Banca Transilvania S.A.

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Prepared according with the
International Financial Reporting Standards as adopted by the European Union

For the year ended 31 December 2016

Banca Transilvania S.A.

CONTENTS

Consolidated and Separate Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

		Group		Bank	
	Note	2016	2015	2016	2015
		RON thousand	*RON thousand*	*RON thousand*	*RON thousand*
Interest income		2,027,555	2,416,977	1,971,218	2,369,872
Interest expense		(263,522)	(464,802)	(260,484)	(460,088)
Net interest income	8	**1,764,033**	**1,952,175**	**1,710,734**	**1,909,784**
Fee and commission income		652,900	603,085	624,114	582,247
Fee and commission expense		(106,629)	(116,099)	(114,651)	(124,731)
Net fee and commission income	9	**546,271**	**486,986**	**509,463**	**457,516**
Net trading income	10	197,383	179,877	183,493	179,428
Net gain from sale of available-for-sale financial instruments	11	401,691	222,208	402,226	222,086
Contribution to the Bank Deposit Guarantee Fund and the Bank Resolution Fund	12	(72,792)	(95,308)	(72,792)	(95,308)
Other operating income	13	170,051	108,212	90,268	81,879
Operating income		**3,006,637**	**2,854,150**	**2,823,392**	**2,755,385**
Net impairment allowance on assets, provisions for other risks and loan commitments	14	(658,087)	(797,514)	(654,223)	(794,954)
Personnel expenses	15	(665,818)	(676,742)	(631,487)	(650,324)
Depreciation and amortization	25,26	(93,911)	(91,662)	(72,358)	(77,616)
Other operating expenses	16	(529,984)	(638,117)	(466,201)	(617,962)
Operating expenses		**(1,947,800)**	**(2,204,035)**	**(1,824,269)**	**(2,140,856)**
Gain from acquisitions		-	1,650,600	-	1,650,600
Profit before income tax		**1,058,837**	**2,300,715**	**999,123**	**2,265,129**
Income tax recovery	17	218,176	147,302	229,317	152,539
Profit for the year		**1,277,013**	**2,448,017**	**1,228,440**	**2,417,668**
Profit for the year attributable to:					
Equity holders of the Bank		1,272,422	2,446,129	-	-
Non-controlling interests		4,591	1,888	-	-
Profit for the year		**1,277,013**	**2,448,017**	**1,228,440**	**2,417,668**
Basic earnings per share	45	**0.3491**	**0.6709**	**-**	**-**
Diluted earnings per share	45	**0.3481**	**0.6679**	**-**	**-**

Consolidated and Separate Statement of Profit or Loss and Other Comprehensive Income *(continued)*

For the year ended 31 December

	Note	Group		Bank	
		2016	**2015**	**2016**	**2015**
		RON thousand	***RON thousand***	***RON thousand***	***RON thousand***
Profit for the year		**1,277,013**	**2,448,017**	**1,228,440**	**2,417,668**
Items that cannot be reclassified as profit or loss, net of tax		**2,052**	**244**	**1,749**	**741**
Increases from revaluation of property and equipment, net of tax		1,783	1,082	1,783	1,082
Other elements of comprehensive income		269	(838)	(34)	(341)
Items which are or may be reclassified as profit or loss					
Fair value reserve (available-for-sale financial assets) net of tax, out of which:		(219,403)	(17,126)	(210,879)	(15,732)
Net gain from the sale of available-for-sale financial instruments transferred to profit and loss account		(401,691)	(222,208)	(402,226)	(200,490)
Fair value changes of available-for-sale financial instruments, net of tax		182,288	205,082	191,347	184,758
Income tax directly booked into other elements of comprehensive income		**34,778**	**2,652**	**33,461**	**2,350**
Total comprehensive income for the period		**1,094,440**	**2,433,787**	**1,052,771**	**2,405,027**
Total comprehensive income attributable to:					
Equity holders of the Bank		1,089,849	2,431,899	-	-
Non-controlling interest		4,591	1,888	-	-
Total comprehensive income for the period		**1,094,440**	**2,433,787**	**1,052,771**	**2,405,027**

The financial statements were approved by the Board of Directors on 22 March 2017 and were signed on its behalf by:

Horia Ciorcilă
Chairman

George Călinescu
Deputy CEO-CFO

Consolidated and Separate Statement of Financial Position

as at 31 December

		Group		Bank	
	Note	2016	2015	2016	2015
Assets		***RON thousand***	***RON thousand***	***RON thousand***	***RON thousand***
Cash and cash equivalents at the National Bank	18	5,293,660	4,997,930	5,293,635	4,997,896
Placements with banks	19	2,785,505	3,908,864	2,746,582	3,889,483
Financial assets at fair value through profit and loss	20	163,520	161,028	59,890	56,819
Loans and advances to customers	21	26,710,402	24,894,560	27,209,976	25,107,527
Net finance lease investments	22	523,643	331,054	-	-
Investment securities, available-for-sale, *out of which:*	23	14,993,828	12,242,959	15,120,524	12,332,576
- *Securities sold under unde sale and repurchase agreements*		*1,483,035*	*1,483,035*	*1,483,035*	*1,483,035*
Investment securities, held-to-maturity	23	20,691	12,942	-	-
Equity investments	24	-	-	136,671	84,886
Property and equipment	25	558,734	452,266	370,305	337,076
Intangible assets	26	86,600	74,472	78,396	72,425
Goodwill	26	2,774	376	-	-
Current tax assets	27	119,103	132,651	125,055	133,769
Deferred tax assets	27	378,716	113,906	373,940	111,162
Other financial assets	28	194,151	137,382	170,153	128,642
Other non-financial assets	29	112,897	118,702	84,474	90,404
Total assets		**51,944,224**	**47,579,092**	**51,769,601**	**47,342,665**
Liabilities					
Deposits from banks	30	247,268	388,425	247,268	388,425
Deposits from customers	31	41,681,475	38,301,741	41,851,773	38,395,292
Loans from banks and other financial institutions	32	2,304,911	1,129,702	2,246,461	985,142
Subordinated liabilities	33	424,111	416,424	424,111	416,352
Provisions for other risks and for loan commitments	34	514,582	708,199	506,955	705,596
Other financial liabilities	35	469,975	277,032	441,158	268,891
Other non-financial liabilities	36	111,869	83,108	67,787	65,206
Total liabilities excluding financial liabilities to holders of fund units		**45,754,191**	**41,304,631**	**45,785,513**	**41,224,904**
Financial liabilities to holders of fund units		**37,326**	**33,648**	**-**	**-**
Total liabilities		**45,791,517**	**41,338,279**	**45,785,513**	**41,224,904**
Equity					
Share capital	37	3,732,549	3,112,505	3,732,549	3,112,505
Treasury shares	38	(29,993)	(11,806)	(16,546)	-
Share premiums		28,374	28,316	28,374	28,316
Retained earnings	39	1,954,073	2,523,109	1,779,244	2,389,102
Revaluation reserves	40	26,227	26,470	27,188	27,377
Reserves from available-for-sale assets	41	(8,791)	175,511	10,790	187,928
Other reserves	42	432,061	380,588	422,489	372,533
Total equity attributable to equity holders of the Bank		**6,134,500**	**6,234,693**	**5,984,088**	**6,117,761**
Non-controlling interest		18,207	6,120	-	-
Total equity		**6,152,707**	**6,240,813**	**5,984,088**	**6,117,761**
Total liabilities and equity		**51,944,224**	**47,579,092**	**51,769,601**	**47,342,665**

The financial statements were approved by the Board of Directors on 22 March 2017 and were signed on its behalf by:

Horia Ciorcilă
Chairman

George Călinescu
Deputy CEO-CFO

Banca Transilvania S.A.

Consolidated Statement of Changes in Equity

For the year ended 31 December

Group		Attributable to the equity holders of the Bank									
In RON thousand	**Note**	**Share capital**	**Treasury shares**	**Share premium**	**Revaluation reserves**	**Reserves from available-for-sale financial assets**	**Other reserves**	**Retained earnings**	**Total Attributable to the bank's shareholders**	**Non-controlling interest**	**Total**
Balance as at 1 January 2016		**3,112,505**	**(11,806)**	**28,316**	**26,470**	**175,511**	**380,588**	**2,523,109**	**6,234,693**	**6,120**	**6,240,813**
Total comprehensive income for the period											
Profit for the year		-	-	-	-	-	-	1,272,422	**1,272,422**	4,591	**1,277,013**
Other comprehensive income, net of income tax											
Fair value gains / (losses) from available-for-sale financial assets (net of deferred tax)	41	-	-	-	-	(184,302)	-	-	**(184,302)**	-	**(184,302)**
Revaluation of property and equipment, net of income tax	40	-	-	-	1,498	-	-	-	**1,498**	-	**1,498**
Retained earnings from revaluation reserves	40	-	-	-	(1,741)	-	-	1,741	-	-	-
Distribution to statutory reserves		-	-	-	-	-	51,473	(51,473)	-	-	-
Other elements of comprehensive income		-	-	-	-		-	231	**231**	-	**231**
Total comprehensive income		**-**	**-**	**-**	**(243)**	**(184,302)**	**51,473**	**1,222,921**	**1,089,849**	**4,591**	**1,094,440**
Contributions of/distributions to the shareholders											
Increase in share capital through the conversion of profit reserves	37	620,000	-	-	-	-	-	(620,000)	-	-	-
Increase in share capital through the conversion of subordinated debt into shares	37	44	-	58	-	-	-	-	**102**	-	**102**
Acquisition of treasury shares	38	-	(16,546)	-	-	-	-	-	**(16,546)**	-	**(16,546)**
Recognition of employee benefits in the form of equity instruments	38	-	-	-	-	-	-	30,000	**30,000**	-	**30,000**
Bonus shares from investments in subsidiaries			(1,641)	-	-	-	-	-	**(1,641)**	-	**(1,641)**
Dividends distributed to shareholders		**-**	-	-	**-**	**-**	**-**	(1,200,000)	**(1,200,000)**	-	**(1,200,000)**
Other (Entry into consolidation corrections retained earnings, percentage change funds)	39	**-**	-	-	**-**	**-**	**-**	(1,957)	**(1,957)**	7,496	**5,539**
Total contributions of/distributions to the shareholders		**620,044**	**(18,187)**	**58**	-	-	-	**(1,791,957)**	**(1,190,042)**	**7,496**	**(1,182,546)**
Balance at 31 December 2016		**3,732,549**	**(29,993)**	**28,374**	**26,227**	**(8,791)**	**432,061**	**1,954,073**	**6,134,500**	**18,207**	**6,152,707**

The explanatory notes to the financial statements pages 10 to 144 are an integral part of these financial statements.

Banca Transilvania S.A.

Consolidated Statement of Changes in Equity

For the year ended 31 December

Group		Attributable to the equity holders of the Bank									
In RON thousand	**Note**	**Share capital**	**Treasury shares**	**Share premium**	**Revaluation reserves**	**Reserves from available-for-sale financial assets**	**Other reserves**	**Retained earnings**	**Total Attributable to the bank's shareholders**	**Non-controlling interest**	**Total**
Balance as at 1 January 2015		**2,695,125**	**(21,253)**	**38,873**	**27,000**	**189,897**	**266,241**	**597,213**	**3,793,096**	**4,167**	**3,797,263**
Total comprehensive income for the period											
Profit for the year		-	-	-	-		-	2,446,129	**2,446,129**	1,888	**2,448,017**
Other comprehensive income, net of income tax											
Fair value gains (losses) from available-for-sale financial assets (net of deferred tax)	41	-	-	-	-	(14,386)	-	-	**(14,386)**	-	**(14,386)**
Revaluation of property and equipment, net of income tax	40	-	-	-	909	-	-	-	**909**	-	**909**
Retained earnings from revaluation reserves	40	-	-	-	(1,439)	-	-	1,439	-	-	-
Distribution to statutory reserves	42	-	-	-	-	-	114,347	(114,347)	-	-	-
Other elements of comprehensive income	39	-	-	-	-	-	-	(753)	**(753)**	-	**(753)**
Total comprehensive income for the period		**-**	**-**	**-**	**(530)**	**(14,386)**	**114,347**	**2,332,468**	**2,431,899**	**1,888**	**2,433,787**
Contributions of/distributions to the shareholders											
Increase in share capital through the conversion of profit reserves		406,823	-	-	-	-	-	(406,823)	-	-	-
Increase in share capital through the conversion of subordinated debt into shares		10,557	-	(10,557)	-	-	-	-	-	-	-
Acquisition of treasury shares	38	-	(65,857)	-	-	-	-	-	**(65,857)**	-	**(65,857)**
Share-based payments	38	-	75,304	-	-	-	-	251	**75,555**	-	**75,555**
Non-controlling interest		-	-	-	-	-	-	-	-	65	**65**
Total contributions of/distributions to the shareholders		**417,380**	**9,447**	**(10,557)**	-	-	-	**(406,572)**	**9,698**	**65**	**9,763**
Balance at 31 December 2015		**3,112,505**	**(11,806)**	**28,316**	**26,470**	**175,511**	**380,588**	**2,523,109**	**6,234,693**	**6,120**	**6,240,813**

Separate Statement of Changes in Equity

For the year ended 31 December

Bank		Attributable to the equity holders of the Bank							
In RON thousand	**Note**	**Share capital**	**Treasury shares**	**Share premium**	**Revaluation reserves**	**Reserves from available-for-sale financial assets**	**Other reserves**	**Retained earnings**	**Total**
Balance as at 1 January 2016		**3,112,505**	**-**	**28,316**	**27,377**	**187,928**	**372,533**	**2,389,102**	**6,117,761**
Total comprehensive income for the period		-	-	-	-	-	-	-	**-**
Profit for the year		-	-	-	-	-	-	1,228,440	1,228,440
Other comprehensive income, net of income tax									
Fair value gains / (losses) from available-for-sale financial assets (net of deferred tax)	41	-	-	-	-	(177,138)	-	-	(177,138)
Revaluation of property and equipment, net of income tax	40	-	-	-	1,498	-	-	-	1,498
Retained earnings from revaluation reserves	40	-	-	-	(1,687)	-	-	1,687	**-**
Distribution to statutory reserves	42	-	-	-	-	-	49,956	(49,956)	
Other elements of comprehensive income	39	-	-	-	-	-	-	(29)	**(29)**
Total comprehensive income for the period		**-**	**-**	**-**	**(189)**	**(177,138)**	**49,956**	**1,180,142**	**1,052,771**
Contributions of/distributions to the shareholders									
Increase in share capital through the conversion of profit reserves	37	620,000	-	-	-	-	-	(620,000)	**-**
Increase in share capital through share premium incorporation	37	44	-	58	-	-	-	-	**102**
Recognition of employee benefits in the form of equity instruments	39	-	-	-	-	-	-	30,000	**30,000**
Acquisition of treasury shares	38	**-**	(16,546)	-	**-**	**-**	**-**	-	**(16,546)**
Dividends distributed to shareholders	39	**-**	-	-	**-**	**-**	**-**	(1,200,000)	(1,200,000)
Total contributions of/distributions to the shareholders		**620,044**	**(16,546)**	**58**	**-**	**-**	**-**	(1,790,000)	**(1,186,444)**
Balance at 31 December 2016		**3,732,54**	**(16,546)**	**28,374**	**27,188**	**10,790**	**422,489**	**1,779,244**	**5,984,088**

Separate Statement of Changes in Equity

For the year ended 31 December

Bank		Attributable to the equity holders of the Bank							
In RON thousand	**Note**	**Share capital**	**Treasury shares**	**Share premium**	**Revaluation reserves**	**Reserves from available-for-sale financial assets**	**Other reserves**	**Retained earnings**	**Total**
Balance as at 1 January 2015		**2,695,125**	**(10,468)**	**38,873**	**27,852**	**201,142**	**259,277**	**490,160**	**3,701,961**
Total comprehensive income for the period									
Profit for the year		-	-	-	-	-	-	2,417,668	**2,417,668**
Other comprehensive income, net of income tax									
Fair value gains (losses) from available-for-sale financial assets (net of deferred tax)	41	-	-	-	-	(13,214)	-	-	**(13,214)**
Revaluation of property and equipment, net of income tax	40	-	-	-	909	-	-	-	**909**
Retained earnings from revaluation reserves	40	-	-		(1,384)	-	-	1,384	**-**
Distribution to statutory reserves	42	-	-	-	-		113,256	(113,256)	**-**
Other elements of comprehensive income	39	-	-	-	-	-	-	(336)	**(336)**
Total comprehensive income for the period		**-**	**-**	**-**	**(475)**	**(13,214)**	**113,256**	**2,305,460**	**2,405,027**
Contributions of/distributions to the shareholders									
Increase in share capital through the conversion of profit reserves		406,823	-	-	-	-	-	(406,823)	**-**
Increase in share capital through share premium incorporation		10,557	-	(10,557)	-	-	-	-	**-**
Acquisition of treasury shares	38	-	(65,857)	-	-	-	-	-	**(65,857)**
Share-based payments	38	-	76,325	-	-	-	-	305	**76,630**
Total contributions of/distributions to the shareholders		**417,380**	**10,468**	**(10,557)**	**-**	**-**	**-**	**(406,518)**	**10,773**
Balance at 31 December 2015		**3,112,505**	**-**	**28,316**	**27,377**	**187,928**	**372,533**	**2,389,102**	**6,117,761**

The explanatory notes to the financial statements pages 10 to 144 are an integral part of these financial statements.

Consolidated and Separate Statement of Cash Flows

For the year ended 31 December

		Group		Bank	
In RON thousand	**Note**	**2016**	**2015**	**2016**	**2015**
Cash flow from/(used in) operating activities					
Profit for the year		**1,277,013**	**2,448,017**	**1,228,440**	**2,417,668**
Adjustments for:					
Depreciation / amortization expense	25, 26	93,911	91,662	72,358	77,616
Impairment allowance and write-offs of financial assets, provisions for other risks and loan commitments	14	794,765	858,115	790,901	855,554
Adjustment of financial assets at fair value through profit and loss		(524)	2,343	(56)	2,321
Income tax recovery	17	(218,176)	(147,302)	(229,317)	(152,539)
Interest income		(2,027,555)	(2,416,977)	(1,971,218)	(2,369,872)
Interest expenses		263,522	464,802	260,484	460,088
Income tax paid/recovered		1,711	(203,552)	8,714	(196,400)
Acquisition cost		-	(1,650,600)	-	(1,650,600)
Other adjustments		219,731	148,164	138,294	173,558
Net profit adjusted with non-monetary elements		**404,398**	**(405,328)**	**298,600**	**(382,606)**
Changes in operating assets and liabilities					
Change in investment securities		(2,971,807)	85,565	(2,992,344)	127,843
Change in placements with banks		(129,935)	(335,870)	(121,586)	(376,670)
Change in loans and advances to customers		(2,858,628)	(1,983,501)	(3,319,939)	(2,119,432)
Change in net lease investments		(189,696)	(93,609)	-	-
Change in financial assets at fair value through profit or loss		(1,968)	(19,440)	(3,015)	(6,829)
Change in other financial assets		(56,769)	(54,541)	(41,511)	67,769
Change in other assets		27,791	(93,404)	132	(12,760)
Change in deposits from customers		3,413,002	3,966,720	3,489,703	4,009,708
Change in deposits from banks		(141,180)	255,077	(141,181)	255,078
Change in other financial liabilities		138,600	71,335	117,924	79,270
Change in other liabilities		(252,133)	(145,805)	(11,986)	(390,668)
Interest received		2,120,088	1,823,071	2,089,319	1,774,258
Interest paid		(297,419)	(491,858)	(294,027)	(487,251)
Net cash from/ (used in) operating activities		**(795,656)**	**2,578,412**	**(929,911)**	**2,537,710**
Cash flow from / (used in) investment activities					
Acquisitions of property and equipment		(154,328)	(105,325)	(79,813)	-26,766
Acquisitions intangible assets		(39,912)	(32,185)	(33,579)	-31,293
Proceeds from disposal of property and equipment and intangible assets		4,523	6,620	1,066	4,570
Acquisition of equity investments		(7,688)	(211,342)	(51,785)	(221,372)
Acquisition of securities held-to-maturity		(7,504)	(12,942)	-	-
Dividends collected	13	7,892	3,258	11,640	9,800
Net cash flow from / (used in) investment activities		**(197,017)**	**(351,916)**	**(152,471)**	**(265,061)**

Consolidated and separate statement of cash flows *(continued)*

		Group		Bank	
In RON thousand	Nota	2016	2015	2016	2015
Cash flow from/ (used in) the financing activity					
Gross proceeds from loans from banks and other financial institutions		14,461,259	15,067,470	14,456,684	14,992,983
Gross payments from loans from banks and other financial institutions		(13,246,032)	(14,988,780)	(13,154,836)	(14,954,299)
Gross payments from subordinated liabilities		(26,528)	(30,273)	(26,528)	(30,273)
Dividend payments		(1,145,657)	-	(1,145,657)	-
Payments for treasury shares		(16,546)	(65,857)	(16,546)	(65,857)
Net cash flow from / (used in) financing activities		**26,496**	**(17,440)**	**113,117**	**(57,446)**

	Group		Bank	
In RON thousand	2016	2015	2016	2015
Net increase/decrease in cash and cash equivalents	(966,177)	2,209,056	(969,265)	2,215,203
Cash and cash equivalents at the National Bank as at January 1	8,607,236	6,398,180	8,597,019	6,381,816
Cash and cash equivalents as at December 31	**7,641,059**	**8,607,236**	**7,627,754**	**8,597,019**

Notes to the separate and consolidated financial statements

1. Reporting entity

Banca Transilvania S.A.

Banca Transilvania S.A. (the "Bank") is a joint-stock company incorporated in Romania. The Bank started its activity as a banking institution in 1993 and is licensed by the National Bank of Romania to conduct banking activities. The Bank started its activity in 1994 and its main operations involve banking services for legal entities and individuals.
The Group Banca Transilvania ("Group") includes the parent-company, Banca Transilvania S.A. ("Bank") and its subsidiaries, based in Romania and in the Republic of Moldova. The consolidated and separate financial statements as at 31.12.2016 comprise Banca Transilvania S.A (the "parent company" or "BT") and its subsidiaries (hereinafter referred to as the "Group").

The Group's fields of activity are: banking through Banca Transilvania S.A (the "Bank"), leasing and consumer loans through BT Leasing Transilvania IFN S.A, BT Operational Leasing S.A, BT Direct IFN S.A and BT Leasing MD S.R.L., asset management through BT Asset Management S.A.I S.A. Likewise, the Bank controls 5 investment funds which it also consolidates with the global consolidation method.

In the first semester of 2016 the Group acquired through the closed-end fund BT Invest 1 the majority stake (51.89%) of SC Sinteza SA at a value of RON 7,890 thousand, at the acquisition date SC Sinteza held a percentage of 99.765% in SC CHIMPROD SRL.

The Bank carries out its banking activity through its head office located in Cluj-Napoca and 54 branches, 447 agencies, 33 bank units, 7 healthcare division units throughout the country, 2 private banking agencies in Romania and Italy and 1 regional office located in Bucharest (2015: 60 branches, 455 agencies, 31 bank units, 9 healthcare division units si 1 regional center located in Bucharest).

In 2013 the Bank opened a branch in Italy, which began its operational activity in 2014.

The Group's number of active employees as at 31 December 2016 was 7,573 (31 December 2015: 7,227 employees).

The Bank's number of active employees as at 31 December 2016 was 7,014 (31 December 2015: 6,863 employees).

The registered address of the Bank is Str. George Bariţiu nr. 8, Cluj-Napoca, Romania.

The ownership structure of the Bank is presented below (specific holdings over 10% are listed below):

	31 December 2016	31 December 2015
European Bank for Reconstruction and Development ("EBRD")	8.60%	11.46%
Romanian individuals	16.97%	16.77%
Romanian companies	29.32%	32.99%
Foreign individuals	1.82%	1.89%
Foreign companies	43.29%	36.89%
Total	**100%**	**100%**

The Bank's shares are listed on the Bucharest Stock Exchange and are traded under the symbol TLV.

1. Reporting entity *(continued)*

The Group's subsidiaries are represented by the following entities:

Subsidiary	Field of activity	31 December 2016	31 December 2015
BT Capital Partners S.A.	Investments	99.59%	99.40%
BT Leasing Transilvania IFN S.A.	leasing	100.00%	100.00%
BT Investments S.R.L.	Investments	100.00%	100.00%
BT Direct IFN S.A.	consumer loans	100.00%	100.00%
BT Building S.R.L.	Investments	100.00%	100.00%
BT Asset Management SAI. S.A.	Asset management	80.00%	80.00%
BT Solution Agent de Asigurare S.R.L.	Insurance broker	99.95%	99.95%
BT Asiom Agent de Asigurare S.R.L.	Insurance broker	99.95%	99.95%
BT Safe Agent de Asigurare S.R.L.	Insurance broker	99.99%	99.99%
BT Intermedieri Agent de Asigurare S.R.L.	Insurance broker	99.99%	99.99%
BT Compania de Factoring S.R.L.	Factoring	100.00%	100.00%
BT Operational Leasing S.A.	Leasing	94.73%	94.73%
BT Leasing MD SRL	Leasing	100.00%	100.00%
BT Microfinantare IFN S.A.	Consumer loans	100.00 %	0.00 %
BT Transilvania Imagistica S.A.	Other healthcare activities	89.71%	89.71%
Improvement Credit Collection SRL	Activity of the collection agents and credit reporting bureaus	100.00%	100.00%
Sinteza S.A.	Manufacture of other organic basic chemicals	46.98%	0.00 %
Chimprod S.R.L.	Manufacture of basic pharmaceutical products	46.87%	0.00 %

BT Leasing Transilvania IFN S.A.

BT Leasing Transilvania IFN S.A. was incorporated in 1995 as a privately owned joint-stock company, established under the Romanian laws. It was initially incorporated under the name of BT Leasing Transilvania S.A., which was changed to the current name in February 2003. The company operates through its head office located in Cluj-Napoca, 1 agency and 24 working points (2015: 1 agency and 20 working points) throughout the country. The company leases various types of vehicles and technical equipment.

The number of active employees at 31 December 2016 was 106 (2015: 105 employees).
The registered address of BT Leasing Transilvania IFN S.A. is: 74-76 Constantin Brancusi Street, Cluj-Napoca, Romania.

1. Reporting entity *(continued)*

BT Asset Management SAI S.A.

BT Asset Management SAI S.A is an investment management company, member of Banca Transilvania Financial Group, authorized by the National Securities Commission (currently the Financial Supervisory Authority, also named „ASF") through the decision no. 903/29.03.2005, ASF Public Register No. PJR05SAIR/120016 dated 29.03.2005.
BT Asset Management SAI manages open and closed investment funds. As at December 31, 2016, BT Asset Management SAI managed 11 investment funds, of which: 9 open funds and 2 closed funds, counting over 47,000 investors and assets under management of more than RON 3,242 billion.

BT Asset Management SAI S.A offers a full range of investment products, from fixed income funds, mixed funds and index funds, to equity funds. The opening to the capital market is provided to customers through investments in Romania, as well as in the EU countries (mainly Austria); placements can be made both in lei and in euro.
The number of active employees at 31 December 2016 was 28 (2015: 23 employees).
The company's registered address is: Cluj-Napoca, 22 Emil Racoviţă street, 1st floor, Cluj county.

BT Capital Partners S.A.

BT Securities S.A. was established in 2003, following the change in the name and registered address of the company Transilvania Capital Invest S.A.

At the beginning of 2016, BT Securities – the brokerage company of Banca Transilvania Financial Group – became BT Capital Partners S.A., after taking over the investment banking activity of Capital Partners, the most important independent consulting Romanian company in the field of M&A and Corporate Finance, thus becoming an exclusive member of M&A International, one of the largest global alliances of independent companies in the field of mergers and acquisitions.

In its new formula, BT Capital Partners offers consulting services for fund raising on the capital market, consultancy on mergers and acquisitions, brokerage services, structuring of complex financing schemes and strategic management counselling, market research and strategic advisory.
At December 31, 2016 the company counted 63 active employees (2015: 58 employees). The company undertakes its activity through its headquarters located in Cluj-Napoca, 74-76 Constantin Brâncuşi street, ground floor, Cluj county, Romania, and through 11 work units.

BT Direct IFN SA

BT Direct IFN SA is a non-banking financial institution set up in 2003. The company's activity object is represented by retail financing, through consumer loans granted to individuals.
During 2016, BT Direct IFN SA increased its loan portfolio (comprising consumer loans and personal needs loans), by 24% compared to 2015, the balance of such loans as at the end of 2016 being of RON 148 million.
The number of active employees at 31 December 2016 was 43 (2015: 39 active employees).
BT Direct IFN SA operates through its head office located at the following address: 74-76 Constantin Brancusi Street, Cluj-Napoca, Romania.

Notes to the consolidated and separate financial statements

2. Basis of preparation

a) Declaration of conformity

The consolidated financial statements of the Group and the Bank have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union, effective as at the Group's and Bank's annual reporting date, 31 December 2016.

As at 31 December 2016, the following entities applied the IFRS as a basis of preparation: Banca Transilvania S.A. (starting 1 January 2012), BT Asset Management SAI and BT Capital Partners Securities S.A. All other entities in the Group apply the statutory reporting standards according to the applicable regulation in force as at the reporting date.

Differences between the IFRS financial statements and the statutory financial statements of the subsidiaries

The subsidiaries, except those mentioned above, maintain their accounting records in accordance with the accounting legislation applicable in Romania and the Republic of Moldova. All such accounts of the subsidiaries are defined hereafter as statutory accounts.

These accounts have been restated to reflect the differences between the statutory accounts and IFRS. Accordingly, adjustments have been operated on the statutory accounts, where considered necessary, in order to align the consolidated financial statements with the IFRS in all material aspects.

The major changes applied to the statutory financial statements of the subsidiaries in order to bring them in line with the International Financial Reporting Standards as endorsed by the European Union are:

- the grouping of several detailed items into broader captions;
- fair value and impairment adjustments of financial instruments required in accordance with IAS 39 ("Financial Instruments – Recognition and Measurement');
- deferred taxes, and
- presentation of the necessary information in accordance with the IFRS.

b) Basis of measurement

The separate and consolidated financial statements were prepared on historical cost basis, except for the revaluation of financial instruments at fair value through profit or loss, investment securities available for sale recognised at fair value through other comprehensive income and for the revaluation of property and equipment and investment property, excepting those with respect to which the fair value cannot be determined realiably.

c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured by using the currency of the primary economic environment in which the particular entity operates ("the functional currency"). The functional currency of the entities within the Group is the Romanian leu "RON", EURO and the Moldovan leu "MDL". The consolidated financial statements are presented in Romanian lei "RON", rounded to the nearest thousand.

2. Basis of preparation (*continued*)

d) Use of estimates and judgments

The preparation of the separate and consolidated financial statements in accordance with the IFRS as endorsed by the European Union implies that the management uses estimations and judgments that affect the application of accounting policies, as well as the reported value of assets, liabilities, incomes and expenses. The estimates and associated assumptions are based on historical data and various other factors that are believed to be relevant under the given circumstances, the result of which forms the basis of the judgments used in assessing the carrying value of the assets and liabilities for which no other evaluation sources are available. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. The review of the accounting estimates are recognized in the period in which the estimate is reviewed, if the review affects only that period, or in the period of the review and future periods if the review affects both current and future periods.

Information about estimates used in the application of the accounting policies which have a significant impact on the consolidated financial statements, as well as the estimates involving a significant degree of uncertainty, are described in Notes 4 and 5.

3. Significant accounting policies

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

a) Basis for consolidation

The Group adopted the following amended IFRS standards as at 1 January 2014:

- IFRS 10 “Consolidated financial statements”
- IAS 27 “Separate financial statements”
- IFRS 12 “Disclosures of interests in other entities”
- IAS 28 (2011) “Investments in associates and joint ventures”

IFRS 10 “Consolidated financial statements”

IFRS 10 replaces the section of IAS 27 Consolidated and Separate Financial Statements which addresses the accounting of consolidated financial statements. It also addresses issues included in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 require the management to exercise significant judgments to determine which entities are controlled and must therefore be consolidated by a parent entity, compared to the requirements of IAS 27. According to IFRS 10, an investor controls an investee if and only if the investor has all of the following elements: 1) power over the investee; 2) exposure, or rights to variable returns from its involvement within the investee; 3) the ability to use its power over the investee to affect the amount of the investor's returns. The list of the Group’s subsidiaries is presented in Note 1.

3. Significant accounting policies (*continued*)

a) Basis of consolidation *(continued)*

IAS 27 “Separate financial statements” (reviewed)

As a result of the new standards IFRS 10 and IFRS 12, the remaining provisions of IAS 27 are limited to the accounting of subsidiaries, jointly controlled entities and associates in the separate financial statements.

IFRS 12 “Disclosures of interests in other entities”

IFRS 12 includes all disclosures previously provided in IAS 27 on the consolidated financial statements and all other information provided previously in IAS 28 and IAS 31. The disclosures refer to an entity’s investments in subsidiaries, joint ventures, associates and structured entities. There is also new information to be provided.

IAS 28 “Investments in associates and joint ventures” (reviewed)

As a result of the new standards IFRS 11 “Joint Ventures”and IFRS 12 “Disclosure of interests in other entities”, IAS 28 “Investments in Associates” was renamed to become IAS 28 “Investments in Associates and Joint Ventures” and describes the application of the equity method for investments in joint ventures in addition to investments in associates.

(i) Subsidiaries

Subsidiaries are entities controlled by the Bank. An investor controls an investee when it has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

The Bank consolidates the financial statements of its subsidiaries in accordance with IFRS 10. The list of Group subsidiaries is presented in Note 1.

(ii) Non-controlling interest

The Group presents the non-controlling interest in its consolidated financial position within equity, separated from the equity of the parent company’s owners.

The non-controlling interest is measured proportionally with the percentage held in the net assets of the subsidiary. Changes in a parent's ownership interest in a subsidiary, which do not result in the loss of parent control of the subsidiary, are reflected as equity transactions.

(iii) Loss of control

If the parent loses the control of a subsidiary, it derecognises the assets (including goodwill), the liabilities and the book value of any non-controlling interest at the date such control is lost. Any gain or loss arising from the loss of control is recognised in the profit or loss account.

3. Significant accounting policies (*continued*)

a) Basis of consolidation *(continued)*

(iii) Loss of control (continued)

At the date when the control is lost, the parent company recognizes any retained interest in the former subsidiary at fair value.

(iv) Management of investment funds

The Group manages and administrates assets invested in fund units on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements, except when the Group controls the entity by holding authority, exposure or rights over variable incomes based on its participation in the investment fund units.

(v) Transactions eliminated from consolidation

Intra-group settlements and transactions, as well as any unrealized gains resulted from the intra-group transactions have been fully eliminated in the preparation of the consolidated financial statements. Unrealized gains resulted from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealized gains resulted from transactions with associates are eliminated in correlation with the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(vi) Presentation of the legal merger through absorption in the financial statements

The Group applies the requirements of IFRS 3 "Business combinations" in order to account for the merger through absorption in the separate financial statements of the absorbing entity. By applying this policy, the separate financial statements of the absorbing entity after merger are a continuation of the consolidated financial statements prepared starting with the date of acquisition of the absorbed entity.

The profit or loss and other comprehensive income of the absorbing entity includes the revenues and expenses as they were booked by the absorbed entity at individual level, for the period between the date of gaining the control (or the end of the last financial period) and the merger date.

Due to the lack of specific requirements in the IFRS related to legal mergers through absorption, the Bank decided to present the book value of the acquired identifiable assets and undertaken liabilities in the separate financial statements at the legal merger date, after their initial recognition at fair value at the date when the control was acquired (7 April 2015).

b) Foreign currency transactions

i) Foreign currency transactions

Transactions in foreign currency are recorded in RON at the official exchange rate at the date of the transaction. The exchange rate differences resulting from such transactions denominated in foreign currency are reflected in the Statement of Profit or Loss at the transaction date and using the exchange rate valid at the respective date. Monetary assets and liabilities denominated in foreign currencies at the date of the consolidated and separate statement of financial position are translated to the functional currency at the exchange rate valid at that date.

Foreign currency differences arising from translation are recognized in profit or loss.

3. Significant accounting policies *(continued)*

b) Foreign currency transactions *(continued)*

i) Foreign currency transactions (continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated in functional currency using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the exchange rate valid at the date when the fair value is determined. Translation differences are shown in the result of the exercise.

ii) Translation of foreign currency operations

The result and financial position of operations denominated in a currency different from the functional and presentation currency of the Group are translated into the presentation currency as follows:

- the assets and liabilities of this entity, both monetary and non-monetary, were translated at the closing rate at date of the consolidated and separate statement of financial position;
- income and expense items of these operations were translated at the average exchange rate of the period, as an estimate of the exchange rates at the dates of the transactions; and
- all resulting exchange differences have been classified as equity until the disposal of the investment.

The exchange rates for the major foreign currencies were:

Currency	31 December 2016	31 December 2015	Variation %
Euro (EUR)	1: LEU 4.5411	1: LEU 4.5245	0.37%
American dollar (USD)	1: LEU 4.3030	1: LEU 4.1477	3.74%

c) Accounting method for the effect of hyperinflation

According to IAS 29 and IAS 21, the financial statements of an entity whose functional currency is the currency of a hyperinflationary economy, should be stated in terms of the current purchase power of the currency at the date of the consolidated and separate statement of financial position i.e. nonmonetary items are restated using a general price index from the date of acquisition or contribution. IAS 29 stipulates that economies should be regarded as hyperinflationary if, among other factors, the cumulative inflation rate over a period of three years exceeds 100%. The continuously decreasing inflation rates and other factors related to the characteristics of the economic environment in Romania indicate that the economy whose functional currency was adopted by the Bank and the Group ceased to be hyperinflationary, with effect on the financial periods starting from 1 January 2004. Therefore, the provisions of IAS 29 have no longer been adopted in preparing the consolidated and separate financial statements. Accordingly, the amounts expressed in the current measurement unit at 31 December 2003 have been treated as a basis for the carrying amounts in the consolidated and separate financial statements and do not represent appraised values, replacement cost, or any other measurement of the current value of assets or the prices at which transactions would take place at the current time.

d) Interest income and expenses

Interest income and expenses related to financial investments are recognised in the income statement at amortized cost using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over a relevant period. The effective interest rate is the exact rate which adjusts estimated future cash flows payable or receivable throughout the

3. Significant accounting policies *(continued)*

d) Interest income and expenses *(continued)*

expected life of the financial instrument or, when appropriate, a shorter period, with the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group and the Bank estimate future cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received between the contractual parties, which are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fair value changes of derivative instruments held for hedging and other financial assets and liabilities at fair value are presented in the net trading income resulted from other financial instruments at fair value through profit or loss.

Once a financial asset or a group of similar financial assets has recorded an impairment loss, the interest income is thereafter recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss applied on the net carrying value of the asset.
The subsequent upwards reassessments of the cash flows from loans and advances to clients further to a business combination are presented as part of the interest revenue.

Considering the source of revenue resulting from the upwards reassessments of the voluntary cash flows, the Group and the Bank adjusted the balance of the amortised cost of the loan portfolio with an amount calculated by discounting the expected future cash flows to the present value by using the initial effective interest rate. This adjustment is the result of a modification in the Group's and the Bank's estimates for the amounts that are to be collected, compared to the initial estimation at the initial valuation and recognition date.

e) Fees and commissions

Fee and commission income arises from financial services provided by the Group and the Bank: upfront fees, commitment fees, card fees, fees for cash management services, brokerage services, investment advice and financial planning, investment banking services, and asset management services.

Fee and commission income directly attributable to the financial asset or liability upon origination (both income and expense) is included in the measurement of the effective interest rate. Loan commitment fees are amortised together with the related direct costs and are recognised as an adjustment of the effective interest rate of the loan.

Other fee and commission income arising from the financial services provided by the Group, including investment management services, brokerage services, and account services fees, is recognised in the profit of the period when the related service is provided. Other fee and commission expense relates mainly to transaction and service fees, which are recognised when the services are provided.

f) Net trading income

Net trading income represents the difference between the gain and loss related to the trading assets and liabilities and includes realized and unrealized fair value changes and foreign exchange differences.

3. Significant accounting policies *(continued)*

g) Net gain from sale of available-for-sale financial instruments

Net gain from the sale of available-for-sale financial instruments includes gains and losses from trading financial instruments classified as available-for-sale and gains from the disposal of own equity instruments valued at cost. Net gain and loss from the sale of available-for-sale financial instruments are recognised in the income statement at the moment of selling the available-for-sale financial instruments. They represent the difference between the sale price and the amortized cost of the financial instruments classified as available-for-sale.

h) Dividends

Dividend income is recognised in profit or loss at the date when the right to receive such income is established and it is probable that the dividends will be collected. Dividends are reflected as a component of other operating income. Dividends are treated as a distribution of profit for the period in which they are declared and approved by the General Meeting of Shareholders.
For some of the Bank's subsidiaries, the only profit available for distribution is the profit for the year recorded in the Romanian statutory accounts, which differs from the profit in these consolidated and separate financial statements prepared in accordance with IFRS, as endorsed by European Union, due to the differences between the applicable Romanian Accounting Standards and IFRS, as endorsed by the European Union. In case of the Bank, starting with 1 January 2012, the IFRS standards endorsed by the European Union are applied as a legal base for the financial reporting.

i) Contribution to the Deposit Guarantee Fund

The retail deposits and certain legal entity deposits, including SME deposits, are guaranteed up to EUR 100,000 by the Bank Deposit Guarantee Fund (the "Fund") according to the regulations in force (Law 311/2015 regarding the deposit guarantee scheme and the Deposit Guarantee Fund).

The Romanian credit institutions are obliged to pay an annual contribution to the Deposit Guarantee Fund ("FGBD-Fondul de Garantare a Depozitelor Bancare"), in order to guarantee the clients' deposits in case of the credit institution's insolvency, as well as an annual contribution to the Resolution Fund ("Fondul de Rezolutie").

The Group and the Bank applied IFRIC 21 "Taxes", as this contribution to the Fund corresponds to a tax that needs to be fully recognized as an expense at the time the generating event occurs.

j) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease contract. Leasing incentives received are recognised as an integral part of the total lease expense, over the term of the leasing contract. Operating lease expense is recognised as a component of operating expenses.

Minimum lease payments made under financial leases are apportioned between the interest expense and the reduction of the outstanding liability. The interest expense is allocated to each leasing period during the leasing term, so as to produce a constant interest rate on the remaining liability balance. Contingent lease payments are recognized as expense during the period in which they are made.

3. Significant accounting policies *(continued)*

k) Income tax expense

Income tax for the year includes the current tax and the deferred tax. The income tax is recognised in the result for the year or in the shareholders' equity, if the tax is related to shareholders' equity items.

Current tax is the tax payable with respect to the profit for the period, determined based on the percentages applied at the date of the consolidated statement of financial position and all the adjustments related to the previous periods. The adjustments which influence the fiscal base of the current tax are: non-deductible expenses, non-taxable income, similar expense/ income items and other tax deductions.

Similar expense items include the prudential filters representing "positive differences between prudential value adjustments/expected losses determined based on the prudential regulations of the NBR applicable starting with 2012 financial year and impairment adjustments according to IFRS, related to the financial assets subject to such methodologies, to the extent to which they are deducted from own funds according to the applicable prudential regulations". From a tax point of view, prudential filters are deducted from the calculation of current tax and their reduction or cancellation is taxed in the order of their registration. For 2015, as a result of legislative changes, the prudential filters are determined at a level of 40% of the differences mentioned in the previous paragraph. As at December 31 2016 the Bank does not have prudential filters.

Deferred tax is determined based on the balance sheet liability method for the temporary differences between the fiscal base for the calculation of the tax on assets and liabilities and their accounting value used for reporting under the consolidated financial statements. Deferred tax is not recognised for the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities resulting from transactions which are not business combinations and do not affect the accounting or tax profit and differences resulting from investments in subsidiaries, provided that they are not reversed in the near future and the moment of reversal is being controlled by the entity.

Deferred tax is calculated based on the estimated method of realization or settlement of the assets' and liabilities' accounting value, by using the tax rates stipulated in the applicable legislation as at the date of the consolidated statement of financial position.

The temporary differences may arise in a business combination, so that an entity may recognise any resulting deferred tax assets or liabilities as identifiable assets and liabilities at the acquisition date. The temporary differences arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination.

According to the local tax regulations, the fiscal loss of the company that ceased to exist further to a legal merger through absorption can be acquired and utilised by the absorbing entity. The annual fiscal loss starting 2009, established through the tax statement shall be recovered from the taxable income of the next 7 consecutive years.

To report the unutilised fiscal losses, the deferred tax claims are recognised only to the extent to which it is probable to obtain taxable profit in the future after compensation with the tax loss from the previous years and with the recoverable tax on profit. Deferred tax claims are diminished to the extent to which the related tax benefits are unlikely to be achieved.

The additional taxes that arise from the distribution of dividends are recognised at the same date as the liability to pay the related dividend.

The tax rate used to calculate the current and deferred tax position at 31 December 2016 is 16% (31 December 2015: 16%).

3. Significant accounting policies (continued)

l) Financial assets and liabilities

(i) Classification

The Group and the Bank classify their financial assets and liabilities in the following categories:

Financial assets and liabilities at fair value through profit and loss. This category has two sub-categories: financial assets or financial liabilities held for trading, and financial instruments designated at fair value through profit or loss at initial recognition.

A financial instrument is classified in this category if acquired principally for the purpose of sale or if so designated by the management. Derivatives are also categorized as held for trading unless the derivative is a designated and effective hedging instrument.

In the separate and consolidated Statement of Financial Position, the financial instruments at fair value through profit or loss line comprise listed equity securities held by the Group and the Bank and derivative instruments.

Loans and receivables are financial assets with fixed or determinable payments which are not quoted on an active market, other than those that the Group and the Bank intend to sell immediately or in the near future, those that the Group and the Bank, upon initial recognition, designate at fair value through profit or loss, those that the Group and the Bank, upon initial recognition, designate as available-for-sale or those for which the holder may not recover substantially all of its initial investment, for reasons other than credit deterioration. Loans and receivables comprise loans and advances to banks and customers and lease investments.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and the Bank have the positive intention and ability to hold to maturity.

Available-for-sale financial assets are those financial assets that are designated as available-for-sale or are not classified as loans and advances, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale instruments include treasury bonds and other bonds eligible for discounting with central banks, investments in unit funds and shares, equity investments and other investment securities which are not held for trading or held-to-maturity.

Financial assets are valued at cost equity instruments for which there is no active market for identical instruments and their fair value can not be reliably determined. Bank classified in this category participations in subsidiaries in its separate financial statements and securities portfolio activity.

<u>Financial assets and liabilities</u>

The Group and the Bank considered that the effective transaction prices would be situated between the informative BID-ASK quotations obtained, which are rather an interval within which the Group and the Bank could have realistically negotiated the quotations for each series and volume of its security portfolio, and thus, the Group used in its estimation an average price for each series.

The Group's and the Bank's accounting policies initially classify the assets and liabilities into different categories depending on certain circumstances:

- In classifying financial assets or liabilities as "trading", the Group and the Bank have determined that it meets the description of trading assets and liabilities set out in accounting policy 3(k);

3. Significant accounting policies (continued)

l) Financial assets and liabilities (continued)

(i) Classifications (continued)

- In classifying financial assets as “held-to-maturity”, the Group and the Bank have determined that it has both the positive intention and ability to hold the assets until their maturity date as required by its accounting policy.

If the Group and the Bank fail to keep these investments to maturity other than for the specific circumstances mentioned in IAS 39, they will be required to reclassify the entire class as available-for-sale.The investments would therefore be measured at fair value not amortized cost. If the entire class of held-to-maturity investments is tainted, the fair value would not be significantly different from the carrying amount.

(ii) Recognition

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

The Group and the Bank initially recognize available-for-sale financial assets at the date of their origination and all other financial assets and liabilities are initially recognized at the trading date at which the Group and the Bank became a party to the contractual provisions of the financial instrument.

(iii) Derecognition

The Group and the Bank derecognise a financial asset when the contractual rights to the cash flows resulting from the respective asset expire, or when the Group and the Bank transfer the rights to receive the contractual cash flows related to the financial asset within a transaction in which all the risks and benefits of ownership of the financial asset are substantially transferred. Any interest in the transferred financial assets created or retained by the Group and the Bank are recognised as a separate asset or liability.

Upon derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the transferred portion of the asset), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that would be recognised in other comprehensive income, is recognised in the income statement.

The Group and the Bank derecognise a financial liability when its contractual settled obligations are cancelled or expire.The Group and the Bank enter into transactions whereby they transfer assets recognised on the consolidated financial position, but they retain either all risks or rewards of the transferred assets or a portion thereof. If all or a substantial portion of risks and rewards are retained, then the transferred assets are not derecognised from the consolidated and separate financial position. Transfers of assets with retention of all risks and rewards or of a substantial portion thereof include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a total rate of return swap on the transferred assets, the transaction is accounted for as a secured financial transaction similar to repurchase transactions. In transactions where the Group and the Bank neither retain nor transfer substantially the risks and rewards arising from the ownership of a financial asset, the asset is derecognised if control over such asset is lost.

3. Significant accounting policies *(continued)*

l) Financial assets and liabilities *(continued)*

(iii) Derecognition (continued)

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

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated and separate statement of financial position when and only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. In 2016 and 2015 no off-setting was required.

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

(v) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured upon initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairments on assets.

(vi) Fair value measurement

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

When available, the Group and the Bank measure the fair value of an instrument using the quoted price on an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price on an active market, then the Group and the Bank use valuation techniques that maximize the use of relevant observable inputs and minimise the use of unobservable inputs.

The selected valuation technique incorporates all of the factors that market participants would take into account when pricing a transaction.

The best evidence of fair value of a financial instrument upon initial recognition is normally the transaction price – the fair value of a consideration given or received. If the Group and the Bank determine that the fair value upon initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price on an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value upon initial recognition and the transaction price.

3. Significant accounting policies *(continued)*

l) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment

Subsequently, that difference is recognised in the income statement on an appropriate basis over the life period of an instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed.

The Group and the Bank recognise the transfers between hierarchical fair value levels as at the end of the reporting period during which the change has occurred.

At each date of the consolidated and separate statement of financial position, the Group and the Bank assess whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired.

A financial asset or a group of financial assets is impaired only if there is objective evidence regarding its impairment as a result of one or more events occurred after the initial recognition ("loss generating event"), and the loss generating event(s) has an impact on the future cash flows of the asset that can be estimated reliably.

It is probable that the identification of a single event responsible for the impairment may be difficult. Impairment may have been caused by the combined effect of multiple events. The expected losses as a result of future events, regardless of their probability, are not recognised.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the updated value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current variable interest rate, specified in the contract. The asset's accounting value can be decreased directly or by using an impairment account. The expense with impairment losses is recognised in the statement of profit or loss.

If during a future period, an event that took place after the date of impairment recognition generates a decrease in the impairment expense, the formerly recognised impairment loss is restated either directly or through the adjustment of an impairment account. The impairment decrease is recognised in the statement of profit or loss.

Loans and advances to customers and net lease investments

The Group and the Bank, based on their internal methodology for impairment assessment, have included information on the following loss events, as objective evidence for the impairment of loans and advances to customers or groups of customers and net lease investments:

a) significant financial difficulty of the borrower (lessee) determined in accordance with the Group's and the Bank's internal rating system;

b) a breach of contract, such as a default or delay in interest or principal payments (individually and in the same group of borrowers);

c) the lender, due to economic or legal reasons relating to the borrower's or the lessee's financial difficulty, grants to the borrower certain concessions that the lender would not have otherwise considered, such as rescheduling the interest or principal payments;

3. Significant accounting policies *(continued)*

l) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment *(continued)*

Loans and advances to customers and net lease investments (continued)

d) there are indications that the borrower will enter bankruptcy or other financial reorganization;

e) credible information indicating a measurable decrease in the estimated future cash flows of a group of financial assets, starting from the date of initial recognition, although the decrease cannot be identified for each individual asset, including:

- unfavourable change in the payment behaviour of the Group's debtors, or
- national or local economic circumstances that can be correlated with the loss/depreciation of the Group's and Bank's assets.

The Group and the Bank assess whether objective evidence of impairment exists as described above, individually for loans to customers and net lease investments that are individually significant, and individually or collectively for loans to customers and net lease investments that are not individually significant.

If the Group and the Bank determine that no objective evidence of impairment exists, as presented above, with respect to an individually assessed financial asset, whether significant or not, they shall include the loans to customers and net lease investments into a group with similar credit risk characteristics and shall collectively assess them for impairment. The loans to customers and net lease investments individually assessed, for which an individual impairment is recognised or continues to be recognised, are no longer included in the groups with similar credit risk characteristics under the collective assessment. The calculation of the present value of the future cash flows of a collateralized loan and a net lease investment reflects the cash flows that may result from foreclosure, less the costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective assessment of impairment, loans and advances to customers and net lease investments are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due, according to the contractual terms (for example, grouping based on separate lines of business, type of loan, currency, maturity, debt service and so on).The management considers that these selected characteristics are the best estimates of similar credit risk characteristics, being relevant for the estimation of future cash flows for groups of such loans and net lease investments, and being indicative of the debtors' ability to pay all amounts due according to the contractual terms.Future cash flows in a group of loans and advances to customers and net lease investments collectively evaluated for impairment are estimated on the basis of historical loss experience related to loans and net lease investments with credit risk characteristics similar to those of the Group and of the Bank.Historical loss is adjusted on the basis of current observable data in order to reflect the effects of current conditions that did not affect the period on which the historical loss was calculated and to remove the effects of conditions in the historical period that do no longer apply.The Group and the Bank regularly review the methodology and assumptions used to estimate future cash flows to reduce differences between estimated and actual losses.

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

l) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

Financial assets available-for-sale

For the financial assets classified as available-for-sale, when a decline in the fair value of an available-for-sale financial asset has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised directly in other comprehensive income shall be restated directly from other comprehensive income and recognised in profit or loss even though the financial asset has not been derecognised yet.

The amount of the cumulative loss that is released from other comprehensive income and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognised in income statement. Impairment losses recognised in the income statement as an investment in an instrument available-for-sale shall not be restated through profit or loss. If, in a subsequent period, the fair value of an available-for-sale instrument increases and the increase can be objectively related to an event occurring after the impairment loss had been recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in result of the period.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unlisted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to or is to be settled by delivery of such an unlisted instrument, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the updated value of estimated future cash flows by using the current market rate of return for a similar financial asset. Such impairment losses are not restated in the income statement.

(viii) Designation at fair value through profit and loss

The Group and the Bank designate financial assets and liabilities at fair value through profit and loss when:

- they eliminate or reduce significantly an evaluation or recognition mismatch (“accounting error”) which might have arisen from the measurement of the assets and liabilities or from the recognition of their gain or loss based on different principles;
- they are part of a group of financial assets or liabilities managed, evaluated and reported to the management on a fair value basis according to the risk management documentation / investment strategy; or
- they are hybrid contracts through which an entity can reflect the entire contract at fair value through profit or loss.

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

m) Cash and cash equivalents

Cash and cash equivalents comprise: cash at hand, unrestricted balances held with National Bank of Romania and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of fair value changes.
Cash and cash equivalents are carried at amortized cost in the consolidated and separate statement of financial position.

n) Assets and liabilities held for trading

Assets and liabilities held for trading are those assets and liabilities that the Group and the Bank acquire or incur principally for the purpose of selling or repurchasing them in the near future, or hold as part of a portfolio in order to obtain short-term profit or to maintain short-term position.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated and separate statement of the financial position and the transaction costs are recorded directly in the statement of profit and loss. All changes in fair value are recognised as part of net trading income in the income statement. Trading assets and liabilities may be reclassified after their initial recognition only in rare circumstances.

o) Derivatives

(i) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are classified as assets or liabilities held for trading. Derivatives held for risk management purposes are measured at fair value in the consolidated and separate statement of the financial position.

When a derivative is not held for trading, and is not involved in a hedge transaction, all changes in its fair value are recognised immediately in the profit for the period, as a component of net trading income.

(ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement ("host contract"). The Group and the Bank account for embedded derivatives separately from the host contract when the host contract is not itself carried through profit and loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separate embedded derivatives are accounted for depending on their classification and are presented in the consolidated and separate statement of the financial position together with the host contract.

3. Significant accounting policies *(continued)*

p) Loans and advances and net lease investments

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and that the Group and the Bank do not intend to sell immediately or in the near term.

When the Group is the lessor in a lease agreement through which it transfers to the lessee all the significant risks and rewards incidental to the property of an asset, the arrangement is presented under loans and advances. Consumer loans granted by the Bank's subsidiaries to customers are also included in net lease investments.

Loans and advances and net lease investments are initially measured at fair value plus direct transaction costs, and subsequently measured at their amortized cost by using the effective interest method as described in the accounting policy 3(d) above, except when the Group and the Bank choose to carry the loans and advances and net lease investments at fair value through profit or loss as described in accounting note 3(l) (viii).

Loans, advances and net lease investments are stated at net value after deducting the provision for impairment. The provision is recorded based on the loans, advances and net lease investments, identified as impaired based on continuous assessment, in order to bring these assets to their recoverable amount.

q) Investment securities

Investment securities are initially measured at fair value plus direct transaction costs and subsequently accounted for depending on their classification either as held-to-maturity, at fair value through profit and loss, as available-for-sale or as loans and receivables.

(i) Held-to-maturity

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or significant reclassification of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group and the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

However, sales and reclassifications would not trigger a reclassification in any of the following circumstances: sales or reclassifications which are so close to maturity that changes in the market interest rate would not have a significant effect on the financial asset's fair value; sales or reclassifications after the Group and the Bank have substantially collected the asset's principal; sales or reclassifications attributable to non-recurring isolated events beyond the Group's and the Bank's control that could not have been reasonably anticipated.

(ii) Fair value through profit and loss

The Group and the Bank carry some investment securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy 3(n).

3. Significant accounting policies *(continued)*

q) Investment securities (continued)

(iii) Available-for-sale

Debt securities such as treasury bills issued by the Government of Romania are classified as available-for-sale assets.

The Group and the Bank considered that the effective transaction prices would be situated between the informative BID-ASK quotations obtained, which are rather an interval within which the Group and the Bank could have realistically negotiated the quotations for each series and volume of its security portfolio, and thus, the Group used in its estimation an average price for each series. Other securities such as investments in unit funds are classified as available-for-sale assets and are carried at their fair values.

Other equity investments in listed or unlisted companies are classified as available-for-sale assets and are carried at the fair value. Where no reliable estimate of fair value is available, equity investments are stated at restated cost less impairment.

Interest income is recognised in profit and loss by using the effective interest method. Dividends are recognised in profit and loss when the Group and the Bank become entitled to the dividends. Foreign exchange gains or losses on available-for-sale securities are recognised in the profit and loss.
Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired and the fair value balance from other comprehensive income is recycled in the profit or loss.

(iv) Loans and advances

Investments in securities such as corporate bonds are classified as loans and advances and are held at amortized cost using the effective interest rate method.

r) Tangible assets

(i) Recognition and measurement

Tangible assets are stated at the revalued amount less accumulated depreciation .

Measurement upon initial recognition
The cost of a fixed asset item consists in:

a) the acquisition price, including customs charges and non-refundable acquisition costs, after the deduction of all commercial discounts;
b) any costs directly incurred in order to bring the asset to the adequate location or status required for proper functioning;

The cost elements of tangible assets in progress are capitalised if criteria for asset recognition is being met: future economic benefits associated with the item will flow to the entity, cost of the item can be reliably measured and the result will increase the technical parametres for ensuring an ongoing activity at normal parametres. The costs for maintenance and current repairs are not capitalised. Tangible assets in progress are recognised as tangible assets at the moment of reception and deployment.
The carrying amounts of assets are analysed during the revaluation process at the time for the issuance of the Bank's financial position. For revalued assets, if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss, except the case when the decrease shall be recognised in other

3. Significant accounting policies *(continued)*

r) Tangible assets *(continued)*

(i) Recognition and measurement (continued)

comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
When an item of property, pland and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.
The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.
Leasing agreements in which the Group and the Bank assume substantially all the risks and rewards of ownership are classified as finance leases. Tangible assets acquired by finance lease are stated at an amount equal to the lower between its fair value and the updated value of the minimum leasing payments from the leasing beginning date, less the accumulated depreciation and impairment losses.

(ii) Subsequent costs

The Group and the Bank recognise in the carrying amount of tangible assets the cost of replacing such an item when that cost is incurred or if it is probable that the future economic benefits embodied with the item may be transferred to the Group and to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of each item of tangible assets. Assets acquired through leasing are depreciated over the shorter period between the lease term and their useful life. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	50 years
Leasehold improvements (average)	6 years
Computers	4 years
Furniture and equipment	2 - 24 years
Vehicles	4 - 5 years

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

r) Tangible assets *(continued)*

(iii) Depreciation (continued)

The leasehold improvements are depreciated over the lease term, which varies between 1 and 50 years. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

s) Investment property

Investment property is property (land, buildings or parts of a building) held by the Group and the Bank to earn rent, for capital appreciation or both, rather than for:

- the use in production, the supply of goods or services or for administrative purposes; or
- the sale in the ordinary course of business.

Some properties include a part which is held for rent or for capital appreciation and a part which is used for the production of goods or services or administrative purposes.

(i) Recognition and measurement

Investment property is recognised as an asset when:

- it is probable that the future economic benefits that are associated with the investment property will flow to the Group and the Bank; and
- the cost of the investment property can be measured reliably.

An investment property is measured initially at cost, including transaction costs. The cost of an investment property includes its purchase price (if purchased) and other directly attributable expenses (e.g. fees for legal services, property transfer taxes and other transaction costs).

The accounting policy for the subsequent measurement of the investment properties of the Group and the Bank is based on the fair value model. This policy is applied consistently for all the investment properties held by the Group and the Bank.

Gains or losses from the change in the fair value of the investment properties are recognised in profit or loss in the period in which they arise.

The fair value of the investment properties reflects the market conditions at the reporting date.

(ii) Transfers

Transfers to or from investment property are made when, and only when, there is a change in use of the asset. For the transfer of an investment property, measured at fair value, to tangible assets, the property's deemed cost for subsequent accounting is its fair value at the date of the change in use.

(iii) Derecognition

An investment property is derecognised on disposal or when it is permanently withdrawn from use and no future benefits are expected from its disposal.

The gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the period of the retirement or disposal.

3. Significant accounting policies *(continued)*

t) Intangible assets

Intangible assets are initially measured at cost. After initial recognition, intangible assets are carried at a revalued amount, which is its fair value at the date of revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. The revaluation of the intangible assets occurs in accordance with the applicable legal regulations. The cost elements of intangible assets in progress are capitalised if criteria for intangible asset recognition is being met: future economic benefits associated with the item will flow to the entity, cost of the item can be reliably measured, the result will increase the future performance rate and the assset is separately identifiable within an economic activity. Maintenance costs and tehnical support are recognised in profit or loss as these are being incurred. Intangible assets in progress are recognised as intangible assets at the moment of reception and deployment.

i) Goodwill and negative goodwill

Goodwill and negative goodwill arise on the acquisition of new subsidiaries. Goodwill represents the difference between the cost of acquisition and the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. Negative goodwill is immediately recognizedin profit and loss, after re-analysing the manner of identification and valuation of the assets, liabilities and identifiable contingent liabilities and the measurement of the acquisition cost.

Subsequent measurement

Goodwill is measured at cost, less accumulated impairment losses. Negative goodwill is recognised immediately in the income statement, after the identification of the assets, liabilities and contingent liabilities and the measurement of the acquisition cost.

(ii) Software

Costs associated with the development and maintenance of software programs are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and the Bank, and that will probably generate economic benefits exceeding production costs for a period exceeding one year, are recognized as intangible assets. Subsequent expenditure on software assets is capitalised only if it increases the future performance of such assets, beyond initial specifications and lifespan. All other expenditure is reflected as an expense as incurred.

Amortisation is recognized in the income statement on a straight-line basis over the estimated useful life of the intangible asset. The estimated useful lives of intangible assets are reviewed at the reporting date and are between 1 and 5 years. The useful life of intangible assets derived from contractual rights should not exceed the validity period of such contractual rights, but it may be shorter depending on the estimated period of use of such assets by the entity. Intangible assets in progress are not amortized before they are brought into service.

u) Financial lease – lessee

Leasing contracts in which the Group assumes substantially all the risks and rewards of ownership were classified as financial leases. Upon initial recognition, leasing payments are recognised at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investments in real estate property, the leased assets are not recognized in the Group's consolidated statement of financial position.

3. Significant accounting policies *(continued)*

v) Impairment of non-financial assets

An impairment loss is recognized if the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group generating cash flows and largely independent from other assets and groups. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of any goodwill allocated to the respective cash-generating unit (group of units) and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, less the cost of sale of such asset or unit. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments and the risks specific to the asset.In respect of other assets, impairment losses are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss in other assets than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

w) Deposits from customers

Deposits from customers are initially measured at fair value plus transaction costs, and subsequently measured at amortized cost using the effective interest method.

x) Debt securities issued and loans from banks and other financial institutions

Borrowings such as loans from banks and other financial institutions and debt securities issued are recognized initially at fair value, notably the proceeds from their issuance (fair value of consideration received) net of transaction costs occurred. Debt securities and loans from banks and other financial institutions are subsequently stated at amortized cost. The Group and the Bank classify capital instruments as financial liabilities or equity instruments in accordance with the contractual terms of the instrument.Outstanding bonds can be converted into shares, at the request of the bondholder, according to the prospectus. The conversion shall be made at a price per share that is established at the price fixing date or at the liquidation date, which is equal to the average of the daily maximum and minimum share price on the regular market, weighted with the daily volume traded on the regular market throughout the 90 days when the shares were transacted on the Bucharest Stock Exchange, immediately prior to the price fixing date of the liquidation date. Share premiums result as the difference between the value of convertible bonds and the value of shares issued.

y) Provisions

A provision is recognized in the consolidated and separate statement of financial position when the Group and the Bank have a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the obligation can be measured reliably. Provisions’ value is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market conditions and, where appropriate, the risks specific to the liability.Provisions for covering the risk of transforming off-balance sheet credit commitments into credits are considered at the time when the Bank records in its off balance sheet a commitment with the risk of being converted into a credit. The calculation basis for these provisions includes exposures from commitments related to documentary credits, letters of credit, undrawn facility of bank loans and factoring commitments. The calculation is based on the probability of conversion into credit, the probability of default and loss given default.

3. Significant accounting policies *(continued)*

z) Financial guarantees

Financial guarantees are contracts that require the Group and the Bank to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the lifespan of the financial guarantee. The guarantee liability is subsequently carried at the higher of the amortized amount and the present value of any expected payment (when a payment under the guarantee becomes probable).

aa) Employee benefits

(i) Short-term benefits

Short-term employee benefits include wages, salaries and social security contributions. Short-term employee benefits are recognized as expense when services are rendered.

(ii) Defined contribution plan

In the normal course of business, the Bank and its subsidiaries make payments to the Romanian public pension funds on behalf of their employees for retirement, healthcare and unemployment allowances. All employees of the Bank and its subsidiaries are members and are also legally obliged to make specific contributions (included in the social security contributions) to the Romanian public pension plan (a State defined contribution plan). All relevant contributions to the Romanian public pension plan are recognized as an expense in the income statement as incurred. The Bank and its subsidiaries do not have any further obligations.

(iii) Other benefits

The Bank and its subsidiaries are enrolled in an optional pension scheme Pillar III, within an established limit, for the employees eligible at the payment date, in accordance with the applicable Romanian legal provisions. The Bank and its subsidiaries, pursuant to the collective employment agreement, must pay the equivalent of three gross monthly salaries to the employees, upon retirement. The debt related to this benefit scheme is calculated actuarially, considering the salary estimated at the retirement date and the number of activity years of each employee, in turn. The Bank and its subsidiaries do not have any obligations to provided subsequent services for the former or current employees.

The fixed and variable remuneration may also be granted by means of a stock option plan, in the form of shares. The variable component of the total remuneration represents the remuneration that can be granted by the Bank in addition to the fixed remuneration, on condition that certain performance ratios are achieved. The variable remuneration may be granted either in cash or in TLV shares. In the case of the identified staff, in the establishment of the annual variable remuneration, one shall aim at limiting excessive risk-taking. A substantial part of the variable component of the total remuneration, in all cases at least 40%, is deferred for a period of 3 years and is properly correlated with the activity nature, the risks and the responsibilities of the respective staff.
Based on the decision of the shareholders, the Board of Directors of the Bank decides in respect of the number of shares included in the employee loyalty plan. The fair value upon the grant date of share-based awards - stock options – to employees is recognized as personnel expenses, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards.

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

aa) Employee benefits *(continued)*

(iii) Other benefits (continued)

The amount recognized as an expense is adjusted to reflect the value of awards for which the related service and non-market related performance conditions are expected to be fulfilled, so that the amount ultimately recognized as an expense is based on the effective compensation for services and performance conditions which are not related to the market at the vesting date.

ab) Segment reporting

An operational segment is a component of the Group and of the Bank:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses related to transactions with other components of the same entity);
- whose operating results are reviewed regularly by the entity's decision maker in order to make decisions about resources to be allocated to the segment and to assess its performance;
- for which discrete financial information is available.

The Group's and the Bank's primary format for segment reporting is based on business segments.

ac) Earnings per share

The Group and the Bank presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group and of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders with the weighted average number of outstanding ordinary shares, affecting all potential ordinary shares, which comprise convertible securities and share options granted to employees.

ad) Treasury shares

Required own equity instruments (treasury shares) are deducted from shareholders' equity. No gain or loss is recognized in the income statement from the purchase, sale, issue or cancellation of the Group's and the Bank's own equity instruments.

ae) Business Combinations

A business combination is accounted using the acquisition method at the date when the control is acquired, except for the cases when there are involved entities or parties under common control or the acquired entity is a subsidiary of an investment entity.

Each identifiable asset and liability is evaluated at fair value at the acquisition date. The non-controlling interests of the acquired entity, which represent current ownership interest and entitle the holder to a proportional share of the net assets in the event of liquidation, are measured either at fair value or proportionally with the acquired entity's net assets. Non-controlling interests that are not current ownership interests are measured at fair value.

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

ae) Business Combinations *(continued)*

Goodwill is measured by deducting the net assets of the acquired entity from the aggregate of the consideration transferred, the amount of non-controlling interest in the acquired entity and fair value of interest in the acquired entity held immediately before the acquisition date. If the acquirer obtains a gain from a bargain purchase, this gain is recognised in the profit and loss after the management reassesses whether all the assets were acquired and all liabilities and contingent liabilities were assumed based on appropriate measurement.

The consideration transferred in a business combination is measured at the fair value of the assets transferred by the acquirer, the liabilities incurred or assumed and the equity instruments issued, but excludes the costs related to intermediation, advisory, legal, accounting, valuation and other professional or consulting services, general administrative costs and the costs incurred for issuing debt and equity instruments, that are recognised in the profit or loss.

af) New standards and interpretations that are not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2016, and have not been applied in preparing these consolidated /separate financial statements.

A. New standards and interpretations for the first time in the year ended 31 December 2016

Determined benefit plans: Employee Contributions - Amendments to IAS 19 (issued on 21 November 2013 and effective for annual periods beginning 1 July 2014).

The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2012 (issued on 12 December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below).

The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a ‘vesting condition’ and to define separately ‘performance condition’ and ‘service condition’. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

af) New standards and interpretations that are not yet effective *(continued)*

A. New standards and interpretations for the first time in the year ended 31 December 2016 *(continued)*

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its financial statements.

Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).

This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).

In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group is currently assessing the impact of the amendments on its financial statements.

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

af) New standards and interpretations that are not yet effective *(continued)*

A. New standards and interpretations for the first time in the year ended 31 December 2016 *(continued)*

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).

The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale ore distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34.

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

Disclosure Initiative Amendments to IAS 1 (issued on 18 December 2014 and effective for annual periods on or after 1 January 2016).

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

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued on 18 December 2014 and effective for annual periods on or after 1 January 2016).

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

3. Significant accounting policies *(continued)*

af) New standards and interpretations that are not yet effective *(continued)*

B. New standards and interpretations applicable as of January 1, 2017

IFRS 9 - Financial Instruments (effective date: annual periods starting from January 1, 2018)

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets, but will be included in the assessment of SPPI.
- Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging. The Group is currently assessing the impact of the new standard on its financial statements.

Notes to the separate and consolidated financial statements

3. Significant accounting policies *(continued)*

af) New standards and interpretations that are not yet effective *(continued)*

B. New standards and interpretations applicable as of January 1, 2017 *(continued)*

IFRS 15 - Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the amendments on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 16 - Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its financial statements.

3. Significant accounting policies *(continued)*

af) New standards and interpretations that are not yet effective *(continued)*

B. New standards and interpretations applicable as of January 1, 2017 *(continued)*

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).

The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its financial statements.

Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).

The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).

The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The Group is currently assessing the impact of the amendment on its financial statements.

Amendments to IFRS 2, Share-based Payment (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).

The amendments mean that non-market performance vesting conditions will impact measurement of cash-settled share-based payment transactions in the same manner as equity-settled awards. The amendments also clarify classification of a transaction with a net settlement feature in which the entity withholds a specified portion of the equity instruments, that would otherwise be issued to the counterparty upon exercise (or vesting), in return for settling the counterparty's tax obligation that is associated with the share-based payment. Such arrangements will be classified as equity-settled in their entirety.

3. Significant accounting policies *(continued)*

af) New standards and interpretations that are not yet effective *(continued)*

B. New standards and interpretations applicable as of January 1, 2017 *(continued)*

Finally, the amendments also clarify accounting for cash-settled share based payments that are modified to become equity-settled, as follows (a) the share-based payment is measured by reference to the modification-date fair value of the equity instruments granted as a result of the modification; (b) the liability is derecognised upon the modification, (c) the equity-settled share-based payment is recognised to the extent that the services have been rendered up to the modification date, and (d) the difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date is recorded in profit or loss immediately. The Group is currently assessing the impact of the amendment on its financial statements.

Annual Improvements to IFRSs 2014-2016 cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017 for amendments to IFRS 12, and on or after 1 January 2018 for amendments to IFRS 1 and IAS 28).
The improvements impact three standards. The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5. IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds. Additionally, an entity that is not an investment entity may have an associate or joint venture that is an investment entity. IAS 28 permits such an entity to retain the fair value measurements used by that investment entity associate or joint venture when applying the equity method. The amendments clarify that this choice is also available on an investment-by-investment basis. The Group is currently assessing the impact of the amendments on its financial statements.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency. Under IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. IFRIC 22 only applies in circumstances in which an entity recognises a non-monetary asset or non-monetary liability arising from an advance consideration. IFRIC 22 does not provide application guidance on the definition of monetary and non-monetary items. An advance payment or receipt of consideration generally gives rise to the recognition of a non-monetary asset or non-monetary liability, however, it may also give rise to a monetary asset or liability. An entity may need to apply judgment in

3. Significant accounting policies *(continued)*

af) New standards and interpretations that are not yet effective *(continued)*

B. New standards and interpretations applicable as of January 1, 2017 *(continued)*

determining whether an item is monetary or non-monetary. The Group is currently assessing the impact of the amendments on its financial statements.

Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction. Prior to the amendments, there was no specific guidance on transfers into, or out of, investment properties under construction in IAS 40. The amendment clarifies that there was no intention to prohibit transfers of a property under construction or development, previously classified as inventory, to investment property when there is an evident change in use. IAS 40 was amended to reinforce the principle of transfers into, or out of, investment property in IAS 40 to specify that a transfer into, or out of investment property should only be made when there has been a change in use of the property; and such a change in use would involve an assessment of whether the property qualifies as an investment property. Such a change in use should be supported by evidence. The Group is currently assessing the impact of the amendments on its financial statements.

4. Financial risk management

a) Introduction

The Group and the Bank have exposures to the following risks derived from the use of financial instruments:

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

This note presents information about the Group's and the Bank's exposure to each of the above risks, the Group's and the Bank's objectives, policies and processes for measuring and managing risk. The most important types of financial risk to which the Group and the Bank are exposed: credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity instruments' price risk.

Risk management is part of all decisional and business processes that take place in the Group's and the Bank`s activity. The Board of Directors has the responsibility regarding the definition and monitoring of the general risk management framework for the Group and the Bank. The Bank's risk management is performed at 2 levels: a strategic level represented by the Board of Directors and the Leaders' Committee and an operational level represented by: Assets - Liabilities Committee (ALCO), Credit Policy and Approval Committee, Head Office Credit and Risk Committees (loan approval), Credit and Risk Committee of the branches/agencies, Workout Committee (CRW), the Bank's Leaders, Executive Directors and risk management structures within the Bank that are responsible for the definition and/or monitoring of risk management policies in their field of expertise. The Board of Directors periodically reviews the activity of these committees.

4. Financial risk management *(continued)*

a) Introduction *(continued)*

The Board of Directors monitors the compliance with the Group's and the Bank's risk policies and the adequacy of the general risk management framework in connection with the risks to which the Group and the Bank are exposed to.

The Risk Management Committee advises the Board of Directors regarding the risk appetite and the global strategy regarding the management of the current and future risks and assists the Board of Directors in overseeing the implementation of the strategy by the Leaders' Committee.

The objective of Banca Transilvania Financial Group in terms of risk management is to integrate the assumed medium-risk appetite in the bank's decision-making process, by promoting a proper alignment between assumed risks, available capital and performance targets, while also considering the tolerance to financial and non-financial risks. In determining the risk appetite and tolerance, the Group takes into consideration all the material risks it is exposed to, given its specific activity and being mainly influenced by the credit risk.

Risk management policies and systems are reviewed regularly (mainly annually) with the participation of the Leaders' Committee and the responsible persons from different Departments involved, in order to reflect the changes in the market conditions, the products and services provided.

The crisis simulation process is an integral part of the risk management process.

The Bank reviews the crisis simulation program regularly, at least semi-annually, and assesses the efficiency and adequateness to the defined aims/objectives.

The Group's and the Bank's Audit Committee reports to the Board of Directors and is responsible for monitoring compliance with the Bank's risk management procedures. The Audit Committee is assisted in these functions by the Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Board of Directors and the Management of the subsidiaries which constitute the Group have responsibilities regarding significant risk management in correlation with their specific business characteristics and applicable laws and regulations.

b) Credit risk

(i) Credit risk management

The Group and the Bank are exposed to credit risk through the trading, lending, leasing, investment and guarantee issuing activities. The credit risk arising from trading and investment activities is mitigated by selecting only counterparties with good credit standing and by monitoring their activities and ratings, by using exposure limits and, when necessary, by requesting collaterals.

The Group's and the Bank's primary exposure to credit risk arises from loans and advances to customers.

The amount of credit risk exposure is represented by the carrying amounts of the assets on the separate statement of financial position. The Group and the Bank are exposed to credit risk derived from other financial assets, including derivative instruments and debt investments; the current credit risk exposure in respect of these instruments is equal to the carrying amount of the assets in the separate statement of financial position.

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

(i) Credit risk management (continued)

In addition, the Group and the Bank are exposed to off balance sheet credit risk from credit and guarantee commitments (see Note 44).

In order to minimize the risk, the Group and the Bank have defined procedures to assess customers before loan granting, to monitor their capacity to reimburse the principal and related interest during the entire loan period and to define exposure limits. In addition, the Group and the Bank have implemented procedures for monitoring the risks related to the loan portfolio and have defined exposure limits by types of loans, economic sectors, types of collateral, maturity and so on.

The Board of Directors has assigned responsibility of the credit risk management responsibility to the Leaders' Committee, Credit Policy and Approval Committee, Head Office Credit and Risk committees (credit approval), Credit and Risk Committees in branches/ agencies and Workout Committee. Also, a Risk Management Division operates within the Bank and reports to the above mentioned Head Office Committees and has responsibilities for:

- The identification and assessment of specific risks within the lending activity;
- Monitoring the observance of internal policies specific to the lending activities;
- Elaborating proposals for the reduction of specific risks, in order to maintain healthy standards in the lending activity;
- The approval and monitoring of the internal rating systems and of the internal models used in risk assessment;
- Monitoring the granted loans, in accordance with the client's financial performance, loan type, collateral type and debt service, in accordance with the internal lending policies and procedures;
- The approval and monitoring of ratios related to the establishment/modification of the branches' lending competences, according to specific internal policies;
- The periodic reviews and recommendations to the Leaders' Committee on the risk levels accepted by the Group and the Bank;
- Identifying, monitoring and controlling the credit risk at branch level and subsidiary level;
- The risk analysis with respect to new lending products/changes of loan products, including recommendations to the involved Departments;
- The approval of counterparty exposure limits;
- The periodical reporting to the Deputy CEO - Chief Risk Officer, Leaders' Committee, Risk Management Committee and the Board of Directors on the evolution of significant risks (the implications of risk correlation, forecasts etc.);
- Loan portfolio analysis, both at individual level and by group of financial assets with similar characteristics in order to determine if there is any objective evidence of impairment, and assessment of impairment losses and related allowances in accordance with IFRS.

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

(i) Credit risk management (continued)

Each Branch/Agency implements at local level the Group's and the Bank's policies and regulations regarding credit risk, having loan approval competences established by the Leaders' Committee. Each Branch is responsible for the quality and performance of its loan portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to Head Office approval.
The Internal Audit Department and the Internal Control Department carry out periodical reviews of the branches and agencies.
The Group and the Bank classified the exposures according to the risk level of the potential financial losses. The risk classification system is used to determine the risk monitoring activities and relations with the customers. The scoring system reflects different levels of default risk and is reviewed periodically.

(ii) Credit risk exposure

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

The table below contains the on-balance and off-balance sheet exposures, split by economic sector concentration:

	Group		**Bank**	
	2016	**2015**	**2016**	**2015**
Retail	49.40%	46.60%	49.01%	46.60%
Production	11.62%	12.69%	11.25%	12.41%
Trading	11.45%	12.33%	11.14%	12.04%
Constructions	5.39%	5.87%	5.20%	5.79%
Agriculture	4.75%	4.47%	4.64%	4.44%
Services	3.91%	4.06%	3.81%	3.95%
Transport	3.03%	3.06%	2.58%	2.79%
Real estate	2.28%	2.45%	2.37%	2.58%
Others	2.05%	1.64%	2.01%	1.47%
Energy	1.94%	1.99%	1.93%	1.99%
Self-employed	1.81%	1.85%	1.79%	1.86%
Telecommunications	0.91%	0.56%	0.90%	0.56%
Financial institutions	0.51%	0.58%	2.49%	1.73%
Mining	0.44%	0.64%	0.35%	0.57%
Chemical industry	0.43%	1.09%	0.45%	1.10%
Fishing	0.05%	0.06%	0.05%	0.06%
Government institutions	0.03%	0.06%	0.03%	0.06%
	100.00%	**100.00%**	**100.00%**	**100.00%**

Notes to the separate and consolidated financial statements

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

At 31 December 2016, the total on-balance and off-balance sheet exposure was RON 30,906,607 thousand (31 December 2015: RON 29,549,116 thousand) for the Group and RON 30,783,134 thousand (31 December 2015: RON 29,254,390 thousand) for the Bank. The amounts presented above reflect the maximum accounting loss that would be recognized at the reporting date if the customers failed completely to perform their contractual obligations and if any collateral or security proved to be of no value.

The Group and the Bank hold guarantees for loans and advances to customers in the form of pledge over cash deposits, mortgage over property, guarantees and other pledges over equipment and/or receivables. The estimates of fair value are based on the collateral value assessed at the date of lending, except when a loan is individually assessed subsequently. Collateral is generally not held over loans and advances to banks.

The Group and the Bank use risk grades for loans both individually and collectively assessed. According to the Group's and the Bank's policies, an appropriate risk grade can be allocated to a loan, starting from the lowest risk (1) to highest risk (8). Loan classification on risk grades is based on the customers' payment behaviour and on impairment signs identified when performing the individual assessment, the risk grade (8) resulting mainly from the exposure linked to non-performing loans and loans for which the legal recovery process was initiated.

The exposures to credit risk for loans and advances to customers and net lease investments **at Group level, as at 31 December 2016** are presented below:

			Retail					**Companies**				
	Note	**Total 2016**	***Total Retail loans***	**Loan in RON**		**Loan in FCY**		***Total loans to companies***	**Loan in RON**		**Loan in FCY**	
At amortised cost				**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**		**< 5 years**	**> 5 years**	**< 5 years**	**> 5 years**
Grade 1		**24,682,722**	***13,588,443***	3,478,749	6,592,181	140,950	3,376,563	***11,094,279***	7,297,847	1,802,224	1,204,606	789,602
Grade 2-3		**1,296,501**	***759,593***	255,393	210,600	23,665	269,935	***536,908***	280,353	37,681	200,130	18,744
Grade 4-6		**603,385**	***153,715***	185	40,855	-	112,675	***449,670***	213,675	118,267	69,920	47,808
Grade 7		**904,686**	***202,866***	27,429	55,180	7,712	112,545	***701,820***	402,892	51,247	201,978	45,703
Grade 8 Impaired		**1,990,616**	***560,195***	131,266	111,537	35,064	282,328	***1,430,421***	963,469	103,575	335,067	28,310
Gross value	**21, 22**	**29,477,910**	**15,264,812**	**3,893,022**	**7,010,353**	**207,391**	**4,154,046**	**14,213,098**	**9,158,236**	**2,112,994**	**2,011,701**	**930,167**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Gross values, neither past due nor impaired	Total 2016	Retail					Companies				
		Total Retail loans	Loan in RON		Loan in FCY		*Total loans to companies*	Loan in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 1 Low risk	**23,687,783**	***12,941,658***	3,350,675	6,330,771	134,366	3,125,846	***10,746,125***	7,073,712	1,758,021	1,141,989	772,403
Grade 2-3 Moderate risk	**612,131**	***293,841***	135,765	57,719	12,713	87,644	***318,290***	166,856	10,548	138,456	2,430
Grade 4-6 Medium risk	**242,403**	***28,480***	-	7,870	-	20,610	***213,923***	42,211	88,491	52,413	30,808
Total	**24,542,317**	**13,263,979**	**3,486,440**	**6,396,360**	**147,079**	**3,234,100**	**11,278,338**	**7,282,779**	**1,857,060**	**1,332,858**	**805,641**

Gross values, past due but not impaired	Total 2016	Retail					Companies				
		Total Retail loans	Loans in RON		Loan in FCY		*Total loans to companies*	Loans in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
1-15 days	**1,094,433**	***757,891***	155,824	294,932	9,103	298,032	***336,542***	188,751	51,656	77,637	18,498
15-30 days	**314,455**	***210,243***	39,222	81,433	3,782	85,806	***104,212***	58,515	8,255	31,717	5,725
30-60 days	**292,884**	***202,110***	36,294	59,382	2,961	103,473	***90,774***	62,631	10,997	8,956	8,190
60-90 days	**88,680**	***50,462***	16,363	11,505	1,690	20,904	***38,218***	27,980	3,159	5,980	1,099
Total	**1,790,452**	**1,220,706**	**247,703**	**447,252**	**17,536**	**508,215**	**569,746**	**337,877**	**74,067**	**124,290**	**33,512**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Gross value, individually impaired	Total 2016	Retail					Companies				
		Total Retail loans	Loans in RON		Loan in FCY		*Total loans to companies*	Loans in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 4-6 Medium risk	**249,839**	***17,066***	184	24	-	16,858	***232,773***	171,219	27,045	17,508	17,001
Grade 7 High risk	**904,686**	***202,866***	27,429	55,180	7,712	112,545	***701,820***	402,892	51,247	201,978	45,703
Grade 8 Impaired	**1,990,616**	***560,195***	131,266	111,537	35,064	282,328	***1,430,421***	963,469	103,575	335,067	28,310
Total	**3,145,141**	**780,127**	**158,879**	**166,741**	**42,776**	**411,731**	**2,365,014**	**1,537,580**	**181,867**	**554,553**	**91,014**

Impairment allowances	Note	Total 2016	Retail					Companies				
			Total Retail loans	Loan in RON		Loan in FCY		*Total loans to companies*	Loan in RON		Loan in FCY	
				< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Individual		**(1,318,951)**	***(109,209)***	(10,732)	(33,710)	(4,113)	(60,654)	***(1,209,742)***	(795,562)	(75,887)	(315,854)	(22,439)
Collective		**(924,914)**	***(627,489)***	(150,817)	(178,481)	(9,363)	(288,828)	***(297,425)***	(179,587)	(43,965)	(49,449)	(24,424)
Total impairment allowances	**21, 22**	**(2,243,865)**	**(736,698)**	**(161,549)**	**(212,191)**	**(13,476)**	**(349,482)**	**(1,507,167)**	**(975,149)**	**(119,852)**	**(365,303)**	**(46,863)**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

The exposures to credit risk for loans and advances to customers and net lease investments **at Group level, as at 31 December 2015** are presented below:

At amortised cost	Note	Total 2015	Retail					Companies				
			Total Retail loans	Loan in RON		Loan in FCY		*Total loans to companies*	Loan in RON		Loan in FCY	
				< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 1		**22,176,843**	***12,081,773***	2,965,944	5,149,987	143,147	3,822,695	***10,095,070***	6,633,655	1,526,670	1,347,661	587,084
Grade 2-3		**1,027,444**	***648,362***	195,954	174,094	19,027	259,287	***379,082***	173,080	51,567	120,838	33,597
Grade 4-6		**774,293**	***33,266***	228	8,576	3,202	21,260	***741,027***	382,260	104,958	198,774	55,035
Grade 7		**683,214**	***213,812***	21,234	28,757	8,049	155,772	***469,402***	205,982	85,727	120,444	57,249
Grade 8 Impaired		**3,350,521**	***787,807***	211,130	79,428	230,956	266,293	***2,562,714***	1,757,886	62,796	704,239	37,793
Gross value	21,22	**28,012,315**	**13,765,020**	**3,394,490**	**5,440,842**	**404,381**	**4,525,307**	**14,247,295**	**9,152,863**	**1,831,718**	**2,491,956**	**770,758**

Gross values, neither past due nor impaired	Total 2015	Retail					Companies				
		Total Retail loans	Loan in RON		Loan in FCY		*Total loans to companies*	Loan in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 1 Low risk	**21,144,670**	***11,437,429***	2,857,705	4,922,482	133,726	3,523,516	***9,707,241***	6,384,050	1,460,420	1,296,816	565,955
Grade 2-3 Moderate risk	**384,771**	***177,788***	102,805	34,439	8,182	32,362	***206,983***	80,968	17,976	90,599	17,440
Grade 4-6 Medium risk	**346,310**	***3,170***	-	-	3,170	-	***343,140***	141,424	58,404	121,701	21,611
Total	**21,875,751**	**11,618,387**	**2,960,510**	**4,956,921**	**145,078**	**3,555,878**	**10,257,364**	**6,606,442**	**1,536,800**	**1,509,116**	**605,006**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Gross values, past due but not impaired	Total 2015	Retail					Companies				
		Total Retail loans	Loans in RON		Loan in FCY		*Total loans to companies*	Loans in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
1-15 days	**1,121,710**	***705,897***	131,417	249,955	11,676	312,849	***415,813***	241,389	66,621	83,891	23,912
15-30 days	**226,839**	***159,948***	28,100	45,803	3,676	82,369	***66,891***	33,522	9,373	17,864	6,132
30-60 days	**284,423**	***183,153***	29,244	55,967	4,258	93,684	***101,270***	60,303	21,447	12,286	7,234
60-90 days	**91,160**	***65,919***	12,627	15,435	656	37,201	***25,241***	20,037	2,396	2,808	-
Total	**1,724,132**	**1,114,917**	**201,388**	**367,160**	**20,266**	**526,103**	**609,215**	**355,251**	**99,837**	**116,849**	**37,278**

Gross value, individually impaired	Total 2015	Retail					Companies				
		Total Retail loans	Loans in RON		Loan in FCY		*Total loans to companies*	Loans in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 4-6 Medium risk	**378,697**	***30,097***	228	8,576	32	21,261	***348,600***	227,302	46,558	41,308	33,432
Grade 7 High risk	**683,214**	***213,812***	21,234	28,757	8,049	155,772	***469,402***	205,982	85,727	120,444	57,249
Grade 8 Impaired	**3,350,521**	***787,807***	211,130	79,428	230,956	266,293	***2,562,714***	1,757,886	62,796	704,239	37,793
Total	**4,412,432**	**1,031,716**	**232,592**	**116,761**	**239,037**	**443,326**	**3,380,716**	**2,191,170**	**195,081**	**865,991**	**128,474**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Impairment allowances	Note	Total 2015	Retail					Companies				
			Total Retail loans	Loan in RON		Loan in FCY		*Total loans to companies*	Loan in RON		Loan in FCY	
				< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Individual		**(1,673,231)**	***(128,861)***	(15,111)	(39,596)	(20,621)	(53,533)	***(1,544,370)***	(1,009,418)	(57,913)	(439,785)	(37,254)
Collective		**(1,113,470)**	***(529,361)***	(207,772)	(63,032)	(101,169)	(157,388)	***(584,109)***	(382,277)	(52,447)	(120,683)	(28,702)
Total impairment allowances	**21,22**	**(2,786,701)**	**(658,222)**	**(222,883)**	**(102,628)**	**(121,790)**	**(210,921)**	**(2,128,479)**	**(1,391,695)**	**(110,360)**	**(560,468)**	**(65,956)**

The exposures to credit risk for loans and advances to customers **at Bank level, as at 31 December 2016** are presented below, at individual level:

At amortised cost	Total 2016	Retail					Companies				
		Total Retail loans	Loan in RON		Loan in FCY		*Total loans to companies*	Loan in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 1	**25,183,763**	***13,578,799***	3,469,065	6,592,181	140,989	3,376,564	***11,604,964***	7,352,018	2,016,029	1,273,068	963,849
Grade 2-3	**805,011**	***616,966***	123,873	210,600	12,558	269,935	***188,045***	116,300	35,722	17,599	18,424
Grade 4-6	**603,588**	***153,715***	185	40,855	-	112,675	***449,873***	213,675	118,267	70,122	47,809
Grade 7	**894,641**	***202,833***	27,429	55,180	7,679	112,545	***691,808***	397,949	51,247	196,909	45,703
Grade 8 Impaired	**1,892,724**	***534,090***	107,458	111,537	32,769	282,326	***1,358,634***	945,532	103,575	281,217	28,310
Gross value	**29,379,727**	**15,086,403**	**3,728,010**	**7,010,353**	**193,995**	**4,154,045**	**14,293,324**	**9,025,474**	**2,324,840**	**1,838,915**	**1,104,095**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Gross values, neither past due nor impaired	Total 2016	Retail					Companies				
		Total Retail loans	Loan in RON		Loan in FCY		*Total loans to companies*	Loan in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 1 Low risk	**24,188,824**	***12,932,009***	3,340,988	6,330,771	134,404	3,125,846	***11,256,815***	7,127,886	1,971,826	1,210,452	946,651
Grade 2-3 Moderate risk	**230,113**	***182,678***	35,228	57,719	2,087	87,644	***47,435***	34,038	8,841	2,369	2,187
Grade 4-6 Medium risk	**242,619**	***28,480***	-	7,870	-	20,610	***214,139***	42,211	88,491	52,629	30,808
Total	**24,661,556**	**13,143,167**	**3,376,216**	**6,396,360**	**136,491**	**3,234,100**	**11,518,389**	**7,204,135**	**2,069,158**	**1,265,450**	**979,646**

Gross values, past due but not impaired	Total 2016	Retail					Companies				
		Total Retail loans	Loans in RON		Loan in FCY		*Total loans to companies*	Loans in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
1-15 days	**1,049,776**	***737,524***	135,877	294,932	8,683	298,032	***312,252***	180,979	51,404	61,448	18,421
15-30 days	**267,172**	***210,093***	39,133	81,433	3,721	85,806	***57,079***	38,154	8,255	4,945	5,725
30-60 days	**281,005**	***195,685***	29,868	59,382	2,962	103,473	***85,320***	60,109	10,997	6,024	8,190
60-90 days	**83,026**	***45,943***	11,844	11,505	1,690	20,904	***37,083***	27,397	3,159	5,428	1,099
Total	**1,680,979**	**1,189,245**	**216,722**	**447,252**	**17,056**	**508,215**	**491,734**	**306,639**	**73,815**	**77,845**	**33,435**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Gross value, individually impaired	Total 2016	Retail					Companies				
		Total Retail loans	Loans in RON		Loan in FCY		*Total loans to companies*	Loans in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 4-6 Medium risk	**249,826**	*17,067*	185	24	-	16,858	*232,759*	171,219	27,045	17,494	17,001
Grade 7 High risk	**894,641**	*202,833*	27,429	55,180	7,679	112,545	*691,808*	397,949	51,247	196,909	45,703
Grade 8 Impaired	**1,892,725**	*534,091*	107,458	111,537	32,769	282,327	*1,358,634*	945,532	103,575	281,217	28,310
Total	**3,037,192**	**753,991**	**135,072**	**166,741**	**40,448**	**411,730**	**2,283,201**	**1,514,700**	**181,867**	**495,620**	**91,014**

Impairment allowances	Total 2016	Retail					Companies				
		Total Retail loans	Loan in RON		Loan in FCY		*Total loans to companies*	Loan in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Individual	**(1,278,978)**	*(104,824)*	(6,359)	(33,710)	(4,101)	(60,654)	*(1,174,154)*	(801,091)	(61,579)	(289,045)	(22,439)
Collective	**(890,773)**	*(607,915)*	(131,749)	(178,053)	(9,946)	(288,167)	*(282,858)*	(179,554)	(43,176)	(36,116)	(24,012)
Total impairment allowances	**(2,169,751)**	**(712,739)**	**(138,108)**	**(211,763)**	**(14,047)**	**(348,821)**	**(1,457,012)**	**(980,645)**	**(104,755)**	**(325,161)**	**(46,451)**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

The exposures to credit risk for loans and advances to customers **at Bank level, as at 31 December 2015** are presented below, at individual level:

At amortised cost	Total 2016	Retail					Companies				
		Total Retail loans	Loan in RON		Loan in FCY		*Total loans to companies*	Loan in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 1	**22,398,633**	***12,073,307***	2,957,478	5,149,987	143,147	3,822,695	***10,325,326***	6,678,644	1,637,090	1,358,942	650,650
Grade 2-3	**724,409**	***539,961***	93,695	174,094	12,885	259,287	***184,448***	104,707	44,061	10,791	24,889
Grade 4-6	**774,236**	***33,266***	228	8,576	3,202	21,260	***740,970***	382,260	104,966	198,707	55,037
Grade 7	**678,314**	***213,809***	21,234	28,757	8,046	155,772	***464,505***	201,179	85,727	120,352	57,247
Grade 8 Impaired	**3,164,421**	***773,090***	196,524	79,428	230,845	266,293	***2,391,331***	1,661,025	62,796	629,716	37,794
Gross value	**27,740,013**	**13,633,433**	**3,269,159**	**5,440,842**	**398,125**	**4,525,307**	**14,106,580**	**9,027,815**	**1,934,640**	**2,318,508**	**825,617**

Gross values, neither past due nor impaired	Total 2016	Retail					Companies				
		Total Retail loans	Loan in RON		Loan in FCY		*Total loans toc ompanies*	Loan in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 1 Low risk	**21,366,460**	***11,428,963***	2,849,239	4,922,482	133,726	3,523,516	***9,937,497***	6,429,039	1,570,843	1,308,096	629,519
Grade 2-3 Moderate risk	**148,285**	***95,247***	25,974	34,439	2,472	32,362	***53,038***	29,598	12,931	1,778	8,731
Grade 4-6 Medium risk	**346,310**	***3,170***	-	-	3,170	-	***343,140***	141,424	58,404	121,628	21,684
Total	**21,861,055**	**11,527,380**	**2,875,213**	**4,956,921**	**139,368**	**3,555,878**	**10,333,675**	**6,600,061**	**1,642,178**	**1,431,502**	**659,934**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Gross values, past due but not impaired	Total 2016	Retail					Companies				
		Total Retail loans	Loans in RON		Loan in FCY		*Total loans to companies*	Loans in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
1-15 days	**1,092,900**	***687,500***	113,396	249,955	11,300	312,849	***405,400***	236,498	66,621	78,367	23,914
15-30 days	**199,774**	***159,854***	28,006	45,803	3,676	82,369	***39,920***	23,488	6,912	3,379	6,141
30-60 days	**276,903**	***178,482***	24,629	55,967	4,202	93,684	***98,421***	58,488	21,447	11,252	7,234
60-90 days	**88,006**	***63,221***	9,929	15,435	656	37,201	***24,785***	19,775	2,401	2,609	0
90-180 days	**-**	-	-	-	-	-	**-**	-	-	-	-
180 days +	**-**	-	-	-	-	-	**-**	-	-	-	-
Total	**1,657,583**	**1,089,057**	**175,960**	**367,160**	**19,834**	**526,103**	**568,526**	**338,249**	**97,381**	**95,607**	**37,289**

Gross value of loans and receivables with specific adjustments (individual)	Total 2016	Retail					Companies				
		Total Retail loans	Loans in RON		Loan in FCY		*Total loans to companies*	Loans in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Grade 4-6 Medium risk	**378,640**	***30,097***	228	8,576	32	21,261	***348,543***	227,301	46,558	41,331	33,353
Grade 7 High risk	**678,314**	***213,809***	21,234	28,757	8,046	155,772	***464,505***	201,179	85,727	120,352	57,247
Grade 8 Impaired	**3,164,421**	***773,090***	196,524	79,428	230,845	266,293	***2,391,331***	1,661,025	62,796	629,716	37,794
Total	**4,221,375**	**1,016,996**	**217,986**	**116,761**	**238,923**	**443,326**	**3,204,379**	**2,089,505**	**195,081**	**791,399**	**128,394**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Impairment allowances	Total 2016	Retail					Companies				
		Total Retail loans	Loan in RON		Loan in FCY		*Total loans to companies*	Loan in RON		Loan in FCY	
			< 5 years	> 5 years	< 5 years	> 5 years		< 5 years	> 5 years	< 5 years	> 5 years
Individual	**(1,546,492)**	***(127,178)***	(13,440)	(39,596)	(20,609)	(53,533)	***(1,419,314)***	(926,770)	(54,735)	(403,352)	(34,457)
Collective	**(1,085,994)**	***(516,914)***	(195,385)	(63,032)	(101,109)	(157,388)	***(569,080)***	(388,138)	(46,968)	(107,959)	(26,015)
Total impairment allowances	**(2,632,486)**	**(644,092)**	**(208,825)**	**(102,628)**	**(121,718)**	**(210,921)**	**(1,988,394)**	**(1,314,908)**	**(101,703)**	**(511,311)**	**(60,472)**

Restructured exposures are represented by debt contracts in which certain concessions are granted to a debtor who is experiencing or is about to face difficulties in meeting its financial commitments, concessions which would not have been granted if the debtor had not been in financial difficulty.
Outstanding loans classified according to the above definition are in amount of RON 2,100,817 thousand (2015: RON thousand 2,694,036 thousand) at Group level and in amount of RON 2,065,949 thousand (2015: RON 2,631,727) at Bank level.
Placements with banks and investments securities are neither past due nor impaired.

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

The Group holds cash and cash equivalents of RON 5,293,660 thousand, whereas the Bank holds cash and cash equivalents of 5,293,635 thousand as at December 31, 2016. The cash and cash equivalents with the National Bank fall under the rating BBB-, Baa3, BBB-, based on the ratings issued by Fitch, Moody's or Standard & Poor's.
As at 31 December 2016, investment securities available-for-sale include treasury bills and bonds issued by the Government of Romania, with Standard & Poor's rating of BBB, BBB-, bonds issued by municipalities with rating BBB, as well as certificates of participation issued by Raiffeisen Centrobank AG, with rating A-.

Individually impaired loans and securities

Individually impaired loans and securities are loans and securities with respect to which the Group and the Bank consider that difficulties may occur in collecting the principal and interest due according to the contractual terms of the loan / securities agreement.

Past due but not individually impaired loans and securities

Loans and securities with respect to which the interest or principal payments are past due, but the Group and the Bank believe that an individual impairment is not appropriate considering the value of the security/collateral available and/or the stage of collection of the amounts owed to the Group and the Bank.

Allowances for impaiment

The Group and the Bank determine an allowance for impairment losses that represents an estimate of the incurred losses on the loan portfolio. The main components of this allowance are represented by an individual loan loss component that relates to individually significant exposures, and a collective loan loss component established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that may be subject to individual impairment.
As at 31 December 2016, the Group and the Bank changed the calculation methodology for the collective impairment allowances, i.e. a new methodology for the calculation of the impairment of loans related to clients eligible for protection under Law. no. 77 (Law on giving in payment).

Write-off policy

Based on a specific analysis, the Group and the Bank may decide to derecognize a depreciated asset either through write-off or through off-balance registration. The analysis of financial assets subject to write-off is performed periodically with respect to assets which exceeded the recovery horizon and/or are fully provisioned - based on the assessment of significant changes affecting the financial performance of the borrower/issuer, changes causing the impossibility to pay the obligation, or changes resulting in insufficient amounts to cover the whole exposure after guarantee enforcement.
The Group and the Bank hold collateral against loans and advances to customers in the form of mortgages over land and buildings, pledges on equipment and inventories, insurance policies and other guarantees. The Group and the Bank have ownership rights over these guarantees until the end of the contract. The estimates of fair value are based on the collateral value assessed on the loan granting date and periodically updated afterwards.

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

The pledges presented below comprise pledged without dispossession and do not include guarantees related to the lease contracts granted by BT Leasing IFN SA.

Property includes land, residential and commercial buildings, and the category “Other collateral” includes pledges from clients, pledges with dispossession, collateral deposits and received guarantees.

An analysis of the collateral values split per types of loans and advances granted to customers is presented below:

	Group		**Bank**	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Collaterals related to loans with moderate, medium and high risk and impaired loans				
Property	3,920,382	4,843,398	3,903,283	4,822,636
Security interests in movable property	573,497	635,436	573,088	635,436
Other collateral	178,676	194,835	175,668	192,645
	4,672,555	**5,673,669**	**4,652,039**	**5,650,717**
Collaterals related to loans with low risk				
Property	21,640,672	19,855,478	21,669,526	19,854,180
Security interests in movable property	2,354,718	2,166,886	2,489,465	2,245,458
Other collateral	1,984,820	2,108,878	1,985,359	1,984,183
	25,980,210	**24,131,242**	**26,144,350**	**24,083,821**
Total	**30,652,765**	**29,804,911**	**30,796,389**	**29,734,538**

The financial effect of the Group collateral is presented as a separate booking of the collateral values, as follows:

(i) for those assets in which the collateral is equal to or higher than the book value of the asset (“over-collateralization of assets”) and

(ii) for those assets in which the collateral are lower than the book value of the asset (“under-collateralization of assets”).

Notes to the consolidated and separate financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

The financial effect of the Group guarantee as at December 31, 2016 and December 31, 2015 is the following:

	2016				2015			
	Retail customers		Companies		Retail customers		Companies	
In RON thousand	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization
Gross exposures, neither past due nor impaired								
Gross exposure	5,059,044	8,204,935	5,901,504	5,376,834	4,836,468	6,781,919	5,029,238	5,228,126
Collateral	1,152,453	13,546,509	1,461,410	9,283,625	1,259,898	11,553,883	1,608,526	9,070,169
Exposures past due but not impaired								
Gross exposure	555,397	665,309	268,967	300,779	534,776	580,141	281,305	327,910
Collateral	220,647	1,159,635	47,386	565,452	221,165	1,044,513	112,917	671,439
Exposures with specific adjustments								
Gross exposure	435,170	344,957	1,351,611	1,013,403	576,350	455,366	1,991,917	1,388,799
Collateral	176,115	629,038	570,041	1,840,454	228,360	858,290	845,225	2,330,526

The financial effect of the Bank guarantee as at December 31, 2016 and December 31, 2015 is the following:

	2016				2015			
	Retail customers		Companies		Retail customers		Companies	
In RON thousand	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization	Under-collateralization	Over-collateralization
Gross exposures, neither past due nor impaired								
Gross exposure	4,945,130	8,198,037	6,049,333	5,469,056	4,751,404	6,775,976	5,108,740	5,224,935
Collateral	1,151,269	13,520,859	1,494,949	9,429,468	1,258,284	11,521,514	1,612,388	9,040,928
Exposures past due but not impaired								
Gross exposure	524,423	664,822	190,985	300,749	508,916	580,141	240,632	327,894
Collateral	220,647	1,158,674	47,240	565,152	221,165	1,044,513	112,771	671,087
Exposures with specific adjustments								
Gross exposure	409,882	344,109	1,271,311	1,011,890	561,691	455,305	1,817,369	1,387,010
Collateral	176,115	627,079	569,619	1,835,318	226,721	857,465	842,321	2,325,381

Notes to the consolidated and separate financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Exposure representing credit risk

The exposure representing credit risk refers to the following balance-sheet and off balance-sheet items:

- Cash with Central Banks and Deposits with banks
- Financial assets held-to-maturity;
- Loans and receivables;
- Contingent liabilities representing credit risk (irrevocable financial guarantees and uncommitted irrevocable loan commitments).

The tables below show the reconciliation between the gross carrying amount and the net carrying amount of the individual components, of the risk exposure, consolidated as at December 31, 2016 and December 31, 2015:

		Group					
In RON thousand		**2016**			**2015**		
Assets	**Notes**	**Gross carrying amount**	**Provisions**	**Carrying amount**	**Gross carrying amount**	**Provisions**	**Carrying amount**
Cash and cash equivalents at the National Bank	18	4,294,163	-	4,294,163	4,156,382	-	4,156,382
Placements with banks	19	2,785,505	-	2,785,505	3,908,864	-	3,908,864
Loans and advances to customers	21	28,899,463	2,189,061	26,710,402	27,615,254	2,720,694	24,894,560
Net finance lease investments	22	578,447	54,804	523,643	397,061	66,007	331.054
Investment securities, held-to-maturity - debt securities	23	20,691	-	20,691	12,942	-	12.942
Total on-balance sheet		**36,578,269**	**2,243,865**	**34,334,404**	**36,090,503**	**2,786,701**	**33,303,802**
Irrevocable commitments given		153,867	103	153,764	191,999	8	191,991
Financial guarantees and performance bonds given		1,945,444	44,425	1,901,019	1,813,724	51,591	1,762,133
Total off-balance sheet		***2,099,311***	***44,528***	***2,054,783***	***2,005,723***	***51,599***	***1,954,124***
Total on and off-balance sheet		**38,677,580**	**2,288,393**	**36,389,187**	**38,096,226**	**2,838,300**	**35,257,926**

Notes to the consolidated and separate financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Exposure representing credit risk (continued)

The tables below show the reconciliation between the Gross carrying amount and the net book value of the individual components, of the risk exposure, separate as at December 31, 2016 and December 31, 2015:

In RON thousand		**Bank**					
		2016			**2015**		
Assets	**Notes**	**Gross carrying amount**	**Provisions**	**Carrying amount**	**Gross carrying amount**	**Provisions**	**Carrying amount**
Cash and cash equivalents at the National Bank	18	4,294,163	-	4,294,163	4,156,382	-	4,156,382
Placements with banks	19	2,746,582	-	2,746,582	3,889,483	-	3,889,483
Loans and advances to customers	21	29,379,727	2,169,751	27,209,976	27,740,013	2,632,486	25,107,527
Total on-balance sheet		**36,420,472**	**2,169,751**	**34,250,721**	**35,785,878**	**2,632,486**	**33,153,392**
Irrevocable commitments given		120,762	103	120,659	164,475	8	164,467
Financial guarantees and performance bonds given		1,953,257	44,436	1,908,821	1,818,824	51,598	1,767,226
Total off-balance sheet		***2,074,019***	***44,539***	***2,029,480***	***1,983,299***	***51,606***	***1,931,693***
Total on and off-balance-sheet		**38,494,491**	**2,214,290**	**36,280,201**	**37,769,177**	**2,684,092**	**35,085,085**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

b) Credit risk *(continued)*

Exposure to high-risk Eurozone countries

According to the preliminary estimates published by Eurostat the economy of the Euro Area rose for the third year in a row in 2016. However, the YoY GDP dynamics decelerated from 2% in 2015 to 1.7% in 2016, given the intensifying uncertainties and challenges, including those related to the European economic and monetary integration, with impact for the investments climate. In this context, the fixed investments rose by 2.6% YoY in 2016, slowing down from 3.2% YoY in 2015. On the other hand, there can be noticed the acceleration of the private consumption (the main component of the GDP), determined by the improvement of the real disposable income of the population and by the re-launch of the credit markets: 2% YoY in 2016, the best performance since 2006. At the same time, the public consumption increased by 1.8% YoY in 2016, the highest pace of the past seven years, as the manoeuvre room in terms of public finance improved, after a severe adjustment. As regards the net foreign demand the exports decelerated to 2.9% YoY in 2016, due to the unfavourable evolutions of the international trade. The imports advanced by 3.5% YoY last year, given the consolidation of the domestic demand. At the beginning of 2017 the macro-financial climate in the Euro Area improved, being noticed the resilience to global and regional challenges, an evolution supported by the unprecedented expansionary monetary policy implemented by the European Central Bank.

c) Liquidity risk

Liquidity risk represents the current or future risk that the profit and capital may be negatively affected as a result of the incapacity to fulfill its commitments or to repay its debts as they become due.

Liquidity risk has 2 components: the difficulty in procuring funds at maturity in order to refinance current assets or the inability to convert an asset into cash at a value near its fair value in a reasonable period of time. The Group and the Bank are continuously acting to manage this type of risk.

The Group and the Bank have access to a diverse funding base. Funds are raised by using a broad range of instruments, including deposits from customers or from banks, loans from development institutions and financial institutions and share capital. Access to diverse funding sources improves the flexibility to attract funds, limiting the dependence on one type of financing and on one type of partner and leading to an overall decrease of financing costs. The Group and the Bank try to maintain a balance between continuity and flexibility in attracting funds, by signing financing contracts with different maturities and in different currencies. The Group and the Bank continually assess liquidity risk by identifying and monitoring changes in the financing contracts, and by diversifying the funding sources.The Assets and Liabilities Management Committee of the Bank is responsible with the periodic review of liquidity indicators and with the establishment of corrective measures regarding balance sheet figures, so as to eliminate unacceptable deviations in terms of liquidity risk.

Assets and liabilities of the Group and the Bank at 31 December 2016 and 31 December 2015, analyzed over the period remaining until the contractual maturity models based on the types of behavior historic customer and assumptions conventional concerning certain elements of the balance sheet are following:

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

Group
In RON thousand

	Carrying amount	Gross value (inflow /outflow)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 - 5 years	Over 5 years	Without maturity
31 December 2016									
Financial liabilities									
Deposits from banks	247,268	(247,277)	(247,277)	-	-	-	-	-	-
Deposits from customers	41,681,475	(41,740,039)	(22,984,897)	(4,649,711)	(4,085,764)	(8,323,186)	(1,276,428)	(420,053)	-
Loans from banks and other financial institutions	2,304,911	(2,328,419)	(1,527,181)	(18,026)	(51,270)	(184,890)	(158,602)	(388,450)	-
Subordinated debt and bonds issued	424,111	(574,366)	(4,004)	(9,582)	(13,865)	(141,144)	(85,909)	(319,862)	-
Other financial liabilities	469,975	(470,076)	(461,773)	(2,363)	(335)	(5,223)	(382)	-	-
Total financial liabilities	**45,127,740**	**(45,360,177)**	**(25,225,132)**	**(4,679,682)**	**(4,151,234)**	**(8,654,443)**	**(1,521,321)**	**(1,128,365)**	**-**
Financial assets									
Cash and cash equivalents at the National Bank	5,293,660	5,293,660	5,293,660	-	-	-	-	-	-
Placements with banks	2,785,505	2,825,809	2,400,778	104,313	71,120	141,648	76,525	31,425	-
Financial assets at fair value through profit and loss	163,520	163,520	81,999	-	-	4,762	-	-	76,759
Loans and advances to customers	26,710,402	36,939,106	3,943,802	2,526,543	4,653,277	7,516,364	4,526,126	13,772,994	-
Net finance lease investments	523,643	629,557	119,589	52,133	100,851	264,519	83,882	8,583	-
Investment securities available-for-sale	14,993,828	16,438,766	12,356,776	228,344	208,120	1,419,952	1,025,003	1,090,144	110,427
Investment securities, held-to-maturity	20,691	22,706	1,592	1,155	303	9,136	7,807	2,713	-
Other financial assets	194,151	196,694	196,694	-	-	-	-	-	-
Total financial assets	**50,685,400**	**62,509,818**	**24,394,890**	**2,912,488**	**5,033,671**	**9,356,381**	**5,719,343**	**14,905,859**	**187,186**
Net position		**17,149,641**	**(830,242)**	**(1,767,194)**	**882,437**	**701,938**	**4,198,022**	**13,777,494**	**187,186**
Commitments given	153,868	153,868	9,550	33,079	39,251	17,571	22,235	32,182	-
Guarantees given	1,945,444	1,945,444	352,745	301,548	349,243	271,040	107,320	563,548	-
Total off-balance sheet	**2,099,312**	**2,099,312**	**362,295**	**334,627**	**388,494**	**288,611**	**129,555**	**595,730**	**-**
Net position on and off-balance-sheet		**19,248,953**	**(467,947)**	**(1,432,567)**	**1,270,931**	**990,549**	**4,327,577**	**14,373,224**	**187,186**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

c) Liquidity risk (continued)

Group
In RON thousand

31 December 2015	Carrying amount	Gross value (inflow /outflow)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 - 5 years	Over 5 years	Without maturity
Financial liabilities									
Deposits from banks	388,425	(388,426)	(388,426)	-	-	-	-	-	-
Deposits from customers	38,301,741	(38,385,329)	(21,811,947)	(4,522,049)	(3,758,138)	(6,648,630)	(1,342,097)	(302,468)	-
Loans from banks and other financial institutions	1,129,702	(1,164,263)	(354,062)	(28,841)	(96,316)	(243,461)	(137,190)	(304,393)	-
Subordinated debt and bonds issued	416,424	(584,255)	(4,125)	(8,754)	(12,989)	(143,345)	(85,692)	(329,350)	-
Other financial liabilities	277,032	(277,032)	(277,032)	-	-	-	-	-	-
Total financial liabilities	**40,513,324**	**(40,799,305)**	**(22,835,592)**	**(4,559,644)**	**(3,867,443)**	**(7,035,436)**	**(1,564,979)**	**(936,211)**	**-**
Financial assets									
Cash and cash equivalents at the National Bank	4,997,930	4,997,930	4,997,930	-	-	-	-	-	-
Placements with banks	3,908,864	3,950,626	3,640,151	42,549	55,544	54,905	114,251	43,226	-
Financial assets at fair value through profit and loss	161,028	161,028	81,476	-	-	-	-	-	79,552
Loans and advances to customers	24,894,560	36,551,876	5,539,447	2,542,523	4,464,850	6,751,512	4,311,692	12,941,852	-
Net finance lease investments	331,054	433,710	112,957	39,276	67,733	162,055	41,262	10,427	-
Available-for-sale securities	12,242,959	13,493,655	9,895,090	433,319	127,090	999,877	1,007,612	946,311	84,356
Investment securities, held-to-maturity	12,942	14,598	59	167	199	3,803	6,422	3,948	-
Other financial assets	137,382	137,382	137,382	-	-	-	-	-	-
Total financial assets	**46,686,719**	**59,740,805**	**24,404,492**	**3,057,834**	**4,715,416**	**7,972,152**	**5,481,239**	**13,945,764**	**163,908**
Net position		**18,941,500**	**1,568,900**	**(1,501,810)**	**847,973**	**936,716**	**3,916,260**	**13,009,553**	**163,908**
Commitments given	192,000	192,000	8,585	66,464	49,644	36,166	14,772	16,369	-
Guarantees given	1,813,724	1,813,724	299,127	338,405	372,238	297,697	113,312	392,945	-
Total off-balance sheet	**2,005,724**	**2,005,724**	**307,712**	**404,869**	**421,882**	**333,863**	**128,084**	**409,314**	**-**
Net position on and off-balance-sheet		**20,947,224**	**1,876,612**	**(1,096,941)**	**1,269,855**	**1,270,579**	**4,044,344**	**13,418,867**	**163,908**

4. Financial risk management (*continued*)

c) Liquidity risk *(continued)*

Bank

In RON thousand

31 December 2016	Carrying amount	Gross value (inflow /outflow)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 - 5 years	Over 5 years	Without maturity
Financial liabilities									
Deposits from banks	247,268	(247,277)	(247,277)	-	-	-	-	-	-
Deposits from customers	41,851,773	(41,910,402)	(23,133,955)	(4,649,711)	(4,089,238)	(8,340,962)	(1,276,483)	(420,053)	-
Loans from banks and other financial institutions	2,246,461	(2,268,387)	(1,520,832)	(11,460)	(40,183)	(160,651)	(151,170)	(384,091)	-
Subordinated debt and bonds issued	424,111	(574,366)	(4,004)	(9,582)	(13,865)	(141,144)	(85,909)	(319,862)	-
Other financial liabilities	441,158	(441,158)	(435,149)	(1,879)	-	(4,130)	-	-	-
Total financial liabilities	**45,210,771**	**(45,441,590)**	**(25,341,217)**	**(4,672,632)**	**(4,143,286)**	**(8,646,887)**	**(1,513,562)**	**(1,124,006)**	**-**
Financial assets									
Cash and cash equivalents at the National Bank	5,293,635	5,293,635	5,293,635	-	-	-	-	-	-
Placements with banks	2,746,582	2,786,705	2,382,553	100,700	53,854	141,648	76,525	31,425	-
Financial assets at fair value through profit and loss	59,890	59,890	29,139	-	-	4,762	-	-	25,989
Loans and advances to customers	27,209,976	37,340,958	3,887,029	2,556,958	4,729,069	7,739,010	4,620,829	13,808,063	-
Equity investments	136,671	136,671	-	-	-	-	-	-	136,671
Available-for-sale securities	15,120,524	16,563,350	12,427,111	227,479	208,047	1,416,093	1,024,445	1,089,214	170,961
Other financial assets	170,153	170,153	170,153	-	-	-	-	-	-
Total financial assets	**50,737,431**	**62,351,362**	**24,189,620**	**2,885,137**	**4,990,970**	**9,301,513**	**5,721,799**	**14,928,702**	**333,621**
Net position		**16,909,772**	**(1,151,597)**	**(1,787,495)**	**847,684**	**654,626**	**4,208,237**	**13,804,696**	**333,621**
Commitments given	120,762	120,762	9,288	30,956	39,251	13,253	2	28,012	-
Guarantees given	1,953,258	1,953,258	360,327	301,548	349,281	271,101	107,453	563,548	-
Total off-balance sheet	**2,074,020**	**2,074,020**	**369,615**	**332,504**	**388,532**	**284,354**	**107,455**	**591,560**	**-**
Net position on and off-balance-sheet		**18,983,792**	**(781,982)**	**(1,454,991)**	**1,236,216**	**938,980**	**4,315,692**	**14,396,256**	**333,621**

4. Financial risk management *(continued)*

c) Liquidity risk *(continued)*

Bank

In RON thousand

31 December 2015	Carrying amount	Gross value (inflow /outflow)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 - 5 years	Over 5 years	Without maturity
Financial liabilities									
Deposits from banks	388,425	(388,426)	(388,426)	-	-	-	-	-	-
Deposits from customers	38,395,292	(38,478,888)	(21,885,664)	(4,522,009)	(3,758,131)	(6,668,522)	(1,342,094)	(302,468)	-
Loans from banks and other financial institutions	985,142	(1,012,231)	(339,649)	(13,814)	(66,772)	(165,080)	(127,986)	(298,930)	-
Subordinated debt and bonds issued	416,352	(584,183)	(4,125)	(8,754)	(12,989)	(143,345)	(85,620)	(329,350)	-
Other financial liabilities	268,891	(268,891)	(268,891)	-	-	-	-	-	-
Total financial liabilities	**40,454,102**	**(40,732,619)**	**(22,886,755)**	**(4,544,577)**	**(3,837,892)**	**(6,976,947)**	**(1,555,700)**	**(930,748)**	**-**
Financial assets									
Cash and cash equivalents at the National Bank	4,997,896	4,997,896	4,997,896	-	-	-	-	-	-
Placements with banks	3,889,483	3,931,162	3,628.478	34,758	55,544	54,905	114,251	43,226	-
Financial assets at fair value through profit and loss	56,819	56,819	28,410	-	-	-	-	-	28,409
Loans and advances to customers	25,107,527	36,679,635	5,454,195	2,554,340	4,508,115	6,829,682	4,350,163	12,983,140	-
Equity investments	84,886	84,886	-	-	-	-	-	-	84,886
Available-for-sale securities	12,332,576	13,581,970	9,961,086	432,454	127,090	998,148	988,542	946,311	128,339
Other financial assets	128,642	128,642	128,642	-	-	-	-	-	-
Total financial assets	**46,597,829**	**59,461,010**	**24,198,707**	**3,021,552**	**4,690,749**	**7,882,735**	**5,452,956**	**13,972,677**	**241,634**
Net position balance-sheet		**18,728,391**	**1,311,952**	**(1,523,025)**	**852,857**	**905,788**	**3,897,256**	**13,041,929**	**241,634**
Commitments given	164,475	164,475	7,372	59,738	49,644	24,595	7,223	15,903	-
Guarantees given	1,818,824	1,818,824	304,127	338,405	372,277	297,750	113,320	392,945	-
Total off-balance sheet	**1,983,299**	**1,983,299**	**311,499**	**398,143**	**421,921**	**322,345**	**120,543**	**408,848**	**-**
Net position on and off-balance-sheet		**20,711,690**	**1,623,451**	**(1,124,882)**	**1,274,778**	**1,228,133**	**4,017,799**	**13,450,777**	**241,634**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk

Market risk represents the current or prospective risk that the earnings of the Group or the Bank and the value of financial instruments held may be negatively affected by adverse market movements in interest rates, foreign exchange rates or other financial ratios. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on investments.

d1) Interest rate risk from the banking book

Interest rate risk represents the current or future risk for profit and capital to be negatively affected as a result of adverse changes in interest rates.

The Group and the Bank undertake the interest rate risk resulting from funds raised and placed in relation to non-bank customers (interest rate risk from banking activities).

The main sources of interest rate risk are represented by the imperfect correlation between the maturity dates (for fixed interest rates) or the pricing reset dates (for variable interest rates) with respect to interest bearing assets and liabilities, the adverse changes of the yield curve (un-parallel shift of interest rate curves related to interest bearing assets and liabilities).

The management of interest bearing assets and liabilities is carried out in the context of the Group's/the Bank's exposure to interest rate fluctuations. The Group and the Bank use a mix of fixed and variable interest bearing instruments to control the mismatch between the dates on which the interest on assets and liabilities is adjusted to the market rates or the maturity mismatch between assets and liabilities.

Interest rate risk is managed by monitoring the interest rate GAP (mismatch) and by means of a system of limits and indicators approved on maturity bands (time intervals) for interest reset.

The Assets and Liabilities Management Committee is the body that monitors the compliance with these limits, being assisted in the daily monitoring by the Treasury Department.

Interest rate risk management within the limits is accompanied by the analysis of the sensitivity of the Group's/the Bank's financial assets and liabilities to different standard interest rate scenarios.

An analysis of the interest bearing assets' and liabilities' sensitivity to interest rate increases or decreases on the market is set out below at Group/Bank level:

	Group				**Bank**			
In RON thousand	**200 basis Increase**	**200 basis points Decrease**	**100 basis points Increase**	**100 basis points Decrease**	**200 basis points Increase**	**200 basis points Decrease**	**100 basis points Increase**	**100 basis points Decrease**
At 31 December 2016								
Average for the period	93	(93)	46	(46)	50	(50)	25	(25)
Minimum for the period	(19,259)	57	(9,630)	29	(19,259)	166	(9,630)	83
Maximum for the period	20,631	(4)	10,315	(2)	20,631	(61)	10,310	(30)
At 31 December 2015								
Average for the period	193	(193)	96	(96)	1,050	(1,050)	525	(525)
Minimum for the period	(18,614)	45	(9,307)	22	(18,614)	137	(9,307)	69
Maximum for the period	26,777	(11)	13,389	(5)	26,777	(15)	13,389	(7)

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d1) Interest rate risk from the banking book (continued)

In the sensitivity analysis regarding interest rate variation, the Group and the Bank have calculated the impact of potential market interest rates changes on the interest margin for the future financial periods, by taking into consideration the interest rate resetting date with respect to the balance sheet assets and liabilities, as follows: the Group and the Bank separated fixed interest assets and liabilities from variable interest assets and liabilities, using the following split for each category: less than 1 month, 1 – 3 months, 3 – 6 months, 6 – 12 months, 1 – 2 years, 2 - 3 years, 3 – 4 years, 4 - 5 years, 5 – 7 years, 7 - 10 years, 10 – 15 years, 15 – 20 years and over 20 years. For the variable rate assets and liabilities, the future interest cash flows were recomputed by modifying the interest rate by +/- 100 and +/-200 basis points.

Following the sensitivity analysis performed by the Group and the Bank in accordance with the methodology presented above, it can be observed that the impact on future profit is limited. The most significant impact is noticed on the 15-20 month bucket, which gives the Group and the Bank sufficient time to adjust to the financial market conditions. The average for the period included in the previous table represents the average monthly impact of interest rate changes over the Group's and the Bank's profit (according to the methodology presented above). The minimum included in the table represents the potential impact of interest rate changes on the profit for the respective bucket, notably 6-12 months. The maximum represents the annual potential impact of interest rate changes on the profit for the respective bucket, notably 15-20 years.

The potential change of the Bank's economic value based on the standardized method is presented in the table below:

In RON thousand	31-Dec-2015	31-Dec-2016
Own funds	3,691,604	4,853,871
Potential decline in ec value +/- 200bp		
Absolute value	78,770	71,762
Impact on own funds	2.13%	1.48%

The potential change of the BT Group's economic value based on the standardized method is presented in the table below:

In RON thousand	31-Dec-2015	31-Dec-2016
Own funds	3,809,235	5,038,961
Potential decline in ec value +/- 200bp		
Absolute value	88,934	85,727
Impact on own funds	2.33%	1.70%

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d1) Interest rate risk (continued)

The table below presents the aggregated amounts of the Group's banking book at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates at December 31, 2016:

In RON thousand	Up to 6 months	6 - 12 months	1-3 years	3 - 5 years	Over 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents at the National Bank	5,293,660	-	-	-	-	-	**5,293,660**
Placements with banks	2,503,037	67,118	119,583	59,069	36,698	-	**2,785,505**
Loans and advances to customers	22,715,962	738,288	1,299,291	801,480	1,155,381	-	**26,710,402**
Net lease investments	523,643	-	-	-	-	-	**523,643**
Held-to-maturity investments	2,393	-	8,161	7,619	2,518	-	**20,691**
Other financial assets	-	-	-	-	-	194,151	**194,151**
Total financial assets	**31,038,695**	**805,406**	**1,427,035**	**868,168**	**1,194,597**	**194,151**	**35,528,052**
Financial liabilities							
Deposits from banks	247,268	-	-	-	-	-	**247,268**
Deposits from customers	34,264,591	6,603,572	752,602	21,092	39,618	-	**41,681,475**
Loans from banks and other financial institutions and other subordinated liabilities and bonds issued	2,645,725	-	-	-	83,297	-	**2,729,022**
Other financial liabilities	6,817	-	4,130	-	-	459,028	**469,975**
Total financial liabilities	**37,164,401**	**6,603,572**	**756,732**	**21,092**	**122,915**	**459,028**	**45,127,740**
Net position	**(6,125,706)**	**(5,798,166)**	**670,303**	**847,076**	**1,071,682**	**(264,877)**	**(9,599,688)**
Commitments given	42,629	39,251	17,571	22,235	32,182	-	**153,868**
Guarantees given	654,293	349,243	271,040	107,320	563,548	-	**1,945,444**
Total off-balance sheet	696,922	388,494	288,611	129,555	595,730	-	**2,099,312**
Net position on and off-balance sheet	**(5,428,784)**	**(5,409,672)**	**958,914**	**976,631**	**1,667,412**	**(264,877)**	**(7,500,376)**

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d1) Interest rate risk (continued)

The table below presents the aggregated amounts of the Group's banking book at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates at December 31, 2015:

In RON thousand	Up to 6 months	6 - 12 months	1-3 years	3 - 5 years	Over 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents at the National Bank	4,997,930	-	-	-	-	-	**4,997,930**
Placements with banks	3,756,576	7,496	35,817	82,114	26,861	-	**3,908,864**
Loans and advances to customers	20,891,405	1,603,177	1,059,392	648,297	692,289	-	**24,894,560**
Net lease investments	331,054	-	-	-	-	-	**331,054**
Held-to-maturity investments	210	-	2,975	6,103	3,654	-	**12,942**
Other financial assets	-	-	-	-	-	137,382	**137,382**
Total financial assets	**29,977,175**	**1,610,673**	**1,098,184**	**736,514**	**722,804**	**137,382**	**34,282,732**
Financial liabilities							
Deposits from banks	388,425	-	-	-	-	-	**388,425**
Deposits from customers	31,726,858	5,958,255	553,668	22,841	40,119	-	**38,301,741**
Loans from banks and other financial institutions and other subordinated liabilities and bonds issued	1,463,568	2,518	9,625	2,401	68,014	-	**1,546,126**
Other financial liabilities	-	-	-	-	-	277,032	**277,032**
Total financial liabilities	**33,578,851**	**5,960,773**	**563,293**	**25,242**	**108,133**	**277,032**	**40,513,324**
Net position	**(3,601,676)**	**(4,350,100)**	**534,891**	**711,272**	**614,671**	**(139,650)**	**(6,230,592)**
Commitments given	75,049	49,644	36,166	14,772	16,369	-	**192,000**
Guarantees given	637,532	372,238	297,697	113,312	392,945	-	**1,813,724**
Total off-balance sheet	712,581	421,882	333,863	128,084	409,314	-	**2,005,724**
Net position on and off-balance sheet	**(2,889,095)**	**(3,928,218)**	**868,754**	**839,356**	**1,023,985**	**(139,650)**	**(4,224,868)**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d1) Interest rate risk (continued)

The table below presents the aggregated amounts of the Bank's banking book at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates at December 31, 2016:

In RON thousand	**Up to 6 months**	**6 - 12 months**	**1-3 years**	**3 - 5 years**	**Over 5 years**	**Non interest bearing**	**Total**
Financial assets							
Cash and cash equivalents at the National Bank	5,293,635	-	-	-	-	-	**5,293,635**
Placements with banks	2,491,025	50,009	119,583	59,069	26,896	-	**2,746,582**
Loans and advances to customers	22,789,350	816,566	1,527,609	890,807	1,185,644	-	**27,209,976**
Net lease investments	-	-	-	-	-	-	**-**
Other financial assets	-	-	-	-	-	170,153	**170,153**
Total financial assets	**30,574,010**	**866,575**	**1,647,192**	**949,876**	**1,212,540**	**170,153**	**35,420,346**
Financial liabilities							
Deposits from banks	247,268	-	-	-	-	-	**247,268**
Deposits from customers	34,413,608	6,607,027	770,419	21,180	39,539	-	**41,851,773**
Loans from banks and other financial institutions and other subordinated liabilities and bonds issued	2,587,275	-	-	-	83,297	-	**2,670,572**
Other financial liabilities	6,817	-	4,130	-	-	430,211	**441,158**
Total financial liabilities	**37,254,968**	**6,607,027**	**774,549**	**21,180**	**122,836**	**430,211**	**45,210,771**
Net position	**(6,680,958)**	**(5,740,452)**	**872,643**	**928,696**	**1,089,704**	**(260,058)**	**(9,790,425)**
Commitments given	40,244	39,251	13,253	2	28,012	-	**120,762**
Guarantees given	661,874	349,281	271,101	107,453	563,548	-	**1,953,257**
Total off-balance sheet	702,118	388,532	284,354	107,455	591,560	-	**2,074,019**
Net position on and off-balance sheet	**(5,978,840)**	**(5,351,920)**	**1,156,997**	**1,036,151**	**1,681,264**	**(260,058)**	**(7,716,406)**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d1) Interest rate risk (continued)

The table below presents the aggregated amounts of the Bank's banking book at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates at December 31, 2015:

In RON thousand	Up to 6 months	6 - 12 months	1-3 years	3 - 5 years	Over 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents at the National Bank	4,997,896	-	-	-	-	-	**4,997,896**
Placements with banks	3,737,195	7,496	35,817	82,114	26,861	-	**3,889,483**
Loans and advances to customers	21,190,293	1,588,470	1,012,955	623,520	692,289	-	**25,107,527**
Net lease investments	-	-	-	-	-	-	**-**
Other financial assets	-	-	-	-	-	128,642	**128,642**
Total financial assets	**29,925,384**	**1,595,966**	**1,048,772**	**705,634**	**719,150**	**128,642**	**34,123,548**
Financial liabilities							
Deposits from banks	388,425	-	-	-	-	-	**388,425**
Deposits from customers	31,820,464	5,958,211	553,668	22,830	40,119	-	**38,395,292**
Loans from banks and other financial institutions and other subordinated liabilities and bonds issued	1,333,481	-	-	-	68,013	-	**1,401,494**
Other financial liabilities	-	-	-	-	-	268,891	**268,891**
Total financial liabilities	**33,542,370**	**5,958,211**	**553,668**	**22,830**	**108,132**	**268,891**	**40,454,102**
Net position	**(3,616,986)**	**(4,362,245)**	**495,104**	**682,804**	**611,018**	**(140,249)**	**(6,330,554)**
Commitments given	67,110	49,644	24,595	7,223	15,903	-	**164,475**
Guarantees given	642,532	372,277	297,750	113,320	392,945	-	**1,818,824**
Total off-balance sheet	709,642	421,921	322,345	120,543	408,848	-	**1,983,299**
Net position on and off-balance sheet	**(2,907,344)**	**(3,940,324)**	**817,449**	**803,347**	**1,019,866**	**(140,249)**	**(4,347,255)**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk (continued)

d2) Currency risk

The Group and the Bank are exposed to currency risk through open positions generated by foreign currency transactions. The Group and the Bank manage the currency risk based on strict open position and "stop-loss" limits monitored in real time. There is also a risk that the values of net monetary assets and liabilities in foreign currency will change when translated into RON as a result of exchange rate variation.

The Group and the Bank manage the exposure to market risk by daily monitoring the market value of the held-for-trading portfolio in relation to a system of risk limits approved by the Assets and Liabilities Committee. The held-for-trading portfolio includes fixed-income securities issued on the Romanian or the European market (treasury securities, bonds whose issuers have ratings higher than the sovereign rating), denominated in RON, EUR and USD, as well as shares issued by Romanian entities and traded on the Bucharest Stock Exchange (which are not directly exposed to interest rate and currency risk, but are exposed to price risk).

The Group's monetary assets and liabilities denominated in RON and foreign currencies at 31 December 2016 are presented below:

In RON thousand	RON	EUR	USD	Other currencies	Total
Monetary assets					
Cash and cash equivalents at the National Bank	3,450,162	1,775,644	26,042	41,812	**5,293,660**
Placements with banks	1,287,088	741,037	465,728	291,652	**2,785,505**
Financial assets at fair value through profit and loss	158,026	5,494	-	-	**163,520**
Loans and advances to customers	20,463,589	5,671,631	149,867	425,315	**26,710,402**
Net lease investments	243,627	278,021	1,995	-	**523,643**
Available-for-sale securities	8,261,287	5,615,798	1,116,743	-	**14,993,828**
Held-to-maturity investments	-	20,691	-	-	**20,691**
Other financial assets	158,475	35,241	212	223	**194,151**
Total monetary assets	**34,022,254**	**14,143,557**	**1,760,587**	**759,002**	**50,685,400**
Monetary liabilities					
Deposits from banks	56,635	89,929	100,477	227	**247,268**
Deposits from customers	27,068,174	12,719,569	1,564,623	329,109	**41,681,475**
Loans from banks and other financial institutions, subordinated debt	1,489,042	1,053,152	186,828	-	**2,729,022**
Provisions for other risks and loan commitments and other liabilities	672,029	174,713	15,026	122,789	**984,557**
Total monetary liabilities	**29,285,880**	**14,037,363**	**1,866,954**	**452,125**	**45,642,322**
Net currency position	**4,736,374**	**106,194**	**(106,367)**	**306,877**	**5,043,078**
Off-balance sheet					
Held-for-trading derivatives	-	1,059,206	155,564	7,150	**1,221,920**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d2) Currency risk (continued)

The Group's monetary assets and liabilities denominated in RON and foreign currencies at 31 December 2015 are presented below:

In RON thousand	**RON**	**EUR**	**USD**	**Other currencies**	**Total**
Monetary assets					
Cash and cash equivalents at the National Bank	2,715,282	2,202,260	24,614	55,774	**4,997,930**
Placements with banks	2,549,681	632,259	653,155	73,769	**3,908,864**
Financial assets at fair value through profit and loss	157,614	3,414	-	-	**161,028**
Loans and advances to customers	17,860,632	6,251,835	267,172	514,921	**24,894,560**
Net lease investments	127,430	201,500	2,124	-	**331,054**
Available-for-sale securities	8,143,699	3,681,505	417,755	-	**12,242,959**
Held-to-maturity investments	-	12,942	-	-	**12,942**
Other financial assets	114,541	20,646	2,022	173	**137,382**
Total monetary assets	**31,668,879**	**13,006,361**	**1,366,842**	**644,637**	**46,686,719**
Monetary liabilities					
Deposits from banks	280,144	90,642	17,482	157	**388,425**
Deposits from customers	25,127,434	11,507,300	1,435,741	231,266	**38,301,741**
Loans from banks and other financial institutions, subordinated debt	162,826	951,907	174,606	256,787	**1,546,126**
Provisions for other risks and loan commitments and other liabilities	556,590	227,869	8,796	191,976	**985,231**
Total monetary liabilities	**26,126,994**	**12,777,718**	**1,636,625**	**680,186**	**41,221,523**
Net currency position	**5,541,885**	**228,643**	**(269,783)**	**(35,549)**	**5,465,196**
Off-balance sheet					
Held-for-trading derivatives	-	736,106	320,158	124,623	**1,180,887**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d2) Currency risk (continued)

The Bank's monetary assets and liabilities denominated in RON and foreign currencies at 31 December 2016 are presented below:

In RON thousand	**RON**	**EUR**	**USD**	**Other currencies**	**Total**
Monetary assets					
Cash and cash equivalents at the National Bank	3,450,137	1,775,644	26,042	41,812	**5,293,635**
Placements with banks	1,268,376	720,826	465,728	291,652	**2,746,582**
Financial assets at fair value through profit and loss	58,209	1,681	-	-	**59,890**
Loans and advances to customers	20,649,103	5,984,630	150,928	425,315	**27,209,976**
Equity investments	131,335	5,336	-	-	**136,671**
Available-for-sale securities	8,353,209	5,650,572	1,116,743	-	**15,120,524**
Other financial assets	139,630	30,235	212	76	**170,153**
Total monetary assets	**34,049,999**	**14,168,924**	**1,759,653**	**758,855**	**50,737,431**
Monetary liabilities					
Deposits from banks	56,635	89,929	100,477	227	**247,268**
Deposits from customers	27,224,279	12,733,762	1,564,623	329,109	**41,851,773**
Loans from banks and other financial institutions, subordinated debt	1,486,619	997,125	186,828	-	**2,670,572**
Provisions for other risks and loan commitments and other liabilities	640,324	169,988	15,026	122,775	**948,113**
Total monetary liabilities	**29,407,857**	**13,990,804**	**1,866,954**	**452,111**	**45,717,726**
Net currency position	**4,642,142**	**178,120**	**(107,301)**	**306,744**	**5,019,705**
Off-balance sheet					
Held-for-trading derivatives	-	1,059,206	155,564	7,150	**1,221,920**

Notes to the separate and consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk *(continued)*

d2) Currency risk (continued)

The Bank's monetary assets and liabilities denominated in RON and foreign currencies at 31 December 2015 are presented below:

In RON thousand	**RON**	**EUR**	**USD**	**Other currencies**	**Total**
Monetary assets					
Cash and cash equivalents at the National Bank	2,715,249	2,202,260	24,614	55,773	**4,997,896**
Placements with banks	2,541,027	622,316	653,155	72,985	**3,889,483**
Financial assets at fair value through profit or loss	56,199	620	-	-	**56,819**
Loans and advances to customers	17,940,898	6,384,536	267,172	514,921	**25,107,527**
Equity investments	79,550	5,336	-		**84,886**
Available-for-sale securities	8,215,842	3,698,979	417,755	-	**12,332,576**
Other financial assets	106,083	20,448	2,022	89	**128,642**
Total monetary assets	**31,654,848**	**12,934,495**	**1,364,718**	**643,768**	**46,597,829**
Monetary liabilities					
Deposits from banks	280,144	90,642	17,482	157	**388,425**
Deposits from customers	25,205,493	11,522,792	1,435,741	231,266	**38,395,292**
Loans from banks and other financial institutions and other subordinated liabilities	87,547	882,554	174,606	256,787	**1,401,494**
Provisions for other risks and loan commitments and other liabilities	550,730	223,157	8,796	191,804	**974,487**
Total monetary liabilities	**26,123,914**	**12,719,145**	**1,636,625**	**680,014**	**41,159,698**
Net currency position off-balance sheet	**5,530,934**	**215,350**	**(271,907)**	**(36,246)**	**5,438,131**
Held-for-trading derivatives	-	736,106	320,158	124,623	**1,180,887**

The table below presents the Profit/Loss sensitivity and the Shareholders' Equity sensitivity in the event of potential changes of the exchange rates applicable at the end of the reporting period in relation to the functional currency of the Group entities, considering that all the other variables remain constant:

	Impact in the Profit and Loss Account	
in RON thousand	**2016**	**2015**
Euro increase by max. 20% (2015: increase by [30]%)	4,909	2,154
Euro decrease by max. 20% (2015: decrease [30]%)	(4,909)	(2,154)
USD increase by max. 20% (2015: increase [30]%)	(3,120)	809
USD decrease by max. 20% (2015: decrease [30]%)	3,120	(809)
Total	-	-

4. Financial risk management *(continued)*

d3) Market risk for the trading activity

The main purpose of managing market risk is to obtain expected performance of portfolio trading, in terms of proper management of market risk inherently assumed consciously and adapted to market conditions and development of the Bank and the Group, and not least the current legislative framework.
General principles applied in order to ensure adequate management of market risks are:
- market risk management is adapted and adjusted constantly Romanian banking market conditions and international financial and general economic context.
- The management of market risks, the bank applies clear principles regarding the suitability, maturity, diversity and degree of risk elements.
- Price risk is analyzed in the stress test the portfolio of shares and fund units held by the Bank.

Exposure to market risk related to trading activities
Exposure represents market risk relates mainly to the following balance sheet items:
- Financial assets at fair value through profit or loss (excluding equity instruments);
- Financial assets available for sale (excluding equity instruments);
Below we present risk exposure on a consolidated and individual at 31 December 2016 or 31 December 2015:

		Group		**Bank**	
in RON thousands		**2016**	**2015**	**2016**	**2015**
Assets	Note	**Carrying value**	**Carrying Value**	**Carrying value**	**Carrying value**
Financial assets ar fair value through profit or loss – derivatives and debt instruments	20	18,364	15,263	7,911	5,642
Investment securities available for sale – debt securities	23	14,942,063	12,118,607	15,068,884	12,208,340
Total bilanţier		***14,960,427***	***12,133,870***	***15,076,795***	***12,213,982***

The following table presents the sensitivity impact of a possible change of interest rates of +/- 1.00% and of market prices of +/- 10% in the profit or loss and in equity, all other variables being held constant:

Group	**31 December 2016**		**31 December 2015**	
in RON thousands	**Impact in profit or loss**	**Impact in equity**	**Impact in profit or loss**	**Impact in equity**
Shares	(5,539)	-	(5,532)	-
OTC derivatives	-	(38,573)	-	(33,867)
Bonds and t-bills	-	(538,403)	-	(396,093)
Total impact	**(5,539)**	**(576,976)**	**(5,532)**	**(429,960)**

4. Financial risk management *(continued)*

d3) Market risk for the trading activity *(continued)*

Bank	**31 December 2016**		**31 December 2015**	
in RON thousands	**Impact in profit or loss**	**Impact in equity**	**Impact in profit or loss**	**Impact in equity**
Shares	(5,198)	-	(5,118)	-
OTC derivatives	-	(35,899)	-	(31,312)
Bonds and t-bills	-	(537,650)	-	(395,469)
Total impact	**(5,198)**	**(573,549)**	**(5,118)**	**(426,781)**

e) Taxation risk

The Group and the Bank are committed to ensure a sustainable tax risk management by building and maintaining an efficient, effective and transparent tax function within the organization. The Group and the Bank strictly comply with and apply the legal regulations on taxes and duties.

The Romanian tax legislation provides for detailed and complex rules and has faced many changes in the recent years. The interpretation and practical implementation of tax legislation may vary and there is a risk that certain transactions could be construed differently by the tax authorities as compared to the Group's and the Bank's treatment.

Moreover, the conversion to IFRS involved supplementary fiscal implications for the Romanian banks, which are not fully regulated and may generate tax related risk.

The Romanian Government has a number of agencies that are authorized to conduct the audit of companies operating in Romania. These audits are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters, but to other legal and regulatory topics in which the respective agency may be interested. It is likely that the Group and the Bank will continue to be subject to regular controls, as new laws and regulations are issued.

In this context, a detailed analysis was performed in order to identify accounting treatment differences with fiscal impact, both in terms of current tax and deferred tax.

f) Business environment

(i) Macroeconomic dynamics and the banking sector

The economic recovery process continued in Romania in 2016, an evolution influenced by the expansionary policy-mix, with impact for the domestic demand.

The nominal GDP rose by around EUR 9bn to EUR 169bn in 2016 (a record high level), according to the preliminary estimates of the National Institute of Statistics (NIS).

In real terms the growth pace accelerated to 4.8% YoY in 2016 (the best performance since 2008), with the domestic demand contributing by 5.6pp. The domestic demand contributed by 5.6% to the annual dynamics of GDP last year.

At the same time, the private consumption speeded up, being supported by the increase of the actual available income of the population and by the relaunching of RON lending process. The main GDP component increased by 7.4% YoY in 2016, the best evolution from 2008 to the present.

At the same time, the public consumption contributed by 0.4pp to the annual pace of the GDP last year, given the election context.

4. Financial risk management *(continued)*

f) Business environment *(continued)*

(i) Macroeconomic dynamics and the banking sector (continued)

On the other hand, the fixed investments stagnated in 2016, being noticed the divergent evolutions: the increase in 1H, supported by the advance of the private consumption and the consolidation of the foreign demand; the decline at the end of the year, determined by the intensifying risk perception in terms of policy-mix and by the delays of some investment plans until the elimination of the special construction tax and of the additional tax on fuels.
However, the inventories contributed by 0.7pp to the YoY GDP pace, given the policy-mix related uncertainties (global, European and domestic).

The net foreign demand continued to have a negative contribution to the annual GDP (-0.8%) in 2016, given the greater dynamics of imports vs. exports (9.3% vs. 7.6%).
As regards the aggregate supply the IT&C consolidated the star position in the domestic economy last year, increasing by 14.2% YoY. At the same time, the sector trade/auto repair/transport/warehousing/HORECA advanced by 10.9% YoY in 2016.

On the other hand, the primary sector, the industry and the constructions rose by 0.1% YoY, 1.7% YoY and 1.8% YoY, respectively last year.
As regards the financial side of the economy the consumer prices contracted, on average, by 1.5% YoY in 2016, an evolution determined by the supply shocks: the VAT cuts and the decline of the international oil prices.
However, the YoY CPI dynamics presented an inflexion point in 2016, as the impact of the VAT cut for food and food services faded out.
The CPI dynamics and the consolidation in terms of macro-financial stability determined the National Bank of Romania (NBR) to keep the monetary policy interest rate at 1.75% (a record low level) last year.
The evolution of the real economy, the record low level of the financing costs and the improvement of the financial performance of the banking sector had a positive impact on the credit markets.
According to NBR statistics the total non-government loans advanced on average by 1.9% YoY in 2016, in a context of divergent evolutions of the RON and FX components.
On the one hand, the RON non-government loans rose on average by 16.6% YoY, being noticed the increase of the household component by 29.9% YoY, an evolution supported by the improvement of the confidence, the low level of the financing costs and the high demand for the First House Program.
On the other hand, the FX denominated loans contracted on average by 11.6% YoY last year.
At the end of 2016 the weight of the RON loans in the total non-government loans stood at 57.2%, a record high level.
At the same time, the non-government deposits rose on average by 10.6% YoY in 2016 (to record high levels), an evolution supported by the improvement of the real disposable income of the population and by the consolidation of the financial position across the corporate sector.
Consequently, the loans-to-deposits ratio continued the downward trend in 2016, to 80.3% at the end of the year (a record low level).
The financial performance of the banking sector consolidated in 2016, given the re-launch of the credit markets and the continuity of the balance sheet adjustment process (the NPL ratio decreased to 9.46% in December, the lowest level since 2010).
At the end of 2016 the total assets of the banking sector stood at RON 393.9bn (a record high level), up by 4.4% YoY.
The banking sector presented a net aggregate result of RON 4.3bn in 2016, down by 7.4% YoY.

Notes to the separate and consolidated financial statements

4. Financial risk management *(continued)*

f) Business environment *(continued)*

(ii) The law of giving in payment

Last, but not least, the capital adequacy ratio stood at 18.33% at the end of 2016, a level above the minimum requirements.

Law No. 77/2016 on the giving in payment of mortgaged assets in order to extinguish the debt, was published in the Romanian Official Gazette, Part I, No. 330 dated April 28, 2016.

The law regulates the relationship between consumers and credit institutions, non-banking financial institutions or the assignment of receivables held over the consumers, and establishes that, by way of derogation from the provisions of the Civil Code, the consumer has the right to have its debt, resulting from loan agreements and the exhibits thereof, extinguished without additional costs, by giving in payment the asset mortgaged in favor of the lender, if the parties of the loan agreement do not conclude another agreement within the period stipulated in the law.

In order to have its debt extinguished, the consumer, through an executor, lawyer or notary public, must notify the lender on his/her decision to transfer the title to the property in order to extinguish the debt resulting from the mortgage loan agreement, also detailing the admissibility conditions of such request.

Upon the execution of the property transfer agreement, and /or upon the delivery of the final judgement, any debtor's liability towards the lender shall be extinguished, without the letter's right to claim additional amounts.

The law is applicable both to loan agreements outstanding at the enforcement date and to any agreements concluded after the enforcement date.

On October 25, 2016, Constitutional Court approved exceptions for the unconstitutionality of the law.

The letter of the Constitutional Court justified the approved exceptions, regarding the cancelation of certain phrases in the law, aspects that partially limit the debtors' access to the protection conferred by law.

g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's and the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior or natural disasters that lead to the Group's and the Bank's business disruption. Operational risks arise from all of the Group's and the Bank's operations and are faced by all business entities.

The Group's and the Bank's objective is to manage operational risk in order to ensure a reasonable achievement of performance targets (efficiency and effectiveness), information objectives (credibility, integrity, continuity) and to mitigate the losses resulting from the materialization of this risk category.

In order to reduce the inherent risk in the operational activities of the Group and the Bank, a general risk management framework was developed for managing these risks, in accordance with the defined business objectives, the assumed risk appetite, the applicable national and international laws and regulations and the internal norms and policies on operational risk, which are part of the corporate governance framework.

4. Financial risk management *(continued)*

g) Operational risk *(continued)*

The strategy of Banca Transilvania to diminish the exposure to operational risks is mainly based on:

- constant compliance of the normative documents with the legal regulations and adjustment to the market conditions;
- personnel training;
- efficiency of the internal control systems (organization and implementation);
- implementation of IT developments and consolidation of the bank's security systems;
- the use of complementary risk mitigation means: insurance policies, outsourcing;
- the implementation of measures for the limitation and reduction of the effects of the identified operational risk incidents, such as: standardization of the current activity, automation of most processes with permanently monitored control points; reduction of redundant data volumes collected at the level of different entities of the bank;
- the application of the recommendations and the conclusions resulting from on-going monitoring;
- the update, evaluation and testing of business continuity plans on a regular basis, in particular of those systems that support the critical operational processes of the bank .
- assessment of products, processes and systems in order to determine the significant ones in terms of inherent operational risk;

The Risk Management Department together with the Operational and IT Risk Management Department monitor the implementation of the strategy and methodology for the identification, measurement, monitoring, control and mitigation of operational risk in Banca Transilvania and make sure to inform the Leaders' Committee on the problems, significant trends in terms of operational risks and propose risk mitigation measures.

The Internal Audit, the Internal Control and the Executive Management of the Group and the Bank monitor the compliance with the Group's and the Bank`s standards through regular on-site and off-site inspections. The results of internal audit, operational risk monitoring and control are discussed with the management of the audited business units and a summary is submitted to the Executive Risk Manager and the Group's and the Bank's Management.

h) Capital management

The internal capital adequacy assessment process within Banca Transilvania is part of the administration and management process of the credit institution, of its decision-making culture, which states that the management body ensures the proper identification, measurement, aggregation and monitoring of the institution's risks, and provides for an adequate internal capital in line with the risk profile and the use and development of sound risk management systems.

The National Bank of Romania monitors capital requirements both at the Bank and at the Group level.

Capital adequacy is determined according to the Regulation (EU) No 575/2013 of the European Parliament and of the Council and impose a minimum mandatory level of own funds level of:

- 4.5 % for core tier 1 own funds;
- 6.0 % for tier 1 own funds;
- 8.0 % for total own funds.

4. Financial risk management *(continued)*

h) Capital management *(continued)*

Likewise, pursuant to the regulated approaches for the determination of the minimum capital requirements and EU Regulation 575/2013 in correlation with the provisions of NBR's Regulation no. 5/2013 and considering the capital buffers imposed by the National Bank of Romania, the Bank and the Group maintain:

- the capital preservation buffer in amount of 0,625% of the total value of the risk-weighted exposures between January 1, 2016-December 31, 2016
- the O-SII buffer in amount of 1% of the total risk weighted exposures

Own funds adequacy

The Bank and the Group use the following calculation methods for required capital allocation:

- Credit risk: standardised method;
- Market risk: capital requirements with respect to the foreign exchange risk and the trading portfolio are calculated based on the standard method;
- Operational risk: capital requirements for the coverage of operational risk are calculated according to the base indicator method.

The Bank and the Group comply with the above regulations, the level of the capital adequacy ratio exceeding the minimum mandatory requirements imposed by the law.

As at 31 December 2016 and 31 December 2015, as well as during the years 2016 and 2015, the Group and the Bank complied with all the capital adequacy requirements.

The Group's and the Bank's own funds are based on the applicable legal requirements on regulatory capital and include:

- Tier I, which includes subscribed and paid in capital, share premiums, eligible reserves, retained earnings and deductions laid down in the applicable legal provisions;
- Tier II, which includes subordinated loans and deductions laid down in the applicable legal provisions;

The Group manages its capital base in a flexible manner, by monitoring regulatory capital requirements, by anticipating the adequate adjustments required for the achievement of its objectives, as well as by optimizing the structure of assets and shareholders' equity. Planning and monitoring take into consideration the total own funds on the one hand and the own funds requirements, on the other hand.

4. Financial risk management *(continued)*

h) Capital management *(continued)*

Own funds adequacy *(continued)*

The level and the requirements of own funds as at 31 December 2016 and 31 December 2015 were as follows:

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Tier 1 own funds	5,525,452	4,608,354	5,398,562	4,455,577
Tier 2 own funds	350,191	376,497	350,191	376,497
Total own funds	**5,875,643**	**4,984,851**	**5,748,753**	**4,832,074**
Credit risk exposure	20,926,406	19,845,800	20,671,529	19,600,297
Market risk, FX risk, delivery risk exposure	5,487,764	4,236,125	5,426,462	4,168,805
Operational risk exposure	4,280,859	3,495,554	4,120,310	3,333,266
Risk exposure for the adjustment of credit assessment	3,635	10,510	3,635	8,690
Total risk exposure	**30,698,664**	**27,587,989**	**30,221,936**	**27,111,058**

The capital adequacy ratio (CAR) is calculated as a ratio between own funds and total risk-weighted assets:

	Grup		Banca	
În %	**2016**	**2015**	**2016**	**2015**
Core tier one ratio	17.99	16.70	17.86	16.43
Tier one ratio	17.99	16.70	17.86	16.43
CAR	19.14	18.07	19.02	17.82

Note: The calculation of the Group's and the Bank's own funds takes into account the statutory profit of the Group, respectively of the Bank for the financial years ended on 31.12.2016 and on 31.12.2015. Regulatory capital as at 31.12.2016 and 31.12.2015 was calculated according to the IFRS standards endorsed by the European Union.

Notes to the separate and consolidated financial statements

5. Accounting estimates and significant judgements

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

a) Impairment losses on loans and advances

The Group and the Bank review their loan portfolio, including net lease investments, in order to assess the impairment thereof, at least semi-annually (on a monthly basis for the Bank). In determining whether an impairment loss should be recorded, the Group and the Bank make judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows related to a portfolio of loans and net lease investments, before such decrease can be identified with respect to an individual loan/lease investment in that portfolio. For example, the observable data might be the unfavourable changes in the payment behaviour of certain debtors within a group or in the economic, national or local circumstances, which correlate with default incidents affecting the debtors' group.

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

To the extent that the net present value of the cash flows estimated by the Group differs by +/-5 percent, the impairment allowance for loans and advances to customers would be estimated to RON 41,628 thousand higher or RON 40,551 thousand lower.

To the extent that the net present value of the cash flows estimated by the Bank differs by +/-5 percent, the impairment allowance for loans and advances to customers would be estimated to RON 40,590 thousand higher or RON 39,461 thousand lower.

Law 77/2016 regarding datum in solutum ("DIS" / Romanian "DIP") of certain residential real estate properties which debtors having mortgage loans collateralised by these assets may give them to the financing banks and the loans are to be considered closed irrespective if the fair value (or subsequently price of sold property) covers the existing gross exposure or not was adopted and is in force. The Law entered in force from 13th May.

DIP is applicable only to natural persons, residential real estate mortgages under EUR 250K. The Law is applicable for both active, ongoing loan contracts but also for future loans to be originated.

The Law was claimed by various banks as being non-Constitutional and was analysed by CCR (Contitutional Court of Romania). CCR argued about the hardship element (impreviziune). As such, the debtor could close the loan by passing the mortgaged asset only if hardship is demonstrated. CCR provided its view on 25 October 2016.

Hardship is defined by art. 1271 from the New Civil Code - if respecting the provision of a contract became excessively onerous due to exceptional changes which would make clearly unfair to oblidge the debtor to comply to contracts' provisions. Merely the fall in value of the real estate properties or the increase in FX for FCY denominated loans does not demonstrate by default hardship. Only in Court, the judge may decide over hardship.

5. Accounting estimates and significant judgements *(continued)*

a) Impairment losses on loans and advances (continued)

Approach of Banca Transilvania
The Bank calculated specific provisions for all clients that requested DIP.
The rest of the population for which the provisions of the loan might be applicable was collectively assessed by the bank. The management made judgements to assess the required level of provision. The judgements concern the population for which the "hardship" may apply and the probability of default for them.
In estimating the population the bank analysed the LTV of the loans and behavioral aspects related to mortgage loan population. The PD's were constructed based on LTV trasholds and by extrapolating past behaviour.

b) Gain from acquisition

In April 2015 the Bank acquired Volksbank ("VBRO") recognising a bargain gain of RON thousand 1,650,600 in the IFRS consolidated financial as a result of the business combination in accordance with IFRS 3.
In the IFRS financial statements for the year ended 31 December 2015, authorised for issue on 27 April 2016, based on the information available at that time, the Bank treated the bargain gain as taxable income and computed the related income tax liability. Since as of the date the 2015 IFRS financial statements were authorised for issue the Bank had certain uncertainties in respect with the fiscal treatment of the bargain gain the Bank has therefore chosen the conservative approach.
The income tax liability was offset against previous periods' fiscal losses incurred by VBRO (that could be used by BT after the merger).
While for the financial statements of 2015 the Bank considered the bargain gain as taxable income until further clarification was assured, during 2016, based on additional research, information and consultations with external fiscal and legal advisors, the Bank assessed the bargaining gain as being non-taxable. The assessment in 2016 financials is based on sound arguments, as follows:

- There is a lack of consistency between fiscal and accounting frameworks: Romanian fiscal legislation does not have provisions in respect of taxpayers who have IFRS as basis for accounting.
- Starting 1 Jan 2016, in the Rewritten Fiscal Code, the provisions for domestic mergers were updated and harmonized also in line with Directive 2009/133/ and in this respect, clearly the intention of the lawmaker was that the specific taxation rules (taking in account the tax neutrality of the merger) should prevail over the general taxation rules.
- The merger is based on sound economic grounds (as it was not undertaken solely to achieve a certain fiscal outcome). The merger should be neutral from a tax point of view i.e. the bargain gain should not be taxable.
- The fiscal treatment should be balanced: considering the opposite case, whereby the purchase price is higher than the value of acquired identifiable assets and liabilities, a positive goodwill would have been recorded, which, as per Romanian fiscal legislation is not to be amortised for fiscal purposes and hence does not have any fiscal impact;
- Avoidance of double taxation.
- European jurisprudence – which implies that when an EU country fiscal legislation is unclear or lacks specific provisions, EU legislation should be followed, in this case resulting in not taxing the bargain gain.

As a consequence the Bank submitted a rectifying 2015 annual income tax return to fiscal authorities. In this tax return the Bank has recomputed the income tax liability on the basis that

5. Use of estimates and judgements (*continued*)

bargain gain is non-taxable, resulting a lower income tax liability by RON thousand 264,096 and as a consequence a higher available unutilised tax loss as at 31 December 2016 of RON thousand 1,650,600.
The Bank treated this adjustment as a change in estimate in accordance with IAS 8 in the 2016 financial statements, as it was driven by new developments, management gaining increased insight into the matter as a result of analysis performed by management with support from external fiscal and legal consultations.
The Bank also requested the Romanian fiscal authorities an official fiscal solution for the fiscal treatment of bargain gain ("SFIA"). The Bank proposed to consider the bargain gain as non-taxable income taking into consideration the arguments presented above. The Romanian fiscal authorities provided a negative reply, considering that the bargain gain is taxable, the sole argument to sustain the bargain gain as taxable being the fact that this income (as recorded as per IFRS) is not included in the list of non-taxable income elements specifically mentioned in the fiscal code applicable as of 31 Dec 2015.
The Bank is in the process of filing an opposing argument to the answer presented by the Fiscal Authorities and if the response from the Romanian Tax Authorities will be still negative, the Bank intend to challenge the decision in Court. Based on the Bank's management current expectations the litigation could take between 1 to 3-5 years to settle. The management of the Bank considers that it has strong arguments to win the litigation on the legal merits based on the arguments presented above.
However, this is an uncertain tax position and in the scenario in which the Bank will unfortunately lose its challenge to the fiscal authorities (the Court case), it will have to consider the bargain gain as taxable income and settle associated fines and penalties (if any).

c) Future fiscal losses realization

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a business plan prepared by Bank's management. The business plan takes into consideration the development of a marginal increasing income base through organically growing and assuming moderate risks, tight control over costs and increased efficiency and maintenance of a good capital base and a steady liquidity position.
The Bank merged with VBRO on 31 Dec 2015 and took over also the previous period's fiscal losses incurred by VBRO to that date in total amount of RON thousand 3,767,958. The remaining unutilised fiscal losses available as at 31 Dec 2015 were in amount of RON thousand 1,43,824. However, the related deferred tax asset recognised in the 2015 financial statements was limited to RON thousand 143,465 in line with the budgeted profit of the 2016, as approved by the shareholders. Consequently a potential deferred tax asset of RON thousand 86,587 was not recognised.Following the submission of the rectifying tax return for financial year 2015, as explained in Note 27, the Bank has a total unutilised fiscal loss of RON thousand 2,302,159 as at 31 Dec 2016.The Bank recognized deferred income tax asset of RON thousand 368,345 (2015: RON thousand 143,465) which refers to a fiscal loss carried forward amounting to RON thousand 2,302,159 (2015: RON thousand 1,437,824 without the effect of the bargain gain of RON thousand 1,650,600) that can be carried forward against future taxable income. In Romania, tax periods remain open for 7 years. Management estimates that the Bank will record sufficient taxable profit in the future periods from normal banking operations.

5. Estimates and judgements *(continued)*

d)Risk provisions for abusive clauses in the loan contracts

The Bank recorded at the end of 2016 a provision for abusive clauses existing in the loan contracts following the entering into force of the OUG 50/2010 (see Note 34).

The management developed a methodology to estimate the required provision for abusive clauses that involves making assumptions about the number of future legal cases to be started against the Bank and the outcome of current and possible future cases based on historical experience.

The Bank assessed in 2015 the risk of starting the litigation as very high (due to very negative publicity that Volksbank Romania had around this issue) and recorded in 2015 IFRS Financial

Statements the provisions accordingly. In 2016, the Bank re-assessed the assumptions used in the provision computation for abusive clauses based on more recent history (2016 evolution of new started litigations and the results of closed ones). Following publicity around legislative developments in late 2016 and early 2017 (including the Constitutional Court ruling on the CHF law which declared it was unconstitutional on procedural and content grounds) the Bank further reassessed the likelihood of new litigations being brought and the likely outcome of court decisions. In the 2016 financial statements the Bank took into consideration the significant uncertainties which currently exist, but also other mitigating factors and therefore part of the provision for this risk was released through the 2016 income statement.

6. Segment reporting

The business segment reporting format is the Group's and Bank's primary basis of segment reporting. Transactions between business segments are conducted at arm's length. Segment assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis.

The Group's and Bank's segment reporting comprises the following main business segments:

- *Corporate customers*. Within corporate banking the Group and the Bank provide corporations with a range of banking products and services, including lending and deposit taking, providing cash management, foreign commercial business, investment advices, financial planning, securities business, project and structured finance transactions, syndicated loans and asset backed transactions.
- SME - is a client segment for which the Group and the Bank developed and provided personalized products, easy to access and which cover their business needs: loans, saving products, current account transactions.
- *Individuals* The Group and the Bank provide individuals with a range of banking products and services, including lending (consumer loans, vehicles purchase, personal needs, and mortgages), savings and deposit taking business, payment services and securities business.
- *Treasury:* The Group and the Bank comprise in this category the treasury services.
- *Leasing and customer finance.* within leasing the Group includes financial products and services provided by the leasing and consumer finance entities of the Group.
- *Other* the Group and the Bank incorporate in this category the services offered by other financial entities within the Group: asset management, brokerage, factoring and real estate.

Notes to the separate and consolidated financial statements

6. Segment reporting *(continued)*

The tables below presents financial information per segments in the consolidated/separate statement of financial position and the operational result before net expenses with the impairment allowance for loans and advances to customers, for the financial year ended at 31 December 2016, and comparative data for 2015:

Business segments as at 31 December 2016

Group 2016

In** RON **thousand	**Corporate Banking**	**SME**	**Retail Banking**	**Treasury**	**Leasing and consumer finance**	**Others**	**Eliminations & adjustments**	**Total**
Gross loans	11,070,716	3,221,451	15,087,561	-	737,169	21,975	(660,962)	29,477,910
Provisions	(1,283,924)	(173,089)	(712,738)	-	(78,614)	(172)	4,672	(2,243,865)
Loans net of provisions	9,786,792	3,048,362	14,374,823	-	658,555	21,803	(656,290)	27,234,045
Portfolio Debt instruments and Equity instruments net of provisions	-	-	-	15,402,104	-	180,158	(182,533)	15,399,729
Treasury and inter-bank operations	-	-	-	7,818,527	35,048	176,547	(172,647)	7,857,475
Intangible assets	124,558	67,123	193,326	46,678	129,395	87,703	(675)	648,108
Other assets	284,778	73,151	266,056	185,012	25,057	148,154	(177,341)	804,867
Total assets	**10,196,128**	**3,188,636**	**14,834,205**	**23,452,321**	**848,055**	**614,365**	**(1,189,486)**	**51,944,224**
Deposits from customers	10,089,763	5,406,677	26,355,333	247,268	136	2,966	(173,400)	41,928,743
Loans from banks and other financial institutions	406,217	344,397	12,812	1,483,035	672,282	41,259	(655,091)	2,304,911
Subordinated liabilities	-	-	-	424,111	-	-	-	424,111
Other liabilities	324,956	83,472	303,592	211,114	27,656	196,332	(13,370)	1,133,752
Total liabilities	**10,820,936**	**5,834,546**	**26,671,737**	**2,365,528**	**700,074**	**240,557**	**(841,861)**	**45,791,517**
Equity and related items	-	-	-	-	-	6,152,707	-	6,152,707
Total liabilities	**10,820,936**	**5,834,546**	**26,671,737**	**2,365,528**	**700,074**	**6,393,264**	**(841,861)**	**51,944,224**

Notes to the separate and consolidated financial statements

6. Segment reporting *(continued)*

Business segments as at 31 December 2015

Group 2015

In RON thousand	Corporate Banking	SME	Retail Banking	Treasury	Leasing and consumer finance	Others	Eliminations & adjustments	Total
Gross loans	11,027,416	3,077,213	13,635,384	-	517,614	137,455	(382,767)	28,012,315
Provisions	(1,650,587)	(335,670)	(646,229)	-	(80,006)	(78,488)	4,279	(2,786,701)
Loans net of provisions	9,376,829	2,741,543	12,989,155	-	437,608	58,967	(378,488)	25,225,614
Portfolio Debt instruments and Equity instruments net of provisions	-	-	-	12,602,106	-	162,876	(135,342)	12,629,640
Treasury and inter-bank operations	-	-	-	8,674,668	43,980	69,321	(93,886)	8,694,083
Intangible assets	125,856	64,729	164,071	46,831	70,632	54,619	376	527,114
Other assets	211,847	48,364	160,376	106,704	24,298	80,451	(129,399)	502,641
Total assets	**9,714,532**	**2,854,636**	**13,313,602**	**21,430,309**	**576,518**	**426,234**	**(736,739)**	**47,579,092**
Deposits from customers	9,873,482	5,235,410	23,286,400	388,425	158	50	(93,759)	38,690,166
Loans from banks and other financial institutions	343,304	338,896	23,776	279,166	430,904	91,300	(377,644)	1,129,702
Subordinated liabilities	-	-	-	416,352	-	-	72	416,424
Other liabilities	401,295	91,615	303,795	202,127	15,846	102,100	(14,791)	1,101,987
Total liabilities	**10,618,081**	**5,665,921**	**23,613,971**	**1,286,070**	**446,908**	**193,450**	**(486,122)**	**41,338,279**
Equity and related items	-	-	-	-	-	6,240,813	-	6,240,813
Total liabilities	**10,618,081**	**5,665,921**	**23,613,971**	**1,286,070**	**446,908**	**6,434,263**	**(486,122)**	**47,579,092**

Notes to the separate and consolidated financial statements

6. Segment reporting *(continued)*

Business segments as at 31 December 2016

Group 2016

In RON thousand	Corporate Banking	SME	Retail Banking	Treasury	Leasing and consumer finance	Others	Eliminations & adjustments	Total
Net interest income	372,028	203,504	711,967	164,666	49,516	261,391	961	1,764,033
Net commission income	125,181	203,399	181,862	(979)	3,105	36,168	(2,465)	546,271
Net trading income	31,551	46,847	66,303	38,792	6	14,009	(125)	197,383
Net gain from sale of available-for-sale financial instruments	-	-	185,385	110,417	(99)	106,719	(731)	401,691
Contribution to the Bank Deposit Guarantee Fund	(18,719)	(9,926)	(44,147)	-	-	-	-	(72,792)
Other operating income	30,275	3,919	41,116	351	45,805	65,124	(16,539)	170,051
Total income	**540,316**	**447,743**	**1,142,486**	**313,247**	**98,333**	**483,411**	**(18,899)**	**3,006,637**
Personnel expenses	(177,885)	(127,419)	(294,418)	(21,199)	(17,288)	(27,621)	12	(665,818)
Operating expenses	(88,893)	(62,108)	(183,729)	(26,241)	(29,622)	(37,448)	13,859	(414,182)
Advertising and promotional expenses	(6,494)	(9,158)	(15,225)	(885)	(435)	(695)	-	(32,892)
Depreciation and amortization	(20,351)	(10,912)	(32,105)	(6,794)	(19,816)	(3,933)	-	(93,911)
Other expenses	(16,917)	(11,747)	(29,841)	(3,232)	(654)	(20,519)	-	(82,910)
Total Expenses	**(310,540)**	**(221,344)**	**(555,318)**	**(58,351)**	**(67,815)**	**(90,216)**	**13,871**	**(1,289,713)**
Operational result before impairment losses for assets and provisions for other risks and loan commitments	**229,776**	**226,399**	**587,168**	**254,896**	**30,518**	**393,195**	**(5,028)**	**1,716,924**

Notes to the separate and consolidated financial statements

6. Segment reporting *(continued)*

Business segments as at 31 December 2015

Group 2015

In RON thousand	Corporate Banking	SME	Retail Banking	Treasury	Leasing and consumer finance	Others	Eliminations & adjustments	Total
Net interest income	373,111	184,108	937,845	140,038	39,758	276,958	357	1,952,175
Net commission income	121,897	178,022	160,730	(1,996)	637	28,559	(863)	486,986
Net trading income	25,096	32,003	42,241	80,088	318	399	(268)	179,877
Net gain from sale of available-for-sale financial instruments	-	-	-	151,579	-	70,761	(132)	222,208
Contribution to the Bank Deposit Guarantee Fund	(24,250)	(12,772)	(58,286)	-	-	-	-	(95,308)
Other operating income (*)	24,433	605	43,749	-	31,121	1,673,486	(14,582)	1,758,812
Total income	**520,287**	**381,966**	**1,126,279**	**369,709**	**71,834**	**2,050,163**	**(15,488)**	**4,504,750**
Personnel expenses	(174,113)	(130,274)	(281,667)	(19,025)	(15,443)	(56,220)	-	(676,742)
Operating expenses	(69,857)	(46,021)	(85,350)	(16,660)	(15.338)	(235,422)	8,706	(459,942)
Advertising and promotional expenses	(3,655)	(4,978)	(8,049)	(542)	(396)	(949)	-	(18,569)
Depreciation and amortization	(17,859)	(9,909)	(42,239)	(6,604)	(11,977)	(3,074)	-	(91,662)
Other expenses	(12,451)	(13,598)	(125,712)	(2,951)	(1,469)	(3,425)	-	(159,606)
Total Expenses	**(277,935)**	**(204,780)**	**(543,017)**	**(45,782)**	**(44,623)**	**(299,090)**	**8,706**	**(1,406,521)**
Operational result before impairment losses for assets and provisions for other risks and loan commitments	**242,352**	**177,186**	**583,262**	**323,927**	**27,211**	**1,751,073**	**(6,782)**	**3,098,229**

(*) The gain from acquisition is presented in the business segment "Other Group"

Notes to the separate and consolidated financial statements

7. Further remarks: Financial assets and liabilities

a)Accounting classifications and fair value

Group

In RON thousand	Note	Financial assets at fair value through profit and loss (*)	Financial assets held-to-maturity	Loans and receivables and net lease investments	Available-for-sale securities	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
31 December 2016								
Financial assets								
Cash and cash equivalents at the National Bank	18	-	-	5,293,660	-	-	5,293,660	5,293,660
Placements with banks	19	-	-	2,785,505	-	-	2,785,505	2,785,505
Financial assets at fair value through profit and loss	20	163,520	-	-	-	-	163,520	163,520
Loans and advances to customers	21	-	-	26,710,402	-	-	26,710,402	26,819,962
Net lease investments	22	-	-	523,643	-	-	523,643	524,137
Investment securities, available-for-sale	23	-	-	-	14,993,828	-	14,993,828	14,993,828
Investment securities, held-to-maturity	23	-	20,691	-	-	-	20,691	20,864
Other financial assets	28	-	-	194,151	-	-	194,151	194,151
Total financial assets		**163,520**	**20,691**	**35,507,361**	**14,993,828**	**-**	**50,685,400**	**50,795,627**
Financial liabilities								
Deposits from banks	30	-	-	-	-	247,268	247,268	247,268
Deposits from customers	31	-	-	-	-	41,681,475	41,681,475	41,707,892
Loans from banks and other financial institutions	32	-	-	-	-	2,304,911	2,304,911	2,304,911
Subordinated liabilities	33	-	-	-	-	424,111	424,111	424,111
Other financial liabilities	35	-	-	-	-	469,975	469,975	469,975
Total financial liabilities		**-**	**-**	**-**	**-**	**45,127,740**	**45,127,740**	**45,154,157**

(*) This category includes just held-for-trading financial assets

Notes to the separate and consolidated financial statements

7. Further remarks: Financial assets and liabilities *(continued)*

a)Accounting classifications and fair value *(continued)*

Group

In RON thousand	Note	Financial assets at fair value through profit and loss (*)	Financial assets held-to-maturity	Loans and receivables and net lease investments	Available-for-sale securities	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
31 December 2015								
Financial assets								
Cash and cash equivalents at the National Bank	18	-	-	4,997,930	-	-	4,997,930	4,997,930
Placements with banks	19	-	-	3,908,864	-	-	3,908,864	3,908,864
Financial assets at fair value through profit and loss	20	161,028	-	-	-	-	161,028	161,028
Loans and advances to customers	21	-	-	24,894,560	-	-	24,894,560	25,280,986
Net lease investments	22	-	-	331,054	-	-	331,054	331,793
Investment securities, available-for-sale	23	-	-	-	12,242,959	-	12,242,959	12,242,959
Investment securities, held-to-maturity	23	-	12,942	-	-	-	12,942	12,944
Other financial assets	28	-	-	137,382	-	-	137,382	137,382
Total financial assets		**161,028**	**12,942**	**34,269,790**	**12,242,959**	**-**	**46,686,719**	**47,073,886**
Financial liabilities			-					
Deposits from banks	30	-	-	-	-	388,425	388,425	388,425
Deposits from customers	31	-	-	-	-	38,301,741	38,301,741	38,339,782
Loans from banks and other financial institutions	32	-	-	-	-	1,129,702	1,129,702	1,129,702
Subordinated liabilities	33	-	-	-	-	416,424	416,424	416,424
Other financial liabilities	35	-	-	-	-	277,032	277,032	277,032
Total financial liabilities		**-**	**-**	**-**	**-**	**40,513,324**	**40,513,324**	**40,551,365**

(*) This category includes just held-for-trading financial assets

Notes to the separate and consolidated financial statements

7. Further remarks: Financial assets and liabilities *(continued)*

a)Accounting classifications and fair value *(continued)*

Bank

In RON thousand	Note	Financial assets at fair value through profit and loss (*)	Financial assets held-to-maturity	Loans and receivables	Investment securities, available-for-sale	Amortized cost Financial liabilities measured at amortised cost	Total carrying amount	Fair value
31 December 2016								
Financial assets								
Cash and cash equivalents at the National Bank	18	-	-	5,293,635	-	-	5,293,635	5,293,635
Placements with banks	19	-	-	2,746,582	-	-	2,746,582	2,746,582
Financial assets at fair value through profit and loss	20	59,890	-	-	-	-	59,890	59,890
Loans and advances to customers	21	-	-	27,209,976	-	-	27,209,976	27,319,536
Investment securities, available-for-sale	23	-	-	-	15,120,524	-	15,120,524	15,120,524
Other financial assets	28	-	-	170,153	-	-	170,153	170,153
Total financial assets		**59,890**	**-**	**35,420,346**	**15,120,524**	**-**	**50,600,760**	**50,710,320**
Financial liabilities								
Deposits from banks	30	-	-	-	-	247,268	247,268	247,268
Deposits from customers	31	-	-	-	-	41,851,773	41,851,773	41,878,190
Loans from banks and other financial institutions	32	-	-	-	-	2,246,461	2,246,461	2,246,461
Subordinated liabilities	33	-	-	-	-	424,111	424,111	424,111
Other financial liabilities	35	-	-	-	-	441,158	441,158	441,158
Total financial liabilities		**-**	**-**	**-**	**-**	**45,210,771**	**45,210,771**	**45,237,188**

(*) This category includes just held-for-trading financial assets

Notes to the separate and consolidated financial statements

7. Further remarks: Financial assets and liabilities *(continued)*

a)Accounting classifications and fair value *(continued)*

Bank

In RON thousand	Note	Financial assets at fair value through profit and loss (*)	Financial assets held-to-maturity	Loans and receivables	Investment securities, available-for-sale	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
31 December 2015								
Financial assets								
Cash and cash equivalents at the National Bank	18	-	-	4,997,896	-	-	4,997,896	4,997,896
Placements with banks	19	-	-	3,889,483	-	-	3,889,483	3,889,483
Financial assets at fair value through profit and loss	20	56,819	-	-	-	-	56,819	56,819
Loans and advances to customers	21	-	-	25,107,527	-	-	25,107,527	25,493,953
Investment securities, available-for-sale	23	-	-	-	12,332,576	-	12,332,576	12,332,576
Other financial assets	28	-	-	128,642	-	-	128,642	128,642
Total financial assets		**56,819**	**-**	**34,123,548**	**12,332,576**	**-**	**46,512,943**	**46,899,369**
Financial liabilities								
Deposits from banks	30	-	-	-	-	388,425	388,425	388,425
Deposits from customers	31	-	-	-	-	38,395,292	38,395,292	38,433,333
Loans from banks and other financial institutions	32	-	-	-	-	985,142	985,142	985,142
Subordinated liabilities	33	-	-	-	-	416,352	416,352	416,352
Other financial liabilities	35	-	-	-	-	268,891	268,891	268,891
Total financial liabilities		**-**	**-**	**-**	**-**	**40,454,102**	**40,454,102**	**40,492,143**

(*) This category includes just held-for-trading financial assets

Notes to the separate and consolidated financial statements

7. Further remarks: Financial assets and liabilities *(continued)*

b)Fair value of financial assets and liabilities instruments *(continued)*

The Group and the Bank measure the fair value of financial instruments by using the following fair value hierarchy:

Level 1 in the fair value hierarchy

The fair value of financial assets and liabilities included in Level 1 in the fair value hierarchy is determined based on quoted prices in active markets for identical assets or liabilities. Quoted prices that are being applied must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 in the fair value hierarchy

The fair value of financial assets and liabilities included in Level 2 in the fair value hierarchy is determined using evaluation methods which contain data that are not observable and there aren't available market data. For evaluation in level 2 in the fair value hierarchy are being used market observable parametres, interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads.

Level 3 in the fair value hierarchy

The fair value of financial assets and liabilities included in Level 3 in the fair value hierarchy is determined using inputs based on data of an observable market (unobservable data inputs shall be used to measure fair value to the extent that participanta in market condition would establish the price of an asset or a liability, based on assumptions related to risk level).
The objective of valuation techniques is to derive the fair value that reflects a price for the financial instrument at the reporting date, price that would be obtained by the market participants acting at arm's length.
The availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair value. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The management uses its judgment to select the valuation method and makes assumptions that are mainly based on market conditions existing at the date of the consolidated/ separate statement of the financial position.

(i)*Fair value hierarchy analysis of financial instruments carried at fair value*

At lever 1 in the fair value hierarchy the Bank and the Group classified equity instruments, and debt instruments held at fair value through profit or loss, the bonds classified as available for sale, except the bonds issued by City halls.

At lever 2 in the fair value hierarchy the Bank and the Group classified derivative instruments held at fair value through profit or loss, the bonds classified as available for sale issued by City Halls and derivatives classified as financial liabilities held for trading.

At lever 3 in the fair value hierarchy the Bank and the Group classified equity instruments held at cost, tangibles assetss and investment properties.

Notes to the separate and consolidated financial statements

7. Further remarks: Financial assets and liabilities *(continued)*

b)Fair value of financial assets and liabilities instruments *(continued)*

i)*Fair value hierarchy analysis of financial instruments carried at fair value (continued)*

The table below presents financial instruments measured at fair value at the end of the reporting period, by fair value levels:

Group - *In RON thousand*	Notes	**Level 1 - Quoted market prices in active markets**	**Level 2 - Valuation techniques – observable inputs**	**Level 3 - Valuation techniques – unobservable inputs**	**Total**
31 December 2016					
Financial assets at fair value through profit or loss, of which:	**20**	**155,609**	**7,911**	**-**	**163,520**
- Equity instruments	*20*	*145,156*	*-*	*-*	***145,156***
- Debt instruments	*20*	*10,453*	*-*	*-*	***10,453***
- Derivatives	*20*	*-*	*7,911*	*-*	***7,911***
Securities available-for-sale	**23**	**14,929,689**	**61,027**	**3,112**	**14,993,828**
Total financial assets measured at fair value in the statement of financial position		**15,085,298**	**68,938**	**3,112**	**15,157,348**
Non-financial assets at fair value					
- Tangible assets and investment property	**25**	-	-	558,734	**558,734**
Total assets measured at fair value in the statement of financial position		**15,085,298**	**68,938**	**561,846**	**15,716,082**
Financial liabilities held-for-trading	**35**	**-**	**10,947**	**-**	**10,947**
31 December 2015					
Financial assets at fair value through profit or loss	**20**	**155,386**	**5,642**	**-**	**161,028**
- Equity instruments	*20*	*145,765*	*-*	*-*	***145,765***
- Debt instruments	*20*	*9,621*	*-*	*-*	***9,621***
- Derivatives	*20*	*-*	*5,642*	*-*	***5,642***
Securities available-for-sale	**23**	**11,964,967**	**274,869**	**3,123**	**12,242,959**
Total financial assets measured at fair value in the statement of financial position		**12,120,353**	**280,511**	**3,123**	**12,403,987**
Non-financial assets at fair value					
- Tangible assets and investment property	**25**	-	-	452,266	**452,266**
Total assets measured at fair value in the statement of financial position		**12,120,353**	**280,511**	**455,389**	**12,856,253**
Financial liabilities held-for-trading	**35**	**-**	**5,627**	**-**	**5,627**

Notes to the separate and consolidated financial statements

7. Further remarks: Financial assets and liabilities *(continued)*

b)Fair value of financial assets and liabilities instruments *(continued)*

(i)Fair value hierarchy analysis of financial instruments carried at fair value (continued)

Bank - In RON thousand	Notes	**Level 1 - Quoted market prices in active markets**	**Level 2 - Valuation techniques – observable inputs**	**Level 3 - Valuation techniques – unobservable inputs**	**Total**
31 December 2016					
Financial assets at fair value through profit or loss, of which:	**20**	***51,979***	***7,911***	**-**	***59,890***
- Equity instruments	*20*	*51,979*	-	-	***51,979***
- Derivatives	*20*	-	*7,911*	-	***7,911***
Securities available-for-sale	**23**	***15,056,405***	***61,027***	***3,092***	***15,120,524***
Total financial assets measured at fair value in the statement of financial position		**15,108,384**	**68,938**	**3,092**	**15,180,414**
Non-financial assets at fair value					
- Tangible assets and investment property	**25**	-	-	370,305	**370,305**
Total assets measured at fair value in the statement of financial position		**15,108,384**	**68,938**	**373,397**	**15,550,719**
Financial liabilities held-for-trading	**35**	**-**	**10,947**	**-**	**10,947**
31 December 2015					
Financial assets at fair value through profit or loss, of which:	**20**	***51,177***	***5,642***	**-**	***56,819***
- Equity instruments	*20*	*51,177*	-	-	***51,177***
- Derivatives	*20*	-	*5,642*	-	***5,642***
Securities available-for-sale	**23**	***12,054,615***	***274,869***	***3,092***	***12,332,576***
Total financial assets measured at fair value in the statement of financial position		**12,105,792**	**280,511**	**3,092**	**12,389,395**
Non-financial assets at fair value					
- Tangible assets and investment property	**25**	-	-	337,076	**337,076**
Total assets measured at fair value in the statement of financial position		**12,105,792**	**280,511**	**340,168**	**15,739,148**
Financial liabilities held-for-trading	**35**	**-**	**5,626**	**-**	**5,626**

Notes to the separate and consolidated financial statements

7. Further remarks: Financial assets and liabilities *(continued)*

b) Fair value of financial assets and liabilities instruments *(continued)*

ii) Financial instruments not carried at fair value

At lever 1 in the fair value hierarchy the Group classified securities held until maturity.

At lever 2 in the fair value hierarchy the Bank and the Group classified into asset category: deposits at banks, except securities classified as loans and receivables (which do not have an active market), loans and advances and leasing net investments to customers, and into debt category: deposits from banks and clients.At lever 3 in the fair value hierarchy the Bank and the Group classified into asset category: securities classified withing deposits at banks at loand and receivables si other financial assets, and into debt category: loans from banks and other financial institutions, subordinanted loans and other financial liabilities.The table below presents the fair value and the fair value hierarchy for the financial assets and liabilities that are not measured at fair value in the statement of financial position:

2016		Group					Bank				
	Note	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2	Level 3	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2	Leve
ASSETS											
Placements with banks	19	2,785,505	2,785,505	-	2,563,815	221,690	2,746,582	2,746,582	-	2,524,892	22
Loans and advances to customers	21	26,710,402	26,819,962	-	26,819,962	-	27,209,976	27,319,536	-	27,319,536	
Net lease investments	22	523,643	524,137	-	524,137	-	-	-	-	-	
Investment securities, held-to-maturity	23	20,691	20,864	20,864	-	-	-	-	-	-	
Other financial assets	28	194,151	194,151	-	-	194,151	170,153	170,153	-	-	17
Total Assets		**30,234,392**	**30,344,619**	**20,864**	**29,907,914**	**415,841**	**30,126,711**	**30,236,271**	**-**	**29,844,428**	**391**
LIABILITIES											
Deposits from banks	30	247,268	247,268	-	247,268	-	247,268	247,268	-	247,268	
Deposits from customers	31	41,681,475	41,707,892	-	41,707,892	-	41,851,773	41,878,190	-	41,878,190	
Loans from banks and other financial institutions	32	2,304,911	2,304,911	-	-	2,304,911	2,246,461	2,246,461	-	-	2,24
Subordinated liabilities	33	424,111	424,111	-	-	424,111	424,111	424,111	-	-	42
Other financial liabilities	35	459,028	459,028			459,028	430,211	430,211			43
Total liabilities		**45,116,793**	**45,143,210**	**-**	**41,955,160**	**3,188,050**	**45,199,824**	**45,226,241**	**-**	**42,125,458**	**3,10**

7. Further remarks: Financial assets and liabilities *(continued)*

*b)*Fair value of financial assets and liabilities instruments *(continued)*

ii) Financial instruments not carried at fair value (continued)

2015		**Group**					**Bank**				
	Note	**Carrying amount**	**Fair value**	**Fair value hierarchy**			**Carrying amount**	**Fair value**	**Fair value hierarchy**		
				Level 1	**Level 2**	**Level 3**			**Level 1**	**Level 2**	**Level 3**
ASSETS											
Plasaments with banks	19	3,908,864	3,908,864	-	3,696,153	212,711	3,889,483	3,889,483	-	3,676,772	212,711
Loans and advances to customers	21	24,894,560	25,280,986	-	25,280,986	-	25,107,527	25,493,953	-	25,493,953	-
Net lease investments	22	331,054	331,793	-	331,793	-	-	-	-	-	-
Investment securities, held-to-maturity	23	12,942	12,944	12,944	-	-	-	-	-	-	-
Other financial assets	28	137,382	137,382	-	-	137,382	128,642	128,642			128,642
Total Assets		**29,284,802**	**29,671,969**	**12,944**	**29,308,932**	**350,093**	**29,125,652**	**29,512,078**	**-**	**29,170,725**	**341,353**
LIABILITIES											
Deposits from banks	30	388,425	388,425	-	388,425	-	388,425	388,425	-	388,425	-
Deposits from customers	31	38,301,741	38,339,782	-	38,339,782	-	38,395,292	38,433,333	-	38,433,333	-
Loans from banks and other financial institutions	32	1,129,702	1,129,702	-	-	1,129,702	985,142	985,142	-	-	985,142
Subordinated liabilities	33	416,424	416,424	-	-	416,424	416,352	416,352	-	-	416,352
Other financial liabilities	35	271,405	271,405	-	-	271,405	263,265	263,265	-	-	263,265
Total liabilities		**40,507,697**	**40,545,738**	**-**	**38,728,207**	**1,817,531**	**40,448,476**	**40,486,517**	**-**	**38,821,758**	**1,664,759**

Notes to the separate and consolidated financial statements

8. Net interest income

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Interest income				
Loans and advances to customers *(i)*	1,595,379	1,592,933	1,586,125	1,583,077
Current accounts held with banks	4,501	8,991	4,470	8,982
Investment securities, available-for-sale	247,451	219,782	246,572	219,511
Securities classified as "Loans and advances to banks"	10,876	10,783	10,876	10,783
Securities held-to-maturity	407	121	-	-
Placements with banks	10,071	16,536	9,889	16,372
Net finance lease investments	45,182	36,684	-	-
Increase of the recoverable value of the acquired loans	113,688	531,147	113,286	531,147
Total interest income	*2,027,555*	*2,416,977*	1,971,218	2,369,872
Interest expense				
Deposits from customers	222,340	420,791	222,618	421,304
Loans from banks and other financial institutions	39,977	43,276	36,690	38,116
Deposits from banks	1,176	625	1,176	625
Net lease investments	29	110	-	43
Total interest expense	*263,522*	464,802	260,484	460,088
Net interest income	**1,764,033**	**1,952,175**	**1,710,734**	**1,909,784**

(i) Interest income for the year ended at 31 December 2016 includes interest income on impaired loans amounting RON 148,380 thousand (2015: RON 173,654 thousand) for the Group and RON 140,238 thousand (2015: RON 166,441 thousand) for the Bank.

The interest income and expense related to the financial assets and liabilities, other than those held at fair value through profit and loss, are determined using the effective interest rate method.

9. Net fee and commission income

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Fee and commission income				
Commissions from treasury and inter-bank operations	48,370	61,611	48,370	61,611
Client transactions	555,644	498,346	527,109	477,734
Lending activity (i)	48,463	42,802	48,504	42,807
Finance lease management	293	231	-	-
Other fee and commission income	130	95	131	95
Total fee and commission income	*652,900*	*603,085*	*624,114*	*582,247*
Fee and commission expense				
Commissions from treasury and inter-bank operations	86,904	94,079	86,693	93,862
Client transactions	16,727	18,523	14,900	15,784
Lending activity (i)	2,085	2,894	12,079	14,219
Other fees and commissions	913	603	979	866
Total fee and commission expense	*106,629*	*116,099*	*114,651*	*124,731*
Net fee and commission income	**546,271**	**486,986**	**509,463**	**457,516**

9. Net fee and commission income *(continued)*

(i) The commissions resulting from lending activities include restructuring fees, prepayment fees, commissions for guarantee assessment and modification, commitment fees, charges for the recovery of foreclosed assets.

10. Net trading income

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Net income from foreign exchange transactions (i)	172,392	144,314	172,358	143,961
Net income/ (expense) from financial assets at fair value through profit and loss	17,566	1,575	3,395	1,140
Net income / (expense) from foreign exchange position revaluation	7,425	33,988	7,740	34,327
Net trading income	**197,383**	**179,877**	**183,493**	**179,428**

(i) Net income from foreign exchange transactions also includes the realized and unrealized gains and losses from spot and forward contracts.

11. Net gain from sale of available-for-sale financial instruments

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Gain from sale of available-for-sale financial instruments	443,219	368,265	443,336	368,072
Losses from sale of available-for-sale financial instruments	(41,528)	(146,057)	(41,110)	(145,986)
Total	**401,691**	**222,208**	**402,226**	**222,086**

The income resulting from the sale of financial instruments available for sale as at December 31, 2016 includes also the gain resulting from the sale transaction of Visa Europe to VISA Inc, plus a compensation in convertible shares of Visa Inc. and a contingent gain related to the future performance of Visa Inc.

12. Contribution to the Deposit Guarantee Fund and to the Resolution Fund

The deposits of individuals and of certain types of legal entities, including small and medium enterprises, are secured up to a certain limit (EUR 100.000) by the Deposit Guarantee Fund (the “Fund”) according to the legislation in force (Law no. 311/2015 regarding deposit guarantee schemes and the Deposit Guarantee Fund and Law no. 312/2015 regarding the recovery and resolution of credit institution and investment firms).

The banks in Romania are obliged to pay a non-refundable amount to the Deposit Guarantee Fund, in order to insure customer deposits in the event of bank insolvency and an annual contribution to the Banking Resolution Fund.

12. Contribution to the Deposit Guarantee Fund and to the Resolution Fund *(continued)*

The impact of the breakdown of the annual contribution to the two funds, as reflected in the separate and consolidated statement of financial position, is the following:

In RON thousand	Group		Bank	
Contribution to the:	**2016**	**2015**	**2016**	**2015**
Bank Deposit Guarantee Fund	58,191	81,977	58,191	81,977
Bank Resolution Fund	14,601	13,331	14,601	13,331
Total	**72,792**	**95,308**	**72,792**	**95,308**

Starting from 2015, the Group has applied the IFRIC 21 provisions on ”Taxes”, according to which the contribution to the Fund represents a tax that has to be fully registered upon the occurrence of the event causing the obligation of tax payment.

13. Other operating income

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Dividend income	7,892	3,258	11,640	9,800
Income from e-commerce transactions	2,459	5,098	2,459	5,098
Income from operational lease	32,250	18,852	-	-
Income from insurance intermediation	26,423	15,449	23,310	14,002
Income from the sale of movable and immovable assets resulting from debt enforcement	18,943	23,004	18,686	21,333
Revaluation of property investments	155	-	68	-
Income from the sale of finished products	15,430	-	-	-
Income from sale of held-for-sale assets	21,924	-	31	-
Other operating income *(i)*	44,575	42,551	34,074	31,646
Total	**170,051**	**108,212**	**90,268**	**81,879**

(i) The category ‘Other operating income’ includes the following types of income: debt recoveries related to closed accounts, cash at hand differences, income from recovered legal expenses, income related to VISA, MASTERCARD, WU services and marketing bonuses, other recoveries from operating expenses.

14. Net impairment losses on assets, provisions for other risks and loan commitments

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Impairment losses for assets (i)	1,027,514	784.427	1,008,330	776,351
Loans and net lease investments written-off	8,675	27,946	265	22,144
Provisions for other risks and for loan commitments	(217,691)	56.351	(217,694)	56,949
Recoveries from loans and net lease investments previously written-off	(160,411)	(71.210)	(136,678)	(60,490)
Net impairment losses on assets and provisions for other risks and loan commitments	**658,087**	**797,514**	**654,223**	**794,954**

(i) Impairment losses on assets include the following:

In RON thousand	Note	Group 2016	Group 2015	Bank 2016	Bank 2015
Loans and advances to customers	21	1,023,342	875,194	1,013,123	874,532
Net finance lease investments	22	8,231	7,703	-	-
Equity investments	23,24	-	(106)	-	(806)
Other financial assets	28	(3,313)	(3,556)	109	(2,323)
Other non-financial assets	29	(820)	48	(4,902)	(211)
Property and equipment and intangible assets	25,25	74	(94,856)	-	(94,841)
Net impairment losses		**1.027.514**	**784.427**	**1,008,330**	**776,351**

15. Personnel expenses

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Wages and salaries	466,964	486,100	442,355	467,771
Contribution to social security	74,767	72,225	70,378	68,933
Share payments to employees	30,000	80,742	30,000	80,742
Bonuses to employees	2,053	31,086	-	29,039
Other staff expenses	35,538	23,254	34,362	22,505
Contribution to the health fund	28,082	30,738	26,637	29,655
Contribution to the unemployment fund	3,401	3,740	3,264	3,636
Net expenses with provisions for overdue vacations and other provisions	25,013	(51,143)	24,491	(51,957)
Total	**665,818**	**676,742**	**631,487**	**650,324**

The average number of the Group's and the Bank's staff employed during 2016 and 2015 was:

Category	**Average number of employees during 2016**		**Average number of employees during 2015**	
	Group	**Bank**	**Group**	**Bank**
Leading positions	19.82	0.75	7.09	6.60
Operational positions	274.65	95.16	128.48	110.50
TOTAL	**294.47**	**95.91**	**135.57**	**117.10**

15. Personnel expenses *(continued)*

The expenses related to the share-based payment transactions is included in the wages and salaries and amounts to RON 30,000 thousand during 2016 (2015: RON 80,742 thousand), both for the Group and the Bank. In 2016, the Bank did not grant shares to employees.
The Bank established a Stock Options Plan, in which the employees with good performances may exercise their right and option to purchase a number of shares issued by the Bank.
SOP vesting conditions for 2016:

- Achievement of performance and prudential indicators during 2016.
- Achievement of certain individual performance criteria, in accordance with the applicable remuneration policy, related to the year for which shares are granted
- Successful completion of the implementation of certain special projects (where applicable)
- Being an employee when being granted the SOP option right (01.08.2016) and when exercising such right (02.08.2017)
- Minimum 6 months of activity in 2016.

Contractual vesting period for 2016:

- Immediate release - after 02.08.2017 but no later than 31.08.2017
- Deferral period for identified employees - 3 years

The sensitivity to a possible value change of the shares to be granted to the employees under the Stock Option Plan for 2016, by the maximum legally acceptable variation of +/-15,00%, in terms of profit and loss would be RON +/- 4,500 thousand.
Movement in transactions relating to share-based payments during 2016 and 2015 is presented below:

	2016	**2015**
January 1	-	25,203
Rights granted during the year	-	55,539
Exercised during the year	-	(80,742)
Establishment taken	30,000	-
Closing balance at end of period	**30,000**	**-**

A number of 19,956,000 shares were granted to employees and shareholders in 2015 and during the year 2016 no shares were granted

Granting date	Number of shares	Contractual vesting period	Vesting conditions
Shares granted to employees in 2015	1,310,314	With immediate release 29.12.2015	Achievement of performance and prudential indicators during 2015. Achievement of certain individual eligibility criteria, in accordance with the applicable remuneration policy, related to the year for which shares are granted
	14,016,161	To be released as at 31.03.2016	
	4,587,525	Deferral by trust agreement 3 years and 3 months	
	42,000	To be released upon the completion of the special project E-Commerce	

16. Other operating expenses

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Rent and operating lease expense	90,285	103,834	95,463	108,287
Repairs and maintenance	77,805	97,102	76,956	96,193
Advertising, marketing, protocol and sponsorship expenses	58,105	37,011	56,670	35,739
Postage and telecommunications	35,976	34,179	34,929	33,240
Materials and stationery	47,479	39,293	34,454	36,734
Other professional fees, including legal expenses	30,469	67,565	30,238	67,409
Expenses regarding movable and immovable assets resulting from debt enforcement	22,003	25,383	22,003	25,384
Electricity and heating	17,095	20,359	15,076	19,773
Travel and transportation	15,949	14,992	15,071	14,562
Insurance costs	12,030	9,314	11,300	8,774
Taxes	10,110	18,652	9,151	16,949
Write-off and loss on disposal of property and equipment and intangible assets	9,424	94,011	8,977	93,351
Security and protection	6,792	9,618	6,688	9,518
Expenses with the assessment of third party guarantees	5,760	382	5,752	382
Expenses related to archiving services	5,650	1,836	5,633	1,820
Expenses related to database queries from the Trade Register and the Credit Bureau	2,802	2,967	2,702	2,900
Expenses with foreclosed assets	2,314	2,363	2,125	2,220
Audit, advisory and consultancy	2,868	2,380	1,982	2,022
- out of which, audit fees	*1,879*	*1,430*	*1,339*	*1,122*
- out of which, other advisory and consultancy fees	*989*	*950*	*643*	*900*
Expenses from the sale of leased goods	11,891	3,061	-	-
Revaluation of investment property	68	-	68	-
Expenses with fixed assets held-for-sale	15,458	36	9	36
Other operating expenses	49,651	53,779	30,954	42,669
Total	**529,984**	**638,117**	**466,201**	**617,962**

17. Income tax expense

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Gross Profit	**1,058,837**	**2,300,715**	**999,123**	**2,265,129**
Income tax (2016: 16%; 2015: 16%)	***169,414***	***368,114***	***159,860***	***362,421***
Fiscal effect of income tax on the following elements:	**(36,907)**	**(263,215)**	**(38,494)**	**(262,759)**
- *Non-taxable income*	(66,528)	(1,856,886)	*(56,415)*	*(1,852,278)*
- *Non-deductible expense*	29,621	1,593,671	*17,921*	*1,589,519*
Under/over provision of current tax in prior years	**-**	**(11)**	**-**	**(11)**
Recognition of retained tax losses from previous years	**(350,683)**	**(143,465)**	**(350,683)**	**(143,465)**
Utilisation of previously unrecognised tax loss carry forwards	**-**	**(108,725)**	**-**	**(108,725)**
Reversal of deferred tax recognized in previous years	**-**	**-**	**-**	**-**
Income tax expense	**(218,176)**	**(147,302)**	**(229,317)**	**(152,539)**

18. Cash and cash equivalents with the Central Bank

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Minimum reserve requirement *(i)*	4,294,163	4,156,382	4,294,163	4,156,382
Cash on hand and other values	999,497	841,548	999,472	841,514
Total	**5,293,660**	**4,997,930**	**5,293,635**	**4,997,896**

(i) As at 31 December 2016, the minimum reserve requirement held with the National Bank of Romania was set at 8% for RON and 10% for balances denominated in EUR (31 December 2015: 8% for RON and 14% for USD and EUR). The minimum reserve balance may fluctuate on a daily basis. The interest paid by the National Bank of Romania for the reserves held by the banks was 0.10% - 0.14% per year for the reserves in RON, 0.05% - 0.09% per year for reserves denominated in EUR and 0.06% - 0.07% per year for reserves denominated in USD. The minimum required reserve can be used by the Bank for daily activities as long as the average monthly balance is maintained equal or above the minimum level imposed by the National Bank of Romania.

Reconciliation of cash and cash equivalents with the separate and consolidated statement of financial position

		Group		Bank	
In RON thousand	**Note**	**2016**	**2015**	**2016**	**2015**
Cash and cash equivalents with the National Bank	18	5,293,660	4,997,930	5,293,636	4,997,896
Placements with banks, less than 3 months maturity		1,907,434	3,509,547	1,894,107	3,499,290
Reverse-repo transactions		440,317	100,400	440,317	100,400
Securities maturing in less than 3 months		-	-	-	-
Less accrued interest		(352)	(641)	(306)	(567)
Cash and cash equivalents in the cash flow statement		7,641,059	8,607,236	7,627,754	8,597,019

19. Placements with banks

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Current accounts with other banks	240,191	111,173	232,081	106,975
Sight and term deposits with other banks	1,785,872	3,422,498	1,755,059	3,407,315
Reverse repo transactions	440,317	100,400	440,317	100,400
Loans and advances to banks - *reclassified securities (i)*	221,690	212,711	221,690	212,711
Loans and advances to credit institutions	97,435	62,082	97,435	62,082
Total	**2,785,505**	**3,908,864**	**2,746,582**	**3,889,483**

(i) As of 2008 the Group has transferred euro-bonds from the category “securities available for sale” into the "loans and advances" category, an operation based on the amendment to IAS 39 "Financial Instruments - Recognition and Measurement" and IFRS 7 "Tools financial Disclosure "(described in accounting policy 3p). The Group identified the financial assets that satisfy the conditions of this category (non-derivative financial assets with fixed or determinable payments that are not quoted on an active market) and the holding in the foreseeable future.

19. Placements with banks *(continued)*

During 2016 the Bank purchased and classified as loans and receivables, corporate bonds issued by Intesa Sanpaolo, Emerald Capital and International Personal Finance, in amount of RON 90,000.

The movement of securities classified as "Loans and advances to banks" 2016 is reflected in the table below:

	Group		**Bank**	
RON thd	**2016**	**2015**	**2016**	**2015**
As at January 1	212,711	162,801	212,711	162,801
Acquisitions	90,000	78,496	90,000	78,496
Sales and repurchase	(82,556)	(29,321)	(82,556)	(29,321)
Coupon and amortization in P&L during the year	10,876	10,783		
(Note 8)			10,876	10,783
Coupon collected at term during the year	(8,989)	(10,789)	(8,989)	(10,789)
Exchange rate differences	(352)	741	(352)	741
As at 31 December	**221,690**	**212,711**	**221,690**	**212,711**

As at December 31, 2016, the placements with banks included reverse-repo securities and term deposits with maturity up to 3 months, which are also included in the separate and consolidated statement of cash flows, as follows: reverse-repo in amount of RON 440,317 thousand and deposits in amount of RON 1.907.434 thousand at Group level, and reverse-repo of RON 440,317 thousand and deposits in amount of RON 1.894.107 thousand at Bank level (December 31, 2015: repo in amount of RON 100.400 thousand and deposits in amount of RON 3,509,547 thousand at Group level and reverse repo in amount of RON 100.400 thousand and deposits in amount of RON 3,499,290 thousand at Bank level).Except for sale and reverse-repo agreements, the amounts due from other banks are not guaranteed. The quality analysis for deposits with banks as at 31 December 2016 and 31 December 2015, according to the rating agencies is detailed below:

Group	**31.12.2016**		**31.12.2015**	
In RON thousand	Placements with banks	Reverse repo transactions	Placements with banks	Reverse repo transactions
Investment grade	1,241,007	440,317	2,654,830	-
Non-investment grade	921,786	-	832,410	100,400
N/A	182,395	-	321,224	-
Total	**2,345,188**	**440.317**	**3,808,464**	**100.400**

Bank	**31.12.2016**		**31.12.2015**	
In RON thousand	Placements with banks	Reverse repo transactions	Placements with banks	Reverse repo transactions
Investment grade	1,222,805	440,317	2,646,932	
Non-investment grade	903,202		823,032	100,400
N/A	180,258		319,119	
Total	**2,306,265**	**440,317**	**3,789,083**	**100,400**

The credit ratings are based on the Standard & Poor's rating, if available, or Moody's rating converted into the nearest equivalent rating according to the scale of Standard & Poor's.
The investment grade category includes the Group's/Bank's placements with credit institutions of the following ratings: AAA, AA+, AA, AA-, A+, A-, A, BBB+, BBB, BBB-.The non-investment grade category includes the Group's/Bank's placements with credit institutions of the following ratings: BB+, BB, BB-, B+, B, B-, CCC.The n/a category includes the Group's/Bank's placements with credit institutions that are not rated.

Notes to the separate and consolidated financial statements

20. Financial assets at fair value through profit and loss

In RON thousand	Group		Bank	
	2016	**2015**	**2016**	**2015**
Equity instruments	145,156	145,765	51,979	51,177
Debt instruments	10,453	9,621	-	-
Derivatives	7,911	5,642	7,911	5,642
Total	**163,520**	**161,028**	**59,890**	**56,819**

As at 31 December 2016, the Group held shares listed on the Bucharest Stock Exchange and the main stock exchanges in Europe.As at 31 December 2016, the Group owns significant investments amounting to RON 104,860 thousand in the following entities: SIF Moldova S.A., SIF Muntenia SA and SIF Oltenia S.A. (31 December 2015: RON 110,139 thousand).

21. Loans and advances to customers

The Group's and Bank's commercial lending is concentrated on Romanian companies and individuals. The risk distribution of the credit portfolio per sectors, as at 31 December 2016 and 31 December 2015, is the following:

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Retail customers	15,252,725	13,758,761	15,086,402	13,633,430
Production	3,198,658	3,391,176	3,198,444	3,372,420
Trading	3,099,957	3,264,798	3,098,455	3,207,234
Agriculture	1,399,459	1,268,937	1,399,361	1,268,248
Constructions	1,142,342	1,127,896	1,142,106	1,127,801
Services	1,139,734	1,115,208	1,138,819	1,114,086
Transport	720,730	661,549	719,868	661,345
Real estate	690,693	698,339	723,606	739,208
Self-employed	547,384	538,883	546,418	538,883
Others	526,748	427,297	524,618	378,704
Energy	502,967	531,070	502,967	531,070
Telecommunications	273,057	156,468	273,033	156,468
Financial institutions	141,964	162,039	759,762	498,283
Chemical industry	130,091	314,868	132,914	314,868
Mining	106,177	164,419	106,177	164,419
Fishing	16,175	15,785	16,175	15,785
Government institutions	10,602	17,761	10,602	17,761
Total loans and advances to customers before impairment allowance (*)	**28,899,463**	**27,615,254**	**29,379,727**	**27,740,013**
Less provisions for impairment allowance on loans	(2,189,061)	(2,720,694)	(2,169,751)	(2,632,486)
Total loans and advances to customers, net of provisions	**26,710,402**	**24,894,560**	**27,209,976**	**25,107,527**

(*) Total loans and advances before impairment allowance is diminished by the adjustments for fair value for the portfolio of loans transferred from Volksbank Romania SA, determined on the basis of the valuation report and the events after the acquisition date until the reporting date.

Notes to the separate and consolidated financial statements

21. Loans and advances to customers *(continued):*

At 31 December 2016 the balance of these adjustments for the Group was of RON 436,153 thousand (31 December 2015: RON 805,524 thousand) and for the Bank was RON 371,242 thousand(31 December 2015: RON 805,524 thousand). The reversal of these adjustments, further to the review of the voluntary cash flows, is booked as Interest income – see note 8(i).

Movement in allowance for impairment losses on loans and advances to customers:

	Group		**Bank**	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Balance at 1 January	2,720,694	2,424,791	2,632,486	2,337,129
Net impairment charge (Note 14)	1,023,342	875,194	1,013,123	874,532
Effect of discounting the current value	83,904	104,648	83,904	104,648
Impairment allowances on written off loans	(1,635,007)	(729,798)	(1,555,892)	(729,682)
Balance provisions debts taken at acquisition	-	5,653	-	5,653
Net FX loss	(3,872)	40,206	(3.870)	40,206
Balance at 31 December	**2,189,061**	**2,720,694**	**2,169,751**	**2,632,486**

Movement in individual allowance for impairment losses on loans and advances to customers:

	Group		**Bank**	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Balance at 1 January	1,626,594	1,516,863	1,546,492	1,437,112
Net impairment charges	527,555	532,104	525,369	531,638
Effect of discounting the current value	41,455	51,049	41,455	51,049
Impairment allowances on written off loans	(966,275)	(483,815)	(887,741)	(483,699)
Transfer of Impairment allowances from individual to collective	70,134	(4,629)	69,400	(4,629)
Balance provisions debts taken at acquisition	-	5,653	-	5,653
Net FX loss	(15,998)	9,369	(15,996)	9,368
Balance at 31 December	**1,283,465**	**1,626,594**	**1,278,979**	**1,546,492**

The effect of the change in provisions for the impairment of loans and advances to customers identified for asset groups and for generated but unidentified losses was the following:

	Group		**Bank**	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Balance at 1 January	1,094,100	907,928	1,085,994	900,017
Net impairment charges	495,787	343,090	487,754	342,894
Reversal of unwinding	42,449	53,599	42,449	53,599
Impairment allowances on written off loans	(668,732)	(245,983)	(668,151)	(245,983)
Transfer of Impairment allowances from individual to collective	(70,134)	4,629	(69,400)	4,629
Net FX loss	12,126	30,837	12,126	30,838
Balance at 31 December	**905,596**	**1,094,100**	**890,772**	**1,085,994**

22. Net finance lease investments

The Group acts as a lessor under finance lease agreements, mainly for financing motor vehicles and equipment. The lease agreements are denominated in EUR, RON and MDL and typically run for a period between two and five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease based on fixed interest rates. The lease receivables are secured by the underlying assets and by other collateral.The breakdown of investments in leases according to their maturity is presented below:

In RON thousand	**2016**	**2015**
Investments in leases less than one year (gross)	272,573	219,966
Investments in leases between one and five years (gross)	356,984	213,744
Total investment in leases, gross	629,557	433,710
Unearned finance income	(51,110)	(36,649)
Total investments in leases, net unearned finance income	578,447	397,061
Impairment allowances	(54,804)	(66,007)
Total net leasing investment	**523,643**	**331,054**

The lease contracts are generated and managed through BT Leasing Transilvania IFN S.A. and BT Leasing Moldova S.R.L.

The provision for net lease investments can be further analyzed as follows:

In RON thousand	**2016**	**2015**
Balance at the beginning of the year	66,007	78,699
Net impairment provision expense (Note 13)	8,231	7,703
Written – off lease investment	(19,434)	(20,395)
Balance at the end of the year	**54,804**	**66,007**

23. Investment securities

a) Investment securities available-for-sale

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Investment securities available-for-sale				
Unlisted debt and other fixed income instruments:	***14,734,560***	***11,915,553***	***14,709,895***	***11,895,223***
Treasury securities issued by the Romanian Government, out of which:	8,670,006	8,413,107	8,645,341	8,392,777
- discount certificates	354,964	*577,853*	354,964	*577,853*
- coupon certificates (RON)	28,168	*29,323*	28,168	*29,323*
- Benchmark bonds (RON)	7,575,903	*7,183,869*	*7,551,238*	*7,163,539*
- Treasury certificates with coupon (EUR)	710,971	*622,062*	*710,971*	*622,062*
EURO bonds issued by the Romanian Government on external markets	4,873,574	2,902,986	*4,873,574*	2,902,986
USD bonds issued by the Romanian Government on external markets	1,059,144	417,755	*1,059,144*	417,755
Bonds, out of which:	131,836	181,705	*131,836*	181,705
- issued by Bucharest Municipality	60,588	*153,234*	*60,588*	*153,234*
- issued by Alba Iulia Municipality	*439*	*491*	*439*	*491*
issued by BSTDB	*9,052*	-	*9,052*	-
issued by International Investment Bank	*33,283*	-	*33,283*	-
- issued by Transelectrica	*28,474*	*27,980*	*28,474*	*27,980*
Shares	***48,653***	***121,229***	***48,548***	***121,144***
Unit funds	***168,802***	***164,006***	***320,288***	***274,069***
Certificates of participation	***38,701***	***39,048***	***38,701***	***39,048***
Equity investments measured at cost, out of which:	***3,112***	***3,123***	***3,092***	***3,092***
Gross value	*3,120*	*3,131*	*3,092*	*3,092*
Impairment allowances	(8)	(8)	-	-
Total investment securities available-for-sale	**14,993,828**	**12,242,959**	**15,120,524**	**12,332,576**

Notes to the separate and consolidated financial statements

23. Investment securities (continued)

a) Investment securities available-for-sale *(continued)*

As at December 31, 2016, for these categories of securities, the Group holds equity instruments valued at cost under the form of participations in Transfond, Biroul de Credit, Swift Belgium, Casa Romana de Compensatii, Fondul de Compensare a Investitorilor, that could not be valued at fair value, due to the lack of recent public quotations. The investment at cost as at December 31, 2016 at Group level is RON thousand 3,112 (2015: RON 3,123 thousand) and at Bank level RON 3,092 thousand (2015: 3,092 RON thd.)

Movement in the impairment adjustments related to participations:

In RON thousand	**2016**	**2015**
Balance 1 January 2016	**8**	**8**
Impairment allowance acquired through acquisitions	-	106
Income from impairment reversal (note 14)	-	(106)
Balance at 31 December	**8**	**8**

Analysis of the bonds held by the Group and the Bank as at December 31, 2016, classified as "Securities available-for-sale", depending on the issuer's rating:

	Group					**Bank**				
RON thousand	*Bonds issued by the Romanian Government*	*Municipal bonds*	*Bonds issued by other financial institutions*	*Bonds issued by non-financial institutions*	**Total**	*Bonds issued by the Romanian Government*	*Municipal bonds*	*Bonds issued by other financial institutions*	*Bonds issued by non-financial institutions*	**Total**
A-	-	-	9,052	-	**9,052**	-	-	9,052	-	**9,052**
BB+	-	439	-	28,474	**28,913**	-	439	-	28,474	**28,913**
BBB	-	-	33,283	-	**33,283**	-		33,283	-	**33,283**
BBB-	14,602,724	60,588	-	-	**14,663,312**	14,578,059	60,588	-	-	**14,638,647**
Total	**14,602,724**	**61,027**	**42,335**	**28,474**	**14,734,560**	**14,578,059**	**61,027**	**42,335**	**28,474**	**14,709,895**

Notes to the separate and consolidated financial statements

23. Investment securities (continued)

a) Investment securities available-for-sale *(continued)*

Analysis of the bonds held by the Group and the Bank as at December 31, 2015, classified as "Securities available-for-sale", depending on the issuer's rating:

	Group					Bank				
RON thousand	*Bonds issued by the Romanian Government*	*Municipal bonds*	*Bonds issued by other financial institutions*	*Bonds issued by non-financial institutions*	**Total**	*Bonds issued by the Romanian Government*	*Municipal bonds*	*Bonds issued by other financial institutions*	*Bonds issued by non-financial institutions*	**Total**
A-	-	-	-	-	**-**	-	-	-	-	**-**
BB+	-	491	-	27,980	**28,471**	-	491	-	27,980	**28,471**
BBB	-	-	-	-	**-**	-	-	-	-	**-**
BBB-	11,733,848	153,234	-	-	**11,887,082**	11,713,518	153,234	-	-	**11,866,752**
Total	**11,733,848**	**153,725**	**-**	**27,980**	**11,915,553**	**11,713,518**	**153,725**	**-**	**27,980**	**11,895,223**

As at 31 December, 2016 and December 31, 2015, the Group and the Bank do not hold debt instruments classified as "Securities available for sale", overdue or impaired.Evolution of the securities in the "Available for sale" category:

	Group		Bank	
RON thd	**2016**	**2015**	**2016**	**2015**
As at January 1	12,242,959	10,771,834	12,332,576	10,852,865
Acquisitions	26,008,147	38,129,348	26,027,482	38,136,577
Sales and repurchases	(22,809,401)	(36,574,232)	(22,800,362)	(36,574,220)
Coupon and amortization in P&L during the year (Note 8)	247,451	219,782	246,572	219,511
Coupon collected at term during the year	(567,431)	(393,686)	(566,565)	(393,686)
Gain/Loss from the measurement at fair value	(219,407)	(17,126)	(210,878)	(15,731)
Exchange rate differences	91,510	107,039	91,699	107,260
As at 31 December	**14,993,828**	**12,242,959**	**15,120,524**	**12,332,576**

23. Investment securities (continued)

a) Investment securities available-for-sale *(continued)*

As at 31 December 2016, treasury securities held by the Group amounting to RON 29,000 thousand (31 December 2015: RON 29,000 thousand) were pledged for current operations (RoCLEAR, SENT, MASTERCARD and VISA). Treasury securities issued by the Romanian Government have maturities between 2017 and 2044.

As at 31 December 2016, the Bank concluded repo transactions with other financial institutions, having as supporting assets available-for-sale investment securities amounting to RON 1,483,035 thousand (31 December 2015: RON 276,319 thousand). These are securities which were sold under sale and repurchase agreements and for which the counterparty has the right, by contract or custom, to sell or repledge.

The Alba Iulia municipal bonds bear variable interest rates (Robid 6M + Robor 6M)/2 + 1.5% (31 December 2016: 2.5%; 31 December 2015: 2.5%). RON denominated bonds issued by Bucharest Municipality bear fixed interest rates of 2.80%, respectively of 3.58%.The Group has RON bonds issued by Transelectrica, with a fixed interest rate of 6.10%, USD bonds issued by Black Sea Trade and Development Bank (BSTDB), with a fixed interest rate of 4.87% and RON bonds issued by International Investments Bank, with a fixed interest rate of 3.4%

Realized gains on disposal of available-for-sale financial assets reclassified from other comprehensive income to profit or loss amounted to RON 401,691 thousand (2015: RON 222,208 thousand) with the related tax of RON 64,271 thousand for the Group and RON 402,226 thousand (2015: RON 222,086 thousand) with the related tax of RON 64,356 thousand for the Bank.

b) Investment securities, held-to-maturity

In 2016, the Group acquired and classified as "securities held-to-maturity" bonds in amount of RON 20,691 thousand (2015: RON 12,942 thousand).

	Group	
In RON thousand	**2016**	**2015**
Securities held-to-maturity	20,691	12,942
Total	**20,691**	**12,942**

Analysis of the Group's securities held-to-maturity as at December 31, 2016, depending on the issuer's rating:

	Group	
In RON thousand	**2016**	**2015**
A	472	-
B+	473	-
BB	1,224	1,228
BB-	1,693	-
BB+	2,928	652
BBB	2,773	2,764
BBB-	10,168	8,298
BBB+	960	-
Total	**20,691**	**12,942**

Notes to the separate and consolidated financial statements

24. Equity investments

On December 31, 2016 the Bank had direct stakes in subsidiaries in amount of RON 136 671 thousand (2015: 126 186 thousand) and the impairment allowance amounted to RON 0 (2015: 41,300 thousand).

The effect of changes in impairment allowance for the Bank's participation:

In RON thousand	**2016**	**2015**
Balance at 1 January	41,300	42,000
Impairment allowance acquired through acquisitions	-	106
Derecognition of participation adjustment through assignment	(41,300)	-
Income from impairment reversal (note 14)	-	(806)
Balance at 31 December	**-**	**41,300**

On December 31, 2016 the Bank has subsidiaries which directly and indirectly holdings are:

Entity	Head Office	% of shares owned	Share Capital	Reserves	Unaudited profit/(loss) 31.12.2016
BT Leasing Transilvania IFN S.A.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, etj.1	100.00%	45,001	4,428	14,099
BT Capital Partners S.A.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, parter	99.59%	15,426	361	377
BT Direct IFN S.A.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, etj.3	100.00%	26,880	2,130	3,461
BT Building S.R.L.	Cluj-Napoca, str. G. Bariţiu nr.8	100.00%	40,448	4,680	819
BT Investments S.R.L.	Cluj-Napoca, Bd. Eroilor nr.36	100.00%	50,940	8,995	422
BT Asset Management SAI S.A.	Cluj-Napoca, str Emil Racoviţă, nr 22, etj.1	80.00%	7,166	22,076	12,188
Compania de Factoring S.R.L.	Bucureşti, Şos. Bucureşti-Ploieşti nr.43	100.00%	54,901	225	0
BT Solution Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, etj.1	99.95%	20	4	325
BT Safe Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, etj.1	99.99%	77	15	422
BT Intermedieri Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, etj.1	99.99%	507	101	1,750
BT Operaţional Leasing S.A.	Bucureşti, Sos. Bucureşti-Ploieşti nr.43	94.73%	3,494	592	4,045
BT Leasing Moldova S.R.L.	Republica Moldova, Chişinău, str. A.Puşkin nr.60	100.00%	4,427	-	1,580
BT Asiom Agent de Asigurare S.R.L.	Cluj-Napoca, str. C-tin Brâncuşi nr.74-76, etj.1	99.95%	20	4	331
BT Microfinanţare IFN S.A.	Bucuresti, Sos. Bucuresti-Ploiesti nr.43	100.00%	11,760	-	(1,499)
Transilvania Imagistica S.A.	Bucureşti, Şos. Bucureşti-Ploieşti nr.43	90.54%	1,000	-	986
Improvement Credit Collection S.R.L.	Cluj-Napoca, str. G. Bariţiu nr.1	100.00%	901	1,792	4,558
Sinteza S.A.	Oradea, Sos.Borsului nr.35	46.98%	9,917	635	2,304
Chimprod S.R.L.	Oradea, Sos.Borsului nr.35	46.87%	90	1,344	94
Total			**272,975**	**47,382**	**46,262**

Notes to the separate and consolidated financial statements

25. Property and equipment and investment property

Group RON thousand *Gross carrying amount*	Investment property	Land & buildings	Computers and equipment	Vehicles	Fixed assets in progress	Total
Balance as at 31 December 2014	**630**	**350,079**	**256,557**	**82,685**	**8,796**	**698,747**
Acquisition of fixed assets	-	107	11,376	28,166	55,112	94,761
Acquisitions Property investments	32,956	-	-	-	-	32,956
Balance acquired via VBR merger	-	43,839	89,288	9,222	11,909	154,258
Balance acquired via VBR merger – investment property	3,374	-	-	-	-	3,374
Reclassification of inventories into investment property	1,094	-	-	-	-	1,094
Reclassification from investments in progress/inventories	-	10,054	12,332	16,123	-	38,509
Reclassification from investments in progress to investment property	745	-	-	-	-	745
Revaluation (impact on reserve)	-	(860)	369	1,165	-	674
Revaluation (impact on profit and loss statement)	-	(769)	-	-	-	(769)
Disposals (and exchange rate differences SI)	-	(33,365)	(62,173)	(18,001)	(44,466)	(158,005)
Reclassification of fixed assets into inventories for disposal purposes	-	(416)	-	(111)	-	(527)
Balance at 31 December 2015	**38,799**	**368,669**	**307,749**	**119,249**	**31,351**	**865,817**
Balance as at 1 January 2016	**38,799**	**368,669**	**307,749**	**119,249**	**31,351**	**865,817**
Acquisitions of tangible assets and investment property	2	313	17,520	43,549	109,300	170,684
Balance of tangible assets through acquisition	-	31,169	19,555	386	7,281	58,391
Reclassification of inventories into investment property	-	2,086	-	127	-	2,213
Reclassification from investments in progress	-	20,559	57,335	30,046	(107,940)	-
Reclassification from investments in progress to investment property	-	-	-	-	-	-
Revaluation (impact on reserve)	-	64	177	1.148	-	1.389
Revaluation (impact on profit and loss statement)	87	(702)	-	-	-	(615)
Disposals	-	(13,896)	(47,613)	(13,097)	(2,530)	(77,136)
Reclassification of tangible assets into inventories for disposal purposes	-	-	-	(67)	-	(67)
Balance at 31 December 2016	**38,888**	**408,262**	**354,723**	**181,341**	**37,462**	**1,020,676**

Notes to the separate and consolidated financial statements

25. Property and equipment and investment property *(continued)*

Amortization and depreciation

Group - In RON thousand	Property investments	Land & buildings	Computers and equipment	Vehicles	Fixed assets in progress	Total
Balance as at 31 December 2015	**-**	**145,267**	**174,762**	**38,997**	**-**	**359,026**
Charge for the year	-	17,726	29,023	14,960	-	61,709
Balance depreciation related to acquisition	-	20,384	53,103	6,866	-	80,353
Accumulated depreciation of disposals	-	(23,865)	(48,652)	(15,188)	-	(87,705)
Amortization related to revaluation (impact on reserve)	-	(153)	105	322	-	274
Amortization related to revaluation (impact on profit and loss statement)	-	(91)	-	-	-	(91)
Balance impairment related to acquisition	-	9,941	13,936	-	2,906	26,783
Provision for impairment (Note 14)	-	-	-	-	670	670
Reversal of provision for impairment (Note 14)	-	(9,941)	(13,936)	(15)	(3,576)	(27,468)
Balance at 31 December 2015		**159,268**	**208,341**	**45,942**	**-**	**413,551**
Balance as at 1 January 2016	**-**	**159,268**	**208,341**	**45,942**	**-**	**413,551**
Charge for the year	-	13,953	29,142	21,939	-	65,034
Balance amortization acquired through acquisitions	-	1,635	4,890	227	-	6,752
Accumulated depreciation of disposals	-	(11,919)	(39,865)	(9,355)	-	(61,139)
Amortization related to revaluation (impact on reserve)	-	33	-	-	-	33
Amortization related to revaluation (impact on profit and loss statement)	-	(96)	-	-	-	(96)
Balance of impairment acquisition	-	17,265	13,044	143	7,281	37,733
Provision for impairment (Note 14)	-	556	2,246	-	-	2,802
Reversal of provision for impairment (Note 14)	-	(13)	12	-	(2,727)	(2,728)
Balance at 31 December 2016	-	180,682	217,810	58,896	4,554	461,942
Net carrying amount						
As at 1 January 2016	**38,799**	**209,401**	**99,408**	**73,307**	**31,351**	**452,266**
At 31 December 2016	**38,888**	**227,580**	**136,913**	**122,445**	**32,908**	**558,734**

Notes to the separate and consolidated financial statements

25. Property and equipment and investment property *(continued)*

Bank - In RON thousand	Investment property	Land & buildings	Computers and equipment	Vehicles	Fixed assets in progress	Total
Gross carrying amount						
Balance as at 1 January 2015	**630**	**343,327**	**244,611**	**29,436**	**8,607**	**626,611**
Acquisition of fixed assets	-	107	10,578	-	35,941	46,626
Balance of property and equipment acquired through acquisition	-	43,839	89,288	9,222	11,909	154,258
Balance of property investments acquired through acquisition	3,374	-	-	-	-	3,374
Reclassification of inventories into investment property	952	-	-	-	-	952
Reclassification from investments in progress	-	10,055	12,149	-	-	22,204
Revaluation (impact on reserves)	-	(860)	369	1,165	-	674
Revaluation (impact on profit and loss statement)	-	(769)	-	-	-	(769)
Disposals	-	(33,365)	(61,767)	(14,979)	(27,059)	(137,170)
Reclassification of fixed assets into inventories for disposal purposes	-	(416)	-	(111)	-	(527)
Balance at 31 December 2015	**4,956**	**361,918**	**295,228**	**24,733**	**29,398**	**716,233**
Balance as at 1 January 2016	**4,956**	**361,918**	**295,228**	**24,733**	**29,398**	**716,233**
Acquisition of fixed assets	-	-	14,888	9	70,633	85,530
Reclassification of inventories into investment property	-	1,263	-	127	-	1,390
Reclassification from investments in progress	-	19,942	51,601	-	(71,543)	-
Revaluation (impact on reserves)	-	64	177	1,148	-	1,389
Revaluation (impact on profit and loss statement)	-	(702)	0	-	-	(702)
Disposals	-	(13,294)	(42,317)	(3,109)	(2,530)	(61,250)
Reclassification of fixed assets into inventories for disposal purposes	-	-	-	-	-	-
Balance at 31 December 2015	**4,956**	**369,191**	**319,577**	**22,908**	**25,958**	**742,590**

Notes to the separate and consolidated financial statements

25. Property and equipment and investment property *(continued)*

Bank - In RON thousand	Investment property	Land & buildings	Computers and equipment	Vehicles	Fixed assets in progress	Total
Balance as at 31 December 2014	**-**	**144,292**	**169,515**	**23,142**	-	**336,949**
Charge for the year	-	17,655	27,441	3,186	-	48,282
Balance depreciation related to acquisition	-	20,384	53,103	6,866	-	80,353
Accumulated depreciation of disposals	-	(23,865)	(48,318)	(14,427)	-	(86,610)
Depreciation related to revaluation (impact on reserves)	-	(153)	105	322	-	274
Revaluation (impact on reserves)	-	(91)	-	-	-	(91)
Revaluation (impact on profit and loss statement)	-	9,941	13,936	-	2,906	26,783
Provision for impairment	-	-	-	-	670	670
Reversal of provision for impairment	-	(9,941)	(13,936)	-	(3,576)	(27,453)
Balance at 31 December 2015	**-**	**158,222**	**201,846**	**19,089**	**-**	**379,157**
Balance as at 1 January 2016	**-**	**158,222**	**201,846**	**19,089**	**-**	**379,157**
Charge for the year	-	13,860	27,752	2,711	-	44,323
Accumulated depreciation of disposals	-	(11,659)	(36,816)	(2,657)	-	(51,132)
Depreciation related to revaluation (impact on reserves)	-	33	-	-	-	33
Revaluation (impact on reserves)		(96)	-	-	-	(96)
Revaluation (impact on profit and loss statement)	-	-	-	-	-	-
Provision for impairment (Note 14)						
Reversal of provision for impairment (Note 14)	-	-	-	-	-	-
Balance at 31 December 2016	**-**	**160,360**	**192,782**	**19,143**	**-**	**372,285**
Net carrying amount						
As at 1 January 2016	**4,956**	**203,696**	**93,382**	**5,644**	**29,398**	**337,076**
At 31 December 2016	**4,956**	**208,831**	**126,795**	**3,765**	**25,958**	**370,305**

Notes to the separate and consolidated financial statements

25. Property and equipment and investment property *(continued)*

As at 31 December 2016 the Group included in property , constructions and equipment leased equipment with a net carrying amount RON 6,131 thousand (December 31, 2015: RON 4,733 thousand) and intangibles acquired through finance lease, with a net carrying amount of RON 0 thousand (31 December 2015: RON 0 thousand) and the Bank has not included intangible assets lease products acquired. As at 31 December 2016, the Group had pledged property, equipment or intangible assets of RON 2,014 thousand (2015: RON 2,014 thousand) and the Bank did not have intangibles pledged.Property and equipment as at 31 December 2016 were revaluated by an independent evaluator.If the assets of the Group had been booked under the cost model, the carrying amount recognized would have been: land and buildings RON 196,268 thousand (2015: RON 177,000 thousand), property investments RON 39,458 thousand (2015: RON 39,456 thousand), computers and equipment RON 136,592 thousand (2015: RON 99,017 thousand), vehicles RON 121,287 thousand (2015: RON 72,464 thousand), property investments RON 32,908 thousand (2015: RON 31,351 thousand).
If the assets of the Bank had been booked under the cost model, the carrying amount recognized would have been: land and buildings RON 181,787 thousand (2015: RON 175,617 thousand), property investments RON 5,613 thousand (2015: RON 5,613 thousand) computers and equipment RON 126,474 thousand (2015: RON 92,991 thousand), vehicles RON 2,607 thousand (2015: RON 4,801 thousand), fixed assets in progress RON 25,958 thousand (2015: RON 29,398 thousand).

26. Intangible assets (including goodwill)

In RON thousand	**Group**		**Bank**
Gross carrying amount	**Goodwill**	**Software**	**Software**
Balance as at 1 January 2015	**376**	**146.724**	**142.028**
Additions	-	31,296	30,402
Balance related to acquisition	-	116,504	116,504
Revaluation (impact on reserve)	-	682	682
Disposals	-	(122,361)	(122,320)
Balance at 31 December 2015	**376**	**172,845**	**167,296**
Balance as at 1 January 2016	**376**	**172,845**	**167,296**
Additions	-	42,469	36,108
Balance acquired through acquisitions	2,398	638	-
Revaluation (impact on revaluation reserve)	-	427	427
Revaluation (impact on P&L)	-	-	-
Disposals	-	(6,896)	(6,553)
Balance at 31 December 2016	**2,774**	**209,483**	**197,278**
Accumulated amortization			
Balance as at 1 January 2015	**-**	**74,484**	**71,562**
Balance of depreciation related to acquisition	-	37,561	37,561
Charge for the year	-	29,953	29,334
Disposals	-	(43,625)	(43,586)
Balance of impairment related to acquisition	-	68,058	68,058
Provision for impairment	-	4,824	4,824
Reversal of provision for impairment	-	(72,882)	(72,882)
Balance at 31 December 2015	**-**	**98,373**	**94,871**
Balance as at 1 January 2016	**-**	**98,373**	**94,871**
Charge for the year	-	28,877	28,035
Disposals	-	(4,367)	(4,024)
Balance at 31 December 2016	**-**	**122,883**	**118,882**
Net carrying amount	-		
As at 1 January 2016	**376**	**74,472**	**72,425**
At 31 December 2016	**2,774**	**86,600**	**78,396**

26. Intangible assets (including goodwill) *(continued)*

Impairment testing for cash generating units included in the goodwill

For the purpose of impairment testing, the goodwill is allocated to the Group's operating divisions which represent the lowest level at which the goodwill is monitored for internal management purposes.

As at December 31, 2016 the goodwill allocated to BT Leasing Transilvania IFN S.A was RON 376 thousand (31 December 2015: RON 376 thousand).

Following the takeover of the investment banking activity from Capital Partners S.A on 30 March 2016, a positive goodwill of RON 2,398 thousand was registered at the level of BT Capital Partners. As at 31 December 2016, the goodwill was tested for depreciation in accordance with IFRS 3 and no impairment adjustments were necessary.

If the Group's intangible assets had been booked using the cost model, the recognized carrying amount would have been RON 85,874 thousand (2015: RON 73,762 thousand) and the Bank's RON 77,760 thousand (31 December 2015: RON 71,715 thousand).

Notes to the separate and consolidated financial statements

27. Deferred tax assets and liabilities *(continued):*

Deferred tax assets/liabilities at Group level, as at 31 December 2016:

In RON thousand	1 January 2016	Business combinations	Reclassification to non-current assets available for sale	Recognised in profit & loss	Recognised in other items of comprehensive income	Recognised directly in shareholders' equity	31 December 2016
Tax effect of temporary deductible differences/tax subject (including tax losses carried forward), resulting from:							
Property and equipment and intangible assets	(4,417)	-	-	250	(287)	-	(4,454)
Financial assets at fair value through profit and loss	64	-	-	-	-	-	64
Financial assets available for sale	(33,392)	-	-	101	35,127	-	1,836
Other assets	120	-	-	99	6	-	225
Loans and receivables	(14)	-	-	590	-	-	576
Provisions and other liabilities	7,920	-	-	4,092	-	-	12,012
Tax losses carried forward	143,465	-	-	224,880	-	-	368,345
Other	160	-	-	-	(48)	-	112
Deferred tax asset / (liability)	**113,906**	**-**	**-**	**230,012**	**34,798**	**-**	**378,716**
Recognition of deferred tax asset	154,132	-	-	229,701	1,392	-	385,225
Recognition of deferred tax liability	(40,226)	-	-	311	33,406	-	(6,509)
Deferred tax asset / (liability)	**113,906**	**-**	**-**	**230,012**	**34,798**	**-**	**378,716**

27. Deferred tax assets and liabilities *(continued):*

Deferred tax assets/liabilities at Group level, as at 31 December 2015:

In RON thousand	1 January 2015	Business combinations	Reclassification to non-current assets available for sale	Recognised in profit & loss	Recognised in other items of comprehensive income	Recognised directly in shareholders' equity	31 December 2015
Tax effect of temporary deductible differences/tax subject (including tax losses carried forward), resulting from:							
Property and equipment and intangible assets	(4,482)	-	-	238	(173)	-	(4,417)
Financial assets at fair value through profit and loss	77	-	-	(13)	-	-	64
Financial assets available for sale	(36,188)	-	-	66	2,730	-	(33,392)
Other assets	-	-	-	114	6	-	120
Loans and receivables	(4,640)	-	-	4,626	-	-	(14)
Provisions and other liabilities	4,112	-	-	3,728	80	-	7,920
Tax losses carried forward	-	-	-	143,465	-	-	143,465
Other	81	-	-	-	79	-	160
Deferred tax asset / (liability)	**(41,040)**	**-**	**-**	**152,224**	**2,722**	**-**	**113,906**
Recognition of deferred tax asset	6,788	-	-	146,965	379	-	154,132
Recognition of deferred tax liability	(47,828)	-	-	5,259	2,343	-	(40,226)
Deferred tax asset / (liability)	**(41,040)**	**-**	**-**	**152,224**	**2,722**	**-**	**113,906**

Notes to the separate and consolidated financial statements

27. Deferred tax assets and liabilities *(continued):*

Deferred tax assets/liabilities at Bank level, as at 31 December 2016:

In RON thousand	1 January 2016	Business combinations	Reclassification to non-current assets available for sale	Recognised in profit & loss	Recognised in other items of comprehensive income	Recognised directly in shareholders' equity	31 December 2016
Tax effect of temporary deductible differences/tax subject (including tax losses carried forward), resulting from:							
Property and equipment and intangible assets	(4,417)	-	-	285	(286)	-	(4,418)
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-
Financial assets available for sale	(35,796)	-	-	-	33,741	-	(2,055)
Other assets	114	-	-	105	6	-	225
Loans and receivables	-	-	-	-	-	-	-
Provisions and other liabilities	7,796	-	-	4,047	-	-	11,843
Tax losses carried forward	143,465	-	-	224,880	-	-	368,345
Other	-	-	-	-	-	-	-
Deferred tax asset / (liability)	**111,162**	**-**	**-**	**229,317**	**33,461**	**-**	**373,940**
	-	-	-	-	-	-	-
Recognition of deferred tax asset	151,375	-	-	229,032	6	-	380,413
Recognition of deferred tax liability	(40,213)	-	-	285	33,455	-	(6,473)
Deferred tax asset / (liability)	**111,162**	**-**	**-**	**229,317**	**33,461**	**-**	**373,940**

Notes to the separate and consolidated financial statements

27. Deferred tax assets and liabilities *(continued):*

Deferred tax assets/liabilities at Bank level, as at 31 December 2015:

In RON thousand	1 January 2015	Business combinations	Reclassification to non-current assets available for sale	Recognised in profit & loss	Recognised in other items of comprehensive income	Recognised directly in shareholders' equity	December 31, 2015
Tax effect of temporary deductible differences/tax subject (including tax losses carried forward), resulting from:							
Property and equipment and intangible assets	(4,482)	-	-	238	(173)	-	(4,417)
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-
Financial assets available for sale	(38,312)	-	-	-	2,516	-	(35,796)
Other assets	-	-	-	108	6	-	114
Loans and receivables	(5,034)	-	-	5,034	-	-	-
Provisions and other liabilities	4,112	-	-	3,684	-	-	7,796
Tax losses carried forward	-	-	-	143,465	-	-	143,465
Other	-	-	-	-	-	-	-
Deferred tax asset / (liability)	**(43,716)**	**-**	**-**	**152,529**	**2,349**	**-**	**111,162**
Recognition of deferred tax asset	4,112	-	-	147,257	6	-	151,375
Recognition of deferred tax liability	(47,828)	-	-	5,272	2,343	-	(40,213)
Deferred tax asset / (liability)	**(43,716)**	**-**	**-**	**152,529**	**2,349**	**-**	**111,162**

27. Deferred tax assets and liabilities *(continued)*

Current income tax is calculated by applying a rate of 16%. Deferred income taxes are calculated on temporary differences under the liability method using a profit tax rate of 16%.
As explained in Note 5, the Bank submitted a rectifying 2015 annual income tax return to fiscal authorities. In this tax return the Bank has recomputed the income tax liability on the basis that bargain gain is non-taxable, resulting a lower income tax liability by RON thousand 264,096 and as a consequence a higher available unutilised tax loss as at 31 December 2016 of RON thousand 1,650,600.

The Bank has recognised in the statement of financial position a deferred tax asset of RON thousand 368,345 (2015: RON thousand 143,465) based on the Bank's projections related to future profits. The Bank estimates that will be able to utilise the deferred income tax asset balance until 2019 financial year.

Tax loss carry-forwards expiring by the end of:

RON thousand	**2016**	**2015**
Tax loss carry forward earlier	3,088,424	3,767,958
Using tax loss in the current year	786,265	679,534
Tax loss carried forward at the end of which expire as follows:	**2,302,159**	**3,088,424**
31 December 2016	-	705,044
31 December 2018	206,189	287,410
31 December 2019	576,989	576,989
31 December 2020	348,555	348,555
31 December 2021	155,706	155,706
31 December 2022	1,014,720	1,014,720

28. Other financial assets

	Group		**Bank**	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Amounts under settlement	75,646	37,616	75,623	37,602
Sundry debtors and advances for non-current assets	73,877	69,829	51,109	55,081
Instruments received for collection	41,394	39,107	41,394	39,107
Other financial assets	9,722	1,042	5,406	628
Impairment allowance for other financial assets	(6,488)	(10,212)	(3,379)	(3,776)
Total	**194.151**	**137,382**	**170.153**	**128,642**

28. Other financial assets *(continued)*

The evolution of impairment allowance of other assets during 2016 is presented below:

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Balance 1 January	10,212	9,149	3,776	1,480
Net impairment charge (Note 14)	(3,313)	(3,556)	109	(2,323)
Impairment allowance booked through acquisitions	94	4,707	-	4,707
Allowance for written off exposures	-	(90)	-	(90)
Transfer to loan provisions	(507)	-	(507)	-
Exchange rate differences	2	2	1	2
Balance at 31 December	**6,488**	**10,212**	**3,379**	**3,776**

29. Other non-financial assets

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Inventories and similar assets	105,503	112,861	77,905	95,495
Prepayments	28,690	21,016	26,091	19,335
VAT and other taxes to be received	9,188	15,738	796	826
Other non-financial assets	206	776	84	231
Impairment allowance for other non-financial assets	(30,690)	(31,689)	(20,402)	(25,483)
Total	**112,897**	**118,702**	84,474	90,404

The evolution of impairment allowance of other assets during 2016 is presented below:

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Balance 1 January	**31,689**	**7,438**	**25,483**	**1,654**
Net impairment charge (Note 14)	(820)	48	(4,902)	(211)
Impairment allowance booked through acquisitions	-	24,309	0	24,309
Allowance for written off exposures	-	(106)	0	(269)
Reclassification to property investments	(179)	-	(179)	-
Exchange rate differences	-	-	0	-
Balance at 31 December	**30,690**	**31,689**	**20,402**	**25,483**

The inventories and related items of the Bank include purchased assets held for sale amounting to RON 51,338 thousand, structured as follows: buildings RON 25,666 thousand, lands RON 25,654 thousand, equipment RON 0 thousand, vehicles RON 13 thousand and furniture RON 5 thousand (2015: RON 65,052 thousand, structured as follows: buildings RON 36,359 thousand, lands RON 26,726 thousand, equipment RON 851 thousand, vehicles RON 1,107 thousand and furniture RON 9 thousand).

The inventories and related items of the Group include purchased assets held for sale amounting to RON 57,909 thousand, structured as follows: buildings RON 27,073 thousand, lands RON 26,407 thousand, equipment RON 2,652 thousand, vehicles RON 1,773 thousand and furniture RON 5 thousand (2015: 76,177 thousand, structured as follows: buildings RON 37,829 thousand, lands RON 27,622 thousand, equipment RON 7,503 thousand, vehicles RON 3,209 thousand and furniture RON 14 thousand).

30. Deposits from banks

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Sight deposits	152,118	342,765	152,118	342,765
Term deposits	95,150	45,660	95,150	45,660
Total	**247,268**	**388,425**	**247,268**	**388,425**

31. Deposits from customers

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Current accounts	14,996,775	11,666,350	15,071,687	11,714,624
Sight deposits	504,227	561,097	504,227	561,097
Term deposits	25,688,116	25,521,282	25,786,124	25,566,720
Collateral deposits	492,357	553,012	489,735	552,851
Total	**41,681,475**	**38,301,741**	**41,851,773**	**38,395,292**

Deposits from customers can be also analysed as follows:

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Retail customers	26,358,368	23,286,325	26,355,402	23,286,251
Company customers	15,323,107	15,015,416	15,496,371	15,109,041
Total	**41,681,475**	**38,301,741**	**41,851,773**	**38,395,292**

The table below presents the deposits from customers, split by economic sector concentration:

Sector	***Group*** **2016**	***Group*** **2015**	***Bank*** **2016**	***Bank*** **2015**
Retail	63.24%	60.80%	62.97%	60.65%
Financial and insurance	7.60%	7.19%	7.87%	7.40%
Services	5.11%	5.37%	5.20%	5.37%
Trading	4.29%	5.37%	4.27%	5.36%
Production	3.45%	4.11%	3.43%	4.10%
Energy	2.91%	2.33%	2.90%	2.33%
Constructions	2.91%	3.56%	2.89%	3.55%
Transport	2.49%	3.31%	2.48%	3.30%
Telecommunications	1.76%	2.24%	1.75%	2.24%
Agriculture	1.64%	1.30%	1.63%	1.30%
Mining	1.32%	1.63%	1.31%	1.63%
Education	0.94%	0.81%	0.94%	0.81%
Real estate	0.84%	0.75%	0.84%	0.75%
Health	0.71%	0.60%	0.71%	0.60%
Others	0.49%	0.26%	0.48%	0.25%
Government institutions	0.31%	0.34%	0.31%	0.34%
Self-employed	0.02%	0.02%	0.02%	0.02%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**

31. Deposits from customers *(continued)*

In RON thousands	*Group*		*Bank*	
Sector	**2016**	**2015**	**2016**	**2015**
Retail	26,358,368	23,286,325	26,355,402	23,286,251
Financial and insurance	3,165,752	2,754,913	3,293,675	2,840,713
Services	2,129,238	2,055,235	2,174,670	2,063,194
Trading	1,787,005	2,057,485	1,786,959	2,057,485
Production	1,436,117	1,576,024	1,436,117	1,576,024
Energy	1,212,400	893,636	1,212,400	893,636
Constructions	1,211,067	1,362,578	1,211,067	1,362,578
Transport	1,036,991	1,268,830	1,036,969	1,268,830
Telecommunications	732,920	858,563	732,920	858,563
Agriculture	684,220	498,259	684,220	498,259
Mining	548,312	626,160	548,312	626,160
Education	391,410	309,824	391,410	309,824
Real estate	351,264	287,799	351,264	287,799
Health	295,161	229,338	295,154	229,338
Others	202,272	97,713	202,256	97,579
Government institutions	128,938	130,391	128,938	130,391
Self-employed	10,040	8,668	10,040	8,668
Total	**41,681,475**	**38,301,741**	**41,851,773**	**38,395,292**

32. Loans from banks and other financial institutions

	Group		**Bank**	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Loans from commercial banks	39,535	88,823	-	-
Romanian banks	*39,535*	*61,996*	-	-
Foreign banks	-	*26,827*	-	-
Loans from development banks	672,837	629,035	653,922	573,298
Repurchase agreements (repo transactions)	1,483,035	276,319	1,483,035	276,319
Other funds from financial institutions	109,504	135,525	109,504	135,525
Total	**2,304,911**	**1,129,702**	**2,246,461**	**985,142**

The interest rate range for loans from banks and financial institutions was as follows:

	2016		**2015**	
	Minimum	Maximum	Minimum	Maximum
EUR	Euribor 3m+1.90%	0.818%	0.50%	Euribor 3m+5.50%
RON	0.00%	0.60%	0.00%	Robor 3m+ 1.45%
USD	Libor 6m+0.51%	0.40%	Libor 6m+0.51%	Libor 6m+4.50%

At December 31, 2016 and 2015 and the Bank Group meet financial indicators required by the loan agreements with donors.

33. Other subordinated liabilities

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Loans from development banks and financial institutions	377,852	370,176	377,852	370,176
Convertible Bonds	46,259	46,248	46,259	46,176
Total	**424,111**	**416,424**	**424,111**	**416,352**

Subordinated debt includes subordinated loans from development banks and financial institutions, as well as convertible bonds.
Subordinated loans are included in the following:
- Loan in the amount of EUR 15 million, equivalent to RON 68,117 thousand (2015: RON 67,868 thousand), contracted in 2013 at 6m Euribor + 6.2%, due in 2018;
- Loan in the amount of EUR 25 million, equivalent to RON 113,528 thousand (2015: RON 113,113 thousand), contracted in 2013 at 6m Euribor + 6.2%, due 2023;
- Loan in the amount of EUR 5 million, equivalent to RON 22,706 thousand (2015: RON 22,622 thousand) contracted in 2012 to 6m Euribor + 6.50%, maturing in 2018;
- Loan in the amount of 40 million USD, equivalent to RON 172,132 thousand (2015: RON 165,908 thousand) contracted in 2014 to 6m Libor + 5.80%, due 2023.

The Bank issued EUR 30 million convertible bonds (RON 134,541 thousand equivalent) during 2013, bearing a coupon of EURIBOR 6M+ 6.25% interest and due in 2020. The outstanding bonds include the option of the holder to convert them into shares. During 2014, the Bank converted bonds amounting to EUR 20,072,238 (88,318,847 RON equivalent) as follows: RON 49,444,546 share capital increase and RON 38,873,301 share premium. During 2015, the Bank did not convert bonds. In 2016, the Bank converted bonds in a total amount of EUR 23,004/equivalent RON 101,962, amount used as follows: RON 44,113 for share capital increase and RON 57,849 for the allocation of capital premiums.The value of convertible bonds as at 31.12.2016 was EUR 9,904,758/equivalent RON 44,979 thousand (at 31.12.2015 EUR 9,927,762/RON equivalent 44,918 thousand).Accrued interest on subordinated debt amounts to RON 1,280 thousand (2015: RON 1,257 thousand).

34. Provisions for other risks and loan commitments

The following items are included under Provisions for other risks and loan commitments:

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Provisions for loan commitments	45,230	52,127	45,242	52,135
Provisions for employee benefits as compensated absences	6,497	5,934	5,000	5,000
Provisions for other employee benefits	25,989	1,538	24,491	-
Provisions for other risks and charges (*)	436,866	648,600	432,222	648,461
Total	**514,582**	**708,199**	**506,955**	**705,596**

(*)Provisions for risks and charges primarily include provisions for litigation and other risks taken after the merger of Volksbank Romania SA.

35. Other financial liabilities

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Amounts under settlement	366,267	204,610	362,833	201,997
Sundry creditors	55,205	36,421	31,262	25,836
Liabilities related to leasing (i)	1,651	1,311	-	-
Held for trading financial liabilities	10,947	5,627	10,947	5,626
Other financial liabilities	35,905	29,063	36,116	35,432
Total	**469,975**	**277,032**	**441,158**	**268,891**

(i) Future minimum lease payments under finance leases and the present value of the net minimum lease payments are as follows:

In RON thousand	2016	2015
Minimum lease payments		
2016	-	523
2017	393	124
2018	698	729
2019	298	-
2020	298	-
2021	83	
Total minimum lease payments	**1,770**	**1,376**
Less future interest	(119)	(65)
Current value of minimum lease payments	**1,651**	**1,311**

36. Other non-financial liabilities

In RON thousand	Group 2016	Group 2015	Bank 2016	Bank 2015
Amounts under settlement	41,288	14,967	412	104
Other taxes payable	22,911	44,868	20.687	42.747
Other non-financial liabilities	47,670	23,273	46.688	22.355
Total	**111,869**	**83,108**	**67.787**	**65.206**

37. Share capital

The statutory share capital of the Bank at 31 December 2016, as recorded with the Trade Register was represented by 3,646,047,792 ordinary shares with a nominal value of RON 1 each (at December 31, 2015: 3,026,003,679 shares with a nominal value of RON 1 each). The shareholders structure of the Bank is presented in Note 1.

The share capital was increased by incorporating statutory profit reserves (in amount of RON 620,000,000 and by conversion of bonds (in amount of RON 44,113) and was properly recorded with the Trade Register in 2016. The bond conversion was achieved in several steps: in February 2016 – conversion of 29,163 bonds in amount of RON 77,386, at a conversion price of 2.2785, resulting a number of 33,962 shares. The remaining amount of RON 43,424 was booked as issue premiums.In November 2016 – conversion of 9,177 bonds in amount of RON 24,576, at a conversion price of 2.4208, resulting a number of 10,151 shares, the amount of issue premiums reaching RON 14,425.

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Subscribed capital paid at Trade Register	3,646,048	3,026,004	3,646,048	3,026,004
Hyper(inflation adjustments (IAS 29)	89,899	89,899	89,899	89,899
Share capital adjustment with unrealized revaluation reserves of tangible assets	(3,398)	(3,398)	(3,398)	(3,398)
Total	**3,732,549**	**3,112,505**	**3,732,549**	**3,112,505**

38. Own shares

As at December 31, 2016 and December 31, 2015, repurchased own shares were structured as follows:

In RON thousand	Group		Bank	
	2016	**2015**	**2016**	**2015**
As at January 1	(11,806)	(21,253)	-	(10,468)
Repurchase of own shares	(16,546)	(65,857)	(16,546)	(65,857)
Share revaluation	-	(3,601)	-	(3,601)
Share-based payments	-	79,926	-	79,926
Sale of shares in subsidiaries	-	84	-	-
Free shares	(1,641)	(1,105)	-	-
Total Own shares	**(29,993)**	**(11,806)**	**(16,546)**	**-**

39. Carried forward result

As at December 31, 2016 and December 31, 2015, the carried forward result was structured as follows:

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
As at January 1	2,523,109	597,213	2,389,102	490,160
Profit for 2016	1,272,422	2,446,129	1,228,440	2,417,668
Distribution of profit to statutory reserves	(51,473)	(114,347)	(49,956)	(113,256)
Share capital increase from the previous year profit	(620,000)	(406,823)	(620,000)	(406,823)
Profit allocated for dividend payments	(1,200,000)	-	(1,200,000)	-
Realisation of revaluation surplus	1,741	1,439	1,687	1,384
Fund allocation for the payment of shares to the employees	30,000	-	30,000	-
Conversion of carried forward result	231	(753)	(29)	(336)
Other	(1,957)	251	-	305
Total Carried forward result	**1,954,073**	**2,523,109**	**1,779,244**	**2,389,102**

40. Revaluation reserves

As at December 31, 2016 and December 31, 2015, revaluation reserves consisted in:

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
As at January 1	26,470	27,000	27,377	27,852
Increase from fixed asset revaluation	1,783	1,082	1,783	1,082
Deferred tax revaluation	(285)	(173)	(285)	(173)
Carried forward result from realisation of revaluation reserves	(1,741)	(1,439)	(1,687)	(1,384)
Total Revaluation reserves	**26,227**	**26,470**	**27,188**	**27,377**

41. Reserves for assets available for sale

As at December 31, 2016 and December 31, 2015, AFS reserves consisted in:

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
As at January 1	175,511	189,896	187,928	201,142
Fair value gains/(losses) recognised in equity, net of tax, on available-for-sale instruments	(219,403)	(17,125)	(210,878)	(15,731)
Tax	35,101	2,740	33,740	2,517
Total AFS reserves	**(8,791)**	**175,511**	**10,790**	**187,928**

42. Other reserves

As at December 31, 2016 and December 31, 2015, other reserves included:

	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
General banking risks *(i)*	77,893	77,893	77,893	77,893
Statutory reserves *(ii)*	354,168	302.695	344,596	294,640
Total	**432,061**	**380,588**	**422,489**	**372,533**

Statutory reserves (ii)	Group		Bank	
In RON thousand	**2016**	**2015**	**2016**	**2015**
As at January 1	302,696	188,348	294,640	181,384
Profit distribution	51,472	114.347	49,956	113,256
Total	**354,168**	**302.695**	**344,596**	**294,640**

(i) The general banking risk reserve includes amounts set aside as profit reserves for future losses and other unforeseen risks or contingencies, in accordance with local banking regulations. They are separately disclosed as appropriations of profit. The general banking risk reserve is appropriated from the statutory gross profit at the rate of 1% on the balance of the assets carrying specific banking risks. The general banking risk reserve was set up, starting with financial year 2004 until the end of financial year 2006.

(ii) Statutory reserves represent accumulated transfers from carried forward results in accordance with local banking regulations that require that 5% of the Bank's and subsidiaries' net profit must be transferred to a non-distributable reserve account until the reserve reaches 20% of the Bank's and subsidiaries' share capital.

The legal reserves are not distributable to shareholders.

Notes to the separate and consolidated financial statements

43. Related-party transactions *(continued):*

Entities are considered to be related parties if one of them has the capacity to control the other or to exercise significant influence on the other entity's management process related to financial or operational decisions.
The Group and the Bank are engaged in transactions with related parties, shareholders and key management personnel. All these transactions were carried out under conditions similar to those applicable to third party agreements, in terms of interest rates and collateral clauses. The transactions /balances with subsidiary entities were eliminated from the scope of consolidation.
Transactions with other related parties include transactions with the major shareholders, family members of the key management personnel and companies where they are shareholders, and pursuing a relationship with the Bank.
The transactions /balances with subsidiary entities are presented below:

		2016			2015	
Group - RON thousand	**Key management personnel**	**Other related-parties**	**Total**	**Key management personnel**	**Other related-parties**	**Total**
Assets						
Granted loans	17,958	16,471	**34,429**	18,260	18,227	**36,487**
Liabilities						
Deposits from customers	26,243	152,097	**178,340**	14,486	134,402	**148,888**
Loans from financial institutions	-	159,225	**159,225**	-	286,893	**286,893**
Subordinated loans	-	172,989	**172,989**	-	166,353	**166,353**
Debt securities	-	20,474	**20,474**	-	20,422	**20,422**
Commitments						
Loan commitments and financial guarantees given	2,473	10,646	**13,119**	1,947	12,531	**14,478**
Notional value of exchange operations	20,011	25,909	**45,920**	12,142	87,481	**99,623**
Profit and loss account						
Interest income	547	939	**1,486**	843	741	**1,584**
Interest expense	121	19,876	**19,997**	162	21,785	**21,947**
Fee and commission income	9	265	**274**	10	473	**483**
Fee and commission expense	-	-	**-**	-	-	**-**

Notes to the separate and consolidated financial statements

43. Related-party transactions *(continued):*

Bank

Thousand	2016 Subsidiaries	2016 Key management personnel	2016 Other related-parties	2016 Total	2015 Subsidiaries	2015 Key management personnel	2015 Other related-parties	2015 Total
Assets								
Granted loans	649,758	15,742	16,356	**681,856**	372,834	16,045	17,834	**406,713**
Equity investments	311,980	-	-	**311,980**	219,459	-	-	**219,459**
Other assets	2,543	-	-	**2,543**	337	-	-	**337**
Liabilities								
Deposits from customers	173,400	21,067	147,529	**341,996**	88,494	12,082	131,694	**232,270**
Loans from financial institutions	-	-	140,316	**140,316**	-	-	231,156	**231,156**
Subordinated loans	-	-	172,989	**172,989**	-	-	166,353	**166,353**
Debt securities	-	-	20,474	**20,474**	-	-	20,350	**20,350**
Other debts	1,380	-	-	**1,380**	6,999	-	-	**6,999**
Commitments								
Loan commitments and financial guarantees given	182,612	2,159	10,578	**195,349**	105,201	1,681	12,447	**119,329**
Loan commitments and financial guarantees received	28,231	-	-	**28,231**	18,328	-	-	**18,328**
Notional value of exchange operations	124,382	17,460	25,301	**167,143**	220,466	10,369	86,628	**317,463**
Profit and loss account								
Interest income	12,387	489	919	**13,795**	8,070	776	718	**9,564**
Interest expense	278	100	18,725	**19,103**	514	128	20,226	**20,868**
Fee and commission income	3,316	6	257	**3,579**	2,586	8	332	**2,926**
Fee and commission expense	10,180	-	-	**10,180**	11,959	-	-	**11,959**
Expenses of losses from the derecognition of financial assets and liabilities at fair value through profit and loss	622	-	-	**622**	36	-	-	**36**
Dividend income	5,466	-	-	**5,466**	7,950	-	-	**7,950**
Other income	5,441	-	-	**5,441**	1,983	-	-	**1,983**
Other expenses	8,180	-	-	**8,180**	5,966	-	-	**5,966**

43. Related-party transactions *(continued)*

Transactions with key management personnel

The total salaries paid to the Board of Director's members and executive management of the Group during 2016 amounted to RON 14,321 thousand (2015: RON 11,405 thousand), and to those of the Bank amounted to RON 9,246 thousand (December 31, 2015: RON 7,957 thousand).

Key management compensation:

In RON thousands	Group		Bank					
	2016	2015	2016			2015		
	Total	Total	Total	Out of which social contribution	Out of which employer contributions to Pilon III	Total	Out of which social contribution	Out of which employer contributions to Pilon III
Short term employee benefits	26,693	26,450	22,481	875	37	23,083	938	-
Share based payments	-	23,299	-	-	-	20,783	-	-
Total compensatios and benefits	26,693	49,749	22,481	875	37	43,866	938	-

44. Commitments and contingencies

At any time the Group and the Bank have outstanding commitments to extend loans. These commitments are in the form of approved limits for credit cards and overdraft facilities. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one month to one year.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Maturities are not concentrated in a specific period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by categories. The amounts are reflected in the table assuming that they have been fully granted.

The amounts reflected in the table as guarantees and letters of credit represent the maximum accounting loss that would have been recognized at the balance sheet date if counterparties had completely failed to meet the contractual terms and conditions.

	Group		**Bank**	
In RON thousand	**2016**	**2015**	**2016**	**2015**
Guarantees issued	1,750,899	1,756,296	1,758,712	1,761,395
Loan commitments	5,235,076	4,453,841	5,376,770	4,526,418
Total	**6,985,975**	**6,210,137**	**7,135,482**	**6,287,813**

Notes to the separate and consolidated financial statements

44. Commitments and contingencies *(continued)*

Provisions recorded for loan commitments granted to customers were in amount of RON 45,230 thousands (2015: RON 52,127 thousand) at Group level, while the Bank booked provisions in amount of RON 45,242 thousand (2015: RON 52,135 thousand).
Forward agreements represent contractual arrangements to buy or sell a certain financial instrument, at a certain price and at a certain future date.
Outstanding currency transactions at 31 December 2016 were:

Forward transactions

Transactions with corporate clients:

Purchases	10,893,184	RON	equivalent	2,405,294	EUR
Purchases	2,172,308	RON	equivalent	500,000	USD
Purchases	150,000	USD	equivalent	603,803	RON

Transactions with banks:

Purchases	25,400,000	USD	equivalent	109,842,850	RON
Purchases	492,414,412	RON	equivalent	109,000,000	EUR
Purchases	7,174,459	RON	equivalent	1,350,000	GBP
Purchases	43,844,936	RON	equivalent	10,100,000	USD
Purchases	2,400,000	EUR	equivalent	10,854,036	RON
Purchases	49,500,000	EUR	equivalent	53,266,330	CHF
Purchases	20,000,000	EUR	equivalent	90,570,888	RON
Purchases	110,300,000	RON	equivalent	24,971,700	EUR
Purchases	24,971,700	EUR	equivalent	110,300,000	RON

The Group and the Bank rented both property and movable assets to third parties, by means of operational lease agreements.
The minimum amounts that the Group and the Bank have to collect as a lessor in the operational lease agreements without cancellation clauses are the following:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
< 1 year	37,913	19,655	1,767	834
1 - 5 years	76,918	35,181	4,411	3,415
> 5 years	-	-	261	1,170
Total	**114,831**	**54,836**	**6,439**	**5,419**

The minimum amounts that the Group and the Bank have to pay as a lessee in the operational lease agreements without cancellation clauses are the following:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
< 1 year	78,223	84,848	83,774	89,815
1 - 5 years	183,673	226,618	189,285	236,451
> 5 years	32,777	55,850	30,990	54,275
Total	**294,673**	**367,316**	**304,049**	**380,541**

Notes to the separate and consolidated financial statements

45. Earnings per share

The calculation of basic earnings per share was based on net consolidated profit attributable to ordinary shareholders of the parent (the Bank) of RON 1,272,422 thousand (as at 31 December 2015: RON 2,446,129 thousand) and on the weighted average of the ordinary shares outstanding during the year.

The diluted earnings per share is calculated based on the adjusted consolidated net profit attributable to ordinary shareholders of the parent (the Bank) in amount of RON 1,275,217 thousand (31 December 2015: RON 2,448,530 thousand) and the weighted average number of the ordinary shares outstanding during the year plus the weighted number of the ordinary shares that would have been issued further to the conversion of all potential shares into ordinary shares. The Bank calculated the weighted average of diluted outstanding shares following the conversion of bonds in amount of RON 44,978,496.56 at a conversion price of 2.4208, thus resulting a number of18,580,013 shares.

	Group	
	2016	**2015**
Ordinary shares issued as at 1 January	3,026,003,679	2,608,623,861
Effect of shares issued as at 1 December	619,134,218	1,037,379,818
Weighted average number of shares as at 31 December	3,645,137,897	3,646,003,679
Weighted average number of diluted shares as at 31 December	3,663,717,910	3,665,717,596

Notes to the separate and consolidated financial statements

46. Restatement of comparative figures of 2015

In accordance with IAS 1 “Presentation of Financial Statements”, if an entity has made a restatement, it is required to submit the reclassification of comparative values of the previous year.

The Bank's management has taken into account the nature of the abovementioned restatements, and, in particular, the fact that it is limited to the reclassification of financial position items, which have no impact on total assets, total liabilities and shareholders’ equity, as well as the reclassification of cash flow and own funds items.

When necessary, comparative figures have been reclassified in order to be in line with the changes from the current period presentation. These changes were made in order for the Group and the Bank to submit the presentation of its consolidated and separate financial position as fair as possible.

In order to facilitate the understanding of such statements, the table below lists the reported figures, reclassifications and adjusted values in the consolidated and separate statement of financial position, the consolidated and separate statement of cash flows and the consolidated and separate own funds.

i) The restatement of the comparative figures of the Consolidated and separate statement of financial position is presented below:

thousand RON - **December 2015**		**Group**			**Bank**	
Description	**Reported statement of financial position**	**Reclassification**	**Adjusted statement of financial position**	**Reported statement of financial position**	**Reclassification**	**Adjusted statement of financial position**
Assets:						
(a) Cash and cash equivalents at the National Bank	5,109,102	(111,172)	4,997,930	5,104,871	(106,975)	4,997,896
(b) Placements with banks	3,797,692	111,172	3,908,864	3,782,508	106,975	3,889,483
(c) Current tax assets	-	132,651	132,651	-	133,769	133,769
(d) Other assets	388,735	(388,735)	-	352,815	(352,815)	-
(e) Other financial assets	-	137,382	137,382	-	128,642	128,642
(f) Other non-financial assets	-	118,702	118,702	-	90,404	90,404
Total assets	**47,579,092**	-	**47,579,092**	**47,342,665**	**-**	**47,342,665**
Liabilities:						
(g) Other liabilities	360,140	(360,140)	-	334,097	(334,097)	-
(h) Other financial liabilities	-	277,032	277,032	-	268,891	268,891
(i) Other non-financial liabilities	-	83,108	83,108	-	65,206	65,206
Total liabilities	**41,338,279**	**-**	**41,338,279**	**41,224,904**	**-**	**41,224,904**

Notes to the separate and consolidated financial statements

46. Restatement of comparative figures of 2015 *(continued)*

In 2016, the Bank and the Group have made the following reclassifications which impacted the comparative figures of the financial position of 2015:

1. In the ***Assets*** category*:*
- the correspondent accounts of credit institutions were reclassified from the item Cash and cash equivalents (a) to Placements with banks (b);
- the item "Other assets" (d) was divided and presented separately, as the following: -"Current tax assets" (c), "Other financial assets" (e) and "Other non-financial assets" (f)

2. In the ***Liabilities*** category:
- the item "Other liabilities" (g) was divided and presented separately, as the following: "Other financial liabilities" (h) and "Other non-financial liabilities" (i)

ii) The restatement of the comparative figures of the Consolidated and separate statement of cash flows is presented below:

thousand RON- **December 2015**	**Group**			**Bank**		
Description	**Reported statement of cash flows**	**Reclassification / Adjustments**	**Adjusted statement of cash flows**	**Reported statement of cash flows**	**Reclassification / Adjustments**	**Adjusted statement of cash flows**
Profit for the year	**2,448,017**	**-**	**2,448,017**	**2,417,668**	**-**	**2,417,668**
Adjustments for:						
Income from the increase of the recoverable value of newly acquired loans	(531,147)	531,147	-	(531,147)	531,147	-
Interest income	-	(2,416,977)	(2,416,977)	-	(2,369,872)	(2,369,872)
Interest expenses	-	464,802	464,802	-	460,088	460,088
Income tax paid/recovered	-	(203,552)	(203,552)	-	(196,400)	(196,400)
Other adjustments	27,691	120,473	148,164	48,684	124,874	173,558
Net profit adjusted with non-monetary elements	**1,098,779**	**(1,504,107)**	**(405,328)**	**1,067,557**	**(1,450,163)**	**(382,606)**
Changes in operating assets and liabilities						
Change in other assets	(147,945)	147,945	-	(141,402)	141,402	-
Change in other financial assets	-	(54,541)	(54,541)	-	67,769	67,769
Change in other assets	-	(93,404)	(93,404)	-	(12,760)	(12,760)
Change in other liabilities	(74,472)	74,472	-	(114,987)	114,987	-
Change in other financial liabilities	-	71,335	71,335	-	79,270	79,270
Change in other liabilities	-	(145,805)	(145,805)	-	(390,668)	(390,668)
Income tax paid	(203,552)	203,552	-	(196,400)	196,400	-
Interest received	-	1,823,071	1,823,071	-	1,774,258	1,774,258
Interest paid	-	(491,858)	(491,858)	-	(487,251)	(487,251)
Net cash from/ (used in) operating activities	**2,547,752**	**30,660**	**2,578,412**	**2,504,466**	**33,244**	**2,537,710**
Cash flow from / (used in) investment activities						
Net acquisitions of property and equipment	(137,510)	32,185	(105,325)	(58,059)	31,293	(26,766)
Net acquisitions intangible assets	-	(32,185)	(32,185)	-	(31,293)	(31,293)
Proceeds from disposal of property and equipment and intangible assets	-	6,620	6,620	-	4,570	4,570
Acquisition of securities held-to-maturity	-	(12,942)	(12,942)	-	-	-
Net cash flow from / (used in) investment activities	**(345,594)**	**(6,322)**	**(351,916)**	**(269,631)**	**4,570**	**(265,061)**

Notes to the separate and consolidated financial statements

46. Restatement of comparative figures of 2015 *(continued)*

ii) The restatement of the comparative figures of the Consolidated and separate statement of cash flows is presented below:

thousand RON- **December 2015**	Group			Bank		
Description	**Reported statement of cash flows**	**Reclassification / Adjustments**	**Adjusted statement of cash flows**	**Reported statement of cash flows**	**Reclassification / Adjustments**	**Adjusted statement of cash flows**
Cash flow from / (used in) financing activities						
Net proceeds/(payments) from borrowings from banks and other financial institutions, subordinated liabilities and debt securities issued	85,697	(85,697)	-	46,225	(46,225)	-
* Gross proceeds from loans from banks and other financial institutions	-	15,067,470	15,067,470	-	14,992,983	14,992,983
* Gross payments from loans from banks and other financial institutions	-	(14,988,780)	(14,988,780)	-	(14,954,299)	(14,954,299)
* Gross payments from subordinated liabilities	-	(30,273)	(30,273)	-	(30,273)	(30,273)
Acquisition of held-to-maturity financial assets	(12,942)	12,942	-	-	-	-
Net cash flow from / (used in) financing activities	**6,898**	**(24,338)**	**(17,440)**	**(19,632)**	**(37,814)**	**(57,446)**

In 2016, the Group and the Bank have made the following reclassifications/adjustments with impact on the comparative cash flow figures for 2015:

- Presentation of the interest received and paid as part of the cash flow from operating activities, as well as the interest income and expense
- Separation of cash flows for financial and non-financial assets in the other assets category, in accordance with changes to the financial position;
- Separation of cash flows for financial and non-financial debts in the other liabilities category, in accordance with changes to the financial position;
- Separate presentation of the cash for the acquisition of tangible and intangible assets;
- Separate presentation of the income from the sale of tangible assets in investment activities from other adjustments of operating activities;
- Presentation of the gross collections and payments for loans from banks and other financial institutions;
- Presentation of the gross collections and payments for subordinated debts;
- Reclassification of the acquisition of securities held-to-maturity from financing activities to investment activities;

iii) The restatement of the comparative figures of own funds for the Group and the Bank is presented below:

thousand RON- **December 2015**	Group			Bank		
Description	**Reported own funds**	**Adjustments**	**Adjusted own funds**	**Reported own funds**	**Adjustments**	**Adjusted own funds**
Tier 1 capital	5,808,329	(1,199,975)	4,608,354	5,655,552	(1,199,975)	4,455,577
Tier 2 capital	376,497	-	376,497	376,497	-	376,497
Total capital	**6,184,826**	**(1,199,975)**	**4,984,851**	**6,032,049**	**(1,199,975)**	**4,832,074**

46. Restatement of comparative figures of 2015 *(continued)*

As a result of the approval of the 2015 Financial statements during the General Meeting of Shareholders of 27 April 2016, the distribution of cash dividends to the shareholders was approved in amount of RON 1,200,000. This amount generated the adjustment of own funds for the year 2015, both at separate, as well as at consolidated level, in accordance with legal provisions, subsequent to the publishing of the Consolidated and separate financial statements for 2015.

47. Events subsequent to the date of the consolidated financial position

There were no subsequent events after the date of the separate and consolidated financial statements that could have significant impact on the Bank and the Group for the 2016 financial year.

Horia Ciorcilă	George Călinescu
Chairman	*Deputy CEO*