BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.

FINANCIAL STATEMENTS
31 DECEMBER 2016

Prepared in accordance with International Financial Reporting Standards as endorsed by the European Union

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

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STATEMENT
Pursuant to art.30 of Accounting Law no. 82/1991

The annual financial statements as at 31 December 2016 were prepared for:
Company: BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A. ("the Bank")
Headquarters and registered office:
Bucharest, Nicolae Caramfil Street no. 85 A, Art Business Center, 4th floor, sector 1, zip code 014142,
Bucharest, ROMANIA
Secondary headquarters:
Arad, B-dul Revolutiei no. 88, zip code 310025, Arad county, ROMANIA
Trade Register no: J40/2449/02.03.2015
Type of business ownership: 34—joint stock companies
Main activity (NACE code and description): 6419—Other monetary intermediation activities
Fiscal Identification Code: 8145422

The Deputy General Manager, Stefano Borsari, takes responsibility for preparation of the annual financial statements as at and for the year ended 31 December 2016 and confirms the following:

a) the accounting policies used in the preparation of the annual financial statements comply with the applicable accounting regulations (namely International Financial Reporting Standards as endorsed by European Union);

b) the annual financial statements present fairly the financial position, financial performance as well as the other information regarding the activity performed.

c) The Bank is a going concern.

Stefano Borsari
Deputy General Manager

(all amounts are presented in RON, unless otherwise stated)

	Note	2016	2015
Interest income		150,661,595	184,073,980
Interest expense		-33,984,018	-57,098,723
Net interest income	7	**116,677,577**	**126,975,257**
Fee and commission income		34,429,507	36,130,208
Fee and commission expense		-6,888,054	-8,086,167
Net fee and commission income	8	**27,541,453**	**28,044,041**
Net trading income	9	16,779,242	18,334,050
Other income from sale of financial assets available for sale	10	5,600,700	3,414,514
Other operating income		3,835,113	1,600,733
Total income		**170,434,085**	**178,368,595**
Net impairment loss on loans and advances to customers	18	-27,218,550	-38,091,597
Net impairment loss on financial assets available for sale	11	-742,379	-
Net gain/(losses) from disposal of assets		32,957	272,459
Impairment of equity investments	19	-1,576,143	-5,000,000
Net charge / (release) of provisions for risks and charges	29	-7,179,076	5,072,659
Personnel expenses	11	-57,184,545	-63,168,436
Depreciation, amortization and impairment of tangible and intangible assets and investment property	20,21, 22	-17,927,452	-14,302,347
Other operating expenses	12	-43,625,421	-52,340,253
Profit before tax		**15,013,476**	**10,811,080**
Income tax expense	13	-	-
Profit for the year		**15,013,476**	**10,811,080**

The financial statements were approved by the Board of Directors on 30 March 2017 and were signed on its behalf by:

Stefano Borsari	Ana-Maria Enache
Deputy General Manager	Chief of Accounting Department

Accompanying notes are an integral part of these financial statements.
This version of the accompanying financial statements is a translation from the original and official version, which was prepared in Romanian. All possible care has been taken to ensure that the translation is an accurate representation of the original and official Romanian version. However, in all matters of interpretation of information disclosed, views or opinions, the original and official Romanian version of the financial statements takes precedence over this translation.

(all amounts are presented in RON, unless otherwise stated)

	2016	**2015**
Profit for the year	**15,013,476**	**10,811,080**
Other comprehensive income, net of income tax		
Items that are or may be reclassified to profit or loss		
Reserves related to financial assets available for sale		
Net change in fair value	-10,767,296	-8,154,744
Net amount transferred from reserve to profit or loss	5,423,153	3,348,984
Related tax	912,927	768,922
Other comprehensive income, net of tax	**-4,431,216**	**-4,036,838**
Total comprehensive income for the year, net of tax	**10,582,260**	**6,774,242**

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Stefano Borsari
Deputy General Manager

Ana-Maria Enache
Chief of Accounting Department

(all amounts are presented in RON, unless otherwise stated)

	Note	31 December 2016	31 December 2015
ASSETS			
Cash and balances with central bank	15	606,498,362	712,170,436
Placements with banks	16	123,298,938	110,600,698
Derivative assets held for risk management	17	2,985,715	1,834,602
Financial assets at fair value through profit and loss	19	429,806	545,090
Loans and advances to customers	18	2,825,725,918	2,805,709,917
Financial assets available for sale	19	398,360,414	482,911,974
Equity investments	19	-	5,845,616
Property and equipment	20	62,099,468	69,620,679
Intangible assets	21	21,208,921	24,021,122
Investment property	22	6,867,795	7,027,114
Deferred tax assets	23	15,911,575	15,911,575
Other assets	24	25,121,585	20,086,635
TOTAL ASSETS		**4,088,508,497**	**4,256,285,458**
LIABILITIES			
Derivative liabilities held for risk management	17	2,961,924	1,718,017
Deposits from banks	25	113,300,087	142,625,239
Borrowings from banks	27	651,332,422	660,985,074
Deposits from customers	26	2,750,907,904	2,900,066,773
Subordinated borrowings	28	31,816,902	31,710,039
Provisions	29	22,181,743	14,985,696
Deferred tax liabilities	23	280,051	1,192,978
Other liabilities	30	29,325,286	27,181,724
TOTAL LIABILITIES		**3,602,106,319**	**3,780,465,540**
EQUITY			
Share capital	31	926,814,210	926,814,210
Share premium	31	251,628,890	251,628,890
Accumulated losses		-722,504,443	-736,767,245
Reserves	31	30,463,521	34,144,063
TOTAL EQUITY		**486,402,178**	**475,819,918**
TOTAL LIABILITIES AND EQUITY		**4,088,508,497**	**4,256,285,458**

The financial statements were approved by the Board of Directors on 30 March 2017 and were signed on its behalf by:

Stefano Borsari
Deputy General Manager

Ana-Maria Enache
Chief of Accounting Department

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BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.
STATEMENT OF CHANGES IN EQUITY
for the year ended at 31 December 2016
(all amounts are presented in RON, unless otherwise stated)

	Attributable to equity holders of the Bank					
	Share capital	**Share Premium**	**Accumulated losses**	**Reserves related to financial assets available for sale**	**Other reserves**	**Total**
Balance at 1 January 2015	**926,814,210**	**251,628,890**	**-747,037,771**	**10,299,975**	**27,350,971**	**469,056,275**
Comprehensive income						
Profit for the year	-	-	10,811,080	-	-	10,811,080
Net variation in reserves for financial assets available for sale	-	-	-	-4,036,838	-	-4,036,838
Statutory reserve set-up	-	-	-540,554	-	540,554	-
Realised reserves					-10,599	-10,599
Total comprehensive income	-	-	**10,270,526**	**-4,036,838**	**529,956**	**6,763,643**
Transactions with shareholders, recorded directly in equity	-	-	-	-	-	-
Balance at 31 December 2015	**926,814,210**	**251,628,890**	**-736,767,245**	**6,263,137**	**27,880,926**	**475,819,918**
Balance at 1 January 2016	**926,814,210**	**251,628,890**	**-736,767,245**	**6,263,137**	**27,880,926**	**475,819,918**
Comprehensive income						
Profit for the year	-	-	15,013,476	-	-	15,013,476
Net variation in reserves for financial assets available for sale	-	-	-	-4,431,216	-	-4,431,216
Statutory reserve set-up	-	-	-750,674	-	750,674	-
Total comprehensive income	-	-	**14,262,802**	**-4,431,216**	**750,674**	**10,582,260**
Transactions with shareholders, recorded directly in equity	-	-	-	-	-	-
Balance at 31 December 2016	**926,814,210**	**251,628,890**	**-722,504,443**	**1,831,921**	**28,631,600**	**486,402,178**

The financial statements were approved by the Board of Directors on 30 March 2017 and were signed on its behalf by:

Stefano Borsari	Ana-Maria Enache
Deputy General Manager	Chief of Accounting Departament

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(all amounts are presented in RON, unless otherwise stated)

	Note	2016	2015
Cash flows from operating activities			
Profit before taxation		**15,013,476**	**10,811,080**
Adjustments for:			
Depreciation, amortization and impairment of tangible and intangible assets and investment property	20,21, 22	17,927,452	14,302,347
Net impairment loss on financial assets	18, 11	27,960,929	38,091,597
Change in fair value of financial assets at fair value through profit and loss		208,078	28,919
Impairment of equity investments	19	1,576,143	5,000,000
Net charge / (release) of provisions for risks and charges		7,179,076	-5,072,659
Other non-cash adjustments		-5,529,643	-5,236,646
Operating profit before changes in operating assets and liabilities		**64,335,511**	**57,924,638**
Changes in operating assets:			
(Increase)/decrease in loans and advances to customers		-62,380,570	37,621,090
(Increase)/decrease in other assets		6,936,767	-5,631,538
Change in operating liabilities:			
Increase /(decrease) in deposits from banks		3,684,700	88,623,417
Increase /(decrease) in deposits from customers		-149,158,869	-167,012,636
Increase /(decrease) in other liabilities		2,143,561	2,652,218
Net cash (used in)/from operating activities		**-134,438,900**	**14,177,189**
Cash flows from investing activities			
Income from sale of tangible assets		-	649,876
Acquisition of tangible and intangible assets		-7,066,979	-5,052,509
Acquisition of equity investments		-	-1,658,450
Proceeds from equity closures		5,921,639	-
Proceeds from sale of financial assets available for sale		84,384,198	16,939,075
Dividends received		2,434,015	315,081
Net cash from investing activities		**84,020,707**	**11,193,073**
Cash flows from financing activities			
Repayment of borrowings from banks		-42,555,640	-113,549,335
Net cash used in financing activities		**-42,555,640**	**-113,549,335**
Net decrease in cash and cash equivalents		-92,973,833	-88,179,073
Cash and cash equivalents at 1 January		**822,771,133**	**910,950,206**
Cash and cash equivalents at 31 December	32	**729,797,300**	**822,771,133**

	2016	**2015**
Cash flows from operating activities include:		
Interest received	136,171,471	158,685,625
Interest paid	-47,834,888	-54,195,300

The financial statements were approved by the Board of Directors on 30 March 2017 and were signed on its behalf by:

Stefano Borsari
Deputy General Manager

Ana-Maria Enache
Chief of Accounting Departament

(all amounts are presented in RON, unless otherwise stated)

1. REPORTING ENTITY

Banca Comerciala Intesa Sanpaolo Romania S.A. ("the Bank") was established in Romania in December 1996, originally under the name "West Bank" and is accredited by the National Bank of Romania to perform banking activities. The bank changed its name from "West Bank" to "Sanpaolo IMI Bank Romania" after approval by the National Bank of Romania on 16 October 2003 and finally in "Intesa Sanpaolo Romania Commercial Bank" after approval by the National Bank of Romania on 14 January 2008 as a result of the merger between Banca Intesa and Sanpaolo IMI.

The Bank's main activity is to provide banking services to companies and individuals. These include: opening of deposit, local and abroad payments, foreign exchange operations, credit lines, medium term facilities, letters of guarantee, letters of credit and financing micro enterprises and small and medium enterprises which are operating in Romania etc.

As at 31 December 2016, the Bank had 35 branches, 10 agencies, resulting a total of 45 units plus the headquarters and a total number of 588 employees. As at 31 December 2015, the bank had: 35 branches, 10 agencies (a total of 45 units plus the headquarters) and a total number of 656 employees.

The headquarter of the Bank is located at the following address: Nicolae Caramfil Street, no. 85A, Art Business Center, 4th floor, sector 1, zip code 014142, Bucharest, Romania.
The secondary headquarter: B-dul Revolutiei No. 88, Arad, Romania.

The Board of Directors of the Bank comprises 7 members elected by the General Meeting of Shareholders.

The Board of Directors of the Bank comprises the following members:

	31 December 2016		31 December 2015	
1.	Giovanni Ravasio	President	Giovanni Ravasio	President
2.	Ezio Salvai	Vice-president	Ezio Salvai	Member
3.	Giampiero Trevisan	Member	Giampiero Trevisan	Member
4.	Alexandru Ene	Member	Alexandru Ene	Member
5.	Luca Finazzi	Member	Luca Finazzi	Member
6.	Giovanni Bergamini	Member	Giovanni Bergamini	Member
7.	Tunde Barabas	Member	-	

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1. Statement of Compliance

As at 31 December 2016 the financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS") and their interpretations, issued by the International Accounting Standards Board ("IASB") as endorsed by the European Union, in force at the end of the year 2016.

Those financial statements have been prepared in accordance with the following legislation:

- The Order of the National Bank of Romania no. 27/2010 for adopting the accounting regulations in accordance with the International Financial Reporting Standards endorsed by the European Union;

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

2.1. Statement of Compliance

- Accounting Law no.82/1991 (republished and modified).
- Accounting policies presented in the notes of the financial statements.

The parent company which prepares the consolidated financial statements is INTESA SANPAOLO SpA, located in Italy, 10121 Torino, Piazza San Carlo no. 156.

The annual consolidated financial statements are available for public view on INTESA’s website (www. group.intesasanpaolo.com). The Bank fulfils the above criteria through the membership to Intesa Sanpaolo Spa which prepares and publishes financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union.

2.2. Basis of measurement

The Bank's accounting records are maintained in RON, according to accounting legislation of Romania, as well as banking regulations in force issued by the National Bank of Romania.
The financial statements have been prepared on a historical cost basis, except financial derivatives, financial assets held for sale which are evaluated at fair value.

Other financial assets and liabilities and non-financial assets and liabilities are carried at amortized cost, revaluated amount or historical cost.

2.3. Functional and presentation currency

Management believes that functional currency as defined by IAS 21 ("The Effects of Changes in Foreign Exchange Rates") is RON. The financial statements are presented in RON.

2.4. Use of estimates and judgments

Preparation of financial statements is performed by applying the Bank's accounting policies, which are in accordance with IFRS as adopted by the European Union. In the process of applying the Bank's accounting policies, management proceeds to the use of judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses.
The estimates and associated assumptions are based on historical data and other factors considered to be eloquent in the circumstances, and the result of these factors form the basis of judgments used in determining the carrying amount of assets and liabilities for which there are no other sources of evaluation available. Actual results could differ from these estimates. Estimates and judgments are periodically reviewed. Revision of accounting estimates are recognized in the period in which the estimate is performed and in any future periods affected, if the revision affects both current period and future periods.
Information regarding the significant estimates and judgments in applying accounting policies that have a significant effect on the amounts recognized in the financial statements are presented in Notes 5 and 6.

(all amounts are presented in RON, unless otherwise stated)

3. CHANGES IN ACCOUNTING POLICIES

The Bank has consistently applied the significant accounting policies described in section 4 for all periods presented in these financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the bank at the exchange rates available at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated to the functional currency at the exchange rate of that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated 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 exchange rates at the dates the fair value was determined.

The exchange rates of the main foreign currencies were:

Currency	31 December 2016	31 December 2015	%
Euro (EUR)	1: RON 4.5411	1: RON 4.5245	+ 0.36%
US Dollars (USD)	1: RON 4.3033	1: RON 4.1477	+3.75%

b) Accounting for the effect of hyperinflation

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy are restated in terms of the measuring unit current at the end of the reporting period (i.e. non-monetary items are restated using a general price index from the date of acquisition or contribution).

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

c) Interest income and expenses

Interest income and expenses are recognized in the income statement 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 the relevant period.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.
Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Interest income and expenses (continued)

The calculation of the effective interest rate (EIR) includes all fees and commissions, paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income related to leasing contracts is recognised in the income statement during the period of the contract, resulting a constant rentability during contract. Income from leasing contracts include the value of the amortised commissions retained in advance, for example the administration fees received from the owner at the beginning of the leasing contract.

d) *Fees and commissions*

Fees and commission income and expenses that are directly attributable to the financial asset or liability origination are included in the measurement of the effective interest rate.

Other fee and commission income arising on the financial services provided by the Bank is recognized in the profit and loss account as the related service is provided, under the accrual basis of accounting.

Other fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

e) *Dividends*

Dividend income is recognized in the profit and loss account when the right to receive income is established. Dividends are reflected as a component of other operating income in the Income Statement.

Dividends are treated as an appropriation of profit in the period they are declared and approved by the General Meeting of Shareholders

f) *Lease payments*

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

g) Net trading income

This category comprises gains less losses related to trading assets and liabilities and derivatives held for risk management, and includes all realized and unrealized fair value changes and foreign exchange differences.

h) Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Income tax (continued)

substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of prior periods.

Deferred tax is provided using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available to cover the tax loss.

Additional income taxes that arise from the distribution of dividends are recognized at the same time 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%).

i) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the financial instrument.

(ii) Classification

Financial assets:
The Bank classifies its financial assets in the following categories:

- Loans and receivables
- Held until maturity
- Available for sale and
- At fair value through profit or loss, and in the same category:
  - held for trading or
  - designated at fair value through profit or loss

Financial liabilities:

The Bank classifies the financial liabilities, other than financial guarantees and loan commitments, at amortised cost or fair value through profit or loss.

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets and liabilities (continued)

(iii) Derecognition (continued)

substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

When the Bank sells a financial asset and simultaneously signs a repurchase agreement of the asset (or a similar asset) at a fixed price and at a time set ("repo"), the contract is recorded as a loan from banks and asset to which it relates continues to be recognized in the balance sheet of the Bank.
The Bank enters into a transaction that transfers assets recognized in the balance sheet, but retains either all risks or rewards of the transferred assets or a part thereof. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or most significant risks and rewards include, for example, securities lending or sale transactions with repurchase clause.

For transactions in which the Bank neither retains nor transfers substantially the risks and rewards of ownership of a financial asset, the asset is derecognized if the Bank lost the control over it.

The rights and obligations retained after a transfer are recognized separately as assets and liability, respectively. In transfers where control over the asset is retained, the Bank continues to recognize the asset to the extent that it remains involved, the degree of involvement being determined by the degree to which the Bank is exposed to changes in the value of the asset transferred. The Bank derecognises a financial liability when its obligations are discharged or cancelled or expired.

The Bank uses the specific identification method to determine the gain or loss on derecognition.

Following the recommendations of the National Bank of Romania, the loans in non-collection situation (with recovery estimation 0 or insignificant value) entirely provided for were recorded outside balance sheet, and the accounting policy updated accordingly.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis, or realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method, of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets and liabilities (continued)

(vi) ***Fair value measurement***

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

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

The fair value of traded financial instruments on an active market is based on the *mid* price (stock markets, dealer markets, broker markets) or on the *mid* price established by the broker/dealer which is posted through electronic information posting platforms (Bloomberg, Reuters), with no deduction for transaction costs.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include pricing models and discounted cash flows. The cash flows estimated are determined based on the management's best estimate and market discount rate as at the reporting date for a similar instrument. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. Where a fair value cannot be estimated reliably for a financial instrument that is not traded on an active market, the financial instrument is valued at cost and is tested for impairment as at the reporting date.

The Bank recognises transfers between levels of the fair value hierarchy as of the date or change in circumstances in which the change has occurred.

(vii) Identification and measurement of impairment

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets not carried at fair value through profit or loss are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The amount of the reversal is recognised in profit or loss.

Loans and advances to customers

The Bank, based on its internal impairment assessment methodology, has included observable data on the following loss events that comes to its attention as objective evidence that loans and advances to customers or groups of loans to customers are impaired:

a) significant financial difficulty of the borrower such as breach of contract, default or delinquency in interest or principal payments of the borrowers (individually and in the same group of borrowers);
b) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider such as the rescheduling of the interest or principal payments;
c) is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
d) observable data indicating that there are economic or social conditions that can influence adversely the industry in which the borrower operates and that affect these borrowers.

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

Loans and advances to customers that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, loans and advances to customers are grouped on the basis of similar credit risk (size, debt service on the reporting date, type of customer, sector, and type of product) characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

Future cash flows in a group of loans to customers that are collectively evaluated for impairment are estimated on the basis of historical probability of default and estimations regarding loss given default for loans with credit risk characteristics similar to those in the group. Historical probability of default experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The management estimates are based on the visible effects of current loans conditions. Significant changes in financial markets may generate significant adjustments on loss rates.

Available for sale financial assets

Upon initial recognition, the available for sale financial assets are recorded at fair value including the transaction costs. They are subsequently measured at fair value. When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from equity and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

Financial assets carried at cost

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

Restructured exposures are debt contracts for which restructuring measures were applied.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets and liabilities (continued)

(viii) Restructured loans

Restructuring measures are concessions given to a debtor that has or is about to have difficulties in meeting the financial commitments. ("financial difficulties").

A concession refers to one of the following actions:

a) modification of previous terms and conditions of a contract for which the Bank considers that the borrower can no longer meet its financial commitments due to financial difficulties, in order to allow a sufficient capacity of the debt service, modification which would not have been granted if the borrower had not been in financial difficulties;

b) total or partial refinancing of a contract related to a non-performing asset, which would not have been granted if the borrower had not been in financial difficulties.

For the exposure to be identified as restructured exposure, the following conditions must be met cumulatively:
- the Bank must identify the financial difficulties which a client has or is about to have;
- the exposure must be subject to a concession.

Financial difficulty is not related to events of conjunctural nature, but is identified based on business analysis of the client.

Restructured exposures comprise the following two categories:
1. performing exposures with restructuring measures: include the restructured exposures that meet the following conditions cumulatively:
a) the exposure was performing on the date of application of the restructuring measures;
b) application of these measures did not lead to classification of the exposure as being non-performing.

2. non-performing exposures with restructuring measures include restructured exposures that meet one of the following conditions:
a) the exposure was non-performing on the date of application of the restructuring measures;
b) the exposure will be classified as non-performing (the borrower's financial difficulties are considered significant)

Reclassification from the performing restructured exposures category is made when the following conditions are met cumulatively:
a) the restructured exposure is considered performing, including the situation when it was reclassified from the non-performing exposures category following the analysis of the borrower's financial situation showing that the conditions to be classified as non-performing are no longer met;
b) a probation period of at least two years passed from the date the restructured exposure was classified as performing
c) during at least half of this probation period occurred, payments (cumulated principal and interest) were that cannot be considered as non-significant (<5% of the principal at the restructuring date) made regularly;
d) at the end of the probation period, none of the exposures to the borrower is more than 30 days past due.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Financial assets and liabilities (continued)

Non-performing exposures subject to restructuring measures applied as a result of borrower's financial difficulties are considered to be reclassified from the non-perfoming exposures category when the following conditions are met cumulatively:

a) exposures are no longer considered depreciated or default;
b) at least a year passed since the application of the restructuring measures;
c) as a result of application of the restructuring measures, there are no amounts overdue or concerns about full repayment of the exposure in accordance with the post-restructuring terms and conditions.

(ix) Designation at fair value through profit or loss

The Bank designates financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

j) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

k) Financial assets and liabilities owned for transaction purposes

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.
Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.
At 31 December 2016 and 31 December 2015 the Bank does not have trading assets and liabilities.

l) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities or hedging instruments.

Derivatives held for risk management purposes are initially recognised at fair value. After their initial recognition, derivatives are subsequently measured at their fair values without any deduction for transactions costs to be incurred on sale or disposal. The changes in the fair value of such instruments are recognised immediately in profit or loss as a component of Net trading income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Loans and advances

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method as described in the Note 4.d. above, except when the Bank chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (j) (vii) see above.

Loans and advances are presented net of impairment allowance (see accounting policy (j) (vii) above).

n) Investment securities

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

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount 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 prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

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

(ii) Available for sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised as other operating income in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Property and equipment

(i) Recognition and measurement

Items of property and equipment are stated at their cost or revaluated amount less accumulated depreciation and impairment losses.

(ii) Subsequent costs

The Bank recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow 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.

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative period are as follows:

	Economic useful life in years	Average useful life in years
Buildings	25-50	29
Office equipment, lightning and accessories	3-15	11
Other assets	5	5

Improvements in rented premises are depreciated over the rental agreements periods.

p) Intangible assets

Computer software

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

Costs associated with developing or maintaining computer 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 Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives (no more than 5 years), from the date that is available for use.

Subsequent expenditure on software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Bank accounts for investment property using the cost model (less impairment). The average useful life is 30 years.

r) Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

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

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

As for other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

s) Deposits from costumers

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

t) Borrowings

Borrowings such as loans from banks and other financial institutions and other liabilities evidenced by paper such as subordinated loans or bonds issued are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs occurred. Borrowings and other liabilities evidenced by paper are subsequently stated at amortised cost.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Provisions

A provision is recognised in the statement of financial position when the Bank has 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

v) Financial guarantees and loan commitments

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

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantee or loan commitments are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee or the commitment.

The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

The policy of provisioning of off-balance sheet exposures applied by the Bank takes into account their probability of execution, probability of default, loss in case of default and/or recovery estimates for impaired items.

w) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

The Bank, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension, health care and unemployment benefit. All employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognised as an expense in the income statement as incurred. The Bank does not have any further obligations.
The Bank does not operate any independent pension scheme and, consequently, have no obligation in respect of pensions. The Bank does not operate any other post-retirement benefit plan. The Bank has no obligation to provide further services to current or former employees.

(iii) Employment termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Employee benefits (continued)

number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, than they are discounted to their present value.

(iv) Share-based payments

The Intesa Group has established a mechanism for granting share-based bonuses entitled Lecoip Investment Plan (Leveraged Employee Co-Investment Plan), a part of a plan which will unfold over several years. The beneficiaries are employees of the bank. The main features of the plan are:

- Free shares are granted to employees who are part of the plan. These shares are purchased by the Group on the stock exchange market from Italy;
- Shares cannot be sold immediately, but after a period of minimum 2 years;
- Employees sign a forward contract on the shares when they want to sell them, receiving the cash immediately;
- Employees can subscribe shares at the price received in the context of capital increases (discounted shares).

The Bank records these shares as financial assets available for sale at the time of their purchase. Initially, these instruments are recorded at fair value. Subsequently, before their allocation to the participants, the Bank measures the shares at fair value, the modification being recognized in other comprehensive income. If the share price falls by more than 30%, impairment is recorded directly in the income statement. Debt to employees is recognized upon allocation, at an amount equivalent to the fair value of the shares.

x) *New standards and interpretations not yet adopted*

A. Standards adopted by the European Union:

a) IFRS 9 Financial Instruments (effective date: annual periods beginning on 1 January 2018)

This Standard replaces IAS 39 “Financial Instruments: Recognition and Measurement” on classification and measurement of financial assets. The Bank, together with Intesa Group intend to apply IFRS 9 starting with 1 January 2018.

The impact of implementing IFRS 9 on the financial statements of the Bank for the financial year 2018 is not konown and connot be realiably estimated because the Bank, together with Intesa Group, are currently analyzing and developing the methodologies and processes of classification, evaluation and depreciation, according to the requirements of IFRS 9.

IFRS 9 presents a new approach to classification and measurement of financial assets which reflects the bussines model used by the Bank to manage those assets and the characteristics of their cash flows.

The preliminary impact related to the classification and measurement of the financial assets as at 31 December 2016 could be different from the impact on the financial statements for 2018 because IFRS 9 requires a business model analysis based on the circumstances existing at the effective date, 1 January 2018.

IFRS 9 includes three main categories of financial assets: evaluated at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit and loss (FVTPL).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

x) New standards and interpretations not yet adopted (continued)

Based on the preliminary measurement, the Bank expects that all the financial assets classified as loans and receivables in accordance with IAS 39 will be measured at amortised cost according to IFRS 9 because those assets are held primarily to collect contractual cash flows and contractual terms relate mainly to cash flows on specific dates that comprise payments of principal and interest only. It is yet unclear what percentage of the receivables will be measured at FVTPL, FVOCI or amortised cost, because this delimitation will depend on the result of the business model test. At the moment, the analysis of the business model related to this securities is not complete.

IFRS 9 replaces the historical cost model under IAS 39 with an expected credit losses model (ECL). In accordance with IFRS 9 the Bank will recognise allowances for impairment of financial assets by estimating the ECL throughout the entire lifetime of the asset, excepting securities with insignificant risk of credit at the reporting date and other financial instruments for which credit risk had not increased significantly from initial recognition.

The Bank together with the Intesa Group is currently analysing and developing those models.

The Bank cannot yet reliably estimate a quantitative impact related to the loan impairment under IFRS 9.

b) IFRS 15 – Revenues from contracts with costumers (effective for periods beginning on or after 1 January 2018; earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount.

The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

The calendar and measuring the entity's revenue is not expected to change under IFRS 15, because of the nature of operations and the types of revenues obtained by the entity.
The Bank does not believe that these amendments will have a significant effect on the individual financial statements, as most contracts with clients fall under other standards.

B. Standards that have not been yet approved by the European Union

a) IFRS 16 Leasing contracts (effective for annual periods beginning on 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

x) New standards and interpretations not yet adopted (continued)

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.
The Entity does not expect that the new Standard, when initially applied, will have material impact on the financial statements because the Entity is the lessor in finance leases.

b) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.)

The amendments clarify share-based payment accounting on the following areas:
• the effects of vesting and non-vesting conditions
• share-based payment transactions
• a modification to the terms and conditions of a share-based payment

c) Amendments to IAS 7 (Effective for annual periods beginning on or after 1 January 2017. Early application is permitted.))

The Bank expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Entity.

d) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted)

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

e) Amendments to IAS 40 Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.)

The amendments reinforce the principle for transfers into, or out of investment property in IAS 40 *Investment Property* to specify that such a transfer should only be made when there has been a change in use of the property.

The Bank does not expect the amendments to have an impact, because the two properties classified as investment property are currently leased and, should they no longer be used as such, the properties will be classified into another category.

f) IFRIC 22 Foreign Currency Transactions and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018)

The Interpretation clarifies 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 of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

x) New standards and interpretations not yet adopted (continued)

The Bank does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Bank uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

5. RISK MANAGEMENT

(a) Introduction

This note provides details of the Bank's exposure to risk and describes the methods used by management to control the risks. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk (interest rate risk, currency risk, counterparty risk). The bank is also exposed to reputational risk, strategic risk, operational risk and risk related to taxation.

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

Risk management structure

The Board of Directors is the last responsible for identifying and controlling risks, yet there are separate and independent bodies responsible for managing and monitoring risks. The Bank conducts its entire business on the principles of corporate governance. The Board of Directors and the Management Committee are independent and separate structures.

Board of directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Management Committee

The management committee has the responsibility to monitor the overall risk process within the bank.

5. RISK MANAGEMENT (continued)

(a) Introduction (continued)

Credit Committee

Credit Committee (CC) is a permanent decisional committee, acting within delegations and competencies established by the Board of Directors. Credit Committee is the highest deliberative body in lending activities - within the limits set by the Board of Directors of the Bank and except the competence of the Asset Quality Committee - and has the right to sub-delegation.

Assets Quality Committee

Assets Quality Committee ("AQC") is a permanent decisional committee, acting within delegations and competencies established by the Board of Directors, aiming on taking measures to prevent and reduce losses stemming from lending activity. AQC is the highest deliberative body in all other aspects of lending that is not in the competence of the loan and has the right to sub-delegation.

Financial Risk Committee

The main objective of the Financial Risk Committee is to protect the Bank's own funds and their allocation, to align the Bank's assets and liabilities taking into account the pricing structure and maturity profile in accordance with law, rules and regulations of the National Bank of Romania, internal Bank's structures and its parent company as they were adopted by the Bank. Financial Risk Committee ensures continuous monitoring and control of the Bank's exposure to market risk, liquidity risk and interest rate risk, risk related to shares, property risk and currency risk.

Operational Risk Committee

Operational Risk Committee proposes, approves and verifies aspects of operational risk issuing opinions where is required by law, by parent company or by corporate bodies. Regarding operational risk issues, the main objective of the Committee is to assist the Board of Directors in reviewing the overall operational risk profile of the Bank. Operational risk is the risk of loss due to inadequacy or error process, human resources and internal systems or due to external events. Operational risk also includes legal risk and compliance risk (if associated with legal or administrative sanctions). Legal compliance risk component is also included in the category of operational risk.

Audit, Risk and Compliance Committee

Audit, Risk and Compliance Committee is organised and works by its own Regulation, approved by the Board of Directors.

The Committee annually assesses the adequacy of the internal control framework of the Bank and its subsidiaries. The Committee is a milestone on an ongoing basis for all local control functions and governance functions (Risk Management, Internal Audit, Compliance and Money Laundering) and for the local accounting function (CFO); the Committee must receive regular information related to business trends and specific situations from these structures. The Committee reports and informs the Board of Directors of the Bank at every meeting and at least every six months about the performed activities, suggesting or recommending actions necessary to strengthen the internal control framework.

5. RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is defined as the current or future risk to earnings and capital adversely affected as a result of failure by the debtor of its contractual obligations or failure in meeting the objectives.

Credit risk identification system

Credit risk identification, monitoring, control and administration are activities performed both at the level of the territorial units and Head Office.

The main purpose of the monitoring process of the credit portfolio is to supervise its quality by an early identification (either manual or automatic) of those risk factors, negative symptoms or detrimental events which may affect the creditworthiness of the counterparty, its debt repayment capacity and, as the case may be, the value of the guarantees/ collaterals/ their enforceability.

The frequency of monitoring activities shall be determined depending on the risk profile of the counterparty, the availability and accuracy of information.

The persons assigned to the task within the territorial units and/or the specialized staff of the structures with competencies in credit management have the obligation to analyze and watch the manner in which loan drawings are used, the compliance with the conditions considered in their approval, throughout the loan period, monitoring the reimbursing modality, as well as the status of the reimbursement sources etc. and immediately notifying of any anomaly to the Head Office competent structures, in line with the specific provisions implemented by the Bank.

The monitoring process consists of three different streams:

- Daily monitoring (identification of risk exposures);
- Periodic monitoring activities (at least once a month);
- General monitoring of the portfolio.

The daily relationship with the counterparty and the continuous support provided by the early warning system implemented by the Bank are the basis of the identification of risky exposures in the Banca Comerciala Intesa Sanpaolo Romania S.A. portfolio. The commercial units that manage the crediting relationship with the counterparties are responsible for the detection of negative events (negative symptoms/ detrimental events).

When negative symptoms or detrimental events are identified, a detailed counterparty analysis is necessary for the above mentioned clients that could result in the classification of the counterparty exposure to “problem” or “nonperforming” category, as per stipulations of the dedicated process for risky and nonperforming exposures management.

Portfolio performance evaluation is done on a daily basis (using information from the previous day), based on negative symptoms detectable in the Bank’s database and information available in the morning through the Credit Risk Bureau. Based on this evaluation, customers are classified into two categories, namely, high risk or low risk based on the score obtained by correlating all available information on internal and external database.

5. RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Based on the results of the monitoring and control activities carried out concerning creditworthiness of the client, his payment behavior, as recorded in specific documents implemented by the competent structures of the Bank, the commercial units make proposals of measures, which are submitted to the approval of the hierarchical superior and/or to other competent authorities in this respect.

After their approval, the measures established shall be communicated in writing to the counterparty with a view to their application

Collection and workout process (workout)

During the collection and recovery process, the following main steps were identified:

- „Soft" collection activities
- Action plan
- Recovery activities („hard collection")

The main methods to recover the receivables resulting from the lending activity are:

1. Extrajudicial recovery
2. Judicial recovery.

Both methods are usually activated when the debtor's worthiness is seriously and irreversibly damaged, the purpose being to identify the best strategy for recovering the exposure.

The process may include:

- Restructuring the counterparty's credit exposure (replacement of the exposure),
- Amicably recovery by identifying the potential sources of repayment (usually others than the ones sustained by the debtor's economic-financial performance), that may involve the debtor, and also the co-debtors, guarantees, third parties.
- Enforcement recovery by all means, including over the guarantees issued in the Bank's favor.
- Recovery by including the receivables in a portfolio offered for sale to third parties.
- Moving the assets in the receivables account, followed by selling the assets or transferring the assets to other entities;
- Recovery during the insolvency procedure.

The Bank has defined the following methods of achieving the replacement operations:

- ***Loans rescheduling:*** the method by which the Bank modifies the intermediary maturity and/or the payment of one/or more loan installments, without exceeding the initial loan period
- ***Loans rescheduling - prolongation:*** the method by which the Bank changes the maturity and/or the payment of one/or more installments, by exceeding the initial period of the loan and/or by classifying the loan in a different category (medium/long term).
- ***Loan refinancing:*** the Bank grants a new cash credit facility to reimburse the the partial/complete loan/loans owned by the applicant/counterparty.
- ***Conversion of the revolving loans in non revolving loans,*** a method characterized by eliminating the revolving character of the loan and by switching to a medium or long term product.

(b) Credit risk (continued)

When any amicable method of recovering the exposure is ineffective, the Credit Recovery Department analyses and applies the decision of the competent authority to initiate legal procedures against the debtor/third parties that represent the last solution for the Bank to recover the receivables.

Counterparty's creditworthiness assessment is performed, which could result in the classification of the counterparty exposure to "problem" or "nonperforming" category thus allowing evaluating the best strategy in order to minimize the risk of losses for credit facilities which are still performing and to maximize the recovery of outstanding exposure for nonperforming loans.

Loans and advances to costumers are classified as follows:

Nonperforming Loans, classified as follows**:**

- **Doubtful:** Balance and off-balance sheet exposures (loans, letters of guarantees, derivatives etc.) to borrowers being effectively insolvent (although not yet legally) or in comparable status, regardless of any loss forecasts made by the Bank.
- **Unlikely to pay -** Classification in this category is based on the assessment made by the Bank showing that the debtor is unlikely to completely fulfill the obligation to repay the loan (through repayment of principal and/or interest) without recourse to actions such as execution of collaterals/personal guarantees. Such an assessment should be made regardless of the debt service or outstanding and/or unpaid amounts (rates).
- **Past due: -** Balance sheet exposures (loans, letters of guarantees, derivatives, etc) other than those classified as doubtful, substandard or restructured that, as at reporting date, are past due for over 90 days and also exceed a threshold of materiality representing 5% of the total exposure of the borrower cash.

Performing loans are balance sheet and off-balance sheet exposures (loans, guarantees, derivatives etc.) other than those classified as doubtful, unlikely to pay or past due.

Regarding classification of restructured loans (forborne), the Bank applies EBA standards.

Impairment methodology

Performing loans are collectively assessed based on groups of assets with similar characteristics, as follows:
a) Size
b) Days past due, at the reporting date
c) Customer type (individual or legal entity)
d) Activity
e) Product type

Nonperforming loans are assessed case by case or based on a portfolio approach, as follows:

5. RISK MANAGEMENT (continued)

(b) Credit risk (continued)

- Past Due: impairment of exposures classified within this category, lower than the equivalent of EUR 15,000 is assessed through an automatic calculation;
- Unlikely to pay and doubtful: impairment of exposures below materiality (the equivalent of EUR 250,000) is assessed automatically, while impairment of exposures exceeding the defined threshold is subject to individual assessment.

Assessment based on a portfolio approach, for exposures below materiality, is made by the Risk Management Department on a monthly basis, according to the model developed based on internally available historical information.

The significant exposures are subject to an individual evaluation The recovery forecasts are made at classification, and subsequently every 12 (twelve) months, and in any case, for any relevant event that may occur during the period (i.e. significant changes of the financing period etc.).

Individual assessments of exposures is based on a careful analysis and in-depth qualitative and quantitative analysis of the situation of the debtor, including critical review of these sources of information, without limitation:

i. latest available financial statements (including consolidated, if any) accompanied by the report on operations and the audit report, if any, and the financial statements of previous years;
ii. information regarding specific corporate events (i.e. extraordinary transactions);
iii. positions and current and projected financial results, analysis of the differences between forecasts and current results;
iv. for borrowers belonging to economic groups, information on their internal and external relationships (to assess the risk of contamination or deterioration);
v. the list of banking relationships (credit/using lines / transaction status);
vi. plans and strategies on short and medium term of the customer which are completed with financial projections (for at least three years), estimated cash flow statement, analysis of product, sector and market research, etc.;
vii. any documentation from third party experts regarding the reasons that led to the deterioration of the debtor and potential actions to reorganize the company out of the crisis;
viii. business profiles updated from the Chamber of Commerce / Trade Register or equivalent surveys, cadastral on all debtors and guarantees;
ix. the nature and validity of the guarantee, the valuation for each asset, the presence of mortgage / collateral, other than of the bank;
x. recent and historical reports of the Credit Office.

An analytical assessment is made for each individual credit on the basis of the risk implied by the technical form of the outstanding, the degree of dependence on any mitigating factors, and if significant, the financial effects of the time realistically estimated as necessary for its recovery.

A recovery forecast is based on evaluating the significance of guarantee / allocated collateral, type of use, any agreed repayment plans, counterparty solvency and current and future profitability, in order to determine the recoverable amount representing the net present value of all amounts recovered that the bank can obtain.

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

(b) Credit risk (continued)

	Loans to customers		Placements with banks		Financial assets available for sale		Loan commitments and guarantee letters	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Maximum exposure to credit risk								
Total net exposure	**2,825,725,918**	**2,805,709,917**	**651,215,684**	**755,110,209**	**398,360,414**	**482,911,974**	**1,141,875,068**	**1,107,793,317**
Non-performing loans, individually impaired:								
Doubtful	107,958,199	739,293,135	-	-	-	-	13,453	1,199,621
Unlikely to pay	64,652,762	69,037,841	-	-	-	-	107,863	812,890
Past due	783,072	5,625,793	-	-	-	-	7,646	2,918
Gross exposure	**173,394,033**	**813,956,769**					**128,962**	**2,015,429**
Impairment allowance	(98,642,442)	(582,735,196)	-	-	-	-	(74,885)	(734,017)
Net exposure	**74,341,289**	**231,221,573**	-	-	-	-	**54,077**	**1,281,412**
out of which rescheduled, at net value	*36,028,985*	*74,054,077*	-	-	-	-	-	-
Performing Loans	2,816,078,014	2,625,272,269	-	-	-	-	1,147,403,322	1,108,339,685
Gross exposure	**2,816,078,038**	**2,625,272,269**	-	-	-	-	**1,147,403,322**	**1,108,339,685**
Impairment allowance	(65,103,711)	(50,783,925)	-	-	-	-	(5,582,331)	(1,827,780)
Net exposure	**2,751,384,629**	**2,574,488,344**	-	-	-	-	**1,141,820,991**	**1,106,511,905**
out of which rescheduled, at net value	*53,615,748*	*114,316,943*						
Past due, performing loans								
< 30 days	118,750,878	130,132,945						
31 - 60 days	17,237,844	36,344,823						
61 - 90 days	11,585,179	8,959,781						
>91 days (overdue amounts less than 5% of total debtor exposure)	5,165,172	9,371,145						
Net exposure	**152,739,073**	**184,808,694**						
Out of which rescheduled, at net value	*11,202,290*	*8,857,914*						

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

(b) Credit risk (continued)

	Loans to customers		Placements with banks		Financial assets available for sale		Loan commitments and guarantee letters	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Current performing loans	2,598,645,556	2,389,679,650	651,215,684	755,110,209	398,360,414	482,911,974	1,138,618,455	1,106,511,905
Net exposure	**2,598,645,556**	**2,389,679,650**	**651,215,684**	**755,110,209**	**398,360,414**	**481,375,092**	**1,138,618,455**	**1,106,511,905**
Out of which rescheduled, at net value	*42,413,458*	*105,459,029*	-	-	-	-	*1,998,491*	-

Impaired loans and advances

The Bank classified loans and advances as being impaired where there is proper evidence that a loss event has occurred after the initial recognition and that loss event has an impact on the estimated future cash flows of the asset.

Overdue and not-individually impaired exposures

Overdue and not-impaired exposures are those exposures for which there is interest and instalment overdue and payment installments, for which the Bank believes that there is no sufficient evidence to lead to prominence them as nonperforming because of the delay in number of days, of the outstanding amount towards the total exposure and economic and financial situation of the client.

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)
b) Credit risk (continued)

Collaterals held and other techniques to reduce credit risk – fair values

	31 December 2016	31 December 2015
Performing loans		
Mortgages	3,451,527,123	3,427,857,776
Pledge on equipment	247,750,438	319,621,355
Pledge on goods, merchandize etc.	133,835,416	151,957,409
Other express, irrevocable and unconditional personal guarantees issued by the National Loan Guarantee Fund for Small and Medium-sized Enterprises (FNGCIMM SA)	13,786,208	25,434,152
Guarantees received from the public institutions of Romania –0% level of risk, “First Home” program	186,256,737	163,804,029
Pledge on vehicles	49,027,045	96,640,532
Letters of guarantee	417,003,237	446,583,535
Other express, irrevocable and unconditional personal guarantees issued by FGC of Romania	14,213,734	31,656,976
Pledge on collateral deposits	20,628,367	20,279,421
Intrinsic guarantees related to financial leasing	32,304,493	40,674,475
Total	**4,566,332,798**	**4,724,509,660**

Collaterals held and other techniques to reduce credit risk – fair values

	31 December 2016	31 December 2015
Non-performing loans		
Mortgages	180,849,778	779,203,955
Pledge on equipment	17,858,062	87,158,661
Pledge on goods, merchandize etc.	3,304,320	21,921,053
Other express, irrevocable and unconditional personal guarantees issued by the National Loan Guarantee Fund for Small and Medium-sized Enterprises (FNGCIMM SA)	11,254,760	46,139,132
Guarantees received from the public institutions of Romania –0% level of risk, “First Home” program	1,032,716	293,570
Pledge on vehicles	4,193,123	9,725,721
Letters of guarantee	52,158	137,810
Other express, irrevocable and unconditional personal guarantees issued by FGC of Romania	12,560,236	6,075,688
Pledge – collateral deposits	98,218	218,516
Intrinsic guarantees related to financial leasing	1,554,581	2,914,174
Total	**232,757,952**	**953,788,280**

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Loans secured by mortgages

The table below stratifies credit exposures on mortgages and advances to retail customers and corporate on loan-to-value intervals (LTV). LTV is calculated as the ratio of the gross amount of the loan - or committed amount for loan commitments - and the collateral value. Gross amounts exclude any adjustments for impairment.

Evaluation of collaterals excludes any adjustments for obtaining and selling of collateral. Collateral values presented below for mortgage loans are based on the value of revalued collateral in accordance with the latest revaluation report made by ANEVAR certified valuators.

	Loan to value rate (LTV)	31 December 2016	31 December 2015
	Sub 50%	252,225,749	225,830,855
	51% -70%	269,884,475	436,723,030
Corporate	71% - 90%	189,684,679	264,028,928
	91% - 100%	81,709,467	82,316,436
	>100%	547,377,401	954,236,125
	Total	**1,340,881,771**	**1,963,135,374**

	Loan to value rate (LTV)	31 December 2016	31 December 2015
	Sub 50%	162,340,569	140,648,495
	51% -70%	182,349,572	171,590,955
Retail	71% - 90%	301,003,591	307,884,686
	91% - 100%	38,044,872	59,898,738
	>100%	42,278,712	55,276,006
	Total	**726,017,315**	**735,298,880**

"First Home" product was not included in the above presentation of the Retail category, because for this product type the mortgage real estate value is 50% in favour of the Bank and 50% in favour for the state through FNGCIMM. As at 31 December 2016, total exposures related to the "First Home" program totals RON 374.59 million (31 December 2015: RON 327.35 million)

As at 31 December 2016, in the 100%-110% LTV segment, the Bank includes 129 loans with an exposure of RON 81.31 million, while the >110% LTV segment 478 loans with an exposure of RON 515.63 million.

Total exposure of clients with loans below EUR 250,000 secured by mortgages (excluding "First Home" program) is in the amount of RON 1.06 billion, out of which exposures with LTV above 100% amount to RON 127.7 million.

In the Corporate clients case, the LTV >100% segment, beside mortgages, the Bank obtained other types of guarantees which are not taken into consideration in the LTV from above calculation, having a total value of RON 242.65 million.

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Also, loans to individuals that have LTV greater than 100% as at 31 December 2016 were guarantees that were not revaluated timely, so the used collateral value was reduced to zero. Total exposure to these cases are worth RON 12.32 million. After 31 December 2016 these guarantees were evaluated and therefore used in credit risk mitigation.

As for loans granted to legal entities that have LTV greater than 100%, in risk mitigation there are also used other types of guarantees. Thus, for the amount of RON 331.19 million exposure, the Bank has a total of RON 242.65 million other guarantees used to mitigate risk, not taken into account in the calculation of LTV. Also exposures in amount of RON 19.83 million mortgage guarantees have not been evaluated timely, therefore their value has been reduced to zero. As of 31 December 2016 these guarantees have been revalued.

In addition to assessing the quality of corporate customers, in accordance with the internal procedures the Bank revaluates commercial mortgage collaterals at least once a year and residential mortgage collaterals once every 3 years.

Assets obtained by taking into possession collaterals

The situation of the acquired assets, net worth:

	31 December 2016	31 December 2015
Properties	6,867,795	7,027,114

The assets acquired from collaterals are registered in the category of real estate investments, detailed in note 22.

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

b) Credit risk (continued)

Concentration by sector	Loans to customers		Placements with banks		Available for sale financial instruments	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2014	31 December 2015
Agriculture	217,076,319	287,430,505	-	-	-	-
Other activities	3,561,765	7,527,484	-	-	-	-
Commerce	331,628,835	296,304,931	-	-	-	-
Constructions	117,216,441	176,848,877	-	-	-	-
Processing and conservation	11,165,358	24,233,512	-	-	-	-
Manufacturing(gas, electric energy)	25,082,620	55,429,146	-	-	-	-
Extraction (oil, gravel)	8,328,675	7,296,189	-	-	-	-
Furniture, shoes, equipment manufacturing	364,508,567	340,652,448	-	-	-	-
Other industrial activities	125,728,005	105,164,617	-	-	-	-
Transportation services	49,715,388	46,860,830	-	-	-	-
Hotels	55,209,036	52,898,087	-	-	-	-
Real estate	119,858,469	144,430,321	-	-	-	-
Leasing	25,745,071	2,662,790	-	-	-	-
Car and ships repairs	3,195,982	1,946,060	-	-	-	-
Other services	266,823,928	207,644,802	-	-	253,709	253,709
Individuals	1,100,839,863	1,048,379,318	-	-	-	-
Banks	41,595	-	651,215,684	755,110,209	1,211,838	1,536,882
Sovereign exposures	0	-	-		396,894,867	481,121,383
Total net exposure	**2,825,725,918**	**2,805,709,917**	**651,215,684**	**755,110,209**	**398,360,414**	**482,911,974**

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)
b) Credit risk (continued)

The portfolio of government securities held and classified as available for sale is described below

	31 December 2016	31 December 2015
Government securities and treasury bills:		
Rating BBB- (Fitch)	**398,360,414**	**481,375,092**

The table below describes the exposures arising from financial derivatives. Overall transactions with the derivatives of the Group are fully secured by cash.

	Banking institutions		Other	
31 December 2016	**Notional**	**Fair value**	**Notional**	**Fair value**
Financial derivatives acquired	503,789,266	1,631,444	564,352,060	1,354,271
Financial derivatives sold	503,736,306	1,663,263	564,425,068	1,298,661
31 December 2015				
Financial derivatives acquired	323,217,046	1,562,501	237,911,691	272,101
Financial derivatives sold	323,137,811	1,529,449	237,880,550	188,568

Situations that may lead to the emergence of country risk may include events such as those that affect profitability and return on investment. This category may include nationalization, compensations, restrictions on repatriation of profits. Other situations that may generate country risk are: raising taxes, corruption, restrictive regulatory framework for foreigners, etc.

A number of other factors can also influence country risk. From the demographic and educational dynamics, private sector investments policy, banking system and to external debt, all of them affect the economic situation of the country and may underlie the country risk.

In terms of country risk, as indicated by the guidelines of Intesa Group. Eurozone countries are not subject to continuous monitoring.

(c) Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk management

Liquidity risk arises because of the possibility that the bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on regular basis. The bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high liquid assets which could be used to secure additional funding if required.

The Bank maintains a portfolio of eligible assets that are assumed to be easily liquidated

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

in the event of an unforeseen interruption of cash flow. The Bank also has EUR 270,000,000 money market limit with Intesa Sanpaolo S.p.A. Milan and a committed back-up line of credit in amount of EUR 50,000,000 from Intesa Sanpaolo S.p.A. Milan that it can access to meet liquidity needs in case of a liquidity crisis. In accordance with the Bank's policy the liquidity position is assessed and managed under a variety of scenarios, giving consideration to stress factors relating to both the market in general and specifically to the Bank.

Liquidity risk exposure

The key ratio used by the Bank for the management of Liquidity Risk is the ratio between net liquid assets and customer accounts. For this purpose net liquid assets are considered as cash and cash equivalents, securities for which there is an active and liquid market less any deposits from banks, debt securities, loans and other liabilities due the following month.

Rate of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	2016	2015
As at 31 December	32.73%	58.25%
Average for the period	37.33%	50.25%
Maximum for the period	47.85%	67.74%
Minimum for the period	22.93%	37.68%

The liquidity ratio is calculated as the ratio between effective liquidity and necessary liquidity on each maturity band. Maturity bands are: up to one month, between one month and three months, between 3 and 6 months, between 6 and 12 months and over 12 months.

Effective liquidity is determined by summing the assets, for each maturity band. The necessary liquidity is determined by adding together the debts, for each maturity band.

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

31 December 2016	Net Book Value	<1 month	1-3 months	3 months – 1year	1-5 years	> 5years
Derivative assets for risk management	2,985,715	2,842,099	121,663	21,953		
Cash and balances with central Bank	606,498,362	606,498,362				
Placements with banks	123,298,938	123,298,938				
Loans and advances to customers	2,825,725,918	142,794,977	113,008,194	500,579,883	526,010,273	1,543,332,589
Financial assets available for sale	398,360,414	398,360,414				
Other assets	25,121,585	25,121,585				
Total assets	**3,981,990,932**	**1,298,916,375**	**113,129,857**	**500,601,836**	**526,010,273**	**1,543,332,589**

31 December 2016	Net Book Value	<1 month	1-3 months	3 months – 1year	1-5 years	> 5years
Derivative liabilities	2,961,924	-2,537,409	-298,785	-125,730		
Deposits from banks	113,300,087	113,300,087				
Borrowings from banks	651,332,422	1,984,199	902,405	8,849,330	480,657,989	158,938,500
Deposits from customers	2,750,907,904	1,939,861,783	310,121,083	428,771,264	62,276,258	9,877,516
Subordinated borrowings	31,816,902			31,816,902		
Other liabilities	29,325,285	29,325,285				
Total liabilities	**3,579,644,524**	**2,081,933,945**	**310,724,702**	**469,311,766**	**542,934,247**	**168,816,016**
Net position	**402,346,408**	**-783,017,569**	**-197,594,845**	**31,290,071**	**-16,923,974**	**1,374,516,573**

Future interest related to financial liabilities	**Total**	**<1 month**	**1-3 months**	**3 months – 1year**	**1-5 years**	**> 5years**
Deposits and borrowings from banks	68,039,355	2,481,951	1,453,792	11,871,549	35,627,501	16,604,563
Deposits from clients	10,161,162	1,716,878	1,302,448	5,173,905	1,954,956	12,975

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The Bank estimates that a large proportion of the deposits that are matured will be renewed. Furthermore in order to meet their liquidity needs in a crisis situation, the Bank has a committed reserve credit line worth EUR 50 million committed reserves from Intesa Sanpaolo S.p.A. Milan. The securities are eligible and can be used for liquidity purposes at any time, regardless of maturity, that are placed on the first band.

31 December 2015	Net Book Value	<1 month	1-3 months	3 months –	1-5 years	> 5 years
Derivative assets	1,834,602	1,151,380	683,222		-	-
Cash and balances with central	712,170,436	712,170,436	-	-	-	-
Placements with banks	110,600,698	110,600,698	-	-	-	-
Loans and advances to customers	2,805,709,917	260,208,155	111,113,929	452,523,281	507,265,494	1,474,599,058
Financial assets available for sale	482,911,974	482,911,974	-	-	-	-
Other assets	20,086,635	20,086,635	-	-	-	-
Total assets	**4,133,314,262**	**853,343,325**	**111,797,151**	**452,523,281**	**507,265,494**	**1, 474,599,058**

31 December 2015	Net Book Value	<1 month	1-3 months	3 months – 1 year	1-5 years	> 5 years
Derivative liabilities	1,718,017	1,129,263	588,754	-	-	-
Deposits from banks	142,625,239	142,625,239	-	-	-	-
Borrowings from banks	660,985,074	1,983,273	-	19,249,194	475,568,310	164,184,298
Deposits from customers	2,900,066,773	1,634,102,319	366,068,081	620,414,077	278,557,693	924,603
Subordinated borrowings	31,710,039	-	-	-	31,710,039	-
Other liabilities	27,181,724	27,181,724	-	-	-	-
Total liabilities	**3,764,286,866**	**1,807,021,818**	**366,656,835**	**639,663,271**	**785,836,042**	**165,108,901**
Net position	**369,027,396**	**-953,678,493**	**-254,859,684**	**-187,139,990**	**-278,570,548**	**1,309,490,157**

Future interest related to financial liabilities	**Total**	**<1 month**	**1-3 months**	**3 months – 1year**	**1-5 years**	**> 5 years**
Deposits and loans from banks	92,986,936	2,684,571	1,571,413	13,335,065	54,370,363	21,025,524
Deposits from clients	26,982,459	11,706,247	2,169,920	11,202,681	1,886,163	17,448

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Analysis by residual maturity of off-balance sheet commitments

31 December 2016	**Net Book Value**	**<1 month**	**1-3 months**	**3 months – 1 year**	**1-5 years**	**> 5 years**
Derivatives						
Acquisition		941,531,993	97,941,321	28,668,012		
Sale		941,134,301	98,269,252	28,757,822		
Loan commitments and guarantee letters (Note 33)	1,147,532,284	37,589,512	50,163,595	324,273,541	562,182,254	173,323,382

31 December 2015	**Net Book Value**	**<1 month**	**1-3 months**	**3 months – 1 year**	**1-5 years**	**> 5 years**
Derivatives						
Acquisition		434,848,637	126,280,100			
Sale		434,840,420	126,177,941			
Loan commitments and guarantee letters (Note 33)	1,110,355,113	30,843,797	72,587,118	313,951,218	584,319,881	108,653,100

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank does not hold Trading Portfolios. The market risk for the Banking Book is monitored based on a Value-at-Risk (VaR) methodology regarding Foreign Exchange risk and sensitivity analysis for the Interest Rate risk.

Interest rate risk exposure related to activities out of the trading portfolio

Interest rate risk arises from the possibility that changes in interest rates affect future cash flows or fair values of financial instruments. Bank has set limits on interest rate differences in the banking portfolio. In accordance with Bank policies, positions are monitored on a regular basis and daily gaps are checked.

Starting with September 2016, the Bank adopted a new threshold for the income margin, which registers the income statement and the balance sheet effects at a parallel and instantaneous shock of +/- 50 basis points of the interest rates on a period of 12 months. The limit for the indicator of income margin (NII) is EUR -2.5 million eq., having only negative sign: the use of the limit being represented by the highest sensitivity of the two growth scenarios and by the decrease of the interest rates.
As at 31 December 2016 the value of the indicator NII was EUR -0.9 million eq.

The following table shows the interest rate risk of the Bank based on sensitivity ratio to interest rate for + / - 50 basis points, respectively + / - 100 basis points, for both, 2015 and 2016. For negative shock (bps -50 to -100 bps) was used a threshold of 0%.

	+100 basis pts.	**-100 basis pts.**	**+50 basis pts.**	**-50 basis pts.**
Sensitivity of projected net interest income (in RON)				
2016				
At 31 December	6,188,011	-8,593,228	3,624,678	-4,298,746
Average for the period	5,672,485	-4,164,817	2,883,932	-2,013,499
Maximum for the period	8,320,231	-1,271,500	4,158,965	-529,485
Minimum for the period	3,061,118	-9,099,756	1,530,290	-4,530,189
2015				
At 31 December	3,342,495	-1,490,038	1,670,968	-690,078
Average for the period	5,344,327	-2,941,144	2,606,135	-1,728,611
Maximum for the period	8,560,191	-1,490,038	4,271,475	-690,078
Minimum for the period	3,342,495	-4,808,776	1,578,897	-2,979,769

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

d) Market risk (continued)

The table below represents the statement of cash flows (notional and interest) relating to interest bearing assets and liabilities allocated to maturity bands depending on the time of re-pricing. For variable interest bearing assets/liabilities awarded on the notional time band corresponding to the re-pricing period and cash flows resulting from application of the spread are distributed on time bands until the product maturity according to the repayment schedule. In case of fixed interest bearing assets/liabilities, notional and interest cash flows are spread over time bands according to repayment schedule.

31 December 2016	**Total**	**Overnight**	**< 3 months**	**3-12 months**	**1-5 years**	**> 5 years**
Placements with banks	121,876,466	121,876,466				
Loans and advances to customers (at gross value)	2,989,472,071	4,474,356	2,913,586,081	14,349,809	51,463,994	5,597,831
Financial assets available for sale	396,894,867			52,692,568	344,202,299	
Total assets	**3,508,243,404**	**126,350,822**	**2,913,586,081**	**67,042,377**	**395,666,293**	**5,597831**
Derivatives						
Purchase			531,960,045	3,606,383		
Sale			-529,009,109	-3,541,189		
Deposits and borrowings from banks	764,632,509	53,291,212	658,868,281	3,172,955	49,300,061	
Deposits from customers	2,750,907,904	1,123,930,125	1,126,052,741	428,771,264	62,276,258	9,877,516
Total liabilities	**3,515,540,413**	**1,177,221,337**	**1,784,921,022**	**431,944,219**	**111,576,319**	9,877,516
Derivatives						
Purchase			-507,513,268	-25,061,629		
Sale			510,394,444	25,216,633		

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

d) Market risk (continued)

31 December 2015	Total	Overnight	< 3 months	3-12 months	1-5 years	> 5 years
Placements with banks	107,262,411	40,864,011	66,398,400	0	0	0
Loans and advances to customers (at gross value)	3,439,229,087	0	828,650,184	476,381,971	572,943,753	1,561,253,179
Financial assets available for sale	476,668,152	0	40,955,913	167,695,139	268,017,100	0
Total assets	**4,023,159,650**	**40,864,011**	**936,004,497**	**644,077,711**	**840,960,853**	**1,561,253,179**
Derivatives						
Purchase			271,717,254	86,070,500		
Sale			-270,550,763	-85,376,000		
Deposits and borrowings from banks	828,261,475	137,555,120	0	19,249,194	507,272,864	164,184,298
Deposits from customers	2,900,066,773	1,119,852,680	800,317,720	620,414,077	278,557,693	924,603
Total liabilities	**3,728,328,480**	**1,257,407,800**	**800,317,720**	**639,663,271**	**785,830,557**	**165,108,901**
Derivatives						
Purchase			163,131,383	40,209,600		
Sale			-164,289,658	-40,801,941		

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

d) Market risk (continued)

The Bank's policy is to maintain foreign currency position in balance covering the operational needs resulted from the ordinary activity of the bank's customers. The Bank monitors on a daily frequency total foreign currency position of the Bank and VaR. At the reporting date, net currency exposures are as follows:

31 December 2016

	RON	EUR	USD	CHF	GBP	Other	Total
Assets							
Cash and current accounts with banks	463,200,626	139,794,786	1,998,623	255,616	928,386	320,326	**606,498,362**
Derivatives for risk management	2,985,715	-	-	-	-	-	**2,985,715**
Financial assets at fair value through profit and loss	-	429,806	-	-	-	-	**429,806**
Loans and advances to customers	1,330,695,153	1,448,075,570	43,351,309	3,597,700	-	6,187	**2,825,725,918**
Placements with banks	1,292,074	114,248,148	6,048,605	260,990	337,313	1,111,808	**123,298,938**
Financial assets available for sale	397,148,576	1,211,838	-	-	-	-	**398,360,414**
Property and equipment	62,099,468	-	-	-	-	-	**62,099,468**
Investment property	6,867,795	-	-	-	-	-	**6,867,795**
Intangible assets	21,208,921	-	-	-	-	-	**21,208,921**
Deferred tax assets	15,911,575	-	-	-	-	-	**15,911,575**
Other assets	19,780,639	5,098,155	233,044	8,888	369	490	**25,121,585**
Total assets	**2,321,190,544**	**1,708,858,303**	**51,631,581**	**4,123,193**	**1,266,068**	**1,438,810**	**4,088,508,499**
Derivatives							
Purchase	43,169,950	209,191,570	174,224,172	93,092,437	15,888,300	0	**535,566,429**
Sale	120,008,350	140,009,423	108,622,291	83,538,157	42,368,800	38,003,277	**532,550,298**

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)
d) Market risk (continued)

Liabilities

Derivatives for risk management	2,961,924	-	-	-	-	-	**2,961,924**
Deposits from banks	107,223,579	5,346,371	123,311	39	-	606,786	**113,300,087**
Borrowings from banks	-	651,332,422	-	-	-	-	**651,332,422**
Subordinated debts	-	31,816,902	-	-	-	-	**31,816,902**
Deposits from customers	1,848,494,049	836,017,091	58,580,855	2,688,404	4,355,314	772,191	**2,750,907,904**
Provisions	16,879,430	5,283,468	6,021	-	-	12,824	**22,181,743**
Deferred tax liabilities	280,051	-	-	-	-	-	**280,051**
Other liabilities	16,575,452	12,094,847	631,535	11,244	1,394	10,812	**29,325,285**
Total liabilities	**1,992,414,485**	**1,541,891,102**	**59,341,723**	**2,699,687**	**4,356,708**	**1,402,614**	**3,602,106,319**
Derivatives							
Purchase	163,055,370	96,876,300	108,034,476	84,216,379	42,368,800	38,023,572	**532,574,898**
Sale	21,611,344	252,421,331	151,995,921	93,694,981	15,888,300	0	**535,611,077**
Net position	**110,493,632**	**391,694,380**	**101,852,384**	**20,456,387**	**-56,051,640**	**-75,990,653**	**492,454,491**

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

d) Market risk (continued)

31 December 2015

	RON	EUR	USD	CHF	GBP	Other	Total
Assets							
Cash and current accounts with banks	479,549,692	226,906,688	2,919,045	443,499	-	2,351,511	**712,170,436**
Derivatives for risk management	1,834,602	-	-	-	-	-	**1,834,602**
Financial assets at fair value through profit and loss	-	545,090	-	-	-	-	**545,090**
Loans and advances to customers	1,058,459,603	1,699,988,768	41,751,788	5,498,374	5,376	6,008	**2,805,709,917**
Placements with banks	3,205,383	26,930,297	71,018,061	797,301	-	8,649,656	**110,600,698**
Financial assets available for sale	481,375,092	1,536,882	-	-	-	-	**482,911,974**
Equity investments	5,845,616	-	-	-	-	-	**5,845,616**
Property and equipment	69,620,679	-	-	-	-	-	**69,620,679**
Investment property	7,027,114	-	-	-	-	-	**7,027,114**
Intangible assets	24,021,122	-	-	-	-	-	**24,021,122**
Deferred tax assets	15,911,575	-	-	-	-	-	**15,911,575**
Other assets	15,369,583	4,558,834	148,501	8,804	764	149	**20,086,635**
Total assets	**2,162,220,060**	**1,960,466,560**	**115,837,395**	**6,747,978**	**6,140**	**11,007,324**	**4,256,285,457**
Derivatives							
Purchase	45,350,000	232,818,459	71,293,332	8,325,962	0	0	**357,787,754**
Sale	202,111,800	54,294,000	8,295,400	90,516,003	0	709,559	**355,926,763**

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)
d) Market risk (continued)

Liabilities

Derivatives for risk management	1,718,017	-	-	-	-	-	**1,718,017**
Deposits from banks	49,092,117	56,145,818	37,363,394	-	-	23,910	**142,625,239**
Borrowings from banks	-	660,985,074	-	-	-	-	**660,985,074**
Subordinated debts	-	31,710,039	-	-	-	-	**31,710,039**
Deposits from customers	1,466,401,499	1,368,170,587	55,732,434	1,352,559	10,757	8,398,939	**2,900,066,773**
Provisions	12,517,602	2,467,926	169	-	-	-	**14,985,696**
Deferred tax liabilities	1,192,978	-	-	-	-	-	**1,192,978**
Other liabilities	16,654,189	9,710,860	814,947	343	997	389	**27,181,724**
Total liabilities	**1,547,576,401**	**2,129,190,303**	**93,910,943**	**1,352,902**	**11,753**	**8,423,238**	**3,780,465,540**
Derivatives							
Purchase	80,258,150	52,936,650	8,295,400	61,850,783	0	0	**203,340,983**
Sale	22,646,600	104,199,235	68,989,938	8,332,107	0	923,719	**205,091,599**
Net position	**400,270,309**	**61,063,301**	**145,618,923**	**-130,313,640**	**-5,613**	**2,798,246**	**479,431,525**

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)
d) Market risk (continued)

Value at risk, represents a control tool of the foreign exchange position, including the position of exchange rate financial derivatives, by revealing the maximum amount of loss the Bank may book, taking into consideration the current exchange position and the potential profit and loss generated by this 1 year period. The intervention period considered is 1 day. The maximum permissible limit is equivalent to EUR 100,000 with a sub-limit warning of EUR 80,000.

Year	VaR 2016	FX VaR eq EUR
2016	31 December	3,122
2016	Average daily	11,423
2016	Max	42,068
2016	Min	1,544

Year	VaR 2015	FX VaR eq EUR
2015	31 December	4,078
2015	Average daily	10,045
2015	Max	62,443
2015	Min	1,733

(e) Operational Risk

Operational risk is the risk of loss resulting from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.
The Board of Directors has delegated the responsibility of operational risk to Operational Risk Committee, which is responsible for the development and implementation of controls to deal with operational risk. This responsibility is supported by the development of general Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with legal regulations;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced by the bank, and the adequacy of controls and procedures to address the risks identified;
- reporting requirements of operational losses and proposed remedial action;
- development of emergency plans;
- training and professional development;
- ethical and business standards, and
- risk mitigation, including insurance even this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by the Human Resources and Organization Department.

(all amounts are presented in RON, unless otherwise stated)

5. RISK MANAGEMENT (continued)

(f) Taxation risk

The Romanian tax legislation provides for detailed and complex rules and has suffered various changes in the recent years. Interpretation of the text and practical implementation procedures of tax legislation could vary, and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Bank's treatment. Furthermore, the recent conversion to IFRS of the Romanian banks raised additional tax implications that are not yet fully clarified in the legislation and might generate potential tax risks.

The Romanian Government has a number of agencies that are authorized to conduct audits 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 matters in which the applicable agency may be interested. It is likely that the Bank will continue to be subject to regular controls as new laws and regulations are issued.

(g) Capital Management

The primary objectives of the Bank’s capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders’ value.

Regulatory capital	**Actual 2016**	**Actual 2015**
Total capital	435,162,927	430,083,429

Year 2014 was marked by the entry into force of Regulation (EU) No. 575/2013, Rules on capital requirements or CRR, which was adopted in June 2013 as a single regulatory framework of prudential requirements for institutions (for example credit institutions and investment firms) established in the Union.

The requirements of this Regulation, include more stringent provisions regarding the quantity and quality of capital and new regulations on liquidity management, the assets and liabilities compared to the previous regulations.

As at 31 December 2016 and 31 December 2015, the Bank meets the capital requirements from this regulation.

6. USE OF ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions which impact the value of assets and liabilities reported within the next financial year. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The use of judgments and estimates has the greatest importance in respect of:

a) Measurement of impairment

Assets accounted for at amortized cost are evaluated for impairment on the basis described in the accounting policies. The specific component of the total allowances for impairment applies to financial assets assessed individually for impairment and is based on the Bank's best estimate of the present value of cash flows expected to be received. Future cash flows are estimated based on the Bank's judgement about the financial position of the debtor and the net realisable value of collateral. Each of the impaired assets above the threshold of EUR 250,000 is assessed based on its own characteristics, as well as on the recoverability strategy and the estimation of cash flows considered recoverable, depending on the decisions independently approved by the Asset Quality Committee.

The Bank reviews its significant loans and advances on an individual level at each reporting date, in order to assess whether to record an impairment loss in the income statement. In particular, management's assessments are needed for the estimation of value and coordinating future cash flows when an impairment loss is determined. These estimates are based on assumptions about several factors and actual results may differ, resulting in future changes of adjustments.

Individual assessment is required in all cases where there is objective evidence of impairment.

Collective assessment is mandatory in all cases where there was no objective evidence of impairment identified and this is achieved by grouping financial assets according to similar characteristics of credit risk and their assessment using historical loss rates associated with information on loss experience, in the groups of assets in question and relevant observable data.

Thus, accuracy of the total adjustment for impairment depends on the estimates of future cash flows expected to be recovered from individually assessed clients and on the assumptions and parameters used in determining the collective adjustments. The situation of adjustments for impairment of loans is presented in more detail in note 18.

Loan impairment assessment takes into account the visible effects of current market conditions on the individual / collective valuation of loans and impairment of loans and advances to customers. The Bank estimated the adjustments for impairment of loans and advances to customers based on the internal impairment methodology harmonized with the group policies and considered that no further provision for impairment losses is required except as already provided for in the financial statements.

6. USE OF ESTIMATES AND JUDGMENTS (continued)

a) Impairment (continued)

In determining the amount of adjustments for impairment, the Bank has also considered the recommendation of the National Bank of Romania ("NBR") in relation to clients under insolvency procedures. At 31 December 2016, the Bank's portfolio of insolvent clients (excluding clients under restructuring procedures) amounted to RON 54 million (gross), for which the Bank recorded adjustments for impairment of RON 44.5 million. The exposure towards clients with signed restructuring plans amounts to RON 2 million, the related adjustment for impairment being RON 1.80 million.

For most cases in insolvency, the future cash-flows include mainly the amounts expected to be recovered through foreclosure procedures and selling of real-estate collaterals mortgaged in favour of the Bank.

Based on the NBR formal recommendations included in the letter no VI/2/17655/26.11.2014 and considering the results of the recoverability analysis for insolvent cases, the Bank revised its impairment allowance coverage for insolvent customers by increasing it according to the recommendation. Currently it reaches the level of 82.40%.

Taking into consideration the limited historical data available in terms of closed insolvencies and the early stages of insolvency procedure for a significant part of insolvent portfolio, significant uncertainties related to the difficult economic environment of the Bank's borrowers, the low level of actual recoveries up to date, as well as the reduced liquidity of actual transactions with collaterals in the market and prices obtained in recent transactions in the market, the future cash flows from insolvent customers could differ from those estimated by the Bank.

Uncollectable loans (estimated recovery 0 or an insignificant value) and loans to insolvent debtors, fully provided for, were written off.

In collective assessment of impairment, the Bank has updated the "Loss given default" indicator by incorporating the statistical effect of sale of the non-performing portfolio (see note 18) based on sales price agreed with the acquirer. The current individual assessment is harmonized with the expectations of recovery from the sale of portfolio. The update of the indicator took into account the recovery rate recorded in accordance with the price set in the contract mentioned above.

The law of giving in payment has been in force from 13 May 2016. The law applies to loans to individuals not exceeding EUR 250,000 (not applicable to "First House" loans). The Bank received a small number of giving in payment requests from customers. Loans with request for giving in payment were included in the impaired loans category. In October 2016 the Constitutional Court issued a decision in accordance to which the law of giving in payment can be applied only in circumstances of unpredictability. The Bank conducted a review on the potential effects arising from the approval of the law. Bank's management believes that the number of requests for giving in payment is insignificant compared to the total portfolio of loans to individuals.

6. USE OF ESTIMATES AND JUDGMENTS (continued)

b) Fair value

The accounting policy of the Bank regarding the measurement of fair value is presented in Note 4(i)(vi).

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.
Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
Level 2: Valuation techniques based on observable inputs, either directly - i.e. as prices − or indirectly - i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques used refers to the net present value and discounted cash flows. Assumptions and input parameters used in valuation techniques include risk-free rate and the reference interest and exchange rates

The Bank uses widely recognized valuation models for determining the fair value of financial instruments simple (interest rate instruments and foreign exchange instruments) that use only observable market data and require a little reasoning to estimate. Observable prices and model input parameters are provided by dedicated structure within the Bank.

All the financial instruments recorded at fair value are classified into three categories, as follows:

Level 1: Quoted market price
Level 2: Valuation techniques (observable market data)
Level 3: Valuation technique (unobservable market data)

(all amounts are presented in RON, unless otherwise stated)

6. USE OF ESTIMATES AND JUDGMENTS (continued)

b) Fair value (continued)

The Bank owned the following financial instruments measured at fair value:

At 31 December 2016:

Assets measured at fair value	**Total**	**Level 1**	**Level 2**	**Level 3**
Derivative assets	**2,985,715**	**-**	2,985,715	**-**
Financial assets available for sale	**398,360,414**	398,360,414		**-**
Liabilities measured at fair value	**Total**	**Level 1**	**Level 2**	**Level 3**
Derivative liabilities	**2,961,924**	**-**	2,961,924	**-**

At 31 December 2015:

Assets measured at fair value	**Total**	**Level 1**	**Level 2**	**Level 3**
Derivative assets	**1,834,602**	**-**	1,834,602	**-**
Financial assets available for sale	**481,375,092**	481,375,092	**-**	**-**
Liabilities measured at fair value	**Total**	**Level 1**	**Level 2**	**Level 3**
Derivative liabilities	**1,718,017**	**-**	1,718,017	**-**

In 2015 and 2016 there were no transfers between Level 1 and Level 2 of fair value hierarchy.

Financial assets and liabilities

Please find below a comparison by class of the carrying amounts and fair values of financial instruments of the banks which are not recorded at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

The following paragraphs describe the methodologies and assumptions used to determine fair values of those financial instruments that are not already recorded at fair value in the financial statements:

Assets for which fair value approximates accounting value

For financial assets and liabilities that are due in the short term (under one year), it is assumed that the carrying amounts approximate their fair value. This assumption applies to term deposits and savings accounts without a specific maturity.

(all amounts are presented in RON, unless otherwise stated)

6. USE OF ESTIMATES AND JUDGMENTS (continued)

b) Fair value (continued)

The following table summarizes the carrying amounts and fair values of those assets and liabilities that are not measured in the Bank's balance sheet at their fair value.

31 December 2016	Level 1	Level 2	Level 3	Fair value	Book value
Financial assets					
Loans and advances to customers	-	-	3,739,257,884	3,739,257,884	2,825,725,918
Total	**-**	**-**	**3,739,257,884**	**3,739,257,884**	**2,825,725,918**
Financial liabilities					
Deposits from customers	-	-	2,749,770,849	2,749,770,849	2,750,907,904
Borrowings from banks and subordinate debts	-	-	767,425,048	767,425,048	683,149,324
Total	**-**	**-**	**3,630,475,417**	**3,630,475,417**	**3,547,357,315**

31 December 2015	Level 1	Level 2	Level 3	Fair value	Book value
Financial assets					
Loans and advances to customers	-	-	3,246,806,029	3,246,806,029	2,805,709,917
Total	**-**	**-**	**3,246,806,029**	**3,246,806,029**	**2,805,709,917**
Financial liabilities					
Deposits from customers	-	-	2,890,355,928	2,890,355,928	2,900,066,773
Borrowings from banks and subordinate debts	-	-	782,066,695	782,066,695	692,695,113
Total	**-**	**-**	**3,672,422,623**	**3,672,422,623**	**3,592,761,886**

(all amounts are presented in RON, unless otherwise stated)

7. NET INTEREST INCOME

	2016	2015
Interest income related to:		
Unimpaired loans and advances to customers	125,454,857	138,203,330
Impaired loans and advances to customers	13,331,914	27,737,646
Current accounts and deposits with banks	925,112	1,647,112
Financial assets available for sale	10,949,712	16,485,892
Total interest income	**150,661,595**	**184,073,980**
Interest expense related to:		
Deposits from customers	-18,540,933	-37,838,959
Deposits from banks	-127,760	-390,563
Borrowings from banks	-15,060,597	-18,555,513
Subordinated borrowings	-254,724	-313,683
Repurchase agreements	-5	-5
Total interest expense	**-33,984,018**	**-57,098,723**
Net interest income	**116,677,577**	**126,975,257**

8. NET COMMISSION INCOME

	2016	2015
Commission income		
Income from transaction commission	22,493,041	25,921,387
Income from commissions on loans	11,848,844	10,180,820
Other commission income	87,622	28,001
Total commission income	**34,429,507**	**36,130,208**
Commission expenses		
Expenses related to transaction commissions	-3,601,702	-4,044,123
Commissions paid to the Loan Guarantee Funds	-2,660,105	-3,563,930
Commissions for cash acquisition	-88,687	-85,074
Inter-banking transaction commissions	-537,560	-393,040
Total commission expenses	**-6,888,054**	**-8,086,167**
Net commission income	**27,541,453**	**28,044,041**

(all amounts are presented in RON, unless otherwise stated)

9. NET TRADING INCOME

	2016	2015
Gain from revaluation of assets and liabilities in foreign currency	1,035,760	958,805
Gain on foreign exchange transactions	15,743,481	17,375,245
	16,779,242	**18,334,050**

10. OTHER INCOME FROM SALE OF FINANCIAL ASSETS AVAILABLE FOR SALE

	2016	2015
Gain on sale of financial assets available for sale	5,800,758	3,793,487
Losses from sale of financial assets available for sale	-200,058	-378,973
	5,600,700	**3,414,514**

11. PERSONNEL EXPENSES

	2016	2015
Salaries	45,033,471	49,678,110
Social security contributions	10,891,430	12,170,183
Other personnel expenses	1,259,644	1,320,144
	57,184,545	**63,168,437**

Other personnel expenses represent expenses related to meal tickets.

Share-based payments

In 2012 the Bank purchased through merger with C.R. Firenze Bank 39,014 shares of Intesa Sanpaolo SPA Italia which are to be attributed to management as remuneration according to the policy and rules approved by the Group.
Until the final allocation of shares to managers, the Bank will own the shares.
As at 31 December 2016 these shares are in the amount of RON 429,806 (31 December 2015: RON 545,090). These shares are classified as assets measured at fair value through profit and loss.

In October 2015, the Bank purchased 110,000 shares for this plan, named LECOIP by the Group at a price of EUR 3.19479 /share. As at 31 December 2016, these shares have not been awarded, being owned by the Bank and reported as financial assets available for sale. These shares are in the amount of RON 1,211,837 as at 31 December 2016 (31 December 2015: RON 1,536,882).

Reserves established for differences between the fair values of LECOIP available for sale financial assets was in the amount of RON 361,655.

According to group policy, if the market price of the available for sale financial assets– Equity instruments falls by more than 30% of the initial acquisition value, then the market value of those instruments must be updated by recording impairment in the expense accounts. The impairment test must be performed quarterly. In 2016 an impairment of RON 742,380 was expensed (price dropping from EUR 3.19479/share to EUR 1.702/share).

(all amounts are presented in RON, unless otherwise stated)

12. OTHER OPERATING EXPENSES

	2016	**2015**
Administrative expenses	26,098,409	32,710,058
Local taxes expenses	4,053,975	1,695,449
IT services	6,812,510	5,369,655
Advertising and marketing	277,407	337,289
Expenses related to contributions to Bank Deposits Guarantee Fund	2,887,072	7,186,210
Professional services	3,038,064	4,946,110
Other operating expenses	457,984	95,482
	43,625,421	**52,340,253**

Administrative expenses are detailed below:

	2016	**2015**
Rental Expenses	9,473,871	12,432,023
Maintenance and repairs expenses	1,619,398	2,022,441
Consumables	95,473	527,616
Heating, electricity and others	1,866,116	2,327,113
IT and telecommunication expenses	779,727	1,187,521
Postage, telephone and other expenses	1,094,061	1,554,126
Travel expenses	646,929	895,208
Security services expenses	1,039,838	1,064,189
Staff training expenses	222,892	113,176
Insurance expenses	392,990	417,633
Cleaning service expenses	954,984	1,076,067
Card service expenses	4,355,108	4,479,005
Protocol expenses	423,710	449,278
Legal services expenses	107,195	246,034
Expense with forms, stationery and other printed material	772,003	891,343
Transportation services	506,992	591,810
Others	1,747,124	2,435,475
	26,098,409	**32,710,058**

(all amounts are presented in RON, unless otherwise stated)

13. INCOME TAX EXPENSES

	2016	2015
Current tax expense / (income)	-	-
Deferred tax expense / (income)		
Total income tax expenses	**-**	**-**

Reconciliation of effective tax rate:

		2016		2015
Profit/(Loss) before tax		**15,013,476**		**10,811,080**
Theoretical taxation at statutory rate	16.00%	2,402,156	16.00%	1,729,773
Elements similar to expenses		-	-0.06%	-6,475
Fiscal amortisation	-7.39%	-1,109,610	-7.25%	-783,389
Non-taxable income	-12.95%	-4,804,585	-35.77%	-3,866,733
Non-deductible expenses	45.46%	7,802,435	38.29%	4,139,492
Derecognised tax loss	-41.12%	-4,290,396	-11.22%	-1,212,668
Income tax expenses	**-**	**-**	**-**	**-**

(all amounts are presented in RON, unless otherwise stated)

14. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

RON	Note	At fair value through profit or loss	Loans and receivables	Available for sale	At amortised cost	Total
31 December 2016						
ASSETS						
Cash and cash equivalents with the central bank	15	-	606,498,362	-	-	606,498,362
Derivatives for risk management	17	2,985,715	-	-	-	2,985,715
Placements with banks	16	-	123,298,938	-	-	123,298,938
Loans and advances to customers	18	-	2,825,725,918	-	-	2,825,725,918
Financial assets available for sale	19	-	-	398,360,414	-	398,360,414
Financial assets at fair value through profit and loss	19	429,806	-	-	-	429,806
Total ASSETS		**3,415,521**	**3,555,523,218**	**398,360,414**	**0**	**3,957,299,153**
LIABILITIES						
Derivatives for risk management	17	2,961,924	-	-	-	2,961,924
Deposits from banks	25	-	-	-	113,300,087	113,300,087
Loans from banks	27	-	-	-	651,332,422	651,332,422
Deposits from customers	26	-	-	-	2,750,907,904	2,750,907,904
Subordinated borrowings	28	-	-	-	31,816,902	31,816,902
TOTAL LIABILITIES		**2,961,924**	**-**	**-**	**3,547,357,315**	**3,550,319,239**

(all amounts are presented in RON, unless otherwise stated)

14. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

RON		At fair value through profit or loss	Loans and receivables	Available for sale	At amortised cost	Total
31 December 2015						
ASSETS						
Cash and cash equivalents with the central bank	15	-	712,170,436	-	-	712,170,436
Derivatives for risk management	17	1,834,602	-	-	-	1,834,602
Placements with banks	16	-	110,600,698	-	-	110,600,698
Financial assets at fair value through profit and loss	19	545,090			-	545,090
Loans and advances to customers	18	-	2,805,709,917	-	-	2,805,709,917
Financial assets available for sale	19	-	-	482,911,974	-	482,911,974
Equity investments	19	-	-	-	5,845,616	5,845,616
Total ASSETS		**2,379,692**	**3,628,481,051**	**482,911,974**	**5,845,616**	**4,119,618,333**
LIABILITIES						
Derivatives for risk management	17	1,718,017	-	-	-	1,718,017
Deposits from banks	25	-	-	-	142,625,239	142,625,239
Loans from banks	27	-	-	-	660,985,074	660,985,074
Deposits from customers	26	-	-	-	2,900,066,773	2,900,066,773
Subordinated borrowings	28	-	-	-	31,710,039	31,710,039
TOTAL LIABILITIES		**1,718,017**	**-**	**-**	**3,735,387,125**	**3,737,105,142**

(all amounts are presented in RON, unless otherwise stated)

15. CASH AND BALANCES WITH CENTRAL BANK

	31 December 2016	31 December 2015
Cash	78,581,616	67,660,925
Current accounts with the National Bank of Romania	527,916,746	319,507,254
Sight deposits with the National Bank of Romania	-	325,002,257
	606,498,362	**712,170,436**

Current accounts include compulsory reserves with the National Bank of Romania. The minimum reserve requirement set by the National Bank of Romania for sources attracted with maturity below two years and for sources attracted with residual maturity above two years, which stipulate contractual clauses regarding reimbursements, withdrawals, transfers in advance was 8% for sources attracted in RON and 10% for sources attracted in foreign currencies at 31 December 2016, as compared to 31 December 2015 when the minimum reserve requirement set by the National Bank of Romania was 8% for sources attracted in RON and 14% for sources attracted in foreign currencies. The Bank may use the minimum required reserve in daily operational activity, subject to compliance with stipulated levels for average monthly balances.

In 2016, interest rates ranged between 0.1% and 0.4% (2015: between 0.26% and 0.14%) for reserves kept in RON and between 0.05% si 0.09% (2015: between 0.29% si 0.09%) for reserves kept in EUR.

16. PLACEMENTS WITH BANKS

	31 December 2016	31 December 2015
Current accounts	123,298,938	44,224,017
Overnight deposits and term deposits	-	66,376,681
Total placements with banks	**123,298,938**	**110,600,698**

Placements with banks are not pledged in favour of third parties.

17. DERIVATIVES HELD FOR RISK MANAGEMENT

The fair values of derivatives held are presented below:

	31 December 2016		31 December 2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Currency Swaps	1,569,742	1,648,361	1,562,501	1,515,435
Currency Forwards	1,415,973	1,313,563	272,101	202,582
Total	**2,985,715**	**2,961,924**	**1,834,602**	**1,718,017**

(all amounts are presented in RON, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS

	Gross Value	Impairment allowance	Net value	Gross Value	Impairment allowance	Net value
	31 December 2016			31 December 2015		
Retail loans						
Consumer loans	260,645,377	-7,013,867	253,631,510	315,464,767	-21,860,999	293,603,768
Equipment loans	0	0	0	-	-	-
Investment property loans	845,784,709	-8,325,564	837,459,145	755,968,228	-14,359,442	741,608,786
Cash loans	10,279,630	-1,030,210	9,249,420	12,885,431	-793,504	12,091,927
Other loans to customers	7,697	-2,708	4,989	9,743	-19	9,724
Other receivables	530,897	-36,098	494,799	1,262,578	-197,465	1,065,113
Total Retail loans	1,117,248,310	-16,408,447	1,100,839,863	1,085,590,747	-37,211,429	1,048,379,318
Corporate loans						
Loans to financial institutions	151,732,362	-3,692,261	148,040,101	41,526,011	-1,440,947	40,085,064
Equipment loans	147,598,570	-14,034,231	133,564,339	247,256,312	-58,197,510	189,058,802
Investment property loans	440,537,587	-45,740,126	394,797,461	675,422,999	-197,657,341	477,765,658
Cash loans	794,805,381	-65,267,922	729,537,459	989,209,499	-249,952,976	739,256,523
Loans resulted from novation contracts	4,836,281	-656,653	4,179,628	15,640,465	-9,664,443	5,976,022

(all amounts are presented in RON, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Gross Value	Impairment allowance	Net value	Gross Value	Impairment allowance	Net value
	31 December 2016			31 December 2015		
Other loans to customers	303,770,850	-12,812,339	290,958,511	342,238,897	-71,011,010	271,227,887
Finance lease contracts	25,621,151	-2,036,019	23,585,132	32,659,424	-2,744,920	29,914,504
Other receivables	3,321,579	-3,098,155	223,424	9,684,684	-5,638,545	4,046,139
Total Corporate loans	1,872,223,761	-147,337,706	1,724,886,055	2,353,638,291	-596,307,692	1,757,330,599
Total	**2,989,472,071**	**-163,746,153**	**2,825,725,918**	**3,439,229,038**	**-633,519,121**	**2,805,709,917**

(all amounts are presented in RON, unless otherwise stated)

18. LOANS AND ADVANCES TO CUSTOMERS (continued)

	31 December 2016	31 December 2015
Individual allowance		
At 1 January	**581,903,203**	**727,897,095**
Net charge for the year	12,192,072	74,744,207
Write offs during the year	-504,331,830	-231,906,492
Exchange rates differences	8,878,997	11,168,393
At 31 December	**98,642,442**	**581,903,203**
Collective allowance		
At 1 January	**51,615,918**	**35,330,389**
Net charge for the year	13,366,039	14,195,663
Exchange rates differences	121,755	2,089,866
At 31 December	**65,103,711**	**51,615,918**

Movement in the income statement:

	31 December 2016	31 December 2015
Net charges for the year	25,558,111	61,202,224
Recoveries	-705,791	-35,915,105
Losses not covered by impairment provisions	631,408	12,804,478
Net result from the sale of impaired loans portfolio	1,734,822	
Total	**27,218,550**	**38,091,597**

In 2016 the Bank sold to a third party a package of impaired loans with a gross value of RON 1.2 billion (of which RON 517 million recorded off balance sheet) at transaction date. The amount received from the buyer was RON 129 million.

19. FINANCIAL ASSETS

a) Financial assets available for sale

	31 December 2016	31 December 2015
Debt securities	396,894,867	481,121,383
Investments in shares available for sale	253,709	253,709
Investments in Lecoip shares available for sale	1,211,838	1,536,882
Total	**398,360,414**	**482,911,974**

Debt securities comprise treasury bills, bonds denominated in RON issued by the Ministry of Public Finance of Romania. All securities were unencumbered at 31 December 2016.

Investment	Country of incorporation	Nature of business	Shareholding 31 December 2016	Shareholding 31 December 2015
Sibex Sibiu Stock Exchange	Romania	Exchange of products	26,880	26,880
Casa Romana de Compensatie	Romania	Compensation house BMFMS	4,050	4,050
TransFonD	Romania	Compensation and settlement interbank transfer	193,803	193,803
Biroul de Credit	Romania	Customers portfolio data collection/processing	28,976	28,976
Total			**253,709**	**253,709**

In October 2015, the Bank purchased a number of 110,000 shares, for a bonus plan – LECOIP. Currently these shares have not been awarded to staff, being owned by the Bank. As at 31 December 2016 the market value of these shares was RON 1,211,837 (see details in Note 11).

b) Financial assets at fair value through profit and loss

	31 December 2016	31 December 2015
Intesa Sanpaolo SPA (i)	429,806	545,090
Total	**429,806**	**545,090**

(i) Details can be found in Note 11.

(all amounts are presented in RON, unless otherwise stated)

19. FINANCIAL ASSETS (continued)

c) Equity investments

	31 December 2016	31 December 2015
Intesa Sanpaolo Consultanta SRL (previously named Intesa Sanpaolo Leasing IFN S.A)	-	5,845,616
Total	**-**	**5,845,616**

Equity investment held by the Bank in the share capital of Intesa Sanpaolo Consultanta SRL (registered with the Romanian Trade Register under number J40/14030/2005 fiscal code RO 17863812) was in the amount of RON 19,845,616.

The structure of the share capital of Intesa Sanpaolo Romania Consultanta SRL was as follows:

- B.C. Intesa Sanpaolo Romania S.A. owned a number of 997 shares of RON 1,800 per share, representing 99.7% of the share capital;
- CIB Lizing Zrt. owned a number of 3 shares of 1,800 RON per share, representing 0.3% of the share capital.

On 25 April 2016, the General Shareholder Meeting decided in an extraordinary meeting to approve simultaneous dissolution and liquidation of Intesa Sanpaolo Consultanta SRL.

On 22 June 2016, following the dissolution and liquidation process, the General Shareholder Meeting decided distribution of the assets and liabilities of the company.

Assets were distributed to B.C. INTESA SANPAOLO ROMANIA SA. It was also decided that the Bank should pay the losses carried forward allocated to the minority shareholder and it has not paid for the assets redistributed towards this shareholder, difference which was recovered from CIB Lizing Zrt. on 24 October 2016.

As at 31 December 2015, the recorded impairment for investment in Intesa Sanpaolo Consultanta SRL was in the amount of RON 5,000,000. Completion of the dissolution of the company generated a loss in the amount of RON 1,576,143. The company was deregistered from the Trade Register Office attached to Bucharest Tribunal on 25 August 2016.

(all amounts are presented in RON, unless otherwise stated)

20. PROPERTY AND EQUIPMENT

	Land and Buildings	Computer Hardware	Other tangible assets	Total
Costs:				
At 1 January 2015	**104,289,277**	**13,435,038**	**25,202,695**	**142,927,010**
Additions	-	595,815	479,918	**1,075,733**
Disposals	-6,140,961	-179,956	-1,175,144	**-7,496,061**
At 31 December 2015	**98,148,316**	**13,850,897**	**24,507,469**	**136,506,682**
At 1 January 2016	**98,148,316**	**13,850,897**	**24,507,469**	**136,506,682**
Additions	771,582	227,235	1,235,450	**2,234,267**
Disposals	-895,880	-192,905	-2,526,006	**-3,614,791**
At 31 December 2016	**98,024,018**	**13,885,227**	**23,216,913**	**135,126,158**
Depreciation:				
At 1 January 2015	**34,644,388**	**12,376,514**	**18,836,564**	**65,857,466**
Disposals	-4,296,007	-	-1,222,636	**-5,518,643**
Depreciation charge for the year	3,316,692	566,663	2,663,825	**6,547,180**
Impairment losses		-	-	**-**
At 31 December 2015	**33,665,073**	**12,943,177**	**20,277,753**	**66,886,003**
At 1 January 2016	**33,665,073**	**12,943,177**	**20,277,753**	**66,886,003**
Disposals	-895,880	-192,818	-2,522,911	**-3,611,609**
Depreciation charge for the year	2,982,871	780,262	1,969,000	**5,732,133**
Impairment losses	4,020,162			**4,020,162**
At 31 December 2016	**39,777,227**	**13,530,621**	**19,723,842**	**73,026,690**
Net book value:				
At 31 December 2015	**64,483,243**	**907,720**	**4,229,716**	**69,620,679**
At 31 December 2016	**58,251,792**	**354,606**	**3,493,071**	**62,099,468**

Other tangible assets include motor vehicles, furniture and fittings, household equipment, air conditioning equipment.

All tangible assets are unencumbered and are secured to the net carrying amount at the concluding date of the insurance.

Gross value of property and equipment fully depreciated and still in use is RON 25,811,793 as at 31 December 2016 (31 December 2015: RON 23,982,225 RON).

In 2016, the Bank performed the impairment tests of value, the evaluation report being prepared by an external evaluator, member of ANEVAR.
Following the report, for the tangible assets with fair value less than the net book value, were recorded value depreciations through the expense accounts, Impairment of tangible assets, in amount of RON 4,020,162.

(all amounts are presented in RON, unless otherwise stated)

21. INTANGIBLE ASSETS

	Computer software	Other intangible assets	TOTAL
Costs:			
At 1 January 2015	**64,817,574**	**9,707**	**64,827,28**
Additions	3,976,776		**3,976,776**
Disposals	-18,092	-2,675	**-20,767**
At 31 December 2015	**68,776,258**	**7,032**	**68,783,290**
At 1 January 2016	**68,776,258**	**7,032**	**68,783,290**
Additions	4,832,712		**4,832,712**
Disposals	-	-708	**-708**
At 31 December 2016	**73,608,970**	**6,324**	**73,615,294**
Amortization:			
At 1 January 2015	**37,168,328**	**9,707**	**37,178,035**
Disposals	-12,096	-2,675	**-14,771**
Amortization charge for the year	7,598,904		**7,598,904**
At 31 December 2015	**44,755,136**	**7,032**	**44,762,168**
At 1 January 2016	**44,755,136**	**7,032**	**44,762,168**
Disposals	-	-708	**-708**
Amortization charge for the year	7,644,913		**7,644,913**
At 31 December 2016	**52,400,049**	**6,324**	**52,406,373**
Net book value:			
At 31 December 2015	**24,021,122**	**-**	**24,021,122**
At 31 December 2016	**21,208,921**	**-**	**21,208,921**

Intangible assets include licenses for software used by the Bank.

The residual average amortization period is 1.4 years .

(all amounts are presented in RON, unless otherwise stated)

22. INVESTMENT PROPERTY

	Amount
Costs	
At 1 January 2015	**31,739,487**
Additions	-
Disposals	-
At 31 December 2015	**31,739,487**
At 1 January 2016	**31,739,487**
Additions	-
Disposals	-
At 31 December 2016	**31,739,487**
Depreciation and impairment	
At 1 January 2015	**24,556,110**
Disposals	-
Impairment charge	-
Depreciation charge for the year	156,263
At 31 December 2015	**24,712,373**
At 1 January 2016	**24,712,373**
Disposals	-
Impairment charge	-
Depreciation charge for the year	159,319
At 31 December 2016	24,871,692
Net book value:	
At 31 December 2015	**7,027,114**
At 31 December 2016	**6,867,795**

Investment property is held by the Bank following the takeover of assets held as collaterals for non performing loans. Investment properties are stated at cost, linear amortization is recorded and the average useful life is 36 years. In 2016, their evaluation was included in the report provided by an external entity, certified by ANEVAR. There was not found fair values lower than the net book values, the fair values from the valuation report are in sum of RON 14,065,104.

Repair costs for the two buildings were in the amount of RON 3,794 for the year 2016.

Rented investment properties owned generated an income from rent of RON 201,452.

(all amounts are presented in RON, unless otherwise stated)

23. DEFFERED TAX

Current tax is calculated by applying the rate of 16% (2015: 16%). Deferred income taxes are calculated based on all temporary differences under the liability method using a tax rate of 16%.

Assets and liabilities related to deferred tax are attributable to the following items:

2016				**31 December**		
	Balance at 1 January	**Recognized in the income statement**	**Recognized in the comprehensive income statement**	**Net**	**Asset**	**Liability**
Fair value of financial assets available for sale	-1,192,978	-	912,927	-280,051	-	-280,051
Fiscal credit for losses	9,273,757	-	-	9,273,757	9,273,757	
Deductible temporary differences related to provisions for risks and charges	6,610,818	-	-	6,610,818	6,610,818	-
Assets related to deferred tax	**15,911,575**	**-**	**-**	**15,911,575**	**15,911,575**	**-**
Liabilities related to deferred tax	**-1,192,978**	**-**	**912,927**	**-280,051**	**-**	**-280,051**

2015				**31 December**		
	Balance at 1 January	**Recognized in the income statement**	**Recognized in the comprehensive income statement**	**Net**	**Asset**	**Liability**
Fair value of financial assets available for sale	-1,961,900	-	768,922	-1,192,978	-	-1,192,978
Fiscal credit for losses	9,273,757		-	9,273,757	9,273,757	-
Deductible temporary differences related to provisions for risks and charges	6,610,818		-	6,610,818	6,610,818	-
Assets related to deferred tax	**15,911,575**	**-**	**-**	**15,911,575**	**15,911,575**	**-**
Liabilities related to deferred tax	**-1,961,900**	**-**	**768,922**	**-1,192,978**	**-**	**-1,192,978**

The Bank recognised receivables related to deferred tax for fiscal loss in sum of RON 57,960,981.

According to the Fiscal Code, starting with 2009, the annual tax loss can be reported and recovered from income tax derived in the next seven consecutive years. Detail of the prescription period for utilization of the tax losses of the Bank is presented below:

(all amounts are presented in RON, unless otherwise stated)

23. DEFFERED TAX (continued)

	Fiscal loss	Expiry year
	18,369,538	2017
	237,342,158	2018
	115,765,171	2019
	242,705,866	2021
Total:	**614,182,733**	

Total of fiscal losses as at 31 December 2016 was in amount of RON 556,221,752.

24. OTHER ASSETS

	31 December 2016	31 December 2015
Deposits paid for rent, electricity	762,400	785,995
Expenses paid in advance	4,587,900	3,521,326
Sundry debtors	15,421,800	13,056,397
Advances paid to suppliers	14,164	4,000
Inventory	1,626,854	759,367
Taxes due to State budget	-	25,166
Salaries to be recovered	-	10,800
Others	2,708,467	1,923,584
Total	**25,121,585**	**20,086,635**

Variation of Other Assets is due to the fact that most part of taxes to be recovered from the state (an increase with RON 1,395,969) and from Money Gram transactions in course of settlement (RON 1,002,275). The bank has to recover from the state budget an amount of RON 6,986,604.

25. DEPOSITS FROM BANKS

	31 December 2016	31 December 2015
Sight deposits	41,532,601	45,687,330
Term deposits	60,008,875	91,624,371
Amounts in transit	11,758,610	5,313,538
Total	**113,300,087**	**142,625,239**

26. DEPOSITS FROM CUSTOMERS

	31 December 2016	31 December 2015
Current accounts	794,018,926	783,701,252
Sight deposits	409,891,536	416,297,077
Term deposits	1,480,157,044	1,632,013,977
Collateral deposits	66,840,397	68,054,467
Total	**2,750,907,904**	**2,900,066,773**

(all amounts are presented in RON, unless otherwise stated)

26. DEPOSITS FROM CUSTOMERS (continued)

	31 December 2016	31 December 2015
Individuals	940,054,360	871,031,544
Legal entities	1,810,853,544	2,029,035,228
Total	**2,750,907,904**	**2,900,066,772**

27. BORROWINGS FROM BANKS

	31 December 2016	31 December 2015
Borrowings from Intesa Sanpaolo Group	592,247,858	604,367,531
Borrowings from European Investment Bank	59,084,564	56,617,543
Total	**651,332,422**	**660,985,074**

As at 31 December 2016 and 31 December 2015, borrowings from Intesa Sanpaolo Group comprise borrowings received from Intesa Sanpaolo Bank Luxemburg. The total amount is in amount of EUR 130,000,000 (2015: EUR 133,000,000).

In addition to the borrowings received from the Group, the Bank also received in 2013 a borrowing from the European Investment Bank and transferred by novation the loan to Intesa Sanpaolo Consultanta SRL, total amount borrowed from EIB is EUR 12,993,597 (2015: EUR 12,500,000). Related to this borrowings there are no restrictions to demand early reimbursement.

Company	Granting date	Maturity	CCY	Amount
Intesa Sanpaolo Bank Luxemburg	23.10.2008	19.10.2018	EUR	20,000,000
Intesa Sanpaolo Bank Luxemburg	27.10.2008	19.10.2018	EUR	20,000,000
Intesa Sanpaolo Bank Luxemburg	17.10.2011	17.12.2023	EUR	30,000,000
Intesa Sanpaolo Bank Luxemburg	31.01.2011	28.02.2019	EUR	50,000,000
Intesa Sanpaolo Bank Luxemburg	17.12.2013	17.12.2018	EUR	10,000,000

In 2016, weighted average interest rate for these loans was 2.05% (2015: 2.73%).

28. SUBORDONATED BORROWINGS

	31 December 2016	31 December 2015
Subordinated borrowing from Cassa di Risparmio di Firenze	31,816,902	31,710,039
Total	**31,816,902**	**31,710,039**

The subordinated borrowing from Cassa di Risparmio di Firenze was received on 7 May 2007 in the amount of EUR 7,000,000 and has the maturity on 27 April 2017, contractual interest is 0.6890% (EURIBOR 6M + 0.9 pts.).

(all amounts are presented in RON, unless otherwise stated)

29. PROVISIONS

	31 December 2016	31 December 2015
Provision for risk and charges	2,145,381	1,146,016
Provision for litigation	5,281,305	3,744,522
Provision for letters of guarantee and off balance sheet exposure	5,657,216	2,561,797
Provisions for personnel expenses	9,097,841	7,533,361
Total	**22,181,743**	**14,985,696**

As at 31 December 2016, the Bank made a restructuring provision in amount of RON 2.5 million, following the decision of the Board of Directors to restructure the territorial network and to optimize the number of employees, this decision was communicated to the employees before 31 December 2016. Also, the Bank provisioned tangible assets with an amount of RON 1.36 million.

The movement in provisions during 2016 is as follows:

	Letters of guarantees	Litigations	Personnel	Other	Total
At 1 January 2015	**4,600,458**	**3,561,146**	**11,333,235**	**3,539,643**	**23,034,482**
Made during the year	9,788,041	168,324	-	1,618,035	**11,574,400**
Reversed during the year	-11,827,872	-	-2,407,524	-2,411,663	**-16,647,059**
Used during the year	-	-	-1,392,350	-1,600,000	**-2,992,350**
Exchange rate differences	1,170	15,053	-	-	**16,223**
At 31 December 2015	**2,561,797**	**3,744,523**	**7,533,361**	**1,146,015**	**14,985,696**
At 1 January 2016	**2,561,797**	**3,744,523**	**7,533,361**	**1,146,015**	**14,985,696**
Made during the year	7,889,119	1,529,191	4,963,465	2,545,670	**16,927,445**
Reversed during the year	-	-	-	-342,280	**-3,741,265**
Used during the year	-4,803,079	-	-3,398,985	-1,204,024	**-6,007,103**
Exchange rate differences	9,379	7,591	-	-	**16,971**
At 31 December 2016	**5,657,216**	**5,281,305**	**9,097,841**	**2,145,381**	**22,181,743**

30. OTHER LIABILITIES

	31 December 2016	31 December 2015
Taxes due to the State Budget	1,235,360	2,203,065
Salary payables	5,414,180	5,560,553
Expense accruals	1,124,384	2,889,510
Commission for guarantee letters	3,575,505	6,370,018
Open spot foreign currency position	1,931,648	1,985,279
MoneyGram creditors	5,150,434	4,126,944
Other liabilities	10,893,775	4,046,355
Total	**29,325,286**	**27,181,724**

(all amounts are presented in RON, unless otherwise stated)

31. SHARE CAPITAL AND RESERVES

SHARE CAPITAL

	31 December 2016	31 December 2015
Subscribed share capital	886,639,410	886,639,410
Share premiums	251,628,890	251,628,890
Restatement in accordance with IAS 29	40,174,800	40,174,800
Total share capital and share premiums	**1,178,443,100**	**1,178,443,100**

As at 31 December 2016, the share capital of the Bank is represented by 88,663,941 shares with a nominal value of RON 10/share. During 2016, the share capital of the Bank did not change. All issued shares are fully paid and grants the right to one vote for each share.

Shareholding structure as of 31 December 2016 and 31 December 2015 is shown in the table below:

Shareholder	Number of shares	%
Intesa Sanpaolo S.p.A Italia	81,096,905	91.47
Intesa Sanpaolo Holding International S.A.	314,211	0.35
Cassa di Risparmio di Firenze S.p.A.	7,252,825	8.18
Total	**88,663,941**	**100.00**

RESERVES

	Reserves related to financial assets available for sale	Statutory reserve	Other capital reserves	Total
At 1 January 2015	**10,299,975**	**15,723,724**	**11,627,247**	**37,650,946**
Increase	-	540,554	-	**540,554**
Net gains/(losses) on available-for-sale financial assets	-4,036,838	-	-10,599	**-4,047,437**
At 31 December 2015	**6,263,137**	**16,264,278**	**11,616,648**	**34,144,063**
At 1 January 2016	**6,263,137**	**16,264,278**	**11,616,648**	**34,144,063**
Increase	0	750,674		**750,674**
Net gains/(losses) on available-for-sale financial assets	-4,431,216	0	0	**-4,431,216**
At 31 December 2016	**1,831,921**	**17,014,952**	**11,616,648**	**30,463,521**

Other capital reserves as at 31 December 2016 include: general reserve for credit risk (RON 829,845), funds for general banking risks (RON 10,162,589) and other reserves (RON 624,213). General reserves for general banking risks was set beginning with financial year of 2004 until the end of financial year 2007, the accounting profit determined before the deduction of income tax - gross profit in shares and limits provided by law. General credit risk reserve was established up to 2% of the outstanding loans by the end of fiscal year 2003.

As at 31 December 2016, the Bank set-up a statutory reserve of RON 750,674 calculated as 5% of the gross profit.

(all amounts are presented in RON, unless otherwise stated)

32. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash	78,581,616	67,660,925
Current account with the National Bank of Romania	527,916,746	319,507,254
Sight deposits with the National Bank of Romania	-	325,002,257
Current accounts	123,298,938	44,224,017
Overnight deposits	-	66,376,680
Total	**729,797,300**	**822,771,133**

Current accounts with the central bank include mandatory reserve deposits. These are available to the Bank for daily operations, with the condition that, as an average during the month, the Bank maintains the minimum required limit.

33. COMMITMENTS AND CONTINGENCIES

The Bank issues guarantees and letters of credit on behalf of its customers. The market and credit risk related to these financial instruments, as well as the operating risk is similar to that arising from granting of loans. In the event of a claim as a result of a customer's default on a guarantee, these instruments also expose the Bank to liquidity risk.

The aggregate amount of outstanding gross commitments and contingencies as at period end was:

	31 December 2016	31 December 2015
Letters of guarantee issued for non-banking clients	556,240,392	565,039,008
Unused loan facilities and letters of credit	312,217,621	267,646,535
Letters of guarantee issued for other banks	279,074,271	277,669,570
Total	**1,147,532,284**	**1,110,355,113**

Letters of guarantee include letters of guarantee in sum of RON 136,431,594 (31 December 2015: RON 81,280,084) issued for the credit risk related to the loans granted by Intesa Sanpaolo Ireland to Romanian costumers, who are not related parties of the Bank. Fees for issuing such letters are paid by the client

Committed future operating lease payments are disclosed below:

	31 December 2016	31 December 2015
Less than 1 year	5,604,184	6,877,816
Between 1 and 5 years	8,350,248	12,984,332
More than 5 years	275,191	136,037

The rentals which the Bank has to pay in the next years are according to the contracts for the rented spaces where certain units of the Bank carry out their activity (branches and agencies).
Future minimum rental under non-cancellable operating leases are as follows:

	31 December 2016	31 December 2015
Less than 1 year	280,640	353,460
Between 1 and 5 years	700,238	907,794
More than 5 years	973,460	754,264

(all amounts are presented in RON, unless otherwise stated)

34. RELATED PARTY TRANSACTIONS

The Bank is a member of the Intesa Sanpaolo Group. The Bank's parent company is Intesa Sanpaolo SpA, a bank incorporated in Italy, which directly owns 91.47 % of the ordinary shares of the Bank.

The related parties considered for reporting purposes include: Intesa Sanpaolo S.p.A., Intesa Sanpaolo Bank Luxembourg S.A. (former Societe Europeenne de Banque S.A.), Central-European International Bank, Intesa Sanpaolo Banka DD Sarajevo, Intesa Sanpaolo Branch Tokyo, Banka Koper, VUB Banka Bratislava, Vseobecna Uverova Banka AS Branch Praga, Intesa Sanpaolo Milano Branch, Cassa Di Risparmio Di Firenze, Intesa Sanpaolo Holding International S.A. Luxembourg, Intesa Sanpaolo Leasing Romania, Banca Fideuram S.P.A., Cassa Di Risparmio In Bologna SPA, Intesa Sanpaolo Spa Fil Impr Roma Centro, Intesa Sanpaolo SPA London, Intesa Sanpaolo Frankfurth Branch, Intesa Sanpaolo SPA New York, VUB GENERALI DSS AS, Exelia SRL, which are all entities controlled by the Intesa Sanpaolo Group.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Through the business activities are conducted certain banking transactions with related parties. These include loans, deposits and foreign currency transactions, acquisition of other services.

The volumes of related party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

Transactions with key personnel of the Bank

Key personnel is divided into two categories: governing bodies (administrators and local management) and key managers (persons with power and responsibility, directly or indirectly, to plan, direct and control the Bank's activities, including the Bank executives).

Current account and deposits:	**Balance as at 31 December 2016**	**Income 2016**	**Balance as at 31 December 2015**	**Income 2015**
Board of Directors	6,147,130	57,861	4,056,273	50,854
Key management personnel	2,190,816	18,340	1,603,583	20,083

Loans:	**Balance as at 31 December 2016**	**Income 2016**	**Balance as at 31 December 2015**	**Income 2015**
Board of Directors	19,776	1,904	1,467	3,463
Key management personnel	1,738,140	54,425	1,745,108	63,543

Transactions with the members of the Board of Directors and key management personnel represent only transactions related to current accounts and deposits, excluding any other benefits.

The remuneration of the Board of Directors and key management personnel was:

	2016	**2015**
Board of Directors	3,529,082	2,570,886
Key management personnel	2,425,619	2,330,874

(all amounts are presented in RON, unless otherwise stated)

34. RELATED PARTY TRANSACTIONS (continued)

Beside transactions with personnel or key management personnel, the Bank performs transactions with entities significant influence over the Bank.

The table below presents the balances and the related interests during the year:

Parent entity	Interest from related parties	Interest due to related parties	Amounts due from related parties Balance as at 31 December	Amounts due from related parties Balance as at 31 December
2016	98,098	35,974	72,741,486	(17,410,425)
2015	34,752	38,251	14,651,880	(80,071,015)

Other related parties	Interest from related parties	Interest due to related parties	Amounts due from related parties Balance as at 31 December	Amounts due from related parties Balance as at 31 December
2016	4,423	15,931,041	5,568,902	652,175,227
2015	2,770	27,744,262	3,148,070	644,382,392

As at 31 December 2016, the amounts due to related parties consist of loans received (details in Note 27):

	31 December 2016
Cassa Di Risparmio Di Firenze Spa – subordinated loan	31,816,902
Intesa Sanpaolo Bank Luxembourg S,A, – loans	592,247,858
Deposits at banks	3,643,117
Other related parties – current accounts	24,101,675
Total	**652,175,227**

Intesa Sanpaolo Leasing Romania IFN SA / Consultanta SRL:	**Interest from related parties**	**Interest due to related parties**	**Amounts due from related parties** **Balance as at 31 December**	**Amounts due from related parties** **Balance as at 31 December**
2016	22	485	-	-
2015	240	83,858	-	14,062,032

Intesa Sanpaolo Consultanta SRL was liquidated and radiated on 25 August 2016 and the assets and liabilities were distributed on 22 June 2016.

(all amounts are presented in RON, unless otherwise stated)

34. RELATED PARTY TRANSACTIONS (continued)

	Parent Entity	Intesa Sanpaolo Leasing Romania IFN SA / Consultanta SRL	Other related parties
2016			
Letters of Guarantee issued	40,214,445	-	100,788,104
Letters of Guarantee received	104,070,299	-	44,515,045
2015			
Letters of Guarantee issued	26,501,810	45,245,000	182,908,277
Letters of Guarantee received	90,271,471	-	182,882,137

Derivatives

31 December 2016

	Derivatives - asset	Derivative - liability
Parent Entity	1,359,934	1,544,857
Other related parties	0	0

31 December 2015

	Derivatives - asset	Derivatives - liability
Parent Entity	334,081	1,515,435
Other related parties	2,025	0

Terms and conditions of transactions with related parties

The above mentioned balances arose from the ordinary course of business. The interest charged to and by related parties is at normal commercial rates. All amounts are expected to be settled in cash. Outstanding balances at the end of the year are not secured. For the year ended 31 December 2016, the Bank did not record any impairment losses for doubtful debts relating to amounts owed by related parties (31 December 2015: nil).

35. SUBSEQUENT EVENTS

There were no significant events subsequent to balance sheet date.

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Independent Auditors' Report
(free translation[1])

To the shareholders of
Banca Comerciala Intesa Sanpaolo Romania S.A.

Opinion

1. We have audited the accompanying financial statements of Banca Comerciala Intesa Sanpaolo Romania S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2016, the income statement, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

2. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

3. We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[1] TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version and refers to the Romanian version of the financial statements.

Fiscal registration code
RO12997279
Trade Registry
no.J40/4439/2000
Share Capital 2,000 RON

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Other Information - Administrators' Report

4. The Other information comprises the Administrators' Report. The Administrators are responsible for the preparation and presentation of the Administrators' Report in accordance with the requirements of the Order of the President of the Board of the National Bank of Romania No. 27/2010 and related amendments, articles no. 11 – 14 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions and for such internal control as Administrators determine is necessary to enable the preparation and presentation of Administrators' Report that is free from material misstatement, whether due to fraud or error.

   The Administrators' Report presented from page 1 to 12 is not part of the financial statements.

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

   In connection with our audit of the financial statements as at and for the year ended 31 December 2016, our responsibility is to read the Administrators' Report attached to the financial statements and, in doing so, consider whether there is a material inconsistency between the Administrators' Report and the financial statements, whether the Administrators' Report includes, in all material respects, the information required by the requirements of the Order of the President of the Board of the National Bank of Romania No. 27/2010 and related amendments, articles no. 11 – 14 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions and whether, based on our knowledge and understanding of the Bank obtained during our audit of the financial statements, the information included in the Administrators' Report contains a material error. We are required to report in respect of these matters. Based on the work performed we report that:

   a) in the Administrators' Report we have not identified information which is not in accordance, in all material respects, with the information presented in the accompanying financial statements;
   b) the Administrators' Report identified above include, in all material respects, the information required by the requirements of the Order of the President of the Board of the National Bank of Romania No. 27/2010 and related amendments, articles no. 11 – 14 of the accounting regulations in accordance with International Financial Reporting Standards applicable to credit institutions.

   In addition, based on our knowledge and understanding of the entity and its environment acquired during our audit of the financial statements as at and for the year ended 31 December 2016, we have not identified information included in the Administrators' Report that contains a material error.

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

5. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

   - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

   - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

   - Conclude on the appropriateness of management's use of the going concern basis

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

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

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

Other Matters

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

For and on behalf of KPMG Audit S.R.L.:

Refer to the original signed Romanian

Furtuna Cezar-Gabriel

registered with the Chamber of Financial Auditors of Romania under no 1526/20.11.2003

registered with the Chamber of Financia Auditors of Romania under no 9/2001

Bucharest, 30 March 2017

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