	-	(1,819)	(1,546)
Net exposure	6,933	-	6,037	536	127	-	13,633	17,845
Loans individually determined to be impaired	-	-	-	5,057	2,939	2,028	10,024	8,682
- less than 30 days overdue	-	-	-	112	47	-	159	576
- 30 to 90 days overdue	-	-	-	143	128	-	271	629
- 91 to 180 days overdue	-	-	-	16	1,015	2	1,033	1,097
- 181 to 360 days overdue	-	-	-	478	361	1	840	533
- over 360 days overdue	-	-	-	4,308	1,388	2,025	7,721	5,847
Less impairment provisions	-	-	-	(3,816)	(2,484)	(1,724)	(8,024)	(5,529)
Net exposure	-	-	-	1,241	455	305	2,001	3,154
Total loans (gross)	147,605	-	10,575	5,593	3,115	2,096	168,984	119,516
Less impairment provisions	(3,640)	-	(1,519)	(3,816)	(2,484)	(1,724)	(13,183)	(9,271)
Total loans (net)	143,965	-	9,056	1,777	631	373	155,801	110,245

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

SME loans
Group

Thousand RON	Stage 1		<u>31 December 2018</u>		Stage 3	POCI	Total	<u>31 December 2017</u> Total
			Stage 2					
	Collectiv	Individual	Collectiv	Individual	Collectiv			
Neither past due nor impaired	735,191	-	90,271	-	7	-	825,469	615,592
Less impairment provisions	(7,227)	-	(1,177)	-	-	-	(8,404)	(8,393)
Net exposure	727,964	-	89,094	-	7	-	817,065	607,199
Past due but not impaired	24,912	-	19,062	30,116	425	1,748	76,264	102,379
- less than 30 days overdue	24,912	-	12,943	9	51	-	37,915	64,673
- 30 to 90 days overdue	-	-	6,119	-	242	320	6,681	13,371
- 91 to 180 days overdue	-	-	-	-	125	7	132	5,373
- 181 to 360 days overdue	-	-	-	301	-	-	301	810
- over 360 days overdue	-	-	-	29,806	7	1,421	31,234	18,152
Less impairment provisions	(677)	-	(1,797)	-	-	(26)	(2,500)	(4,220)
Net exposure	24,235	-	17,265	30,115	425	1,723	73,763	97,859
Loans individually determined to be impaired	-	612	-	119,076	3,577	143,117	266,381	287,236
- less than 30 days overdue	-	612	-	443	857	308	2,221	24,349
- 30 to 90 days overdue	-	-	-	5,353	569	27,417	33,339	14,734
- 91 to 180 days overdue	-	-	-	4,038	1,023	-	5,061	2,025
- 181 to 360 days overdue	-	-	-	2,873	-	3,969	6,842	18,421
- over 360 days overdue	-	-	-	106,369	1,128	111,423	218,920	227,707
Less impairment provisions	-	-	-	(81,883)	(2,092)	(50,124)	(134,099)	(119,155)
Net exposure	-	612	-	37,193	1,485	92,992	132,282	168,081
Total loans (gross)	760,103	612	109,333	149,191	4,009	144,866	1,168,114	1,004,907
Less impairment provisions	(7,904)	-	(2,974)	(81,883)	(2,092)	(50,151)	(145,004)	(131,768)
Total loans (net)	752,199	612	106,359	67,308	1,917	94,715	1,023,110	873,140

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)
State and municipal organizations
Group

Thousand RON	<u>31 December 2018</u>						POCI	Total	<u>31 December 2017</u>
	Stage 1 Collectiv	Individual	Stage 2 Collectiv	Individual	Stage 3 Collectiv				Total
Neither past due nor impaired	48,500	-	2,682	-	-	-	-	51,182	56,115
Less impairment provisions	-	-	-	-	-	-	-	-	(14)
Net exposure	48,500	-	2,682	-	-	-	-	51,182	56,101
Past due but not impaired	-	-	-	-	-	-	-	-	6,188
- less than 30 days overdue	-	-	-	-	-	-	-	-	6,188
- 30 to 90 days overdue	-	-	-	-	-	-	-	-	-
- 91 to 180 days overdue	-	-	-	-	-	-	-	-	-
- 181 to 360 days overdue	-	-	-	-	-	-	-	-	-
- over 360 days overdue	-	-	-	-	-	-	-	-	-
Less impairment provisions	-	-	-	-	-	-	-	-	-
Net exposure	-	-	-	-	-	-	-	-	6,188
Loans individually determined to be impaired	-	-	-	-	-	-	-	-	164
- less than 30 days overdue	-	-	-	-	-	-	-	-	95
- 30 to 90 days overdue	-	-	-	-	-	-	-	-	69
Less impairment provisions	-	-	-	-	-	-	-	-	(36)
Net exposure	-	-	-	-	-	-	-	-	128
Total loans (gross)	48,500	-	2,682	-	-	-	-	51,182	62,467
Less impairment provisions	-	-	-	-	-	-	-	-	(50)
Total loans (net)	48,500	-	2,682	-	-	-	-	51,182	62,416

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

Total Loans
Group

Thousand RON	31 December 2018						31 December 2017	
	Stage 1	Individual	Stage 2	Individual	Stage 3	POCI	Total	Total
	Collectiv		Collectiv		Collectiv			
Neither past due nor impaired	1,201,890	-	138,198	-	56	491	1,340,635	1,036,881
Less impairment provisions	(15,301)	-	(2,836)	-	-	(15)	(18,152)	(14,005)
Net exposure	1,186,589	-	135,362	-	56	476	1,322,475	1,022,876
Past due but not impaired	50,906	-	52,079	32,807	1,179	2,568	139,541	173,950
- less than 30 days overdue	50,906	-	34,173	9	241	388	85,717	114,038
- 30 to 90 days overdue	-	-	17,906	-	592	745	19,243	32,096
- 91 to 180 days overdue	-	-	-	19	187	7	213	6,020
- 181 to 360 days overdue	-	-	-	354	-	-	354	1,228
- over 360 days overdue	-	-	-	32,425	159	1,428	34,012	20,568
Less impairment provisions	(2,286)	-	(9,148)	-	-	(112)	(11,546)	(9,489)
Net exposure	48,620	-	42,931	32,807	1,180	2,457	127,994	164,163
Loans individually determined to be impaired	-	612	-	150,047	13,221	147,737	311,618	332,313
- less than 30 days overdue	-	612	-	1,650	1,018	311	3,591	27,635
- 30 to 90 days overdue	-	-	-	6,084	3,039	27,696	36,819	19,501
- 91 to 180 days overdue	-	-	-	4,211	5,834	8	10,053	6,654
- 181 to 360 days overdue	-	-	-	10,085	361	3,977	14,423	27,556
- over 360 days overdue	-	-	-	128,017	2,969	115,745	246,731	250,967
Less impairment provisions	-	-	-	(105,622)	(9,165)	(53,392)	(168,179)	(149,225)
Net exposure	-	612	-	44,426	4,056	94,344	143,438	183,389
Total loans (gross)	1,252,796	612	190,277	182,855	14,457	150,796	1,791,793	1,542,844
Less impairment provisions	(17,588)	-	(11,984)	(105,622)	(9,165)	(53,519)	(197,878)	(172,719)
Total loans (net)	1,235,208	612	178,293	77,233	5,292	97,277	1,593,914	1,370,125

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

Structure of the Bank's loans outstanding classified on business lines and stages is as follows:

Consumer loans
Bank

Thousand RON	31 December 2018						31 December 2017	
	Stage 1	Individual	Stage 2	Individual	Stage 3	POCI	Total	Total
	Collectiv		Collectiv		Collectiv			
Neither past due nor impaired	196,978	-	4,599	-	-	208	201,785	172,282
Less impairment provisions	(4,815)	-	(131)	-	-	(7)	(4,953)	(2,951)
Net exposure	192,163	-	4,468	-	-	201	196,832	169,331
Past due but not impaired	7,404	-	12,350	846	-	461	21,060	20,381
- less than 30 days overdue	7,404	-	6,958	-	-	130	14,492	13,037
- 30 to 90 days overdue	-	-	5,392	-	-	324	5,716	6,685
- 91 to 180 days overdue	-	-	-	-	-	-	-	63
- 181 to 360 days overdue	-	-	-	-	-	-	-	134
- over 360 days overdue	-	-	-	846	-	7	853	462
Less impairment provisions	(1,063)	-	(4,538)	-	-	(57)	(5,658)	(3,051)
Net exposure	6,341	-	7,811	846	-	403	15,402	17,329
Loans individually determined to be impaired	-	-	-	5,468	3,870	1,384	10,722	10,441
- less than 30 days overdue	-	-	-	6	114	3	123	512
- 30 to 90 days overdue	-	-	-	-	404	13	417	639
- 91 to 180 days overdue	-	-	-	30	3,352	5	3,387	2,735
- 181 to 360 days overdue	-	-	-	5,356	-	7	5,363	4,900
- over 360 days overdue	-	-	-	76	-	1,356	1,432	1,655
Less impairment provisions	-	-	-	(5,420)	(3,331)	(921)	(9,672)	(8,743)
Net exposure	-	-	-	48	539	463	1,050	1,698
Total loans (gross)	204,382	-	16,948	6,314	3,870	2,052	233,566	203,103
Less impairment provisions	(5,878)	-	(4,669)	(5,420)	(3,331)	(985)	(20,183)	(14,745)
Total loans (net)	198,504	-	12,279	894	539	1,067	213,283	188,358

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

Mortgage loans
Bank

Thousand RON	<u>31 December 2018</u>						Total	<u>31 December</u>
	Stage 1	Stage 2		Stage 3		POCI		<u>2017</u>
	Collectiv	Individual	Collectiv	Individual	Collectiv			Total
Neither past due nor impaired	81,003	-	37,474	-	-	216	118,693	101,450
Less impairment provisions	(75)	-	(1,374)	-	-	(9)	(1,458)	(451)
Net exposure	80,928	-	36,100	-	-	207	117,235	100,999
Past due but not impaired	11,202	-	13,266	1,309	516	359	26,652	17,989
- less than 30 days overdue	11,202	-	9,258	-	188	258	20,906	16,854
- 30 to 90 days overdue	-	-	4,008	-	328	101	4,437	7,531
- 91 to 180 days overdue	-	-	-	-	-	-	-	304
- 181 to 360 days overdue	-	-	-	5	-	-	5	90
- over 360 days overdue	-	-	-	1,305	-	-	1,305	741
Less impairment provisions	(91)	-	(1,448)	-	-	(29)	(1,568)	(672)
Net exposure	11,111	-	11,818	1,309	516	330	25,085	24,848
Loans individually determined to be impaired	-	-	-	20,447	2,381	1,207	24,036	25,330
- less than 30 days overdue	-	-	-	1,089	-	-	1,089	2,102
- 30 to 90 days overdue	-	-	-	588	1,937	266	2,791	3,429
- 91 to 180 days overdue	-	-	-	127	444	-	571	797
- 181 to 360 days overdue	-	-	-	1,378	-	-	1,378	3,701
- over 360 days overdue	-	-	-	17,265	-	941	18,206	15,301
Less impairment provisions	-	-	-	(14,504)	(960)	(622)	(16,086)	(15,487)
Net exposure	-	-	-	5,944	1,421	585	7,950	9,843
Total loans (gross)	92,205	-	50,740	21,757	2,898	1,782	169,382	152,300
Less impairment provisions	(166)	-	(2,822)	(14,504)	(960)	(660)	(19,112)	(16,610)
Total loans (net)	92,039	-	47,918	7,254	1,937	1,122	150,270	135,690

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)
Loans to entrepreneurs
Bank

Thousand RON	31 December 2018					31 December 2017		
	Stage 1 Collectiv	Individual	Stage 2 Collectiv	Individual	Stage 3 Collectiv	POCI	Total	Total
Neither past due nor impaired	88,121	-	1,884	-	-	68	90,073	54,635
Less impairment provisions	(1,248)	-	(44)	-	-	-	(1,292)	(909)
Net exposure	86,873	-	1,839	-	-	68	88,780	53,726
Past due but not impaired	5,338	-	6,285	536	68	-	12,227	17,137
- less than 30 days overdue	5,338	-	4,795	-	1	-	10,134	11,780
- 30 to 90 days overdue	-	-	1,490	-	23	-	1,513	3,838
- 91 to 180 days overdue	-	-	-	19	44	-	63	209
- 181 to 360 days overdue	-	-	-	49	-	-	49	194
- over 360 days overdue	-	-	-	468	-	-	468	1,116
Less impairment provisions	(139)	-	(824)	-	-	-	(963)	(1,113)
Net exposure	5,199	-	5,460	536	68	-	11,264	16,024
Loans individually determined to be impaired	-	-	-	5,057	565	2,028	7,650	7,432
- less than 30 days overdue	-	-	-	112	-	-	112	576
- 30 to 90 days overdue	-	-	-	143	87	-	230	629
- 91 to 180 days overdue	-	-	-	16	478	2	496	698
- 181 to 360 days overdue	-	-	-	478	-	1	479	460
- over 360 days overdue	-	-	-	4,308	-	2,025	6,333	5,069
Less impairment provisions	-	-	-	(3,816)	(363)	(1,724)	(5,903)	(4,464)
Net exposure	-	-	-	1,241	202	305	1,748	2,969
Total loans (gross)	93,459	-	8,168	5,593	633	2,096	109,949	79,204
Less impairment provisions	(1,387)	-	(868)	(3,816)	(363)	(1,724)	(8,158)	(6,486)
Total loans (net)	92,072	-	7,300	1,777	270	373	101,791	72,719

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

SME loans

Bank

Thousand RON	31 December 2018						31 December 2017	
	Stage 1		Stage 2		Stage 3	POCI	Total	Total
	Collectiv	Individual	Collectiv	Individual	Collectiv			
Neither past due nor impaired	741,157	-	90,021	-	7	-	831,185	611,177
Less impairment provisions	(7,321)	-	(1,174)	-	-	-	(8,495)	(8,179)
Net exposure	733,836	-	88,847	-	7	-	822,691	602,998
Past due but not impaired	23,699	-	18,498	30,116	375	1,750	74,436	100,043
- less than 30 days overdue	23,699	-	12,583	9	51	-	36,342	62,850
- 30 to 90 days overdue	-	-	5,915	-	242	320	6,477	12,894
- 91 to 180 days overdue	-	-	-	-	82	7	89	5,337
- 181 to 360 days overdue	-	-	-	301	-	-	301	810
- over 360 days overdue	-	-	-	29,806	-	1,421	31,227	18,152
Less impairment provisions	(656)	-	(1,750)	-	-	(26)	(2,432)	(4,161)
Net exposure	23,043	-	16,748	30,115	375	1,723	72,003	95,583
Loans individually determined to be impaired	-	612	-	119,076	2,449	143,117	265,254	286,063
- less than 30 days overdue	-	612	-	443	857	308	2,220	24,360
- 30 to 90 days overdue	-	-	-	5,353	569	27,417	33,339	14,734
- 91 to 180 days overdue	-	-	-	4,038	1,023	-	5,061	1,937
- 181 to 360 days overdue	-	-	-	2,873	-	3,969	6,842	18,421
- over 360 days overdue	-	-	-	106,369	-	111,423	217,792	226,611
Less impairment provisions	-	-	-	(81,883)	(1,449)	(50,124)	(133,456)	(118,612)
Net exposure	-	612	-	37,193	1,001	92,992	131,797	167,451
Total loans (gross)	764,856	612	108,519	149,191	2,832	144,866	1,170,875	996,984
Less impairment provisions	(7,977)	-	(2,923)	(81,883)	(1,449)	(50,151)	(144,383)	(130,952)
Total loans (net)	756,879	612	105,596	67,308	1,382	94,715	1,026,492	866,033

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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(All amounts are in Thousand RON)

State and municipal organizations

Bank

Thousand RON	31 December 2018						31 December 2017	
	Stage 1 Collectiv	Individual	Stage 2 Collectiv	Individual	Stage 3 Collectiv	POCI	Total	Total
Neither past due nor impaired	48,500	-	2,682	-	-	-	51,182	56,115
Less impairment provisions	-	-	-	-	-	-	-	(14)
Net exposure	48,500	-	2,682	-	-	-	51,182	56,101
Past due but not impaired	-	-	-	-	-	-	-	6,188
- less than 30 days overdue	-	-	-	-	-	-	-	6,188
- 30 to 90 days overdue	-	-	-	-	-	-	-	-
- 91 to 180 days overdue	-	-	-	-	-	-	-	-
- 181 to 360 days overdue	-	-	-	-	-	-	-	-
- over 360 days overdue	-	-	-	-	-	-	-	-
Less impairment provisions	-	-	-	-	-	-	-	-
Net exposure	-	-	-	-	-	-	-	6,188
Loans individually determined to be impaired	-	-	-	-	-	-	-	164
- less than 30 days overdue	-	-	-	-	-	-	-	95
- 30 to 90 days overdue	-	-	-	-	-	-	-	69
- 91 to 180 days overdue	-	-	-	-	-	-	-	-
- 181 to 360 days overdue	-	-	-	-	-	-	-	-
- over 360 days overdue	-	-	-	-	-	-	-	-
Less impairment provisions	-	-	-	-	-	-	-	(36)
Net exposure	-	-	-	-	-	-	-	128
Total loans (gross)	48,500	-	2,682	-	-	-	51,182	62,467
Less impairment provisions	-	-	-	-	-	-	-	(50)
Total loans (net)	48,500	-	2,682	-	-	-	51,182	62,417

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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(All amounts are in Thousand RON)

Total Loans
Bank

Thousand RON	31 December 2018						31 December 2017	
	Stage 1 Collectiv	Individual	Stage 2 Collectiv	Individual	Stage 3 Collectiv	POCI	Total	Total
Neither past due nor impaired	1,155,759	-	136,659	-	7	491	1,292,916	995,659
Less impairment provisions	(13,458)	-	(2,723)	-	-	(15)	(16,196)	(12,504)
Net exposure	1,142,301	-	133,936	-	7	476	1,276,720	983,154
Past due but not impaired	47,643	-	50,398	32,807	959	2,568	134,376	169,268
- less than 30 days overdue	47,643	-	33,594	9	241	388	81,875	110,708
- 30 to 90 days overdue	-	-	16,804	-	592	745	18,141	30,948
- 91 to 180 days overdue	-	-	-	19	126	7	152	5,913
- 181 to 360 days overdue	-	-	-	354	-	-	354	1,228
- over 360 days overdue	-	-	-	32,425	-	1,428	33,853	20,471
Less impairment provisions	(1,950)	-	(8,559)	-	-	(112)	(10,621)	(8,997)
Net exposure	45,693	-	41,839	32,807	960	2,457	123,754	159,971
Loans individually determined to be impaired	-	612	-	150,047	9,266	147,737	307,662	329,432
- less than 30 days overdue	-	612	-	1,650	972	311	3,545	27,646
- 30 to 90 days overdue	-	-	-	6,084	2,997	27,696	36,777	19,501
- 91 to 180 days overdue	-	-	-	4,211	5,297	8	9,516	6,167
- 181 to 360 days overdue	-	-	-	10,085	-	3,977	14,062	27,483
- over 360 days overdue	-	-	-	128,017	-	115,745	243,762	248,635
Less impairment provisions	-	-	-	(105,622)	(6,104)	(53,392)	(165,118)	(147,341)
Net exposure	-	612	-	44,426	3,162	94,344	142,544	182,382
Total loans (gross)	1,203,402	612	187,057	182,855	10,232	150,796	1,734,954	1,494,058
Less impairment provisions	(15,408)	-	(11,282)	(105,622)	(6,104)	(53,519)	(191,935)	(168,842)
Total loans (net)	1,187,994	612	175,775	77,233	4,128	97,277	1,543,019	1,325,216

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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(All amounts are in Thousand RON)

As of 31.12.2018, the Bank didn't have a rating system in place. The bank is in the process of implementation of a scoring system.

Analysis of Group's Gross Carrying Amount at 31 December 2018 is as follows:

Group Thousand RON	Stage 1		Stage 2		Stage 3		Gross carrying amount POCI		out of which: New assets originated or purchased in 2018	Assets derecognised or repaid (excluding write offs) in 2018	Amount s written off in 2018	Foreign exchange adjustments in 2018
	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018				
Gross carrying amount												
Consumer loans	178,097	204,382	13,271	16,948	9,788	10,749	2,498	2,052	114,146	51,819	11,799	25
Mortgage Loans	72,608	92,205	52,036	50,740	26,435	24,655	1,220	1,782	31,130	6,970	873	567
Loans to entrepreneurs	97,848	147,605	10,843	10,575	8,649	8,708	2,177	2,096	98,044	31,368	1,592	16
SME loans	622,026	760,103	54,132	109,945	119,529	153,200	209,220	144,866	457,125	200,915	19,133	350
State and municipal organizations	59,088	48,500	3,214	2,682	69	-	95	-	-	2,719	-	14
Total Loans	1,029,667	1,252,795	133,496	190,890	164,470	197,312	215,210	150,796	700,445	293,791	33,397	972

Bank Thousand RON	Stage 1		Stage 2		Stage 3		Gross carrying amount POCI		out of which: New assets originated or purchased in 2018	Assets derecognised or repaid (excluding write offs) in 2018	Amounts written off in 2018	Foreign exchange adjustments in 2018
	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018				
Gross carrying amount												
Consumer loans	178,097	204,382	13,270	16,948	9,238	10,184	2,498	2,052	114,146	51,810	11,799	22
Mortgage Loans	72,608	92,205	52,036	50,740	26,435	24,655	1,220	1,782	31,130	6,970	873	567
Loans to entrepreneurs	61,081	93,459	8,625	8,168	7,322	6,226	2,177	2,096	62,449	19,798	1,592	15
SME loans	616,410	764,856	53,033	109,131	118,321	152,022	209,220	144,866	462,390	197,731	19,133	347
State and municipal organizations	59,088	48,500	3,214	2,682	69	-	95	-	-	2,719	-	14
Total Loans	987,284	1,203,402	130,178	187,669	161,385	193,087	215,210	150,796	670,115	279,028	33,397	965

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

Analysis of Group 's loss allowance at 31 December 2018 is as follows:

Group

Thousand RON

Credit loss allowance	Stage 1		Stage 2		Stage 3		POCI	
	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018
Consumer loans	3,924	5,878	2,076	4,669	7,968	9,048	1,052	985
Mortgage Loans	199	166	916	2,822	15,109	15,464	385	660
Loans to entrepreneurs	2,723	3,640	1,009	1,519	4,731	6,300	807	1,725
SME loans	9,957	7,904	1,843	2,975	66,556	83,975	53,412	50,150
State and municipal organizations	5	-	10	-	16	-	19	-
Total Loans	16,808	17,588	5,854	11,985	94,380	114,787	55,675	53,520

Analysis of Bank 's loss allowance at 31 December 2018 is as follows:

Bank

Thousand RON

Credit loss allowance	Stage 1		Stage 2		Stage 3		POCI	
	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018	1 January 2018	31 December 2018
Consumer loans	3,924	5,878	2,076	4,669	7,761	8,751	984	985
Mortgage Loans	199	166	916	2,822	15,109	15,464	385	660
Loans to entrepreneurs	1,333	1,387	689	868	3,656	4,179	807	1,724
SME loans	9,713	7,977	1,814	2,923	66,013	83,332	53,412	50,151
State and municipal organizations	5	-	10	-	16	-	19	-
Total Loans	15,174	15,408	5,505	11,282	92,555	111,726	55,607	53,520

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

Information about Group's collaterals at 31 December 2018 is as follows:

Thousand RON	31 December 2018					
	Consumer loans	Mortgage loans	Entrepreneurs loans	SME Loans	State and municipal organizations	Total
Unsecured loans	198,862	21,450	79,711	283,603	-	583,626
Loans guaranteed by other parties, including credit insurance	-	8,278	25,847	101,247	1,950	137,322
Loans collateralized by:	35,269	139,654	63,426	783,265	49,231	1,070,845
- residential real estate	29,307	127,837	16,434	105,546	-	279,124
- other real estate	4,086	11,619	16,317	530,762	-	562,784
- cash collateral	1,849	198	1,584	4,397	-	8,028
- other assets	27	-	29,091	142,559	49,231	220,908
Total loans and advances to customers	234,131	169,382	168,984	1,168,115	51,181	1,791,793

Information about Group's collaterals at 31 December 2017 is as follows:

Thousand RON	31 December 2017					
	Consumer loans	Mortgage loans	Entrepreneurs loans	SME Loans	State and municipal organizations	Total
Unsecured loans	164,899	9,424	56,075	166,814	0	397,212
Loans guaranteed by other parties, including credit insurance	-	9,245	9,963	89,094	4,717	113,019
Loans collateralized by:	38,755	133,631	53,479	748,998	57,749	1,032,612
- residential real estate	32,397	112,943	15,590	97,990	-	258,920
- other real estate	5,669	20,468	14,241	527,007	-	567,385
- cash collateral	628	220	4,986	7,007	-	12,841
- other assets	61	-	18,662	116,994	57,749	193,466
Total loans and advances to customers	203,654	152,300	119,516	1,004,907	62,466	1,542,844

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(All amounts are in Thousand RON)

Information about Bank's collaterals at 31 December 2018 and is as follows:

Thousand RON	31 December 2018					Total
	Consumer loans	Mortgage loans	Entrepreneurs loans	SME Loans	State and municipal organizations	
Unsecured loans	198,724	21,450	25,110	291,773	-	537,057
Loans guaranteed by other parties, including credit insurance	-	8,278	25,847	101,247	1,950	137,322
Loans collateralized by:	34,841	139,654	58,991	777,855	49,231	1,060,574
- residential real estate	29,114	127,837	14,788	102,896	-	274,635
- other real estate	3,851	11,619	14,985	529,099	-	559,554
- cash collateral	1,849	198	1,584	4,397	-	8,028
- other assets	27	-	27,634	141,463	49,231	218,355
Total loans and advances to customers	233,566	169,382	109,949	1,170,875	51,181	1,734,954

Information about Bank's collaterals at 31 December 2017 and is as follows:

Thousand RON	31 December 2017					Total
	Consumer loans	Mortgage loans	Entrepreneurs loans	SME Loans	State and municipal organizations	
Unsecured loans	164,755	9,424	18,157	165,546	0	357,882
Loans guaranteed by other parties, including credit insurance	-	9,245	9,963	89,094	4,717	113,019
Loans collateralized by:	38,348	133,631	51,084	742,344	57,749	1,023,156
- residential real estate	32,397	112,943	15,590	97,990	-	258,920
- other real estate	5,262	20,468	11,846	520,353	-	557,929
- cash collateral	628	220	4,986	7,007	-	12,841
- other assets	61	-	18,662	116,994	57,749	193,466
Total loans and advances to customers	203,103	152,300	79,204	996,984	62,466	1,494,058

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

The effect of Group's collateral at 31 December 2018 is as follows:

Thousand RON	31 December 2018					
	Over- collateralized assets (i)			Under- collateralized assets(ii)		
	Carrying value	Net Present Value of collateral	Fair Value of the collateral	Carrying value	Net Present Value of collateral	Fair Value of the collateral
Consumer loans	24,273	48,194	82,957	189,278	8,875	15,669
Mortgage loans	45,968	76,409	132,343	104,302	70,623	119,569
Entrepreneurs loans	15,100	30,723	74,495	140,702	47,531	93,684
SME loans	229,811	370,194	806,953	793,299	410,947	892,896
State and municipal organizations	51,182	273,516	571,625	-	-	-
Total	366,334	799,036	1,668,373	1,227,581	537,976	1,121,818

The effect of Group's collateral at 31 December 2017 is as follows:

Thousand RON	31 December 2017					
	Over- collateralized assets(i)			Under- collateralized assets(ii)		
	Carrying value	Net Present Value of collateral	Fair Value of the collateral	Carrying value	Net Present Value of collateral	Fair Value of the collateral
Consumer loans	23,300	46,804	81,036	165,334	11,614	54,338
Mortgage loans	33,894	58,608	101,058	101,796	60,807	102,195
Entrepreneurs loans	16,983	31,951	67,420	55,735	25,831	65,070
SME loans	176,791	301,390	675,241	733,875	421,103	1,033,977
State and municipal organizations	57,316	269,291	552,400	5,101	4,801	11,170
Total	308,284	708,044	1,477,155	1,061,841	524,156	1,266,750

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The effect of Bank's collateral at 31 December 2018 is as follows:

Thousand RON	31 December 2018					
	Over- collateralized assets(i)		Fair Value of the collateral	Under- collateralized assets (ii)		Fair Value of the collateral
	Carrying value	Net Present Value of collateral		Carrying value	Net Present Value of collateral	
Consumer loans	24,025	47,829	82,114	189,258	8,875	15,669
Mortgage loans	45,968	76,409	132,343	104,302	70,623	119,569
Entrepreneurs loans	13,820	28,482	67,905	87,971	45,836	88,483
SME loans	227,408	365,512	795,331	799,083	409,025	887,620
State and municipal organizations	51,182	273,516	571,625	-	-	-
Total	362,403	791,748	1,649,318	1,180,614	534,359	1,111,341

The effect of Bank's collateral at 31 December 2017 is as follows:

Thousand RON	31 December 2017					
	Over- collateralized assets (i)		Fair Value of the collateral	Under- collateralized assets(ii)		Fair Value of the collateral
	Carrying value	Net Present Value of collateral		Carrying value	Net Present Value of collateral	
Consumer loans	23,024	46,391	80,271	165,334	11,614	54,338
Mortgage loans	33,894	58,608	101,058	101,796	60,807	102,195
Entrepreneurs loans	16,983	31,951	67,420	55,735	25,831	65,070
SME loans	171,550	290,952	650,729	694,482	418,487	1,033,648
State and municipal organizations	57,316	269,291	552,400	5,101	4,801	11,170
Total	302,767	697,193	1,451,879	1,022,448	521,540	1,266,421

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Individually impaired loans

Individually 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).

The loan portfolio includes 17 exposures towards local public administrations in amount of RON 51,182 thousand as of 31 December 2018 (41 exposures with RON 62,466 thousand as of 31 December 2017). The Group presented this type of loans into neither past due nor individually impaired category.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

In accordance with the instructions issued by the National Bank of Romania, during 2018 year, the Group performed write-off operations (for those companies that do not appear anymore in the Registry of Commerce, for those that have incomplete credit documentation and for the companies for which juridical procedures are impossible) for loans fully impaired, in amount of RON 41,977 thousand. (2017: RON 48,409 thousand).

Refer to Note 6 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 4. Information on related party balances is disclosed in Note 40.

Restructured loans

The Group's outstanding gross exposure as of 31 December 2018 for all the loans that underwent restructuring is RON 167,550 thousand (31 December 2017: RON 215,859 thousand) and the net exposure is RON 116,996 thousand (31 December 2017: RON 182,602 thousand).

The Bank's outstanding gross exposure as of 31 December 2018 for all the loans that underwent restructuring is RON 154,272 thousand (31 December 2017: RON 215,138 thousand) and the net exposure is RON 115,985 thousand (31 December 2017: RON 182,245 thousand).

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Loans and advances to customers written off

The outstanding contractual amounts of loans and advances to customers written off that are still subject to enforcement activity was as follows at 31 December 2018.

Thousand RON	31 December 2018	31 December 2017
<i>Loans to corporate customers</i>	450,562	445,245
Loans to entrepreneurs	13,472	12,781
SME loans	437,090	432,464
State and municipal organizations	-	-
<i>Loans to individuals</i>	23,864	255,064
Consumer loans	18,106	229,599
Mortgage loans	5,758	25,465
Total	474,427	700,309

22. INVESTMENT HELD TO MATURITY

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Treasury bills issued by the Ministry of Public Finance of Romania	-	107,708	-	107,708
Total Investment held to maturity	-	<u>107,708</u>	-	<u>107,708</u>

All the investments held to maturity are Treasury bills issued by the Ministry of Public Finance of Romania and they have a higher credit quality grade. Investments in debt instruments at amortized cost

23. INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Treasury bills issued by the Ministry of Public Finance of Romania	368,115	-	368,115	-
Total Investments in debt instruments at amortized cost	<u>368,115</u>	-	<u>368,115</u>	-

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24. INVESTMENT PROPERTY

a) Reconciliation of book value

	Group		Bank	
Thousand RON	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Balance at 1 January	76,541	78,271	73,476	75,206
Sales and transfer for sale in fixed assets held for sale	(3,841)	(1,201)	(3,392)	(1,201)
Net gain / (loss) from revaluation of investment property	7,242	(529)	7,242	(529)
Net gain / (loss) from revaluation of investment property (*)	1,001	-	552	-
Balance at the end of the period	<u>79,942</u>	<u>76,541</u>	<u>77,326</u>	<u>73,476</u>
(*)Not included into the movements				

During 2018, the rental incomes from real estate investments amounted 4,774 thousand RON (31 December 2017: RON 9,531 thousand RON). Direct operating expenses (repair, maintenance, local taxes, etc.) from Investment property that generated rental income during 2018 were in the amount of 2,625 thousand RON (31 December 2017: RON 7,031 thousand).

b) Fair value measurement

The fair value of real estate investments is based on an assessment carried out by expert assessors, members of ANEVAR (National Association of Assessors of Romania). The fair value of the real estate investments is presented on level 3 of the hierarchy of fair value.

The Group did not acquire Investment property using the financial leasing at 31 December 2018 or at 31 December 2017.

c) The evaluation techniques for measuring the fair value of real estate investments and the dates of entry used:

Evaluation techniques

According to the 2018 ANEVAR Evaluation Standards there were used the following three approaches:

- The evaluation of land (measuring a free land or where there is a construction, the six recognized valuation methods - direct comparison, market extraction, allocation technique, residual capitalization, direct rent / lease (rent), discounted cash flow analysis).
- The income approach (by this method estimated the annual income to be generated by a property converts to value by applying an appropriate rate of income. In this case, a capitalization rate was used applied to net income from estimated operations).

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- The cost approach (The purpose of the cost approach is to determine the market value of the property by estimating the cost of purchasing the land (the market value of the land) and building a new property with the same utility or adapting an old property with the same use, without considering related costs during the construction / adaptation. The cost of the land is added to the total cost of construction. If necessary, usually in construction costs incentives / real estate developer's profit are added.

Entry data

- Inventory lists with investments owned by the client;
- Documents and information taken from specialized staff from the owner regarding the history, the repairs made, the rate of exploitation, degree of impairment, etc.
- Information taken from the location by the evaluator; visits were made at more than 50% of Bank's properties considering as selection criteria the value of each property. No visits performed for residential properties.
- The evolution of the exchange rate published by BNR;
- Information regarding the local real estate market;
- Web Sites specialized in placing ads for selling/renting similar properties with the ones owned by the company;
- The book "Reconstruction costs - replacement costs of industrial buildings, commercial and agricultural, special construction" - Corneliu Schiopu, publisher IROVAL Bucharest 2010 - updated;
- Other necessary information available in the specialized literature;
- The evaluator's data base.

25. REPOSSESSED ASSETS

	Group		Bank	
Thousand RON	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Balance at 1st of January	29,068	32,983	29,068	32,983
Merger entries	-	8,738	-	8,738
Fair value adjustments (BCC)	-	(19,672)	-	(19,672)
Transfer from investment property	4,231	1,201	4,231	1,201
Acquisitions during the year	145	0	145	0
Sales	(10,464)	3,179	(10,464)	3,179
Net gain / (loss) from revaluation of repossessed assets	(2,890)	2,638	(2,890)	2,638
Net gain/(loss) from sale of repossessed assets (*)	1,825	1,284	1,767	1,284
Balance at 31st of December	<u>20,090</u>	<u>29,068</u>	<u>20,090</u>	<u>29,068</u>

(*) Not included into the movements

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The assets classified under this category represent assets in the form of residential, industrial and commercial buildings, land being repossessed through the execution of collaterals from non-performing loans. The Group is expecting to sell them in the near future. The assets do not meet either the definition of non-current assets held for sale (IFRS 5) or the definition of the Property, Plant and Equipment (IAS 16).

At the time of purchase they were recognized at fair value and subsequently they are revaluated at the end of each year being measured at the lower of carrying amount and fair value.

26. INVESTMENT IN ASSOCIATES

		31 December 2018	31 December 2017
Entity name	Nature of business		
SC Delta Asigurari SA	Insurance Company	-	718
Impairment loss		-	(718)
Total		-	-

The Group does not hold any more investment in S.C. Delta Asigurari Generale SA, an insurance company (2017: 35.09%). The shareholders of SC Delta Asigurari Generale S.A. decided to liquidate it through Decision no. 7/2009, in accordance with Romanian legislation. In 2011, before the closing of the voluntary liquidation procedure, Bucharest Court admitted the claim of Insurance Supervisory Commission, based on article 33, paragraph 3 of Law 503/2004 and has opened bankruptcy procedure against the debtor SC Delta Asigurari SA. As of 31 December 2017 the impairment amounts to RON 718 thousand for the investment in its associate. The company was liquidated at August 2018.

The Group's interests in its associates were as follows:

	31 December 2018		31 December 2017	
Name	% ownership interest held	Place of business	% ownership interest held	Place of business
S.C. Delta Asigurari S.A.	-	-	35.09%	Romania

No financial statements were available for Delta Asigurari S.A. at 2017 and 2016 year end, due to the bankruptcy procedure in progress.

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27. INVESTMENTS IN SUBSIDIARIES

The structure of investments in subsidiaries is as follows:

Thousand RON	31 December 2018			31 December 2017		
Subsidiary name	Participation value	Impairment adjustments	Net value	Participation value	Impairment adjustments	Net value
Patria Credit IFN	28,503	-	28,503	21,983	-	21,983
Patria Investments S.A.	1,328	(1,328)	0	1,327	(1,327)	-
Imobiliar Invest S.R.L.	9,713	(7,291)	2,422	12,013	(7,291)	4,722
SAI Patria Asset Management SA	800	-	800	800	-	800
Carpatica Invest S.A.	6,807	(6,807)	0	6,807	(6,807)	-
Total	47,151	(15,426)	31,725	42,930	(15,425)	27,505

28. OTHER FINANCIAL ASSETS

Movements in the provision for other financial assets for Group are as follows:

Thousand RON	Group 31 December 2018	31 December 2017	Bank 31 December 2018	31 December 2017
Amounts to be recovered from banks and clients	8,337	8,442	8,337	8,442
Other financial assets	8,380	6,558	8,380	6,558
Other debtors	2,490	2,770	1,471	1,671
(-) Provisions for impairment losses	5,998	6,112	5,162	5,242
Total net other financial assets	13,209	11,658	13,026	11,429

Thousand RON	Group 31 December 2018 Amounts to be recovered from banks and clients	Total	Group 31 December 2017 Amounts to be recovered from banks and clients	Total
Provision for impairment at 1 January	6,112	6,112	7,581	7,581
Transition impact to IFRS 9	(62)	(62)	-	-
Charge of provision for impairment during the year	1,210	1,210	1,218	1,218
Resume of provision for impairment during the year	(1,264)	(1,264)	(2,685)	(2,685)
Foreign exchange differences	2	2	(2)	(2)
Provision for impairment at 31 December	5,998	5,998	6,112	6,112

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Movements in the provision for other financial assets for Bank are as follows:

Thousand RON	Bank 31 December 2018 Amounts to be recovered from banks and clients	Total	Bank 31 December 2017 Amounts to be recovered from banks and clients	Total
Provision for impairment at 1 January	5,242	5,242	6,664	6,664
Transition impact to IFRS 9	(62)	(62)	-	-
Charge of provision for impairment during the year	1,210	1,210	1,218	1,218
Resume of provision for impairment during the year	(1,230)	(1,230)	(2,638)	(2,638)
Foreign exchange differences	2	2	(2)	(2)
Provision for impairment at 31 December	5,162	5,162	5,242	5,242

Analysis by credit quality of other financial assets outstanding for Group at 31 December 2018 and 31 December 2017 is as follows:

Thousand RON	Group 31 December 2018				Group 31 December 2017			
	Amounts to be recovered from banks and clients	Other financial assets	Sundry debtors	Total	Amounts to be recovered from banks and clients	Other financial assets	Sundry debtors	Total
Neither past due nor impaired	-	8,380	2,490	10,870	-	6,558	2,770	9,328
Less provisions for impairment	-	-	-	-	-	-	-	-
Total neither past due nor impaired (net)	-	8,380	2,490	10,870	-	6,558	2,770	9,328
Impaired financial assets	8,337	-	-	8,337	8,442	-	-	8,442
Less provision for impairment	5,998	-	-	5,998	6,112	-	-	6,112
Total net impaired loans	2,339	-	-	2,339	2,330	-	-	2,330
Total other gross financial assets	8,337	8,380	2,490	19,207	8,442	6,558	2,770	17,770
Total provision for impairment	5,998	-	-	5,998	6,112	-	-	6,112
Total other net financial assets	2,339	8,380	2,490	13,209	2,330	6,558	2,770	11,658

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Analysis by credit quality of other financial assets outstanding at 31 December 2018 and 31 December 2017 for Bank is as follows:

Thousand RON	Bank 31 December 2018				Bank 31 December 2017			
	Amounts to be recovered from banks and clients	Other financial assets	Sundry debtors	Total	Amounts to be recovered from banks and clients	Other financial assets	Sundry debtors	Total
Neither past due nor impaired	-	8,380	1,471	9,851	-	6,558	1,671	8,229
Less provisions for impairment	-	-	-	-	-	-	-	-
Total neither past due nor impaired (net)	-	8,380	1,471	9,851	-	6,558	1,671	8,229
Impaired financial assets	8,337	-	-	8,337	8,442	-	-	8,442
Less provision for impairment	5,162	-	-	5,162	5,242	-	-	5,242
Total net impaired loans	3,175	-	-	3,175	3,200	-	-	3,200
Total other gross financial assets	8,337	8,380	1,471	18,188	8,442	6,558	1,671	16,671
Total provision for impairment	5,162	-	-	5,162	5,242	-	-	5,242
Total other net financial assets	3,175	8,380	1,471	13,026	3,200	6,558	1,671	11,429

29. OTHER ASSETS (NON-FINANCIAL)

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Sundry debtors	19,820	20,179	18,982	21,919
Other income to be received	335	150	3,125	56
Prepayments	4,122	4,210	3,660	4,051
Income tax to recover	605	126	821	272
Other assets	4,403	2,918	3,945	2,685
Total other financial assets (gross)	29,285	27,583	30,533	28,983
Less provision for impairment	13,171	13,546	13,008	13,325
Total other assets (net)	16,114	14,037	17,525	15,658

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Movements in the Group and Bank provision for other assets are as follows:

Thousand RON	Group Provisions for sundry debtors	Bank Provisions for sundry debtors
Provision for impairment at 1 January 2018	13,546	13,325
(Charge)/Release for the year	(375)	(317)
Amounts written off	-	-
Provision for impairment at 31 December 2018	13,171	13,008
Provision for impairment at 1 January 2017	9,042	8,893
(Charge)/Release for the year	4,518	4,446
Amounts written off	(14)	(14)
	-	-
Provision for impairment at 31 December 2017	<u>13,546</u>	<u>13,325</u>

30. INTANGIBLE ASSETS (INCLUDING GOODWILL)

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Goodwill	20,103	20,103	20,103	20,103
Other intangible assets	22,696	25,177	20,946	23,108
Total intangible assets	<u>42,799</u>	<u>45,280</u>	<u>41,049</u>	<u>43,211</u>

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The cost movements of intangible assets and amortisation are the following:

Thousand RON	31 December 2018	Group 31 December 2017	31 December 2018	Bank 31 December 2017
Balance at 1 January	81,146	74,516	75,215	69,871
Acquisitions	7,399	5,526	7,224	5,344
-transfers from intangible assets in progress	4,660	3,677	4,546	3,677
Acquisition clients list and brand	-	-	-	-
Outflows	(4,783)	(20)	(4,546)	-
Consolidation resumption	-	(14,559)	-	-
Merger adjustment	-	15,683	-	-
Goodwill	-	-	-	-
Balance at 31 December	<u>83,762</u>	<u>81,146</u>	<u>77,893</u>	<u>75,215</u>
<i>Cumulative amortisation</i>				
Balance at 1 January	35,866	30,277	32,004	26,846
Amortisation and impairment expense	3,125	3,131	2,737	3,043
Expense with acquisition clients list and brand	2,103	2,458	2,103	2,115
Outflows	(131)	-	-	-
Balance at 31 December	<u>40,963</u>	<u>35,866</u>	<u>36,844</u>	<u>32,004</u>
	-			
<i>Net carrying amount</i>				
Balance at 1 January	<u>45,280</u>	<u>44,239</u>	<u>43,211</u>	<u>43,025</u>
Balance at 31 December	<u>42,799</u>	<u>45,280</u>	<u>41,049</u>	<u>43,211</u>

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31. PREMISES AND EQUIPMENT

Thousand RON	Group 31 December 2018				
	Land and buildings	Furniture and equipment	Means of transport	Assets in the course of construction	Total
Balance at 1 January	173,751	77,269	7,290	2,506	260,816
Acquisitions:	-	60	192	9,387	9,639
Evaluation	(5,701)	-	-	-	(5,701)
Transfer	2,152	5,246	182	(7,580)	-
Outflows	(31,564)	(101)	(1,343)	(456)	(33,464)
Balance at 31 December	<u>138,638</u>	<u>82,474</u>	<u>6,321</u>	<u>3,857</u>	<u>231,290</u>
<i>Cumulative depreciation</i>					
Balance at 1 January	22,338	63,661	6,712	-	92,711
Depreciation and amortization expense	5,636	4,652	121	-	10,409
Outflows	(13,939)	(400)	(1,189)	-	(15,528)
Balance at 31 December	<u>14,035</u>	<u>67,913</u>	<u>5,644</u>	<u>-</u>	<u>87,592</u>
Net carrying amount					
Balance at 1 January	<u>151,413</u>	<u>13,608</u>	<u>578</u>	<u>2,506</u>	<u>168,105</u>
Balance at 31 December	<u>124,603</u>	<u>14,561</u>	<u>676</u>	<u>3,857</u>	<u>143,698</u>

31 December 2018	Group 31 December 2017				
	31 December 2018	31 December 2018	31 December 2018	31 December 2018	31 December 2018
Balance at 1 January	177,041	74,099	8,329	1,010	260,479
Acquisitions:	159	704	-	5,153	6,016
Transfer	690	2,717	185	(3,592)	-
Outflows	(4,139)	(251)	(1,224)	(65)	(5,679)
Balance at 31 December	<u>173,751</u>	<u>77,269</u>	<u>7,290</u>	<u>2,506</u>	<u>260,816</u>
<i>Cumulative depreciation</i>					
Balance at 1 January	18,016	59,276	7,636	-	84,928
Depreciation and amortization expense	5,637	4,583	300	-	10,520
Outflows	(1,315)	(198)	(1,224)	-	(2,737)
Balance at 31 December	<u>22,338</u>	<u>63,661</u>	<u>6,712</u>	<u>-</u>	<u>92,711</u>
Net carrying amount					
Balance at 1 January	<u>159,025</u>	<u>14,823</u>	<u>693</u>	<u>1,010</u>	<u>175,551</u>
Balance at 31 December	<u>151,413</u>	<u>13,608</u>	<u>578</u>	<u>2,506</u>	<u>168,105</u>

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Thousand RON	Bank 31 December 2018				
	Land and buildings	Furniture and equipment	Means of transport	Assets in the course of construction	Total
Balance at 1 January	173,216	77,099	6,431	2,506	259,252
Acquisitions:	-	-	-	9,142	9,142
Evaluation	(5,701)	-	-	-	(5,701)
Transfer	2,152	5,246	182	(7,580)	-
Outflows	(31,451)	-	(1,188)	(211)	(32,850)
Balance at 31 December	<u>138,216</u>	<u>82,345</u>	<u>5,425</u>	<u>3,857</u>	<u>229,843</u>
<i>Cumulative depreciation</i>					
Balance at 1 January	21,850	63,621	5,895	-	91,366
Depreciation and amortization expense	5,636	4,559	121	-	10,316
Outflows	(13,939)	(30)	(1,189)	-	(15,158)
Balance at 31 December	<u>13,547</u>	<u>68,150</u>	<u>4,827</u>	<u>-</u>	<u>86,524</u>
Net carrying amount					
Balance at 1 January	<u>151,366</u>	<u>13,478</u>	<u>536</u>	<u>2,506</u>	<u>167,886</u>
Balance at 31 December	<u>124,669</u>	<u>14,195</u>	<u>598</u>	<u>3,857</u>	<u>143,319</u>

From total amount of RON 5,701 thousand representing impact from reevaluation as of 31st December 2018, the amount of RON 3,997 thousand is representing impact in Profit and loss and RON 1,704 thousand is representing impact in reserves.

Thousand RON	Bank 31 December 2017				
	Land and buildings	Furniture and equipment	Means of transport	Assets in the course of construction	Total
<i>Cost</i>					
Balance at 1 January	176,525	74,043	7,470	1,010	259,048
Acquisitions	-	551	-	5,153	5,704
Transfer	690	2,717	185	(3,592)	-
Outflows	(3,999)	(212)	(1,224)	(65)	(5,500)
Balance at 31 December	<u>173,216</u>	<u>77,099</u>	<u>6,431</u>	<u>2,506</u>	<u>259,252</u>
<i>Cumulative depreciation</i>					
Balance at 1 January	17,549	59,236	6,819	-	83,604
Depreciation and amortization expense	5,576	4,583	300	-	10,459
Outflows	(1,275)	(198)	(1,224)	-	(2,697)
Balance at 31 December	<u>21,850</u>	<u>63,621</u>	<u>5,895</u>	<u>-</u>	<u>91,366</u>
Net carrying amount					
Balance at 1 January	<u>158,976</u>	<u>14,807</u>	<u>651</u>	<u>1,010</u>	<u>175,444</u>
Balance at 31 December	<u>151,366</u>	<u>13,478</u>	<u>536</u>	<u>2,506</u>	<u>167,886</u>

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32. DUE TO OTHER BANKS

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	30 June 2018	31 December 2017
Current accounts	-	-	-	-
Sight deposits	-	20,001	-	20,001
Term deposits	-	15,003	-	15,003
Collateral deposits	466	466	466	466
Transitory amounts	6,485	9,913	6,485	9,913
REPO agreements	-	50,584	-	50,584
Total	<u>6,951</u>	<u>95,967</u>	<u>6,951</u>	<u>95,967</u>

33. CUSTOMER DEPOSITS

RON thousands	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Retail customers:				
Payable on demand	285,930	240,683	285,930	240,683
Term deposits	2,111,933	2,166,132	2,111,933	2,166,132
Collateral deposits	7,808	5,388	7,808	5,388
Amounts in transit	-	-	-	-
Corporate customers:				
Current accounts	292,521	310,090	296,612	314,716
Sight deposits	14,403	4,913	14,403	6,513
Term deposits	315,624	466,186	319,104	485,091
Collateral deposits	23,015	33,426	23,015	33,426
Amounts in transit	5,796	4,463	5,796	4,347
Total	<u>3,057,030</u>	<u>3,231,281</u>	<u>3,064,601</u>	<u>3,256,296</u>

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Risk concentrations by economic sectors within the deposits from customers portfolio as at 31 December 2018 and 31 December 2017 were as follows:

Thousands RON	Bank		Bank	
	31 December 2018 Percentage of total deposits(%)	31 December 2017 Percentage of total deposits(%)	31 December 2018 Amount	31 December 2017 Amount
Retail customers	<u>2,405,671</u>	<u>78.50</u>	<u>2,412,203</u>	<u>74.08</u>
	-	-	-	-
Corporate customers	<u>603,197</u>	<u>19.68</u>	<u>841,083</u>	<u>25.84</u>
Financial and real estate activities	177,308	5.79	314,763	9.67
Industry	45,743	1.49	68,019	2.09
Others	47,942	1.56	44,298	1.36
Constructions	67,389	2.20	34,477	1.06
IT, research and development	5,907	0.19	37,422	1.15
Trade	78,028	2.55	79,204	2.43
Transport	33,941	1.11	57,582	1.77
Professional Services	29,320	0.96	26,366	0.81
Services	34,476	1.12	102,645	3.15
Agriculture	72,331	2.36	68,573	2.11
Hotels and restaurants	10,812	0.35	7,734	0.24
Public Administration and Defense	55,733	1.82	3,010	0.09
Total	<u>3,064,601</u>	<u>100</u>	<u>3,256,296</u>	<u>100</u>

34. LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Financing name				
FIDA (i)	-	59	-	59
EFSE - European Fund for Southeast Europe (ii)	15,169	13,655	-	-
Responsability Global Microfinance Fund (iii)	10,585	13,618	-	-
Oikocredit Ecumenical Development				
Cooperative Society UA (iv)	4,043	12,561	-	-
ACCESS FINANCIAL SERVICES IFN SA (v)	1,182	-	-	-
Raiffeisen Bank SA (vi)	2,316	-	-	-
Symbiotics Sicav (Lux.)	4,108	-	-	-
Total	<u>37,403</u>	<u>39,893</u>	<u>-</u>	<u>59</u>

- (i) During 2005, the Group entered into two loan agreements with IBRD (International Bank for Reconstruction and Development) and with FIDA (International Fund for Agricultural Development). The final payment for IBRD was made on 07 October 2017.
- (ii) European Fund for Southeast Europe

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In December 2016, the Group obtained a new financing agreement from EFSE, amounting RON 4,500 thousand which was fully drawn on 22 December 2016. The loan provides for quarterly repayments in 8 equal instalments, after a grace period for the principal of 15 months, with a ROBOR variable interest rate of 3 months plus margins and final maturity on 15 December 2019. The outstanding loan amount at December 2018 is RON 2,250 thousand.

In December 2017, the Group obtained a new financing agreement from EFSE, amounting RON 9,200 thousand over a 3-year period, with a grace period for the principal of 12 months. The loan provides for quarterly repayments in 9 equal instalments, with a ROBOR variable interest rate of 3 months plus margins and final maturity on 15 December 2020. The outstanding loan amount at December 2018 is RON 8,180 thousand.

In November 2018, the Group obtained a new financing agreement from EFSE, amounting RON 9,300 thousand over a 3-year period. The Group used RON 4.650 thousand from facility, the difference can be used in 2019. The loan provides for quarterly repayments in 9 equal instalments, with a ROBOR variable interest rate of 3 months plus margins and final maturity on 15 December 2021. The outstanding loan amount at December 2018 is RON 4,650 thousand.

(iii) Responsibility Global Microfinance Fund

- a) In January 2017 the Group obtained new loan facility from Responsability Sicav (Lux) Micro and SME Finance Debt Fund (formerly Mikro-und KMU-Finanz-Fonds) in total amount of RON 1,125 thousand for 3 years. The loan provides a fixed interest rate and final maturity on 29.01.2020. The outstanding amount at 31 December 2018 is RON 750 thousand.
- b) In January 2017 the Group obtained new loan facility from Responsability Micro and SME Finance Fund (formerly Global Microfinance Fund) in total amount of RON 2,250 thousand for 3 years. The loan provides a fixe interest rate and final maturity on 29.01.2020. The outstanding amount at 31 December 2018 is RON 1,500 thousand.
- c) In January 2017 the Group obtained new loan facility from Responsability Sicav (lux) Financial Inclusion Fund in total amount of RON 1,125 thousand for 3 years. The loan provides a fixed interest rate and final maturity on 29.01.2020. The outstanding amount at 31 December 2018 is RON 750 thousand.
- d) In April 2017 the Group obtained new loan facility from Responsability Sicav (Lux) Micro and SME Finance Debt Fund (formerly Mikro-und KMU-Finanz-Fonds) in total amount of RON 1,125 thousand for 2 years. The loan provides a fixed interest rate and final maturity on 10.04.2019. The outstanding amount at 31 December 2018 is RON 562.5 thousand.
- e) In April 2017 the Group obtained new loan facility from Responsability Micro and SME Finance Fund (formerly Global Microfinance Fund) in total amount of RON 4,500 thousand for 2 years. The loan provides a fixed interest rate and final maturity on 10.04.2019. The outstanding amount at 31 December 2018 is RON 2,250 thousand.

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- f) In April 2017 the Group obtained new loan facility from Responsibility Sicav (Lux) Financial Inclusion Fund in total amount of RON 1,125 thousand for 2 years. The loan provides a fixed interest rate and final maturity on 10.04.2019. The outstanding amount at 31 December 2018 is RON 562.5 thousand.
- g) In March 2018 the Group obtained new loan facility from Responsibility Micro and SME Finance Fund in total amount of RON 1,500 thousand for 2 years. The loan provides a fixed interest rate and final maturity on 09.03.2020. The outstanding amount at 31 December 2018 is RON 1,500 thousand.
- h) In March 2018 the Group obtained new loan facility from Responsibility Sicav (Lux) Financial Inclusion Fund in total amount of RON 1,250 thousand for 2 years. The loan provides a fixed interest rate and final maturity on 09.03.2020. The outstanding amount at 31 December 2018 is RON 1,250 thousand.
- i) In March 2018 the Group obtained new loan facility from Responsibility Sicav (Lux) Micro and SME Finance Debt Fund in total amount of RON 1,250 thousand for 2 years. The loan provides a fixed interest rate and final maturity on 09.03.2020. The outstanding amount at 31 December 2018 is RON 1,250 thousand.

(iv) Oikocredit Ecumenical Development Cooperative Society UA

In May 2016, the Group has signed a loan agreement with Oikocredit Ecumenical Development Cooperative Society UA ("Oiko") in a total approved value of RON 13,300 thousand over a 3-year period, with a grace period for the principal of 12 months. This loan has variable interest rate of ROBOR 6 months plus margin. The entire amount was drawn in two tranches: first RON 4,400 thousand in May 2016 and the difference of RON 8,900 thousand in October 2016. During 2018, the Group has reimbursed installments of RON 8.450 thousand and the outstanding amount at 31 December 2018 is RON 4,000 thousand.

(v) Access Financial Services IFN

In March 2018, the Group obtained a loan in amount of RON 1,500 thousand from Access Financial Services IFN with 2 years maturity. The loan agreement provides semestrial reimbursements in 4 installments with variable interest rate of ROBOR 3 months plus margin and final maturity on 05 February 2020. The outstanding amount at 31 December 2018 is RON 1,175 thousand.

(vi) Raiffeisen Bank S.A.

In May 2018, the Group obtained a loan facility from Raiffeisen Bank in amount of RON 2,311.25 thousand for 3 years period, entirely drawn. The loan provides a variable interest rate of ROBOR 1 months plus margin and final maturity on 20.05.2021. The outstanding amount at 31 December 2018 is RON 2,311.25 thousand.

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(vii) SYMBIOTICS SICAV (LUX)

In December 2018 the Group obtained new loan facility from Symbiotics Sicav (Lux) SEBMF VI Microfinance Fund in total amount of RON 4,100 thousand for 3 years. The loan provides a variable interest rate of ROBOR 3 months plus margin and final maturity on 21.12.2021. The outstanding amount at 31 December 2018 is RON 4,100 thousand.

The loans from international financial institutions are unsecured credit facilities, arranged under *negative pledge, pari passu* clauses. According to each loan agreement, the Group shall all time comply with a set of financial undertakings (covenants).

For loans obtained from local banks and financial institutions, the Group offer pledges on current bank accounts in the thresholds accepted by the international financial institutions.

35. OTHER FINANCIAL LIABILITIES

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Financial liabilities to owners of fund units	69,928	91,653	0	
Other derivative financial instruments	-67	190	72	32
Other financial liabilities	8,124	7,129	7,943	6,860
Total	<u>77,985</u>	<u>98,972</u>	<u>8,015</u>	<u>6,892</u>

The Group classified the fund units issued by FDI Patria Stock, FDI Patria Global and FDI Patria Obligatiuni as financial liabilities.

36. LIABILITIES TO MINORITY SHAREHOLDERS FOR REDEMPTION RIGHTS

As part of the merger by absorption process between the former Banca Comerciala Carpatica SA (as absorbing bank) and the former Patria Bank SA (as absorbed bank), both banks published procedures for the withdrawal of minority shareholders, as follows:

- On 04 October 2016 "The withdrawal shareholders procedure from Banca Comerciala Carpatica SA in the context of the merger with Patria Bank SA"; and
- On 08 November 2016 "The withdrawal shareholders procedure from Patria Bank S.A. in the context of the merger with Banca Comerciala Carpatica S.A. ".

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Under these Withdrawal Procedures any shareholder who:

- (a) did not vote in favor of the merger during the General Shareholders Meeting (GSM) held on 5 October 2016 / 8 November 2016, namely:
 - (i) voted against the merger,
 - (ii) refrained from voting or
 - (iii) was not present, personally, by representation or by exercising the vote by correspondence, at the GSM; and
- (b) was registered as shareholder of the absorbing bank at the reference date (26 September 2016 for BCC and 1 November 2016 for Patria Bank) and on 30 December 2016 for BCC and 28 April 2017 respectively for Patria Bank, could exercise their right to withdraw from their position as shareholder during the period 5 October 2016 – 7 November 2016 (BCC) / 9 November 2016 - 9 December 2016 (Patria Bank).

The price per share established through the withdrawal procedures was determined by an independent evaluator, appointed by a judge according to the requirements of the Companies Law (Law 31/1990) at the request of the two banks as follows:

- (i) for the purchase obligation of BCC 0.0896 LEI / share; and
- (ii) for the purchase obligation of Patria Bank 0.2702 LEI / share.

According to the withdrawal shareholders procedures above mentioned, three of the minority shareholders of Banca Comerciala Carpatica and two minority shareholders of Patria Bank exercised their right of withdrawal for a number of shares representing 18.83% of the pre-merger share capital of Banca Carpatica and 0.0003% of the pre-merger share capital of Patria Bank. Patria Bank resulting from the merger as the legal successor of both banks involved in the merger, took on the redemption obligations mentioned above, as specified in the applicable withdrawal procedures applicable for the shareholders of each bank. The total withdrawal rights being 37,239,190.58 LEI.

Given that on 26 October 2017 there was a reduction in the share capital of the merged Patria Bank to cover the accumulated losses, by reducing the number of shares and, having in view that at the time of the capital reduction, the shares for which a right of withdrawal had been expressed weren't redeemed as part of the capital reduction operation, the minority shareholders' rights on the value of the shares for which the right of withdrawal was expressed were preserved. Thus, for 250,899,063 shares of the 2,271,217,313 shares remaining after the capital reduction (that is 11.04% of the bank's share capital resulting from the merger) a right of withdrawal exists at the date of these financial statements.

As this redemption operation of own shares represents in fact a distribution of the capital to the minority shareholders, its realization is conditioned by the prior approval of the National Bank of Romania (NBR) according to art. 15^{1a} corroborated with art. 3 letter j) of the NBR Regulation no. 6/2008 and according to art. 77 and 78 of EU Regulation 575/2013 and article 126² of the Emergency Ordinance 99/2006. Such approval from NBR was not issued until the date of these financial statements.

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Because the published withdrawal procedures of the two banks involved in the merger provide the possibility of partial redemption of the shares for which the withdrawal rights were expressed, as long as the possibility of redemption exists, even partially, under the law applicable to the Bank, Patria Bank recognizes a financial liability at the level of the possible value to be redeemed at the reporting date in accordance with the above-mentioned legal and prudential provisions. At 31 December 2018 the value of the recognised financial liability was RON 0 (nil) since, given the circumstances described in note 2. d) going concern note, no redemption (partial or full) was allowed under the provisions of the respective law.

37. PROVISIONS FOR LIABILITIES AND CHARGES

Other liabilities comprise non-financial liabilities, as follows:

Thousand RON	Group 31 December 2018	31 December 2017	Bank 31 December 2018	31 December 2017
Provisions for loan commitments and financial guarantees	2,584	3,797	2,596	3,797
Provisions for staff cost	3,899	4,514	3,559	4,047
Provisions for litigations	3,128	2,749	3,035	2,656
Other provisions	773	767	774	479
Total	10,384	11,827	9,964	10,979

Provision related to credit commitments represents specific provisions created for losses incurred on financial guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Staff costs provision relates to accruals for untaken holidays, restructuring, performance bonus and the related payroll taxes.

Provisions for loan commitments and financial guarantees are analysed as follows:

Thousand RON	Group 31 December 2018	31 December 2017	Bank 31 December 2018	31 December 2017
Balance at 1 January	3,797	2,733	3,797	2,733
Transition to IFRS 9	798	-	798	-
Provisioning expenses during the year	8,579	9,547	8,617	9,547
Provision cancellation income	(10,590)	(8,491)	(10,616)	(8,491)
Exchange rate differences	-	8	-	8
Balance at 31 December	2,584	3,797	2,596	3,797

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Movements in the staff costs provision is as follows:

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Balance at 1 January	4,514	10,065	4,047	9,801
Provisioning expenses during the year	1,912	6,251	1,594	5,779
Provision cancellation income	(2,527)	(11,802)	(2,082)	(11,533)
Balance at 31 December	<u>3,899</u>	<u>4,514</u>	<u>3,559</u>	<u>4,047</u>

The provision for litigations can be further analysed as follows:

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Balance at 1 January	2,749	2,437	2,656	2,330
Provisioning expenses during the year	1,316	1,647	1,316	1,647
Provision cancellation income	- 951	- 1,341	- 951	-1,327
Exchange rate differences	14	6	14	6
Balance at 31 December	3,128	2,749	3,035	2,656

38. OTHER LIABILITIES

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Other liabilities	20,887	11,260	19,243	9,774
State budget debts	2,860	3,110	2,697	3,291
Other income to be received	1,013	1,239	750	995
Total	<u>24,760</u>	<u>15,609</u>	<u>22,690</u>	<u>14,060</u>

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39. SUBORDINATED DEBT

Thousand RON	Grup		Banca	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Balance as 1st of January	29,589	19,754	29,589	19,754
New subordinated loans	57,332	9,322	57,332	9,322
Repayments	-	-	-	-
Conversion to Share Capital	(63,570)	-	(63,570)	-
Other movements & FX				
Differences	22	513	22	513
Balance as 31st of December	<u>23.373</u>	<u>29.589</u>	<u>23.373</u>	<u>29.589</u>

As of 31st of December 2017

The Group has outstanding two subordinated loans as presented below:

- EUR 4,350 thousand granted by EAAF Financial Services BV in 2016 with interest rate EURIBOR 3M + 400 bps margin, 7 years tenor;
- EUR 2,000 thousand granted by Mr. Horia Manda, Chairman of the Board of Directors of Patria Bank S.A. in 2017 with interest rate EURIBOR 6M + 585 bps margin, 6 years tenor.

As of 31st of December 2018

The Group has outstanding 2 subordinated loans as presented below:

- EUR 4,350 thousand granted by EAAF Financial Services BV in 2016 with interest rate EURIBOR 3M + 400 bps margin, 7 years tenor was fully converted in Share Capital in 2018 year, no outstanding at the end of the year.
- EUR 2,000 thousand granted by Mr. Horia Manda, Chairman of the Board of Directors of Patria Bank S.A. in 2017 with interest rate EURIBOR 6M + 585 bps margin, 6 years tenor. No modification in 2018 year.
- EUR 4,300 thousand granted by EAAF Financial Services BV in 2018 with interest rate EURIBOR 6M + 585 bps margin, 6 years tenor was converted in Share Capital in 2018 year, remaining outstanding at the end of the year EUR 12 thousand.
- EUR 5,000 thousand granted by EAAF Financial Services BV in 2018 with interest rate EURIBOR 6M + 585 bps margin, 6 years tenor was fully converted in Share Capital in 2018 year, no outstanding at the end of the year.
- EUR 3,000 thousand granted by EAAF Financial Services BV in 2018 with interest rate EURIBOR 6M + 550 bps margin, 6 years tenor

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40. SHARE CAPITAL

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Share capital and merger premium under IFRS at the beginning of the period	<u>163,849</u>	<u>199,218</u>	<u>163,849</u>	<u>199,218</u>
Dissolution of the absorbed entity	-	(199,218)	-	(199,218)
The capital of the controlling entity	-	220,274	-	220,274
Effect of hyperinflation	-	8,682	-	8,682
Merger effect (share issuance)	-	155,966	-	155,966
Share premium	-	2,050	-	2,050
Other adjustments to the share capital	-	(2,993)	-	(2,993)
Merger premium	-	(67,569)	-	(67,569)
Decrease of the share capital to cover the losses carried forward	-	(149,122)	-	(149,122)
Decrease of hyperinflation effect	-	(3,439)	-	(3,439)
Capital increase	84,411	-	84,411	-
Share capital and merger premium under IFRS at the end of the period	<u>248,260</u>	<u>163,849</u>	<u>248,260</u>	<u>163,849</u>

Thousand RON	Group		Bank	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Share Capital according to Trade Register	<u>311,533</u>	<u>227,122</u>	<u>311,533</u>	<u>227,122</u>
Own Shares	(4)	(4)	(4)	(4)
Other adjustments of the Share Capital	2,250	2,250	2,250	2,250
Share premium	2,050	2,050	2,050	2,050
Merger Premium	(67,569)	(67,569)	(67,569)	(67,569)
Share capital under IFRS	<u>248,260</u>	<u>163,849</u>	<u>248,260</u>	<u>163,849</u>

The share capital increased from RON 227,121,731 to RON 331,553,057 divided into 3,115,330,575 shares, each with a nominal value of RON 0.1/share.

During 2018 was two increases in capital in total amount of RON 84,411,326 divided in 844,113,262 each with a nominal value of RON 0.1/share.

Following the first phase of the capital increase process concluded in the first half of the year, the Bank's share capital was increased by RON 47,043,960.90 of which:

- RON40,309,000 was through the conversion of two subordinated loans totalling EUR 8,650,000 granted to the Bank by the majority shareholder EEAF Financial Services BV (of which EUR 4,350,000 loan granted in 2016 and EUR 4,300,000 loan granted in February 2018);

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- RON 6,734,960 was contributed in cash (of which: RON 5,825,000.90 cash contribution from the majority shareholder EEAF Financial Services BV and RON 909,960.00 cash contribution of the minority shareholders).

In the second phase of the capital increase process concluded by the end of October 2018, the Bank's share capital was increased by RON 37,367,365.30 of which:

- RON 23,329,000 through the conversion of one subordinated loan in amount of EUR 5,000,000 granted in 2018 to the Bank by the majority shareholder EEAF Financial Services BV; and
- RON 14,038,365.30 contribution in cash (of which: RON 13,965,000 cash contribution of the majority shareholder EEAF Financial Services BV and RON 73,365.30 cash contribution of the minority shareholders).

The main shareholders at 31 December 2018 and at 31 December 2017 of Patria Bank S.A. (The parent of the Group) are:

	31 Decembrie 2018 Number of shares Patria Bank post- merger	Percentage of ownership (%)	31 December 2017 Number of shares Patria Bank post- merger	Percentage of ownership (%)
Name of the shareholder				
EEAF Financial Services				
B.V.	2,565,080,456	82.34	1,730,800,447	76.21
Carabulea Ilie	245,490,909	7.88	245,490,909	10.81
Persoane fizice	236,204,185	7.58	210,584,245	9.27
Persoane juridice	68,555,025	2.20	84,341,712	3.71
Total	<u>3,115,330,575</u>	<u>100.00</u>	<u>2,271,217,313</u>	<u>100.00</u>

41. LOSS PER SHARE

The shareholders of Patria Bank S.A. and Banca Comerciala Carpatica S.A. decided that the share exchange ratio for the merger is established as per the Merger Project based on the valuation of each bank as of 31 May 2016.

Patria Bank shares exchange rate in relation to Banca Comerciala Carpatica shares is determined by reporting the book value of a Patria Bank share to the book value of a Banca Comerciala Carpatica share.

The valuation reports of Banca Comerciala Carpatica SA and Patria Bank SA set the global value of the two banks (Banca Comerciala Carpatica SA = RON 194,304 thousand, Patria Bank SA = RON 262,248 thousand), resulting in the following net book value of the shares of the two Companies, determined by reporting the net asset to the number of shares issued by each of the two companies:

- Banca Comerciala Carpatica – RON 194,304 thousand / 2,202,742,822 shares = 0.0882 RON/share;
- Patria Bank – RON 262,248 thousand / 972,647,537 shares = 0.2696 RON/share.

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Patria Bank shares exchange rate in relation to Banca Comerciala Carpatica shares is determined by reporting the book value of a Patria Bank share to the book value of a Banca Comerciala Carpatica share:

→ Exchange rate: RON 0.2696 / RON 0.0882 = 3.0566.

Therefore, an action of Patria Bank will be exchanged with 3,0566 shares of Banca Comerciala Carpatica.

	31 December 2018	31 December 2017
Balance at the beginning of the period	2,271,217,313	972,647,537
Dissolution of the absorbed entity	-	- 972,647,537
The capital of the absorbing entity	-	2,202,742,822
Merger effect (share issuance)	-	1,559,656,391
Capital increase	844,113,262	-
Share capital decrease	-	-1,491,181,900
Sold la sfarsitul perioadei	3,115,330,575	2,271,217,313

Basic earnings/(loss) per share are calculated by dividing the net result of the year 2018, respectively 2017 attributable to owners of the Parent by the weighted average number of ordinary shares issued in 2018, respectively 2017, as follows:

31 December 2018	No. of shares in movement	No. days
No of shares 01.01.2018-12.03.2018 (first increase of capital)	2,271,217,313	70
No of shares between 12.03.2018-20.11.2018 (second increase of capital)	2,741,656,922	254
No of shares between 20.11.2018-31.12.2018	3,115,330,575	41
Average no. of shares	2,257,834,005	365
Loss period at 31.12.2018	(266,914)	
Loss per share (RON/share)	(0.0001)	

31 December 2017	No. of shares	No. of days
No of shares of the absorbed bank between 01.01.2017 -01.05.2017 (merger date) (i)	972,647,537	121
Conversion ratio from PBK shares in BCC shares at the merger	3.0566	
No. of shares of absorbing Bank at 01.01.2017	2,202,742,822	121
Average number of shares pre- merger (i)	2,972,995,407	
Shares of absorbed entity cancelled at merger	(1,413,339,016)	
No of shares post-merger (ii)	3,762,399,213	178
No. of shares after capital decrease (ii)	2,271,217,313	66
Average no. of shares at 31.12.2017	2,975,724,066	365
Loss of the period at 31 December 2017	(42,543,615)	
Loss per share (RON/share) (iii)	(0.0143)	

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Note:

- (i) the average number of shares of the Parent (Patria Bank SA-absorbed bank) for the current period (year 2017) before the merger date is multiplied by the conversion ratio of the PBK shares into BCC shares used in the merger, used for calculating the average number of shares for the current pre-merger period adjusted to the merger operation that took place during the current period on 1 May 2017;
- (ii) for the current post-merger period, from 01 May 2017 until the capital decrease at 26 October 2017, it is used the number of shares of the merged entity.
- (iii) In order to obtain both the pre-merger and the post-merger gain for the current period (year 2017), the loss for year 2017 shall be divided by the average number of PBK shares for the whole year 2017, adjusted in accordance with point (i) and (ii) above.

42. SEGMENT ANALYSIS

The disclosure Segment Reporting as required by IFRS 8 is presented only on the elements of the Statement of Financial Position for:

- Loans and advances to customers (Note 19)
- Customer deposits (Note 31) in line with internal reporting for decision makers.

Considering the following criteria the Bank does not report a full disclosure for Segment Reporting:

- No internal reporting for decision makers related the profitability per segments
- No clients that generates at individual level more 10% from Banks's total banking income
- No geographical segments defined (foreign jurisdictions), insignificant exposures granted to foreign customers
- No transfer pricing allocation defined internally for profitability per segments

43. RESERVES

At 31 December 2018 and at 31 December 2017 the reserves were as follows:

	Group 31 December 2018	31 December 2017	Bank 31 December 2018	31 December 2017
Reserves from revaluation of financial assets at fair value through other items of comprehensive income	(2,391)	(10,270)	(2,391)	(10,270)
Revaluation reserve for premises	53,829	63,132	52,030	61,333
Statutory legal reserve	11,886	11,886	11,886	11,886
Reserves for general banking risks	15,301	15,301	15,301	15,301
Other Reserves	14,678	14,678	14,678	14,678
Total	93,303	94,727	91,505	92,929

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The movements in the revaluation reserve from the financial asset evaluated at fair value through other comprehensive incomesale were the following:

	Total gross	Grup Deferred tax	Total net	Total gross	Bank Deferred tax	Total net
Balance at 1 January 2018	(12,226)	1,956	(10,270)	(12,226)	1,956	(10,270)
The merger effect	-	-	-	-	-	-
IFRS 9 tranzation	4,158	-	4,158	4,158	-	4,158
Balance at 1 January 2018	(8,068)	1,956	(6,112)	(8,068)	1,956	6122
Gain / (Loss) recognized in year	2,375	(1,492)	883	2,375	(1,492)	883
Net (losses) from changes in fair value, reclassified to profit or loss	2,838	-	2,838	2,838	-	2,838
Balance at 1 December 2018	<u>(2,855)</u>	<u>464</u>	<u>(2,391)</u>	<u>(2,855)</u>	<u>464</u>	<u>2,391</u>
Balance at 1 January 2017	3,493	559	2,934	(3,493)	559	(2,934)
The merger effect	3,366	(504)	2,862	3,366	(504)	2,862
Gain / (Loss) recognized in year	(11,631)	1,901	(9,730)	(11,631)	1,901	(9,730)
Net (losses) from changes in fair value, reclassified to profit or loss	(468)	-	(468)	(468)	-	(468)
Balance at 31 December 2017	<u>12,226</u>	<u>1,956</u>	<u>(10,270)</u>	<u>(12,226)</u>	<u>1,956</u>	<u>(10,270)</u>

The movements in the revaluation reserves for premises were the following:

	Total gross	Group Deferred tax	Total net	Total gross	Bank Deferred tax	Total net
Balance at 1 January 2017	74.571	11.439	63.132	72.446	11.113	61.333
The merger effect	-	-	-	-	-	-
Net result from revaluation	(1.704)	394	(1.310)	(1.704)	394	(1.310)
Realized revaluation reserve	(9.369)	1.377	(7.992)	(9.369)	1.377	(7.992)
Balance at 31 December 2018	<u>63.498</u>	<u>9.668</u>	<u>53.830</u>	<u>61.373</u>	<u>9.342</u>	<u>52.031</u>
Balance at 1 January 2017	32.892	11.518	21.374	32.892	11.518	21.374
Realized revaluation reserve	41.708	-	41.708	41.708	-	41.708
Business combination	-	-	-	-	-	-
Realized revaluation reserve	(29)	79	50	(2.154)	405	(1.749)
Balance at 31 December 2017	<u>74.571</u>	<u>11.439</u>	<u>63.132</u>	<u>72.446</u>	<u>11.113</u>	<u>61.333</u>

Statutory legal reserves

Statutory reserves represent accumulated transfers from retained earnings in accordance with relevant local regulations. These reserves are not distributable. Local legislation requires 5% of the Group's and its subsidiaries net statutory profit to be transferred to a non-distributable statutory reserve until such time this reserve represents 20% of the statutory share capital.

Reserves for general banking risks include amounts set aside in accordance with the Banking legislation and are separately disclosed as appropriations of statutory profit. These reserves are not distributable. According to the Romanian legislation in force the reserves for general banking risks were set aside starting with 2004 financial year until the end of the 2006 financial year.

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44. NET DEBT RECONCILIATION

The table below sets out an analysis of the Group and Bank's debt for the period ended at 31 December 2018. The debt items are those that are reported as financing in the statement of cash flows.

<i>Thousand RON</i>	Long term borrowings from banks and other financial institutions	Group Subordinated debt	Total	Long term borrowings from banks and other financial institutions	Bank Subordinated debt	Total
Net debt at 1 January 2018	<u>39,893</u>	<u>29,589</u>	<u>69,482</u>	<u>59</u>	<u>29,589</u>	<u>29,648</u>
Cash flows	(2,476)	57,369	54,893	(45)	57,369	57,324
Non-cash movement	(14)	(63,599)	(63,613)	(14)	(63,599)	(63,613)
Foreign exchange adjustments	-	14	14	-	14	14
Net debt at 31 December 2018	<u>37,403</u>	<u>23,373</u>	<u>60,776</u>	<u>=</u>	<u>23,373</u>	<u>23,373</u>
Net debt at 1 January 2017	<u>47,223</u>	<u>19,754</u>	<u>66,977</u>	<u>15,933</u>	<u>19,754</u>	<u>35,687</u>
Cash flows	(7,289)	10,534	3,245	(15,233)	10,534	(4,699)
Foreign exchange adjustments	(41)	(699)	(740)	(641)	(699)	(1,340)
Net debt at 31 December 2017	<u>39,893</u>	<u>29,589</u>	<u>69,482</u>	<u>59</u>	<u>29,589</u>	<u>29,648</u>

45. COMMITMENTS AND CONTINGENCIES

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period.

The Group provides also letter of guarantees and letters of credit on behalf of the customers. The contractual amounts of commitments and contingent liabilities are set out in the following table by category. Many of the contingent liabilities and commitments expire without being funded in whole or in part, therefore, the amounts do not represent expected future cash flows.

The amounts reflected in the table as commitments assume that amounts are fully advanced.

The amounts reflected in the table as guarantees and letters of credit represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted.

For provisions for credit related commitments refer to Note 35.

Commitments related to credits-Group

Thousand RON	31 decembrie 2018	31 decembrie 2017
Letters of guarantees	13,108	13,445
Commitments of granted credits	300,361	223,184
<u>Total</u>	<u>313,469</u>	<u>236,629</u>

Commitments related to credits-Bank

Thousand RON	31 December 2018	31 December 2017
Letters of guarantees	11,933	12,008
Commitments of granted credits	300,171	274,592
<u>Total</u>	<u>312,104</u>	<u>286,600</u>

Operating lease commitments – Group as lessee

- a) The Group concluded rental agreements for commercial premises. The future value of the minimum operating leasing operations is presented in the table below:

Thousand RON	31 December 2018	31 December 2017
Not later than 1 year	498	1,253
Later than 1 year and not later than 5 years	7,719	10,101
More than 5 years	3,502	4,180
<u>Total</u>	<u>11,719</u>	<u>15,534</u>

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- b) The Group has under development operating leasing contracts for car rental.

The future value of the minimum operating leasing operations is presented in the table below:

Thousand RON	31 December 2018	31 December 2017
Not later than 1 year	-	1,730
Later than 1 year and not later than 5 years	-	-
More than 5 years	-	-
<u>Total</u>	-	<u>1,730</u>

Operating lease commitments – Bank as lessee

- a) The Group concluded rental agreements for commercial premises. The future value of the minimum operating leasing operations is presented in the table below:

Thousand RON	31 December 2018	31 December 2017
Not later than 1 year	498	1,253
Later than 1 year and not later than 5 years	7,719	10,101
More than 5 years	3,502	4,180
	-	-
<u>Total</u>	<u>11,719</u>	<u>15,534</u>

- b) The Group has under development operating leasing contracts for car rental.

The future value of the minimum operating leasing operations is presented in the table below:

Thousand RON	31 December 2018	31 December 2017
Not later than 1 year	-	1,730
Later than 1 year and not later than 5 years	-	-
More than 5 years	-	-
<u>Total</u>	-	<u>1,730</u>

Operating lease commitments - Group as lessor

The Group concluded rental agreements for commercial premises. The future value of the minimum revenues from operating leasing is presented in the table below:

Thousand RON	31 December 2018	31 December 2017
Not later than 1 year	-	-
Later than 1 year and not later than 5 years	-	-
More than 5 years	1,508	1,800
<u>Total</u>	<u>1,508</u>	<u>1,800</u>

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Operating lease commitments - Bank as lessor

The Group concluded rental agreements for commercial premises. The future value of the minimum revenues from operating leasing is presented in the table below:

Thousand RON	31 December 2018	31 December 2017
Not later than 1 year	-	-
Later than 1 year and not later than 5 years	-	-
More than 5 years	1,508	1,800
<u>Total</u>	<u>1,508</u>	<u>1,800</u>

Transfer pricing

Romanian tax legislation includes the arm's length principle according to which transactions between related parties should be carried out at market value. Local taxpayers engaged in related party transactions have to prepare and make available upon the written request of the Romanian Tax Authorities their transfer pricing documentation file.

Failure to present the transfer pricing documentation file, or presenting an incomplete file, may lead to non-compliance penalties; additionally, notwithstanding the contents of the transfer pricing documentation, the tax authorities may interpret the facts and transactions differently from management and impose additional tax liabilities resulting from transfer price adjustments. Despite the fact that the tax authorities might challenge the implementation of the transfer pricing requirements by the Group, the Group's management believes that will not suffer losses in case of a fiscal inspection on the subject of transfer prices.

However, the impact of any change of the tax authorities can't be estimated reliably. It may be significant for the financial situation and / or the overall operations of the entity.

Litigations

At 31 December 2018, the provision for litigation, in which the Group is involved as defendant is in amount of RON 2,262 thousand (31 December 2017: RON 2,749 thousand).

The management of the Group considers that they will have no material adverse effect on the results and the financial position.

Provisions for litigations are made mainly for disputes that concern the actions of borrower's private individuals, by requesting cancellation of clauses deemed unfair in credit agreements.

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46. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group entered into a number of transactions with its related parties in the normal course of business. These transactions were carried out in the normal course of business on commercial terms and conditions and at market rates.

The Group performed related party transactions during year ended 31 December 2018 with EEAF Financial Services B.V. (immediate parent), the members of the Board of Directors, the members of the Executive Management and Bank's employees that hold *key-functions* and during the year ended 31 December 2018.

EEAF Financial Services B.V.(EEAFSBV) is owned and fully controlled by Emerging Europe Accession Fund Cooperatief UA.

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The Group's income and expense items with related parties are as follows:

Thousand RON	31 December 2018				31 December 2017			
	Immediate parent company	Associated entities	Key personnel	other affiliated parties	Immediate parent company	Associated entities	Key personnel	other affiliated parties
Interest and similar income	-	-	13	944	-	-	-	74
Interest and similar expense	1,482	-	549	11	237	-	25	7
Adjustments of impairment for financial assets	-	-	-	-	-	-	-	109
Fee and commission income	-	-	-	2	-	-	-	-
Foreign exchange rate gains/ (losses)	-	-	-	-	-	-	-	-
Net earnings on financial assets held for trading	-	-	-	-	-	-	-	-
Other operating income	-	-	-	-	-	-	-	-
Net expenses with depreciation adjustments	-	-	3	(108)	-	-	-	-
Other operating and administrative expenses	-	-	13	-	-	-	5	-
Dividends income	-	540	-	4,379	-	426	-	1,189

Dividend income of RON 2,693 thousand (2017: RON 2,352 thousand) represents share of profits paid proportionally to the participation of the Group

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The Group's key management compensation is presented below:

Thousand RON	31 December 2018	31 December 2017
Short-term benefits:		
-Salaries ^(*)	10,096	9,040
<i>Social insurance contribution</i>	488	1,679
- Short-term bonuses	4	10
- Benefits	20	-
	-	-
Post-employment benefits:	-	-
-Amounts granted on cancellation of employment contract	27	-
Total	<u>10,127</u>	<u>9,050</u>

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The Group's outstanding balances with related parties were as follows:

Thousand RON	Immediate parent company	31 December 2018 Other significant shareholders	Associated entities	Key personnel	other affiliated parties	Immediate parent company	31 December 2017 Other significant shareholders	Associated entities	Key personnel	other affiliated parties
Financial Assets										
The financial asset evaluated at FVOCI	-	-	1,603	-	-	-	-	1669	-	-
Financial assets held for trading	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	1,215	13,082	-	-	-	661	1,492
Other financial assets	-	-	-	-	-	-	-	-	-	1
Other assets	-	-	-	-	-	-	-	-	-	13
Investment in subsidiaries	-	-	-	-	-	-	-	-	-	-
Liabilities										
Deposits from customers	1,127	-	-	2,434	8,221	-	267	-	4,601	13,262
Subordinated debt	14,045	-	-	9,328	-	20,270	-	-	9,319	-
Other liabilities	-	-	-	-	-	-	-	-	-	-
Commitments to customers	-	-	-	53	-	-	-	-	68	65
Guarantees				(3,164)	16,236				(6,589)	(6,402)

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The Bank's income and expense items with related parties are as follows:

Thousand RON	31 Decembre 2018					31 December 2017				
	Immediate parent company	Associated entities	Key personnel	Branches	other affiliated parties	Actionar majoritar direct	Immediate parent company	Associated entities	Key personnel	Branches
Interest and similar income	-	-	13	564	944	-	-	-	97	74
Interest and similar expense	1,482	-	549	74	11	237	-	25	207	7
Adjustments of impairment for financial assets	-	-	-	-	-	-	-	-	-	109
Fee and commission income	-	-	-	27	2	-	-	-	5	-
Foreign exchange rate gains/ (losses)	-	-	-	- 18	-	-	-	-	-	-
Net earnings on financial assets held for trading	-	-	-	-	-	-	-	-	194	-
Other operating income	-	-	-	-	-	-	-	-	-	-
Net expenses with depreciation adjustments	-	-	3	167	(108)	-	-	-	-	-
Other operating and administrative expenses	-	-	13	-	-	-	-	5	-	-
Dividends income	-	540	-	3,265	4,379	-	426	-	4,140	1,189

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The Bank's key management compensation is presented below:

Thousand RON	31 December 2018	31 December 2017
Short-term benefits:		
-Salaries ^(*)	8,800	8,269
<i>Social insurance contribution</i>	194	1,524
- Short-term bonuses	123	1,630
- Benefits	-	-
Post-employment benefits:		
-Amounts granted on cancellation of employment contract	361	62
Total	<u>9,284</u>	<u>9,961</u>

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The Bank's outstanding balances with related parties were as follows:

Thousand RON	31 December 2018						31 December 2017					
	Immediate parent company	Other significant shareholders	Associated entities	Key personnel	Branches	other affiliated parties	Immediate parent company	Other significant shareholders	Associated entities	Key personnel	Branches	other affiliated parties
Financial Assets												
The financial asset evaluated at fair value through other comprehensive income	-	-	1,603	-	-	-	-	-	1,669	-	-	-
Financial assets held for trading	-	-	-	-	6,785	-	-	-	-	-	7,203	-
Loans and advances to customers	-	-	-	1,215	13,234	13,082	-	-	-	661	4,461	1,492
Other financial assets	-	-	-	-	-	-	-	-	-	-	-	1
Other assets	-	-	-	-	-	-	-	-	-	-	-	13
Investment in subsidiaries	-	-	-	-	31,725	-	-	-	-	-	27,505	-
Liabilities												
Deposits from customers	1,127	-	-	2,434	8,317	8,221	-	267	-	4,601	25,698	13,262
Subordinated debt	14,045	-	-	9,328	-	-	20,270	-	-	9,319	-	-
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Commitments to customers	-	-	-	53	3,978	-	-	-	-	68	-	65
Guarantees	-	-	-	-	(3,164)	16,236				(6,589)		(6,402)

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47. BUSINESS COMBINATION

The acquisitions was carried at fair value using the accounting acquisition in accordance with IFRS 3 and IAS 39.

A description of the process of acquisition of the three subsidiaries acquired in in 2016 and 2015 is presented below:

1. The acquisition of the majority stake of SAI Patria Asset Management S.A. (former Intercapital Investment Management S.A.)

In April 2016 Patria Bank purchased a total of 1,154,999 shares representing 99.99991342% of the share capital and voting rights of SAI Intercapital Investment Management S.A., a joint stock company licensed as a Romanian investment management company by the Financial Supervisory Authority (FSA).

Patria Bank S.A. paid, by bank transfer, to the SAI Intercapital Investment Management S.A. RON 1,327,517.89 representing the price of 1,154,999 shares acquired by Patria Bank. The shares were sold with all rights and interests that attach, or may in the future attach, to them.

This acquisition will enable the Bank to develop a platform for asset management to meet customer needs for diversification of investments, essential element in the context of interest rates decrease.

2. The acquisition of the majority stake of Banca Comerciala Carpatica

In accordance with the decision of the Extraordinary General Meeting of Shareholders no. 6 / 25.01.2016, Patria Bank has acquired 64.16% stake in Banca Comerciala Carpatica, a local bank in Romania listed under the symbol "BCC".

The transaction was carried out in three stages:

- On the 28 January 2016, purchase of a share package from shareholders group controlled by Mr. Ilie Carabulea worth RON 23,129 thousand representing 220,274,282 shares at a price per share of RON 0.1050.
- In January 29, 2016 through a private placement subscription of all remaining shares not subscribed. Patria Bank has subscribed a total of 986,663,916 new BCC shares issued at a price of 0.1001 lei per share, conditioned by certain terms, totaling RON 98,765 thousand. After the capital increase, the share capital of BCC is divided into 2,202,742,822, out of which Patria Bank owns 1,206,938,198 (54.79%). On 19 February 2016 the Central Depository had issued a statement proving Patria Bank's ownership of the securities.
- In the takeover bid, that took place between 2 March and 22 March, Patria Bank had purchased a total of 206,400,818 shares, amounting RON 21,672 thousand, representing 9.37% ownership, thereby acquiring, according to Law no.297 / 2004 on capital markets, majority voting (64.16%).

Patria Bank has obtained the necessary approvals from the National Bank of Romania, Financial Supervisory Authority and the Competition Council regarding the economic concentration issues.

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After the Initial Public offering, Patria Bank acquired control with a stake of 64.16%, representing 1,413,339,016 number of shares, with a total stake of RON 144,205 thousand of which related charges RON 639,188 acquisition process.

Acquired Balance Sheet with Purchase Price Allocation ("PPA") adjustments are presented below:

Thousand RON

Adjusted Balance Sheet	31 March 2016	PPA Adjustments	Adjusted TB 31 March 2016
Cash and cash equivalents	436,190	n/a	436,190
Due from other banks	113,142	n/a	113,142
Financial assets held for trading	56,774	n/a	56,774
Financial assets available for sale	1,111,319	n/a	1,111,319
Financial assets held to maturity	112,203	n/a	112,203
Equity investments	7,026	n/a	7,026
Loans and advances to customers	764,022	(25,493)	738,529
Premises and equipment	131,817	n/a	131,817
Investment property	104,044	(24,239)	79,805
Intangibles assets	8,622	n/a	8,622
New intangible from core-deposits	-	13,478	13,478
Deferred tax assets	16,162	2,765	18,927
Other assets	97,278	(10,040)	87,238
Receivable form off-balance	-	38,214	38,214
Total Assets	<u>2,958,599</u>	<u>(5,315)</u>	<u>2,953,284</u>
Due to other banks	5	n/a	5
Customer Deposits	2,651,345	n/a	2,651,345
Loans from banks and other financial institutions	61,230	n/a	61,230
Other Liabilities	40,389	n/a	40,389
Total Liabilities	<u>2,752,969</u>	<u>n/a</u>	<u>2,752,969</u>
Share capital	228,013	n/a	228,013
Accumulated loss	(118,948)	n/a	(118,948)
Revaluation reserve	69,376	n/a	69,376
Other reserves	27,187	5,314	21,873
Total equity	<u>205,628</u>	<u>5,314</u>	<u>200,314</u>
Total liabilities and equity	<u>2,958,598</u>	<u>5,314</u>	<u>2,953,285</u>

For the net assets transferred (assets acquired less liabilities assumed) at their fair value, Patria Bank paid the amount of RON 144,205 thousand.

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Goodwill

The goodwill in amount of RON 15,683 thousand is presented below:

Thousand RON	31 March 2016
BCC's Equity	200,315
Purchase Price	144,205
% ownership	64.16%
Own Equity held	128,522
Goodwill	15,683

The Bank assessed the goodwill for impairment and consider there is no sign of impairment.

On 1 May 2017, the merger by absorption between Banca Comerciala Carpatica SA (absorbent entity) and Patria Bank SA (absorbed entity) was implemented, the two institutions becoming a single Bank. From this date, the new bank changed its name from Banca Comerciala Carpatica SA to Patria Bank SA.

Description of the Merger

Patria Bank SA (PBK), as the Absorbed company, was absorbed by Banca Comerciala Carpatica SA (BCC), as Absorbing company, BCC taking over all rights and obligations existing at the merger date 1st of May 2017 in Patria Bank's patrimony through legal succession with universal title. Also, for accounting purposes, all assets and liabilities of Patria Bank SA were transferred to Banca Comerciala Carpatica SA at the Implementation Date, 1-May-17 based on the handover protocol between the companies.

Given the fact that companies are credit institutions, the merger was subject to approval by the National Bank of Romania ("NBR"), prior to the registration of the Merger in the Trade Register.

The valuation reports of Banca Comerciala Carpatica SA and Patria Bank SA established the global value of the two banks (Banca Comerciala Carpatica = RON 194,304 thousand, Patria Bank = RON 262,248 thousand), the following net book value of the shares of the two companies resulting, as determined by reporting the net assets to the number of shares issued by each of the two companies:

- Banca Carpatica – RON 194,304 thousand/2,202,742,822 shares = 0.0882 RON/share
- Patria Bank – RON 262,248 thousand/972,647,537 shares = 0.2690 RON/share

The exchange rate of Patria Bank's shares against Banca Comerciala Carpatica's shares is determined by comparing the carrying amount of a Patria Bank share at the book value of a share of Bank Carpatica:

- Exchange rate: RON 0.2690 / RON 0.0882 = 3.0566

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Therefore, a Patria Bank share will be exchanged for 3.0566 shares of Banca Comerciala Carpatica. BCC will issue a total of 2,972,995,407 shares of RON 0.1 / share.

Merger Balance Sheet

Merger Balance Sheet included in the following table contains:

- The stand-alone financial position of BCC as of the Merger Date
- The stand-alone financial position of PBK as of the Merger Date
- Merger Adjustments and Explanatory notes for them.

The Merger Balance Sheet has been prepared in accordance with International Financial Reporting Standards ("IFRS") and the stipulations of NBR Order 27/2010 for approval of accounting regulations in accordance with IFRS applicable to credit institutions, as subsequently amended, by Norm no. 5/2000 regarding the merger and division of banks in accordance with the provisions of Order no. 897/2015 approving the Methodological Norms regarding the coverage of the accounting of the main merger, division, dissolution and liquidation of companies, and withdrawal or expulsion of associates in the company.

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all amounts are expressed in Thousands RON

	<i>Patria Bank</i>	<i>BCC</i>	<i>FV Adjs.</i>	<i>BCC_FV</i>	<i>Intragroup</i>	<i>Merger Adj.</i>		<i>MERGED BANK</i>
	<i>Parent</i>	<i>Subsidiary</i>	<i>Outstanding</i>	<i>Outstanding</i>	<i>adj.</i>			
	(1)	(2)	(3)	(4) = (2)+(3)	(5)	(6)	(7)	(8)=(1)+(4)+(5)+(6)+(7)
<i>Thousands RON</i>	30-Apr-17	30-Apr-17	30-Apr-17	30-Apr-17	01-May-17	01-May-17	01-May-17	01-May-17
Assets								
Cash in hand and accounts with Central Bank	229,204	311,205		311,205		-		540,409
Placements with banks	36,896	194,475		194,475	(115,137)	-		116,234
Loans and advances to customers	658,073	556,892	20,123	577,015	-	-		1,235,088
Financial assets held for trading	161	18,813		18,813		-		18,975
Financial assets available for sale	135,577	992,005		992,005		-		1,127,582
Equity participations in Subsidiaries	167,516	6,332		6,332		(144,205)		29,643
Financial assets held to maturity	-	106,551		106,551		-		106,551
Intangible assets	4,004	7,741	11,160	18,901		-		22,905
Goodwill *)	4,420	-	15,683	15,683		-		20,103
Assets from deferred tax	-	17,353	3,276	20,629		-		20,629
Other assets	2,505	4,669		4,669		-		7,174
Tangible assets - property & equipment	48,397	124,422		124,422		-		172,820
Investment properties	-	95,461	(20,467)	74,994		-		74,994
Fixed assets held for sale	2,948	31,790	(6,466)	25,323		-		28,272
Total assets	1,289,701	2,467,710	23,309	2,491,020	(115,137)	(144,205)	-	3,521,379
Liabilities								
Due to banks	165,547	27,355		27,355	(115,137)	-		77,765
Due to customers	858,197	2,266,180		2,266,180		-		3,124,376
Financial liabilities held for trading	0	0		0		-		-
Subordinated debt	19,781	0		0		-		19,781
Borrowings from Financial Institutions	393	4,526		4,526		-		4,919
Deferred tax liability	0	0		0		-		-
Other Liabilities	13,182	16,233		16,233		-		29,415
Total Liabilities	1,057,099	2,314,293	-	2,314,293	(115,137)	-	-	3,256,256
Net asset value	232,602	153,417	23,309	176,726	-	-	-	265,123
Equity								
Share capital	199,218	225,964		225,964		155,966	(199,218)	381,929
Share premium	-	2,050		2,050		-	-	2,050
Merger premium	-	-		-		(64,697)	-	(64,697)
Capital premium from the cancellation of own shares	-	-		-		(2,871)	-	(2,871)
Accumulated loss	(47,644)	(156,984)	13,404	(143,580)		-	47,644	(143,580)
Current Result	(6,709)	(11,382)	(464)	(11,846)		-	6,709	(11,846)
Revaluation reserve tangible assets	22,416	62,556		62,556		-	(22,416)	62,556
Revaluation reserve AFS	(156)	(283)		(283)		-	156	(283)
Other reserves	65,477	31,496	10,369	41,866		-	(65,477)	41,866
Net assets value of the absorbed bank				-		(232,602)	232,602	-
Minority Interest								
Total equity	232,602	153,417	23,309	176,726	-	(144,205)	-	265,123
Total equity and liabilities	1,289,701	2,467,710	23,309	2,491,020	(115,137)	(144,205)	-	3,521,379

*) Goodwill resulted from BCC is amounting RON 15,683 ths.

Notes

Reference (1) and (2) → The individual financial data of each bank before the merger are based on the stand-alone financial position as of 30th of April 2017, as *Absorbed Entity – PBK Parent (1)* and as *Absorbing Entity – BCC Subsidiary (2)*.

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Reference (3) → This adjustment is included in order to present the impact of the allocation of the purchase price corresponding to the *Acquisition of BCC* from March 2016 (the date when control was gained by the *PBK Parent* over *BCC Subsidiary*, further referred to as „*BCC Acquisition Date*”) over the fair value of the assets acquired and the identifiable assets, as well as the impact over the deferred tax of these adjustments. The result of these purchase price allocation adjustments is presented for each assets and their net impact is presented in Equity through the adjustment against „Other reserves”.

The effect of such allocation adjustments of the purchase price based on fair value principle is influenced by the results of applying the acquisition subsequent valuation principles over all balance sheet items, according to the Group accounting principles, in line with IFRS, for the 13 months period between the Acquisition Date (March 2016) and Date of the merger (1st of May 2017) is reflected in Accumulated loss and Current result.

Accounting treatment for the Merger

Given the circumstances, i.e. the fact that PBK has acquired control of BCC and immediately after that initiated the Merger, with BCC being the surviving entity, the accounting for such a transaction has to reflect that:

- i) the common control of EEAF (majority shareholder of PBK and indirect majority shareholder of BCC) over the two banks is transitory and
- ii) that PBK can be identified as the acquirer and BCC as the acquiree, from accounting point of view, in this business combination which consists in an acquisition (BCC Acquisition) followed by a merger.

Consequently, the financial statements of the absorbing entity post-merger (BCC) are reflecting the elements presented above and are presenting the following:

- The values of Balance Sheet items related to PBK, at their accounting values from the financial statements as of the merger date
- And the values of Balance Sheet items related to BCC at their fair values, as determined at the date when PBK took control over BCC (March 2016).

Therefore, any additional fair value adjustments that would have been reflected in PBK's consolidated accounts in relation to the acquisition of BCC are reflected as adjustments to the historically reported amounts of assets and liabilities reported by BCC in the post-merger financial statements.

The purpose of the PPA process is to:

- Identify the intangible assets acquired, for which a portion of the purchase price will be allocated;
- Estimate a market value for the intangible assets identified;
- Measure some other assets and liabilities for which the market value may differ significantly from their book value. In this category are included: loans and advances, off balance sheet loans, investment property and assets held for sale;

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- Measure the deferred tax asset resulting from the fiscal loss carried forward and the goodwill resulting from the acquisition.

Reference (4) The values of BCC Subsidiary assets and liabilities as of 30th of April 2017 are set based on the values taken according to Reference (2), adjusted based on the fair value adjustments as result of purchase price allocation generated by BCC Acquisition and accounted according to the Group accounting policies until the Merger Date, according to Reference (3). Based on the principles applied and described in the present disclosure, such values are further used in the Merged Balance Sheet.

Reference (5) → Elimination of the intragroup transactions outstanding at the Merger Date. Elimination of RON 115,137 thousand Placements with banks for BCC Subsidiary and Due to Banks for PBK Parent.

Reference (6) and (7) Merger accounting

Step 1 - The assets and liabilities from the balance sheet of the Absorbed Bank – PBK (the parent bank) are brought into the Absorbing Bank – BCC (the subsidiary) and the net book value of the Absorbed Bank PBK in amount of RON 232,602 thousand is brought in as a contribution to the Equity of the absorbing bank, through the issuance of new BCC shares in the merger process in amount of RON 297,300 thousand, the difference between the two values being the *negative merger premium in amount of RON 64,697 thousand*. The amount of the BCC new share capital issued allocated to the absorbed bank PBK is computed based on a share exchange ratio of Patria Bank shares to BCC's shares of 3.0566PBK shares / 1 BCC share.

Step 2 - The purpose of the adjustment is to recognise the cancellation of the BCC shares owned by PBK in total amount of RON 141,334 thousand from the share capital of the Absorbing Bank (as this represents owning own shares) and the reduction of the acquisition value of these shares from the assets of the Absorbed bank – from line „investments in subsidiaries” and the adjustment of the merger premium with the difference between the share acquisition price (BCC Acquisition price) and their nominal value, resulting in an increase in the negative merger premium with RON 2,871 thousand. The Bank this difference as *Capital premium from the cancellation of own shares*.

The adjustment represents the elimination of Patria Bank participation in its subsidiary Banca Carpatica amounting to RON 144,205 thousand, representing 64.1627% of Banca Carpatica's share capital and 78.7447% of the voting rights conferred by the shares issued by Banca Carpatica.

Following the absorption of Patria Bank by Banca Comerciala Carpatica, for the shares that Patria Bank holds in Banca Carpatica, the subsidiary has the right to acquire its own shares as part of the contribution of Patria Bank resulted from the merger.

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Consequently, these shares will be canceled in accordance with the decision of the General Shareholders Meeting and Companies Law no. 31/1990 art.250, according to which, the shares of Patria Bank (the Absorbed Company) in Banca Comerciala Carpatica (the Absorbing Company) will not be exchanged for shares in Banca Carpatica; therefore, a total of 1,413,339,016 shares issued by Banca Carpatica and owned by Patria Bank at the date of merger will be canceled. Consequently, the share capital of the merged entity subsequent to the Merger implementation is RON 376,240 thousand, represented by 3,762,399,621 shares with a nominal value of 0.1 RON / share.

In the merger process was considered that the cancellation of shares is made by reducing the share capital of the entity resulting from the merger process with the nominal value of the canceled shares and by setting a negative capital premium from the cancellation of own shares, the difference between the book value of BCC shares recognized in PBK financial statements at Merger date and the nominal value of such shares, is as follows:

- Cancellation through share capital: RON 141,334 thousand
- Cancellation through the negative capital premium: RON 2,871 thousand

The adjustment represents the share capital increase of the Absorbing Company amounting RON 297,300 thousand, by issuing a total of 2,972,995,407 new shares, ordinary, nominative, each having a nominal value of 0.1 RON / share, shares that will be allocated to Patria Bank's stakeholders.

The merger premium is determined in accordance with the Companies Law no. 31/1990, art. 241 which provides that the merger premium is determined as the difference between net assets of the Absorbed company (Patria Bank) and the amount of the capital increase of the Absorbing Company.

The merger premium worth RON (64,697) thousand, resulted from the difference between the net assets of Patria Bank worth RON 232,602 thousand and the share capital value growth of the Absorbing Company amounting to RON 297,300 thousand.

Share capital of BCC – RON thousand	
Share capital pre-merger	220,274
Nominal value of newly issued shares as result of the merger	297,300
Cancellation of BCC shares held by PBK	(141,334)
Share capital post-merger	376,240

Reconciliation with Share Capital presented in the Merged Balance Sheet:

Share capital RON 376,240 thousand
Adjustment of the Share Capital – hiperinflation IAS 29 – RON 8,682 thousand
Adjustment of the Share Capital – revaluation reserve – RON (2,993 thousand)
Share capital post – merger RON 381,929 thousand

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(All amounts are in Thousand RON)**

48. IFRS 16 - LEASE

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Bank will apply the standard with effect from 1 January 2019 on a modified retrospective basis without restating prior years and will measure the right-of-use at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.. The Bank will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

The Bank will elect to use the following exemptions for leases previously classified as operating leases: exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application; not apply IFRS 16 to contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

During 2018, the Bank has performed a detailed impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be, as follows:

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Impact on the statement of financial position (increase/(decrease)) as at 31 December 2018:

Assets

Property, plant and equipment (right-of-use assets) 31,320

Liabilities

Lease liabilities (31,320)

Net impact on equity -

49. SUBSEQUENT EVENTS

- Voluntary liquidation of Patria Investment subsidiary
On 4 January 2019 the process of voluntary liquidation of subsidiary Patria Investments was completed by removing of the company from the Trade Register.
- **New appointments top management**
 - On 7th of January 2019 Mr. Codin Nastase was appointed as Deputy General Manager – Risk Division and member of the Management Committee of Patria Bank for a 4 years term of mandate. From 18th of March 2019, the date of the prior approval of the National Bank of Romania, Mr. Codin-Radu Nastase begins to exercise his duties as Deputy General Manager, Risk Division.
 - In the Board of Directors meeting dated 07.03.2019 have been approved the following:
 - termination, starting with 01.04.2019, of the mandate of Mr. Bogdan Merfea, as General Manager, member of the Management Committee of Patria Bank SA;
 - appointment, starting with 01.04.2019, of Mrs. Daniela Elena Iliescu as General Manager, member of the Management Committee of Patria Bank SA, for a mandate of 2 years; the exercise of specific responsibilities of the position by Mrs. Daniela Elena Iliescu will be performed from the date of obtaining the approval of the National Bank of Romania.
- **Selling of non-performing loans**
On 23rd of January 2019, Patria Bank SA concluded a contract with a non-related company for the sale of:
 - a Group of clients with a non-performing exposure of RON 74,528 thousand (closing date in January 2019) (transaction named “ELARA_Tranche A – Group of clients”)
 - a non-performing loans portfolio consisting of secured loans granted to legal entities and individuals, having an exposure covering 926 contracts and a nominal value of approximately RON 258,186 thousand (transaction named “ELARA_Tranche A”). The closing date of the transaction was in February 2019. This is the second phase of the project regarding the sale of non-performing portfolios initiated by Patria Bank in 2018.

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➤ **Tax on Financial Assets**

At the end of December 2018, the Government Emergency Ordinance No. 114/2018 was published, ordinance affecting various sectors of the economy such as energy, telecommunications, and private pensions (second pillar) and the banking sector. As regards the financial and banking sector, the tax on assets is applied using the ROBOR levels at 3 months and 6 months as a benchmark.

At the date of the approval of these financial statements a draft revised version of the OUG 114 has been publicly released being subject to Government approval. The main changes refer to: (1) tax level: it has been reduced from 1.2% to 0.4% p.a. for large banks (with market share above 1%), and 0.2% for smaller ones; (2) the taxable base has been amended (exclusions: government bonds, state guaranteed loans, money with NBR and inter-bank transactions). The tax can be reduced by 50% if banks meet one of the requirements: increase loan book by 8%, cut net interest margin by 8% or reduce it below 4ppt. The link between the bank tax and ROBOR was eliminated. Based on the new government decree, new floating rate loans will be linked to quarterly average interest rates for inter-bank money market transactions instead of ROBOR.

Repercussions on the banking system, as well as on the economy can be substantial with negative effects both at the institutional level and at the level of the final consumer. In this way, legislative changes made without consulting the banking system and without impact analyzes can negatively influence the overall economic environment. The lack of predictability and the high incidence of legislative changes made by the Emergency Ordinances will generate a decrease in the investment appetite and the re-planning of the budgetary plans, including rapid measures to restructure operational expenditures and / or increase of the active interest rates impacting on the financing costs for the clients.

➤ **Network optimisation**

2019 business plan aims at optimizing the territorial network, which will lead to a network of 46 branches (agencies and work points) and a corresponding reduction of Bank's staff (both at the level network and support functions), thus creating the premises for lowering the cost base but also for improving internal processes and functions.