

ERB RETAIL SERVICES IFN SA

FINANCIAL STATEMENTS

31 DECEMBER 2016

**Prepared in accordance with the Order of the
National Bank of Romania no. 6/2015**

This version of the accompanying documents is a translation from the original, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

ERB RETAIL SERVICES IFN SA

FINANCIAL STATEMENTS

31 DECEMBER 2016

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**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ERB RETAIL SERVICES IFN SA**

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ERB Retail Services IFN SA (the "Company") as of 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the requirements of the Order of National Bank of Romania ("NBR") no. 6/2015 "for approving accounting Regulations in accordance with European directives" and subsequent amendments ("NBR Order 6/2015") and with the Regulation of NBR no. 5/2012 „regarding classification of loans and establishing, adjusting and using specific credit risk provisions applicable to entities oversight by National Bank of Romania, other than credit institutions" and subsequent amendments ("NBR Regulation 5/2012") and the accounting policies presented in the Note 1 to these financial statements.

What we have audited

The Company's financial statements, set out on pages 1 to 52, comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information,

presenting the following:

- | | |
|------------------------------|-----------------|
| • Total equity and reserves: | 333,817,591 lei |
| • Net profit for the year: | 61,662,895 lei. |

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 Company 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 matter

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

The accompanying financial statements are not intended to present the financial position, results of operations and a complete set of notes to the financial statements of the Company in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Romania. Accordingly, the accompanying [abridged] financial statements are not designed for those who are not informed about Romanian legal and statutory requirements including NBR Order 6/2015 and NBR Regulation 5/2012.

Other information

The Administrators are responsible for the preparation and fair presentation of the Administrators' Report in accordance with the requirements of the NBR Order 6/2015, articles 225 - 228 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 18 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 [abridged] financial statements, whether the Administrator's Report includes, in all material respects, the information required by the NBR Order 6/2015, articles 225 - 228, and whether, in light of our knowledge and

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understanding acquired during the audit of the financial statements for the year ended 31 December 2016 in respect of the Company 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 accompanying financial statements; and
- b) the above mentioned Administrators' Report includes, in all material aspects, the information required by the NBR Order 6/2015, articles 225– 228.

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 Company 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 NBR Order 6/2015, NBR Regulation 5/2012 and with the accounting policies presented in Note 1 to the financial statements, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so. Those Charged with Governance are responsible for overseeing the Company'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

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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 Company'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 Company'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 Company 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, 10 May 2017

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ERB RETAIL SERVICES IFN S.A.**BALANCE SHEET AS AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

	<u>Line</u>	<u>Note</u>	<u>31 December 2015</u>	<u>31 December 2016</u>
ASSETS				
Cash and liquid assets at central banks	10	2.1	3,843	3,554
Receivables in credit institutions, out of which:	30	2.2	201,004,065	74,742,782
On demand	33		886,331	2,132,747
Other receivables	36		200,117,734	72,610,035
Receivables from clients	40	2.3	263,026,291	229,385,053
Intangible assets	90	4	987,108	1,738,782
Tangible assets	100	4	319,747	344,888
Other assets	120	2.4	1,740,441	5,083,688
Prepaid expenses and accrued revenues	130	2.5	38,396,361	29,286,433
TOTAL ASSETS			505,477,856	340,585,180
LIABILITIES				
Debts regarding credit institutions, out of which:	300	2.6	222,422,088	111
On demand	303		88	110
On term	306		222,422,000	1
Other liabilities	330	2.7	9,153,728	5,054,095
Deferred income and committed liability	340	2.8	514,068	130,019
Provisions, of which:	350	2.9	1,233,275	1,583,364
Provisions for employees facilities	353		34,473	86,238
Provisions for taxes	355		947,765	935,761
Other provisions	356		251,037	561,365
Subscribed share capital	370	2.10	90,774,500	90,774,500
Reserves	390	2.11	12,697,396	15,780,541
Legal reserves	392		12,697,396	15,780,541
Retained earnings		2.11	128,347,646	168,682,800
Profit	423		128,347,646	168,682,800
Result of the financial year			42,805,423	61,662,895
Profit	433	2.12	42,805,423	61,662,895
Profit distribution	440	2.12	2,470,267	3,083,145
TOTAL LIABILITIES & EQUITY			505,477,856	340,585,180

ERB RETAIL SERVICES IFN S.A.

BALANCE SHEET AS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

	<u>Note</u>	<u>31 December</u> <u>2015</u>	<u>31 December</u> <u>2016</u>
OFF BALLANCE SHEET ITEMS			
Commitments	9 c)	659,471,524	627,064,473

Division Manager
Nicoleta Bott



Chief Financial Officer
Simona Taloi



ERB RETAIL SERVICES IFN S.A.

**INCOME STATEMENT FOR THE FINANCIAL YEAR
ENDING AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

	<u>line</u>	<u>Note</u>	<u>31 December</u> <u>2015</u>	<u>31 December</u> <u>2016</u>
INCOME STATEMENT				
Interest income	10	5.1	88,980,965	64,830,343
Interest expenses	20	5.2	10,799,800	4,184,222
Revenues from fees	40	5.3	25,581,839	18,369,588
Expenses with fees	50	5.4	9,711,033	8,044,903
Net profit or loss from financial operations	60	5.5	(1,623,605)	(962,677)
Other operating revenues	70	5.6	4,707,059	5,091,356
General administrative expenses, of which	80		49,430,566	34,758,218
Staff expenses, of which	83	6.2	9,211,120	8,267,323
Salaries	84	6.2	7,597,183	6,723,623
Social security expenses	85	6.2	1,613,937	1,543,700
Other administrative expenses	87	5.7	40,219,446	26,490,895
Corrections on the value of tangible and intangible assets	90	4	1,426,063	1,273,967
Other operating expenses	100	5.8	6,622,401	3,337,228
Corrections on the value of receivables and provisions for contingent liabilities and commitments	110	5.9	76,704,580	387,501,229
Reversal of correction on the value of receivable debts and provisions for contingent liabilities and commitments	120	5.10	86,494,503	413,434,052
CURRENT ACTIVITY RESULT			49,446,318	61,662,895
Profit	153		49,446,318	61,662,895
Total income	190		206,178,450	502,465,988
Total expenses	200		156,732,132	440,803,093
GROSS RESULT			49,446,318	61,662,895
Profit	213		49,446,318	61,662,895
Profit tax expense	220	5.11	6,640,896	-
NET RESULT OF THE FINANCIAL YEAR			42,805,423	61,662,895
Profit	243		42,805,423	61,662,895

Division Manager
Nicoleta Bort



Chief Financial Officer
Simona Taloi

ERB RETAIL SERVICES IFN S.A.

**CASH-FLOWS FOR THE FINANCIAL YEAR
ENDING AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

	<u>Line</u>	<u>2015</u>	<u>2016</u>
CASH FLOW STATEMENT			
NET RESULT	1	42,805,423	61,662,895
<i>Elements of the net result that do not generate cash-flows relating To the operating activity</i>			
+/- set-up or adjustment of provisions	2	(9,789,923)	(25,932,823)
+depreciation expenses	3	1,426,062	1,273,967
+/- adjustments relevant to elements included at investment or financing activities	5	10,799,800	4,184,222
+/- other adjustments	6	6,640,896	(56,837)
Sub-total (line 01 to 06)	7	51,882,258	41,131,424
<i>Changes of assets and liabilities relating to the operating activity following the adjustments for the elements that do not generate cash flows related to the operating activity</i>			
+/- receivables regarding credit institutions	9	220,293	(83,536)
+/- receivables regarding clients	10	55,677,246	(34,320,082)
+/- attached receivables	11	19,658,969	102,163,621
+/- other assets relating to the operating activity	12	1,003,434	(2,111,105)
+/- other liabilities relating to the operating activity	16	(2,905,701)	(1,336,961)
- cash payments representing profit tax	17	(7,040,459)	(3,659,866)
Cash flows from the operating activity (line 07 to 17)	18	118,496,040	101,783,495
Cash flows from investment activities			
+ cash proceeds from the sale of lands and fixed assets	23	-	56,837
- cash payments for the purchase of land and fixed assets, intangible assets and other long-term assets	25	(1,692,317)	(1,579,242)
Cash flows from investment activities (line 23 to 25)	29	(1,692,317)	(1,522,405)

ERB RETAIL SERVICES IFN S.A.

**CASH-FLOWS FOR THE FINANCIAL YEAR
ENDING AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

	<u>Line</u>	<u>2015</u>	<u>2016</u>
Cash flows from financing activities			
- other cash payments related to financing	36	(10,799,800)	(226,606,199)
Cash flows from financing activities (line 30 to 37)	38	(10,799,800)	(226,606,199)
Cash and cash equivalent at the beginning of the reporting period	39	92,647,503	198,651,426
+/- Cash flows from operating activities (line 18)	40	118,496,040 (1,692,317)	101,783,495 (1,522,405)
+/- 'Cash flows from investment activities (line 29)	41		
+/- Cash flows from financing activities (line 38)	42	(10,799,800)	(226,606,199)
Cash and cash equivalent at the end of the reporting period (line 39 to 42) (Note 11)	44	198,651,426	72,306,318

Division Manager
Nicoleta Bott



Chief Financial Officer
Simona Taloi

ERB RETAIL SERVICES IFN S.A.

**STATEMENT OF CHANGES OF SHAREHOLDERS EQUITY FOR THE FINANCIAL YEAR
ENDING AT 31 DECEMBER 2015 / 2016**

(All amounts are expressed in RON, unless otherwise specified)

<u>Equity items</u>	<u>Balance on 1 January 2015</u>	<u>Total: of which</u>	<u>Increase Through transfer</u>	<u>Total: of which</u>	<u>Reductions Through transfer</u>	<u>Balance on 31 December 2015</u>
Subscribed capital	90,774,500	-	-	-	-	90,774,500
Legal reserves	10,227,129	2,470,267	2,470,267	-	-	12,697,396
Retained earnings	64,586,248	63,761,398	63,761,398	-	-	128,347,646
Result of the financial year						
Credit balance	67,448,328	42,805,423	-	(67,448,328)	(67,448,328)	42,805,423
Debit balance	-	-	-	-	-	-
Profit distribution	(3,686,930)	(2,470,267)	(2,470,267)	3,686,930	3,686,930	(2,470,267)
Total equity	229,349,276	106,566,821	63,761,398	(63,761,398)	(63,761,398)	272,154,698

Division Manager

Nicoleta Bott

Chief Financial Officer

Simona Taloi



ERR RETAIL SERVICES IFN S.A.

STATEMENT OF CHANGES OF SHAREHOLDERS EQUITY FOR THE FINANCIAL YEAR
ENDING AT 31 DECEMBER 2015 / 2016

(All amounts are expressed in RON, unless otherwise specified)

Equity items	Balance on 1 January 2016		Increase Through transfer		Reductions Through transfer		Balance on 31 December 2016
	of which	Total:	of which	Total:	of which	Total:	
Subscribed capital	90,774,500	-	-	-	-	-	90,774,500
Legal reserves	12,697,396	3,083,145	3,083,145	-	-	15,780,541	
Retained earnings	128,347,646	40,335,153	40,335,153	-	-	168,682,800	
Result of the financial year							
Credit balance	42,805,423	61,662,895	-	(42,805,423)	-	(42,805,423)	61,662,895
Debit balance	(2,470,267)	(3,083,145)	(3,083,145)	-	-	-	(3,083,145)
Profit distribution							
Total equity	272,154,698	101,998,048	40,335,153	(40,335,156)	2,470,267	(40,335,156)	333,817,591

Division Manager

Nicoleta Bott



Chief Financial Officer

Simona Taloi




ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

GENERAL DATA REGARDING THE COMPANY

ERB RETAIL SERVICES IFN („the Company”) is a joint stock company, registered in Romania in 2004, with the Trade Registry under registration number J40/338/2004. The registration number in the General Registry is RG-PJR-41-110144/22.06.2007 (renewed in 2012: RG-PJR-41-010144/19.01.2012), and the unique fiscal registration code is RO16036850. ERB RETAIL SERVICES IFN S.A. is authorised by the National Bank of Romania to run operations of consumer lending through credit cards. On 28.04.2011, ERB RETAIL SERVICES IFN SA obtained from the National Bank of Romania the authorization as payment institution, series IP, no. 004, according to OUG 113/2009 and NBR Regulation 21/2009.

The headquarters of ERB RETAIL SERVICES IFN S.A. is located in Bucharest, 6A Dimitrie Pompeiu Blvd, Olympus building, first floor (partial), 3rd floor (Zone 3), Sector 2, Bucharest, according to the registration certificate, issued on 19nd of February 2016.

On 15.10.2012, the Extraordinary General Meeting of Shareholders decided to change the name of the Company from EFG Retail Services IFN SA to ERB RETAIL SERVICES IFN SA. The amendment became effective on 13.11.2012, the date of resolution issued by Trade Registry.

The Company has a working point registered, at 6 Calea Vitan, Bloc Tronson C, ground floor, Sector 3, Bucharest, according to the registration certificate for salaries tax purposes under C.I.F. 25788673, issued on 17 September 2009 and other working points opened in the locations of the most important merchants- partners.

During 2016 no new working points were opened or closed from the existing ones.
As at December 31, 2016, a number of 9 working points were still active.

In 2016 the average number of full time employees of the Company was 113 employees (2015: 133).
At 31 December 2016, the number of full time employees was of 105.

The business of the Company is the issue of credit cards under its own brand name and manage the credit cards in connection with the Company's activity of granting consumer loans.

According to the registry of activities, the main activity of the Company is: "Other lending activities: granting consumer loans by credit cards" – CAEN Code 6492.

The Company Board of Administration includes 9 members, appointed by the General Meeting of Shareholders.

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

GENERAL DATA REGARDING THE COMPANY (CONTINUED)

The Structure of the Board of Administration of ERB RETAIL SERVICES IFN S.A, as at 31 December 2016:

1.	Filippos Karamanolis	President of the Board of Administration;
2.	Christina Theofilidi	Member;
3.	Theodoros Karakasis	Member;
4.	Anastasios Panousis	Member;
5.	Mihai Bogza	Member;
6.	Efthymios Zois	Member;
7.	Lambros Yiannis Demosthenous	Member;
8.	Georgios Chatzinikolis	Member;
9.	Aikaterini Atsali	Member;

The main shareholder of ERB RETAIL SERVICES IFN S.A. is ERB NEW EUROPE HOLDING B.V. (with a participation to the share capital of 99.1469%) a Dutch financial institution, registered and operating in accordance with the Laws of Netherlands, with its headquarters Herengracht 500, 1017 CB Amsterdam, Netherlands, registered with the Chamber Commerce under number 34192535. The parent company of ERB New Europe Holding B.V. is Eurobank Ergasias S.A. bank (with 100% holding percentage).

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.

1 PRINCIPLES, POLICIES AND ACCOUNTING METHODS

The main accounting policies adopted for preparing these financial statements are presented below:

A Basis of preparation of the financial statements

These financial statements are drawn up in accordance with:

- i) Accounting Law no. 82/1991 republished („Law 82”);
- ii) The accounting regulations in accordance with the European directives, applicable to the credit institutions, non-banking financial institutions and the fund for guarantee of deposits in the banking system approved through the Order of the National Bank of Romania no. 6/2015;
- iii) Regulation 20/2009 issued by NBR regarding the registration with the registries of non-banking financial institutions, regarding communication of changes in the situation of non-banking financial institutions and prudential requirements applicable to non-banking financial institutions registered in the special register; .
- iv) Regulation 5/2012 issued by NBR regarding the classification of credits and investments as well as the set-up, adjustment and use of specific credit risk provisions applicable to the non-banking financial institutions;
- v) Regulation 21/2009 issued by NBR regarding payment institutions.

These financial statements were authorized by the Board of Administration on 25 April 2017.

PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

B Operation and presentation currency

The operational currency of the Company is the currency of the primary economic environment where it operates. These financial statements are presented in RON which is the operational and presentation currency of the Company.

C Accounting principles used

The following accounting principles were applied in preparing the annual financial statements:

- **Going concern principle:** assumes that the Company to be carrying on its business as a going concern in the foreseeable future. In order to evaluate the applicability of this assumption, the management reviews the predictions regarding the future cash income without facing the impossibility of continuing its activity or without significantly reducing its activity.
- **Consistency of presentation principle** assumes the continuity of applying the same rules and norms regarding the valuation, accounting records and presentation of the assets and liabilities elements as well as the results, ensuring the comparability in time of the accounting information.
- **Substance over form principle** according to which information disclosed in annual financial statements should reflect the economic substance of events and transactions, not merely their legal form.
- **The prudence principle** assumes that the value of each element must be determined by taking into account especially the following aspects:
 - i) Only the profits which are to be recognised before the end of the financial year, shall be taken into account;
 - ii) All predictable obligations and the potential loss, that have been generated during the concluded financial year or during the previous financial year, even if such obligations or loss occur between the closing date of the financial year and the date of drawing up the balance sheet, shall be considered;
 - iii) All value adjustments due to depreciations, irrespective of whether the result of the financial year is profit or loss, shall be considered.

1 **PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)**

- **The cut-off principle** according to which, all income and expenses corresponding to the current financial year, without taking into account the date of collecting or making payments shall be taken into consideration.

- **Principle of separate evaluation of assets and liabilities** according to which the value relevant to each asset or liability item shall be determined separately with a view to set the total value corresponding to a position in the balance sheet.

- **Matching principle** according to which the opening balance of a financial year must correspond to the closing balance of the previous year, except for the corrections imposed by the application of Order NBR 6/2015 requirements, regarding previous years.

- **Offsetting principle** according to which the value of assets cannot be compensated by the value of the liabilities, respectively revenues are not compensated by expenses, except for the cases specified in the Order NBR 6/2015.

- **Materiality (significant value) principle** according to which any element that has a significant value must be presented distinctly in the annual financial statements. The elements with insignificant values that have the same nature or with similar functions must be summed up, thus, their separate presentation not being necessary.

1 PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

D Use of estimates

Preparing up the financial statements in accordance with the provisions of Order 6/2015 with subsequent modifications and completions, requires the management of ERB RETAIL SERVICES IFN S.A. to apply the professional judgement, to make valuations and hypothesis which affect the reported values of assets and liabilities, the presentation of assets and contingent debts on the date the financial statements have been prepared and the reported expenses for the respective period. These estimates are permanently revised and the changes in the estimates are recognised in the periods when they have been made.

E Going concern

The annual financial statements have been prepared on a going concern basis, as the Board of the Directors considered as appropriate, taking into consideration the following:

a) Position of Eurobank 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 bn 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

(All amounts are expressed in RON, unless otherwise specified)

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 bn, (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.

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.

PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

b) Application of the going concern principle in the preparation of the financial statements

These financial statements were prepared up based on going concern principle assuming that the Company will continue its activity in the predictable future as well. In order to evaluate the applicability of this assumption the management reviews the estimations regarding the future cash inflows. Based on these analyses, the management of ERB RETAIL SERVICES IFN SA considers that it will continue its activity normally in the future and consequently, the financial statements were drawn up based on going concern principle.

F Cash and cash equivalent

For the cash flow, cash and its equivalents comprise the cash in hand, bank accounts, bank deposits with initial maturities up to 3 months.

G Receivables from credit institutions

The receivables on credit institutions represent the placements of the Company in current accounts and bank deposits. These are presented in the financial statements at their nominal value plus the accrued interest as at 31 December 2016.

H Receivables from clients

i) Valuation

The receivables on clients include loans granted by the Company by providing funds directly to a client and these are classified as receivables from clients, and are accounted for at amortised cost. The amortised cost of the loans is defined as representing advanced funds minus reimbursements during the year minus the provisions for the depreciation of the respective assets. All loans are acknowledged when funds are made available to the clients.

PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

ii) Specific credit risk provisions

Specific credit risk provisions are set up based on the valuation of the credit and prepaid portfolio including the non-cashed interests.

Beginning with 2012, the Company has been applying the Regulation 5/2012 on non-banking financial institutions regarding their registration with the registry of non-banking financial institutions, communication of changes with respect to non-banking financial institutions and specifying prudential requirements applicable to non-banking financial institutions registered in the Special Register and payment institution, which classifies the credits under the following categories:

<u>Classification category</u>	<u>Risk provision rate for credits (other than those recorded in foreign currency or indexed at an exchange rate, granted to individuals exposed to currency risk)</u>
Standard	0
Under observation	0.05
Substandard	0.2
Questionable	0.5
Loss	1

Specific provisions for credit risk are created by including to expenses the amount representing the level of the necessary specific provisions for credit risk. Specific provisions for credit risk are adjusted by including into income the reversal of the provision and on expenses the additional provision needed.

The specific provisions for credit risk remain without object when the following conditions are met:

- all legal possibilities of recovery have been exhausted or the prescription term has been fulfilled; or
- the contractual rights related to the respective credit have been transferred.

In this case, the Company cancels the specific provisions for credit risk by reversing an amount representing the level of specific provisions for credit risk existing in the balance related to such loans together with the derecognition from the balance sheet of the loans.

(All amounts are expressed in RON, unless otherwise specified)

1 PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

The credit risk specific provisions are determined only for the client's balance sheet commitments. Some of the loan facilities are restructured. The restructuring facility offers to eligible clients the possibility of repaying the existing total exposure at a lower interest rate through an amortised loan. For the restructured loans the provisions are calculated as for the rest of the portfolio, considering the actual overdue days for the rescheduled clients where the overdue days are computed from the rescheduling date.

No provisions are calculated for the off-balance sheet commitments which represent the unutilised credit limits available for the customers. The probability for these commitments to be drawn by clients in default is remote as once a client becomes overdue, the system doesn't allow usage of the available credit limit.

I Conversion of the amounts expressed in foreign currencies

The currency transactions are translated in local currency at the exchange rate of the Romanian RON in force on the date of the transaction. The assets and liabilities expressed in currencies were converted in RON, by using the official exchange rates of the National Bank of Romania valid on the date of the balance sheet, 31 December 2016.

On 31 December 2016, the main exchange rates used for the conversion of the balances expressed in foreign currency were:

1 USD = 4,3033RON (31 Decembrie 2015: 1 USD = 4,1477 RON)

1 EUR = 4,5411RON (31 Decembrie 2015: 1 EUR = 4,5245 RON)

1 GBP = 5,2961RON (31 Decembrie 2015: 1 GBP = 6,1466 RON)

1 CHF = 4,2245RON (31 Decembrie 2015: 1 CHF = 4,1797 RON)

The profit and loss generated by exchange rate differences resulted from the conversion of the monetary assets and liabilities as well as those resulted from transaction payments at exchange rates different from the official valid exchange rate at the date of transaction are acknowledged in the income statement of the financial year.

1 **PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)**

J Intangible assets

i) Cost/valuation

The intangible assets are represented by systems and information systems purchased, customized and licensed and other user rights purchased and are carried at cost.

The maintenance costs of the software systems are acknowledged as an expense, when these are made. The costs, which are directly associated to a single, identifiable product that is controlled by the Company and which is likely to generate economic benefits that exceed the cost, for a period longer than one year, are acknowledged as intangible assets.

The implementation or customization costs and other expenses elements that improve and extend this software over the standard lifecycle and over their initial specification are recorded under modernization, and are capitalized.

The patents, trademarks and other intangible assets are acknowledged under purchase costs. Intangible assets are not re-evaluated, being carried at cost.

ii) Amortization

The expenses incurred with the purchase and development of the capitalized IT software is amortised by using the linear method for a period of up to 3 years, as a common practice.

K Tangible assets

i) Cost/valuation

Initially, the tangible assets are recorded under the acquisition cost, the historical cost being also the subsequent valuation method. Each fixed asset with an acquisition cost that exceeds RON 2,500 (2014: RON 2,500) and an estimated lifecycle of over one year is capitalized. Subsequent expenses incurred with the maintenance and repairs of the tangible assets are expensed in the period when these were made. Any significant improvements regarding to the tangible assets are capitalized when it is estimated that the Company shall obtain future additional economic benefits against the initial performance or when these extend their lifecycle.

1 PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

The fixed assets such as inventory items are included under expenses when purchased, and they are not included in the accounting value of the tangible assets. The Company has not prepared until the present moment the fixed assets count.

ii) Sale / Disposal of the tangible assets

The profit and loss upon the sale/ disposal of the fixed assets are determined by reference to their net accounting value and are acknowledged under income statement.

iii) Depreciation

The fixed assets which are held through financial leasing are depreciated during their lifecycle, by the same method as the fixed assets owned.

The economic lifecycle is the period when an asset is foreseen as being available to be used by an entity. The depreciation is calculated using the linear depreciation method for the useful life of the assets. Land is not depreciated.

Lifecycle used by the Company

<u>Type</u>	<u>Years</u>
Technical systems and cars	3 - 6
Other installations, machinery and furniture	3 - 30

1 PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

L Stocks

The stocks are registered at the minimum between the cost and the net realizable value. The cost is determined, generally, based on the FIFO method (first in–first out). Where necessary, provisions are made for slow movement stocks and which are worn-out or obsolete. The net feasible value is estimated based on the sale price diminished by the finishing costs and the sale costs.

M Borrowings

The short- and long-term borrowings are recorded at their nominal value plus the accrued interest monthly and related commissions are deferred straight line over the borrowing's contract period.

N Other debts and assets

Any other debts and assets are recorded at their nominal value, which approximates the fair value of the amounts to be paid and cashed, respectively.

O Share capital and reserves

The share capital is equal to the par value of the shares or equity shares, respectively to the value of the capital contribution, of the incorporated premiums and reserves or of the operations that lead to its modification.

The subscribed and paid up capital is entered into accounts separately, based on the documents of incorporation of the Company and on the supporting documents regarding the capital payments.

The legal reserve is established in accordance with the legislation in force by allocating at least 5% of the gross profit before taxation until the reserve fund reaches the fifth part of the fully paid share capital.

According to the fiscal provisions, when changing the destination of the legal reserves and of the reserves representing fiscal facilities, the profit tax is calculated on these reserves and interests and delay penalties are established from the date of application of the respective facilities.

1 PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

P Recognition of income and expenses

The revenues from the sales of assets are recognised when the Company transfers to the buyer the main risks and rewards related to holding the assets.

i) Interest income and expenses

The income and expenses from interests are recognized periodically, proportionally, as the respective income is generated, based on the accrual accounting.

The Company's revenue recognition policy for the interest takes into consideration the historical experience, the expectations related to the future cash flows and the future recoveries.

ii) Income from fees

The income from fees mainly include the fees for monthly administration, late payment fees, over limit fees, granting commissions, and for the activity of issuing cards to clients, monthly issuance of bank statements, other. Except granting commissions, these remaining commissions are recognized in full in the income statement once they are generated.

For the financial years ending on 31 December 2016 and 31 December 2015, the Company has recognised only the portion of granting commission income related to the financial year 2016 and 2015 respectively. The portion of income relevant to the future periods was recognized as deferred revenues and shall be transferred to the income statement over the estimated tenor of the cards.

1 PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

Q Commission expenses

Commission expenses refer to:

- a) Commissions for banking operations; and
- b) Commissions paid to merchants acting as the Company's agents for issuing new cards and loans. These commissions are additional and directly attributable to the new loans issued by merchants. The commission is computed as a percentage applied to the volume of transactions performed with Company's cards during each month. The commissions paid are amortised over the tenor of the respective loans.

R Profit tax

Current profit tax

In accordance with the Romanian fiscal regulations, the calculation of the current profit tax starts from the gross result of the financial year, corrected with deductible and non-deductible elements to which taxation quotas, valid when closing the balance sheet, are applied. Currently, the Company pays a profit tax quota of 16%, the same as on 31 December 2015.

S Employees' benefits

Short-term benefits:

The short-term benefits include indemnities, salaries, bonuses, social security contributions. The short-term benefits are acknowledged as expenses in the profit and loss account as the services are provided.

The Company, while it normally carries out its activity, makes payments to the Romanian State pension funds for its employees in Romania, for pensions, health insurance and unemployment contributions. All the Company's employees are included in the state pension system. The Company does not have obligations related to additional services for former employees.

(All amounts are expressed in RON, unless otherwise specified)

PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

T Provisions for risks and expenses

The provisions are recognised when the Company has a current obligation (legal or implicit) resulted from past events, to transfer economic benefits, when it is likely that a resource outflow might be necessary for the settlement of that obligation and when a credible estimate can be made regarding the value of the obligation. When the effect of the money value in time is significant, the provision is recorded at the current value of the expense necessary for the settlement of the obligation.

The contingent debts that do not comply with the conditions to be recorded as provisions are presented in the note to the financial statements.

U Commitments and contingent liabilities

A contingent asset is a potential asset resulting from events prior to the balance sheet date and its existence will be confirmed only through the occurrence or non-occurrence of one or several uncertain future events, which cannot be fully controlled by the Company.

If generating revenues is certain, the respective asset is not contingent and is recognised in the balance sheet. Contingent assets are continuously assessed in order to secure the proper presentation in the financial statements of the changes occurred. If the income of benefits becomes certain, the asset and the respective revenue will be recognised in the financial statements for the period when the changes occurred.

Contingent assets and liabilities are presented in note 9 in the financial statement.

V Related parties

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

1 PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

W Events subsequent to the balance sheet

The events subsequent to the date of the balance sheet that provide additional information regarding the position of the Company and which needs adjustments, are reflected in the balance sheet and in the income statement, as the case may be. The significant events that do not need adjustments are presented in the notes to the financial statements.

X Financial risk management

Due to the nature of the activities performed, the Company is exposed to various risks that include: credit risk, currency risk, interest rate risk and liquidity risk.

The management pursues the reduction of the potential negative effects associated to these risk factors on the financial performance of the Company.

i) Credit risk

The Company is exposed to a certain credit risk due to its client's receivables and to the other types of receivables. The references regarding the clients' good standing are normally obtained for all new clients, the due date of the debts is carefully monitored and the amounts owed after exceeding the due date are pursued promptly.

The monitoring system of credit risk include specific reports prepared and analyzed by Collection Division and Credit and Risk Division and sent regularly to the management. The introduction of risk based strategies has produced significant improvements in collection performance.

Restructuring offers are also in place to regularly identify and aid customers that are estimated to be capable of reimbursing the loans following renegotiation of credit terms.

The Company's procedure of granting credits is based on a series of principles meant to decrease the credit risk, among which the segregation of tasks due to the existence of different departments that carry out distinct activities within the process of credit granting: requesting and receiving the documents from new clients, verification of the clients' good standing and their evaluation, approval of the credit limit by value thresholds.

The identification and management of the credit risk inherent to all products and activities runs according to adequate procedures of risk management and of controls prior to its implementation.

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

1 PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

ii) Foreign currency risk

The Company is exposed to exchange rate fluctuations, through the debt generated by trade debts expressed in foreign currency. Throughout 2016, most of the transactions were made in RON.

The foreign currency balances are mainly represented by the following categories:

- 1) Cash and liquid assets in foreign currency;
- 2) Current bank accounts in foreign currency;
- 3) Collateral deposits in foreign currency opened with banks;
- 4) Liabilities to suppliers.

	<u>RON</u>	<u>2015 (RON equivalent)</u>		<u>Total (RON)</u>
		<u>EURO</u>	<u>Other</u> <u>currency</u>	
Assets				
Cash and liquid assets	966	83	2,795	3,843
Receivables in credit institutions	193,389,010	5,491,171	2,123,883	201,004,065
Receivables from clients	263,026,291	-	-	263,026,291
Other assets	1,657,484	82,957	-	1,740,441
Prepaid expenses and accrued revenues	38,396,361	-	-	38,396,361
Total assets	496,470,112	5,574,211	2,126,678	504,171,001
Liabilities				
Debts regarding credit institutions	222,422,066	22	-	222,422,088
Other liabilities	8,740,813	374,326	38,587	9,153,726
Deferred income and committed liability	514,068	-	-	514,068
Total liabilities	231,676,947	374,348	38,587	232,089,882
Net values	264,793,165	5,199,863	2,088,091	272,081,120

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

1 PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

	RON	2016 (RON equivalent)		Total (RON)
		EURO	Other currency	
Assets				
Cash and liquid assets	766	83	2,705	3,554
Receivables in credit institutions	68,727,354	3,810,829	2,204,599	74,742,782
Receivables from clients	229,385,053	-	-	229,385,053
Other assets	4,754,963	328,725	-	5,083,688
Prepaid expenses and accrued revenues	29,286,433	-	-	29,286,433
Total assets	332,154,569	4,139,637	2,207,304	338,501,510
Liabilities				
Debts regarding credit institutions	89	22	-	111
Other liabilities	4,836,859	197,795	19,441	5,054,095
Deferred income and committed liability	130,019	-	-	130,019
Total liabilities	4,966,967	197,817	19,441	5,184,225
Net values	327,187,602	3,941,820	2,187,863	333,317,285

In 2016 versus 2015, net currency position which recorded the largest fluctuation was RON. Net position increase was mainly influenced by increase in receivables in credit institutions and reduction in receivables from clients.

iii) Interest rate risk

The operational cash flows and income statement of the Company are affected by the variations of the interest rates. The receivables have a fixed interest rate which is reviewed periodically. The Company's borrowings had a variable interest rate updated every 3 months.

PRINCIPLES, POLICIES AND ACCOUNTING METHODS (CONTINUED)

iv) Liquidity risk

The prudent management of the liquidity risk involves maintaining sufficient cash and certain available credit lines. Due to the nature of its activity, the Company intends to have flexibility in the financing possibilities, by maintaining credit lines available for the financing of the credit activity through group companies.

1 INFORMATION REGARDING CERTAIN ELEMENTS OF THE BALANCE SHEET

2.1. Cash and liquid assets at Central Banks (line 010)

	<u>31 December 2015</u>	<u>31 December 2016</u>
Cash in hand (in house)	3,843	3,554

2.2. Receivables in the credit institutions (line 030)

	<u>31 December 2015</u>	<u>31 December 2016</u>
Current accounts at banks	886,331	2,132,747
Placements at banks	200,117,734	72,610,035
Total	201,004,065	74,742,782

The balance of the current accounts at banks is represented by the balance of the liquidities in foreign currency and RON accounts opened at banking institutions in the country. The placements at banks are on-term and on-demand deposits in RON and foreign currency which are opened with banking institutions.

On 31 December 2016, the placements at banks also include RON 2.440.018 of collateral deposits (31 December 2015: 2.356.482 lei), comprising a collateral deposit in the amount of EUR 52,068 or RON 236.447 equivalent, corresponding to the lease agreement for the Company's headquarter space (31 December 2015: EUR 52.068 or RON 235.583 equivalent), a cash collateral in amount of USD 225,000 or RON 968.243 equivalent, based on Cash Collateral agreement signed in January 2012 with American Express company (31 December 2015: USD 225,000 or RON 933.233 equivalent) and a cash collateral in amount of USD 287.043 or RON 1.235.233 equivalent in relation to Mastercard (31 December 2015: USD 286.321 or RON 1.187.572 equivalent).

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

**2 INFORMATION REGARDING CERTAIN ELEMENTS OF THE BALANCE SHEET
(CONTINUED)**

2.3. Receivables from clients (line 040)

	<u>31 December 2015</u>	<u>31 December 2016</u>
Credits granted to clients, net of provisions	263,026,291	229,385,053

2.3.1 Review of the credits granted to clients by type of client

The loan portfolio on 31 December 2015 and 31 December 2016 included credits granted to individuals. The loans are granted in RON.

	<u>31 December 2015</u>	<u>31 December 2016</u>
Individuals		
-in RON	527,071,347	252,682,928
Gross total of credit portfolio	527,071,347	252,682,928
Specific credit risk provisions	(264,045,056)	(23,297,875)
Net total of credit portfolio	263,026,291	229,385,053

2.3.2 Review of credits granted to clients by type of credit

	<u>31 December 2015</u>	<u>31 December 2016</u>
Credit cards (consumer credits and instalments sales)	345,505,334	149,838,189
Cash withdrawals	181,566,013	102,844,739
Gross total of credit portfolio	527,071,347	252,682,928
Specific credit risk provisions	(264,045,056)	(23,297,875)
Net total of credit portfolio	263,026,291	229,385,053

ERB RETAIL SERVICES IFN S.A.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

**2 INFORMATION REGARDING CERTAIN ELEMENTS OF THE BALANCE SHEET
(CONTINUED)****2.3.3 Specific credit risk provisions**

	<u>31 December 2015</u>	<u>31 December 2016</u>
At the beginning of the reporting period	267,338,474	264,045,056
Expenses with provisions (Note 5.9)	65,148,056	40,244,658
Income from provisions (Note 5.10)	68,441,474	280,991,839
At the end of the reporting period	264,045,056	23,297,875

2.4. Other assets (line 120)

	<u>31 December 2015</u>	<u>31 December 2016</u>
Various debt receivable (i)	1,198,121	2,236,420
Materials in stock	16,616	16,370
Settlement amounts to employees	4,366	14,983
Receivables from income tax	-	2,176,465
Other receivables (ii)	521,338	639,450
Other assets	1,740,441	5,083,688

(i) Various debt receivable contain mainly:

- amounts received from clients during the last day of the year, that were not deposited in the bank accounts and remain in the balance of the suspense accounts, RON 1,436,904 lei (2015: RON 680,260);
- receivables in relation with merchant companies RON 348,311 (2015: RON 141,847);
- amounts paid upfront to suppliers, in relation to service contracts in place, RON 114,532 (2015: 330,129), mainly paid to Posta Romana - RON 78,968 (2015: RON 83,480);
- warranties paid for rental contracts concluded, RON 6,735 (2014: RON 35,425)
- receivables representing interest for instalments made through Bancpost POS, RON 1,211 (2014: RON 7,345);
- The value of advance payments in relation to Mastercard 328,725 lei (2015: 0 lei)

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

**2 INFORMATION REGARDING CERTAIN ELEMENTS OF THE BALANCE SHEET
(CONTINUED)**

- (ii) Other receivables represent mainly receivables from the state budget and the local budgets, RON 667.656 (2015: RON 520,953) representing mainly the sick leaves contribution of RON 588.368 (2015: RON 479,637) which was paid in addition, due to deduction of higher values, compared to the obligation due, in relation to sick leave covered by this contribution. For these receivables, the Company has filed tax returns and necessary documentation in order to recover these amounts from the National Health Insurance Fund.

2.5. Prepaid expenses and accrued income (line 130)

	<u>31 December</u> <u>2015</u>	<u>31 December</u> <u>2016</u>
Interest receivable		
-for placements with credit institutions	122,936	6,268
-for credits granted to clients	35,857,575	9,763,023
-specific interest risk provisions	(25,647,464)	(2,477,183)
Prepaid expenses	10,662,252	9,438,433
Income receivable – clients fee receivable	92,219,491	16,258,769
Provisions with clients fees	(74,818,429)	(3,702,877)
Total prepaid expenses and accrued revenues net value	38,396,361	29,286,433

Interest receivable for placements with credit institutions represent interest amount to be redeemed in relation to overnight and on-term deposits held at credit institutions.

Income receivable –client fees receivables consist of fees to be received in relation to loans provided to clients.

Interests and late payment fees computed for loans granted to clients are registered under amortised cost. Amortised cost of the interests and late payment fees represents computed interests and fees, less reimbursements during the year less provisions for the depreciation of the respective assets. Specific provisions for commissions are set up according to internal standards and regulations in place, by applying the same rules as for non-performing granted loans and upfront payments.

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

**2 INFORMATION REGARDING CERTAIN ELEMENTS OF THE BALANCE SHEET
(CONTINUED)**

The prepaid expenses are mainly amounts invoiced and paid to merchants for a time frame that exceeds the current financial year. Balance at 31 December 2016 includes prepayments of RON 6,209,902, representing fees to merchants in relation to instalment transactions performed with credit cards, which are related to non-matured instalments. (31 December 2015 RON 8,554,854).

Specific provisions for interest risk were recorded as expense in the profit and loss account and in the balance-sheet these are deducted from the total outstanding interest.

2.6. Debts regarding credit institutions (line 300)

	<u>31 December 2015</u>	<u>31 December 2016</u>
<i>On demand</i>		
Current accounts and on-demand deposits with banks	88	110
<i>On term</i>		
Loans on term from banks	222,422,000	1
Total	222,422,088	111

On 5 January 2009, the Company received a loan from a company of the Group, Eurobank Private Bank (Luxembourg) SA, amounting RON 673,775,000, which the Company used to pay the debt to Eurobank EFG, as generated by the bonds issue. The loan was initially granted for a period of 2 years being prolong several times incurring also increases and decreases of the limit.

The last extension was made on 27 April 2015, when the maturity was extended until 31 May 2016. In January 2016, the balance of the loan was repaid in full and the contract was closed.

The balance of the loan from Bancpost SA at 31 December 2015 was of RON 89,422,000. Through an addendum dated 13 March 2015, the maturity of Bancpost loan was extended to 26 September 2016. Through an addendum dated 21 September 2016, the maturity of Bancpost loan was extended to 25 September 2017.

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

**2 INFORMATION REGARDING CERTAIN ELEMENTS OF THE BALANCE SHEET
(CONTINUED)**

In 11 October 2016 the Company repaid the loan amounting to RON 89.422 million, contracted from Bancpost S.A.

During 2016 no new loan has not been contracted and 31 December 2016, the loan balance is RON 1.

2.7. Other liabilities (line 330)

	31 December 2015	31 December 2016
Various creditors (i)	7,176,646	4,697,006
Social security payables (ii)	294,691	275,509
Other fiscal liabilities (iii)	1,560,469	50,839
Other taxes payable (iv)	121,919	30,741
Total	9,153,728	5,054,095

(i) Various creditors include the amounts payable for services which were provided however not yet invoiced of RON 1,552,384 (2015: RON 3,483,476), amounts to be paid for invoice purchased assets and services of RON 1,479,703 (2015: RON 1,683,126) and amounts collected from clients, which temporarily remains in the suspense accounts until the clients are identified of RON 1,664,920 (2015: RON 2,010,047).

(ii) The social security contributions payables represent the balance of the payment obligations to the state budget and to the budget of social security, representing the obligations resulting from the salaries of the month of December, with due date up to 25 January of the following year according to the law.

(iii) Other fiscal liabilities mainly represent VAT payable of RON 50,839 lei (2015: RON 73,791 lei), the current profit tax for 2016 is nill (2015:RON 1,486,678).

(iv) Other taxes as at 31 December 2016 mainly include tax on gift vouchers of RON 24.891 (2015: RON 109,323).

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

**2 INFORMATION REGARDING CERTAIN ELEMENTS OF THE BALANCE SHEET
(CONTINUED)**

2.8. Deferred income and accrued expenses (line 340)

	<u>31 December 2015</u>	<u>31 December 2016</u>
Deferred income from:		
Fees related to granting credits	514,068	130,019
Total	514,068	130,019

Deferred income revenues are mostly fees collected when the loans are granted. Such fees are deferred and recognised in the income statement as an adjustment of the actual yield over the duration of the credit contracts. As at 31 December 2016, such fees amount for RON 115,746 (2015: RON 494,242). The remaining amount represents the adjustment for recognition of fee revenue to be received from merchants in relation to instalment transactions, over the duration of the loan, amounting for RON 14,273 (2015: RON 19,826).

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

**2 INFORMATION REGARDING CERTAIN ELEMENTS OF THE BALANCE SHEET
(CONTINUED)**

2.9. Risk provisions and expenses (line 350)

	<u>31 December 2015</u>	<u>31 December 2016</u>
Provisions for:		
- untaken holidays	34,473	86,238
- provisions for taxes (i)	947,765	935,761
- other provisions (ii)	251,037	561,365
Total	1,233,275	1,583,364

(i) The provisions for taxes on 31 December 2016 as well as on 31 December 2015, represent provision of RON 175,549 for penalties caused by non-payment at maturity of VAT on royalties owed to American Express according to concluded contract and provisions for other taxes of RON 54,322, mostly in relation to VAT, provision of RON 697,682, for additional profit tax and related penalties, provisions for penalties of RON 8,208.

(ii) At 31 December 2016, other provisions of RON 561,365 (2015: RON 251,037) consist of expected losses in litigations initiated by clients.

2.10. Subscribed share capital and share premium

The value of the share capital on 31 December 2016 is RON 90,774,500 (31 December 2015: RON 90,774,500), representing 90,774,500 shares (31 December 2015: 90,774,500 shares). All the shares are common; were subscribed and fully paid as at 31 December 2016. At 31 December 2016, all shares have the same voting right and a par value of RON 1/share (31 December 2015: RON 1/share).

ERB RETAIL SERVICES IFN S.A.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

2 INFORMATION REGARDING CERTAIN ELEMENTS OF THE BALANCE SHEET (CONTINUED)

The structure of shareholding on 31 December 2016, the same as on 31 December 2015, is the following:

	No. of shares	Amount (RON)	Percentage (%)
ERB New Europe Holding B.V.	90,000,101	90,000,101	99.1469
Eurobank Household Lending Services SA	619,802	619,802	0.6828
Banepost SA	154,597	154,597	0.1703
Total	90,774,500	90,774,500	100

2.11. Reserves and retained earnings

	31 December 2015	31 December 2016
Legal reserves	12,697,396	15,780,541
Retained earnings	128,347,647	168,682,800
Total	141,045,042	184,463,341

During 2016 the Company allocated the amount of RON 3,083,145 to set up the legal reserve up to RON 15,780,541 (2015: RON 12,697,396) by allocating 5% of the gross profit before taxation until the reserve is equal to 20% of the subscribed and paid share capital.

2.12. Distribution of profit

	2015	2016
Net profit of the year	42,805,423	61,662,895
-transferred to legal reserve	(2,470,267)	(3,083,145)
Undistributed profit at the end of financial year	40,335,156	58,579,750

The distribution of the profit was carried out in compliance with the legal provisions.

The way of distribution of the profit recorded in 2016 in amount of RON 58,579,750 will be decided by the Board of Directors, at the same time with the approval of these financial statements.

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

3 STATEMENT OF RECEIVABLES AND PAYABLES

The due date schedule of receivables and payables as at 31 December 2015, is as follows:

<u>RON</u>	<u>Balance at</u> <u>31 December</u> <u>2015</u>	<u>Period remaining up to due date</u>			
		<u><3months</u>	<u>3months-1year</u>	<u>1-5years</u>	<u>>5 years</u>
RECEIVABLES	463,144,025	418,321,432	14,355,183	29,282,736	1,184,674
On-term receivables					
from credit institutions	200,117,734	200,117,734	-	-	-
Receivables from clients	263,026,291	218,203,698	14,355,183	29,282,736	1,184,674
% of total	100%	90%	3%	6%	0%
PAYABLES	(222,422,000)	-	(222,422,000)	-	-
On-term debts to					
financial institutions	(222,422,000)	-	(222,422,000)	-	-
% of total	100%	0%	100%	0%	0%

The due date schedule of receivables and payables as at 31 December 2016, is as follows:

<u>RON</u>	<u>Balance at</u> <u>31 December</u> <u>2016</u>	<u>Period remaining up to due date</u>			
		<u><3months</u>	<u>3months-1year</u>	<u>1-5years</u>	<u>>5years</u>
RECEIVABLES	301,995,088	227,699,787	28,106,175	44,918,062	1,271,064
On-term receivables					
from credit institutions	72,610,035	72,610,035	-	-	-
Receivables from clients	229,385,053	155,089,752	28,106,175	44,918,062	1,271,064
% of total	100%	49%	6%	10%	0%
PAYABLES	(1)	(1)	-	-	-
On-term debts to					
financial institutions	(1)	(1)	-	-	-
% of total	0%	0%	0%	0%	0%

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

4 FIXED ASSETS

TANGIBLE AND INTANGIBLE ASSETS (line 090 and 100)

On 31 December 2015, the net accounting value is the following:

	<u>Gross</u> <u>book</u> <u>value</u>	<u>Accumulated</u> <u>depreciation*</u>	<u>Net</u> <u>book</u> <u>value</u>
Tangible assets	13,327,215	13,007,468	319,747
Intangible assets	16,340,116	15,353,008	987,108
Total	29,667,331	28,360,476	1,306,855

On 31 December 2016, the net accounting value is the following:

	<u>Gross</u> <u>book</u> <u>value</u>	<u>Accumulated</u> <u>depreciation*</u>	<u>Net</u> <u>book</u> <u>value</u>
Tangible assets	13,070,176	12,725,288	344,888
Intangible assets	18,268,829	16,530,047	1,738,782
Total	31,339,005	29,255,335	2,083,670

*includes impairment of intangible assets of RON 384,350.

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

4 FIXED ASSETS (CONTINUED)

GROSS BOOK VALUE

	Balance on			Balance on
	1 January 2016	Increase	Decrease	31 December 2016
Intangible assets				
Other intangible assets (software, licences)	16,340,116	1,928,714	-	18,268,829
Total	16,340,116	1,928,714	-	18,268,830
Tangible assets				
Equipment (machinery, tools and work equipment)	1,095,163	-	-	1,095,163
Vehicles	982,306	-	379,109	603,197
Furniture, protection equipment, stationery and other tangible assets	11,249,746	122,069	-	11,371,815
Total	13,327,215	122,069	379,109	13,070,174

DEPRECIATION / AMORTISATION / PROVISIONS

	Balance on	Depreciation		Balance on
	1 January 2016	during the	Decrease	31 December 2016
		financial year		
Intangible assets				
Other intangible assets software, licenses)	15,353,008	1,177,040	-	16,530,048
Total	15,353,008	1,177,040	-	16,530,048
Tangible assets				
Equipment (machinery, tools and work equipment)	1,040,172	1,440	-	1,041,612
Vehicles	982,307	-	379,109	603,199
Furniture, protection equipment, stationery and other tangible assets	10,984,989	95,486	-	11,080,475
Total	13,007,468	96,926	379,109	12,725,286

ERB RETAIL SERVICES IFN S.A.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

5 INFORMATION REGARDING CERTAIN ITEMS FROM THE PROFIT AND LOSS ACCOUNT (CONTINUED)**5.1 Interest incomes and similar revenues (line 010)**

	<u>2015</u>	<u>2016</u>
Revenues from interests for:		
-operations with banking institutions	2,065,743	265,772
-operations with clients	86,915,222	64,564,571
Total	88,980,965	64,830,343

5.2 Interest expenses and similar charges (line 020)

	<u>2015</u>	<u>2016</u>
Interest expenses in relation to:		
-banking operations (loans)	10,799,800	4,184,222
Total	10,799,800	4,184,222

5.3 Revenues from fees (line 040)

Revenues from fees include fees for client operations and are structured by type of fees as follows:

	<u>2015</u>	<u>2016</u>
Fees for instalments and payments to merchants	61,089	555
Fees for cash upfront payments	3,574,894	2,884,091
Fees for card issuance	821,758	626,950
Fees for exceeding the card limit	5,493,748	2,761,873
Administration fee	7,907,629	5,963,185
Fees for issuance of monthly bank statements	7,722,369	6,055,773
Revenue from fees paid by merchants	-	32,757
Pay fees pay point	-	44,296
Fee for PIN re-issuance	352	108
Total	25,581,838	18,369,588

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

5 INFORMATION REGARDING CERTAIN ITEMS FROM THE PROFIT AND LOSS ACCOUNT (CONTINUED)

5.4 Expense with fees (line 050)

	<u>2015</u>	<u>2016</u>
Expenses with fees for:		
-inter-banking operations	802,137	1,054,014
-merchants	8,908,896	6,990,889
Total	9,711,033	8,044,903

5.5 Net loss from financial operations (line 060)

	<u>2015</u>	<u>2016</u>
Loss from operations of exchange and revaluation of assets and liabilities in foreign currencies	(1,623,605)	(962,677)
Total	(1,623,605)	(962,677)

Net loss from operations of exchange and revaluation decreased in 2016, mainly as a result lower foreign exchange expenses for EUR transactions of RON 1,310,504 (2015: RON 1,864,140).

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

INFORMATION REGARDING CERTAIN ITEMS FROM THE PROFIT AND LOSS ACCOUNT (CONTINUED)

5.6 Other operating revenues (line 070)

	<u>2015</u>	<u>2016</u>
Revenues from merchants fees	97,787	11,207
Revenues from services rendered to Bancpost	1,214,263	1,265,665
Revenues from compensations	2,009	-
Revenues from car sale	-	56,837
Revenues from insurance brokerage	80,047	92,124
Other operating revenues (i)	3,312,953	3,665,523
Total	4,707,059	5,091,356

(i) Other operating revenues in 2016 mainly include:

- interchange fee received from American Express for POS transactions performed by Euroline Amex cardholders RON 241.966 (2015: RON 1,672,699);
- interchange fee received from Mastercard for POS transactions performed by cardholders RON 106.456 (2015: RON 49.660);
- income related closed cards of RON 190.711 (2015: RON 352,927);
- revenue obtained from recoveries of legal expenses related to legal recoveries activity in amount of RON 2.375.996 (2015: RON 1,179,291);
- Income from promotional materials in relation with Mastercard RON 225.170.

ERB RETAIL SERVICES IFN S.A.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

INFORMATION REGARDING CERTAIN ITEMS FROM THE PROFIT AND LOSS ACCOUNT (CONTINUED)**5.7 Other administrative expenses (line 087)**

	<u>2015</u>	<u>2016</u>
Expenses with:		
a) consumables	333,366	267,599
b) fuel	348,057	308,371
c) spare parts	6,604	14,796
d) materials such as inventory objects	24,028	89,793
e) maintenance and repairs	1,798,056	1,225,352
f) utilities	499,585	177,017
g) post office, taxes and telecommunications	3,486,288	3,119,035
h) travels and secondments	147,488	188,198
i) equipment rental	205,760	73,035
j) professional training	54,475	46,703
k) security services	170,672	175,744
l) protocol, commercials, publicity	4,447,561	2,069,331
m) card processing service	2,724,699	2,663,808
n) services according to Bancpost contract	2,010,117	1,731,530
o) financial and IT audit services (internal and external)	230,924	156,903
p) consultancy services	1,702,871	2,727,143
q) services for recovery of debts	4,143,356	2,114,288
r) fees paid	195,860	141,498
s) third party services (related to debt collection and customer support)	5,346,263	3,273,916
t) statement of account services	670,314	585,837
u) Amex royalties and commissions	8,121,564	1,747,072
v) insurance costs for goods and persons	68,856	31,532
x) legal recoveries costs	1,812,149	1,417,081
y) other administrative costs	1,149,962	1,465,549
z) Mastercard fees	520,570	679,765
Total	40,219,446	26,490,896

ERB RETAIL SERVICES IFN S.A.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

INFORMATION REGARDING CERTAIN ITEMS FROM THE PROFIT AND LOSS ACCOUNT (CONTINUED)**5.8 OTHER OPERATING EXPENSES (line 100)**

	<u>2015</u>	<u>2016</u>
Expenses with taxes and duties	1,137,163	899,298
Sponsorship	60,577	1,250
Other operating expenses	2,704	1,680
Rent expenses	5,421,957	2,435,000
Total	6,622,401	3,337,228

5.9 CORRECTION ON THE VALUE OF RECEIVABLES AND PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (line 110)

	<u>2015</u>	<u>2016</u>
Corrections on provisions for:		
-Risk provision related to client receivables, of which		
Credit risk provisions (note 2.3.3)	76,155,501	48,233,977
Credit interest risk provisions	65,148,056	40,244,658
Other provisions	5,705,738	4,176,775
-Provisions for staff facilities	5,301,707	3,812,544
-Other provisions for liabilities	(22,393)	86,238
-Corrections on unrecoverable receivables	(250,448)	339,925
Total	821,920	338,841,089

During 2016, the Company completed the assignment of a portfolio of non-performing loans with a gross balance of RON 336,981,296 which represented significant part of receivable from clients past due more than 90 days as at 31 December 2015. Their de-recognition led to a write-off expense in the same amount, included in the line "Corrections on unrecoverable receivables" above.

5 INFORMATION REGARDING CERTAIN ITEMS FROM THE PROFIT AND LOSS ACCOUNT (CONTINUED)

5.10 REVERSALS OF CORRECTIONS ON THE VALUE OF RECEIVABLES AND PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS (line 120)

	<u>2015</u>	<u>2016</u>
Reversals of the value of provisions for:		
-Risk provision related to client receivables, of which	86,453,543	383,233,858
Credit risk provisions (note 2.3.3)	68,441,474	280,991,839
Credit interest risk provisions	7,209,963	27,347,057
Other reversals of provisions	10,802,106	74,894,962
-Provisions for staff facilities	40,960	34,472
-Re-adjustment of values for unrecoverable receivables	-	30,165,722
Total	86,494,503	413,434,052

As presented in note 5.9 the Company sold during 2016 gross non-performing loans of RON 336,981,296, these being fully provided. As such, their de-recognition led to reversal of the related provision, of the same amount - which was included in the line "Reversal of the value of provisions - risk provision related to client receivables". Further, on the line "Re-adjustment of values for unrecoverable receivables" was included the price obtained by the Company for sold non-performing loans, of RON 29,700,521.

ERB RETAIL SERVICES IFN S.A.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

5 INFORMATION REGARDING CERTAIN ITEMS FROM THE PROFIT AND LOSS ACCOUNT (CONTINUED)**5.11 EXPENSES REGARDING PROFIT TAX (line 220)**

	2015	2016
Gross profit	49,446,318	61,662,895
Legal reserves	(2,470,267)	(3,083,145)
Fiscal depreciation	-	(1,273,966)
Non-taxable revenues	(42,992)	(72,081,892)
Non-deductible expenses	1,592,040	3,154,642
Fiscal deductible items	-	126,485
Income tax expense for current period	(6,640,896)	-
Fiscal profit of the year	41,884,204	(11,494,981)
Profit tax quota	16%	16%
Profit tax due	6,701,473	-
Sponsorships	(60,577)	-
Total profit tax due	6,640,895	-
Expense with current profit tax for the financial year	6,640,895	-

For 2016 the Company didn't book any expenses related to the income tax due to the fiscal loss, triggered by the reversal of provisions of RON 71 mln (non-taxable items) related to the debt sale.

(All amounts are expressed in RON, unless otherwise specified)

6 INFORMATION REGARDING EMPLOYEES AND THE MEMBERS OF THE ADMINISTRATION, MANAGEMENT AND SUPERVISORY BODIES

6.1 Indemnities granted to the members of the administration, management and supervisory bodies

	<u>2015</u>	<u>2016</u>
<i>Expenses with salaries:</i>		
-Managers	(1,122,934)	(962,515)
Total	(1,122,934)	(962,515)
<i>Salaries payable at the end of the period</i>		
-Managers	=	=
Total	-	-

No advance payments or credits have been granted to the management members.

6.2 Employees

The average number of full time employees during 2016 was 113 (2015: 133).

	<u>2015</u>	<u>2016</u>
Personnel expenses, of which:	9,211,120	8,267,323
-Gross salaries	7,089,047	6,242,731
-Bonuses	508,136	480,892
-Expenses with social security and similar	1,613,937	1,543,700
Salaries payable at the end of the period	-	-
Taxes payable at the end of the period	294,691	275,509
Total	294,691	275,509

Expenses with the staff – bonuses represent the amounts paid by the Company for the employees performance.

ERB RETAIL SERVICES IFN S.A.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

7 TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related parties to another entity if they have the capacity to control or influence significantly the other party regarding the latter's operational and financial decisions. The Company is controlled by ERB New Europe Holding B.V., its main shareholder. Naturally, a portion of the transactions of the Company is established with related parties. These include purchase and sale of services and contracting loans carried on under non-preferential terms and conditions.

Revenues from transactions with related parties

	<u>31 December</u> <u>2015</u>	<u>31 December</u> <u>2016</u>
Interest income and similar income Bancpost SA (note 5.1)	2,062,870	262,800
Revenues from services rendered to Bancpost (note 5.6)	1,214,263	1,265,665
Other operating income (revenues from insurance brokerage) –Eurolife ERB Asigurari de Viata SA	80,047	58,411
Total	3,357,180	1,586,876

Revenues from interests and related revenues with respect to Bancpost S.A. decreased in 2016 compared to 2015. The level of deposits with BancPost and the interest rate applied to such deposits decreased which led to a significant decrease in interest revenue in 2016.

Payables interests and related expenses

	<u>31 December 2015</u>	<u>31 December 2016</u>
Expenses with interests, of which:		
- Eurobank Private Bank Luxembourg SA	5,023,114	75,256
- Bancpost SA	5,776,686	4,108,966
Total	10,799,800	4,184,222

ERB RETAIL SERVICES IFN S.A.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

7 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**Expenses with related parties**

	<u>31 December 2015</u>	<u>31 December 2016</u>
Expenses with fees	802,137	1,054,015
Other administrative expenses	14,173,171	7,271,937
Total	14,975,308	8,325,953

Expenses with related parties (detailed)

	<u>31 December 2015</u>	<u>31 December 2016</u>
Purchase of services – Bancpost SA	6,212,001	4,953,469
Purchase of services – Eurobank Property Services SA	242,944	70,987
Purchase of services – ERB IT SHARED SERVICES	2,906,471	782,960
Purchase of services – Seferco Developments SA	5,077,680	1,855,662
Purchase of services – Eurobank Bulgaria AD	261,770	256,517
Purchase of services – Eurobank Ergasias SA	274,443	406,359
Total	14,975,308	8,325,953

Debit balances with related parties

	<u>31 December 2015</u>	<u>31 December 2016</u>
Receivables from credit institutions	198,883,078	72,539,102
Prepaid expenses and accrued revenues	122,936	6,268
Other assets	143,053	281,302
Total	199,149,067	72,826,672

Debit balance, both at 31 December 2016 and 31 December 2015, represent only relationship with Bancpost and mainly represents the balance of the current accounts and deposits.

ERB RETAIL SERVICES IFN S.A.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

7 TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**Credit balances with related parties**

	<u>31 December 2015</u>	<u>31 December 2016</u>
Other liabilities	714,715	463,008
Total	714,715	463,008

Breakdown of credit balances by related party is shown in the table below:

	<u>31 December 2015</u>	<u>31 December 2016</u>
Eurobank Ergasias SA	125,024	33,544
Bancpost SA	279,560	397,257
ERB IT Shared Services	275,663	0
Seferco Developments	14,700	14,620
Eurobank Bulgaria AD	22,794	20,680
Eurolife ERB asigurări de Viață SA	(3,026)	(3,093)
Total	714,715	463,008

Loans

	<u>31 December 2015</u>	<u>31 December 2016</u>
Loans from related parties (credit):		
Eurobank Private Bank Luxembourg SA - Note 2.6	133,000,000	-
Bancpost SA - Note 2.6	89,422,000	1
Total	222,422,000	1

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

8 INFORMATION REGARDING GEOGRAPHICAL MARKETS

The Company operates in one geographical segment, all revenues and expenses are realized in one market only (Romania).

9 CONTINGENT LIABILITIES AND COMMITMENTS

a) Liabilities regarding rent

The Company signed a long term contract for renting its headquarters. The contract is valid until 31 July 2024. In 2014, the monthly rent was of EUR 77,440. Starting with November 2015 the monthly rent was adjusted at EUR 31,241 to reflect lower rented area following internal relocation. At 1.08.2016 the monthly rent was adjusted at EUR 30,896.

On the end of the financial year, the Company's contingent liabilities regarding the rent payable, which include headquarters rent and vehicle operational lease, are due as follows:

	<u>31 December 2015</u>	<u>31 December 2016</u>
Within one year	2,408,316	2,473,022
From the second year up to the fifth inclusive	9,022,033	8,913,907
Above five years	6,078,044	4,313,113
Total	17,508,393	15,700,042

b) Liabilities regarding the financial lease

No liabilities are recorded in relation to financial lease at 31 December 2016 and 31 December 2015.

c) Commitments

On 31 December 2016 the Company recognises commitments amounting to RON 627,064,473 representing unused value within the credit limit granted to its clients. (2015: RON 659,471,524).

ERB RETAIL SERVICES IFN S.A.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016

(All amounts are expressed in RON, unless otherwise specified)

10 OTHER INFORMATION

10.1 Information regarding fees with the financial auditor

During 2016 the expenses with the financial auditor amounted RON 156,903 (2015: RON 230,924).

10.2 Profit or loss from fixed assets exits (sale, write-off, etc)

In 2016, the company achieved revenue of RON 56,837 from the sale of fixed assets.

In 2015, the Company had not conducted operations of write-off or sale operations of fixed assets (vehicles).

11 CASH AND CASH EQUIVALENTS

	<u>31 December 2015</u>	<u>31 December 2016</u>
Cash in hand (in-house)	3,843	3,554
Current accounts at banks	886,331	2,132,747
Short term bank deposits	197,761,252	70,170,017
Total	198,651,426	72,306,318

ERB RETAIL SERVICES IFN S.A.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2016**

(All amounts are expressed in RON, unless otherwise specified)

12 RECLASS WITHIN PREVIOUS FINANCIAL STATEMENTS

In 2016, the Company reclassified the rent expenses within the income statement, as in the following table, due to the updated mapping of the expense account in the trial balance in order to be in line with Order 6/2015:

<u>Income statement</u>	<u>31-Dec-15</u> <u>Previously</u> <u>reported</u>	<u>Reclassification</u>	<u>31-Dec-16</u> <u>Corrected</u>
Other administrative expenses	45,641,403	-5,421,957	40,219,446
Other operating expenses	1,200,444	5,421,957	6,622,401

Until 2016 specific provisions for credit risk were adjusted by including into expenses the net amount representing the difference between the level of the specific provisions for credit risk existing in the balance and the necessary level for each category of provisions. In 2016, the Company has refined the provisions expenses/revenues, preseting separatly the charges with provisions versus the release with provisions in profit and loss account, resulting in reclassification in the income statement as per below table:

<u>Income statement</u>	<u>31-Dec-15</u> <u>Previously</u> <u>reported</u>	<u>Reclassification</u>	<u>31-Dec-16</u> <u>Corrected</u>
Corrections on the value of receivables and provisions for contingent liabilities and commitments	(9,748,963)	86,453,543	76,704,580
Reversal of correction on the value of receivable debts and provisions for contingent liabilities and commitments	40,960	86,453,543	86,494,503

ERB RETAIL SERVICES IFN SA

ADMINISTRATORS REPORT

FOR THE FINANCIAL YEAR ENDING ON

31 DECEMBER 2016

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A. Macroeconomics and Romanian banking system in 2016

In 2016, the GDP rose by 1.7% in the euro area and by 1.9% in the EU28, compared with 2.0% and 2.2%, respectively, in 2015, while Romania recorded in 2016 the biggest growth in GDP with 4.8% versus 3.8% in 2015. Romania's GDP increased by 4.7% y/y in Q4 2016, speeding from 4.3% y/y in Q3. The supply-side breakdown shows that all economic sectors had positive contributions to Romania's GDP increase in 2016. The most significant contributor to the economic growth was again the retail sector, followed by the Information Technology & Communication (IT & C). The industry had a weak contribution to the economic growth last year, but still above the construction sector. On the demand-side, the households and collective consumption sustained the GDP growth almost entirely. The inventory change also had a positive contribution to the economic growth in 2016. On the other hand, net exports had negative contribution.

Nevertheless, despite robust growths of the IT & C over the past several years, the sector still has a low share in the economy. The industry keeps the largest share in GDP, but the sector expanded by only 1.5% y/y in Q4 and its contribution to growth was of only 0.4pps in Q4 and also in the entire last year. The agricultural sector continued to worsen in Q4, so it was the only sector with negative contribution to GDP growth in Q4 among the supply-side elements. Construction and financial intermediation were neutral to GDP growth in Q4, reflecting sluggish investment activity.

On the demand side, household consumption remained the main driver of GDP growth in Q4, similarly to the previous six quarters, stimulated by the VAT rate cut on food last year and public sector wage hikes. However, consumption growth kept on slowing down to 4.0% y/y in Q4, from 6.1% y/y a quarter before and from the 9.5% y/y peak reported in Q2.

Euro area annual inflation was 1.1% in December 2016. In 2016 Q4, Romania's annual CPI inflation rate was relatively stable, remaining in negative territory until end-2016 (-0.54 percent in December). In the absence of the direct effect of the standard VAT rate cut, consumer prices would have risen by about 0.85 percent in annual terms in December, a level below the lower bound of the ± 1 percentage point variation band of the 2.5 percent flat target. However, this evolution was the result of transitory factors, which largely offset the opposite impact generated by persistent factors. Specifically, inflationary pressures stemming from the positive output gap and the consolidated uptrend in main international commodity prices were counterbalanced at CPI level by the atypical reduction in prices for some tobacco products and the significant cut in prices of compulsory motor third-party liability insurance policies.

During 2016, NBR maintained unchanged the monetary policy rate at 1.75 percent per annum. In September 2016, NBR Board decided to cut the minimum reserve requirement ratio on foreign currency-denominated liabilities to 10% from 12%. The European Central Bank maintained the benchmark interest rate at 0% during 2016, in order to aid reviving the slow European economy. In the Romanian banking sector, average remuneration of new time deposits remained relatively steady in December 2016, while the average interest rate on new loans to the private sector fell to a new historical low. Credit to the private sector kept rising at a faster pace in December 2016, further on the back of non-financial corporations. The share of leu-denominated credit in total private sector loans continued to widen, reaching 57.2 percent. This certifies a better monetary policy transmission, while also helping mitigate the risks to financial stability.

The euro area (EA19) seasonally-adjusted unemployment rate was 9.6% in January 2017, stable compared to December 2016 and down from 10.4% in January 2016. This remains the lowest rate

recorded in the euro area since May 2009. The EU28 unemployment rate was 8.1% in January 2017, down from 8.2% in December 2016 and from 8.9% in January 2016. This is the lowest rate recorded in the EU28 since January 2009. Romania's seasonally adjusted unemployment rate stood at 5.5% in December 2016, from 6.8% in December 2015.

Romania ended 2016 with a consolidated budget deficit of RON 18.3 billion (EUR 4.07 billion), representing 2.41% of the estimated gross domestic product (GDP), below the annual target of 2.75% of the GDP. The consolidated budget revenues went down by 4.3% compared to 2015, to RON 223.7 billion (EUR 49.8 billion), mainly due to the lower VAT revenues and lower amounts of EU funds absorbed. At the same time, the total expenses went down by 0.6% compared to the previous year, to RON 242 billion (EUR 53.9 billion). The Government mainly cut its capital expenses, as the state's personnel expenses, the welfare expenses, and the spending on goods and services went up compared to 2015.

The consolidated budget deficit was above the 2015's level of 1.5% of GDP, over the 1.85% in 2014 and above the International Monetary Fund's (IMF) recommendation of 2% of GDP. The public debt (according to the EU methodology) stood at 37.7% of GDP in 2016 by comparison with 38% of GDP in 2015 vs. 39.4% in 2014 and 37.8% in 2013. In 2016, improved tax collection enabled Romania to remain at its medium-term objective despite peaks in expenditures. However, new tax cuts in 2017 and increases of public wages are forecast to raise the deficit over 3% of GDP in 2017. The public debt is expected to rise above 40% in the same period.

The balance of payments current account registered a higher deficit in 2016 (EUR 4,118 billion – 2.4% of GDP) vs. 2015 (revised figure EUR 1,943 billion – 1.2% of GDP), at a significantly higher value compared to 2014 at EUR 0.686 billion – 0.5% of GDP deficit in the year 2014. The current deficit increased with 112% while the foreign direct investments reached EUR 4.1 billion with only 18% yoy higher than the 2015 figure. 2015 and 2016 have confirmed that Romania can improve EU funds absorption as well. The current absorption rate of European funds increased significantly to 78.08% by comparison with 58.67% in 2015. Absorption of European funds is expected to remain high on the political agenda requiring specialized expertise, know-how and intensive efforts to increase the effective rate for the 2014-2020 period versus the 2007-2013 previous programs.

Fitch Ratings has downgraded Romania's Long-Term Local Currency (LTLC) IDR to 'BBB-' from 'BBB' and affirmed the Long-term Foreign Currency (LTFC) IDR at 'BBB-'. The Outlooks are Stable. The issue ratings on Romania's senior unsecured foreign currency bonds have been affirmed at 'BBB-'. Romania's senior local currency bonds have been downgraded to 'BBB-' from 'BBB'. Standard & Poor's and Moody's ratings agency maintained the ratings unchanged.

In 2016, the non-government lending aggregate volume increased by 1.7% versus the 2.4%/y growth in nominal terms in 2015 maintaining on a positive trek the consumer spending. Starting with 2014 Q2, the non-performing loan indicator followed a downward course, standing at 9.5% in December 2016 from 13.51% in December 2015. The banking sector remains in 2016 very well capitalized. Capital adequacy ratio for the entire system was 18.33% at the end of December 2016 versus 19.16% at the end of 2015. Banking system's ROA and ROE slightly decreases reflect the slow lending and the old portfolios' quality, both ratios reaching 1.10% and respectively 10.67% at December 2016. The macro fundamentals suggest that Romania is one of the emerging economies very well positioned to withstand persisting geopolitical risks.

BNR considered legislative uncertainty as a severe systemic risk as 2016 abounded with new unclear and controversial legislative measures. Datio in solutum law and the Conversion law both had negative impact on financial stability. At the end the Conversion law was considered unconstitutional while regarding the Datio in solutum law, the Constitutional Court decided that the law must respect the Civil Code, so the debtor must prove that he/she entered into default because of unpredictable circumstances (the debtor can't pay); and that he/she tried to settle with the bank; and a court of law must decide accordingly.

The RON ended the year near 4.54/EUR in 2016, as a result of the outflows of liquidity on the market. In this environment of political uncertainty, the RON faced depreciation pressures in the beginning of 2017 reaching 4.55. The low interest variations are a result of excess liquidity in the market which continues to affect the banking sector reflected in the last year's deposits volume increase of 6.4%.

The exchange rate published by the NBR for the last business day of December 2016 was the following:

Currency	31 December 2016	31 December 2015
Dolar (USD)	1: RON 4,3033	1: RON 4,1477
Euro (EUR)	1: RON 4,5411	1:RON 4,5245

B. Review of 2016 results

B.1 Balance sheet – Assets

The review of the financial statements of the Company (ERB RETAIL SERVICES IFN SA) was performed based on the figures from the audited statutory financial statements and which shall be submitted to the local authorities – the Ministry of Public Finance and the Trade Register. The independent external auditor PricewaterhouseCoopers will issue an unqualified opinion on these financial statements.

The structure of assets on 31 December 2016 and 31 December 2015 is presented below:

(RON)		31 December 2015	Weight	31 December 2016	Weight
Cash, liquidities at central banks	B.1.1.	3.843	0,00%	3,554	0.00%
Receivables in credit institutions	B.1.2.	201.004.065	39,77%	74,742,782	21.95%
Receivables from clients	B.1.3.	263.026.291	52,03%	229,385,053	67.35%
Intangible assets	B.1.4.	987.108	0,20%	1,738,782	0.51%
Tangible assets	B.1.5.	319.747	0,06%	344,888	0.10%
Other assets	B.1.6.	1.740.441	0,34%	5,083,688	1.49%
Prepaid expenses and accrued revenues	B.1.7.	38.396.361	7,60%	29,286,433	8.60%
Total assets		505.477.856	100,00%	340,585,180	100.00%

On 31 December 2016, the total assets of the Company were RON 340,585,180, lower with 32.62% by comparison to the value recorded on 31 December 2015 (RON 505,477,856).

The clients balance decreased compared to the previous year by RON 33.641.238 in absolute value, mainly due to overall decrease in lending activity and higher repayments from customers as compared to new production.

B.1.1 Cash, liquidities at central banks

For the cash flow, cash and its equivalents comprise the cash in hand.

B.1.2 Receivables in credit institutions

These include on-term and on-demand deposits. On 31 December 2016, the placements at banks also include 2.440.018 RON of collateral deposits, comprising a collateral deposit in the amount of EUR 52,068 (RON 236.447 equivalent) corresponding to the lease agreement for the Company's headquarter space, a cash collateral in amount of USD 225,000 (RON 968.243 equivalent) based on Cash Collateral agreement signed in January 2012 with American Express company and a cash collateral in amount of USD 287,043 (RON 1.235.233 equivalent) in relation to Mastercard. The decrease of the receivables in credit institutions is mainly due to the fully repayment of the borrowings.

B.1.3 Receivables from clients

The total number of credit cards issued by the Company decreased to 276.282 on 31 December 2016 (31 December 2015: 396,519) due to the sale of portfolio. The balance of receivables to be cashed net of the provisions, decreased from RON 263.026.291 in 2015 to RON 229,385,053 in 2016 (67.35% of the total assets of the Company on 31 December 2016). All the receivables of the Company are denominated in RON and are related to Romanian clients.

B.1.4 Intangible assets

During 2016, software licenses were bought and the existing ones have been improved according to the reporting requirements, with the gross book value net increase being of RON 1.928.714. Depreciation in 2016 amounted for RON 1.177.040 thus net book value of intangible assets increased at 31 December 2016 to RON 1.738.782 from RON 987,108 at 31 December 2015.

B.1.5 Tangible assets

In 2016, total purchases of tangible assets were of RON 122.072 consisting of IT equipment.

During 2016, no finance lease contracts were entered for the car fleet.

On 31 December 2016 the Company had no pledged and/or restricted tangible assets in favour of any third party.

B.1.6 Other assets

Other assets category increased significantly compared to the end of 2015. Other assets mostly include amounts received from clients during the last day of the year, that were not deposited in the bank accounts and remain in the balance of the suspense accounts of RON 1.436.904 (2015: RON 680,260) and receivables from the state budget and the local budgets of RON 667.656 (2015: RON 520,953) and income tax to recover amounting RON 2,176,465

B.1.7 Prepaid expenses and accrued revenues

Prepaid expenses increased compared to the last year in terms of its weight in the total assets (8.60% in 2016, compared to 7.60% in 2015). Similar to 2015, on 31 December 2016 this category includes accrued interest receivable, specific interest risk provisions, accrued commissions on the loan balances, prepaid expenses and the interest receivables for placements with credit institutions. The Company recognised the expenses incurred with merchants fees payables, for instalment transactions made through merchants, over the life of the loan (number of instalments). Thus, the expenses with the fees related to instalments which were not due yet are shown in the prepaid expenses account.

The table below presents the variation of the main assets categories from one year to another. The comparison was drawn in nominal terms for the periods ending 31 December 2016 and 31 December 2015.

(RON)	31 December 2015	31 December 2016	Variation	%
Cash, liquidities at central banks	3,843	3,554	(289)	-7.53%
Receivables in credit institutions	201,004,065	74,742,782	(126,261,283)	-62.82%
Receivables from clients	263,026,291	229,385,053	(33,641,238)	-12.79%
Intangible assets	987,108	1,738,782	751,674	76.15%
Tangible assets	319,747	344,888	25,141	7.86%
Other assets	1,740,441	5,083,688	3,343,247	192.09%
Prepaid expenses and accrued revenues	38,396,361	29,286,433	(9,109,928)	-23.73%
Total assets	505,477,856	340,585,180	(164,892,676)	-32.62%

B.2 Balance sheet – Debt and equity

On 31 December 2016, the debts plus the equity of the Company were RON 340,585,180, lower with 32.62 % compared to the end of 2015 (RON 505,477,856).

(RON)		31 December 2015	Weight	31 December 2016	Weight
Debts regarding credit institutions	B.2.1	222,422,088	44.00%	111	0.00%
Other liabilities	B.2.2	9,153,728	1.81%	5,054,095	1.48%
Deferred revenues and committed debts	B.2.3	514,068	0.10%	130,019	0.04%
Provisions	B.2.4	1,233,275	0.24%	1,583,364	0.46%
Subscribed share capital	B.2.5	90,774,500	17.96%	90,774,500	26.65%
Reserves	B.2.6	12,697,396	2.51%	15,780,541	4.63%
Retained earnings	B.2.7	128,347,646	25.39%	168,682,800	49.53%
Result of the financial year	B.2.8	42,805,423	8.47%	61,662,895	18.10%
Profit distribution		2,470,267	-0.49%	3,083,145	-0.91%
Total liabilities		505,477,856	100.00%	340,585,180	100.00%

B.2.1 Debts regarding credit institutions

At 31 December 2016, the Company had no loan contracted, compared with 31 December 2015 when it had in his balance the loan from Eurobank Private Bank (Luxembourg) S.A. in amount of RON 133,000,000 and the loan contracted from Bancpost S.A. in amount of RON 89,422,000.

The loan from Eurobank Private Bank Luxembourg was obtained in 2009. The last prolongation of the maturity was performed on 27 April 2015, the maturity being extended until 31 May 2016. However, in

January 2016, the remaining balance of RON 133,000,000 was reimbursed and the contract was terminated.

The loan from Bancpost S.A. was contracted on September 2013, for an amount of RON 89,422,000, for a period of 2 years, with an interest of ROBOR 3M available in last banking day of the month, plus 5% per year for every drawdown in RON, used for partial repayment of loan taken from Luxembourg. No reimbursements were performed during 2013-2015 period. On 13 March 2015, an addendum was signed to roll over the maturity date to 26 September 2016. Through an addendum dated 21 September 2016, the maturity of Bancpost loan was extended to 25 September 2017. In 11 October 2016 the Company repaid the loan amounting to RON 89.422 million, contracted from Bancpost S.A.

B.2.2 Other liabilities

Other liabilities decreased at 31 December 2016 mainly due to amounts to be paid for invoice purchased assets and services of RON 1.479.703 compared to RON 1,683,126 at 31 December 2015 and amounts collected from clients, which temporarily remains in the suspense accounts until the clients are identified of RON 1.664.920, compared to RON 2,010,047 at 31 December 2015.

B.2.3 Deferred revenues and committed debts

Deferred income revenues are mostly fees collected when the loans are granted, which are an integral part of the actual yield of the financial product. Such fees are deferred and recognised in the profit and loss account as an adjustment of the actual yield over the duration of the credit contracts. Thus, revenues and fees for instalments which are not yet due are shown in the deferred revenues accounts (RON 130,019 at 31 December 2016 and 514,068 at 31 December 2015)

B.2.4 Provisions

The provisions, other than risk provisions set up for the operations with clients, increased their weight in total liabilities 0.46% in 2016 compared to 0.24% in 2015. This category includes provisions for taxes (which decreased from 947.765 at 31 December 2015 to RON 935,761 at 31 December 2016), the provisions set up for untaken holidays, including relevant taxes (which increased from RON 34,473 at 31 December 2015 to RON 86,238 at 31 December 2016), and other provisions for litigations (which increased from RON 251,037 at 31 December 2015 to RON 561,365 at 31 December 2016).

B.2.5 Share capital

The value of the share capital on 31 December 2016 is RON 90,774,500 (31 December 2015: RON 90,774,500), representing 90,774,500 shares (31 December 2015: 90,774,500 shares). This remained unchanged since December 2007.

B.2.6 Reserves

During the financial year concluded on 31 December 2016 the Company had a net profit of RON 61,662,895 (net profit 2015: RON 42,805,423).

During 2016 the Company allocated the amount of RON 3,083,145 to setting up the legal reserve, up to 5% of the gross profit in accordance with the provisions of the Company Law 31/1990 republished (at 31 December 2015: RON 2,470,267).

B.2.7 Retained earnings

Retained earnings at the end of 2016 are RON 168,682,800.

B.2.8 Result of the financial year

On 31 December 2016, the net result of the financial year is RON 61,662,895.

The following table shows the variation of the main debts and equity items, in nominal terms:

(RON)	31 December 2015	31 December 2016	Variation	%
Debts regarding credit institutions	222,422,088	111	(222,421,977)	-100.00%
Other liabilities	9,153,728	5,054,095	(4,099,633)	-44.79%
Deferred revenues and committed liabilities	514,068	130,019	(384,049)	-74.71%
Provisions	1,233,275	1,583,364	350,089	28.39%
Subscribed share capital	90,774,500	90,774,500	-	0.00%
Reserves	12,697,396	15,780,541	3,083,145	24.28%
Retained earnings	128,347,647	168,682,800	40,335,153	31.43%
Result of the financial year	42,805,423	61,662,895	18,857,472	44.05%
Profit distribution	2,470,267	3,083,145	612,878	24.81%
Total liabilities	505,477,856	340,585,180	(164,892,676)	-32.62%

ERB Retail Services

B.3 Profit and loss account

The structure of the annual profit and loss account is presented below:

(RON)	Note	2015	2016	Variation	%
Interest receivable and similar revenues	B.3.1	88,980,965	64,830,343	(24,150,622)	-27%
Interest payable and similar expenses	B.3.2	10,799,800	4,184,222	(6,615,578)	-61%
Commission income	B.3.3	25,581,839	18,369,588	(7,212,251)	-28%
Commission expense	B.3.4	9,711,033	8,044,903	(1,666,130)	-17%
Net loss from financial operations		(1,623,605)	(962,677)	660,928	-41%
Other operating revenues	B.3.5	4,707,059	5,091,356	384,297	8%
General administrative expenses	B.3.6	49,430,566	34,758,219	(14,672,347)	-30%
Value adjustment of tangible and intangible assets		1,426,062	1,273,967	(152,095)	-11%
Other operating expenses	B.3.7	(6,622,401)	(3,337,228)	3,285,173	-50%
Correction on the value of receivables and provisions for contingent liabilities and commitments	B.3.8	76,704,580	387,501,229	310,796,649	405%
Reversal from value adjustment of receivables and provisions for contingent liabilities and commitments	B.3.8	86,494,503	413,434,052	326,939,549	378%
Profit / (loss) from current operations		49,446,318	61,662,895	12,216,577	25%
Total revenues		206,178,450	502,465,988	296,287,538	144%
Total expenses		156,732,132	440,803,093	284,070,961	181%
Gross profit / (loss)		49,446,318	61,662,895	12,216,577	25%
Profit tax	B.3.9	6,640,896	-	(6,640,896)	-100%
Net profit / (loss) of the financial year		42,805,423	61,662,895	18,857,472	44%

On 31 December 2016, the Company showed a net accounting profit amounting to **RON 61,662,895**.

B.3.1 Interests receivable and similar revenues

Interests receivable and similar revenues (RON)	2015	Weight	2016	Weight
Revenues from interests – instalments	27,600,298	31.02%	16,133,515	24.89%
Revenues from bad payer penalty interest (LPF)	9,975,744	11.21%	7,964,103	12.28%
Revenues from interests on card holders	49,339,179	55.45%	40,466,953	62.42%
Revenues from interests on Bancpost deposits	2,065,743	2.32%	265,772	0.41%
Total	88,980,965	100.00%	64,830,343	100.00%

The largest weight is represented by revenues from interests in relation with clients.

B.3.2 Interests payable and similar expenses

Interests payable and similar expenses (RON)	2015	Weight	2016	Weight
Expenses with interest payable for Luxembourg loan	5,023,114	46.51%	75,256	1.80%
Expenses with interest payable for Bancpost loan	5,776,686	53.49%	4,108,966	98.20%
Total	10,799,800	100,00%	4,184,222	100.00%

In 2016, from the total interest costs, 1.80% were related to Eurobank Private Bank Luxembourg S.A. loan, while interest expenses related to loan from Bancpost represented 98.20%.

B.3.3 Revenues from fees

The structural evolution of the revenues from fees in 2016 by comparison to 2015 is presented in the following table:

Revenues from fees (RON)	2015	Weight	2016	Weight
Revenues from fees for exceeding the card limit	5.493.748	21,48%	2,761,873	15.04%
Revenues from administration fees	7.907.629	30,91%	5,963,185	32.46%
Revenues from fees for card issuance	821.758	3,21%	626,950	3.41%
Revenues from fees for the issuance of monthly bank statement	7.722.369	30,19%	6,055,773	32.97%
Revenues from fees for cash upfront payments	3.574.894	13,97%	2,884,091	15.70%
Revenues from fees for PIN re-issuance	352	0,00%	108	0.00%
Revenues from fees of merchants' instalments and payments	61.089	0,24%	555	0.00%
Revenue from fees paid by merchants	-	-	32,757	0.18%
Pay fees pay point	-	-	44,296	0.24%
Total	25.581.838	100,00%	18,369,588	100.00%

The recognition of revenues was done in accordance with the local regulations.

Revenues from fees for exceeding the card limit decreased by 49.7% in 2016 compared to 2015, while administration fees decreased by 24.6% mainly due to migration from Euroline to Euroline Amex/Mastercard.

B.3.4 Expenses with fees

Expenses with fees consist of commissions paid to financial institutions and merchants.

Expenses with fees (RON)	2015	Weight	2016	Weight
Expenses with ATM fees	62,718	0.65%	268,428	3.34%
Bank fees for cash withdrawal/deposits at Bancpost cashiers	27,277	0.28%	20,659	0.26%
Bancpost bank fees expenses	712,142	7.33%	764,927	9.51%
Merchant fee expenses	8,908,896	91.74%	6,990,889	86.90%
Total	9,711,033	100.00%	8,044,903	100.00%

Starting 2015 the fees paid to merchants as a percentage of cards/loans are presented under commissions line considering that they are direct costs, linked to transaction.

B.3.5 Other operating revenues

Other operating revenues (RON)	2015	Weight	2016	Weight
Fee revenues from merchants transactions (including corrections)	97,787	2.08%	11,207	0.22%
Revenues from Bancpost service supply	1,214,263	25.80%	1,265,665	24.86%
Revenues from damage payments	2,009	0.04%	-	0.00%
Revenues from sale of asset	-	-	56,837	1.12%
Revenues insurance brokerage PPI	80,047	1.70%	92,124	1.81%
Other revenues	3,312,953	70.38%	3,665,523	72.00%
Total	4,707,059	100.00%	5,091,356	100.00%

Revenues from services related to agreement with Bancpost S.A. kept a stable trend in 2016 and 2015.

Other operating revenues in 2016 mainly include:

- interchange fee received from American Express for POS transactions performed by Euroline Amex cardholders RON 241.966 (2015: RON 1,672,699);
- interchange fee received from Mastercard for POS transactions performed by cardholders RON 106.456 (2015: RON 49.660);
- income related to closed cards of RON 190.711 (2015: RON 352,927);
- revenue obtained from recoveries of legal expenses related to legal recoveries activity in amount of RON 2.375.996 (2015: RON 1,179,291).
- Income from promotional materials in relation with Mastercard RON 223.170

B.3.6 General administrative expenses

General administrative expenses (RON)	2015	Weight	2016	Weight
Expenses with staff salaries	7,597,183	15.37%	6,723,623	19.34%
Expenses with social security, taxes and similar	1,613,937	3.27%	1,543,700	4.44%
Other administrative expenses	40,219,446	81.37%	26,490,896	76.21%
Total	49,430,566	100.00%	34,758,219	100.00%

Staff expenses include expenses with gross salaries and related taxes, and represent 19.34% of the total general administrative expenses in 2016, compared to 15.37% in 2015.

The highest weight in total general administrative expenses is represented by other administrative expenses (over 76.21%), with breakdown as presented below:

Other administrative expenses (RON)	2015	Weight	2016	Weight
Expenses with consumables	333,366	0.83%	267,599	1.01%
Expenses with fuel	348,057	0.87%	308,371	1.16%
Expenses with spare parts	6,604	0.02%	14,796	0.06%
Expenses with materials such as inventory objects	24,028	0.06%	89,793	0.34%
Expenses with maintenance and repairs	1,798,056	4.47%	1,225,352	4.63%
Expenses with utilities	499,585	1.24%	177,017	0.67%
Expenses with post office, taxes and telecommunications	3,486,288	8.67%	3,119,035	11.77%
Expenses with travels and secondments	147,488	0.37%	188,198	0.71%
Expenses with rents	205,760	0.51%	73,035	0.28%
Expenses with professional training	54,475	0.14%	46,703	0.18%
Expenses with security ensured by third parties	170,672	0.42%	175,744	0.66%
Expenses with protocol, commercials and publicity	4,447,561	11.06%	2,069,331	7.81%
Expenses with consultancy services	1,702,871	4.23%	2,727,143	10.29%
Expenses with card processing	2,724,699	6.77%	2,663,808	10.06%
Expenses with services according to Bancpost contract	2,010,117	5.00%	1,731,530	6.54%
Expenses with audit services	230,924	0.57%	156,903	0.59%
Expenses with recovery of debts	4,143,356	10.30%	2,114,288	7.98%
Expenses with fees paid to merchants	195,861	0.49%	141,498	0.53%
Expenses with third party services (related to collection and customer service)	5,346,263	13.29%	3,273,916	12.36%
Expenses with Amex royalties	8,121,564	20.19%	1,747,072	6.59%
Expenses with goods and persons insurance	68,856	0.17%	31,532	0.12%
Expenses with legal recoveries process	1,812,149	4.51%	1,417,081	5.35%
Expenses with statements of account	670,314	1.67%	585,837	2.21%
Expenses with Mastercard fees	520,570	1.29%	679,765	2.57%
Other services provided by third parties	1,149,962	2.86%	1,465,549	5.53%
Total	40,219,446	100.00%	26,490,896	100.00%

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The most important variations in absolute terms were as follows:

- Expenses with rents – RON 73,035 (2015: 205,760). On this position an reclassification was made, the expenses with the monthly rent can be found on position Other operating expenses. Expenses decreased due to decrease of the rented space.
- Protocol expenses, advertising and publicity RON 2,069,331 (2015: RON 4,447,561). Starting with 2016 the value of gift vouchers were deferred in the profit and loss account over the lifecycle of the contract;
- Amex royalties expenses RON 1,747,072 (2015: RON 8,121,564). These expenses have decreased due to migration in the portfolio of cards from Amex to Mastercard, and due to the contract renegotiation.
- Expenses with consultancy services – RON 2,727,143 (2015 : RON 1,702,871). Expenses increased mainly due to the increase of the legal costs and telemarketing costs.
- Expenses with recovery of debts – RON 2,114,288 (2015 : RON 4,143,356), decreased mainly due to the sale of the portfolio.
- Expenses with third party services – RON 3,273,916 (2015 : RON 5,346,263). Expenses decreased due to lower services contracted/rendered staff.

B.3.7 Expenses with depreciation

The depreciation is calculated to the estimated value, by using the linear method throughout the estimated lifecycle of the assets, as follows:

Technical systems and cars	3 – 6 years
Other installations, machinery and furniture	3 – 30 years

B.3.8 Expenses/reversals with provisions

During 2016, the Company. completed the assignment of a portfolio of non-performing gross loans of RON 337 mln (leading to a reversal of provision in the same amount), which represented significant part of receivable from clients past due more than 90 days as at 31 December 2015. Overall, the transaction resulted in a gain of RON 29,700 thousand that has been recognized on provisions.

B.3.9 Expenses with profit tax

For 2016 the Company didn't book any expenses related to the income tax due to the fiscal loss.

The difference between the accounting result amounting to RON 61,662,895 and the fiscal result amounting to RON (11,494,981), is due to the non-deductible expenses released and non-taxable incomes. The non-deductible expenses were mainly driven by the reversal of provision related to the sold portfolio.

B.4 Statutory financial statements/IFRS/Group:

Except for the policy regarding the specific provisions for receivables from clients, fixed assets and the impact of the related deferred tax, there are no further significant differences between the financial statements drawn up in accordance with the statutory requirements, the International Financial Reporting Standards (IFRS) and the reporting package Hyperion in accordance with the Eurobank Ergasias S.A. group policies.

In the statutory financial statements, the provisions were set up in accordance with NBR Regulation 5/2012 regarding the classification of credits and placements, as well as the set-up, adjustment and use of specific credit risk provisions.

Within the Group financial statements, the provisions were set up in accordance with the classification and calculation criteria for the specific credit risk provisions mentioned by the group policies Eurobank Ergasias S.A..

As a result of using different criteria regarding the set-up of provisions, as well as due to the change of the fiscal treatment of specific provisions, the Company recognized deferred income tax in the group financial statements, which is not recognised in the statutory financial statements.

C. Shareholders

On 31 December 2016 the shareholders were:

	No. of shares	Amount (RON)	Percentage (%)
ERB New Europe Holding B.V.	90,000,101	90,000,101	99.1469
Eurobank Household Lending Services SA	619,802	619,802	0.6828
Bancpost SA	154,597	154,597	0.1703
Total	90,774,500	90,774,500	100.00

D. The Board of Administration as at 31 December 2016

On 31 December 2016, the Board of Directors of ERB Retail Services IFN S.A. had the following structure according to the Decision of the Ordinary General Meeting of Shareholders dated 06.05.2016.

1. Filippos Karamanolis	President of the Board of Administration
2. Cristina Theofilidi	Member
3. Theodor Karakasis	Member
4. Anastasios Panousis	Member
5. Mihai Bogza	Member
6. Efthymios Zois	Member
7. Lambros Yiannis Demosthenous	Member
8. Georgios Chatzinikolis	Member
9. Aikaterini Atsali	Member

E. Financial risk management

Considering the nature of its activities, the Company is exposed to various risks that include the credit risk, foreign exchange risks, interest rate risk and liquidity risk. The management focuses on the decrease of the potential adverse effects, associated to these risk factors on the financial performance of the Company.

(i) Credit risk

The Company is exposed to a certain credit risk due to its trade receivables and to the other types of receivables. The references regarding the clients' good standing are normally obtained for all the new clients, the due date of the debts is carefully monitored, and the amounts owed after exceeding the due date are pursued promptly.

The monitoring system of credit risk includes specific reports prepared and analyzed by the Collection Division and Credit and Risk Division and sent regularly to the management.

The introduction of risk based strategies has produced significant improvements in collection performance.

Restructuring offers are also in place to regularly identify and aid customers that are estimated to be capable of reimbursing the loans following the renegotiation of credit terms.

The Company's procedure of granting credits is based on a series of principles meant to decrease the credit risk, among which the segregation of tasks due to the existence of different departments that carry out distinct activities within the process of credit granting: requesting and receiving the documents from new clients, verification of the clients' good standing and their evaluation, approval of the credit limit by value thresholds.

The identification and management of the credit risk inherent to all products and activities runs according to adequate procedures of risk management and of controls prior to its implementation.

(ii) Foreign currency risk

The Company is exposed to exchange rate fluctuations, through the debt generated by trade debts expressed in foreign currency. Throughout 2016, most of the transactions were made in RON. The Company made some assessments to hedge the foreign currency risk, but considering the higher cost incurred by this process, the management decided not to use derivatives to mitigate the currency risk.

(iii) Interest rate risk

The operating cash flows of the Company are affected by the variations of the interest rates mainly due to borrowings and loans receivables in RON. The Company's borrowings bear a variable interest rate.

The loans receivables bear a fixed interest rate, which is reviewed periodically. The Company does not use financial instruments in order to protect itself against the fluctuations of the interest rate.

(iv) Liquidity risk

The prudent management of the liquidity risk involves providing access to sufficient funds, in accordance with the best practices of the Eurobank Ergasias S.A..

F. Other information

(i) Going concern principle

The annual financial statements have been prepared on a going concern basis, as the Board of the Directors considered as appropriate, taking into consideration the following:

a) Position of Eurobank 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 bn 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 bn, (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.

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.

b) Application of the going concern principle in the preparation of the financial statements

These financial statements were drawn up based on going concern principle assuming that the Company will continue its activity in the predictable future as well. In order to evaluate the applicability of this assumption the management reviews the predictions regarding the future cash inflows. Based on these analyses, the management of ERB RETAIL SERVICES IFN SA considers that it will continue its activity normally in the future and consequently, the financial statements were drawn up in this respect.

c) Foreseeable development of the institution

Management forecasts with regards to financial evolution of the company are positive, the business plans for the next 3 years revealing an overall increase of revenues and steady expenses.

d) Working points

The Company has a working point registered, at 6 Calea Vitan, Bloc Tronson C, ground floor, Sector 3, Bucharest, according to the registration certificate for salaries tax purposes under C.I.F. 25788673, issued on 17 September 2009 and other working points opened in the locations of the most important merchants- partners.

During 2016, no new working points were opened or closed from the existing ones.

As at December 31, 2016, a number of 9 working points were still active.

(ii) Reclass within previous financial statements

In 2016, the Company reclassified the rent expenses within the income statement, as in the following table, due to the updated mapping of the expense account in the trial balance

<u>Income statement</u>	<u>31 December 2015</u>		<u>31 December 2016</u>
	<u>Previously reported</u>	<u>Reclassification</u>	<u>Corrected</u>
Other administrative expenses	45,641,403	(5,421,957)	40,219,446
Other operating expenses	1,200,444	5,421,957	6,622,401

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Until 2016 specific provisions for credit risk were adjusted by including into expenses the net amount representing the difference between the level of the specific provisions for credit risk existing in the balance and the necessary level for each category of provisions. In 2016, the Company has refined the provisions expenses/revenues preseting separatly the charges with provisions versus the release with provisions, as per below table:

	31-Dec-15		31-Dec-16
<u>Income statement</u>	<u>Previously reported</u>	<u>Reclassification</u>	<u>Corrected</u>
Corrections on the value of receivables and provisions for contingent liabilities and commitments	(9,748,963)	86,453,543	76,704,580
Reversal of correction on the value of receivable debts and provisions for contingent liabilities and commitments	40,960	86,453,543	86,494,503

Filippos Karamanolis, President of BA


Date: 25 April 2017

