BANCPOST SA

FINANCIAL STATEMENTS
for the year ended
31 December 2016

Prepared in accordance with International Financial Reporting Standards as adopted by EU

BANCPOST SA

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BANCPOST SA

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bancpost SA (the "Bank") as of 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS") Order of National Bank of Romania ("NBR") no. 27/2010 "for approving accounting Regulations in accordance with International Financial Reporting Standards, applicable to credit institutions" and subsequent amendments ("NBR Order 27/2010").

What we have audited

The Bank's financial statements, set out on pages 1 to 106, comprise:
- the statement of financial position as at 31 December 2016;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 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. We have fulfilled our other responsibilities in accordance with these requirements and the IESBA Code.

Other information

The Administrators are responsible for the preparation and fair presentation of the Administrators' Report in accordance with the requirements NBR Order 27/2010, articles 11 – 14, and for such internal control as Management determines is necessary to enable the preparation of an Administrators' Report that is free from material misstatement, whether due to fraud or error.

The Administrators' Report is presented on page 1 to 24 and is not a part of the financial statements.

Our opinion on the financial statements does not cover the Administrators' Report.

In connection with our audit of the financial statements for the year ended 31 December 2016, our responsibility is to read the Administrators' Report and, in doing so, consider whether there are any significant inconsistencies between the Administrators' Report and the financial statements, whether the Administrator's Report includes, in all material respects, the information required by the NBR Order 27/2010, articles 11 – 14, and whether, in light of our knowledge and understanding acquired during the audit of the financial statements for the year ended 31 December 2016 in respect of the Bank and its environment, the information included in the Administrators' Report is materially misstated. We are required to report in regard to these aspects. Based on the work undertaken in the course of our audit, we report that:

a) we have not identified in the Administrators' Report information which is not consistent, in all material respects, with the information included in the financial statements; and

b) the above mentioned Administrators' Report includes, in all material aspects, the information required by the NBR Order 27/2010, articles 11 – 14.

Also, in the light of our knowledge and understanding acquired during the audit of the financial statements for the year ended 31 December 2016 in respect of the Bank and its environment, we have not identified material misstatements in the Administrators' Report.

Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS and the NBR Order 27/2010 and subsequent amendments, 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. Those Charged with Governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 Bank's internal control.

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

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

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

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.

Refer to the original signed Romanian version

Ana-Maria Butucaru
Statutory auditor registered with
the Chamber of Financial Auditors of Romania under no 3378/17 February 2010

Florin Deaconescu
Administrator

On behalf of

PricewaterhouseCoopers Audit SRL
Audit firm registered with
the Chamber of Financial Auditors of Romania under no 6/25 June 2001

Bucharest, 8 May 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in RON thousand unless otherwise stated)

	Note	2016	2015
Interest income	5	397,774	495,093
Interest expense	5	(85,204)	(163,678)
Net interest income		312,570	331,415
Fee and commission income	6	122,019	137,732
Fee and commission expense	6	(35,525)	(37,465)
Net fee and commission income		86,494	100,267
Net trading income	7	50,320	59,390
Realised gains on disposal of investment securities available for sale		65,201	39,011
Other operating income	8	12,880	5,681
Other operating expenses	9	(392,806)	(408,448)
Profit from operations before impairment losses		134,659	127,316
Impairment charge for credit losses	10	(111,983)	(98,639)
Profit/(loss) before tax		22,676	28,677
Income tax (expense)/credit	11	3,384	6,570
Profit/(loss) for the year		26,060	35,247
Other comprehensive income / (loss):		26,060	35,247
Items that may be reclassified subsequently to profit or loss:			
Net gains on available-for-sale financial - Assets		22,235	(354)
- (Gains) less losses arising during the year before tax	18	87,436	38,656
- (Gains) less losses reclassified to profit or loss upon disposal		(65,201)	(39,010)
Income tax recorded directly in other comprehensive Income		(3,558)	57

The notes set out on pages [7] to [106] form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in RON thousand unless otherwise stated)

	Note	2016	2015
Items that will not be reclassified to profit or loss:			
- Actuarial gain/(losses) on post-employment benefit obligation, before tax	32	3,669	(5,166)
Income tax recorded directly in other comprehensive income		(587)	826
Other comprehensive (loss) /income for the year		21,759	(4,636)
Total comprehensive (loss) /income for the year		47,819	30,611

Approved for issue by the Board of Directors and signed on 8th of May, 2017.

MIHAI BOGZA
Chairman of the Board of Directors

IOANA IACOBEANU
Executive Manager
Finance and Accounting

FILIPPOS KARAMANOLIS
Executive President

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in RON thousand unless otherwise stated)

	Note	31 December 2016	31 December 2015
Assets			
Cash	12	480,992	499,655
Balances with Central Bank	13	1,010,571	1,404,081
Loans and advances to banks	14	2,360,424	1,094,853
Loans and advances to customers (net)	15	5,571,882	5,772,793
Trading assets	16	242,038	303,779
Derivative financial instruments	17	3,946	17,079
Investment securities, available for sale	18	1,450,059	1,773,622
(out of which pledged for repo agreements)		*225,682*	-
Intangible assets	19	99,194	96,038
Property plant and equipment	20	285,996	311,721
Other financial assets	21	47,789	33,765
Other assets	21	14,135	11,312
Current income tax asset		10,229	17,539
Deferred income tax asset	11	61,435	51,690
Total assets		11,638,690	11,387,927
Liabilities			
Due from banks	22	440,876	753,583
Due to customers	23	8,956,628	8,424,606
Derivative financial instruments	17	17,388	18,144
Other borrowed funds	24	870,391	825,214
Other financial liabilities	25	68,724	63,263
Other liabilities	25	73,459	84,220
Total liabilities		10,427,466	10,169,030
Equity			
Share capital	26	1,350,245	1,350,245
Share premium		81,133	81,133
Available for sale reserve		34,858	71,927
Other reserves	27	154,294	149,490
Accumulated losses		(409,306)	(433,901)
Total equity		1,211,224	1,218,897
Total liabilities and equity		11,638,690	11,387,927

Approved for issue by the Board of Directors and signed on 8th of May, 2017.

MIHAI BOGZA
Chairman of the Board of Directors

IOANA IACOBEANU
Executive Manager
Finance and Accounting

FILIPPOS KARAMANOLIS
Executive President

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in RON thousand unless otherwise stated)

	Share capital	Share premium	Available for sale reserve	Other reserves	Accumulated losses	Total
Balance at 01 January 2015	1,350,245	81,133	71,398	153,224	(467,714)	1,188,286
Profit / (loss) for the year	-	-	-	-	35,247	35,247
Other comprehensive income items, net of tax	-	-	-	-	-	-
Changes in fair value of financial instruments available for sale, net of tax	-	-	529	-	-	529
Actuarial gains/(losses) on post-retirement benefits	-	-	-	(5,165)	-	(5,165)
Total comprehensive income for 2015			529	(5,165)	35,247	30,611
Distribution to statutory reserves				1,434	(1,434)	-
Balance at 31 December 2015	1,350,245	81,133	71,927	149,490	(433,901)	1,218,896
Profit / (loss) for the year					26,060	26,060
Other comprehensive income items, net of tax						
Changes in fair value of financial instruments available for sale, net of tax			(37,069)			(37,069)
Actuarial gains/(losses) on post-retirement benefits				3,669		3,669
Total comprehensive income for 2016	-	-	(37,069)	3,669	26,060	(7,340)
Distribution to statutory reserves				1,134	(1,134)	-
Other adjustments					(331)	(331)
Balance at 31 December 2016	1,350,245	81,133	34,858	154,293	(409,306)	1,211,224

Approved for issue by the Board of Directors and signed on 8th of May, 2017.

MIHAI BOGZA
Chairman of the Board of Directors

IOANA IACOBEANU
Executive Manager
Finance and Accounting

FILIPPOS KARAMANOLIS
Executive President

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in RON thousand unless otherwise stated)

	Note	2016	2015
Cash flows from operating activities			
Interest received		400,468	490,817
Interest paid		(79,839)	(184,040)
Fees and commissions received		122,019	137,732
Fees and commissions paid		(35,525)	(37,465)
Net trading and other income received		52,109	(47,373)
Income from loans previously written off		82,686	4,996
Cash payments to employees and suppliers		(348,307)	(363,120)
Income taxes paid		-	(7,470)
Net cash flows from operating activities before changes in operating assets and liabilities		193,611	(5,923)
Net change in operating assets			
Net decrease/ (increase) in trading assets		62,023	(191,846)
Net increase in balances with Central Bank and other banks over 90 days		(60)	-
Net (increase)/ decrease in loans and advances to customers		19,556	278,038
Net increase /(decrease) in other assets		(19,358)	(3,973)
Total net changes in operating assets		62,161	82,219
Net change in operating liabilities			
Net increase/ (decrease) in deposits from banks		(310,975)	4,848
Net increase /(decrease) in deposits from customers		529,926	(213,664)
Net increase /(decrease) in other liabilities		19,290	(14,466)
Total net changes in operating liabilities		238,241	(223,282)
Net cash (used in)/ from operating activities		494,013	(146,986)
Cash flows from investing activities			
Purchase of investment securities		(828,359)	(1,564,849)
Proceeds from sale of investment securities		1,120,885	1,515,580
Proceeds from sale/(acquisition) of equity investments		34,347	204
Dividends received		4,343	734
Purchase of property, equipment and intangible assets		(20,111)	(17,456)
Net cash (used in) investing activities		311,105	(65,787)
Cash flows from financing activities			
Proceeds from borrowed funds and debt securities		1,586,309	7,316,847
Repayments borrowed funds and debt securities		(1,540,923)	(7,311,720)
Net cash from/(used in) financing activities		45,386	5,127

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(all amounts in RON thousand unless otherwise stated)

	Note	2016	2015
Effect of exchange rate changes on cash and cash equivalents		2,828	30,992
Net decrease in cash and cash equivalents		853,332	(176,654)
Cash and cash equivalents at the beginning of the year		2,998,589	3,175,243
Cash and cash equivalents at the end of the year	29	3,851,921	2,998,589

There were no investing and financing transactions that required the use of cash and cash equivalents which needed to be excluded from the statement of cash flows.

Approved for issue by the Board of Directors and signed on 8th of May, 2017.

MIHAI BOGZA
Chairman of the Board of Directors

IOANA IACOBEANU
Executive Manager
Finance and Accounting

FILIPPOS KARAMANOLIS
Executive President

(all amounts in RON thousand unless otherwise stated)

1 INTRODUCTION

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") for the year ended 31 December 2016 for Bancpost SA (the "Bank").

The Bank was incorporated in 1991 and is domiciled in Romania. The Bank is a joint stock company limited by shares and was set up in accordance with Romanian regulations. As of 31 December 2016 and 2015 the Bank's immediate parent company was Eurobank Ergasias S.A. Greece, the Parent Bank. The Bank has operated under a full banking licence issued by the National Bank of Romania and its principal business activity is commercial and retail banking operations within the Romania.

The Bank had 2.153 employees at 31 December 2016 (31 December 2015: 2.161). The Bank operates through its head office located in Bucharest and 147 branches and offices (31 December 2015: 148) located in Romania.

Eurobank Ergasias S.A., the Parent Bank, is active in retail, corporate and private banking, assets management, insurance, treasury, capital markets and other services. The Parent Bank is incorporated in Greece and its shares are listed on the Athens Stock Exchange. The EuroBank Group operates mainly in Greece and in Central, Eastern and Southeastern Europe.

As at 31 December 2016, the registered office of the Bank was 6A Dimitrie Pompeiu Avenue, Bucharest, Sector 2, Romania.

The **Board of Directors** composition (9 members) as at 31 December 2016 was:

Mihai Bogza	Chairman
Theodoros Karakasis	Deputy Chairman
Filippos Karamanolis	Member
Iasmi Ralli	Member
Lambros Yiannis Demosthenous	Member
Codin-Radu Nastase	Member
Christos Adam	Member
Konstantinos Vousvounis	Member
Michalakis Louis	Member

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the standalone financial statements are set out below:

2.1 *Basis of preparation*

The financial statements of the Bank have been prepared in accordance with IFRS, as adopted by the EU, and in particular with those IFRSs and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements.

The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and of financial assets and financial liabilities (including derivative instruments) at fair-value-through-profit-or-loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The policies set out below have been consistently applied to the years 2016 and 2015. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

a) The following amendments to standards and new interpretations, apply from 1 January 2016:

IAS 1 Amendment - Disclosure initiative

The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 16 and IAS 38 Amendments - Clarification of Acceptable Methods of Depreciation and Amortization

In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The adoption of the amendments had no impact on the Bank's financial statements.

IAS 19 Amendment-Defined Benefit Plans: Employee Contributions

The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

The adoption of the amendment had no impact on the Bank's financial statements.

IAS 27 Amendment-Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The adoption of the amendment had no impact on the Bank's financial statements.

IFRS 11 Amendment – Accounting for Acquisitions of Interests in Joint Operations

This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

The adoption of the amendment had no impact on the Bank's financial statements.

IFRS 10, IFRS 12 and IAS 28 Amendments - Investment Entities: Applying the Consolidation Exception

The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

The adoption of the amendments had no impact on the Bank's financial statements.

b) New standards, amendments to standards and interpretations effective from 1 January 2017 or later and not yet adopted by the Bank

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A number of new standards, amendments to existing standards and interpretations are effective after 2016, as they have not yet been endorsed by the European Union or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IAS 7 Amendment – Disclosure Initiative (effective 1 January 2017, not yet endorsed by EU)

The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

The adoption of the amendment is not expected to impact the Bank's financial statements.

IAS 12 Amendment – Recognition of Deferred Tax Assets for Unrealized Losses (effective 1 January 2017, not yet endorsed by EU)

The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.
The adoption of the amendment is not expected to impact the Bank's financial statements.

IAS 40 Amendment – Transfers of Investment Property (effective 1 January 2018, not yet endorsed by EU)

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 adoption of the amendment is not expected to impact the Bank's financial statements.

IFRS 2 Amendment – Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018, not yet endorsed by EU)

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 adoption of the amendment is not expected to impact the Bank's financial statements.

IFRS 4 Amendment – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018, not yet endorsed by EU)

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.
The adoption of the amendment is not expected to impact the Bank's financial statements.

IFRS 9 Financial Instruments (effective 1 January 2018)

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Transition

The new requirements of IFRS 9 will be applied retrospectively by adjusting the Bank's balance sheet on the date of transition on 1 January 2018. The Bank intends to apply the exemption not to restate comparative figures for prior periods, therefore the Bank's 2017 comparatives will be presented on an IAS 39 basis.

Moreover, the following assessments will have to be made on the basis of facts and circumstances that exist at the date of initial application:

- the determination of the business model within which a financial asset is held;
- the designation and revocation of previous designations of certain financial assets and liabilities as measured at FVTPL; and
- the designation of certain investments in equity instruments not held-for-trading as at FVOCI.

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018) and IFRS 15 Amendments (effective 1 January 2018, not yet endorsed by EU)

The new standard introduces the core principle that revenue must be recognised 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 recognised, 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 recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The Bank, is currently assessing the effect of IFRS 15, however the adoption of the standard is not expected to have a significant impact on the Bank's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 16 Leases (effective 1 January 2019, not yet endorsed by EU)

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 Bank is currently assessing the impact of IFRS 16 on its financial statements, which is impracticable to quantify as at the date of the publication of financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle (effective 1 January 2017 and 1 January 2018, not yet endorsed by EU)

The improvements impact three standards. The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. 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 adoption of the amendments is not expected to impact the Bank's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective 1 January 2018, not yet endorsed by 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 asset, expense or income (or part thereof) on the de-recognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises 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 the 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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

monetary and non-monetary items. An advance payment or 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 adoption of the interpretation is not expected to impact the Bank's financial statements.

b) Operating Environment of the Group

(i) Position of the Group

In June 2016, Greece, after the completion of a number of key prior actions, has successfully concluded the first review of the Third Economic Adjustment Program (TEAP), which permitted the disbursement of € 10,3 billion from the second instalment of the European Stability Mechanism (ESM) loan that allowed the country to cover its debt servicing needs and clear a part of the state's arrears to the private sector. In accordance with the agreement with the European partners, the authorities are committed to preserving sufficient liquidity in the banking system, as long as Greece meets its obligations under the ESM program.

The next key milestone for Greece is the timely and successful completion of the second review of the TEAP, currently in progress, which would help reinstating depositors' confidence and thus accelerate the return of deposits, it would facilitate the faster relaxation of capital controls and would allow for the participation in ECB's Quantitative Easing (QE) program, conditional on the decisions of the Institutions regarding the plan for the implementation of the medium-term debt relief measures. Moreover, the reduction of the short term uncertainty along with, the decisive implementation of the reforms agreed in the context of the ESM program and the mobilization of European Union (EU) funding to support domestic investment and job creation, would facilitate the restoration of confidence in the prospects of the Greek economy and the further stabilization of the domestic economic environment, which are necessary conditions for the return of the country to a sustainable growth path.

The main risks and uncertainties stem from the current macroeconomic environment in Greece and the further delays in the conclusion of the second review of the TEAP. In particular risks include (a) possible delays in the implementation of the reforms' agenda in order to meet the next targets and milestones of the TEAP, which in turn would lead to the delayed disbursement of the third instalment of the ESM loan of € 6,1 billion, (b) the impact on the level of economic activity from the uncertainty associated with the timing of the conclusion of the second review of the TEAP, (c) the impact on the level of economic activity from additional fiscal measures agreed under the first review of the TEAP, (d) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity, (e) the possible acceleration of the deposits outflows observed in the first two months of 2017, and/or possible delays in the effective management of non-performing loans as a result of the continuing macroeconomic uncertainty, (f) a possible deterioration of the refugee crisis and its impact on the domestic economy and (g) the geopolitical conditions in the broader region and the external shocks from a slowdown in the global economy.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group, following the successful completion of its recapitalization in November 2015, exclusively from private sources, is focused on the organic strengthening of its capital position by the further expansion of pre-provision income while maintaining its robust risk management practices, and by proceeding to additional initiatives associated with the restructuring, transformation or optimization of operations, in Greece and abroad, that will generate or release further capital and/or reduce risk weighted assets. One of the key areas of focus is the active management of non-performing exposures at an accelerated pace, with the aim to substantially reduce their stock in accordance with the Eurobank Ergasias S.A. operational targets and taking advantage of the Group's internal infrastructure, the external partnerships and the important legislative changes that have taken or are expected to take place. The Group's Common Equity Tier 1 (CET1) ratio stood at 17,6% at 31 December 2016 and the net profit attributable to shareholders amounted to € 230 million for the year ended 31 December 2016.

(ii)Position of the Bank

The economy of Romania continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country and a moderate inflation. The prospects for future economic stability in Romania are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal and regulatory developments.

Management closely monitors the evolution of the credit portfolio and the cash flow forecast such to ensure it reflects the revised estimates of expected future cash flows in the impairment assessments.

The Bank adopted an efficient liquidity management and planned to attract deposits by developing its relationships with customers and by engaging the network which at the end of 2016 had 147 branches, by cross-selling activities and by new savings products.

As at 31 December 2016, the Bank does not rely on funding from the Parent Bank but predominantly on locally collected deposits, its own capital base and international financial institutions.

Based on the aspects mentioned above, the Bank's management has made an assessment of the Bank's ability to continue operations in the foreseeable future (comprising at least, but is not limited to, twelve months from the date of the approval of the the financial statements 31 December 2016) and concluded that the going concern assumption is applicable to the preparation of these financial statements. For more details about the capital position of the Bank, please refer to Note 3.6.

Currently there are a number of legislative initiatives that may significantly impact the local banking system in the following periods and which refer to the followings.

In May 2016, Law 77/2016 on the discharge of debt obligations ('Datio in Solutum') came into force in Romania. In particular, the said law provides for the discharge in full and under certain preconditions of the loans contracted by individuals and secured by mortgage arrangements by 'payment in kind' through the transfer of the mortgaged property.

(all amounts in RON thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

According to the decision of the Romanian Constitutional Court (RCC) dated 25 October 2016 which was published in the Romanian Official Gazette on 18 January 2017, the specific law is partially unconstitutional and the Romanian courts of law shall verify the existence of hardship conditions when called to decide upon a 'Datio in Solutum' case based on this law.

2.2 *Foreign currency translation*

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Banks operates ('the functional currency'). The financial statements are presented in RON, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the income statement.

The exchange rates of the currencies with the most significant impact on the Bank's financial statements as of 31 December 2016 and 31 December 2015 were as follows:

	31 December 2016	31 December 2015
RON / EUR	4,5411	4,5245
RON / USD	4,3033	4,1477

Monetary assets and liabilities denominated in foreign currencies have been translated into the functional currency at the National Bank of Romania closing foreign exchange rate at the balance sheet date and the exchange differences are accounted for in the income statement.
Both foreign exchange differences arising from transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognized in the Net trading income.

Non-monetary assets and liabilities have been translated into the functional currency using the exchange rates at initial recognition, except for non-monetary items denominated in foreign currencies that are carried at fair value which have been translated using the foreign exchange rate at the date the fair value was determined. The foreign currency exchange differences relating to these items are treated as part of the change in fair value and they are recognized in the income statement or recorded directly in equity depending on the classification of the non-monetary item.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 *Accounting for the effect of hyperinflation*

Prior to 1 January 2004 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RON in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date.

As the characteristics of the economic environment in Romania indicate that hyperinflation has ceased, effective from 1 January 2004 the Bank no longer applies the provisions of IAS 29.
Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these financial statements.

The restatement was calculated using the conversion factors derived from the Romanian Consumer Price Index ("CPI"), published by the National Institute of Statistics

The main guidelines followed in restating the corresponding figures were:

- All corresponding amounts were stated in terms of the measuring unit current at 31 December 2003;

- Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current at 31 December 2003) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2003.

The balance sheet items affected by the restatements are "Property, Plant and Equipment" and the Equity.

2.4 Financial instruments

(a) *Classification of financial assets*

The Bank classifies its financial assets into the following IAS 39 categories: financial assets held at fair value through profit or loss, loans and receivables and available-for-sale financial assets. Management determines the classification of its instruments at initial recognition.

(i) Financial assets at fair value through profit or loss ("FVTPL")
This category has two sub-categories: financial assets held for trading ("HFT") and those designated at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. As at 31 December 2016, the Bank had classified as financial assets held for trading,

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

government bond bought for trading purposes (See Note 7). The Bank currently does not have any financial assets designated at fair value through profit or loss upon initial recognition. Derivatives are also classified as held for trading.

(ii) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(iii) Available-for-sale ("AFS")

AFS investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.
The gain / loss from disposals of AFS investments are presented under "other operating income" line in the Income Statement.

(b) Recognition, de-recognition and initial measurement of financial liabilities

The Bank classifies its financial liabilities in the following categories: financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss have two sub categories: financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

The Bank designates financial liabilities at fair value through profit or loss when any of the following apply:

i) it eliminates or significantly reduces measurement or recognition accounting mismatch inconsistencies;
ii) financial liabilities share the same risks with financial assets and those risks are managed and evaluated on a fair value basis; or
iii) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability of the Bank is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank considers the terms to be substantially different, if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(c) Recognition, de-recognition and initial measurement of financial assets

Purchases and sales of financial assets FVTPL and AFS are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans and receivables are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

(d) Subsequent measurement

AFS financial assets and financial assets FVTPL are subsequently carried at fair value. Loans and advances, receivables are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the FVTPL category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the

fair value of AFS financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in other comprehensive income should be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the income statement. Dividends on AFS equity instruments are recognized in the income statement when the Bank's right to receive payment is established.

Financial liabilities are subsequently carried at amortised cost and financial liabilities held for trading that are carried at fair value through profit or loss

(e) Fair value measurement of financial instruments

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Bank has elected to use mid-market pricing as a practical expedient for fair value measurements within a bid-ask spread.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction prices i.e. the fair value of the consideration given or received unless the Bank determines that the fair value at initial recognition is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (see sub-note 3.5).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank recognises transfers into and out of the fair value hierarchy levels at the beginning of the quarter in which a financial instrument's transfer was effected.

2.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

2.6 Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques,

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

including discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The principles of fair value measurement of financial instruments, including derivative financial instruments are described in notes 2.4 (e) and 3.5.

Included in derivatives are instruments purchased from the Parent Bank and contracts entered into with third parties. The derivatives are initially recognized and subsequently measured at fair value.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement. The Bank did not identify any embedded derivatives that required separation during the reporting period.

All the fair value gains or losses are from derivatives recognized by the Bank through profit or loss.

2.7 Interest income and expense

Interest income and expense are recognized in the income statement for all instruments measured at amortized cost using the effective interest method. Interest income includes conpons earned on fixed income investment securities and accrued discount and premium on treasury securities.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments orreceipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest.

Once a financial asset is determined as impaired, the increase in net present value of the written down amount due to the passage of time (unwinding), is recognized as interest income using the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Fee and commission income

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

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

The Bank operations relate to core activity regarding the granting of loans and payment services. The other fees and commission income refer mainly to issuance of letters of guarantee, fees for deposits closed before maturity and other services.

2.9 Net trading income

Net trading income comprises of gains less losses related to trading assets and liabilities, derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss account and include all realized and unrealized fair value changes, interest and foreign exchange differences on these instruments and other elements.

2.10 Dividends

Dividend income is recognized in the income statement when the Bank's right to receive payment is established and inflow is probable.

2.11 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to banks or due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.12 Impairment of financial assets

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

In determining whether a loan is individually significant for the purposes of assessing impairment, the Bank considers a number of factors, including importance of the individual loan relationship and how it is managed, the size of the loan, and the product line. Consequently, loans to corporate clients and financial institutions as well as investment securities, are generally considered as individually significant. Retail lending portfolios are generally assessed for impairment on a collective basis as they consist of large homogenous portfolios, while exposures that are managed on an individual basis are assessed individually for impairment.

The Bank assesses at each balance sheet date whether there is an objective evidence of impairment.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- A breach of contract, such as default or delinquency;
- The borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- The value of collateral significantly decreases as a result of deteriorating market conditions;
- Granting to the borrower following its significant financial difficulty a concession that the lender would not consider otherwise; or
- Observable data indicating that there is measurable decrease in the estimated future cash flows from a gronp of financial assets since the initial recognition of those assets, although the decrease cannot be yet identified with the individual financial asset.

(a) Assets carried at amortized cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets 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 impairmeut.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset 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 purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, pass-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with similar credit risk characteristics. 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. A twelve months loss identification period is assumed in the computation.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Reversals of impairment

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Write-off of loans and advances

A loan and the associated provision are written off when there is no realistic prospect of recovery. The Bank considers all relevant information including the occurrence of a significant change in the borrower's financial position such that the borrower can no longer pay the obligation.

The timing of write-off is mainly dependent on whether there is any underlying collateral as well as the Bank's estimate of the amount collectible. The number of days past due is considered by the Bank as an indicator, however it is not regarded as a determining factor.
Unpaid debt continues to be subject to enforcement activity even after it is written-off, except for limited cases where debt is forgiven by the Bank as an expression of its social responsibility.

Subsequent recoveries of amounts previously written off decrease the amount of the provision change for loan impairment in the income statement.

(b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available-for- sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from other comprehensive income and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. 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 the income statement.

The Bank has a monitoring process for the identification of the "Significant" and "Prolonged" decrease in the fair value on available for sale investments. That process states that significant decrease means for example that the decline in fair value below costs exceeds more than two times the standard variation. Regarding the prolonged criteria, the process recommends to monitor the movement in the fair value over a period of 5 years and then establish if it is the case of a prolonged decrease.

2.13 Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

(all amounts in RON thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Intangible assets are amortized using the straight-line method over their useful lives as follows:

	Useful lives in years
Major core-banking software	7 to 10
Other software	5
Licenses	3

2.14 Property and equipment

Cost

Property and equipment are stated at cost, restated to the equivalent purchasing power of the Romanian Leu at 31 December 2003 for assets acquired prior to 1 January 2004, less accumulated depreciation and provision for impairment, where required (recognized in 2003).

Costs of repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalized and the replaced part is retired.

Gains and losses on disposals of fixed assets are determined by comparing proceeds with carrying amount at the date of disposal and are recognized in profit or loss.

Depreciation

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

	Useful lives in years
Premises	50
Office and computer equipment	3 to 20
Vehicles	5 to 10

Leasehold improvements are depreciated over the term of the underlying lease or useful life if shorter.

Hardware and related software that are integral part of the equipment are included in the line office equipment, fixtures and fittiugs.

2.15 Impairment of non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.16 Finance and operating lease liabilities

Accounting for leases as lessee here the Bank is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Bank, the assets leased are capitalized in property and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding lease obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.17 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition: cash; non-restricted balances with central banks, including minimum mandatory reserves; loans and advances to banks and their accrued interest. Cash and cash equivalents are measured at amortised cost.

2.18 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2.19 Financial guarantees contracts

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 other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

2.20 Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments and letters of credit. Specific provisions are raised against other credit related commitments when the Bank has a present obligation as a result of a past event, when it is probable that there will be an outflow of resources and when the outflow can be reliably measured.

2.21 Pension obligations and other post-retirement benefits

The Bank, in the normal course of business, is required to make payments to the Romanian State funds on behalf of its Romanian employees for pension, health care and unemployment benefit. Substantially all employees of the Bank are members of the State pension plan. The Bank operates a post retirement benefit scheme, standard legal staff retirement indemnity (SLSRI) by which each employee receives two months base salaries if the employee achieves the pension age in the Bank service without any other supplementary conditions such as how many years of employment they have in bank . The Bank has no other obligation to provide further services to current or former employees.

Provision has been made for the actuarial value of the lump sum payable on retirement using the projected unit credit method. Under this method the cost of providing retirement indemnities is charged to the income statement so as to spread the cost over the period of service of the employees, in accordance with the actuarial valuations which are performed every year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The SLSRI obligation is calculated as the present value of the estimated future cash outflows using the yield on long-term fixed interest bonds of the appropriate term issued by the Romanian Government. The currency and term to maturity of the bonds used are consistent with the currency and estimated term of the retirement benefit obligations.

As a result of the Banks's adoption of IAS 19 Amendment, actuarial gains/losses are recognized directly in other comprehensive income in the period in which they occur and not to the profit or loss.

Past service costs and interest expense are recognised immediately in the income statement. In calculating the standard legal staff retirement obligation, the Bank also considers potential separations before normal retirement based on the terms of previous voluntary separation schemes.

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits provided the recognition criteria are met. The Bank recognises termination benefits at the earlier of the following dates:

(a) when the Bank can no longer withdraw the offer of those benefits; and
(b) when the Bank recognises costs for a restructuring and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.22 Income taxes

(i) Current income tax

The Bank records profit tax upon net income from the financial statements prepared in accordance with IFRS and profit tax legislation. Romanian profits tax legislation is based on a fiscal year ending on 31 December. In recording both the current and deferred income tax charge for the year ended, the Bank has computed the annual income tax charge based on Romanian profits tax legislation enacted (or substantially enacted) at the statement of financial position date.

(ii) Deferred income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal temporary differences arise from depreciation of property and equipment, loan provision, revaluation of certain financial assets and liabilities, provisions for post-retirement benefits and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently recognized in the income statement together with the deferred gain or loss. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.23 Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

2.24 Fiduciary activities

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions.

3 FINANCIAL RISK MANAGEMENT

3.1 Management of financial risk

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Risk Management function is organized at centralized level within the Bank, being independent by means of having a direct reporting line to the Executive Vice President responsible for the coordination of the Risk Management function and Compliance function.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Risk Management function within the Bank is comprehensive, as the two components are being defined therein, namely: (i) the risk control function organized by business lines, a function that operates via the Risk Control Division ensuring the compliance with the risk policies and monitoring each significant risk the Bank is exposed to, and (ii) the risk identification, assessment and monitoring component organized within distinct units, i.e. the Credit Risk Monitoring Division and the Risk Monitoring Division

Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

By their nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets.

The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and other bonds.

3.2 *Credit risk*

a) *Loans and advances*

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects the following components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) the loss identification period; (iii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default' and (iv) the likely recovery ratio on the defaulted obligations (the 'loss given default'),

The Bank takes on exposure to credit risk, which is the risk that a connterparty will be unable to pay amounts in full when due. Impairment provisions are provided where there is objective evidence that the Bank will not be able to collect all amounts due. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in evidence that is different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical, client and industry segments, currencies, credit risk mitigation techniques. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by industry sector are approved by the Board.

The exposure to any one borrower including bauks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The split of portfolio of Loans and advances to customers of the Bank by industry is detailed in Note 15. The Bank's exposure to Central Bank is shown in Note 13 (see "Balances with Central Bank").

The Bank has no geographical exposure to a market other than Romania which exceeds 10% of its total assets.

b) Debt securities and other treasury bills

For debt securities and other treasury bills, external ratings such as Standard & Poor's rating or their equivalents are used by Bank Treasury for management of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better quality of credit portfolio and maintain a readily available source to meet funding requirements at the same time. Some other specific control and mitigation measures on credit risk are outlined below:

(i) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential and non-residential properties;
- Charges over business assets such as premises, inventory and accounts receivable and;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving credit facilities granted to natural persons are generally unsecured. In addition, in order to minimize

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

potential credit losses the Bank will seek to obtain additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(ii) Derivatives and settlement risk

The Bank maintains strict control limits on net open derivative positions i.e., the difference between purchase and sale contracts, by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e., derivatives whose fair value is positive), which in relation to derivatives is only a small fraction of the contract, notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

(iii) 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 Bank will make payments in the event that a customer cannot meet its obligations to third parties - carry the same credit risk as loans. Documentary and commercial letters of credit - which are written by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments diminished by the value of the collateral. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2.1 Maximum exposure to credit risk before collateral held

Credit risk exposures relating to assets are as follows:

	2016	2015
Balance sheet exposure		
Balance with Central Bank	1,010,571	1,404,081
~~Loans and advances to banks~~	~~2,360,424~~	~~1,094,853~~
Loans and advances to customers (net)	5,571,882	5,772,793
- Lending to medium size and large corporate entitles (wholesale)		
Gross book value (GBV)	1,785,716	1,923,924
Less Provisions for impairment Losses	(51,417)	(192,918)
- Consumer lending		
Gross book value (GBV)	1,296,610	1,460,798
Less Provisions for impairment Losses	(37,484)	(182,237)
- Mortgage lending		
Gross book value (GBV)	2,355,920	2,466,309
Less Provisions for impairment Losses	(201,731)	(177,880)
- Small business lending		
Gross book value (GBV)	556,608	757,103
Less Provisions for impairment Losses	(132,340)	(282,306)
Trading assets:		
- Debt securities	242,038	303,779
Derivative financial instruments	3,946	17,079
Investment securities available for sale		
- Debt securities	1,450,059	1,773,622
Other financial assets	47,789	33,765
Total balance sheet exposure	10,686,709	10,399,972
Off-balance sheet exposure		
- Letters of guarantee	380,809	444,878
- Letters of credit	2,836	321
- Undrawn loan commitments	1,145,565	919,038
Credit risk exposures relating to off-balance sheet items (Note 32 & 3.4)	1,529,210	1,364,237
Exposure as at 31 December	12,215,919	11,764,209

The above table represents the maximum credit risk exposure to the Bank at 31 December 2016 and 31 December 2015, without taking account of any collateral held. For on balance sheet assets, the exposures set out above are based on net carrying amounts.

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank monitors on on-going basis the quality of the counterparties, banks or corporate clients. The counterparty banks are top rank banks, with sound financial situation. The corporate clients are assessed using the same acceptance procedures as for loans granting. The off balance sheet exposure is related to Romanian clients for which the Bank issued letter of guarantees, letter of credit and other undrawn commitments.

The Loan-to-Value (LTV) ratio of mortgage lending reflects the gross mortgage loan amount at the balance sheet date over the market value of the mortgage property held as collateral. The Bank obtains real estate collateral values by combining professional appraisals and real estate price indices. The LTV ratio of mortgage lending is presented below:

	2016	2015
Mortgages		
Less than 50%	362,505	367,126
50%-70%	341,236	370,980
71%-80%	192,569	186,584
81%-90%	198,043	203,593
91%-100%	249,682	217,154
101%-120%	182,048	217,189
121%-150%	208,424	225,366
Greater than 150%	616,985	666,248
Without Collateral	4,428	12,069
Total exposure	2,355,920	2,466,309
Average LTV	116.3%	119.8%

Maximum amount of the collateral or guarantee that can be considered is presented as follows:

	Value of collateral received				2016 Guarantees Received
	Real Estate	Financial	Other	Total	
Other financial institutions	919	607	49,825	51,351	2
Non-financial institutions	204,466	868,680	322,999	1,396,145	96,020
Households	1,771,659	7,190	6,212	1,785,061	164,397
Total	1,977,044	876,477	379,036	3,232,557	260,419

	Value of collateral received				2015 Guarantees Received
	Real Estate	Financial	Other	Total	
Other financial institutions	997	865	52,302	54,163	29
Non-financial institutions	200,432	940,214	303,221	1,443,866	149,097
Households	1,852,843	7,712	4,953	1,865,508	154,677
Total	2,054,272	948,791	360,476	3,363,537	303,803

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2.2 Loans and advances

Loans and advances are summarised as follows:

		2016		2015
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired	4,524,584	2,360,424	4,453,478	1,094,853
Past due but not impaired	628,437	-	535,433	-
Impaired:				
- collectively assessed	669,597	-	1,097,657	-
- individually assessed	172,236	-	521,566	
Gross	5,994,854	2,360,424	6,608,134	1,094,853
Less: allowance for impairment	(422,972)	-	(835,341)	-
Net loans and advances	5,571,882	2,360,424	5,772,793	1,094,853

The wholesale and small business loans as at 31 December 2016 are covered in aggregate by collaterals at 67,28% and 63,33%, respectively (2015: 65,89% and 51,6%, respectively). Consumer loans are generally not collateralised. Mortgage loans are covered in aggregate by collaterals at 82,3% (2015: 81,36%).

The tables below present the total gross amount, representing the maximum exposure to credit risk gross of impairment allowance, of loans and advances that are classified as non-impaired (i.e. "neither past due nor impaired" and "past due but not impaired") and those classified as impaired. They also present the impairment allowance recognised for those non-impaired or impaired loans and advances that are either individually or collectively assessed the total net amount, as well as the value of collateral held as security to mitigate credit risk.

In addition, the value of collateral presented in the tables below is capped to the respective net loan amount. For this purpose, 2015 comparative information on collaterals have been presented on a similar basis.

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

2016

	Non impaired		Impaired			Impairment allowance			
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Collectively impaired	Total gross	Individually assessed	Collectively assessed	Total net amount	Value of collateral
Wholesale	1,492,871	179,497	113,349	-	1,785,717	(47,455)	(4,064)	1,734,198	1,201,504
Consumer	1,163,182	95,862	-	37,571	1,296,615	-	(37,512)	1,259,103	28
Mortgage	1,539,322	343,269	38,192	435,134	2,355,917	(26,084)	(175,600)	2,154,233	1,938,950
Small business	329,208	9,809	20,695	196,893	556,605	(14,494)	(117,763)	424,348	352,495
Total	4,524,583	628,437	172,236	669,598	5,994,854	(88,033)	(334,939)	5,571,882	3,492,977

2015

	Non impaired		Impaired			Impairment allowance			
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Collectively impaired	Total gross	Individually assessed	Collectively assessed	Total net amount	Value of collateral
Wholesale	1,409,851	68,684	445,389	-	1,923,924	(192,918)	-	1,731,006	1,267,477
Consumer	1,079,372	110,703	62	270,661	1,460,798	(62)	(182,175)	1,278,561	2,371
Mortgage	1,646,207	343,598	63,311	413,193	2,466,309	(42,574)	(135,306)	2,288,429	2,006,609
Small business	318,048	12,480	12,804	413,803	757,103	(11,178)	(271,128)	474,797	390,883
Total	4,453,478	535,433	521,566	1,097,657	6,608,134	(246,732)	(588,609)	5,772,793	3,667,340

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) *Loans and advances neither past due nor impaired*

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2016 and 31 December 2015 can be assessed by reference to the Bank's standard grading system. The following information is based on that system:

2016

	Wholesale	Consumer	Mortgage	Small Business	Total
Grades:					
Satisfactory risk*	1,393,665	1,163,182	1,539,322	329,208	4,425,377
Watch list*	99,205	-	-	-	99,205
Gross loans and advances	1,492,870	1,163,182	1,539,322	329,208	4,524,582
Less: allowance for impairment	(2,018)	(15,278)	(2,447)	(5,210)	(24,953)
Net loans and advances neither past due nor impaired	1,490,852	1,147,904	1,536,875	323,998	4,499,629

2015

	Wholesale	Consumer	Mortgage	Small Business	Total
Grades:					
Satisfactory risk*	1,293,011	1,079,372	1,646,207	318,048	4,336,638
Watch list*	116,840	-	-	-	116,840
Gross loans and advances	1,409,851	1,079,372	1,646,207	318,048	4,453,478
Less: allowance for impairment	(9,409)	(10,323)	(2,154)	(2,740)	(24,626)
Net loans and advances neither past due nor impaired	1,400,442	1,069,049	1,644,053	315,308	4,428,852

*Satisfactory risk customers represent current wholesale clients rated 1 to 6 (according to the Bank's standard grading system) and current retail loans that do not present impairment indicators while watch list loans represent current wholesale loans rated 7.

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) *Loans and advances to customers past due but not impaired*

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

					2016
	Wholesale	Consumer	Mortgage	Small Business	Total
Past due up to 29 days	171,854	78,068	257,762	1,501	509,185
Past due 30 - 89 days	6,350	17,774	85,306	8,202	117,632
Past due 90 – 180 days(i)	38	19	200	106	363
Past due more than 180 days (i)	959	-	-	-	959
Past due greater than 1 year (i)	297	-	-	-	297
Gross loans and advances	179,498	95,861	343,268	9,809	628,436
Less: allowance for impairment	(2,028)	(8,878)	(7,883)	(1,197)	(19,986)
Net loans and advances past due but not impaired	177,470	86,985	335,385	8,612	608,452
Fair value of collateral	105,513	28	286,248	7,151	398,940

					2015
	Wholesale	Consumer	Mortgage	Small Business	Total
Past due up to 29 days	41,237	92,702	264,522	6,087	404,548
Past due 30 - 89 days	21,109	17,991	79,076	6,361	124,537
Past due 90 – 180 days (i)	5,000	10	-	-	5,010
Past due more than 180 days (i)	-	-	-	-	-
Past due greater than 1 year (i)	1,338	-	-	-	1,338
Gross loans and advances	68,684	110,703	343,598	12,448	535,433
Less: allowance for impairment	(1,941)	(4,908)	(4,533)	(1,049)	(12,431)
Net loans and advances past due but not impaired	66,743	105,795	339,065	11,399	523,002
Fair value of collateral	56,903	525	278,312	9,442	345,183

(i)-the Bank includes in past due but not impaired category loans individually analysed that are past due and are over collateralised and for which the individual provision is nil.

Based on past experience, consumer, mortgage and small business loans less than 90 days past due (180 days past due in case of mortgage portfolio as of December 2015), are not considered impaired, unless specific information indicates to the contrary (a concession offered to the customer as a consequence of financial difficulties, contract being denounced or under hard collection procedures, other information indicating that part of the loan has minimal probability of being serviced, regardless of delinquency). For wholesale loans the impairment trigger is the internal rating (i.e. loans having ratings between 1 and 7 are not considered impaired).

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

However, based on the internal collective assessment methodology, the Bank books provisions on a collective basis for loans current and past due and for the above mentioned categories the provisions incurred at December, 2016 are RON 14,856 thousand (2015: RON 12,431 thousand).

c) *Impaired loans and advances to customers collectively assessed*

For collectively assessed loans, these are treated as impaired based on historical loss data for groups of loans with similar characteristics. The provision is compnted for loans with impairment indicators using statistical provision percentages computed based on the historical loss data.

The gross exposure before provision for collectively assessed loans and advances to customers is RON 669,599 thousand (2015: RON 1,097,657 thousand).

					2016
	Small Business	Wholesale	Mortgage	Consumer	Total
Collectively assessed loans	196,893	-	435,135	37,571	669,599
Allowance for impairment	(117,763)	-	(179,664)	(37,512)	(334,939)
Net loans and advances individually assessed	79,130	-	255,471	59	334,661
Fair value of collateral	69,189	-	236,985	-	306,175

					2015
	Small Business	Wholesale	Mortgage	Consumer	Total
Collectively assessed loans	413,803	-	413,193	270,661	1,097,657
Allowance for impairment	(271,128)	-	(128,619)	(166,944)	(566,691)
Net loans and advances individually assessed	142,675	-	284,574	103,717	530,966
Fair value of collateral	102,680	-	229,245	103	332,028

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

d) *Impaired loans and advances individually assessed*

For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred.

The gross exposure before provision for individually assessed loans and advances to customers is RON 172,236 thousand (2015: RON 521,566 thousand). The breakdown of the gross amount of individually assessed loans and advances by classes is:

	Small Business	Wholesale	Mortgage	Consumer	2016 Total
Individually assessed loans	20,695	113,349	38,192	-	172,236
Allowance for impairment	(14,494)	(47,455)	(26,084)	-	(88,033)
Net loans and advances individually assessed	6,201	65,894	12,108	-	84,203
Fair value of collateral	5,862	55,681	12,108	-	73,651

	Small Business	Wholesale	Mortgage	Consumer	2015 Total
Individually assessed loans	12,804	445,389	63,311	62	521,566
Allowance for impairment	(7,389)	(181,568)	(42,574)	(62)	(231,593)
Net loans and advances individually assessed	5,415	263,821	20,737	-	289,973
Fair value of collateral	6,321	133,570	21,088	-	160,979

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 gross outstanding 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 collateral is presented in the following table:

	Over-collateralised assets		Under-collateralised assets	2016
	Gross outstanding	Fair value of collateral	Gross outstanding	Fair value of collateral
Mortgage loans	1,344,034	2,634,836	1,011,885	629,337
Small Business lending	317,077	811,310	239,532	115,898
Wholesale loans	1,140,916	3,410,719	644,799	111,423
	2,802,027	6,856,865	1,896,216	856,658

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

				2015
	Over-collateralized assets		Under-collateralised assets	
	Gross outstanding	Fair value of collateral	Gross outstanding	Fair value of collateral
Mortgage loans	1,345,446	2,629,163	1,120,863	698,932
Small Business lending	355,938	908,949	401,165	141,097
Wholesale loans	1,356,370	3,622,312	567,554	196,429
	3,057,754	7,160,424	2,089,582	1,036,458

3.2.3 Debt Securities

The table below presents an analysis of debt securities and equity investments by rating agency designation at 31 December 2016, based on Moody's ratings or their equivalent:

	Trading securities	Available for sale securities	Total
Baa3	242,039	1,299,312	1,541,351
Unrated	-	150,747	150,747
Total	242,039	1,450,059	1,692,098

The table below presents an analysis of debt securities by rating agency designation at 31 December 2015, based on Moody's ratings or their equivalent:

	Trading securities	Available for sale securities	Total
Baa3	303,779	1,621,256	1,925,035
Unrated	-	152,366	152,366
Total	303,779	1,773,622	2,077,401

An amount of RON 1,541 million (2015: 1,925 million) included in securities rated Baa3 at 31 December 2016 relates to sovereign debt issued by Romanian Government and local authorities.

The unrated securities include equity investments and investments in mutual funds' and local administration security debts.

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2.4 *Concentration of credit risk*

Industry sectors

The following table breaks down the Bank's main credit exposure at their net carrying amounts, as categorised by the industry sectors of its counterparties.

						2016
	Commerce and services	Private Individuals	Manufacturing	Construction	Other	Total
Loans and advances to banks	-	-	-	-	2,360,424	2,360,424
Loans and advances to customers (net of provision):						
- Mortgages	-	2,154,236	-	-	-	2,154,236
- Consumer lending (incl. credit cards)	-	1,259,103	-	-	-	1,259,103
- Small business lending	286,386	-	61,263	38,857	37,845	424,351
- Corporate lending	750,612	-	501,128	440,252	42,200	1,734,192
Financial assets held for trading						
- Debt securities	-	-	-	-	242,038	242,038
- Derivative financial instruments	3,946	-	-	-	-	3,946
Financial assets available for sale						
- Debt securities	-	-	-	-	1,450,059	1,450,059
- Other financial assets	-	-	-	-	47,789	47,789
As at 31 December 2016	1,040,944	3,413,339	562,391	479,109	4,180,355	9,676,138

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	2015					
	Commerce and services	Private individuals	Manufacturing	Construction	Other	Total
Loans and advances to Banks	-	-	-	-	1,094,853	1,094,853
Loans and advances to customers (net of provision):	-	-	-	-	-	-
- Mortgages	-	2,288,429	-	-	-	2,288,429
- Consumer lending (incl, credit cards)	-	1,278,559	-	-	-	1,278,559
- Small business lending	338,411	-	67,633	45,013	23,742	474,799
- Corporate lending	675,901	-	530,108	470,846	54,151	1,731,006
Financial assets held for trading	-	-	-	-	-	-
-Debt securities	-	-	-	-	303,779	303,779
-Derivative financial instruments	1,441	-	-	-	15,638	17,079
Financial assets available for sale	-	-	-	-	-	-
-Debt securities	-	-	-	-	1,773,622	1,773,622
Other financial assets	-	-	-	-	33,765	33,765
	-	-	-	-	-	-
As at 31 December 2015	1,015,753	3,566,988	597,741	515,859	3,299,550	8,995,891

3.3 *Market risk*

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in Bank Treasury and monitored by two teams separately. Regular reports are submitted to the Board of Directors and heads of each business unit.

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's available-for-sale investments.

(a) Sensitivity analysis

Sensitivity calculation parameters

Interest Rate Sensitivity: The table below summarizes the impact of a parallel shift of the yield curve on the Bank's income statement and other comprehensive income performed on an interest rate gap model by applying a parallel shift of 100 basis points. Based on the fluctuation of interest rates in the prior year and Bank's Treasury Department forecast analysis ±100 basis points is determined to be a reasonably possible shift.

Foreign Exchange Rates Sensitivity: The table below summarizes the impact of a reasonably possible change of 10% in the value of RON against foreign currencies on the Bank's income statement and other comprehensive income calculated by applying the change to monetary financial instruments denominated in foreign currencies held by the Bank as at 31 December.
At 31 December 2016, if market interest rates had been 100 basis points higher/ lower and with all other variables held constant, profit for the year would have been RON 711 thousand (2015: RON 2,904 thousand) lower/ higher and comprehensive income would have been RON 46,422 thousand (2015: RON 66,950 thousand) lower/ higher.

At 31 December 2016, if RON had strengthened/ weakened by 10% against relevant foreign currencies (all other variables held constant) profit for the year would have been RON 1,056 thousand lower / higher- (2015: RON 1,851 thousand higher/ lower) and comprehensive income would have been unaffected.

	2016			2015		
	Total sensitivity	Sensitivity of income statement	Sensitivity of equity	Total sensitivity	Sensitivity of income statement	Sensitivity of equity
Interest rate (+100 b.p. parallel shift)	(45,705)	716	(46,421)	(69,464)	(2,904)	(66,560)
Foreign exchange (10% change in RON against foreign currencies)	608	608	-	(1,851)	(1,851)	-

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items – re-pricing analysis

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

The table below summarises the Bank's exposure to interest rate risks at 31 December 2016. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by earlier of contractual interest and re-pricing or maturity date.

							2016
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Cash	-	-	-	-	-	480,992	480,992
Balances with Central Bank	1,010,571	-	-	-	-	-	1,010,571
Loans and advances to banks	2,357,412	-	-	-	-	3,012	2,360,424
Loans and advances to customers	2,501,050	2,047,136	838,091	109,559	76,046	-	5,571,882
Trading assets	6,623	4,500	110,655	100,250	20,010	-	242,038
Derivate financial instruments	1,760	493	983	710	-	-	3,946
Investment securities avaiable for sale	225,274	-	-	894,325	330,460	-	1,450,059
Other financial assets	-	-	-	-	-	47,789	47,789
Total assets	6,102,690	2,052,129	949,729	1,104,844	426,516	531,793	11,167,701

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Tot
Due to banks	174,539	256,655	-	-	-	9,682	440,87
Due to customers	5,696,355	1,570,773	1,686,643	2,857	-	-	8,956,62
Derivative financial instruments	5,204	4,117	2,130	5,937	-	-	17,38
Other borrowed funds	527,107	270,689	72,595	-	-	-	870,39
Other financial liabilities	-	-	-	-	-	68,724	68,72
Total liabilities	6,403, 205	2,102,234	1,761,368	8,794	-	78,406	10,354,00
Interest rate sensitivity gap	(300,515)	(50,105)	(811,639)	1,096,050	426,516	453,387	813,69

2015

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Cash	499,655	-	-	-	-		499,655
Balances with Central Bank	1,404,081	-	-	-	-		1,404,081
Loans and advances to banks	1,088,934	-	-	-		5,920	1,094,854
Loans and advances to customers	2,231,742	2,445,253	1,030,340	64,037	1,422	-	5,772,794
Trading assets	-	-	113,452	162,929	27,398	-	303,779
Derivate financial instruments	1,192	41	15,775	71	-	-	17,079
Investment securities available for sale	123,604	43,630	49,337	1,379,715	177,335	-	1,773,621
Other financial assets	-	-	-	-	-	33,765	33,765
Total financial assets	5,349,208	2,488,924	1,208,904	1,606,752	206,155	39,685	10,899,62

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Due to banks	35,626	678,675	-	29,600	-	9,682	753,583
Due to customers	5,679,819	1,354,528	1,375,164	15,095	-		8,424,606
Derivative financial instruments	7,395	8,528	2,150	71	-		18,144
Other borrowed funds	418,254	299,691	107,268	-	-		825,213
Other financial liabilities	-	-	-	-	-	63,263	63,263
Total financial liabilities	6,141,094	2,341,422	1,484,582	44,766	-	72,945	10,084,809
Interest rate sensitivity gap	(791,886)	147,502	(275,678)	1,561,986	206,155	(33,260)	814,817

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) *Foreign exchange risk*

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank uses currency forwards, cross currency swaps and currency swaps to manage its foreign exchange risk. The tables above summarise the Bank's exposure to foreign currency exchange rate risk at 31 December 2016 and 31 December 2015. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

2016

	Not exposed to currency risk	Exposed to currency risk			
	RON	USD	EUR	Other	Total
Cash	399,084	15,704	40,533	25,671	480,992
Balances with Central Bank	657,533	-	353,038	-	1,010,571
Loans and advances to banks	5,005	197,045	2,125,031	33,343	2,360,424
Loans and advances to customers	2,950,371	37,661	1,795,739	788,111	5,571,882
Trading assets	242,038	-	-	-	242,038
Derivative financial instruments	2,602	-	605	739	3,946
Investment securities available for sale	1,016,788	11,351	421,920	-	1,450,059
Other financial assets	39,477	2,253	5,097	962	47,789
Total assets	5,312,897	264,014	4,741,963	848,826	11,167,702
Due to banks	91,958	77,467	271,451	-	440,876
Due to customers	5,839,368	252,329	2,816,445	48,485	8,956,628
Derivative financial instruments	16,377	-	1,011	-	17,388
Other borrowed funds	100,520	11,540	758,330	-	870,390
Other financial liabilities	51,754	3,559	12,236	1,174	68,724
Total liabilities	6,099,977	344,895	3,859,473	49,659	10,354,004
Net on balance sheet position	(787,080)	(80,881)	882,490	799,167	813,698
Net off balance sheet position	-	82,145	(881,234)	(781,419)	(1,580,507)
Net foreign exchange position	(787,080)	1,264	1,257	17,748	(766,809)

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

2015

	Not exposed to currency risk	Exposed to currency risk			
	RON	USD	EUR	Other	Total
Cash	391,440	13,096	64,808	30,311	499,655
Balances with Central Bank	883,057	-	521,024	-	1,404,081
Loans and advances to banks	7	186,326	898,818	9,702	1,094,853
Loans and advances to customers	2,627,626	54,517	2,137,222	953,428	5,772,793
Trading assets	293,202	-	10,577	-	303,779
Derivative financial instruments	14,768	2	1,112	1,197	17,079
Investment securities available for sale	1,258,333	-	515,289	-	1,773,622
Other financial assets	29,690	1,070	2,367	387	33,765
Total assets	5,498,434	255,011	4,515,158	995,026	10,899,630
Due to banks	63,546	0	690,037	-	753,583
Due to customers	5,779,801	244,966	2,354,261	45,578	8,424,606
Derivative financial instruments	16,843	2	1,299	-	18,144
Other borrowed funds	-	8,376	816,838	-	825,214
Other financial liabilities	52,551	1,393	8,558	762	63,263
Total liabilities	5,912,741	254,737	3,870,993	46,340	10,084,811
Net on balance sheet position	(414,307)	274	280,164	948,686	814,819
Net off balance sheet position	-	(906)	(242,298)	(986,712)	(1,229,916)
Net foreign exchange position	(414,307)	(632)	37,866	(38,026)	(415,097)

(d) Other price risk

The Bank has limited exposure to equity price risk. Transactions in equity products are monitored and authorised by the Group treasury. At December 2016, if equity prices at that date had been 10% (2015: 10%) lower with all other variables held constant, impact on equity for the year would have been RON 116 thousand (2015: RON 116 thousand) lower mainly as a result of a decrease in the fair value of the mutual funds classified as available for sale.

3.4 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or is borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and

- Managing the concentration and profile of debt maturities.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain excessive cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below presents the cash flows payable by the Bank under financial liabilities by earlier of remaining contractual maturities at the balance sheet date and expected payment date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

						2016
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Cash	480,992	-	-	-	-	480,992
Balances with Central Bank	1,010,571	-	-	-	-	1,010,571
Loans and advances to banks	2,360,424	-	-	-	-	2,360,424
Loans and advances to customers gross	1,787,406	376,920	1,355,440	2,260,443	2,514,039	8,294,248
Trading assets	-	4,492	114,600	99,108	23,838	242,038
Derivate financial instruments	176,443	1,135	-	-	-	177,578
Investment securities available for sale	-	-	-	990,583	459,476	1,450,059
Other financial assets	47,789					47,789
Total assets	5,863,625	382,547	1,470,040	3,350,134	2,997,353	14,063,699
Due to banks	181,999	306	1,376	-	268,390	452,072
Due to customers	1,217,502	1,368,186	3,236,747	1,778,686	1,369,174	8,970,294
Derivative financial instruments	177,417	1,884	907	-	-	180,208
Other borrowed funds	215,116	77,048	82,413	239,203	264,504	878,285
Other financial liabilities	154,661	6,316	28,082	137,222	70,314	396,596
Total liabilities	1,946,696	1,453,740	3,349,526	2,155,111	1,972,382	10,877,455
Financial guarantees	383,645	-	-	-	-	383,645
Credit commitments (irrevocable loan commitments)	166,478	-	-	-	-	166,478
Total cumulative asset/(liability) *liquidity gap*	3,366,806	(1,071,193)	(1,879,486)	1,195,023	1,024,970	2,636,121

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

						2015
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Cash	499,655	-	-	-	-	499,655
Balances with Central Bank	1,404,081	-	-	-	-	1,404,081
Loans and advances to banks	1,095,000	-	-	-	-	1,095,000
Loans and advances to customers gross	1,812,763	264,919	1,440,524	2,268,139	2,834,895	8,621,240
Trading assets	-	-	113,452	162,929	27,398	303,779
Derivate financial instruments	553,260	155910	-	-	-	709,170
Investment securities available for sale	-	43,630	49,337	1,385,881	300,939	1,779,787
Other financial assets	33,765					33,765
Total assets	5,398,524	464,459	1,603,313	3,816,949	3,163,232	14,446,477
Due to banks	34,028	2,734	12,303	477,139	287,555	813,759
Due to customers	4,932,646	1,651,947	1,736,718	26,380	98,532	8,446,223
Derivative financial instruments	553,533	159,094	1,441	-	-	714,068
Other borrowed funds	141,930	78,628	90,100	245,084	331,566	887,308
Other financial liabilities	150,655	6,316	28,082	137,222	70,314	392,589
Total liabilities	5,812,792	1,898,719	1,868,644	885,825	787,967	11,253,947
Financial guarantees	445,199	-	-	-	-	445,199
Credit commitments (irrevocable loan commitments)	102,892	-	-	-	-	102,892
Total cumulative asset/(liability) liquidity gap	(962,359)	(1,434,260)	(265,331)	2,931,124	2,375,265	2,644,439

*Included in assets held for liquidity risk are: cash, NBR reserves, due from other banks, held for trading securities

Management is confident that in spite of a substantial portion of deposits from customers having contractual maturity dates within three months, diversification of these deposits by number and type of deposits, and the past experience of the Bank would indicate that these deposits are rolled over and provide stable source of funding for the Bank.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 *Fair value of financial assets and liabilities*

Financial instruments carried at fair value

Trading assets, derivatives and other transactions undertaken for trading purposes, as well as available-for-sale securities and assets and liabilities designated at fair-value-through-profit-or-loss are measured at fair value by reference to quoted prices when available. If quoted prices are not available, the fair values are estimated using valuation techniques.

These financial instruments carried at fair value are categorised into the three levels of the fair value hierarchy as at 31 December 2016 based on whether the inputs to the fair values are observable or unobservable, as follows:

Level 1 – Financial instruments measured based on quoted prices in active markets for identical financial instruments that an entity can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. These include actively quoted debt instruments, equity and derivative instruments traded on exchanges, as well as mutual funds and unit-linked products that have regularly and frequently published quotes.

Level 2 – Financial instruments measured using valuation techniques with the following inputs: i) quoted prices for similar financial instruments in active markets, ii) quoted prices for identical or similar financial instruments in markets that are not active, iii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers and iv) may also include other unobservable inputs which are insignificant to the entire fair value measurement. Level 2 financial instruments mainly include over-the-counter (OTC) derivatives and less-liquid debt instruments.

Level 3 – Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). Level 3 financial instruments include unquoted equity instruments.

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The fair value hierarchy categorisation of the Bank's financial assets and liabilities carried at fair value is presented in the following table:

	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:								
Financial instruments held for trading-debt	242,038	-	-	242,038	303,779	-	-	303,779
Derivative financial instruments	-	3,946	-	3,946	-	17,079	-	17,079
Available-for-sale investment securities								
- debt	1,344,758	-	-	1,344,758	1,650,018	-	-	1,650,018
- equity	-	86,212	19,089	105,301		85,928	37,676	123,604
Total Financial assets	1,586,796	90,158	19,089	1,696,043	1,953,797	103,007	37,676	2,094,480
Financial liabilities measured at fair value:								
Derivative financial instruments	-	17,388	-	17,388	-	18,144	-	18,144
Total Financial Liabilities	-	17,388	-	17,388	-	18,144	-	18,144

In 2015 and 2016 the Bank has no amounts transferred between fair value hierarchy levels.

Reconciliation of Level 3 fair value measurement as at December 2016:

	2016	2015
Balance at 1 January	37,676	6,356
Gain/(loss) included in Other Comprehensive Income	(18,587)	30,586
Gain/(loss) included in profit or loss	-	734
Balance at 31 December	19,089	37,676

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Bank's valuation processes

The Bank uses widely recognized valuation models for determining the fair value of common financial instruments, such as interest and cross currency swaps, that use only observable market data and require little management estimation and judgment. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Where valuation techniques are used to determine the fair values of financial instruments, they are validated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the bank entity and the counterparty, where appropriate.

The Bank establishes the processes and procedures governing the fair valuations, in line with the Bank's accounting policies. Some of the specific valuation controls include: verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc. Where third parties' valuations are used for fair value measurement, these are reviewed in order to ensure compliance with the requirements of IFRS 13.

Valuation techniques

Over-The-Counter (OTC) derivative financial instruments are fair valued by discounting expected cash flows using market interest rates at the measurement date. Counterparty credit risk adjustments and own credit risk adjustments are applied to OTC derivatives, where appropriate. Bilateral credit risk adjustments consider the expected cash flows between the Bank and its counterparties under the relevant terms of the derivative instruments and the effect of the credit risk on the valuation of these cash flows. As appropriate in circumstances, the Bank considers also the effect of any credit risk mitigating arrangements, including collateral agreements and master netting agreements on the calculation of credit risk valuation adjustments (CVAs).

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank determines fair values for debt securities held using quoted market prices in active markets for securities with similar credit risk, maturity and yield or by using discounted cash flows method.

Financial instruments not carried at fair value

The following table presents the carrying amounts and fair values of financial assets and liabilities which are not carried at fair value on the balance sheet, analysed by the level in the fair value hierarchy into which each fair value measurement is included:

					2016
	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Financial assets					
- Corporate lending	-	-	1,721,429	1,721,429	1,734,189
- Small Business lending	-	-	445,625	445,625	423,933
- Consumer lending	-	-	1,417,094	1,417,094	1,259,476
- Mortgage	-	-	2,361,891	2,361,891	2,154,284
Loans and advances to customers	-	-	5,946,039	5,946,039	5,571,882

					2015
	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Financial assets					
- Corporate lending	-	-	1,703,817	1,703,817	1,731,006
- Small Business lending	-	-	479,934	479,934	474,797
- Consumer lending	-	-	1,404,642	1,404,642	1,278,561
- Mortgage	-	-	2,528,017	2,528,017	2,288,429
Loans and advances to customers	-	-	6,116,410	6,116,410	5,772,793

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value on the balance sheet date are in line with those used to calculate the fair values for financial instruments carried at fair value and are as follows:

For loans and advances to customers quoted market prices are not available as there are no active markets where these instruments are traded. The fair values are estimated by discounting future cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted rates. Loans are grouped into homogenous assets with similar characteristics, as monitored by

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

management, such as product, borrower type and delinquency status, in order to improve the accuracy of the estimated valuation outputs. In estimating future cash flows, the Bank makes assumptions on expected prepayments, product spreads and timing of collateral realisation. The discount rates incorporate inputs for expected credit losses and interest rates, as appropriate.

For other financial instruments which are short term or re-price at frequent intervals (cash and balances with central banks, loans and advances to banks, due to central and other banks and due to customers), the carrying amounts represent reasonable approximations of fair values.

Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 "Financial Instruments: Recognition and Measurement", classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets and (c) financial assets at fair value through profit or loss ("FVTPL"). 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. All of the Bank's financial assets fall in the loans and receivables, available for sale assets and trading assets.

All of the Bank's financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category and were held for trading.

The following table provides a reconciliation of financial assets with these measurement categories:

				2016
	Loans and receivables	Available for sale assets	Trading assets	Total
Assets				
Cash	480,992	-	-	480,992
Balances with Central Bank	1,010,571	-	-	1,010,571
Loans and advances to banks	2,360,424	-	-	2,360,424
Loans and advances to customers (net)	5,571,882	-	-	5,571,882
Trading assets	-	-	242,038	242,038
Derivative financial instruments	-	-	3,946	3,946
Investment securities, available for sale	-	1,450,059	-	1,450,059
Other financial assets	45,337	2,452	-	47,789
Total financial assets	9,469,206	1,452,511	245,984	11,167,701

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

				2015
	Loans and receivables	**Available for sale assets**	**Trading assets**	**Total**
Assets				
Cash	499,655	-	-	499,655
Balances with Central Bank	1,404,081	-	-	1,404,081
Loans and advances to banks	1,094,853	-	-	1,094,853
Loans and advances to customers (net)	5,772,793	-	-	5,772,793
Trading assets	-	-	303,779	303,779
Derivative financial instruments	-	-	17,079	17,079
Investment securities, available for sale	-	1,773,622	-	1,773,622
Other financial assets	33,765	-	-	33,765
Total financial assets	8,805,147	1,773,622	320,858	10,899,627

3.6 Management of Capital

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank 's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank 's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the National Bank of Romania, for supervisory purposes. The required information is filed with the National Bank of Romania on a quarterly basis. The Capital Adequacy ratio of the Bank was calculated in accordance with Basel III principles. The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2016 and 2015. During these periods, the Bank complied with the externally imposed capital requirements to which they are subject.

(all amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	2016	2015
Tier 1 capital		
Share capital	1,350,246	1,350,246
Share premium	81,133	81,133
Legal reserve	43,324	42,190
General risk reserves	41,583	41,583
Special reserves	69,386	65,737
General reserves	24,585	33,639
Accumulated losses	(409,306)	(433,901)
Minority interests	-	-
Less: Intangibles	(99,194)	(96,038)
Less: Other deductions from Tier I capital	(4,723)	(3,948)
Less: Prudential filters-provisions	(57,102)	(98,360)
Less: Tax filters	(28,612)	(26,938)
Total qualifying Tier 1 capital (core capital)	1,011,320	955,343
Tier 2 capital		
Eligible Subordinated capital	359,559	403,606
Less: Prudential filters-provisions	(55,798)	(98,360)
Total qualifying Tier 2 capital (additional own funds)	303,761	305,246
Available Own Funds	1,315,082	1,260,589
Operational Risk	89,200	87,907
Total capital requirement	473,967	491,697
CAD ratios:		
Total capital adequacy ratio	22,20%	20,51%
Core Capital Ratio	17,07%	15,57%
Regulatory Total Capital Ratio	10%	10%

According to NBR orders 32/26.03.2014 and 52/30.04.2014 the Bank has the obligation to recognize additional own funds for a number of debtors. Total capital adequacy ratio including Pillar II requirements as at 31 December 2016 was 22,2% (2015: 20,51%). As at 31 December 2016 the Bank's capital adequacy it is in compliance with NBR regulation.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern

Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank'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 Bank. Further considerations are presented in Note 2.1 c).

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates, among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of changes in techuology or deterioration in the financial health of the investee, industry and sector performance, or operational or financing cash flows.

Impairment losses on loans and advances

The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

For the retail portfolios (mortgage, consumer and small business lending), statistical analysis of historical loss experience including the realizable value of real estate properties held as collateral and timing of foreclosure is the primary tool used in order to determine the future customer behaviour and payment patterns.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Due to the stressed macroeconomic environment during the last years, depending on the portfolio under examination, there is a level of uncertainty in terms of the level of future cash flows as well as the time these cash flows will come. Management exercises judgment to determine the applicable recovery rates which are affected by the existing economic conditions.

Impairment losses for the medium size and large corporate entities are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realization of any assets held as collateral against the loans. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral. In estimating individnal impairment allowance, the Bank considers multiple risk factors such as industry prospects, financial condition and outlook of borrower, net realizable value of any collateral and therefore, there is no single factor to which the Bank's individual impairment allowance as a whole is highly sensitive.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.
Estimates of impairment for certain categories of mortgage loans were impacted in 2016 by the new Law 77/2016 regarding deed in payment for some real estate assets for cancelling/writing-off the obligations assumed by debtors through loans (Deed in Payment Law) and subsequent rulings by the Romanian Constitutional Court related to this law requiring the debtors to prove the hardship element in order to be able to apply the law, which increased the uncertainty around the probability of default for affected clients of the Bank and the degree of judgement required by management to assess the required level of provision for such loans.

The Bank calculated provisions for all debtors that requested the Bank to cancel their outstanding loan exposure in exchange of the real estate collateral. Also for the rest of the population for which the provisions of the law might be applicable a collective provision was assessed by the Bank.

The management made judgements regarding the mortgage loans portfolio for which the "hardship" may apply and the probability of default for them. In estimating the population the Bank analysed the Loan to Value of the loans and behavioural aspects related to mortgage loan portfolio. The PD's were constructed based on Loan to Value thresholds and by extrapolating past behaviour.

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Risk provisions for abusive clauses in the loan contracts

The Bank recorded at the end of 2016 a provision for abusive clauses existing in the loan contracts following the entering into force of the OUG 50/2010 (see Note 25).
Management developed a methodology to estimate the required provision for abusive clauses making assumptions based on more recent history (2016 evolution of new started litigations and the results of closed ones). The methodology also involves making assumptions about the number of future legal cases to be brought against the Bank and the likely outcome of current and possible future cases. These assumptions are inherently difficult to estimate, and the estimation uncertainty was higher in 2016 due to the publicity that existed around the proposed law to enforce banks to convert Swiss Franc denominated loans into local currency (Proposed Swiss Franc Law) which was declared as unconstitutional on procedural and content grounds. Details regarding provisions for litigations are presented in Note 25.

Fair value of derivatives and certain other instruments

Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 3.5.

De-recognition of financial assets

Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Total deferred income tax as at 31 December 2016 was of RON 61,435 thousands (2015: 51,690 thousands) coming from temporary differences and tax loss carried forwards. Deferred income tax assets are recognized for tax loss carried forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Bank recognized deferred income tax asset of RON 48,712 thousand (2015: RON 42,862 thousand deferred income tax asset) in respect of a fiscal loss carried forward amounting to RON 304,447 thousand (2015: RON 267,887 thousand fiscal loss) that can be carried forward against future taxable income. In Romania, the tax period of the fiscal loss carried forward remain open for 7 years. Management estimates that the Bank will

(all amounts in RON thousand unless otherwise stated)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

record sufficient taxable profit in the future periods either from normal banking operations or by utilizing tax planning opportunities related to the future use of a reserve established under retained earnings as at 1 January 2012 following the implementation of the National Bank of Romania order 27/2010 and corresponding amendments to the tax legislation.

Initial recognition of related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 29.

5 INTEREST INCOME AND EXPENSE

	2016	2015
Interest income		
Loans and advances to customers	351,343	439,855
Debt investment securities available for sale	32,207	38,557
Due from other banks	14,224	16,681
Total interest income	397,774	495,093
Interest expense		
Due to customers	73,708	139,817
Due to banks	8,596	17,367
Repos (repurchase agreements)	29	1,094
Other borrowed funds	2,871	5,400
Total interest expense	85,204	163,678
Net interest income	312,570	331,415

Interest income includes RON 62,102 thousand (2015: RON 51,766 thousand) interest income, recognised on impaired loans to customers.

6 FEE AND COMMISSION INCOME AND EXPENSE

	2016	2015
Fee and commission income		
Fee and commissions income from bank operation	72,676	83,629
Other fee and commission income	45,843	49,845
Financial assets administration fee	3,500	4,258
Total fee and commission income	122,019	137,732

(all amounts in RON thousand unless otherwise stated)

Fee and commission expense

Customer transactions	19,932	20,342
Transactions with other banks	15,593	17,123
Total fee and commission expense	35,525	37,465
Net fee and commission income	86,494	100,267

The bank operations relate to core activity regarding the granting of loans and payment services. The other fees and commission income refer mainly to issuance of letter of guarantees, fees for deposits closed before maturity and other services.

7 NET TRADING INCOME

	2016	2015
Gain from foreign exchange:	39,190	144,316
-Net foreign exchange gains from transactions	10,915	13,942
-Net effect of translation of foreign currency denominated assets and liabilities	28,275	130,374
Gain/(Loss) from derivative instruments	7,119	(87,123)
Gain from held for trading securities	4,011	2,197
Total net trading income	50,320	59,390

8 OTHER OPERATING INCOME

	2016	2015
Other income	8,538	4,947
Dividend income	4,342	734
Total other operating income	12,880	5,681

9 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2016	2015
Salaries and wages	120,218	142,466
Social contribution	7,319	7,702
Contributions to defined state benefits scheme (pensions)	20,157	20,494
Services expense	44,685	42,460
Other tax and contribution	41,806	56,295
Rental expenses	35,250	33,946
Utilities	6,556	6,158
Communication	3,857	3,701
Depreciation, amortization and impairment (Note 19 and 20)	32,218	33,869
Loss on disposals of fixed assets	(7,385)	3,068
Repairs, maintenance and utilities	19,006	18,513
Postage, consumables	4,043	4,315
Other expenses	26,607	26,695

(all amounts in RON thousand unless otherwise stated)

9 ADMINISTRATIVE AND OTHER OPERATING EXPENSES (CONTINUED)

Travel expenses	1,220	905
Advertising	13,754	12,498
Insurance premiums	2,124	2,676
Impairment charge for other assets (Note 21)	(104)	(2,775)
Provision for other contingent liabilities and other provisions	21,475	(4,538)
Total administrative and other operating expenses	392,806	408,448

Audit fees for Financial Statements for year ended 2016 of RON 781 thousands (2015: RON 1.175 thousands). For other consultancy services, lawyers or legal fees, the Bank had paid during the year 2016 RON 2,399 thousands (2015: RON 557 thousands).

10 IMPAIRMENT CHARGE FOR CREDIT LOSSES

	2016	2015
Impairment charge for loans to customers (Note 16)	194,480	105,812
Recoveries from loans previously written off (Note 16)	(84,975)	(4,996)
Provision for other credit commitments	2,478	(2,177)
Total Impairment charge for credit losses	111,983	98,639

11 INCOME TAXES

(a) Components of income tax expense / (benefit)

Income tax expense recorded in profit or loss for the year comprises the following:

	2016	2015
Current tax	-	-
Deferred tax	(3,384)	(6,570)
Income tax expense/(credit) for the year	(3,384)	(6,570)

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

	2016	2015
Profit/(loss) before tax	22,676	28,677
Theoretical tax charge credit at statutory rate (2016: 16%; 2015: 16%)	3,628	4,588
Tax effect of:		
Non-deductible expenses	22,355	29,334
Income not subject to tax	(16,835)	(27,518)
Utilisation of previously unrecognised tax losses carry forwards	(6,433)	(6,110)

(all amounts in RON thousand unless otherwise stated)

11 INCOME TAXES (CONTINUED)

Difference related to FX gains/losses for provisions, booked in FX account	(249)	(238)
Difference related to amortizatiou booked for sold/destroyed fixed assets during thc year	-	(6,628)
Recognition of previously unrecognised differed tax asset	(5,850)	-
Income tax expense/(credit) for the year	(3,384)	(6,570)

Current income tax is calculated by applying a rate of 16 %, deferred income taxes are calculated on temporary diffcrences under the liability method using a profit tax rate of 16%,

The accounting profit rccorded by the Bank in 2016 of (RON 26,060 thousand) was adjusted for the fiscal profit with RON 14,144 thousand, Furthermore, the fiscal profit recorded by the Bank in 2016 of RON 40,204 thousand was added the fiscal loss carried forwards from previous periods, The fiscal loss carry forwards by the Bank as at 31 December 2016 of RON 404,222 thousand corresponds to a potential deferred tax asset of RON 64,676 thousands,

The Bank has recognised in the statement of financial positions a deferred tax asset of only RON 48,712 thousand, based on the Bank's projections related to future profits, Please see Note 4 for details,

The Bank has unrecognised potential deferred tax assets in respcct of unused tax loss carry forwards of RON 15,964 thousand (2015: 67,775), The tax loss carry forwards expire as follows:

Tax loss carry-forwards expiring by the end of:

31 December 2019: 161,864 thousands
31 December 2020:56,218 thousands
31 December 2021: 186,140 thousands

(c) 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.

(all amounts in RON thousand unless otherwise stated)

11 INCOME TAXES (CONTINUED)

	1-Jan-16	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	31-Dec-16
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards	73,588	2,984	-	76,571
Differences in the tax and accounting base for buildings	15,652	(244)	-	15,408
Loan origination fees and interest	-	-	-	-
Fiscal loss	42,862	5,850	-	48,712
Other accruals	2,639	(1,053)	-	1,587
Other provisions	12,435	(1,570)	-	10,865
Tax effects of taxable temporary differences	21,899	(402)	(6,361)	15,136
Fixed assets and investments	9,366	(402)	-	8,964
Gain on fair value of investment securities available for sale	12,533	-	(6,361)	6,172
Net deferred tax asset/(liability)	51,689	3,385	6,361	61,435
Recognised deferred tax asset	51,689	3,385	6,361	61,435
Recognised deferred tax liability	-	-	-	-
Net deferred tax asset/(liability)	51,689	3,385	6,361	61,435

(all amounts in RON thousand unless otherwise stated)

11 INCOME TAXES (CONTINUED)

	1-Jan-15	Credited/ (charged) to profit or loss	Credited/ (charged) to other comprehensive income	31-Dec-15
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards	68,879	4,709	-	73,588
Differences in the tax and accounting base for buildings	16,134	(482)	-	15,652
Loan origination fees and interest	-			-
Fiscal loss	42,862		-	42,862
Other accruals	2,582	57	-	2,639
Other provisions	7,301	5,134	-	12,435
Tax effects of taxable temporary differences	24,643	(1,861)	(883)	21,899
Fixed assets and investments	11,227	(1,861)		9,366
Gain on fair value of investment securities available for sale	13,581	-	(883)	12,698
Loss on remeasurement of retirement benefits obligation	(165)	-	-	(165)
Net deferred tax asset/(liability)	44,236	6,570	883	51,689
Recognised deferred tax asset	44,236	6,570	883	51,689
Recognised deferred tax liability	-	-	-	-
Net deferred tax asset/(liability)	44,236	6,570	883	51,689

(all amounts in RON thousand unless otherwise stated)

11 INCOME TAXES (CONTINUED)

(d) Current and deferred tax effects relating to each component of other comprehensive income

Current and deferred tax effects relating to each component of other comprehensive income are as follows:

	2016			2015		
	Before-tax amount	Income tax (expense) / benefit	Net-of-tax amount	Before-tax amount	Income tax (expense) / benefit	Net-of-tax amount
Available-for-sale investments:						
- (Gains) less losses arising during the year	87,436	(13,990)	73,446	38,656	(6,185)	32,471
-(Gains) less losses reclassified to profit or loss upon disposal	(65,201)	10,432	54,769	39,010	6,242	32,768
-Actuarial gain/(losses) on post-employment benefit obligation	3,669	(587)	3,082	(5,166)	827	(4,339)
Other comprehensive income	25,904	(4,145)	21,759	(5,520)	883	(4,637)

12 CASH

	2016	2015
Cash on hand	324,504	353,206
Cash on ATM	156,488	146,449
Total cash	480,992	499,655

13 BALANCES WITH CENTRAL BANK

	2016	2015
Balances with the NBR		
In RON	657,533	883,055
In EUR	353,038	521,026
Total balances with Central Bank	1,010,571	1,404,081

(all amounts in RON thousand unless otherwise stated)

13 BALANCES WITH CENTRAL BANK (CONTINUED)

Current accounts are required to satisfy the mandatory reserve requirements of the National Bank of Romania. This reserve is a minimum average deposit with a holding period of one month, based on resources attracted on previous month. The cash balance held with central bank at the reporting date meets these requirements. During 2016 the interest rates ranged from 0,16% to 0,25% (2015: 0,16% to 0,27%) and for reserves held in RON was between 0,8% and 0,31% (2015: 0,8% and 0,31%) for reserves held in EUR.

During 2016 the ratio for minimum reserves held in RON maintained to 8% (2015: 8%), and for foreign currency decreased to 10% (2015: 14%).

14 LOANS AND ADVANCES TO BANKS

	2016	2015
Current accounts	123,205	113,276
Placements with banks as sight and term deposits	1,010,507	981,577
Reverse repos	1,226,712	-
Total Loans and advances to banks	2,360,424	1,094,853

As at 31 December 2016 the placements with initial maturity below 3 months amounting to RON 2,360,423 thousand (2015: RON 1,094,853 thousand) were included in cash and cash equivalents (Note 28).

During 2016 interest on placements on RON ranged from 0,5% to 0,75% (2015: from 1,5% to 1,85%) with maturity less than three months, For USD ranged from 0,75% to 1,40% (2015: from 0,02% to 0,38%). For EUR ranged from expense 0,2% to income 1,895% (2015: from 0,5% to 2,22%). As at 31 December 2016 placements with banks included sight and term deposits placed with Parent Bank amounting to RON 807,816 thousand (2015: RON 633,430 thousand).

The table below presents an analysis of Loans and advances to Banks by rating agency designation that are neither past due nor impaired based on Moody's rating or their equivalent:

(all amounts in RON thousand unless otherwise stated)

14 LOANS AND ADVANCES TO BANKS (CONTINUED)

31 December 2016:	Current accounts	Placements with banks as sight and term deposits	Reverse repos (agreements to resell)	Total
Neither past due nor impaired				
A1	1,329	15,017	-	16,346
A3	108,245	-	-	108,245
Baa1	-	103,279	-	103,279
Baa3	6,639	-	-	6,639
Ba3	-	38,730	-	38,730
Caa2	6,294	807,816	1,226,712	2,040,822
Caa3	54	-	-	54
Unrated	644	45,665	-	46,309
Total Loans and advances to banks	123,205	1,010,507	1,226,712	2,360,424

An amount of RON 2,041 million (2015: RON 642 million) included in rated Caa2 (Caa3 at 31 December 2015) relates to placements with Eurobank Ergasias SA (Parent Bank).

31 December 2015:	Current accounts	Placements with banks as sight and term deposits	Reverse repos (agreements to resell)	Total
Neither past due nor impaired				
Aaa	-	12,650	-	12,650
A1	-	1,357	-	1,357
A2	-	60,477	-	60,477
A3	61,533	2,903	-	64,436
Baa1	42,002	-	-	42,002
Baa2	-	157,614	-	157,614
Baa3	-	67,867	-	67,867
Ba3	-	45,244	-	45,244
Caa3	8,840	633,465	-	642,305
Unrated	901	-	-	901
Total Loans and advances to banks	113,276	981,577	-	1,094,853

As at 31 December 2016, the bank has engaged in reverse repo transactions with Eurobank Ergasias on Hellenic Financial Stability Fund bonds as follows:

(all amounts in RON thousand unless otherwise stated)

14 LOANS AND ADVANCES TO BANKS (CONTINUED)

Reverse repo

31 December 2016:

	Issue code	Amount	Value date	Maturity date
Eurobank Ergasias	EU000A1G0A73	177,421	28-Dec-2016	04-Jan-2017
Eurobank Ergasias	EU000A1G0AN9	298,986	28-Dec-2016	04-Jan-2017
Eurobank Ergasias	EU000A1G0AM1	317,130	28-Dec-2016	04-Jan-2017
Eurobank Ergasias	EU000A1G0AM1	433,175	28-Dec-2016	04-Jan-2017
Total reverse repo		1,226,712		

15 LOANS AND ADVANCES TO CUSTOMERS

Analysis by sector for corporate loans and by product for loans to individuals:

	2016	2015
Analysis by sector for wholesale		
Industry	520,318	589,187
Commerce	488,602	471,581
Services	289,609	279,649
Construction	443,287	523,321
Real estate	43,900	60,186
Analysis by product for retail		
Consumer	958,252	1,036,033
Mortgage	2,355,920	2,466,309
Small Business Banking	556,608	757,103
Credit cards and overdraft facilities	338,358	424,765
Less: Provision for loan impairment	(422,972)	(835,341)
Total loans and advances to customers	5,571,882	5,772,793

(all amounts in RON thousand unless otherwise stated)

15 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Movements in the provision for loan impairment during 2016 are as follows:

	Wholesale loans	Consumer loans	Mortgage loans	Small business loans	Total
Provision for loan impairment at 1 January 2016	192,918	182,237	177,880	282,306	835,341
Net charge for the year (Note 10)	(1,314)	85,557	80,727	29,510	194,480
Amounts written off	(141,953)	(241,765)	(37,538)	(180,204)	(601,460)
Foreign exchange differences	(1,352)	(537)	2,426	(76)	461
Effects of interest income recognised for impaired loans	376	-	(3,222)	(3,004)	(5,850)
Provision for loan impairment at 31 December 2016	48,675	25,492	220,273	128,532	422,972

Movements in the provision for loan impairment during 2015 are as follows:

	Wholesale loans	Consumer loans	Mortgage loans	Small business loans	Total
Provision for loan impairment at 1 January 2015	187,521	245,388	146,998	321,208	901,115
Net charge for the year (Note 10)	22,863	1,110	61,421	20,417	105,811
Amounts written off	(17,854)	(66,476)	(38,242)	(55,498)	(178,070)
Foreign exchange differences	2,090	2,222	13,515	3,053	20,880
Effects of interest income recognised for impaired loans	(1,703)	-	(5,814)	(6,875)	(14,392)
Provision for loan impairment at 31 December 2015	192,918	182,241	177,878	282,305	835,341

(all amounts in RON thousand unless otherwise stated)

15 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

During 2016, the Bank has concluded 2 transfer agreements with ERB New Europe Funding II (February 2016 and April 2016) regarding current and non-performing loans. Substantially all risks and rewards associated with the related portfolios were transferred from the Bank to the above mentioned counterparties through the agreements concluded. Post transfer the bank acts as an administrator of these loans. As a consequence, in respect to these transfers, in total the Bank derecognized net contractual receivables with a carrying amount of RON 243,204 thousand at the time of the transfers. In total there was a net gain of 7,694 thousand RON recognized in the Profit or Loss Account resulting in respect of these transfers.

In the second quarter of 2016, the Bank completed the assignment of a portfolio of non-performing gross loans of RON 210,907 thousand (RON 55,247 thousand, net of provision for impairment), which represented significant part of consumer unsecured loans past due more than 90 days as at 31 December 2015. Overall, the transactions resulted in a gain of RON 9,784 thousand that has been recognized in profit and loss account in "impairment charge for credit losses".

16 TRADING SECURITIES

	2016	2015
Romanian government bonds	242,038	303,779
Total trading securities	242,038	303,779

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data using mid prices from NBR.

17 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivative instruments for non-hedging purposes:

- Currency forwards represent commitments to purchase foreign and domestic currency, including spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organized financial market. The credit risk is negligible, as futures contracts are collateralized by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

- Foreign currency options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right. but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign

17 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

currency at a pre-determined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange. The options are negotiated between the Bank and a customer (OTC).

- Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example. fixed rate for floating rate) or a combination of all these (that is. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an on-going basis with reference to the current fair value. a proportion of the notional amount of the contracts and the liquidity of the market.

- An interest rate cap is a derivative in which the buyer received payments at the end of each period in which the interest rate exceeds the agreed strike price. An interest rate floor is a

- derivative in which the buyer received payments at the end of each period in which the interest rate is below the agreed strike price.

- The cross currency interest rate swaps have been mainly undertaken with the Parent Bank and represents the major part of the derivative transactions. They are disclosed as well in Note 30.

- The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the

- instruments and, therefore do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand. The extent to which instruments are favourable or unfavourable. And thus the aggregate fair values of derivative financial assets and liabilities. Can fluctuate significantly from time to time.

- The reverse repurchase agreement represents the operation of buying securities/assets with the provision that it will resell the same securities/assets to same seller for an agreed-upon price on a certain day. The reverse repos have been mainly undertaken with the Parent Bank and with Banca Transilvania during 2016.

(all amounts in RON thousand unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The notional amounts fair values of derivative instruments held at the balance sheet date and rating agency designation based on Moody's rating or the internal rating of the Bank (MRI) are set out below:

	Contract/notional	Fair values	
At 31 December 2016	Amount	Assets	Liabilities
Derivatives held for trading			
a) Foreign exchange derivatives			
Caa2	36,578	-	(733)
6.1	36,578	820	-
Currency swaps	73,156	820	(733)
Caa2	1,936,812	1,663	(8,129)
Aa3	109,576	119	(565)
Ba1	68,117	-	(178)
OTC currency options assets	2,114,505	1,782	(8,872)
Caa2	2,661	(5)	-
Unrated	2,661	-	5
OTC currency options liability	5,322	(5)	5
b) Interest rate derivatives			
Caa2	69,187	-	-
Unrated	1,071	-	-
6.1	68,117	610	-
Interest rate swaps	138,375	610	-
A1	231,245	210	(989)
Aa2	138,209	136	(568)
Aa3	317,877	393	(5,620)
Cross-currency interest rate swaps	687,331	739	(7,177)
Caa3	115,329	-	(610)
Interest rate options	115,329	-	(610)
Total	3,134,018	3,946	(17,387)

(all amounts in RON thousand unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	Contract/notional		Fair values
At 31 December 2015	Amount	Assets	Liabilities
Derivatives held for trading			
a) Foreign exchange derivatives			
Caa3	48,188	37	(920)
6.4	37,329	956	-
Currency forwards	85,517	993	(920)
Caa3	1,985,908	1,001	(12,550)
BB-	76,917	13	(88)
Baa3	56,556	30	(11)
Aa2	509,911	-	(3,033)
Currency swaps	2,629,292	1,045	(15,682)
Caa3	4,926	144	(131)
unrated	878	-	(13)
OTC currency options	5,804	144	(144)
b) interest rate derivatives			
Interest rate swaps	109,594	985	(1,076)
Aa2	452,450	13,106	(197)
Aaa	438,029	804	(125)
Cross-currency interest rate swaps	890,479	13,910	(321)
Caa3	1,425	-	(2)
8.1	2,850	2	-
Interest rate options	4,275	2	(2)
Total	3,724,962	17,079	(18,144)

18 INVESTMENT SECURITIES AVAILABLE FOR SALE

		2016	2015
Romanian government bonds	a)	1,344,758	1,650,018
Out of which under REPO agreements		*22856882*	*-0*
Investments in Mutual Funds	b)	86,071	85,928
Equity investments	c)	19,230	37,676
Total investment securities available for sale		1,450,059	1,773,622

The debt securities are not collateralised.

The movements in investment securities available for sale are as follows:

(all amounts in RON thousand unless otherwise stated)

18 INVESTMENT SECURITIES AVAILABLE FOR SALE (CONTINUED)

	2016	2015
Carrying amount at 1 January	1,773,622	1,724,283
Purchases	828,359	1,574,203
Disposals of investment securities available for sale	(1,120,885)	(1,525,690)
Fair value gains less losses	(32,402)	(557)
Foreign exchange differences	1,365	1,383
Carrying amount at 31 December	1,450,059	1,773,622

a) Debt securities include treasury bills denominated in RON and EUR issued by the Ministry of Public Finance having up to five years maturity. The RON denominated ones bear interest rates ranging from 1,25% to 5,95% (2015: from 1,43% to 5,85%). As at 31 December 2016 the EUR denominate ones bear interest rates ranging of 1,25% to 3,40%% (2015: from 3,4% to 6,5%). Repurchase receivables represents securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or re-pledge. The repurchase agreements are short-term in nature.

b) The Bank is involved in various types of structured entities, such as mutual funds and private equity funds. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The entities have restricted activities, a narrow well defined objective, insufficient equity to permit it to finance its activities without subordinated financial support and financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks. During 2010, the Bank invested in two mutual funds Bancpost LF Active Balance and Bancpost LF Money Market Cash Fund. At 31 December 2016, the participation was 59,87% in LF Balanced Active Fund (59,87% as at 31 December 2015) and 88,96% in LF Money Market ash Fund (88,96% as at 31 December 2015). The funds are managed by Eurobank Fund Management Company SA (member of the Eurobank group). The administrator manages all the funds of the Eurobank Group in Romania.

c) Equity investments
At 31 December, the principal equity investment securities available for sale were:

(all amounts in RON thousand unless otherwise stated)

18 INVESTMENT SECURITIES AVAILABLE FOR SALE (CONTINUED)

				Fair value		
Name	Nature of business	Country of registration	Share-holding	2016	Share-holding	2015
Depozitarul Central S.A.	central depository for securities transactions	Romania	2,60%	776	2,60%	776
Transfond S.A.	local settlement entity	Romania	4,03%	5,512	4,03%	5,512
Casa De Compensare Bucuresti S.A.	local settlement entity	Romania	0,02%	1	0,02%	1
Biroul De Credit S.A.	credit bureau	Romania	7,56%	1,176	7,37%	1,176
S.W.I.F.T SCRL	international settlement entity	United Kingdom	0,01%	140	0,01%	140
Visa Europe Limited	card agency	United Kingdom	0,00%	-	0,00%	29,797
ERB Retail Services SA IFN	consumer finance	Romania	0,17%	207	0,17%	207
Fundatia Bancpost		Romania	100,00%	67	100,00%	67
Visa Inc	Card agency	United Kingdom	0,00%	11,351	-	-
Total				19,230	14,2%	37,676

As announced by Visa Europe Limited and Visa Inc. on 2 November 2015. Visa Inc. has agreed, subject to regulatory approvals, to acquire Visa Europe Limited. The transaction was completed in the second quarter ("Q2") of 2016. Prior to Completion as at 31 December 2016, member banks should re-estimate the fair value of each Member's existing AFS equity instrument. The Bank revalue its Visa participation to equal the amount of cash consideration to be received of amount EUR 6.586 thousands (RON 29.797 thousands). Revaluation was booked in 2016 "Other comprehensive income."

On 21 June 2016, Visa Inc. announced the completion of the acquisition of Visa Europe Ltd. In accordance with the terms of the final transaction agreement, upon the closing of the transaction Visa Inc. paid up-front cash consideration of EUR 12,2 billion and issued preferred shares equivalent to a value of EUR 5.3 billion to the sharcholders of Visa Europe. In addition, a deferred cash payment of EUR 1,12 billion, including interest, will be paid on the third anniversary of the closing date.

(all amounts in RON thousand unless otherwise stated)

18 INVESTMENT SECURITIES AVAILABLE FOR SALE (CONTINUED)

The Bank recognized its share of the sale proceeds, including RON 31,828 thousand in cash, RON 383 thousand in preferred shares and RON 11,085 thousand as the present value of the deferred consideration in 'Gains less losses from investment securities'.
Visa Europe AFS equity revaluation amounting to RON 2,066 thousand booked in 2015 Other Comprehensive income of the Bank in anticipation of the finalization of Visa Inc. transaction in 2016, was accordingly reversed in 2016.

The table below sets out the carrying amounts of the Bank's interests in funds recognized in the standalone financial statements balance sheet as of 31 Decemher 2016, representing the maximum exposure to loss in relation to these interests, total assets of the funds and total losses per interest:

31 December 2015 LF Balanced Active Fund	**Funds managed by the Eurobank Fund Management Company SA**		**Third party managed funds**		**Total**	**Total losses recognised in relation to each of the entity's interest in the funds in:**	
						P/L	**OCI**
	Mutual funds	**Private equity funds**	**Mutual funds**	**Private equity funds**			
Bank's interest- assets							
Investment securities	20,679	-	-	-	20,679	-	-
Total carrying amount of assets in relation to the Bank's interests in the funds	20,679	-	-	-	20,679	-	-
Bank's interest- liabilities							
Bank's maximum exposure to loss	20,679	-	-	-	20,679	-	-

18 INVESTMENT SECURITIES AVAILABLE FOR SALE (CONTINUED)

31 December 2016

LF Balanced Active Fund	Funds managed by the Eurobank Fund Management Company SA		Third party managed funds		Total	Total losses recognised in relation to each of the entity's interest in the funds in:	
	Mutual funds	Private equity funds	Mutual funds	Private equity funds		P/L	OCI
	Bank's interest- assets						
Investment securities	20,658	-	-	-	20,658	-	-
Total carrying amount of assets in relation to the Bank's interests in the funds	20,658	-	-	-	20,658	-	-
Bank's maximum exposure to loss	20,658	-	-	-	20,658	-	-

(all amounts in RON thousand unless otherwise stated)

18 INVESTMENT SECURITIES AVAILABLE FOR SALE (CONTINUED)

Total income for 2016 per type of fund

	31 December 2016				
	Funds managed by the Eurobank Fund Management Company SA		Third party managed funds		Total
Total income for the year ended 31 December 2016	**Mutual funds**	**Private equity funds**	**Mutual funds**	**Private equity funds**	
Gains from assets measured at FV	21	-	-	-	21

Total income for 2015 per type of fund

	31 December 2015				
	Funds managed by the Eurobank Fund Management Company SA		Third party managed funds		Total
Total income for the year ended 31 December 2014	**Mutual funds**	**Private equity funds**	**Mutual funds**	**Private equity funds**	
Gains from assets measured at FV	80	-	-	-	80

(all amounts in RON thousand unless otherwise stated)

18 INVESTMENT SECURITIES AVAILABLE FOR SALE (CONTINUED)

LF Money Market Cash Fund	Funds managed by the Eurobank Fund Management Company SA		Third party managed funds		Total	31 December 2016 Total losses recognised in relation to each of the entity's interest in the funds in:	
						P/L	OCI
Bank's interest- assets	Mutual funds	Private equity funds	Mutual funds	Private equity funds			
Investment securities	65,414	-	-	-	65,414	-	-
Total carrying amount of assets in relation to the Bank's interests in the funds	65,414	-	-	-	65,414	-	-
Bank's maximum exposure to loss	65,414	-	-	-	65,414	-	-

LF Money Market Cash Fund	Funds managed by the Eurobank Fund Management Company SA		Third party managed funds		Total	31 December 2015 Total losses recognised in relation to each of the entity's interest in the funds in:	
						P/L	OCI
Bank's interest- assets	Mutual funds	Private equity funds	Mutual funds	Private equity funds			
Investment securities	65,249	-	-	-	65,249	-	-
Total carrying amount of assets in relation to the Bank's interests in the funds	65,249	-	-	-	65,249	-	-
Bank's maximum exposure to loss	65,249	-	-	-	65,249	-	-

(all amounts in RON thousand unless otherwise stated)

18 INVESTMENT SECURITIES AVAILABLE FOR SALE (CONTINUED)

Total income for 2016 per type of fund

	31 December 2016				
	Funds managed by the Eurobank Fund Management Company SA		Third party managed funds		Total
Total income for the year ended 31 December 2016	**Mutual funds**	**Private equity funds**	**Mutual funds**	**Private equity funds**	
Gains from assets measured at FV	165	-	-	-	165

Total income for 2016 per type of fund

	31 December 2015				
	Funds managed by the Eurobank Fund Management Company SA		Third party managed funds		Total
Total income for the year ended 31 December 2015	**Mutual funds**	**Private equity funds**	**Mutual funds**	**Private equity funds**	
Losses from assets measured at FV	(1,151)	-	-	-	(1,151)

(all amounts in RON thousand unless otherwise stated)

19 INTANGIBLE ASSETS

	Licence and software	Software under development	Total
Carrying amount at 31 December 2014	67,068	28,404	95,472
Cost at 31 December 2014	171,129	28,404	199,533
Accumulated depreciation	(104,061)	-	(104,061)
Carrying amount at 31 December 2014	67,068	28,404	95,472
Additions	-	12,341	12,341
Transfers	25,508	(25,508)	-
Disposals	-	-	-
Amortisation charge	(11,775)	-	(11,775)
Carrying amount at 31 December 2015	80,801	15,237	96,038
Cost at 31 December 2015	196,637	15,237	211,874
Accumulated depreciation	(115,836)	-	(115,836)
Carrying amount at 31 December 2015	80,801	15,237	96,038
Additions	-	14,067	14,067
Transfers	2,631	(2,631)	-
Disposals	-	-	-
Amortisation charge	(10,911)	-	(10,911)
Carrying amount at 31 December 2016	72,521	26,673	99,194
Cost at 31 December 2016	199,267	26,673	225,940
Accumulated depreciation	(126,746)	-	(126,746)

(all amounts in RON thousand unless otherwise stated)

20 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Equipment. fixture & fittings	Vehicles	Total
Carrying amount at 31 December 2014	280,862	50,499	407	331,768
Cost at 31 December 2014	419,851	257,064	14,143	691,058
Accumulated depreciation	(138,989)	(206,565)	(13,736)	(359,290)
Carrying amount at 31 December 2014	280,862	50,499	407	331,768
Additions	5,381	777	230	6,388
Disposals	(3,683)	(658)	-	(4,341)
Depreciation charge	(11,003)	(10,948)	(143)	(22,094)
Carrying amount at 31 December 2015	271,557	39,670	494	311,721
Cost at 31 December 2015	410,928	144,387	13,583	568,898
Accumulated depreciation	(139,371)	(104,717)	(13,089)	(257,177)
Carrying amount at 31 December 2015	271,557	39,670	494	311,721
Additions	4,233	1,853	-	6,086
Disposals	(8,966)	(1,532)	(6)	(10,504)
Depreciation charge	(11,040)	(10,089)	(178)	(21,307)
Carrying amount at 31 December 2016	255,784	29,902	310	285,996
Cost at 31 December 2016	402,661	140,972	11,161	554,794
Accumulated depreciation	(146,877)	(111,070)	(10,851)	(268,798)

Included in office and computer equipment are assets held under finance leases with a carrying value of RON 150 thousand (2015: 184 thousands). Refer to Note 31.

(all amounts in RON thousand unless otherwise stated)

21 OTHER ASSETS

Other financial assets		
Management fee receivable for administration of sub-participated loans	11,145	7,404
Deferred cash considerations for Visa shares	2,452	-
Guarantee Deposits	1,670	1,541
Sundry receivables	8,961	11,848
Amounts in course of settlement	23,469	12,783
Other financial assets	13,248	13,427
Provision for other financial assets	(13,156)	(13,238)
Total other financial assets net	47,789	33,765
Other non-financial assets		
Inventory	291	265
Prepayments	7,638	2,647
Receivable from state in respect of other taxes	8,200	8,400
Provision for receivable from state in respect of taxes	(1,994)	-
Total other non-financial assets	14,135	11,312
Total other assets	61,924	45,077

All of the above assets are expected to be recovered more than twelve months after the year-end, except for sundry receivables of RON 13.156 thousand (2015: RON 13.238 thousand).

Provision for other financial assets

	2016	2015
Provision at 1 January	13,238	15,466
Charge for the period (Note 9)	(104)	(2,775)
Foreign exchange differences (gain)/loss	22	547
Provision at 31 December	13,156	13,238

Provision for other non- financial assets

	2016	2015
Provision at 1 January	-	-
Charge for the period (Note 9)	1,994	-
Foreign exchange differences (gain)/loss	-	-
Provision at 31 December	1,994	-

(all amounts in RON thousand unless otherwise stated)

21 OTHER ASSETS (CONTINUED)

Analysis by credit quality of other assets outstanding at 31 December 2016 is as follows:

	Management fee receivable for administration of sub-participated loans	Deferred cash considerations for Visa shares	Guarantee Deposits	Sundry receivables	Amounts in course of settlement	Other financial assets	Tot
Neither past due nor impaired							
- Not due at the date of authorization of the financial statements for issue	11,145	2,452	1,672	8,961	23,469	90	47,78
Total neither past due nor impaired	11,145	2,452	1,672	8,961	23,469	90	47,78
Past due but not impaired							
- less than 30 days overdue	-	-	-	-	-	-	
- over 360 days overdue	-	-	-	-	-	-	
Total past due but not impaired	-	-	-	-	-	-	
Receivables colectivelly determined to be impaired (gross)							
- over 360 days overdue	-	-	-	-	-	13,156	13,15
Total collective impaired (gross)	-	-	-	-	-	13,156	13,15
Less impairment provision						(13,156)	(13,15
Total other financial receivables	11,145	2,452	1,672	8,961	23,469	90	47,78

(all amounts in RON thousand unless otherwise stated)

21 OTHER ASSETS (CONTINUED)

Analysis by credit quality of other assets outstauding at 31 December 2015 is as follows:

	Management fee receivable for administration of sub-participated loans	Deferred cash considerations for Visa shares	Guarantee Deposits	Sundry receivables	Amounts in course of settlement	Other financial assets	Tota
Neither past due nor impaired							
- Not due at the date of authorisation of the financial statements for issue	7,404	-	1,547	11,848	12,783	189	33,77
Total neither past due nor impaired	7,404	-	1,547	11,848	12,783	189	33,77
Past due but not impaired							
- less than 30 days overdue	-	-	-	-	-	-	
- over 360 days overdue	-	-	-	-	-	-	
Total past due but not impaired	-	-	-	-	-	-	
Receivables colectivelly determined to be impaired (gross)							
- over 360 days overdue	-	-	-	-	-	13,238	13,23
Total collective impaired (gross)	-	-	-	-	-	13,238	13,23
Less impairment provision	-	-	-	-	-	(13,238)	(13,238
Total other financial receivables	7,404	-	1,547	11,848	12,783	189	33,77

(all amounts in RON thousand unless otherwise stated)

22 DUE TO OTHER BANKS

	2016	2015
Sight deposits from banks	32,153	17,660
Term deposits from banks	408,723	735,923
Total due to other banks	440,876	753,583

A currency analysis and residual maturity profile of amounts due to banks is presented in Note 3. The sight deposits bear an interest rate between 0% - 0,8% for foreign currency and for RON is 0%. The term deposits bear an interest rate of 6,2% for RON and 2,3% for EUR.

As at 31 December 2016 term deposits from the Parent Bank Eurobank Ergasias were RON 227,055 thousand and deposits from Eurobank Private Bank Luxembourg amonnted to RON 29,600 thousand (2015: Eurobank Ergasias RON 672,315 thousand and Eurobank Private Bank Luxembourg RON 26,600 thousand).

23 DUE TO CUSTOMERS

During 2016 interest rates ranged from 0,55% to 1,35% (2015: from 0,15% to 3,40%) on RON denominated term deposits and from 0,05% to 1,35% (2015: from 0,05% to 2,40%) on EUR denominated term deposits. A currency analysis and residual maturity profile of amounts due to customers is presented in Note 3.

	2016	2015
Sight deposits	4,020,491	3,263,041
Term deposits	4,807,566	5,052,290
Collateral deposits	110,375	90,209
Saving instruments	18,196	19,066
Total customer accounts	8,956,628	8,424,606

Economic sector concentrations within customer accounts are as follows:

	2016		2015	
	Amount	%	Amount	%
General governments	203,669	2,27%	55,645	0,66%
Current accounts / overnight deposits	171,897	1,92%	36,604	0,43%
Deposits with agreed maturity	31,772	0,35%	19,041	0,23%
Other financial institutions	343,074	3,83%	378,350	4,49%
Current accounts / overnight deposits	80,989	0,90%	69,305	0,82%
Deposits with agreed maturity	262,085	2,93%	309,045	3,67%
Non-financial institutions	2,377,093	26,54%	1,975,664	23,45%
Current accounts / overnight deposits	1,498,617	16,73%	1,238,232	14,70%
Deposits with agreed maturity	878,476	9,81%	737,432	8,75%
Households	6,032,792	67,36%	6,014,947	71,40%
Current accounts / overnight deposits	2,268,988	25,33%	1,918,901	22,78%
Deposits with agreed maturity	3,763,804	42,03%	4,096,046	48,62%
Total customer accounts	8,956,628	100,00%	8,424,606	100,00%

(all amounts in RON thousand unless otherwise stated)

23 DUE TO CUSTOMERS (CONTINUED)

At 31 December 2016, included in customer accounts are deposits of RON 7.549 thousand (2015: RON 8.321 thousand) held as collateral for irrevocable commitments under import letters of credit.

24 OTHER BORROWED FUNDS

	2016	2015
Loans from banks	201,855	372,427
Subordinated loans from other banks	454,305	452,787
Liabilities from repo transactions	214,231	-
Total other borrowed funds	870,391	825,214

Loans from banks:

	2016	2015
EIB (a – f)	52,706	86,711
EBRD (g – s)	62,745	90,663
IFC (t)	118	60
Bank of Nova Scotia (u – v)	-	-
Banca Popolare di Sondrio (w-uu)	86,286	122,540
Citibank Europe PLC Dublin (vv - xx)	-	72,453
Total loans from banks	201,855	372,427

Subordinated loans from other banks

	2016	2015
Eurobank Ergasias (yy - aaa)	454,305	452,787
Total subordinated loans from other banks	454,305	452,787

a. On 25 October 2007, a loan in the amount EUR 5,000,000 was obtained from the European Bank of Investments ("EIB"), repayable in 2017. The interest (Euribor 3M + 0,046%) is payable quarterly.

b. On 14 December 2007, a loan in the amount EUR 10,000,000 was obtained from the European Bank of Investments ("EIB"), repayable in 2022. The interest (Euribor 3M + 0,049%) is payable quarterly.

c. On 17 October 2008, a loan in the amount EUR 5,000,000 was obtained from the European Bank of Investments ("EIB"), repayable in 2028. The interest (Euribor 3M + 0,080%) is payable quarterly.

24 OTHER BORROWED FUNDS (CONTINUED)

d. On 16 November 2009, a loan in the amount EUR 25,000,000 was obtained from the European Bank of Investments ("EIB"), repaid in 2016. The interest (Euribor 3M + 0,526%) is payable quarterly.

e. On 16 November 2009, a loan in the amount EUR 5,000,000 was obtained from the European Bank of Investments ("EIB"), repayable in 2021. The interest (Euribor 3M + 0,582%) is payable quarterly.

f. On 26 November 2010, a loan in the amount EUR 5,000,000 was obtained from the European Bank of Investments ("EIB"), repayable in 2017. The interest (Euribor 3M + 0,267%) is payable quarterly.

g. On 13 October 2015, a loan in the amount EUR 4,500,000 was obtained from the European Bank for Reconstruction and Development ("EBRD"), repaid in 2016. The interest (Euribor 3M + 1,15%) is payable quarterly.

h. On 28 October 2015, a loan in the amount EUR 615,000 was obtained from the European Bank for Reconstruction and Development ("EBRD"), repaid in 2016. The interest (Euribor 3M + 1,15%) is payable quarterly.

i. On 29 October 2015, a loan in the amount EUR 5,500,000 was obtained from the European Bank for Reconstruction and Development ("EBRD"), repaid in 2016. The interest (Euribor 3M + 1,15%) is payable quarterly.

j. On 17 November 2015, a loan in the amount EUR 3,300,000 was obtained from the European Bank for Reconstruction and Development ("EBRD"), repaid in 2016. The interest (Euribor 3M + 1,15%) is payable quarterly.

k. On 18 December 2015, a loan in the amount EUR 1,900,000 was obtained from the European Bank for Reconstruction and Development ("EBRD"), repaid in 2016. The interest (Euribor 3M + 1,15%) is payable quarterly.

l. On 24 December 2015, a loan in the amount EUR 3,330,000 was obtained from the European Bank for Reconstruction and Development ("EBRD"), repaid in 2016. The interest (Euribor 3M + 1,15%) is payable quarterly.

m. On 24 December 2015, a loan in the amount EUR 855,000 was obtained from the European Bank for Reconstruction and Development ("EBRD"), repaid in 2016. The interest (Euribor 3M + 1,15%) is payable quarterly.

n. On 5 December 2016, a loan in the amount of EUR 4,350,000 was obtained from the European Bank for Reconstruction and Development ("EBRD"), repayable in 2017. The interest (Euribor 3M + 1,15%) is payable quarterly.

o. On 5 December 2016, a loan in the amount of EUR 6,900,000 was obtained from the European Bank for Reconstruction and Development ("EBRD"), repayable in 2017. The interest (Euribor 3M + 1,15%) is payable quarterly.

p. On 5 December 2016, a loan in the amount of USD 2,680,000 was obtained from the European Bank for Reconstruction and Development ("EBRD"), repayable in 2017. The interest (Euribor 3M + 1,15%) is payable quarterly.

q. On 13 December 2016 a loan of EUR 16,000,000 was obtained from Banca Popolare di Sondrio, repayable on 13 June 2017. The interest (Euribor 3M + 0,4%) is payable quarterly.

r. On 13 December 2016 a loan of EUR 3,000,000 was obtained from Banca Popolare di Sondrio, repayable on 13 June 2017. The interest (Euribor 3M + 0,4%) is payable quarterly.

24 OTHER BORROWED FUNDS (CONTINUED)

s. On 31 October 2006, Parent Bank ("Eurobank Ergasias") granted a subordinated loan in the amount of EUR 15,000,000 repayable in October 2013. During 2011 the maturity of the loan was extended until 31 October 2019. The interest rate (Euribor 3M + 0,65%) is payable quarterly.

t. On 16 December 2005, Parent Bank ("Eurobank Ergasias") granted a subordinated loan in the amount of EUR 35,000,000 repayable in December 2012. During 2011 the maturity of the loan was extended until 16 December 2019. The interest is (Euribor 3M + 0,65%) is payable quarterly.

u. On 31 October 2007, Parent Bank ("Eurobank Ergasias") granted an un-termed subordinated loan in the amount of EUR 50,000,000 for an undetermined period. The interest (Euribor 3M + 0,65%) is payable in quarterly payments.

v. On 23 October 2015 a loan of EUR 1,000,000 was obtained from Banca Popolare di Sondrio, repaid on 25 January 2016. The interest (Euribor 3M + 0,45%) is payable quarterly.

w. On 06 November 2015 a loan of EUR 6,000,000 was obtained from Banca Popolare di Sondrio, repaid on 09 May 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

x. On 16 November 2015 a loan of EUR 2,500,000 was obtained from Banca Popolare di Sondrio, repaid on 16 May 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

y. On 17 November 2015 a loan of EUR 3,000,000 was obtained from Banca Popolare di Sondrio, repaid on 17 May 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

z. On 27 November 2015 a loan of EUR 750,000 was obtained from Banca Popolare di Sondrio, repaid on 27 May 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

aa. On 27 November 2015 a loan of EUR 6,000,000 was obtained from Banca Popolare di Sondrio, repaid on 27 May 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

bb. On 04 December 2015 a loan of EUR 2,000,000 was obtained from Banca Popolare di Sondrio, repaid on 04 March 2016. The interest (Euribor 3M + 0,282%) is payable quarterly.

cc. On 09 December 2015 a loan of EUR 572,000 was obtained from Banca Popolare di Sondrio, repaid on 09 March 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

dd. On 11 December 2015 a loan of EUR 350,000 was obtained from Banca Popolare di Sondrio, repaid on 11 March 2016. The interest (Euribor 3M + 0,4%) is payable quarterly

ee. On 18 December 2015 a loan of EUR 2,600,000 was obtained from Banca Popolare di Sondrio, repaid on 11 March 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

ff. On 21 December 2015 a loan of EUR 450,000 was obtained from Banca Popolare di Sondrio, repaid on 21 March 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

gg. On 24 November 2015 a loan of USD 500,000 was obtained from Banca Popolare di Sondrio, repaid on 24 May 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

hh. On 09 December 2015 a loan of USD 1,518,000 was obtained from Banca Popolare di Sondrio, repaid on 09 March 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

ii. On 06 October 2015 a loan of EUR 11,000,000 was obtained from Citibank Europe IE, repaid on 06 January 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

(all amounts in RON thousand unless otherwise stated)

24 OTHER BORROWED FUNDS (CONTINUED)

jj. On 10 November 2015 a loan of EUR 5,000,000 was obtained from Citibank Europe IE, repaid on 10 May 2016. The interest (Euribor 3M + 0,4%) is payable quarterly.

The above subordinated loans are payable only on maturity or may be converted at the agreement of both parties, in share capital. The EUR 50 million loan from the parent with no maturity may be repaid only after National bank of Romania consent was obtained.

Subordinated debt of RON 454,305 thousand (2015: RON 452.787 thousand) carries a variable interest rate of Euribor 3M+0,65 % p.a. and matures on 2019. The debt ranks after all other creditors in the case of liquidation.

25 OTHER FINANCIAL LIABILITIES

Other financial liabilities comprise the following:

	2016	2015
Financial liabilities		
Amounts in transit/settlements	39,469	34,017
Leasing	166	204
Goods, services and fixed assets payables	26,167	26,441
Other financial liabilities	2,922	2,601
Total financial liabilities	68,724	63,263
Non-financial liabilities		
Social contributions and salaries taxes	7,014	7,854
Payables to employees	488	403
Other liabilities	4,639	14,363
Provisions for credit commitments (i)	13,458	10,921
Provision for liabilities (ii)	38,766	26,623
Other provisions (iii)	9,094	24,056
Total Non-financial liabilities	73,459	84,220
Total other financial liabilities	142,183	147,483

Provision for credit related commitments represents specific provisions created for losses incurred on financial guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

(all amounts in RON thousand unless otherwise stated)

25 OTHER FINANCIAL LIABILITIES (CONTINUED)

(i) Provisions for credit commitments

	2016	2015
1 January	10,921	13,324
Amounts charged during the year	2,478	-
Amounts cleared during the year (Note 10)	-	(2,175)
Foreign exchange differences	59	(228)
31 December	13,458	10,921

The balance as at 31 December 2016 of RON 13,458 thousand and is composed by provisions for enforcement risks of letters of guarantee commitment letters and loan financing commitments.

(ii) Provision for liabilities

	Litigations	Branch closure	Other	Total
1 January 2016	14,623	8,786	3,214	26,623
Amounts charged during the year	17,455	-	-	17,455
Amounts released during the year	(301)	(4,664)	(347)	(5,312)
Foreign exchange differences	-	-	-	-
31 December 2016	31,777	4,122	2,866	38,766

	Litigations	Branch closure	Other	Total
1 January 2015	5,229	22,757	3,511	31,497
Amounts charged during the year	10,627	527	(292)	10,861
Amounts released during the year	(1,233)	(14,498)	(5)	(15,735)
Foreign exchange differences	-	-	-	-
31 December 2015	14,623	8,786	3,214	26,623

Provision for liabilities mostly relate to litigations amounted in 2016 RON 31,777 thousand (2015: RON 14,623 thousand) and provisions booked in respect of the branch closure amounted in 2016 RON 4,122 thousand (2015: RON 8.786 thousand).

(all amounts in RON thousand unless otherwise stated)

25 OTHER FINANCIAL LIABILITIES (CONTINUED)

(iii) Other provision

Included in this category are retirement provisions for which the Bank has a legal obligation to pay retirement benefits to its employees on retirement date and provisions for untaken holiday. The payment made on retirement consists in a number of salaries paid to the former employee. The Bank uses actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods based on a collective work contract. For other information please refer to Note 34.

26 SHARE CAPITAL

	2016	2015
Statutory registered amount	1,178,865	1,178,865
Hyperinflation adjustment prior to 2004	171,380	171,380
Total Share Capital	1,350,245	1,350,245

Shareholder structure

In percent (%)	2016	2015
Eurobank Ergasias SA	93,78	93,78
ERB New Europe Holding BV	5,37	5,37
Individuals (including employees and retired staff)	0,85	0,85
Total Share Capital	100,00	100,00

At 31 December 2016 the share capital of the Bank consisted of 2.947.163.540 (2015: of 2.947.163.540) allotted and fully paid ordinary shares of RON 0,40 each (2015: RON 0,40 each). Each share carries one vote.

The Parent Bank

Eurobank Ergasias S.A., the parent Bank is active in retail corporate and private banking assets management insurance treasury capital markets and other services. The parent Bank is incorporated in Greece and its shares are listed on the Athens Stock Exchange. The Group operates mainly in Greece and in Central Eastern and South Eastern Europe.

(all amounts in RON thousand unless otherwise stated)

27 OTHER RESERVES

	2016	2015
Legal reserve	43,324	42,190
General banking risk reserve	41,582	41,583
General reserve	71,847	71,847
Post-retirement benefits related reserve	(2,459)	(6,130)
Total Share Capital	154,294	149,490

As at 31 December 2016 under Romanian banking legislation the Bank is required to create the following reserves from appropriation of profit:

- legal reserve appropriated at the rate of 5% of the gross profit, until the total reserve is equal to 20% of the issued and fully paid up share capital; and
- general reserve for banking risk appropriated from the gross profit at the rate of 1% of assets bearing banking risks (until 31 December 2006, according with the regulation).

General reserves comprise the following items:
- foreign exchange reserves related to foreign denominated cash, built up according to Law 189/2001 into an amount of 66,200 thousands;
- reserves built up for own funds increase into an amount of 5,467 thousands;
- other reserves into an amount of 180 thousands.

Amounts transferred to reserves must be used for the purposes designated when the transfer is made. According to the local legislation these reserves cannot be used for other purposes.

28 ANALYSIS OF CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement cash and cash equivalents comprise the following balances with less than 90 days initial maturity:

	2016	2015
Cash	480,992	499,655
Current account with the Central Bank (Note 13)	1,010,571	1,404,081
Loans and advances to banks (Note 14)	2,360,424	1,094,853
Total	3,851,987	2,998,589

29 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions. The Bank's immediate parent is Eurobank Ergasias S.A. (Greece) ("Parent bank").
The management includes the members of the Board of Directors, Executive Committee, the management of the Legal department, Compliance and Internal Audit departments and their relatives.
A number of banking transactions are entered into with related parties in the normal course of business. These include loans deposits and foreign currency transactions acquisition of other services and sale of loans. These transactions bear the normal market prices.

Related party transactions - Eurobank Ergasias S.A. shareholding structure

In November 2015, following the completion of the Eurobank Ergasias S.A. share capital increase, fully covered by investors, institutional and others the percentage of the Eurobank Ergasias S.A. ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) decreased from 35.41% to 2.38%.

Despite the aforementioned significant decrease of its percentage, the HFSF is still considered to have significant influence over the Eurobank Ergasias S.A. In particular, in the context of the Law 3864/2010, as in force, HFSF exercises its voting rights in the Eurobank Ergasias S.A. General Assembly only for decisions concerning the amendment of the Eurobank Ergasias S.A. Articles of Association, including the increase or decrease of the Eurobank Ergasias S.A. capital or the granting of a corresponding authorization to the Eurobank Ergasias S.A. Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of the Eurobank Ergasias S.A., the transfer of assets (including the sale of subsidiaries), or any other issue requiring approval by an increased majority as provided for in Company Law 2190/1920. In addition, Eurobank Ergasias S.A. has entered into a new Relationship Framework Agreement (RFA) with the HFSF on 4 December 2015 replacing the previous one, signed on 26 August 2014.

(all amounts in RON thousand unless otherwise stated)

29 RELATED PARTY TRANSACTIONS (CONTINUED)

	2016 Key Management	2016 Shareholders	2016 Other group entities*	2015 Key Management	2015 Shareholders	2015 Other group entities*
Assets	3,979	2,042,099	102,124	3,038	644,238	183,572
Loans and advances to Banks (interest rate: 0.55% - 2.24%)	-	2,040,997	-	-	642,531	-
Loans and advances to Customers (interest rate: 1.57% - 6.08%)	3,979	-	-	3,038	-	88,156
Investment securities available for sale	-	-	86,271	-	-	86,201
Other debtors	-	36	15,853	-	36	9,215
Derivative financial instruments	-	1,066	-	-	1,671	-
Liabilities	2,784	695,974	226,769	2,309	1,157,729	357,972
Due to banks (interest rate: 0.878% - 0.927%)	-	685,410	-	-	689,275	-
Due to customers (interest rate: 0.1% - 3.75%)	2,784	-	226,266	2,309	-	357,662
Other borrowed funds (interest rate: 0.732% - 0.738%)	-	(44)	-	-	452,787	
Other creditors	-	42	503	-	1,384	310
Derivative financial instruments	-	10,566	-	-	14,283	-

*) Does not include entities with insignificant influence.

(all amounts in RON thousand unless otherwise stated)

29 RELATED PARTY TRANSACTIONS (CONTINUED)

	2016 Key Management	2016 Shareholders	2016 Other group entities*	2015 Key Management	2015 Shareholders	2015 Other group entities*
Profit and loss	112	14,820	(5,640)	85	22,646	(8,964)
Interest income	115	13,067	4,094	99	15,512	5,792
Interest expense	(7)	(7,960)	(2,301)	(17)	(18,266)	(5,433)
Net trading income/(loss)	2	11,287	-	-	26,687	-
Fee and Commission income	2	22	9,256	3	4	10,899
Fee and Commission expense	-	(574)	(1,261)	-	(1,161)	-
Other operating income	-	-	747	-	-	4,300
Other operating expense	-	(1,021)	(16,175)	-	(130)	(24,522)
Commitments	370	-	183,460	307	2,292	204,578
Financial guarantees	-	454,832	58,263	-	453,102	17,039

*) Does not include entities with insignificant influence.

	2016	2015
Remuneration of the Key Management Personnel	3,476	3,271

30 CONCENTRATION OF ASSETS DUE FROM THE GOVERNMENT AND CENTRAL BANK

	2016	2015
Balances with the Central Bank (Note 13)	1,010,507	1,404,081
Debt securities (Note 19)	1,344,758	1,650,018
Total assets	2,355,265	3,054,099

(all amounts in RON thousand unless otherwise stated)

31 CONTINGENCIES AND COMMITMENTS

Assets pledged/restricted

	Assets pledged		Related liability	
	2016	2015	2016	2015
Cash Collateral Deposits	66,905	18.570	16,663	-
Government securities (Repo transaction)	225,685	-	214,231	-

The balance related to these collateral deposits includes RON 62,154 thousands that relate to settlement of derivatives (CIRS, FX SWAP) with Parent Bank.

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 Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

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

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

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding amounts are:

	2016	2015
Letters of guarantee	380,809	444,878
Letters of credit	2,836	321
Undrawn loan commitments	1,145,565	919,038
Total credit commitments	1,529,210	1,364,237

(all amounts in RON thousand unless otherwise stated)

31 CONTINGENCIES AND COMMITMENTS (CONTINUED)

The letters of Guarantee include letters of guarantee in amount of RON 101,827 thousand (2015: RON 197,851 thousand) issued for credit risk in respect of loans granted by Eurobank Private Bank Luxembourg S.A. to Romanian customers.

Legal proceedings.

From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that material losses will be incurred in respect of claims, and accordingly a provision has been made in these financial statements, at 31 December 2016 an amount of RON 15,901 thousands (2015: RON 12.051 thousands).

Tax contingencies.

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (accruing at a rate of approximately 22% p.a.). In Romania, tax periods remain open for 7 years. The Bank's management considers that the tax liabilities included in these financial statements are fairly stated. The last tax authority's inspection was performed for period January 1, 2006 until December 31, 2010.

Capital expenditure commitments

As at 31 December 2016 the Bank has contractual capital expenditure commitments in respect of equipment and software totalling RON 2.632 thousand (2015: RON 2.263 thousand).

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable building and cars operating leases are as follows:

	2016	2015
No later than 1 year	6,167	33,916
Later than 1 year and no later than 5 years	15,002	106,475
Later than 5 years	3,040	44,000
Total	24,209	184,391

(all amounts in RON thousand unless otherwise stated)

31 CONTINGENCIES AND COMMITMENTS (CONTINUED)

On 31 December 2016 and 2015 the future minimum lease payments for financial leases were as follow:

	2016	2015
Up to one year	38	38
From two to five years including	111	149
Total	149	187

Compliance with covenants

The Bank is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and declaration of default. Management believes that the Bank is in compliance with covenants at 31 December 2016 and 31 December 2015.

Insolvency law for individuals

The initial term for the law's entry into force was 26th of December, 2015; postponed by means of GEO for the 31st of December, 2016. By means of GEO 98/2016, the Law no. 151/2015 on the insolvency procedure for natural persons shall enter into force on the 1st of August 2017.

In this regard, as provided by Government Decision 11/2016, it is necessary to set up 42 local committees of insolvency, the technical apparatus and the adoption of law enforcement rules.

A draft regarding the implementation guidelines (law enforcement rules) is made available on the National Consumers' Protection Authority website.

Taking into consideration that the secondary legislation addressing the law enforcement rules are still pending and also the fact that the committees for law application are not yet set up there is possible that the term for entering into force to be postponed again.

32 STANDARD LEGAL STAFF RETIREMENT INDEMNITY OBLIGATIONS

Impact on other comprehensive income for the year (increase/decrease):

	2016	2015
Measurement of the retirement benefit obligations, net of tax	3,081	4,340
Other comprehensive income for the year	3,081	4,340

Staff retirement indemnity obligation

The Bank provides for staff retirement indemnity obligation for its employees who are entitled to a lump sum payment at the date of retirement, if they remain in the employment of the Bank until normal retirement age, in accordance with the local labour legislation. The above retirement indemnity obligations typically expose the Bank to actuarial risks such as interest rate risk and

(all amounts in RON thousand unless otherwise stated)

32 STANDARD LEGAL STAFF RETIREMENT INDEMNITY OBLIGATIONS (CONTINUED)

salary risk. Therefore a decrease in the discount rate used to calculate the present value of the estimated future cash outflows or an increase in future salaries will increase the staff retirement indemnity obligations of the Bank.

The movement in the standard legal staff retirement indemnity obligations over the year is as follows:

	2016	2015
Balance at 1 January	22.525	4,818
Current service cost	(769)	488
Interest cost	(270)	202
Past service cost and (gains)/losses on settlements	(1,213)	(159)
Measurements:		
Past service cost arising over last period	(10,530)	12.806
Actuarial (gains)/losses arising from changes in demographic Assumptions	-	(1,711)
Actuarial (gains)/losses arising from changes in financial assumptions	(840)	406
Actuarial (gains)/losses arising from experience adjustments	(289)	6,471
Exchange differences		
Benefit payments	(288)	(796)
Balance at 31 December	8.326	22.525

Significant actuarial assumptions

The significant actuarial assumptions (expressed as weighted averages) were as follows:

In % (per cent)		2016		2015
Discount rate		3,50		3,55
Price inflation		2,00		2,00
Rate of compensation increase:	2017-18: 1,00%		2016: 1,0%	
	2019: 2,00%		2017-18: 2,0%	
	2020+: 3,00%		2019+: 3,0%	

(all amounts in RON thousand unless otherwise stated)

32 STANDARD LEGAL STAFF RETIREMENT INDEMNITY OBLIGATIONS (CONTINUED)

Amount, timing and uncertainty of future cash flows

The use of a discount rate plus 50BP will lead to an actuarial liability lower by 6% and the opposite, a discount rate minus 50BP will lead to an actuarial liability higher by 7%.
The use of a salary rate plus 50BP will lead to an actuarial liability higher by 3% and the opposite, a salary rate minus 50BP will lead to an actuarial liability lower by 3%.

	Defined Benefit Obligation	%
Discount rate increased by 0.5%	7,787,411	-6%
Discount rate reduced by 0.5%	8,920,530	7%
Salary rate increase by 0.5%	8,595,735	3%
Salary rate reduced by 0.5%	8,080,784	-3%

	Current Service Cost	%
Discount rate increased by 0.5%	725,945	-9%
Discount rate reduced by 0.5%	885,470	11%
Salary rate increase by 0.5%	885,680	11%
Salary rate reduced by 0.5%	725,086	-9%

The average duration of the standard legal staff retirement indemnity obligations at 31 December 2016 is 16,46 years (2015: 16,10 years).

33 EVENTS AFTER THE END OF THE REPORTING PERIOD

During 2017, up to the moment of signing these financial statements there were no other significant events having an impact on the financial statements.