UniCredit Bank

UniCredit Bank S.A.

Consolidated Financial Statements
31 December 2016

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

UniCredit Bank

Content

Deloitte Audit S.R.L.
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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board and Shareholders of,
UniCredit Bank S.A.
Bucharest, Romania

Opinion

We have audited the consolidated financial statements of UniCredit Bank S.A. (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and National Bank of Romania Order no. 27/2010 with subsequent amendments, ("Order 27/2010").

Basis for Opinion

We conducted our audit in accordance with the Auditing Standards adopted by the Chamber of Auditors of Romania, which are International Standards on Auditing (ISAs). Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a consolidated opinion on these matters.

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Nature of the area of focus	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers	
As described in note 23 from consolidated financial statements the Group has booked as at 31 Dec 2016 Impairment allowances of RON 1,472.2 mil for the Loan and advances to customers in amount of RON 21,949 mil. *Impairment allowances represent management's estimate of the losses incurred within the loan portfolio at the balance sheet date built on complex assumptions and professional judgements with significant impact in the financial position of the Group.* *As detailed in the Accounting Policies section of the consolidated financial statements, the impairment allowances are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for significant loans or loans with impairment triggers.* *Collective impairment allowances are calculated based on risk parameters like probability of default (PD), loss given default (LGD) and loss confirmation period (LCP) which are derived from internal models and historical data of the Group.* *For specific impairment, professional judgement is required first to timely determine when an impairment event has occurred and then to estimate the expected future cash flows to repay the loan exposure at default. Valuation of collateral is often used to determine expected future cash flows that support recoverable amounts. Such recoveries from collaterals require assumptions and data that with high degree of professional judgement.* *Because of the significance of these professional judgements and the size of loans and advances to customers, the audit of impairment of loans and advances to customers is a key area of focus.*	*We have reviewed of the provisioning methodology applied by the Group and assessed its consistency with requirements of IFRS and National Bank of Romania.* *<u>Testing of internal controls</u>* *We have challenged the appropriateness of key processes and related controls management has established to support their collective and specific impairment calculations, including:* • *controls for the source data, methodology and internal models development/ validation and for the results acceptance;* • *controls related to timely identification of impairment triggers;* • *controls related to debtors financial performance assessment and estimation of future cash flows.* *For the controls identified to be relevant in addressing the risks, we have tested the design and operating effectiveness of these controls.* *<u>Collective impairment</u>* *In case of collective allowances, we were assessing for selected internal models, in cooperation with our credit risk specialists, the model methodology, the internal validation reports and results of the models back-testing.* *We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the collective provision based on the risk parameters resulted from the models and loan portfolio at the balance sheet date.* *The appropriateness of management's estimates was also independently considered in respect of calculation methodologies and economic factors used by the Bank for valuation of collaterals, hair-cuts factors for expected recoveries, LCP.*

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Nature of the area of focus	*How our audit addressed the key audit matter*
	Identification of impaired loans *For a sample of loans selected from the Watch-list portfolio (performing clients under close monitoring), we have performed procedures to identify whether loss events exist and have been captured on a timely basis. In reviewing the sample, we understood the latest developments at the borrower and considered whether key professional judgments were appropriate given the borrowers' circumstances. We have independently searched for any indicators of potential financial difficulty, such as breach of covenants and defaults on timely payments.* *Specific impairment* *For a sample of loans selected from the non-performing portfolio we have challenged the management expected recoveries and developed our own expectations of a range of reasonable outcomes for the impairment loss allowance based on the detailed loan and counterparty information.*
Interest and Fee Income Recognition	
Refer to Note 7 and 8 of the consolidated financial statements *For the year ended 31 December 2016 the interest income represents RON 1,292.2 mil and fee and commission income represents RON 409.5 mil, the main source being loans to customers. These are the main contributors to the operating income of the Group affecting the Group's profitability.* *While interest income is accrued over the expected life of the financial instrument using the effective interest rate, the recognition of fee income depends on the nature of the fees as follows:* • *Fees that are directly attributable to the financial instrument are part of the effective interest rate and accrued over the expected life of such an instrument and are presented as interest income.* • *Fees for services provided are recognized when service is provided and are presented as fee and commission income.*	*We have tested the design and operating effectiveness of the key internal controls and focused on:* • *Interest/fee inputs on customer loans and deposits;* • *Recording/changes of fees and interest rates;* • *Management oversight and control on interest and fee income, including budget monitoring;* • *IT controls relating to access rights and change management of relevant automated controls with the assistance of our IT specialists.* *We performed also the following procedures with regard to interest and fees revenue recognition:* • *We evaluated the accounting treatment performed by the Group in respect of fees charged to clients to determine whether the methodology complies with the requirement of the relevant accounting standard (IAS 39). We have focused our testing on challenging the correct classification of:*

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Nature of the area of focus	*How our audit addressed the key audit matter*
• *Fees for the execution of an act are recognized when the act has been completed and are presented as fee and commission income.* *Revenue recognition specifics, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording, resulted in this matter being identified as a key audit matter.*	– *Fees that are identified as directly attributable to the financial instrument and are part of the effective interest rate;* – *Fees that are not identified as directly attributable to the financial instrument.* • *We assessed the completeness and accuracy of data used for the calculation of interest and fee income.* • *We evaluated the mathematical formula used for accruing the relevant income over expected life of the loan.* *We have assessed the interest and fee income by building our own expectation on the revenue and compared with the actual results of the Group.*

Report on conformity of the Administrator's Report with the consolidated financial statements

In accordance with Order of the National Bank of Romania Governor no. 27/2010, article 16.1, point e), we have read the Administrators' Report attached to the consolidated financial statements. The Administrators' Report is not a part of the consolidated financial statements. In the Administrators' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and Order 27/2010 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Auditor's Responsibilities for the Audit of the consolidated financial statements

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ahmed Hassan.

Ahmed Hassan, Audit Partner

For signature, please refer to the original Romanian version.

Registered with the Romanian Chamber of Financial Auditors under no. 1529/25.11.2003

On behalf of:

DELOITTE AUDIT S.R.L.

Registered with the Romanian Chamber of Financial Auditors under no. 25/25.06.2001

Bucharest, Romania
March 10, 2017

UniCredit Bank

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		RON	RON
Interest income		1,292,213,262	1,269,408,055
Interest expense		(347,863,702)	(409,071,762)
Interest related effect of swap transactions related to refinancing lines with UniCredit Group companies		-	3,823,851
Net interest income	7	**944,349,560**	**864,160,144**
Fee and commission income		409,575,609	390,678,728
Fee and commission expense		(78,364,396)	(80,057,588)
Net fee and commission income	8	**331,211,213**	**310,621,140**
Net income from trading and other financial instruments at fair value through profit or loss	9	245,446,289	251,887,475
Fair value adjustments in hedge accounting		(3,811,455)	(1,630,352)
Net income on disposals of financial assets and liabilities which are not at fair value through profit or loss	10	128,522,698	76,339,522
Dividend income	11	1,913,613	7,320,896
Other operating income		16,140,107	18,675,622
Operating income		**1,663,772,025**	**1,527,374,447**
Personnel expenses	12	(351,845,892)	(356,184,016)
Depreciation and impairment of tangible assets	13	(43,246,638)	(34,227,568)
Amortisation and impairment of tangible assets	13	(50,366,868)	(48,390,993)
Other administrative costs	14	(323,347,751)	(307,211,094)
Other operating costs	15	(31,043,684)	(31,670,890)
Operating expenses		**(799,850,833)**	**(777,684,561)**
Net operating income		**863,921,192**	**749,689,886**
Net impairment losses on financial assets	16	(416,284,203)	(412,368,113)
Net provision lossess	17	(39,999,892)	(9,061,596)
Net gains /(loss) from other investment activities	18	(2,375,006)	(5,451,971)
Profit before taxation		**405,262,091**	**322,808,206**
Income tax	19	(75,910,549)	(53,302,020)
Net profit for the year		**329,351,542**	**269,506,186**
Attributable to:			
Equity holders of the parent		308,097,123	252,097,154
Non-controlling interests		21,254,419	17,409,032
Net profit for the year		**329,351,542**	**269,506,186**

The accompanying notes form an integral part of these consolidated financial statements.
Convenience translation in English of the original Romanian version.

UniCredit Bank

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		RON	RON
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Revaluation of property, plant and equipment (net of deferred tax)	28	48,021	93,294
Total items that will not be reclassified to profit or loss		**48,021**	**93,294**
Items that may be reclassified to profit or loss			
Net change in revaluation reserve for available for sale financial assets (net of deferred tax)	25, 28	(44,093,725)	(14,128,603)
Net change in cash flow hedging reserve (net of deferred tax)	28	(4,311,701)	16,201,520
Total items that may be reclassified to profit or loss		**(48,405,426)**	**2,072,917**
Other comprehensive income for the year, net of tax		**(48,357,405)**	**2,166,211**
Total comprehensive income for the year		**280,994,137**	**271,672,397**
Attributable to:			
Equity holders of the parent		259,739,718	254,263,365
Non-controlling interests		21,254,419	17,409,032
Total comprehensive income for the year		**280,994,137**	**271,672,397**

The consolidated financial statements were approved by the Management Board on February 28, 2017 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mrs. Mihaela Alina Lupu
Chief Financial Officer

UniCredit Bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 December 2016

In RON

Assets	Note	31 December 2016	31 December 2015
Cash and cash equivalents	20	5,806,429,168	4,662,440,931
Financial assets at fair value through profit or loss	21	393,119,265	291,596,454
Derivatives assets designated as hedging instruments	30	17,325,503	16,477,513
Fair value changes of the hedged items in portfolio hedge		26,783	305,851
Loans and advances to banks	22	737,782,299	849,887,971
Loans and advances to customers	23	20,476,755,183	19,063,021,580
Net lease receivables	24	3,157,684,553	2,729,569,996
Investment securities, available for sale	25	6,371,453,618	6,362,088,047
Property and equipment	26	263,863,595	234,938,243
Intangible assets	27	158,409,354	156,244,574
Deferred tax asset	28	58,521,224	44,517,708
Other assets	29	161,416,898	155,738,502
Non-current assets and disposal groups classified as held for sale		2,913,821	960,324
Total assets		**37,605,701,264**	**34,567,787,694**
Liabilities			
Derivative liabilities at fair value through profit or loss	21	99,316,461	85,114,106
Derivatives liabilities designated as hedging instruments	30	98,730,581	82,170,287
Deposits from banks	31	3,173,396,014	4,748,273,443
Loans from banks and other financial institutions	32	7,433,468,355	7,250,081,728
Deposits from customers	33	21,995,286,812	17,858,756,074
Debt securities issued	34	551,024,752	550,659,161
Subordinated liabilities	35	323,260,540	322,072,940
Provisions	36	67,301,041	68,855,710
Current tax liabilities		49,968,517	18,439,954
Other liabilities	37	292,333,298	231,722,764
Total liabilities		**34,084,086,371**	**31,216,146,167**

UniCredit Bank

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 December 2016 (*continued*)

	Note	31 December 2016	31 December 2015
Equity			
Share capital	**38**	1,101,604,066	1,101,604,066
Share premium		55	55
Reserve on available for sale financial assets		36,697,652	80,791,377
Cash flow hedging reserve		(50,940,452)	(46,628,751)
Revaluation reserve on property and equipment		10,892,930	10,844,909
Other reserves	**39**	240,534,612	240,534,612
Retained earnings		2,053,856,522	1,856,780,170
Total equity		**3,392,645,385**	**3,243,926,438**
Non-controlling interest		128,969,508	107,715,089
Total Group Equity		**3,521,614,893**	**3,351,641,527**
Total liabilities and equity		**37,605,701,264**	**34,567,787,694**

The consolidated financial statements were approved by the Management Board on February 28, 2017 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mrs. Mihaela Alina Lupu
Chief Financial Officer

UniCredit Bank

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

In RON	Share capital	Reserve on available for sale financial assets	Cash flow hedging Reserve	Revaluation of property, plant and equipment	Other reserves	Share premium	Retained earnings	Total	Non-Controlling Interest	Total
Balance at 31 December 2015	1,101,604,066	80,791,377	(46,628,751)	10,844,909	240,534,612	55	1,856,780,170	3,243,926,438	107,715,089	3,351,641,527
Total comprehensive income for the period										
Net profit for the period	-	-	-	-	-	-	308,097,123	308,097,123	21,254,419	329,351,542
Other comprehensive income, net of tax										
Dividends paid during the period	-	-	-	-	-	-	(111,027,487)	(111,027,487)	-	(111,027,487)
Revaluation surplus transfer to retained earnings	-	-	-	(6,716)	-	-	6,716	-	-	-
Revaluation surplus, net of tax	-	-	-	54,737	-	-	-	54,737	-	54,737
Net change in available for sale financial assets, net of tax	-	(44,093,725)	-	-	-	-	-	(44,093,725)	-	(44,093,725)
Net change in cash flow hedging reserve, net of tax	-	-	(4,311,701)	-	-	-	-	(4,311,701)	-	(4,311,701)
Total other comprehensive income	-	(44,093,725)	(4,311,701)	48,021	-	-	(111,020,771)	(159,378,176)	-	(159,378,176)
Total comprehensive income for the period	-	(44,093,725)	(4,311,701)	48,021	-	-	197,076,352	148,718,947	21,254,419	169,973,366
Balance at 31 December 2016	1,101,604,066	36,697,652	(50,940,452)	10,892,930	240,534,612	55	2,053,856,522	3,392,645,385	128,969,508	3,521,614,893

The consolidated financial statements were approved by the Management Board on February 28, 2017 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mrs. Mihaela Alina Lupu
Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements.
Convenience translation in English of the original Romanian version.

UniCredit Bank

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

In RON	Share capital	Reserve on available for sale financial assets	Cash flow hedging Reserve	Revaluation of property, plant and equipment	Other reserves	Share premium	Retained earnings	Total	Non-Controlling Interest	Total
Balance at 31 December 2014	1,101,604,066	94,919,980	(62,830,271)	10,751,615	240,534,612	55	1,604,671,803	2,989,651,860	90,325,468	3,079,977,328
Adjustments related to subsidiaries acquisition	-	-	-	-	-	-	11,213	11,213	(19,411)	(8,198)
Total comprehensive income for the period										
Net profit for the period	-	-	-	-	-	-	252,097,154	252,097,154	17,409,032	269,506,186
Other comprehensive income, net of tax										
Revaluation surplus transfer to retained earnings	-	-	-	-	-	-	-	-	-	-
Revaluation surplus, net of tax	-	-	-	93,294	-	-	-	93,294	-	93,294
Net change in available for sale financial assets, net of tax	-	(14,128,603)	-	-	-	-	-	(14,128,603)	-	(14,128,603)
Net change in cash flow hedging reserve, net of tax	-	-	16,201,520	-	-	-	-	16,201,520	-	16,201,520
Total other comprehensive income	-	(14,128,603)	16,201,520	93,294	-	-	-	2,166,211	-	2,166,211
Total comprehensive income for the period	-	(14,128,603)	16,201,520	93,294	-	-	252,097,154	254,263,365	17,409,032	271,672,397
Balance at 31 December 2015	1,101,604,066	80,791,377	(46,628,751)	10,844,909	240,534,612	55	1,856,780,170	3,243,926,438	107,715,089	3,351,641,527

The consolidated financial statements were approved by the Management Board on February 28, 2017 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mrs. Mihaela Alina Lupu
Chief Financial Officer

The accompanying notes form an integral part of these consolidated financial statements.
Convenience translation in English of the original Romanian version.

UniCredit Bank

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

in RON

	Note	2016	2015
Operating activities			
Profit before taxation	**19**	405,262,099	322,808,206
Adjustments for non-cash items:			
Depreciation and amortisation and impairment on tangible and intangible assets	**13**	93,613,506	82,618,280
Net impairment losses on financial assets		324,099,223	406,624,423
Change in fair value of derivatives at fair value through profit or loss		(3,078,599)	(12,896,992)
Other items for which the cash effects are investing or financing		(22,764,601)	(85,671,398)
Other non–cash items		(196,363,447)	96,536,336
Operating profit before changes in operating assets and liabilities		**600,768,181**	**810,018,855**
Change in operating assets:			
(Increase) in investment securities held for trading		(84,185,586)	(52,230,939)
(Increase) in investment securities available for sale		(55,299,227)	(427,151,508)
(Increase) in loans and advances to banks		112,168,502	(314,420,415)
(Increase) in loans and advances to customers		(1,330,243,651)	(1,646,545,822)
(Increase) in net lease receivables		(510,867,153)	(331,054,790)
((Increase)) / decrease in other assets		(24,963,572)	144,713,736
Change in operating liabilities:			
(Decrease) / Increase in deposits from banks		(1,574,944,468)	1,151,551,744
Increase in deposits from customers		4,223,414,619	1,977,348,344
(Decrease) / Increase in other liabilities		22,328,248	(117,227,224)
Income tax paid		(50,127,582)	(14,870,393)
Cash flows from / (used in) operating activities		**1,328,048,311**	**1,180,131,588**
Investing activities			
Proceeds from sale of property and equipment		1,049,772	81,683
Acquisition of property and equipment and intangible assets		(87,746,644)	(103,404,826)
Disposal of equity investments	**25**	45,263,082	2,277,611
Dividends received	**11**	1,913,613	1,235,366
Cash flows used in investing activities		**(39,520,177)**	**(99,810,166)**

UniCredit Bank

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
Financing activities			
Dividends paid		(107,021,634)	-
Repayments of loans from financial institutions		(3,178,860,618)	(2,179,561,475)
Drawdowns from loans from financial institutions		3,163,735,157	1,405,410,603
Repayments of subordinated liabilities		-	(67,231,500)
Cash flows used financing activities		**(122,147,095)**	**(841,382,372)**
Net increase / (decrease) in cash and cash equivalents		1,166,381,039	238,939,050
Cash and cash equivalents at 1 January	20	**4,594,566,616**	**4,355,627,566**
Cash and cash equivalents at 31 December	20	**5,760,947,656**	**4,594,566,616**

Cash flow from operating activities include:	**2016**	**2015**
Interest received	1,061,754,261	1,395,845,395
Interest paid	(166,350,483)	(423,790,939)

The consolidated financial statements were approved by the Management Board on February 28, 2017 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mrs. Mihaela Alina Lupu
Chief Financial Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. REPORTING ENTITY

The UniCredit Group (the "Group") consists of UniCredit Bank S.A. (the "Bank"), and its subsidiaries UniCredit Consumer Financing IFN S.A. ("UCFIN"), UniCredit Leasing Corporation IFN S.A., Debo Leasing IFN S.A. and UniCredit Insurance Broker S.R.L. These consolidated financial statements comprise the Bank and its subsidiaries.

UniCredit Bank S.A., the new brand of formerly UniCredit Tiriac Bank SA until August 2015, having its current registered office at 1F, Expozitiei Boulevard, District 1, Bucharest, Romania, was established as a Romanian commercial bank on 1 June 2007 upon the merger by acquisition of the former UniCredit Romania S.A. (the absorbed bank) by Banca Comerciala HVB Tiriac S.A. (the absorbing bank) and is licensed by the National Bank of Romania to conduct banking activities. The Bank provides retail and commercial banking services in Romanian Lei ("RON") and foreign currency. These include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance, medium and long term facilities, retail loans, bank guarantees, letter of credits and documentary collections.

UniCredit Bank S.A. is directly controlled by UniCredit SpA (Italy), with registered office in Rome, Italy, Via Alessandro Specchi, 16.

UniCredit Bank is exercising direct and indirect control over the following subsidiaries:

- UniCredit Consumer Financing IFN S.A., having its current registered office at 23-25 Ghetarilor street, 1st and 3rd floor, District 1, Bucharest, Romania, provides consumer finance loans to individual clients. The Bank has a shareholding of 50.1% in UCFIN since January 2013.

- UniCredit Leasing Corporation IFN S.A.("UCLC"), having its current registered office at 23-25 Ghetarilor Street, 1st, 2nd and 4th floor, District 1, Bucharest, Romania, provides financial lease services to corporate clients and individuals. UCLC, previously associate entity, has become a subsidiary of the Bank starting with April 2014 when the Bank obtained 99.95% indirect controlling interest (direct controlling interest: 99.90%). The Bank has an indirect shareholding interest of 99.98% as of 31 December 2016 (direct controlling interest: 99.96%), as a result of the merger of UCLC with UniCredit Leasing Romania SA ("UCLRO") finalized by June 2015, where UCLRO was absorbed by UCLC.

- Debo Leasing IFN S.A., having its current registered office in 23-25 Ghetarilor Street, 2nd floor, 1st district, Bucharest, Romania, is a real estate finance lease entity, in which the Bank has an indirect controlling interest of 99.97% (31 December 2015: 99.94%) through UCLC.

- UniCredit Insurance Broker S.R.L., having its current registered office in 23-25 Ghetarilor Street, 2nd floor, 1st district, Bucharest, Romania, intermediates insurance policies related to leasing activities to legal entities and individuals, in which the Bank has an indirect controlling interest of 99.98% (31 December 2015: 99.98%) through UCLC.

As at 31 December 2016, the Group carried out its activity in Romania through Bank having 160 branches (in 2015: 184 branches).

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union.

Additionally, the Bank prepares a set of separate financial statements in accordance with IAS 27 "*Separate Financial Statements*".

b) Basis of measurement

The consolidated financial statements have been prepared. as follows:

Items	Measurement basis
Financial instruments at fair value through profit or loss	Fair value
Loans and advances	Amortized cost
Available for sale financial assets	Fair value
Lands and buildings	Fair value
Investment property	Fair value
Other fixed assets and intangible assets	Cost
Derivatives designated as hedging instruments	Fair value

c) Functional and presentation currency

The consolidated financial statements are presented in Romanian Lei ("RON"), which is the functional and presentation currency. Except as indicated, the financial information presented in RON has been rounded to the nearest unit.

d) Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments made by management in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are described in notes 4 and 5.

UniCredit Bank

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group.

Where it has been considered necessary, the comparative amounts have been reclassified in order to ensure the compliance with the changes made in the corresponding notes to the financial statements.

a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an investee if and only if the investor has all of the following elements:

- power over the investee, the investor has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.

In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Acquisitions of entities under common control

Following the implementation of the Leasing Reorganisation Project of the Holding at Romania level, the Bank has acquired in April 2014 a controlling interest of 99.90% in UCLC and respectively of 99.98% in UCLRO. At that moment, UCLC had a direct controlling interest of 99.98% in DEBO and of 99.98% in ALLIB. Starting with June 2014, UCLC obtained the direct controlling interest over UCIB of 100%.

Financial information of these subsidiaries at acquisition date is presented in the table below:

Subsidiary *In RON*	**Total Assets**	**Total Equity**	**Operating income**	**Net Profit /(Loss)**
UCLC	2,838,268,731	3,846,506	14,826,679	(1,757,233)
UCLRO	127,894,892	79,626,031	1,125,185	650,859
ALLIB	8,374,137	1,521,837	137,019	76,900
DEBO	24,881,643	2,278,857	135,879	52,560
UCIB	87,833,740	81,094,904	9,992,067	7,284,264

As of 31 December 2016, The Group consists of the Bank and its subsidiaries UCFIN, UCLC, DEBO and UCIB (31 December 2015: the Group consists of the Bank and its subsidiaries UCFIN, UCLC, UCLRO, DEBO and UCIB, where previously subsidiary ALLIB was sold in August 2015).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a) Basis of consolidation *(continued)*

These acquisitions have been accounted for prospectively using book value accounting as all these entities are under common control of UniCredit SpA as direct parent company, from the date when obtained the control over these subsidiaries.

The Group has applied the acquisition accounting prospectively, since the date of acquisition of control over these subsidiaries, and consequently the comparative figures are presented in the financial statements for the Group as they were presented in the consolidated financial statements for the year ended at 31 December 2016.

The Group elected to measure non-controlling interest at its proportionate share of the recognised amount of the identifiable net assets at the acquisition date.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, have been eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Investments in associates

As of 31 December 2016, the Bank has no associated entities (31 December 2015: there was no investment in associated entities).

b) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the end of reporting period are translated to RON at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized 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 RON at foreign exchange rates ruling at the dates the fair value was determined.

The exchange rates of major foreign currencies were:

Currencies	31 December 2016	31 December 2015	%
Euro (EUR)	1: RON 4.5411	1: RON 4.5245	0.37
US Dollar (USD)	1: RON 4.3033	1: RON 4.1477	3.76

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c) 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 to be restated in terms of the measuring unit current at the end of 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 Group no longer applies the provisions of IAS 29.

Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these consolidated financial statements

d) Interest

Interest income and expense are recognized in profit or loss using the effective interest rate method. 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 carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument.

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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss on the net loan.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis;
- interest related effect of Swap transactions regarding refinancing lines with UniCredit Group Companies - the Group's financing in RON from UniCredit Bank Austria AG is immediately swapped into EUR. The related interest effect of these swap transactions on the Group's income statement is recognized in net interest income while the effect of exchange rate revaluation is recognized in net income on foreign exchange and on derivatives held for risk management;
- interest on financial assets and financial liabilities measured at fair value, calculated on an effective interest basis (derivative financial instruments, securities available for sale);
- effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income arising on the financial services provided by the Group, including account servicing fees, investment management fees, advisory fees and syndication fees are recognized in the income statement on the accrual basis, i.e. when the corresponding service is provided.
Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

f) Dividends

Dividend income is recognised in the income statement on the date that the dividend is declared. Income from equity investments and other non-fixed income investments is recognised as dividend income when it accrues. Dividends are treated as an appropriation of profit in the period they are declared and approved by the General Assembly of Shareholders.

g) Net income from other financial instruments at fair value through profit and loss

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

These items are also impacted by valuation adjustments when using a certain valuation technique such as: fair value adjustments and additional valuation adjustments. Fair value adjustment is an adjustment that takes into account non-performance risk (the own credit risk – DVA or the credit risk of the counterparty to transaction – CVA OIS - expected difference from collateralised deals -). Additional value adjustment is an adjustment that takes into account measurement of uncertainty (e.g. when there has been a significant decrease in the volume or level of activity when compared to normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value).

h) Leases

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

i) Income tax

Income tax expense on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in "Other comprehensive income", in which case it is recognised in "Other comprehensive income". Current tax and deferred tax are recognized in the income statement in the caption "Income tax", except for the tax related to items which are recognised within equity category, such as gains/losses from assets available for sale, changes in fair value of derivative hedging instruments used in cash flow hedge, of which changes are recognized, net of tax, directly in "Other comprehensive income".
Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of reporting period, and any adjustment to tax payable in respect of prior periods.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Income tax *(continued)*

Deferred tax is provided using the balance sheet liability 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 realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised 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% (2015: 16%).

j) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Group initially recognises loans and receivables, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or a financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition/issue. (for an item which is not at fair value through profit or loss).

(ii) Classification

Financial assets
At inception date, a financial asset was classified in one of the following categories:
- loans and receivables and lease receivables (*see Note m*);
- held to maturity (*see Note n*);
- available for sale (*see Note o*);
- at fair value through profit or loss (*see Note k*).

See accounting policies 3 (j), (k), (l), (m), (n) and (o).

Financial liabilities
At inception date, a financial liability was classified in one of the following categories:
- Fair value through profit or loss;
- Amortised cost (all financial liabilities that are not classified at fair value through profit or loss).

See accounting policies 3(k), (l), (u).

The Group designates financial assets and liabilities at fair value through profit and loss when either:
- The assets and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j) Financial assets and financial liabilities *(continued)*

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. In addition, any cumulative gain or loss that had been recognised in other comprehensive income is also recognised in profit or loss.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfer of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Group entered into several transactions with UniCredit SpA and other entities within UniCredit Group whereby:

- either UniCredit SpA directly financed some corporate customers, while the Group undertook the role of agent or security agent and payment agent, or
- the Group transferred to UniCredit SpA by means of novation agreements the outstanding amount of certain loans already granted to Romanian corporate customers and also undertook the role of security agent and payment agent.

For most contracts concluded with UniCredit SpA, there is a risk participation agreement by which the Group is obliged to indemnify UniCredit SpA against costs, loss or liability suffered by UniCredit SpA in connection with the relevant contracts to the extent of an agreed percentage of the relevant amounts and up to a limit agreed on a case by case basis.

As the Group has transferred the right to receive cash flows from the loans financed by UniCredit SpA, has neither retained nor transferred all risks and rewards of ownership, nor has retained control, such loans are not recognized in the Group's balance sheet (refer also to note 42).

The direct decrease of loans value (*write-off*) represents the operation of diminishing directly the gross loan value fully covered by impairment allowances and their transfer in the off-balance sheet accounts, where they are monitored until recovered. At the moment of exhausting all activities to recover the loans and receivables, those are derecognized from the off balance accounts.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j) Financial assets and financial liabilities *(continued)*

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention 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 such as the Group's trading activity.

(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.

(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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group 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.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all available factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of fair value of financial instruments at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only observable data from the market.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

Where a fair value cannot be reliably estimated, unquoted equity instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j) Financial assets and financial liabilities *(continued)*

(vii) Identification and measurement of impairment

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

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 recognized. If there is objective evidence that an impairment loss on a financial asset 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 interest rate for: fixed interest rate loans when loan is originated and floating interest rate loans when the loan was found impaired. 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 recognized 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 recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. The amount of the reversal is recognized in profit or loss.

Loans and advances to customers

The Group uses based on its internal impairment assessment methodology amongst other factors the following main impairment indicators for loans to customers or groups of loans to customers:

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

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

(c) 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;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j) Financial assets and financial liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

Loans and advances to customers (continued)

The Group first assesses whether objective evidence of impairment exists individually for loans to customers that are individually significant or collectively for loans that are not individually significant. Loans to customers that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Individual assessment

Based on the Group's internal criteria an exposure may qualify as individually significant. The client whose risk profile is not, according to expert judgement, reflected by portfolio based parameters is individually significant. The individual impairment is determined on a case by case basis taking into account the estimated future cash flows.

The main criteria for determining whether a specific exposure is individually significant is a threshold estimated based on UniCredit Group experience or the specific risk profile (in terms of potential credit loss), but validated by the Group depending on local economic environment. The threshold for determining whether a specific exposure is significant or not, is locally established at the amount of EUR 0.25 million for retail loans and SMEs and respectively at the amount of EUR 1 million for corporate loans.

The above-mentioned exposures are individually assessed and the Group decides whether an objective evidence of impairment exists individually for these financial assets or not. If this is the case, these assets will be subject to provisions calculation based on individually determined future cash flows related to the transaction.

Collective assessment

For the purpose of a collective evaluation of impairment, loans to customers are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

The criteria used to divide exposures into buckets are based on the Group's rating system, expert judgement and experience of the Group's employees (e.g. the UniCredit Group uses credit risk grading, past due status, product type).

Management considers that the characteristics chosen are the best estimate of similar credit risk characteristics relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j) Financial assets and financial liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

Collective assessment *(continued)*

For each type of exposure loss parameters were determined based on the UniCredit Bank Austria AG's methodology and the Group's historical experience and the expert judgement of the Group's employees.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.
For the Group' exposures please see note 22.

Available for sale financial assets

For financial assets classified as available for sale, when a decline in the fair value of an available for sale financial asset has been recognized directly in 'Other comprehensive income" and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in other comprehensive income shall be removed from other comprehensive income 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 other comprehensive income 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.

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 through profit or loss

Cash and cash equivalents

Cash and cash equivalents comprise notes and coins on hand, balances held with central banks, nostro accounts, placements with banks with less than 90 days original maturity and are carried at amortized cost in the statement of financial position.

Cash and cash equivalents are subject to insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing it in the near term, holds as part of a portfolio that is managed together for short term or position taking, or are derivatives.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k) Trading assets and liabilities *(continued)*

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, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

(i) if the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity;
(ii) if the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

If the fair value of financial instrument becomes less than zero, which may occur in case of derivative instruments, then those instruments are presented in the caption "Financial liabilities at fair value through profit or loss.

The Group has trading instruments at 31 December 2016 held for trading financial instruments, derivative assets and derivative liabilities incurred in transactions with customers and economically covered with back-to-back transactions within UniCredit Group.

l) Derivatives held for risk management purposes and hedge accounting

Derivative financial instruments include interest rate options and exchange rate options, interest rate swaps, currency swaps and forward transactions. The positive fair value of the derivatives is carried as asset and the negative fair value is carried as liability.

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment of changes in their fair value depends on their classification into the following categories:

(i) Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in fair values attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the changes in the fair value of the derivative is recognized immediately in the profit or loss altogether with the changes in fair value of hedged item which are attributable to hedged risk, in the same line of the income statement and in "Other items of comprehensive income" as hedging items.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

l) Derivatives held for risk management purposes and hedge accounting *(continued)*

(i) Fair value hedges (continued)

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortized to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Group started to apply fair value hedge accounting starting with 2013. The Group designated interest rate swap contracts as hedging instruments and certain loans to customers of the Group as hedged items.

(ii) Other non-trading derivatives

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

(iii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Group accounts for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivative are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification (i.e. at fair value through profit or loss), and are presented in the statement of financial position under Derivatives assets at fair value through profit or loss and Derivatives liabilities at fair value through profit or loss.

(iv) Cash flow hedges

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in "Other comprehensive income". Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

l) Derivatives held for risk management purposes and hedge accounting *(continued)*

(iv) Cash flow hedges (continued)

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognized in "Other comprehensive income" from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in "Other comprehensive income" is reclassified immediately to profit or loss as a reclassification adjustment.

The Group designated certain interest rate swap and cross currency swap contracts as hedging instruments and certain loans and deposits from customers of the Bank as hedged items.

For hedge accounting purposes, only instruments that involve an external party to the Group (or intra-group transactions directly replicated with third parties outside the Group) are designated as hedging instruments. The foreign exchange gains or losses from these financial instruments are directly recognized in profit or loss account.

m) Loans and advances and net lease receivables

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

ii) Finance lease contracts where the Group is lessor that substantially transfer all risks and benefits related to ownership over the leased asset to the lessee, are accounted for in accordance with IAS 17 Leases.

Net investments in leases are measured initially at fair value plus direct costs and subsequently measured at amortised cost and are presented net after impairment allowance. This is booked based on the net investments in leases identified as impaired based on the continuous evaluation, to bring these assets at their recoverable amount.

A lease receivable is recognized over the leasing period at present values of minimum lease payments which are to be made by the lessee to the Group, using the implicit interest rate and including the guaranteed residual value.

The resulted entire income from lease is included in the caption "Interest income" in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n) Held-to-maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sell or significant reclassification of held to maturity investments before maturity, the entire category would be reclassified as available for sale and for a two year period the Group would not use the held to maturity classification.

o) Available for sale

Available for sale investments are non-derivative investments that are 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. 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.

p) Property and equipment

(i) Initial recognition and measurement

All items of property and equipment are initially recognized at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent measurement

Land and buildings are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuators.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognized in other comprehensive income and accumulated in equity under "Other reserves".

However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.
If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in profit or loss. However, the decrease is recognized in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under "Other reserves".

For the other items of property, plant and equipment the cost model is used, in accordance with *IAS 16 Property, plant and equipment*. After initial recognition, computers and equipment, motor vehicles, furniture and other assets are carried at cost less any accumulated depreciation and any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) Property and equipment *(continued)*

(iii) Subsequent costs

The Group recognizes 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 Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated rates of depreciation are as follows:

Buildings:	
- property	2% per year
- improvements (rentals)	6.25% - 100% per year
Office equipment and furniture	6.00% - 25% per year
Computer equipment	25% per year

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

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 supply of services or for administrative purposes. Investment property is initially measured at cost and subsequently, at fair value, with any change therein recognized in profit or loss within the "Other operating income" or "Other operating expenses" on a case by case basis.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss within the "Other operating income" or "Other operating expenses".

When the use of a property changes such that it is reclassified as property, its fair value at the date of reclassification becomes its cost for subsequent accounting.

r) Intangible assets

(i) Recognition

An intangible assets is an identifiable non-monetary asset without physical substance which is expected to be used for a period longer than one year and from which economic benefits will flow to the entity.

Intangible assets are mainly goodwill, software, brands and intangibles as list of customers.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

r) Intangible assets *(continued)*

(i) Recognition (continued)

Intangible assets, other than goodwill, are carried at acquisition cost, including any costs incurred to put the respective asset into function, less accumulated amortization and related impairment loss.

The acquisition costs and those for put into operation of IT systems acquired are capitalized including all costs incurred to bring the respective systems fully operational.

Costs associated with developing or maintaining computer software programs are recognized 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 recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

(ii) Subsequent expenditure

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

(iii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use.

The estimate useful life is:

- for software: 3-5 years;
- for list of customers: 5 years.
- for licenses: contractual lifetime, max 5 years

s) Business combinations

In accordance with IFRS 3 Business combination, a business is defined as "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors of other owners, members or participants".

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

t) Impairment of non – financial assets

The carrying amount of the Group's assets, other than deferred tax assets, is reviewed at each reporting date to determine whether there is any objective indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

In case of intangible assets of "List of Customers", in case one of the customers, for which the intangible asset was recognised, closes the operations with the Bank, the net carrying amount if the "List of customers" related to that customer will be derecognized.

u) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities in issue and subordinated liabilities are the Group's sources of debt funding.
When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as deposit, and the underlying asset continues to be recognized in the Group's consolidated financial statements.

Deposits and borrowings such as loans from banks and other financial institutions are recognized 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 amortized cost.
Debt securities issued include bonds issued by the Group and not held for trading or designated at fair value through profit or loss. Debt securities issued are recognized when the Group becomes part of the contract.
On initial recognition debt securities are measured at fair value, including transaction costs.
Debt securities in issue are measured at amortized cost. Application of amortized costs determines that transaction cost capitalized in the initial recognition amount, premium and discount are recognized in the income statement along the life of the instrument.

v) Provisions

A provision is recognised in the statement of financial position when the Group 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.

w) Non-current assets held for sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Bank measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. For the period the asset is classified as held for sale the depreciation ceases and is tested periodically for impairment.

The non-current asset is reclassified out of non-current assets held for sale when it is sold or the conditions to be recognized as held for sale are no longer met.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

x) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group 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.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee 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). Financial guarantees are disclosed in the notes to the Consolidated Financial Statements.

The Group entered in the past into several transactions with UniCredit Bank Austria AG (UCBA) and other entities within UniCredit Group related to loans granted to non-banking customers financed by such entities within UniCredit Group (please refer to Note 3j(*iii*)). In accordance with risk participation agreements related to such loans, the Group was required to indemnify UniCredit Bank Austria AG and the other entities within UniCredit Group as set out in the Note 3j *(iii)*.

Starting with 1st of October 2016, UCBA has transfered the CEE Business (and all rights and obligations related to it) by way of a demerger by absorption to a newly incorporated receiving company (respectively UCG Beteiligungsverwaltung Gmbh) which is wholly owned by UniCredit SpA. Simultaneously with the demerger of UCBA, UniCredit SpA merged with UCG Beteiligungsverwaltung Gmbh so that the latter ceased to exist and UniCredit SpA gained direct control of the CEE Business.

Such financial guarantees are carried at the end of reporting period at the amount determined in accordance with *IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"*, using an internal methodology consistent with the impairment assessment of loans and advances to customers (please refer to Note 3*j*), which is stated under Provisions in the Consolidated Statement of financial position.

y) Employee benefits

(i) Short term service 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. The Group includes in short-term benefits the accruals for the employees' current year profit sharing payable within following months after the end of the year.

(ii) Defined contribution plans

The Group, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension, health care and unemployment benefit. All employees of the Group are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan).

Obligations for contributions to defined benefit plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

y) Employee benefits *(continued)*

(iii) Other long term employee benefits

On the basis of internal practice and policies, the Group has an obligation to pay to retiring employees a benefit equivalent of two salaries as at retirement date. The Group's net obligation in respect of the retirement benefit is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

(iv) Share - based payment transactions

The Group has in place incentive plans for its senior management, consisting in stock options and performance shares which provide that UniCredit SpA ("the Parent") shares will be settled to the grantees. The cost of this scheme is supported by the Group and not by its Parent, and as a consequence it is recognised as an employee benefit expense.

At Group level the expense is recognised against a liability which is measured at fair value.

The fair value of stock options is determined using the Hull and White Evaluation Model. Measurement inputs include share price on measurement date, exercise price, volatility (historical daily average volatility for a period equal to the duration of the vesting period), exit rate (annual percentage of Stock Options forfeited due to termination), dividend yield (last four years average dividend-yield, according to the duration of the vesting period).

The economic value (fair value) of Performance Shares, representing UniCredit SpA free ordinary shares to be granted on the achievement of performance targets set at Group and Division level in the Strategic Plan approved by the Board of UniCredit SpA, is measured considering the share market price at the grant date less the present value of the future dividends related to the period from the grant date to the share settlement date. Input parameters are market price (arithmetic mean of the official market price of UniCredit SpA ordinary shares during the month preceding the granting Board resolution) and economic value of vesting conditions (present value of the future dividends related to the period from the grant date to the share settlement date).

(v) Termination benefits

Termination benefits are recognised as an expense when the Group 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

z) Segment reporting

An operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenues and incur expenses,

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

The main segment report format is based on the internal reporting structure of business segments, which reflects management responsibilities in the Bank. The results on segments reported to the management include elements directly allocated to that segment and also other elements which can be allocated in a reasonable way.

Unallocated items mainly comprise tangible and intangible assets and tax liabilities or assets. In order to manage, the Bank is organized into the following operating segments:

- **Retail** segment ("Retail") – the Bank provides individuals (except Private Banking customers) and small and medium-sized enterprises a large range of financial products and services, including loans (mortgages, personal loans, overdrafts, credit card facility and funds transfer), savings, payment services and transactions with securities.

- **Corporate and Investment Banking ("CIB")** - the product lines Global Transaction Banking (including payment transactions, trade finance, cash management), Financing (develop and offers financing products – classic and structured lending business, as well as Factoring, Real Estate, UE Funds – being also involved in initiation, structuring and promoting specialized financing transactions, syndications and other investment banking specialized transactions, managing overflow portfolio and financial analysis for complex transactions with high risk), Advisory (mergers and acquisitions and capital market advisory services) and Markets (Treasury). The services are provided to medium corporate, large corporate, international corporate, real estate, public sector and financial institutions.

- **Private Banking ("PB")** - this segment is focusing on private customers and families with significant investments and VIP. The segment provides customized banking products and services, including personalized assets under Management/Custody product solutions.

- **Leasing** – the Group, through UCLC and DEBO, grant finance leases to finance mainly purchases of cars, trucks and trailers, equipment and real estate. Lease contracts are mainly in EUR, USD and RON, and are offered for a period between 1 and 15 years, transferring the ownership on the leased assets at the end of lease contract.

- **Other** segment ("Other") comprises of all elements not assigned to above mentioned segments such as equity investments, taxes and Assets and Liabilities Management ("ALM") activities.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Standards and Interpretations issued by IASB and adopted by the EU:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018); the Group has started the IFRS 9 implementation;
    - IFRS 9 "Financial Instruments" issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting of financial instruments.
    - IFRS 9 is applicable starting with 1st January 2018 with the exception of Macro Hedge Accounting (portfolio fair value hedge accounting for interest rate risk).
    - Based on its preliminary assessment, the Group expects that substantially all of financial assets classified as loans and receivables under IAS 39 will continue to be measured at amortised cost under IFRS 9.
    - At this stage it is still unclear what portion of the Group's debt securities will be measured at FVTPL, at FVOCI or amortized cost as this determination will depend on the outcome of the business model test. It is expected that a significant portion of debt securities will be reclassified under IFRS 9 either into or out of FVOCI.
    - It is also possible that a number of equity instruments currently classified as available for sale will be measured at FVTPL under IFRS 9, but this determination will depend on an election to be made by the entity at the date of initial application – that is 1 January 2018. The Group has not yet decided how it will classify these instruments.
    - It is expected that deposits from customers will be continued to be measured at amortised cost under IFRS 9.
    - It is expected that the new expected credit loss model under IFRS 9 will accelerate the recognition of impairment losses and lead to higher impairment allowances at the date of initial application.
    - The Group is not yet able to quantify the expected impact that the initial application of IFRS 9 will have on its IFRS statements.
- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2018): Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Standards and Interpretations issued by IASB and not yet adopted by the EU:

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019); this standard will enter into analysis during 2017. It is expected that the new Standard, when initially applied, will have an impact on the financial statements, since it will require the Group to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Group acts as a lessee.

- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017).

- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

- **Amendments to IAS 40 "Investment property"** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018).

- **Amendments to IFRS 2 "Share-based Payment"** – Classification and Measurement od Share-Based Payment Transactions (effective for annual periods beginning on or after 1 January 2018) is in analysis process.

- **Amendments to IFRS 4 "Insurance Contracts"** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018) is in analysis process.

- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (as for example measuring an associate or joint venture at fair value, IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, etc.) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2018); these amendments have no impact for the Group.

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

- **Amendments to IFRS 10 "Consolidated Financial Statements"** and **IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

4. RISK MANAGEMENT

a) Introduction and overview

The risks are managed through a continuous process of identification, measurement and monitoring, depending on the risk limits, segregation of duties and other controls.

The Group has exposure to the following significant risks:

- Credit risk (includes the risk for lease receivables)
- Liquidity risk
- Market risks
- Operational risks
- Reputational risk
- Business risk
- Financial investment risk
- Real estate risk
- Strategic risk
- Risk of excessive leverage.
- Inter-concentration risk

The Group also gives a special attention to the conformity risk and fiscal risk.
This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

b) Risk management framework

Objectives regarding the risks management are correlated with the overall strategic objectives of the Group:

- Adequate and prudent management of risks and in particular, of significant risks;
- Increase of loan portfolio in a selective manner and achievement of a balanced structure of customers segments;
- Diversification of products;
- Maintaining of sustainable profitability level;
- Decrease – as much as possible – of the negative impact generated by the economic crisis;
- Identify optimum solutions adapted to the clients' needs which are confronting with the negative effects of economic-financial crisis;
- Training the Group's employees such that to offer quality services to the clients;
- Integrating locally of the Group standards through internal regulations and procedures.

The risks management within the Group implies:

- the culture regarding the risk management;
- the framework regarding risk management;
- the policy for the approval of new products.

The culture regarding the risks within the Group is integrated and defined overall, being based on complete understanding of risks the Group is confronting with and of the manner they are managed, having a tolerance/risk appetite of the Group.

UniCredit Bank

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

4. RISK MANAGEMENT *(continued)*

b) Risk management framework *(continued)*

The Groups' strategic objectives include also the development of sound culture regarding the management of risks, extended both at the management level and also to the business lines with responsibilities in risk management area, by identifying through the set of activities performed and for each significant activity, of the ratio between risks and profits which Group considers acceptable within the conditions of a prudent and healthy ongoing business performance.

The Banks aims to develop a holistic framework for the management of significant risks – credit risk, market risk, operational risk, liquidity risk, reputational risk, business risk, financial investment risk, strategic risks and real estate investment risk – taking into account the correlations and interdependences between different risk types.

The framework for risks management is based on:

- definition and set up of basic principles, of policies, procedures, limits and related controls for managing the risks;
- an organized structure specialized in the management and control of risks;
- strategies and specific techniques for measurement, evaluation, monitoring, decrease and reporting the risks.

The framework for management of significant risks is transposed clearly and transparently in internal norms, procedures, including manuals and codes of conduct, making a distinction between the overall standards applicable to all employees and the rules applied specifically to certain categories of personnel.

The governing structures playing the role in risks management are:

The Supervisory Board has overall responsibility for the establishment and oversight of the Bank's risk management framework and to approve the Bank's risk profile.

The Management Board implements the risk management strategy and policies approved by Supervisory Board regarding the management for significant risks.

The **Risk Management Committee set up by Supervisory Board** plays advisory role for the governing bodies' decisions regarding the risk appetite and overall strategy regarding the management of actual and future risks of the Bank, and ensures the support for the Supervisory Board in the oversight of the implementation by the top management of the overall strategy regarding actual and future risks of the Bank.

Implementation of the strategy for significant risks management at the Group level for the development and monitoring the policies for risks management is achieved through the following committees having responsibilities regarding risk management:

- Asset and Liabilities Committee
- Risk Management Operative Committee
- Special Credit Committee
- Credit Committee
- Fraud Risk Management Committee
- Operational Permanent Work Group Committee

4. RISK MANAGEMENT *(continued)*

b) Risk management framework *(continued)*

The Group's **Audit Committee** is responsible for monitoring compliance with Unicredit Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Bank's policies for risk management are set up to identify and analyze the risks faced by the Bank, to set up the adequate limits for risk and control, as well as to monitor the risks and respecting the limits. Policies and systems for risks management are periodically reviewed in order to present the changes in market conditions, products and services provided. The Group, through standards and procedures for management and training, is targeting to develop a constructive and disciplined environment within all employees to understand their roles and obligations.

c) Credit risk

(i) Credit risk management

Credit risk represents the risk that an unexpected change of the credit quality of counterparty might generate a change in the value of the credit exposure towards it. This change in the credit exposure value might be due to the default of the counterparty, that is not able to respect its contractual obligations or by the reduction of the credit quality of the counterparty: this latest case is more relevant in assets subject to mark to market and classified in the trading book.

The Group has set up processes for risk management and has tools for identification, measurement, monitoring and control the credit risk.

The Group's policy for the risk management promotes a set of principles and coherent practices, oriented toward the following objectives:

- Set up a framework and adequate parameters for credit risk;
- Promoting and operating a healthy and sound process for granting loans;
- Promoting and maitaining an adequate process for management, measurement and monitoring of loans;
- Ensuring a permanent control over the quality of granted loans portfolios.

Credit risk management is performed taking into account both individual loans and also entire portfolio and includes the quantitative and qualitative aspects related to risks.

The Group evaluates mainly the solvency of the entity/client which requests the loan facility. This evaluation is focused mainly on establishment of the manner in which the entity that is requesting the loan facility can respect its obligations by paying them autonomously, irrespective whether additional guarantees are provided or not (repayment capacity).

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(ii) Exposure to credit risk

- **Loans and advances to clients**

In RON	31 December 2016	31 December 2015
Individually significant impaired loans		
Grade 8-: Impaired	1,920,252,455	2,323,263,574
Grade 9: Impaired	168,916,181	205,282,955
Grade 10: Impaired	316,910,232	492,042,768
Gross amount	**2,406,078,868**	**3,020,589,297**
Allowance for impairment	(1,132,861,293)	(1,393,679,652)
Carrying amount	**1,273,217,575**	**1,626,909,645**
Fair value of collateral	**1,234,486,711**	**1,156,177,451**
Property	873,223,888	1,067,844,532
Goods	40,744,386	62,045,737
Assignment of receivables	18,220,112	9,062,865
Other collateral*	302,298,325	17,224,317
Other impaired loans		
Grade 8-: Impaired	233,392,238	348,399,908
Grade 9: Impaired	4,640,032	14,930,260
Grade 10: Impaired	164,492,799	202,778,505
Gross amount	**402,525,069**	**566,108,673**
Allowance for impairment	(210,965,802)	(289,495,144)
Carrying amount	**191,559,267**	**276,613,529**
Fair value of collateral	**184,123,165**	**260,762,893**
Property	166,683,696	231,739,528
Goods	3,119,346	6,479,399
Assignment of receivables	686,516	3,395,663
Other collateral	13,633,607	19,148,303
Past due but not impaired		
Grade 1 - 7	**709,674,459**	**836,523,334**
Less than 90 overdue days	704,751,219	830,127,636
More than 90 overdue days	4,923,240	6,395,698
Grade 8	**301,717,397**	**358,839,127**
Less than 90 overdue days	288,896,277	344,474,643
More than 90 overdue days	12,821,120	14,364,484
Gross amount	**1,011,391,856**	**1,195,362,461**
Allowance for impairment	(26,170,304)	(43,337,809)
Carrying amount	**985,221,551**	**1,152,024,652**
Neither past due nor impaired		
Grade 1 - 7	17,835,364,141	15,731,845,032
Grade 8	293,643,487	353,126,183
Gross amount	**18,129,007,628**	**16,084,971,215**
Allowance for impairment	(102,250,838)	(77,497,461)
Carrying amount	**18,026,756,789**	**16,007,473,754**
Total carrying amount	**20,476,755,183**	**19,063,021,580**

* *Other collateral includes cash and financial risk insurance.*

4. RISK MANAGEMENT ***(continued)***

c) Credit risk ***(continued)***

(ii) Exposure to credit risk (continued)

- **Finance lease receivables**

In RON	31 December 2016	31 December 2015
Finance leases individually impaired		
Grade 8-: Impaired	57,708,927	137,338,022
Grade 9: Impaired	246,233,698	53,659,758
Grade 10: Impaired	232,718,772	296,487,790
Gross amount	**536,661,397**	**487,485,570**
Allowance for impairment	(272,250,673)	(270,973,954)
Carrying amount	**264,410,724**	**216,511,616**
Fair value of collateral	**262,316,729**	**428,613,977**
Property	179,649,559	384,039,979
Other collateral*	82,667,170	44,573,998
Other impaired finance leases		
Grade 8-: Impaired	18,205,505	21,559,488
Grade 9: Impaired	1,482,344	8,435,119
Grade 10: Impaired	34,736,398	38,018,793
Gross amount	**54,424,247**	**68,013,400**
Allowance for impairment	(31,671,617)	(40,663,015)
Carrying amount	**22,752,630**	**27,350,385**
Fair value of collateral	**15,797,222**	**56,486,868**
Property	15,775,075	56,464,802
Other collateral	22,147	22,066
Finance lease past due but not impaired		
Grade 1 - 7	**807,660,180**	**653,203,955**
Less than 90 overdue days	802,500,757	651,401,918
More than 90 overdue days	5,159,423	1,802,037
Grade 8	**13,355,978**	**2,703,212**
Less than 90 overdue days	13,355,978	2,703,212
More than 90 overdue days		
Gross amount	**821,016,158**	**655,907,167**
Allowance for impairment	(6,356,918)	(4,088,305)
Carrying amount	**814,659,240**	**651,818,862**
Finance lease neither past due nor impaired		
Grade 1 - 7	2,053,238,036	1,843,014,573
Grade 8	14,621,201	575,553
Gross amount	**2,067,859,237**	**1,843,590,126**
Allowance for impairment	(11,997,278)	(9,700,993)
Carrying amount	**2,055,861,959**	**1,833,889,133**
Total carrying amount	**3,157,684,553**	**2,729,569,996**

* *Other collateral includes cash and financial risk insurance.*

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(ii) Exposure to credit risk (continued)

Loan portfolio is assessed for credit risk based on internal rating models. Customers are assigned with a certain rating notch which indicates the one-year probability of default. Rating notches are mapped to the UniCredit Group wide Master Scale. The Master Scale provides a standard rating scale for the entire UniCredit Group loan portfolio and also ensures comparability with rating scales from external rating agencies, based on the one-year probabilities of default assigned to each rating notch (calibration).

The Master Scale contains 10 rating classes, which are subdivided in 27 rating notches. Customers in the rating notches 1+ to 8 are expected to default only with a low probability and are defined as non-impaired customers. Rating notches 8-, 9 and 10 contains impaired customers in accordance with regulatory definitions for impaired clients.

The Group's overall risk exposure is disclosed according to the amount of identifiable impairment into four main categories: individually significant impaired, other impaired loans, past due but not impaired and neither past due nor individually impaired according to the internal rating of the Group and the past due status.

Impaired loans (including leasing receivables)

Loans and receivables are impaired and impairment adjustment incur whether an objective impairment evidence exist as a result of:

- one or many triggers which appeared after initial recognition of the investment (default events);
- that default event has an impact on estimated future cash flow of the asset which can be reliable measured.

Individually significant impaired loans

Individually significant impaired loans comprises significant private individuals (more than EUR 250,000) which have at least one default event, as defined in the Bank's internal procedures, and significant corporate clients (more than EUR 1 million) with grade 8-, 9 or 10, as defined in the internal rating of the Bank; these two categories are individually assessed by the Group.

For all of them, the collaterals are divided between property, goods, assignment of receivables and other. Other collateral includes pledge on stocks, machinery, cash and financial risk insurance.

Neither past due nor individually impaired

It includes all exposures not classified in the above categories and considered to be all performing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

4. RISK MANAGEMENT ***(continued)***

c) Credit risk ***(continued)***

(ii) Exposure to credit risk (continued)

Other impaired loans

Other impaired loans includes all private individuals exposures which are more than 90 days overdue and corporate and business clients exposures with grade 8-, 9 and 10 which are not individually significant.

Past due but not impaired loans

Loans for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and / or the stage of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes an allowance for impairment losses based on the internal methodology as described in note 3j (*vii*).

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade:

31 December 2016

In RON	**Gross amounts**	**Net amounts**
Grade 8-: Impaired	2,153,644,693	1,308,095,138
Grade 9: Impaired	173,556,213	32,606,631
Grade 10: Impaired	481,403,031	124,075,073
Total	**2,808,603,937**	**1,464,776,842**

31 December 2015

In RON	**Gross amounts**	**Net amounts**
Grade 8-: Impaired	2,671,663,482	1,652,929,153
Grade 9: Impaired	220,213,215	68,252,362
Grade 10: Impaired	694,821,273	182,341,659
Total	**3,586,697,970**	**1,903,523,174**

Restructured loans are as follows:

In RON	**31 December 2016**	**31 December 2015**
Gross amount	**1,514,916,450**	**1,968,575,233**
Allowance for impairment	(718,017,634)	(866,244,845)
Carrying amount	**796,898,816**	**1,102,330,388**

4. RISK MANAGEMENT *(continued)*
c) Credit risk *(continued)*

(ii) Exposure to credit risk (continued)
Restructured lease receivables are as follows:

In RON	31 December 2016	31 December 2015
Gross amount	**191,927,263**	**215,780,233**
Allowance for impairment	(48,198,375)	(47,274,236)
Carrying amount	**143,728,888**	**168,505,998**

Restructured exposures are loan contracts for which restructuring measures have been applied and which are still under closed monitoring.
Any replacement operation of assets given to debtor that is facing or about to face financial difficulties in meeting financial commitments, represents a concession granted to the borrower (forbearance), which wouldn't have been granted if the debtor wouldn't be in financial dificulties.
A concession refers to one of the following actions:

- a change in previous terms and conditions of a contract under which it is considered that the debtor cannot meet due to the financial difficulties ("problem asset"), in order to allow a sufficient capacity to service the debt, which would have not been granted if the debtor had not been in financial difficulty;
- a total or partial refinancing of a contract related to a problem asset, which would have not been granted the debtor had not been in financial difficulty.

A concession may generate a loss for the lender.
The replacement operations of the performant assets, that have been found objective evidence of impairment, lead to consider these exposures as problem assets only if there is a negative impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Collateral
To a large degree, the Group's exposure is in the form of traditional loans to non-financial companies and households. These loans may be secured by collateral (e.g., a mortgage on property or a charge over securities, movable property or receivables) or guarantees (usually provided by individuals or legal entities).Any form of collateral serves only as additional security for the secured loan and as such is taken into account at the time the creditworthiness of the entity requesting the credit facility is assessed. In order to protect against fluctuations in the market value of assets assigned to the Group as collateral, the value of the collateral should generally provide an adequate margin in excess of the current value of such assets, and this margin is properly adjusted as a function of the intrinsic characteristics of these assets.

When assessing collateral, special emphasis is placed on the enforceability of the collateral and its appropriateness. With regard to the former, as required by the BIS III Capital Accord the collateral obtained must be valid, effective and binding for the collateral provider, and it must be enforceable with respect to third parties in all jurisdictions, including in the event of the insolvency or receivership of the borrower and/or the collateral provider.

UniCredit Bank

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(ii) Exposure to credit risk (continued)

Due to the importance of this requirement, including for the purposes of mitigating the capital requirement for credit risk, the application procedure and related processes governing this area are particularly strict, to ensure that the documents obtained are completely in order from a formal and substantive standpoint.

With regard to appropriateness, security is said to be appropriate when it is qualitatively and quantitatively sufficient with respect to the amount and nature of the credit facility, provided there are no significant risk elements associated with the provider of security.

Concentration of credit risk related to loans and advances to clients

The Group monitors concentrations of credit risk by sector of activity, client segment, products, ratings, geographical area on a quarterly basis. An analysis of concentrations of credit risk by industry at the reporting date is shown below:

In RON	31 December 2016	31 December 2015
Private entities (including individuals)	6,312,242,502	5,499,638,670
Manufacturing	4,552,772,353	4,637,647,107
Commerce - wholesale and retail	3,177,233,947	2,937,568,497
Real estate	1,246,734,199	1,340,398,806
Agriculture - forestry - fisheries	1,109,327,613	916,151,586
Construction and civil engineering	695,886,394	732,927,836
Information and communication	618,966,395	448,991,795
Transport and storage services	517,267,503	486,243,782
Public administration and defence; social security insurance	502,948,310	567,647,393
Financial and insurance institutions	476,186,850	130,401,289
Professional, scientific and technical activities	402,874,065	394,150,628
Production and supply of electricity, gas, steam and air conditioning	383,955,326	440,729,830
Water supply	145,079,396	167,602,459
Administrative and support service activities	114,548,582	98,814,906
Hotels and public commercial concern	104,015,194	101,993,043
Medical and social activities	36,012,694	29,159,465
Extractive industry	31,270,224	17,069,474
Arts, entertainment and recreation	10,261,234	11,884,483
Education	4,167,711	16,438,241
Other services, private entities (including individuals)	35,004,691	87,562,290
Total	**20,476,755,183**	**19,063,021,580**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(ii) Exposure to credit risk (continued)

Concentration of credit risk related to lease receivables

In RON	31 December 2016	31 December 2015
Transport and storage services	766,747,226	626,456,987
Commerce - wholesale and retail	743,899,783	559,385,918
Manufacturing	452,782,101	398,965,433
Construction and civil engineering	232,272,313	232,241,052
Agriculture - forestry - fisheries	181,906,668	166,220,664
Production and supply of electricity, gas, steam and air conditioning	158,767,890	233,542,947
Real estate	139,406,711	109,553,451
Professional, scientific and technical activities	129,687,005	112,265,588
Administrative and support service activities	98,050,028	75,299,539
Medical and social activities	66,670,595	45,187,574
Hotels and public commercial concern	48,203,065	42,082,017
Water supply	31,243,596	25,615,444
Information and communication	30,775,998	34,217,439
Extractive industry	26,328,620	29,418,791
Arts, entertainment and recreation	7,069,279	5,158,083
Financial and insurance institutions	6,575,683	9,884,625
Education	3,788,270	3,021,856
Public administration and defence; social security insurance	3,254,447	3,448,092
Other services, private entities (including individuals)	30,255,275	17,604,496
Total	**3,157,684,553**	**2,729,569,996**

In RON	2016	2015
Loans and advances to clients	23,634,439,736	21,792,591,576
Loan related commitments and contingencies	6,144,689,586	5,819,787,133
Total	**29,779,129,322**	**27,612,378,709**

4. RISK MANAGEMENT *(continued)*

c) Credit risk *(continued)*

(ii) Exposure to credit risk (continued)

Concentration of credit risk *(continued)*

The amounts reflected in the table above represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts of credit risk shown, therefore, greatly exceed expected losses, which are included in the allowance for performing and non-performing loans.

d) Liquidity risk

The liquidity risk is the probability of the bank falling short of its due payments resulting from its contractual relations with clients and third parties. Under normal conditions of market functioning, the liquidity risk may materialize also through the need for the bank to pay a premium over market rates to be able to access liquidity.
Among the main potential generators of liquidity risk, UCB distinguishes between liquidity mismatch risk/refinancing risk; liquidity contingency Risk; market Liquidity Risk.

Management of liquidity risk

In line with the Group's liquidity framework, the main goal of UCB's overall liquidity management is to keep the liquidity exposure at such a level that the bank is able to honor its payment obligations on an on-going basis, but also during a crisis without jeopardizing its franchise value or its brand's name.
Hence, two main operating models for the liquidity management are defined: Going Concern Liquidity Management and the Contingent Liquidity Management.

From a liquidity risk governance perspective UCB keeps two layers Managing Bodies acting as strategic decision taking functions and Operational units acting as operative liquidity management functions, i.e.ALM, Market Risk, Markets – Trading.
In accordance with the strategic goal of self-sufficient funding, Bank's medium and long term funding strategy is centered on:

- encouraging sticky client deposits
- development of strategic funding through own bonds issues, covered bonds issues.
- development of relations with various international financial institutions and foreign banks for special financing programs

The liquidity cost benefit allocation is an important part of the liquidity management framework. Liquidity is a scarce resource and accordingly a proper management of costs and benefits is essential in order to support sound and sustainable business models. Therefore, the Bank has put in place proper funds transfer pricing mechanism.

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

Exposure to liquidity risk

Key measures used by the Bank for measuring liquidity risk are:

- the daily short-term liquidity report, through which cash inflows and outflows mainly coming from inter-bank transactions are monitored;
- the structural liquidity gap –used to determine the gap between assets and liabilities with maturities over one year;
- regulatory indicators: the Bank has to comply with the limits imposed by National Bank of Romania, such as the liquidity indicator calculated according to NBR Regulation no. 25/2011, Liquidity covered ratio, Net stable funding ratio;
- other key indicators for the management of liquidity and funding needs used to assess the liquid assets, the concentration of funding, the immediate liabilities, the difference between the commercial funding and the commercial loans

The Bank sets the limit and triggers levels for the main indicators used to measure the liquidity risk and in case a breach is observed or anticipated, specific requested actions are taken for correcting the structure of the asset and liability mix of the bank.

A regular stress testing assessment is done in order to evaluate the liquidity position of the Bank In case of a deteriorating position, liquidity stress tests are one of the main metrics in order to support management's decisions before and also during stress situations. In particular, liquidity stress test results are useful in order assess the "right" sizing and composition of a liquidity buffer on a regular basis. As such, liquidity stress testing serves as an essential tool of assessment of the liquidity risk in an on-going basis, rather than in a crisis situation only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

An analysis of assets and liabilities of the Group as at 31 December 2016 by residual contractual maturity at the reporting date is shown below:

31 December 2016 'In RON	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Total contractual amount	Total carrying amount
Cash and cash equivalents	5,806,429,168	-	-	-	-	5,806,429,168	5,806,429,168
Financial assets at fair value through profit or loss *	393,119,265	-	-	-	-	393,119,265	393,119,265
Derivatives assets designated as hedging instruments	17,325,503	-	-	-	-	17,325,503	17,325,503
Fair value changes of the hedged items in portfolio hedge	26,783	-	-	-	-	26,783	26,783
Loans and advances to banks	213,669,687	102,073,745	422,038,867	-	-	737,782,299	737,782,299
Loans and advances to customers	3,364,001,881	6,790,585,386	5,986,730,929	4,503,934,938	-	20,645,253,134	20,476,755,183
Net Lease receivables	523,603,708	891,753,545	1,550,780,132	191,547,168	-	3,157,684,553	3,157,684,553
Investment securities, available for sale	209,099,030	893,514,457	3,051,248,205	2,197,311,406	20,280,520	6,371,453,618	6,371,453,618
Total other financial assets	65,874,676	-	-	-	-	65,874,676	65,874,676
Total financial assets	**10,593,149,701**	**8,677,927,133**	**11,010,798,133**	**6,892,793,512**	**20,280,520**	**37,194,948,999**	**37,026,451,048**
Derivative liabilities at fair value through profit or loss	99,316,461	-	-	-	-	99,316,461	99,316,461
Derivatives liabilities designated as hedging instruments	98,730,581	-	-	-	-	98,730,581	98,730,581
Deposits from banks	1,355,136,103	113,529,518	1,164,204,928	540,525,465	-	3,173,396,014	3,173,396,014
Loans from banks and subordinated liabilities	1,635,065,176	2,719,560,333	3,019,806,236	384,645,672	-	7,759,077,417	7,756,728,895
Deposits from customers	20,689,738,820	1,114,301,434	168,720,339	22,838,223	-	21,995,598,816	21,995,286,812
Debt securities issued	-	1,626,644	550,000,000	-	-	551,626,644	551,024,752
Total other financial liabilities	227,478,700					227,478,700	227,478,700
Total financial liabilities	**24,105,465,840**	**3,949,017,930**	**4,902,731,503**	**948,009,360**	**-**	**33,905,224,633**	**33,901,962,215**
Liquidity surplus/ (shortfall)	**(13,512,316,139)**	**4,728,909,203**	**6,108,066,630**	**5,944,784,153**	**20,280,520**	**3,289,724,366**	**3,124,488,833**
Adjustment for investment securities available for refinancing **	6,142,074,068	(893,514,457)	(3,051,248,205)	(2,197,311,406)	-	-	-
Liquidity surplus/ (shortfall) adjusted	**(7,370,242,071)**	**3,835,394,746**	**3,056,818,425**	**3,747,472,747**	**20,280,520**	**3,289,724,366**	**3,124,488,833**

* *Financial assets held-for-trading are all presented on the "Up to 3 months" bucket irrespective of contractual maturity as they are acquired for the purpose of selling in the near term*

** *As part of its liquidity management the Bank holds treasury bills and bonds which can easily be converted into cash in case of increasing liquidity risk. Also, most of these securities are available for refinancing in order to ensure quick access to funds.*

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

31 December 2016 'In RON	Up to 3 months	3 months to 1 Year	1-5 Years	Over 5 Years	No fixed maturity	Gross nominal inflow/(outflow)
Commitments **						
Irrevocable commitments given outflow	(2,337,029,709)	-	-	-	-	(2,337,029,709)
Irrevocable commitments taken inflow	1,893,638,700	-	-	-	-	1,893,638,700
Issued financial guarantees outflow	-	(3,807,340,454)	-	-	-	(3,807,340,454)
Net surplus/ (shortfall) from commitments	**(443,391,009)**	**(3,807,340,454)**	**-**	**-**	**-**	**(4,250,731,463)**

***) The table disclosed above shows the undiscounted cash flows of the Group, including financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity, under a highly prudential approach. For issued financial guarantee contracts, the maximum amount of guarantee is allocated in the "3 Months to 1 Year" band.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

An analysis of assets and liabilities of the Group as at 31 December 2015 by residual contractual maturity at the reporting date is shown below:

31 December 2015 'In RON	**Up to 3 months**	**3 months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**No fixed maturity**	**Total contractual amount**	**Total carrying amount**
Cash and cash equivalents	4,662,440,931	-	-	-	-	4,662,440,931	4,662,440,932
Financial assets at fair value through profit or loss *	291,875,339	-	(278,885)	-	-	291,596,454	291,596,454
Derivatives assets designated as hedging instruments	16,477,513	-	-	-	-	16,477,513	16,477,513
Fair value changes of the hedged items in portfolio hedge	305,851	-	-	-	-	305,851	305,851
Loans and advances to banks	46,508,739	183,486,390	619,999,831	-	-	849,994,960	849,887,971
Loans and advances to customers	4,374,158,188	6,003,723,564	5,057,577,978	3,919,177,752	-	19,354,637,482	19,063,021,577
Net Lease receivables	403,103,798	517,815,569	1,356,506,332	202,863,501	249,280,794	2,729,569,994	2,729,569,994
Investment securities, available for sale	871,746,936	921,865,223	2,894,670,560	1,623,550,168	50,255,160	6,362,088,047	6,362,088,047
Total other financial assets	66,087,202					66,087,202	66,087,202
Total financial assets	**10,732,704,497**	**7,626,890,746**	**9,928,475,816**	**5,745,591,421**	**299,535,954**	**34,333,198,434**	**34,041,475,542**
Derivative liabilities at fair value through profit or loss	85,383,434	-	(269,328)	-	-	85,114,106	85,114,106
Derivatives liabilities designated as hedging instruments	81,900,959	-	269,328	-	-	82,170,287	82,170,287
Deposits from banks	2,218,963,636	1,267,426,757	1,131,125,000	130,758,050	-	4,748,273,443	4,748,273,442
Loans from banks and subordinated liabilities	536,121,698	882,310,018	5,001,086,327	1,154,917,609	-	7,574,435,652	7,572,154,670
Deposits from customers	16,752,665,072	892,808,353	158,291,329	55,551,131	-	17,859,315,885	17,858,756,074
Debt securities issued	-	1,626,644	550,000,000	-	-	551,626,644	550,659,161
Total other financial liabilities	172,775,326	-	-	-	-	172,775,326	172,775,326
Total financial liabilities	**19,847,810,125**	**3,044,171,772**	**6,840,502,656**	**1,341,226,790**	-	**31,073,711,343**	**31,069,903,065**
Liquidity surplus/ (shortfall)	**(9,115,105,628)**	**4,582,718,974**	**3,087,973,160**	**4,404,364,631**	**299,535,954**	**3,259,487,091**	**2,971,572,476**
Adjustment for investment securities available for refinancing **	5,440,085,951	(921,865,223)	(2,894,670,560)	(1,623,550,168)	-	-	-
Liquidity surplus/ (shortfall) adjusted	**(3,675,019,677)**	**3,660,853,751**	**193,302,600**	**2,780,814,463**	**299,535,954**	**3,259,487,091**	**2,971,572,476**

* *Financial assets held-for-trading are all presented on the "Up to 3 months" bucket irrespective of contractual maturity as they are acquired for the purpose of selling in the near term*

** *As part of its liquidity management the Bank holds treasury bills and bonds which can easily be converted into cash in case of increasing liquidity risk. Also, most of these securities are available for refinancing in order to ensure quick access to funds.*

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

31 December 2015 'In RON	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Gross nominal inflow/(outflow)
Commitments **						
Irrevocable commitments given outflow	(1,832,257,566)	-	-	-	-	(1,832,257,566)
Irrevocable commitments taken inflow	904,900,000	-	-	-	-	904,900,000
Issued financial guarantees outflow	-	(3,987,529,566)	-	-	-	(3,987,529,566)
Net surplus/ (shortfall) from commitments	**(927,357,566)**	**(3,987,529,566)**	**-**	**-**	**-**	**(4,914,887,132)**

***) The table disclosed above shows the undiscounted cash flows of the Group, including financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity, under a highly prudential approach. For issued financial guarantee contracts, the maximum amount of guarantee is allocated in the "3 Months to 1 Year" band.*

4. RISK MANAGEMENT *(continued)*
d) Liquidity risk *(continued)*
Future cash flows of financial liabilities

Maturity profile of financial liabilities at December 31, 2016 and 2015 which is based on contractual undiscounted future liabilities of payment are listed below:

31 December 2016 - RON	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Year	Total contractual amount
Financial liabilities at fair value through profit or loss	12,170,748	17,235,760	26,210,447	52,733,580	108,350,535
Derivatives liabilities designated as hedging instruments	1,167,458	-	11,482,031	87,754,850	100,404,339
Deposits from banks	1,365,591,109	155,113,666	1,238,228,512	615,031,816	3,373,965,103
Loans from banks and other financial institutions, including subordinated liabilities	1,718,877,245	2,949,574,006	2,796,801,991	597,564,174	8,062,817,416
Deposits from customers	20,616,342,657	1,252,250,372	420,734,409	6,200,599	22,295,528,037
Debt securities issued	-	34,925,000	567,414,658	-	602,339,658
Total financial liabilities	**23,714,149,217**	**4,409,098,804**	**5,060,872,048**	**1,359,285,019**	**34,543,405,088**

31 December 2015 - RON	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Year	Total contractual amount
Financial liabilities at fair value through profit or loss	5,618,731	7,222,733	15,814,496	62,132,063	90,788,023
Derivatives liabilities designated as hedging instruments	1,113,390	-	13,919,387	69,408,343	84,441,120
Deposits from banks	2,226,598,691	1,284,380,644	1,187,132,486	142,975,914	4,841,087,735
Loans from banks and other financial institutions, including subordinated liabilities	566,233,605	998,781,442	5,362,207,903	1,231,324,160	8,158,547,110
Deposits from customers	16,192,905,860	892,805,185	732,738,655	67,951,812	17,886,401,512
Debt securities issued	-	35,020,684	602,339,658	-	637,360,342
Total financial liabilities	**18,992,470,277**	**3,218,210,688**	**7,914,152,585**	**1,573,792,292**	**31,698,625,842**

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

An analysis of notional amounts of derivative financial assets/liabilities by residual contractual maturity at the reporting date is shown below:

In RON 31 December 2016	Carrying amount*	Gross nominal inflow /(outflow)	Less than 1 month	1 to 3 Months	3 Months to 1 year	1-5 years	More than 5 years
Derivative assets	**123,155,224**	**83,428,479**	**3,873,683**	**(4,720,645)**	**(8,921,083)**	**33,139,564**	**60,056,960**
Outflow		(1,363,567,525)	(242,539,795)	(286,262,077)	(374,526,671)	(414,980,174)	(45,258,808)
Inflow		1,446,996,004	246,413,478	281,541,432	365,605,588	448,119,738	105,315,768
Derivative liabilities	**(198,047,042)**	**(142,712,579)**	**(5,272,014)**	**(5,933,943)**	**3,895,520**	**215,900**	**(135,618,042)**
Outflow		(2,880,292,013)	(1,060,268,816)	(488,905,239)	(810,346,652)	(328,904,156)	(191,867,150)
Inflow		2,737,579,434	1,054,996,802	482,971,296	814,242,172	329,120,056	56,249,108

In RON 31 December 2015	Carrying amount*	Gross nominal inflow /(outflow)	Less than 1 month	1 to 3 Months	3 Months to 1 year	1-5 years	More than 5 years
Derivative assets	**117,731,197**	**110,328,597**	**779,108**	**2,423,055**	**(1,729,446)**	**38,217,491**	**70,638,389**
Outflow		97,482,529	9,952,448	211,829,288	91,067,370	(257,050,974)	41,684,397
Inflow		12,846,068	(9,173,340)	(209,406,233)	(92,796,816)	295,268,465	28,953,992
Derivative liabilities	**(210,198,703)**	**(206,510,426)**	**(5,611,740)**	**(3,377,365)**	**(3,699,923)**	**(41,666,004)**	**(152,155,394)**
Outflow		(2,252,249,572)	(1,417,292,051)	(336,834,962)	(271,038,891)	(46,363,047)	(180,720,621)
Inflow		2,045,739,146	1,411,680,311	333,457,597	267,338,968	4,697,043	28,565,227

*) *includes the derivatives for hedging*

4. RISK MANAGEMENT *(continued)*

e) Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risks

Organizational structure

The Supervisory Board lays down strategic guidelines for taking on market risks by calculating, depending on the propensity to risk and objectives of value creation in proportion to risks assumed, capital allocation for all business segments, in compliance with UniCredit Group strategies.

The Risk Management Committee provides advice and recommendations in respect of decisions taken by the Chief Executive Officer and in drawing up proposals made by the Chief Executive Officer to the Directorate or the Supervisory Board with regards to the following:

- guidance as to the methods to be used to realize models for the measurement and monitoring of Group risks;

- the Group's risk policies (identification of risk, analysis of the level of propensity to risk, definition of capital allocation objectives and the limits for each type of risk, assignment of related functional responsibilities to the relevant departments and divisions);

- corrective action aimed at rebalancing the Group's risk positions.

Overall authority for market risk is delegated in Assets and Liability Committee. The Market Risk unit ensures the measurement and monitoring of risks assumed in accordance with the guidelines set out by UniCredit Group.

Asset and Liability Management unit, in coordination with Markets Trading manages strategic and operational Balance sheet management, with the objective of ensuring a balanced asset position and the operating and financial sustainability of the Group's growth policies on the loans market, optimizing the Group's exchange rate, interest rate and liquidity risk.

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolio is held by Markets Trading unit, and includes positions arising from market making and proprietary position taking, together with most financial assets that are managed on a fair value basis. Also all foreign exchange risk is transferred and sold down by Assets and Liability Management to the Markets Trading unit. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

Exposure to market risks – Value at Risk Tool

The principal tool used to measure and control market risk exposure is Value at Risk (VaR). VaR is the maximum estimated loss that will arise on the entire portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

The VaR model used by the Group is based upon a 99 percentage confidence level and assumes a 1 day holding period. Use of a 1-day time-horizon makes it possible to make an immediate comparison between profits/losses realized.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1 day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The Group uses a VaR warning limit for total market risk and banking book and a limit for trading book; this limit is subject to review and approval by UniCredit Group and ALCO. VaR is measured daily by a common system throughout the UniCredit Group; data is automatically upload from the core banking system and other front office systems.

A summary of the VaR position of the Group is as follows:

In EUR	At 31 December 2016	Average 2016	Maximum 2016	Minimum 2016
Foreign currency risk	80,476	48,091	200,460	1,516
Interest rate risk	1,960,889	2,446,264	3,616,348	1,668,051
Credit spread risk	4,218,639	4,471,784	4,941,281	3,249,837
Overall	4,198,209	4,799,791	5,567,540	3,213,290

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

Exposure to market risks – Value at Risk Tool *(continued)*

In EUR	At 31 December 2015	Average 2015	Maximum 2015	Minimum 2015
Foreign currency risk	78,056	55,188	238,463	2,034
Interest rate risk	3,233,274	3,766,502	5,413,164	2,680,754
Credit spread risk	3,337,950	3,363,703	4,532,028	2,602,420
Overall	3,156,551	3,238,137	5,323,392	2,481,176

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit analyses. The Group uses a range of stress tests to model the financial impact of a variety of exceptional market scenarios on the Group's positions.

Foreign exchange (FX) analysis

The FX net open position limits are assigned by the Group and are lower than the prudential limits imposed by the National Bank of Romania.

The limits are expressed in EUR equivalent and the exposure to the limits is monitored on a daily basis by Market Risk department.

The table shows the average usage of the limits during 2016 and 2015, which correlate also with the stable FX VaR figure.

Foreign exchange (FX) Open Position of the Bank is as follows:

Currency	Limits (EUR equivalent) 2016	Average usage 2016	Limits (EUR equivalent) 2015	Average usage 2015
EUR	40,000,000	20.67%	40,000,000	20.74%
RON	40,000,000	19.76%	40,000,000	20.65%
USD	5,000,000	6.86%	5,000,000	6.96%

Exposure to market risks – Interest Rate Gap tool

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and it is assisted by Market Risk in its day to day monitoring activities.

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4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

A summary of the Group's interest rate gap position on interest earnings assets and liabilities based on earlier date between contractual maturity and repricing date is as at 31 December 2016:

RON	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Year	Total contractual amount	Total carrying amount
Cash and cash equivalents	5,806,429,168				5,806,429,168	5,806,429,168
Financial assets at fair value through profit or loss	11,034,361	18,083,473	102,910,718	261,090,713	393,119,265	393,119,265
Derivatives assets designated as hedging instruments	-	17,325,503	-	-	17,325,503	17,325,503
Fair value changes of the hedged items in portfolio hedge	26,783	-	-	-	26,783	26,783
Loans and advances to banks	679,029,303	58,752,996	-	-	737,782,299	737,782,299
Loans and advances to customers*	18,892,741,816	1,024,217,906	547,710,609	180,582,802	20,645,253,133	20,476,755,183
Net Lease receivables	3,070,415,934	22,285,381	63,159,437	1,823,801	3,157,684,553	3,157,684,553
Investment securities, available for sale **	209,099,030	893,514,457	3,051,248,205	2,197,311,406	6,351,173,099	6,351,173,099
Total other financial assets	65,874,676	-	-	-	65,874,676	65,874,676
Total	**28,734,651,071**	**2,034,179,716**	**3,765,028,969**	**2,640,808,722**	**37,174,668,479**	**37,006,170,529**
Derivative liabilities at fair value through profit or loss	12,426,649	18,389,542	16,192,542	52,307,728	99,316,461	99,316,461
Derivatives liabilities designated as hedging instruments	98,730,581	-	-	-	98,730,581	98,730,581
Deposits from banks	2,473,968,113	699,427,901	-	-	3,173,396,014	3,173,396,014
Loans from banks and subordinated liabilities*	6,018,709,219	824,822,827	845,660,415	69,884,952	7,759,077,413	7,756,728,895
Deposits from customers*	20,663,752,857	1,114,301,434	168,720,339	48,824,186	21,995,598,816	21,995,286,812
Debt securities issued	-	1,626,644	550,000,000	-	551,626,644	551,024,752
Total other financial liabilities	227,478,700	-	-	-	227,478,700	227,478,700
Total	**29,495,066,119**	**2,658,568,349**	**1,580,573,296**	**171,016,866**	**33,905,224,629**	**33,901,962,215**
Interest sensitivity surplus/ (shortfall)	**(760,415,047)**	**(624,388,633)**	**2,184,455,673**	**2,469,791,856**	**3,269,443,850**	**3,104,208,314**

* *Total contractul amounts exclude any costs/revenues that are being deffered during the lifetime of the contracts*
***The amount of RON 20,280,519 representing equity investments are not included as they are not bearing interest. (See details for "Investment securities, available for sale " in Note 25).*

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

A summary of the Bank's interest rate gap position on interest earnings assets and liabilities based on earlier date between contractual maturity and repricing date is as at 31 December 2015:

RON	Up to 3 months	3 months to 1 Year	1 Year to 5 Years	Over 5 Year	Total contractual amount	Total carrying amount
Cash and cash equivalents	4,662,440,931	-	-	-	4,662,440,931	4,662,440,931
Financial assets at fair value through profit or loss	26,651,454	66,639,820	154,269,230	44,035,950	291,596,454	291,596,454
Derivatives assets designated as hedging instruments	-	16,477,513	-	-	16,477,513	16,477,513
Fair value changes of the hedged items in portfolio hedge	305,851	-	-	-	305,851	305,851
Loans and advances to banks*	787,233,053	62,761,907	-	-	849,994,960	849,887,971
Loans and advances to customers*	15,746,009,176	2,687,599,790	549,116,267	271,912,249	19,254,637,482	19,063,021,580
Net Lease receivables	2,200,581,437	122,639,223	306,854,175	99,495,161	2,729,569,996	2,729,569,996
Investment securities, available for sale **	871,746,936	921,865,223	2,894,670,560	1,623,550,168	6,311,832,887	6,311,832,887
Total other financial assets	66,087,202	-	-	-	66,087,202	66,087,202
Total	**24,361,056,040**	**3,877,983,476**	**3,904,910,232**	**2,038,993,528**	**34,182,943,276**	**33,991,220,385**
Derivative liabilities at fair value through profit or loss	25,264,665	59,073,280	776,161	-	85,114,106	85,114,106
Derivatives liabilities designated as hedging instruments	81,900,959	-	269,328	-	82,170,287	82,170,287
Deposits from banks*	4,119,253,636	629,019,807	-	-	4,748,273,443	4,748,273,443
Loans from banks and subordinated liabilities*	5,912,718,043	679,389,389	884,143,240	98,184,980	7,574,435,652	7,572,154,668
Deposits from customers	16,762,087,823	892,808,353	158,291,329	46,128,380	17,859,315,885	17,858,756,074
Debt securities issued		1,626,644	550,000,000	-	551,626,644	550,659,161
Total other financial liabilities	172,775,326	-	-	-	172,775,326	172,775,326
Total	**27,074,000,452**	**2,261,917,473**	**1,593,480,058**	**144,313,360**	**31,073,711,343**	**31,069,903,064**
Interest sensitivity surplus/ (shortfall)	**(2,712,944,412)**	**1,616,066,003**	**2,311,430,174**	**1,894,680,168**	**3,109,231,933**	**2,921,317,321**

* *Total contractul amounts exclude any costs/revenues that are being deffered during the lifetime of the contracts*

***The amount of RON 50,255,160 representing equity investments are not included as they are not bearing interest. (See details for "Investment securities, available for sale " in Note 25).*

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

The following table shows the yearly average interest rates obtained or offered by the Group during 2016:

	RON Average	EUR Average	USD Average
Assets			
Current accounts with the National Bank of Romania	0.12%	0.07%	0.00%
Placements with banks	0.95%	0.21%	0.15%
Investment securities	3.75%	3.27%	5.55%
Loans and advances to customers	4.42%	3.64%	3.74%
Net lease receivables	4.12%	5.85%	6.59%
Liabilities			
Deposits from banks	0.22%	0.61%	0.49%
Deposits from customers	1.12%	0.39%	0.99%
Loans from banks	0.34%	2.92%	2.51%
Subordinated loans	-	6.18%	-

The following table shows the yearly average interest rates obtained or offered by the Group during 2015:

	RON Average	EUR Average	USD Average
Assets			
Current accounts with the National Bank of Romania	0.22%	0.18%	0.00%
Placements with banks	2.82%	0.09%	0.44%
Investment securities	4.22%	4.40%	6.07%
Loans and advances to customers	5.42%	3.29%	3.42%
Net lease receivables	6.95%	5.85%	6.59%
Liabilities			
Deposits from banks	0.17%	0.05%	0.45%
Deposits from customers	1.76%	0.94%	1.22%
Loans from banks	0.45%	2.51%	2.07%
Subordinated loans	-	6.18%	-

The interest rates related to the local currency and the major foreign currencies as at 31 December 2016 and 31 December 2015 were as follows:

Currencies	Interest rate	31 December 2016	31 December 2015
RON	Robor 3 months	0.90%	1.02%
RON	Robor 6 months	1.11%	1.34%
EUR	Euribor 3 months	-0.32%	-0.13%
EUR	Euribor 6 months	-0.22%	-0.04%
USD	Libor 3 months	1.00%	0.61%
USD	Libor 6 months	1.32%	0.85%

4. RISK MANAGEMENT *(continued)*

e) Market Risk *(continued)*

The amounts of assets and liabilities held in RON and in foreign currencies as at 31 December 2016 can be analysed as follows:

In RON	RON	USD	EUR	Other	Total
Financial assets					
Cash and cash equivalents	2,417,059,105	44,684,218	3,239,669,950	105,015,895	**5,806,429,168**
Financial assets at fair value through profit or loss	165,056,873	1,191,134	226,811,989	59,269	**393,119,265**
Derivatives assets designated as hedging instruments	1,816,661	6,227,211	9,281,631	-	**17,325,503**
Fair value changes of the hedged items in portfolio hedge	-	-	26,783	-	**26,783**
Loans and advances to banks	702,237,147	9,332,034	26,212,412	706	**737,782,299**
Loans and advances to customers	10,553,692,685	664,677,266	9,256,490,091	1,895,141	**20,476,755,183**
Net Lease receivables	220,495,699	54,531,092	2,882,657,762	-	**3,157,684,553**
Investment securities, available for sale	4,331,027,279	831,616,223	1,208,810,116	-	**6,371,453,618**
Total other financial assets	39,276,590	144,786	26,426,356	26,944	**65,874,676**
Total financial assets	**18,430,662,039**	**1,612,403,964**	**16,876,387,090**	**106,997,955**	**37,026,451,048**
Financial liabilities					
Derivative liabilities at fair value through profit or loss	100,722	1,257,080	97,899,391	59,269	**99,316,461**
Derivatives liabilities designated as hedging instruments	-	3,924,326	94,806,255	-	**98,730,581**
Deposits from banks	578,061,132	42,960,617	2,550,470,134	1,904,131	**3,173,396,014**
Loans from banks and subordinated liabilities	1,556,238,775	236,963,877	5,963,259,882	266,360	**7,756,728,895**
Deposits from customers	14,908,149,186	967,684,975	6,022,749,982	96,702,669	**21,995,286,812**
Debt securities issued	551,024,752	-	-	-	**551,024,752**
Total other financial liabilities	195,137,021	1,680,140	30,623,012	38,527	**227,478,700**
Total financial liabilities	**17,788,711,587**	**1,254,471,014**	**14,759,808,656**	**98,970,956**	**33,901,962,214**
Net financial assets/(liabilities)	**641,950,452**	**357,932,949**	**2,116,578,434**	**8,026,999**	**3,124,488,835**

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4.RISK MANAGEMENT *(continued)*
e)Market Risk (continued)

The amounts of assets and liabilities held in RON and in foreign currencies as at 31 December 2015 can be analysed as follows:

In RON	RON	USD	EUR	Other	Total
Financial assets					
Cash and cash equivalents	2,600,426,717	141,223,371	1,871,642,584	49,148,238	**4,662,440,911**
Financial assets at fair value through profit or loss	87,823,519	6,713,530	197,059,404	-	**291,596,454**
Derivatives assets designated as hedging instruments	2,277,064	2,827	14,197,621	-	**16,477,513**
Fair value changes of the hedged items in portfolio hedge	-	-	305,851	-	**305,851**
Loans and advances to banks	846,637,847	73,858	3,165,243	11,023	**849,887,971**
Loans and advances to customers	8,326,223,984	655,407,005	10,078,078,646	3,311,945	**19,063,021,580**
Net Lease receivables	217,562,721	59,634,757	2,452,372,514	-	**2,729,569,992**
Investment securities, available for sale	3,723,484,979	934,620,133	1,703,982,935	-	**6,362,088,047**
Total other financial assets	42,157,138	709,807	23,190,223	30,034	**66,087,202**
Total financial assets	**15,846,593,970**	**1,798,385,289**	**16,343,995,021**	**52,501,241**	**34,041,475,522**
Financial liabilities					
Derivative liabilities at fair value through profit or loss	80,876	1,035,845	83,996,950	436	**85,114,106**
Derivatives liabilities designated as hedging instruments	269,329	997,566	80,903,392	-	**82,170,287**
Deposits from banks	446,580,164	264,880,152	4,035,575,233	1,237,894	**4,748,273,443**
Loans from banks and subordinated liabilities	1,034,604,616	269,748,405	6,267,801,648	-	**7,572,154,668**
Deposits from customers	11,393,804,955	921,118,748	5,440,611,222	103,221,150	**17,858,756,074**
Debt securities issued	550,659,161	-	-	-	**550,659,161**
Total other financial liabilities	137,095,279	1,265,186	34,366,319	48,541	**172,775,326**
Total financial liabilities	**13,563,094,380**	**1,459,045,901**	**15,943,254,763**	**104,508,021**	**31,069,903,066**
Net financial assets/(liabilities)	**2,283,499,591**	**339,339,388**	**400,740,258**	**(52,006,780)**	**2,971,572,456**

4. RISK MANAGEMENT *(continued)*

f) Strategic risk

Strategic risk is part of the risks which are evaluated qualitatively within the evaluation process of risks initiated by UniCredit Group and by the Bank.

Strategic risk is analysed taking into account the following:

- Risk of changes in the business environment
- Risk of unsatisfactory implementation of decision
- Risk of lack of reaction

g) Compliance risk

In accordance with the legal provisions and UniCredit Group policies, the management of compliance risks is performed by Compliance Function within UniCredit Bank SA through:

- providing advice on the provisions of the legal and regulatory framework and on the standards the Bank needs to meet;
- assessing the possible impact of any changes of the legal and regulatory framework on the Bank's activities;
- verifying that new products and procedures are in compliance with the regulatory framework;
- performing second level controls in the areas under Compliance Function's competence, based on specific control methodologies;
- evaluating, measuring and monitoring of compliance risk in the areas under Compliance Function's competence, as well as through appropriate reporting to the governing bodies of the Bank
- evaluation, measurement and monitoring the compliance risk in the areas under the Compliance Function competence, as well as appropriate reporting to the governing body of the Bank;
- managing the relationship with regulatory authorities, either directly by Compliance Function, or together with other functions within the Bank.

4. RISK MANAGEMENT *(continued)*

h) Taxation risk

The Group is committed to ensure sustainable performance of tax risk management maintaining an efficient, effective and transparent tax function within the organization. The Group strictly complies with the legal norms regarding taxes and duties.

Differences between IFRS accounting treatment and fiscal requirements have been carefully identified and analysed, resulting in proper recognition of deferred tax effects in the financial statements.

The Group is focused permanently on monitoring the price transfer risks, including on proper documentation of intragroup transactions, through a proactive approach.

Tax liabilities of the Group are opened to a general tax inspection for a period of five years.

i) Operating environment

The Romanian economy expanded by 4.8% year on year ("yoy") in the first 9 months of 2016, driven mainly by the ample private consumption, which was boosted by the VAT cuts, the double-digit growth of real wages, the revitalized consumer confidence, job creation and strong lending in local currency.

The EURRON continued to trade within the 4.40-4.50 preferred range for most of 2016, as capital flows supported the RON. However, the RON faced temporary depreciation pressures and exited the above-mentioned interval due to local political instability episodes and external events which contributed to increased volatility on global markets, such as: the Brexit vote, Donald Trump's surprise victory and monetary policy decisions by the ECB and the Fed. Escalating external worries and the discussion around Romania's 2017 budget could lead to temporary depreciation pressures throughout 2017 as well, but we expect the EURRON to trade mostly in the 4.40-4.50 range, closer to the upper limit of the range.

Annual inflation ended 2016 at -0.5% yoy after having stayed in negative territory for the whole year 2016, being still affected by the VAT cut for food products in June 2015 from 24% to 9% and by another cut to the general VAT by 4pp (to 20%) in January 2016. The prices of food products and oil started to increase in 2016 after contracting in 2013-2015, but the increase was modest, implying no significant upward pressure to inflation. Although the European Central Bank ("ECB") and the regional central banks kept an easing bias throughout the year, the National Bank of Romania ("NBR") continued to keep the key rate unchanged at 1.75% throughout 2016 in order to counterbalance the effects of the pro-cyclical fiscal policy at a time when the excess demand has been widening further, pointing to upward price pressures building up.

During 2016, the NBR cut the minimum reserve requirements for FCY-denominated liabilities by 4pp to 10%, releasing around RON 4.2bn of liquidity in the interbank market and kept the minimum reserve requirements for RON-denominated liabilities unchanged at 8%.

The credit stock kept its currency structure in line with the one at the end of 2015, with the stock of RON-denominated loans continuing to outstrip the stock in foreign currency and reaching a share of 56.9% in total private sector loans at the end of November 2016, up from 50.7% in December 2015. During 2016, above 80% of the new loans granted were in local currency. The fact that the weight of the credit denominated in local currency has increased strengthens the transmission of the monetary policy, helps mitigate risks to financial stability and enhances the robustness of the economy. The main drivers for this change were the central bank's efforts and regulations to protect customers against depreciation risks, together with LCY interest rates slipping to historical lows.

4. RISK MANAGEMENT *(continued)*

i) Operating environment *(continued)*

Banks continued to clean up their portfolios in 2016 via sales of nonperforming loans, thus lowering the Non-Performing Loans ("NPL") ratio to 10.02% in October 2016 from 13.94% at the end of 2015. However, similar to 2015, the portfolio clean-up had a limited impact on banks' profitability, with loan loss provisions of only RON 3bn in 9M2016, in line with those in the corresponding period of 2015. Consequently, although the low interest environment and keen competition continued to pressure revenue margins, banks registered RON 3.7bn profit in 9M2016. The banking system remains well capitalized, with a solvency ratio of 18.76% in September 2016.

The local currency component of total private credit registered a 12.9% yoy growth at the end November 2016, while the foreign currency component registered a decline of -12.8% yoy (FCY-adjusted). Lending to households picked up (+4.2%yoy in November 2016; FCY-adjusted), but the stock of credit to companies continued to contract from 2015 (-3.5%yoy in November 2016; FCY-adjusted), as companies prefer first to reinvest their profit, second to borrow from parent companies, third to widen the commercial credit between companies and the last option is taking banking loans. The stock of deposits was 10.3%yoy higher (FX-adjusted) at the end of November 2016, as liquidity remained abundant throughout the year. Similar to 2015, deposits likely jumped again in December, given the high inflow of liquidity into the interbank market due to government spending estimated in December at almost 2% of GDP. As a result, the loans-to-deposits ratio continued to decrease slightly, touching 83.8% at the end of November 2016, down 2pp in comparison to end-2015.

j) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that may be possible with greater gearing and the advantages and security afforded by a sound capital position.

Starting with January 2014, Romanian banking system has applied the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and the provisions of Regulation no.5/2013 regarding prudential requirements for the credit institutions issued by National Bank of Romania.

By application of the above mentioned requirements, the structure of own funds is redefined, as well as the eligibility criteria for the equity instruments must met in order to be included in the Level 1 Own Funds – Base, Supplementary and Level 2 Own funds. New liquidity and capital indicators are defined which have to be monitored above the minimum capital requirements specified by the respective regulations.

The application of capital buffers is made gradually starting with 2016.

4. RISK MANAGEMENT *(continued)*

j) Capital management *(continued)*

(i) Regulatory capital (continued)

Credit Risk

In July 2012, National Bank of Romania ("NBR") authorized the Bank to calculate the credit risk capital requirement under Foundation IRB Approach for the following categories of clients: corporate (except for real estate clients), multinationals, banks and securities industries. For the rest of the portfolios, the Group is still applying the Standardized Approach.

Market Risk

The Bank calculates the capital requirements for market risk for the held for trading portfolio using the standard method in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Operational Risk

UniCredit Group developed an internal model for measuring capital requirements for operational risk. The model uses internal and external loss data (consortium and public data), risk indicators and estimated losses through scenario analyses.

Capital at Risk is calculated for a confidence level of 99.90% based on global loss distribution according legal requirements.

In 2013, UniCredit Group has updated, based on the Bank of Italy recommendations, the internal model for capital requirements for operational risk. The model enhancement has consisted in:

- the increase of model granularity for the calculus of operational risk;
- review of the allocation method of capital for operational risk among the UniCredit Group entities;
- emphasis on forward-looking component by high weight of operational risk scenarios within the internal calculation model for capital requirements;
- the extension from 5 to 10 years of the operational risk data base perimeter for UniCredit Bank in respect of using the new internal model has been approved by National Bank of Romania in June 2014.

Own Funds

Level 1 own funds includes: equity instruments, share premiums,retained earnings, other items of comprehensive income, other reserves and a serie of deductions (losses of the financial period, intangible assets, deferred tax asset which is based on future profits, negative amounts which results from the calculus of expected values and other adjustments required by laws).

Level 2 own funds includes subordinated loans.

4. RISK MANAGEMENT *(continued)*

j) Capital management *(continued)*

Risk capital measurement *(continued)*

(i) Regulatory capital (continued)

The Group's capital positions was:

In RON	31.12.2016	31.12.2015
Tier 1 capital *	2,924,262,263	2,788,504,897
Tier 2 capital	204,027,210	193,814,987
Total own funds	**3,128,289,473**	**2,982,319,884**
Risk exposure amounts for credit risk, counterparty risk and receivables value decrease risk and free deliveries	22,815,934,193	20,361,212,844
Total risk exposure amount for position, foreign exchange and commodities' risks	183,998,793	94,930,411
Total risk exposure amount for operational risk	2,165,692,698	2,250,661,491
Total risk exposure amount for credit value adjustment	2,687,594	2,988,500
Total requirements for own funds	**25,168,313,278**	**22,709,793,246**
Capital indicators		
Total capital ratio	12.43%	13.13%
Tier 1 capital ratio	11.62%	12.28%

* *In accordance with local regulations, net profit for the year is not included in the own funds calculations until it is distributed in accordance with General Shareholders' Meeting decision. For comparative purposes net profit for the year is not included in the own funds for both reporting periods.*

(ii) Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each business segment is determined as a percentage established by the UniCredit Group of the risk weighted assets.

UniCredit Bank

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4. RISK MANAGEMENT *(continued)*

k) Turnover

The Bank has started to apply the requirements of NBR Regulation No 5/2013 regarding prudential requirements for credit institutions since January 2014.

The 2016 turnover is RON 2,093,811,578 (2015: RON 2,014,198,195), which is computed and presented in accordance with provisions of art. 644 of the above mentioned Regulation no 5/2013 and consists of Operating income items excluding interest expense and fee expense.

5. USE OF ESTIMATES AND JUDGEMENTS

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

a) Key sources of estimation uncertainty

Allowances for loan losses and lease receivables

The Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

The loan impairment assessment considers the visible effects on current market conditions on the individual/ collective assessment of loans and advances to customers' impairment. The Group has estimated the impairment loss provision for loans and advances to customers based on the internal methodology harmonized with UniCredit SpA policies and assessed that no further provision for mpairment losses is required except as already provided for in the reporting package. Because of the uncertainties on the local financial markets regarding assets valuation and operating environment of the borrowers, that Group's estimate could be revised after the date of the approval of the consolidated financial statements.

To the extent that the probability of default parameter for the collective assessment differs by +/-10 percent, the provision for impairment losses on loans for the Group would be estimated RON 13,196 thousand higher (31 December 2015: RON 15,934 thousand) or RON 13,196 thousand lower (31 December 2015: RON 15,934 thousand).

To the extent that the degree of collateral recognition parameter for the collective assessment differs by +/-10 percent, the provision for impairment losses on loans for the Group would be estimated RON 31,309 thousand higher (31 December 2015: RON 37,239 thousand) or RON 20,599 thousand lower (31 December 2015: RON 22,337 thousand).

5. USE OF ESTIMATES AND JUDGEMENTS *(continued)*

a) Key sources of estimation uncertainty *(continued)*

Allowances for loan losses and lease receivables *(continued)*

To the extent that the probability of default parameter for the collective assessment differs by +/-10 percent, the provision for impairment losses on lease receivables for the Group would be estimated RON 1,989 thousand higher (31 December 2015: RON 1,562 thousand) or RON 1,989 thousand lower (31 December 2015: RON 1,562 thousand).

To the extent that the degree of collateral recognition parameter for the leases collective assessment differs by +/-10 percent, the provision for impairment losses on leases for the Group would be estimated RON 1,989 thousand higher (31 December 2015: RON 1,562 thousand) or RON 1,989 thousand lower (31 December 2015: RON 1,562 thousand).

Sensitivity analysis for available for sale

The fair value of available for sale financial assets is directly dependent on the market yield variable and its changes impact the financial position and the net assets of the Group.
In case of the market yield varies by +/-10 percent, the negative reserve recorded as at 31 December 2016 on available for sale financial assets would vary as follows:

In RON	Market Yield -10%	Market Yield +10%
Available for sale denominated in RON	24,702,643	(24,338,162)
Available for sale denominated in EUR	17,614,384	(17,212,464)
Available for sale denominated in USD	17,014,184	(16,552,423)
Available for sale Total	**59,331,211**	**(58,103,049)**

In case of the market yield varies by +/-10 percent, the negative reserve recorded as at 31 December 2015 on available for sale financial assets would vary as follows:

In RON	Market Yield -10%	Market Yield +10%
Available for sale denominated in RON	17,501,600	(17,159,197)
Available for sale denominated in EUR	8,760,923	(8,637,597)
Available for sale denominated in USD	18,660,745	(18,210,999)
Available for sale Total	**44,923,268**	**(44,007,793)**

b) Critical accounting judgments in applying the Group's accounting policies

Financial assets and liabilities classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories. When classifying financial assets or liabilities as "derivative assets / liabilities held for risk management", the Group has determined that it meets the description set out in accounting policy 3 m).

UniCredit Bank

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. USE OF ESTIMATES AND JUDGEMENTS *(continued)*

b) Critical accounting judgments in applying the Group's accounting policies *(continued)*

Qualifying hedge relationships

In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

Determining fair values

The fair value of financial instruments that are not traded in an active market (for example, unlisted treasury securities and certificates of deposit) is determined by using valuation techniques. The Group uses its judgment to select the valuation method and make assumptions that are mainly based on market conditions existing at each statement of financial position date.

In case of available for sale the classification in quoted and unquoted financial instruments is presented below:

31 December 2016

In RON	Listed*	Unlisted	Total
Investment securities, available for sale	5,539,250,834	811,922,228	6,351,173,062
Equity investments, available for sale	-	20,280,557	20,280,557

31 December 2015

In RON	Listed*	Unlisted	Total
Investment securities, available for sale	4,924,145,120	1,387,687,767	6,311,832,887
Equity investments, available for sale	-	50,255,160	50,255,160

**) Listed financial instruments are those quoted on organized and regulated capital market*

The Group 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 to which the Bank has access at the measurement date.
  A quoted price on an active market provides the most reliable evidence (as for example the price) or indirect without other adjustments in determining the fair value anytime available.

- **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:** Valuation techniques using significant unobservable inputs. This category includes all instruments where 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 is for instruments that are valued based on unobservable assumptions.

5. USE OF ESTIMATES AND JUDGEMENTS *(continued)*

Determining fair values *(continued)*

The table below present the fair value of financial instruments by the level in the fair value hierarchy into which the fair value measurement is categorized as of 31 December 2016:

In RON	Level 1	Level 2	Level 3	Total fair value	Total book value
Assets held for trading and for hedging					
Financial assets held for trading at fair value through profit or loss	287,289,544	100,337,213	5,492,508	393,119,265	393,119,265
Derivatives financial instruments designated as hedging instruments	-	17,325,503	-	17,325,503	17,325,503
Fair value changes of the hedged items in portfolio hedge	-	26,783	-	26,783	26,783
Total assets held for trading and hedging	**287,289,544**	**117,689,499**	**5,492,508**	**410,471,551**	**410,471,551**
Available for sale assets					
Investment securities, available for sale	5,433,371,375	917,801,687	20,280,556	6,371,453,618	6,371,453,618
Total available for sale assets	**5,433,371,375**	**917,801,687**	**20,280,556**	**6,371,453,618**	**6,371,453,618**
Liabilities designated for trading and for hedging					
Financial liabilities at fair value through profit or loss	-	92,693,440	6,623,021	99,316,461	99,316,461
Derivatives financial instruments designated as hedging instruments	-	98,730,581	-	98,730,581	98,730,581
Total liabilities designated for trading and hedging	**-**	**191,424,021**	**6,623,021**	**198,047,042**	**198,047,042**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

5. USE OF ESTIMATES AND JUDGEMENTS *(continued)*

Determining fair values *(continued)*

The table below presents the fair value of financial instruments by the level in the fair value hierarchy into which the fair value measurement is categorised as of 31 December 2015:

In RON	Level 1	Level 2	Level 3	Total fair value	Total book value
Assets held for trading and for hedging					
Financial assets held for trading at fair value through profit or loss	197,229,594	92,164,765	2,202,095	291,596,454	291,596,454
Derivatives financial instruments designated as hedging instruments	-	-	16,477,513	16,477,513	16,477,513
Fair value changes of the hedged items in portfolio hedge	-	305,851	-	305,851	305,851
Total assets held for trading and hedging	**197,229,594**	**92,470,616**	**18,679,608**	**308,379,818**	**308,379,818**
Available for sale assets					
Investment securities, available for sale	4,988,723,318	1,323,109,569	50,255,160	6,362,088,047	6,362,088,047
Total available for sale assets	**4,988,723,318**	**1,323,109,569**	**50,255,160**	**6,362,088,047**	**6,362,088,047**
Liabilities designated for trading and for hedging					
Financial liabilities at fair value through profit or loss	-	84,176,577	937,529	85,114,106	85,114,106
Derivatives financial instruments designated as hedging instruments	-	82,170,287	-	82,170,287	82,170,287
Total liabilities designated for trading and hedging	**-**	**166,346,864**	**937,529**	**167,284,393**	**167,284,393**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

6. ACCOUNTING CLASSIFICATION AND FAIR VALUE OF FINANCIAL ASSETS/LIABILITIES

The table below sets out the Group's carrying amounts of each class of financial assets and liabilities, and their fair values.

31 December 2016 In RON	Note	Financial instruments at fair value through profit or loss	Loans and receivables	Available for sale	Other amounts	Total carrying amount	Fair value
Cash and cash equivalents	20	-	5,806,429,168	-	-	**5,806,429,168**	5,806,429,168
Financial assets at fair value through profit or loss	21	393,119,265	-	-	-	**393,119,265**	393,119,265
Derivatives assets designated as hedging instruments	32	-	-	-	17,325,503	**17,325,503**	17,325,503
Fair value changes of the hedged items in portfolio hedge		-	-	-	26,783	**26,783**	26,783
Loans and advances to banks	22	-	737,782,299	-	-	**737,782,299**	741,223,860
Loans and advances to customers *	23	-	20,476,755,183	-	-	**20,476,755,183**	20,425,816,347
Investment securities, available for sale	25	-	-	6,371,453,618	-	**6,371,453,618**	6,371,453,618
Total financial assets		**393,119,265**	**27,020,966,650**	**6,371,453,618**	**17,352,286**	**33,802,891,819**	**33,755,394,544**
Financial liabilities at fair value through profit or loss	21	99,316,461	-	-	-	**99,316,461**	99,316,461
Derivatives liabilities designated as hedging instruments	32	-	-	-	98,730,581	**98,730,581**	98,730,581
Deposits from banks	33	-	-	-	3,173,396,014	**3,173,396,014**	3,217,155,133
Loans from banks and other financial institutions, including subordinated liabilities		-	-	-	7,756,728,895	**7,756,728,895**	7,865,441,739
Debt securities issued	36	-	-	-	551,024,752	**551,024,752**	604,290,649
Deposits from customers		-	-	-	21,995,286,812	**21,995,286,812**	22,030,844,437
Total financial liabilities		**99,316,461**	-	-	**33,575,167,054**	**33,674,483,515**	**33,915,779,000**

*) In respect of the comparison of fair value against carrying value of the loans and advances to clients as of 31 December 2016, we briefly present below the factors that have led to a very slight lower fair value (99.75%), almost similar to carrying value:

- *both for fixed and variable interest rate loans, the margins are almost similar to those loans granted in present moment, which has led to only a small difference in fair value for the loans granted in the past.*
- *moreover, due to competition in the banking market, the margins are on a decreasing trend, so for the new production of 2016 the fair value decreased, which triggered an overall decrease of the percentage vs Dec 2015.*

6. ACCOUNTING CLASSIFICATION AND FAIR VALUE OF FINANCIAL ASSETS/LIABILITIES *(continued)*

The table below sets out the Bank's carrying amounts of each class of financial assets and liabilities, and their fair values.

31 December 2015 In RON	Note	Financial instruments at fair value through profit or loss	Loans and receivables	Available for sale	Other amounts	Total carrying amount	Fair value
Cash and cash equivalents	20	-	4,662,440,931	-	-	**4,662,440,931**	4,662,440,931
Financial assets at fair value through profit or loss	21	291,596,454	-	-	-	**291,596,454**	291,596,454
Derivatives assets designated as hedging instruments	32	-	-	-	16,477,513	**16,477,513**	16,477,513
Fair value changes of the hedged items in portfolio hedge		-	-	-	305,851	**305,851**	305,851
Loans and advances to banks	22	-	849,887,971	-	-	**849,887,971**	823,132,371
Loans and advances to customers *	23	-	19,063,021,580	-	-	**19,063,021,580**	20,068,778,287
Investment securities, available for sale	25	-	-	6,362,088,047	-	**6,362,088,047**	6,362,088,047
Total financial assets		**291,596,454**	**24,575,350,482**	**6,362,088,047**	**16,783,364**	**31,245,818,347**	**32,224,819,454**
Financial liabilities at fair value through profit or loss	21	85,114,106	-	-	-	**85,114,106**	85,114,106
Derivatives liabilities designated as hedging instruments	32	-	-	-	82,170,287	**82,170,287**	82,170,287
Deposits from banks	33	-	-	-	4,748,273,443	**4,748,273,443**	4,664,841,920
Loans from banks and other financial institutions, including subordinated liabilities		-	-	-	7,572,154,668	**7,572,154,668**	7,409,088,580
Debt securities issued	36	-	-	-	550,659,161	**550,659,161**	601,870,463
Deposits from customers		-	-	-	17,858,756,074	**17,858,756,074**	17,891,974,182
Total financial liabilities		**85,114,106**	-	-	**30,812,013,633**	**30,897,127,739**	**30,735,059,538**

**) In respect of the comparison of fair value against carrying value of the loans and advances to clients as of 31 December 2015,we briefly present below the factors that have led to such a significant difference:*

- *for the fixed interest rate loans (for the entire loan period or for the first three years of the loan period), their fair value is significantly greater since it was calculated using a smaller actual interest rate;*
- *for the variable interest rate loans, their margins are much higher than those loans granted during 2015, which has led to an increase of fair value for the loans granted in the past;*
- *due to the Romania country risk rating improvement, interest rates for financing/lending have decreased in the banking sector, which has resulted to use a smaller interest rate for calculation of fair value as of 31 December 2015.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

7. NET INTEREST INCOME

In RON	2016	2015
Interest income		
Interest and similar income arising from:		
Loans and advances to customers *	922,825,319	935,420,036
Net Lease receivables	148,438,675	153,038,874
Treasury bills and bonds	145,575,156	125,861,008
Current accounts and placements with banks	30,218,346	29,878,097
Others (including derivatives)	45,155,766	25,210,040
Total interest income	**1,292,213,262**	**1,269,408,055**
Interest expense		
Interest expense and similar charges arising from:		
Deposits from customers	(82,314,956)	(93,913,238)
Loans from banks and other financial institutions	(158,306,263)	(215,905,136)
Deposits from banks	(33,173,658)	(43,675,651)
Repurchase agreements	(5,686)	(1,469,319)
Interest related to the bonds issued	(35,295,567)	(35,272,207)
Others (including derivatives)	(30,589,180)	(16,879,181)
Hedging derivatives	(8,178,393)	(1,957,029)
Total interest expense	**(347,863,702)**	**(409,071,762)**
Interest related effect of swap transactions regarding refinancing lines with UniCredit Group companies**		3,823,851
Net interest income	**944,349,560**	**864,160,144**

*) Interest income as at December 2016 includes interest income on impaired loans of RON 92,751,885 (31 December 2015: RON 44,366,913).Interest income and expense for financial assets and financial liabilities other than those carried at fair value through profit or loss are calculated using the effective interest rate method.

**) The Bank's financing in RON from the UniCredit Group companies (UniCredit Bank Austria AG) is immediately swapped into EUR. The related interest effect of these swap transactions on the Bank's income statement is recognized in net interest income, while the effect of exchange rate revaluation is recognized in Net income from trading and other financial instruments at fair value through profit or loss. In September 2015, the mentioned swap transactions reached their maturity.

UniCredit Bank

8. NET FEES AND COMMISSIONS INCOME

In RON	2016	2015
Fees and commissions income		
Payments transactions	186,860,426	216,630,260
Risk participation fee (refer to Note 40)	6,195,141	18,086,256
Guarantees and letters of credit	27,068,333	28,097,249
Loan administration	14,854,678	13,207,915
Other	174,597,031	114,657,048
Total fees and commission income	**409,575,609**	**390,678,728**
Fees and commission expense		
Inter-banking fees	(36,553,385)	(47,291,937)
Payments transactions	(25,396,370)	(21,047,164)
Commitments and similar fees	(7,288,016)	(3,174,239)
Intermediary agents fees	(2,998,300)	(2,518,908)
Other	(6,128,325)	(6,025,340)
Total fees and commissions expense	**(78,364,396)**	**(80,057,588)**
Net fees and commissions income	**331,211,213**	**310,621,140**

9. NET INCOME FROM TRADING AND OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

In RON	2016	2015
Net gains from foreign exchange operations (including FX derivatives)	248,343,241	247,669,508
Net gains /(losses) from interest derivatives	(12,931,747)	1,714,095
Net income from trading bonds	9,757,972	2,271,612
Net gains /(losses) from commodities derivatives	276,823	232,260
Net income from trading and other financial instruments at fair value through profit or loss	**245,446,289**	**251,887,475**

10. NET INCOME ON DISPOSALS OF FINANCIAL ASSETS AND LIABILITIES WHICH ARE NOT AT FAIR VALUE THROUGH PROFIT OR LOSS

In RON	2016	2015
Net income from sale of assets available for sale	123,600,810	89,071,260
Net Profit/(Loss) from derecognision of assets measured at amorised cost	4,921,888	(12,731,738)
Net income on disposals of financial assets and liabilities which are not at fair value through profit or loss	**128,522,698**	**76,339,522**

11. DIVIDENDS INCOME

The Group received dividends from the following companies:

In RON	2016	2015
Transfond SA	1,494,098	7,022,048
Biroul de Credit SA	341,579	298,848
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	7,105	-
Visa Inc actiuni preferentiale seria C	70,831	-
Total dividend income	**1,913,613**	**7,320,896**

12. PERSONNEL EXPENSES

In RON	2016	2015
Wages and salaries	292,547,588	288,677,654
Social security charges	65,996,290	64,566,745
Other (income) / costs	(6,697,986)	2,939,617
Total	**351,845,892**	**356,184,016**

The number of employees of the Group at 31 December 2016 was 3,355 (31 December 2015: 3,348). Remuneration of Board's members for 2016 was RON 11,965,287 (2015: RON 11,516,715). The Group has in place incentive plans for its senior management, consisting in stock options and performance shares which provide that UniCredit SpA ("the Parent") shares will be settled to the grantees. The cost of this scheme is incurred by the Group and not by its Parent, and as a consequence, it is recognised as an employee benefit expense (please refer to Note *3 x (iv))*. In 2016 the Bank paid in RON equivalent 1,057,784 (2015: RON equivalent 1,727,093).

13. DEPRECIATION AND AMORTISATION

In RON

	2016	2015
Depreciation on property and equipment	39,358,698	32,759,428
De-recognition of property and equipment	3,887,940	1,468,139
Amortisation on intangible assets	50,366,868	48,390,994
Total	**93,613,506**	**82,618,561**

14. OTHER ADMINISTRATIVE COSTS

In RON	2016	2015
Office space expenses (rental, maintenance, other)	104,599,776	105,167,944
IT services	77,547,211	67,872,356
Other taxes and duties	31,925,584	47,978,004
Communication expenses	22,436,239	12,276,640
Advertising and promotional expenses	29,147,132	20,369,205
Consultancy, legal and other professional services	11,512,646	11,080,324
Materials and consumables	16,044,080	9,775,207
Personnel training and recruiting	4,250,424	4,708,363
Insurance expenses	3,909,377	3,708,297
Other	21,975,283	24,274,754
Total	**323,347,751**	**307,211,094**

The fees paid by UniCredit Bank SA to the auditing firm and other companies from their goup were as follows:

- legal audit of annual accounts (including the audit of the first half financial report): RON 1,926,093 (31 December 2015:RON 1,385,554);
- tax services related to transfer price matters: RON 443,069 (31 December 2015:RON 268,566).

The above amounts are net of VAT.

15. OTHER OPERATING COSTS

In RON	2016	2015
Expenses related to revaluation of tangible assets	110,816	-
Losses from sundry debtors	10,204,158	10,502,885
(Net gain) / losses on impairment of inventories	(7,884,146)	410,737
Other operating expenses	28,612,856	20,757,268
Total	**31,043,684**	**31,670,890**

16. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

In RON	2016	2015
Net provision charges for loans and advances to customers	(391,436,459)	(367,103,378)
Loans written-off	(5,176,262)	(806,904)
Net provision charges for lease receivables	(40,122,634)	(50,722,306)
Recoveries from loans previously written-off	27,935,447	20,712,889
Net provisions charges for other financial instruments	(7,484,295)	(14,338,908)
Net provisions charges for investments in associates	-	(109,506)
Net impairment losses on financial assets	**(416,284,203)**	**(412,368,113)**

17. NET PROVISIONS LOSSES

In RON	2016	2015
Net provision charges for off-balance loan commitments and contingencies	(35.106.884)	(13.618.174)
Net provision (charges)/ release for litigations	(4.975.862)	2.653.814
Other net charges of provisions	82.854	1.902.764
Net provision losses	**(39.999.892)**	**(9.061.596)**

18. NET GAINS / (LOSSES) ON OTHER INVESTMENTS

In RON	2016	2015
Gains/ (losses) from corporate loan portfolio aaquisition of The Royal Bank of Scotland plc, Edinburgh, Romania Branch ("RBS Romania")	-	(2,750,085)
Gains/ (losses) on disposals groups held for sale assets	(2,375,006)	(3,290,384)
Gains on equity liquidation	-	588,498
Net gains/ (losses) on other investments	**(2,375,006)**	**(5,451,971)**

19. INCOME TAX

Reconciliation of profit before tax to income tax expense in the income statement:

In RON	2016	2015
Direct taxes at 16% (2015: 16%) of taxable profits determined in accordance with Romanian law	(80,282,447)	(40,944,917)
Correction of current income tax arising from previous year	(356,799)	(3,516,399)
Deferred tax income/ (loss)	4,728,697	(8,840,704)
Income tax	**(75,910,549)**	**(53,302,020)**

In RON	2016	2015
Profit/ (Loss) before tax	**405,262,098**	**322,808,206**
Taxation at statutory rate of 16%	**(64,841,936)**	**(51,649,313)**
Non-deductible expenses	(34,433,106)	(23,575,161)
Non-taxable revenues	22,634,964	27,082,068
Origination and reversal of temporary differences	(1,916,469)	(8,840,704)
Fiscal credit	2,645,997	3,681,090
Income tax in the income statement	**(75,910,549)**	**(53,302,020)**

20. CASH AND CASH EQUIVALENTS

In RON	31 December 2016	31 December 2015
Balances with National Bank of Romania	4,471,752,828	3,677,913,781
Short term Money Market placements	373,328,816	162,134,773
Cash (including cash in ATMs)	871,587,581	697,899,736
Current balances with other banks	89,759,943	124,492,641
Total	**5,806,429,168**	**4,662,440,931**

The balance of current accounts with the National Bank of Romania represents the minimum reserve maintained in accordance with the National Bank of Romania requirements. As at 31 December 2016, the minimum reserve level was settled as 8% (31 December 2015: 10%) for liabilities to customers in RON and 14% (31 December 2015: 14%) for liabilities to customers in foreign currency both with residual maturity less than 2 years from the end of reporting period and for liabilities with the residual maturity greater than 2 years with reimbursement, transfer and anticipated withdrawals clause or 0% for all the other liabilities included in the calculation base.

21. DERIVATIVE ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Financial assets at fair value through profit or loss

In RON	31 December 2016	31 December 2015
Derivatives	105,829,721	88,492,496
Investment securities held for trading*	287,289,544	203,103,958
Total	**393,119,265**	**291,596,454**

*) *bonds issued by Ministry of Public Finance of Romania and local Romanian Authorities*

(ii) Derivative assets/ liabilities

In RON	31 December 2016		
		Present value	
	Notional	Assets	Liabilities
Foreign currency derivatives			
Forward contracts	3,852,301,945	34,036,774	34,155,088
Purchased options	124,218,536	275,828	25,312
Sold options	124,218,536	-	362,846
Total foreign currency derivatives	**4,100,739,017**	**34,312,602**	**34,543,246**
Interest rates derivatives			
Interest Rate Swaps	3,249,271,986	45,633,121	38,770,025
of which: derivatives for risk management	*118,068,600*	*779,793*	*568,516*
Purchased options	703,784,673	25,408,269	-
Sold options	703,784,675	-	25,527,951
Total interest rate derivatives	**4,656,841,334**	**71,041,390**	**64,297,976**
Other derivatives	4,326,397	475,729	475,239
Total	**8,761,906,748**	**105,829,721**	**99,316,461**

21. DERIVATIVE ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

In RON		31 December 2015	
			Present value
	Notional	Assets	Liabilities
Foreign currency derivatives			
Forward contracts	3,361,679,101	8,997,889	11,954,727
Purchased Options	117,604,940	770,874	31,021
Sold Options	113,438,571	-	754,682
Total foreign currency derivatives	**3,592,722,612**	**9,768,763**	**12,740,430**
Interest rates derivatives			
Interest Rate Swaps	2,800,873,798	49,138,044	43,124,619
of which: derivatives for risk management	*1,046,301,500*	*2,330,156*	*4,989,216*
Purchased Options	768,634,765	28,758,206	-
Sold Options	768,634,758	-	28,492,722
Total interest rate derivatives	**4,338,143,321**	**77,896,250**	**71,617,341**
Other derivatives	11,584,585	827,483	756,335
Total	**7,942,450,518**	**88,492,496**	**85,114,106**

As at 31 December 2016, the Bank has non-matured SPOT foreign currency transactions, as follows: assets notional amount RON 2,162,452,921 (as at 31 December 2015: RON 793,045,262), asset present value RON 1,349,219 (as at 31 December 2015: RON 852,046) and liabilities notional amount RON 2,162,272,253(as at 31 December 2015: RON 793,367,782), liability present value RON 1,168,552 (as at 31 December 2015: RON 1,174,566).

22. LOANS AND ADVANCES TO BANKS

In RON	31 December 2016	31 December 2015
Loans to banks	710,649,377	809,250,905
Suspense accounts	27,132,922	40,637,066
Total	**737,782,299**	**849,887,971**

Loans to banks include money market deposits to domestic and foreign commercial banks. These exposures with grade from 1 to 7 (31 December 2015: 1 to 7) are assessed as performing according with Bank's internal rating as at 31 December 2016 and 31 December 2015.

23. LOANS AND ADVANCES TO CUSTOMERS

The Group's commercial lending is concentrated on companies and individuals domiciled in Romania mainly. The breakdown of loan portfolio at reporting date by type of loan was as follows:

In RON	31 December 2016	31 December 2015
Mortgages	9,128,661,032	8,207,984,993
Corporate loans	5,743,670,835	5,286,285,966
Revolving credit lines	1,889,734,158	1,884,980,099
Factoring	469,899,123	424,018,547
Credit cards and personal loans	1,908,433,877	1,477,064,033
Impaired assets*	2,808,605,972	3,586,698,008
Loans and advances to customers before provisions	**21,949,004,997**	**20,867,031,646**
Less provision for impairment losses on loans	(1,472,249,814)	(1,804,010,066)
Net loans and advances to customers	**20,476,755,183**	**19,063,021,580**

* *Impaired assets are defined in the Note 4(c).*

The movements in loan allowances for impairment are summarized as follows:

Specific adjustments for impairment	**2016**	**2015**
Balance at 1 January	**1,683,174,796**	**1,867,850,495**
Net impairment charge for the year	386,438,533	363,849,527
Foreign currency exchange effect	4,277,162	6,072,217
Release of allowance for impairment of loans written-off and loans sold	(787,238,330)	(655,358,574)
Unwinding effect on provisions	57,193,269	100,761,131
Balance at 31 December	**1,343,845,430**	**1,683,174,796**

Collective adjustments for impairment	**2016**	**2015**
Balance at 1 January	**120,835,271**	**121,094,705**
Net impairment charge / (release) for the year	4,997,926	(697,948)
Foreign Currency Exchange Effect and other adjustments	2,553,678	329,007
Other adjustments	17,509	109,507
Balance at 31 December	**128,404,384**	**120,835,271**
Balance at 1 January	**1,804,010,067**	**1,988,945,200**
Balance at 31 December	**1,472,249,814**	**1,804,010,067**

23. LOANS AND ADVANCES TO CUSTOMERS *(continued)*

The movements in finance lease allowances for impairment are summarized as follows:

Specific adjustments for impairment	**2016**	**2015**
Balance at 1 January	**311,636,969**	**287,247,139**
Net impairment charge for the year	35,557,715	50,436,870
Foreign currency exchange effect	2,100,508	2,600,781
Release of allowance for impairment of loans written-off and loans sold	(44,917,796)	(30,164,878)
Unwinding effect of provisions	(455,126)	1,517,057
Balance at 31 December	**303,922,270**	**311,636,969**

Collective adjustments for impairment	**2016**	**2015**
Balance at 1 January	**13,789,297**	**11,712,906**
Net impairment charge / (release) for the year	4,564,919	2,076,392
Balance at 31 December	**18,354,216**	**13,789,298**
Balance at 1 January	**325,426,266**	**298,960,045**
Balance at 31 December	**322,276,486**	**325,426,267**

24. NET FINANCIAL LEASE RECEIVABLES

The Group acts as lessor for the finance lease granted mainly to finance purchases of cars, trucks and trailers, equipment and real estate. Lease contracts are mainly in EUR, USD and RON, and are offered for a period between 1 and 15 years, transferring the ownership on the leased assets at the end of lease contract. The interest is invoiced over the lease period using equal instalments. Lease receivables are guaranteed by the goods leased and other guarantees. The split of net lease receivable in time buckets is presented in the following table below:

In RON	**31 December 2016**	**31 December 2015**
Lease receivales up to one year, gross	1,919,293,249	1,673,573,493
lease receivales up to one to five years, gross	1,333,284,442	1,074,106,031
Lease receivables over five years, gross	227,383,348	307,316,739
Total lease receivables, gross	**3,479,961,039**	**3,054,996,263**
Total lease receivables, net of future interest	3,479,961,039	3,054,996,263
Impairment allowance for lease receivables	(322,276,486)	(325,426,267)
Total net lease receivables	**3,157,684,553**	**2,729,569,996**

25. FINANCIAL ASSETS AVAILABLE FOR SALE

a) Investment securities available for sale

As at 31 December 2016, the Group included in investment securities available for sale bonds, Romanian Government T-bills, bonds issued by the municipality of Bucharest and bonds issued by the Ministry of Public Finance in amount of RON 6,351,173,099 (31 December 2015: RON 6,311,832,887).

As at 31 December 2016, the investment securities available for sale are pledged in amount of RON 684,670,104 (31 December 2015: RON 508,515,105).

The Group transferred to profit or loss during 2016 an amount of RON 123,600,810 (2015: RON 89,071,260) representing net gain from disposal of available for sale investment securities. Net change in fair value booked in other comprehensive income was an increase of RON 53,797,430 before tax (31 December 2015: RON 62,045,595), respective RON 45,189,841 net of tax (31 December 2015: RON 52,118,299).

b) Equity investments available for sale

The Group held the following unlisted equity investments, available for sale as at 31 December 2016 and 31 December 2015:

31 December 2016	Nature of business	% interest held	Gross carrying amount	Impairment	Net carrying amount
Unicredit Leasing Fleet Management	Operational leasing	9.99	2,345,998	-	2,345,998
Transfond SA	Other financial services	8.04	1,164,862	-	1,164,862
Biroul de Credit SA	Financial services	6.80	645,525	-	645,525
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Financial services	3.10	1,786,564	960,253	826,311
Pioneer Asset Management S.A.I. SA	Other financial services	2.58	194,560	155,496	39,064
Casa de Compensare Bucuresti SA **	Market studies & research	0.91	9,727	2,230	7,497
VISA Inc *	Cards	0.02	15,251,262	-	15,251,262
Total			**21,398,498**	**1,117,979**	**20,280,519**

The above mentioned companies are incorporated in Romania, except VISA Inc (USA).

**) Following to the closing of the purchase of Visa Europe Limited ("Visa Europe") by Visa Inc. on 21st of June 2016, in accordance with the terms and conditions of the respective transaction agreement, the Bank has received in exchange for the one Visa Europe Ltd share held a total consideration consisting of immediate cash payment, a deferred payment (to be received in 3 years' time from VISA Inc from closing date) and a number of 3,868 VISA In Series C preferred shares resulting in total net impact of RON 66,635,475 captured in the position Net income on disposal of financial assets and liabilities wich are not at fair value through profit or loss*

*.**) The decrease from 2016 was due to the decrease of share capital of the company as a result of the General Shareholders Decision. The major shareholder of Casa de Compensare Bucuresti SA is Bursa de Valori Bucuresti SA.*

25. FINANCIAL ASSETS AVAILABLE FOR SALE *(continued)*

31 December 2015	Nature of business	% interest held	Gross Carrying amount	Impairment	Net Carrying amount
UniCredit Leasing Fleet Management	Operational leasing	9.99	2,346,035	-	2,346,035
Transfond SA	Other financial services	8.04	1,164,862	-	1,164,862
Biroul de Credit SA	Financial services	6.80	645,525	-	645,525
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Financial services	3.10	1,786,564	960,253	826,311
Pioneer Asset Management S.A.I. SA	Other financial services	2.57	194,560	155,496	39,064
Casa de Compensare Bucuresti SA	Financial services	0.91	46,980	39,483	7,497
VISA Europe Limited *)	Cards	0.01	45,225,866	-	45,225,866
Total			**51,410,392**	**1,155,232**	**50,255,160**

The above mentioned companies are incorporated in Romania, except VISA Europe Limited (U.K.)

**) The fair value of the VISA Europe Ltd share has been made based on the estimated proceeds consisting in cash and preferred sharesto be received by the Bank from Visa Inc following to the transaction made publicly on 2nd of November 2015 by Visa Inc. ("VInc") and Visa Europe Ltd ("VE"). Due to the restrictions imposed by VISA Inc on conversion of preferred shares into common stock quoted on stock exchange and their future trading for a period of 12 years since closing as well as potential impact from existing litigation and future obligations, a reliable fair value for the preferred shares proceeds cannot be established based on actual limited available information. The transaction mainly consists of upfront consideration of €16.5 billion, consisting of €11.5 billion of cash and preferred stock convertible into Visa Inc. class A common stock valued at €5 billion, where the upfront consideration has been distributed to all Visa Europe members in accordance with the methodology set up by VE management. The transaction is subject to regulatory approvals and is estimated to be closed by end of 2nd quarter of 2016.*

26. PROPERTY AND EQUIPMENT

In RON	Land and buildings	Computers and equipment	Motor vehicles	Furniture and other assets	Assets in course of production	Total
Cost						
Balance at 1 January 2016	**128,144,105**	**113,381,447**	**626,680**	**105,856,050**	**67,529,297**	**415,537,579**
Additions	15,952,058	83,169,455	3,678,910	16,072,754	50,151,325	**169,024,503**
Revaluation*	66,480	-	-	-	-	**66,480**
Disposals	(14,183,523)	(10,774,368)	(4,052,703)	(10,056,840)	(72,568,233)	**(111,635,668)**
Reclassification to investment properties	(4,268,170)	-	-	-	-	**(4,268,170)**
Balance at 31 December 2016	**125,710,950**	**185,913,037**	**252,887**	**111,884,669**	**45,112,389**	**468,873,932**
Balance at 1 January 2016	**(11,195,996)**	**(95,380,202)**	**(464,701)**	**(73,558,437)**	**-**	**(180,599,336)**
Charge for the year	(11,879,465)	(16,425,638)	(76,203)	(10,924,655)	-	**(39,305,961)**
Disposals	2,498,073	2,350,955	149,464	7,965,866	-	**12,964,358**
Reclassification to investment properties	253,918	3,552	-	-	-	**257,470**
Balance at 31 December 2016	**(20,323,471)**	**(108,612,836)**	**(173,776)**	**(75,980,254)**	**-**	**(205,010,337)**
Carrying amounts						
At 1 January 2016	**116,948,109**	**18,001,245**	**161,979**	**32,297,613**	**67,529,297**	**234,938,243**
At 31 December 2016	**105,387,480**	**77,300,201**	**79,111**	**35,984,414**	**45,112,389**	**263,863,595**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

26. PROPERTY AND EQUIPMENT *(continued)*

In RON	Land and buildings	Computers and equipment	Motor vehicles	Furniture and other assets	Assets in course of production	Total
Cost						
Balance at 1 January 2015	**130,000,937**	**132,196,817**	**865,354**	**117,210,413**	**36,041,939**	**416,315,461**
Additions	21,742,188	3,988,624	234,584	3,634,313	31,487,358	**61,087,067**
Revaluation*	(3,744,994)	(22,803,994)	(473,258)	(14,988,676)	-	**(42,010,922)**
Disposals	-	-	-	-	-	
Reclassification to investment properties	(19,854,026.00)	-	-	-	-	**(19,854,026)**
Balance at 31 December 2015	**128,144,105**	**113,381,447**	**626,680**	**105,856,050**	**67,529,297**	**415,537,579**
Balance at 1 January 2015	**(162,209)**	**(106,554,506)**	**(665,712)**	**(76,964,996)**	-	**(184,347,423)**
Charge for the year	(10,983,577)	(11,295,487)	(143,807)	(10,336,556)	-	**(32,759,427)**
Disposals	(50,211)	22,469,792	344,818	13,743,115	-	**36,507,515**
Balance at 31 December 2015	**(11,195,996)**	**(95,380,202)**	**(464,701)**	**(73,558,437)**	-	**(180,599,336)**
Carrying amounts						
At 1 January 2015	**129,838,728**	**25,642,311**	**199,642**	**40,245,417**	**36,041,939**	**231,968,037**
At 31 December 2015	**116,948,109**	**18,001,245**	**161,979**	**32,297,613**	**67,529,297**	**234,938,243**

* *The last revaluation of land and buildings category has been performed by SC Colliers International S.R.L. as at 31 December 2014. According to International Evaluation Standards, for estimation of fair value, the evaluator had used two alternative methods, income approach and market approach, choosing the most appropriate one, depending on nature and destination of each element.*

26. PROPERTY AND EQUIPMENT *(continued)*

Contingent operating lease (rentals)

In RON	31 December 2016	31 December 2015
Amounts payable under operational leases		
Up to twelve months	65,231,000	71,590,368
1-5 years	152,300,740	181,959,263
Over 5 years	14,460,842	42,261,031
Total future lease obligations	**231,992,582**	**295,810,662**

27. INTANGIBLE ASSETS

In RON	Intangible assets	Intangible assets in progress	Total
Balance at 1 January 2016	**293,104,180**	**61,951,272**	**355,055,452**
Additions	51,752,257	81,049,154	132,801,411
Disposals	(12,033,516)	(76,633,296)	(88,666,812)
Balance at 31 December 2016	**339,891,562**	**66,724,000**	**406,615,562**
Amortisation and impairment losses			
Balance at 1 January 2016	**(198,810,878)**	-	**(198,810,878)**
Amortisation for the year	(47,652,046)	-	(47,652,046)
Disposals	153,269	-	153,269
Balance at 31 December 2016	**(248,206,208)**	-	**(248,206,208)**
Carrying amounts			
At 1 January 2016	**94,293,302**	**61,951,272**	**156,244,574**
At 31 December 2016	**91,685,354**	**66,724,000**	**158,409,354**

In RON	Intangible assets	Intangible assets in progress	Total
Balance at 1 January 2015	**319,650,987**	**35,930,804**	**355,581,791**
Additions	30,638,929	55,091,442	85,730,371
Disposals	(57,185,736)	(29,070,975)	(86,256,711)
Balance at 31 December 2015	**293,104,180**	**61,951,271**	**355,055,451**
Amortisation and impairment losses			
Balance at 1 January 2015	**(207,048,810)**	-	**(207,048,810)**
Amortisation for the year	(48,064,647)	-	(48,064,645)
Disposals	56,302,580	-	56,302,577
Balance at 31 December 2015	**(198,810,877)**	-	**(198,810,877)**
Carrying amounts			
At 1 January 2015	**112,602,177**	**35,930,804**	**148,532,981**
At 31 December 2015	**94,293,303**	**61,951,271**	**156,244,574**

UniCredit Bank

28. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities at 31 December 2016 are attributable to the items detailed in the table below:

In RON	31 December 2016 Assets	31 December 2016 Liabilities	31 December 2016 Net
Loans and advances to clients	820,582	-	820,582
Net lease receivables	31,538,797	21,701	31,517,096
Property, equipment and intangible assets	-	7,237,293	(7,237,293)
Available for sale equity investments	-	24,518	(24,518)
Other assets	-	54,168	(54,168)
Provisions, other liabilities, accruals	32,497,432	4,221	32,493,211
Deferred tax asset/ (liability) at 16% through profit and loss	**64,856,811**	**7,341,901**	**57,514,910**
Available for sale investment securities	-	6,990,029	(6,990,029)
Derivative financial instruments held for hedging	11,564,198	1,861,255	9,702,943
Tangible fixed assets revaluation reserve	-	1,706,600	(1,706,600)
Deferred tax asset/ (liability) at 16% through equity	**11,564,198**	**10,557,884**	**1,006,314**
Deferred tax at 16%	**76,421,009**	**17,899,785**	**58,521,224**

Also see Note 19

Deferred tax assets and deferred tax liabilities at 31 December 2015 are attributable to the items detailed in the table below:

In RON	31 December 2015 Assets	31 December 2015 Liabilities	31 December 2015 Net
Loans and advances to clients	3,220	1,601,943	(1,598,723)
Net lease receivables	30,869,304	10,438	30,858,866
Property, equipment and intangible assets	-	1,527,832	(1,527,832)
Available for sale equity investments	-	24,518	(24,518)
Other assets	2,817,291	-	2,817,291
Provisions, other liabilities, accruals	22,261,129	-	22,261,129
Deferred tax asset/ (liability) at 16% through profit and loss	**55,950,944**	**3,164,731**	**52,786,213**
Available for sale investment securities	-	15,388,834	(15,388,834)
Derivative financial instruments held for hedging	8,881,667		8,881,667
Tangible fixed assets revaluation reserve	-	1,761,338	(1,761,338)
Deferred tax asset/ (liability) at 16% through equity	**8,881,667**	**17,150,172**	**(8,268,505)**
Deferred tax at 16%	**64,832,611**	**20,314,903**	**44,517,708**

28. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

Taxes recognised in other comprehensive income are presented in the table below:

In RON	2016 Before tax	2016 Deferred Tax	2016 Net of tax	2015 Before tax	2015 Deferred Tax	2015 Net of tax
Available for sale financial assets	43,687,681	(6,990,029)	36,697,652	96,180,211	(15,388,834)	80,791,377
Cash flow hedging reserve	(60,643,395)	9,702,943	(50,940,452)	(55,510,418)	8,881,667	(46,628,751)
Revaluation reserve on property and equipment	12,599,530	(1,706,600)	10,892,930	12,910,606	(2,065,697)	10,844,909

The movements in the Reserve on available for sale financial assets is presented below:

In RON	2016 Before tax	2016 Deferred Tax	2016 Net of tax	2015 Before tax	2015 Deferred Tax	2015 Net of tax
1 January	**96,180,211**	**(15,388,834)**	**80,791,377**	**112,999,976**	**(18,079,996)**	**94,919,980**
Transfer to profit and loss	(123,600,809)	19,776,130	(103,824,680)	(89,071,260)	14,251,402	(74,819,858)
Net change in OCI	71,108,279	(11,377,325)	59,730,955	72,251,494	(11,560,239)	60,691,255
31 December	**43,687,681**	**(6,990,029)**	**36,697,652**	**96,180,211**	**(15,388,834)**	**80,791,377**

The movements in the Cash flow hedging reserve is presented below:

In RON	2016 Before tax	2016 Deferred Tax	2016 Net of tax	2015 Before tax	2015 Deferred Tax	2015 Net of tax
1 January	**(55,510,418)**	**8,881,667**	**(46,628,751)**	**(74,797,942)**	**11,967,671**	**(62,830,271)**
Transfer to profit and loss	1,082,320	(173,171)	909,149	(1,630,352)	260,856	(1,369,496)
Net change in OCI	(6,215,297)	994,448	(5,220,849)	20,917,876	(3,346,860)	17,571,016
31 December	**(60,643,395)**	**9,702,943**	**(50,940,452)**	**(55,510,418)**	**8,881,667**	**(46,628,751)**

29. OTHER ASSETS

In RON	31 December 2016	31 December 2015
Other financial assets		
Sundry debtors (gross amounts)	72,679,026	63,384,604
Amounts receivable	11,320,868	20,498,795
Total gross amounts	**83,999,894**	**83,883,399**
Less impairment for sundry debtors	(18,125,218)	(17,796,197)
Total other financial assets	**65,874,676**	**66,087,202**
Other non-financial assets		
Prepayments	18,601,246	19,529,983
Advances to suppliers	32,937,731	30,073,085
Inventories	22,886,099	25,601,864
Other	21,117,146	14,446,368
Total other non-financial assets	**95,542,222**	**89,651,300**
Total other assets	**161,416,898**	**155,738,502**

The Group booked as prepayments, during 2016 and 2015: premises rents, local taxes, premises insurance and bankers blanket bond.

30. DERIVATIVES ASSETS/LIABILITIES DESIGNATED AS HEDGING INSTRUMENTS

The Group uses interest rate and cross-currency swaps to hedge the foreign currency and interest rate risks arising from customers' deposits and loans.

The fair values of derivatives designated as cash flow hedges are:

In RON	31 December 2016			31 December 2015		
Cash Flow Hedge	**Notional amount**	**Assets**	**Liabilities**	**Notional amount**	**Assets**	**Liabilities**
Interest rate swap	367,170,827	-	81,460,827	407,746,333	-	81,900,959
Cross currency swap	296,079,720	10,326,089	-	294,997,400	16,477,513	-
Total	**663,250,547**	**10,326,089**	**81,460,827**	**702,743,733**	**16,477,513**	**81,900,959**

The fair values of derivatives designated as fair value hedges are:

	31 December 2016			31 December 2015		
Fair value Hedge (portfolio and micro hedge)	**Notional amount**	**Assets**	**Liabilities**	**Notional amount**	**Assets**	**Liabilities**
Interest rate swap	1,000,036,068	6,999,414	17,269,754	9,399,613	-	269,328
Total	**1,000,036,068**	**6,999,414**	**17,269,754**	**9,399,613**	-	**269,328**

The time periods in which the hedged cash flows are expected to occur and affect the statement of comprehensive income are as follows:

	31 December 2016			31 December 2015		
In RON	**Within 1 year**	**1-5 years**	**Over 5 years**	**Within 1 year**	**1-5 years**	**Over 5 years**
Cash inflow	32,596	668,142	46,476,133	-	22,901,180	310,615,035
Cash outflow	(1,200,019)	(12,197,741)	(134,215,874)	(1,113,390)	(92,309,523)	(308,689,678)

As 31 December 2016, all cash flow and fair value hedge relationships have been assessed as effective.

During 2016 the Group transferred from cash flow hedge reserve an amount of RON 1,082,320 (31 December 2015: (1,630,352)) to profit or loss representing credit value adjustment and foreign currency difference for the hedge items.

31. DEPOSITS FROM BANKS

In RON	31 December 2016	31 December 2015
Term deposits	2,314,018,490	4,085,692,405
Sight deposits	690,748,059	538,674,162
Amounts in transit	168,629,465	123,906,876
Total	**3,173,396,014**	**4,748,273,443**

32. LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

In RON	31 December 2016	31 December 2015
Commercial Banks	6,899,661,910	6,769,151,891
Multilateral development banks	25,855,079	40,456,685
International financial institutions	507,951,366	440,473,152
Total	**7,433,468,355**	**7,250,081,728**

As at 31 December 2016, the final maturity of loans varies from from Jan 2017 to Jul 2023.

33. DEPOSITS FROM CUSTOMERS

In RON	31 December 2016	31 December 2015
Term deposits	5,746,276,675	5,255,834,248
Payable on demand	15,389,513,092	11,728,543,108
Collateral deposits	758,635,727	828,847,807
Amounts in transit	100,757,423	45,412,795
Certificates of deposits	103,895	118,116
Total	**21,995,286,812**	**17,858,756,074**

As of 31 December 2016, retail clients (individuals and small and medium companies) represents 31% of the portfolio, corporate clients represent 63% of the portfolio, while private banking clients represents 6% (31 December 2015: retail clients 33%, corporate clients 59%, private banking clients 8%).

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34. DEBT SECURITIES ISSUED

In RON	31 December 2016	31 December 2015
Debt securities issued	551,024,752	550,659,161
Total	**551,024,752**	**550,659,161**

In June 2013, the Group issued 55,000 medium term bonds denominated in RON on Bucharest Stock Exchange having the following characteristics: symbol UCT18, ISIN ROUCTBDBC014, nominal value of RON 10,000 / bond, a fixed interest of 6.35% per annum, interest coupon half-yearly payable and redemption date on 15th of June 2018.

35. SUBORDINATED LIABILITIES

In RON	31 December 2016	31 December 2015
UniCredit Bank Austria AG	323,260,540	322,072,940
Total	**323,260,540**	**322,072,940**

At 31 December 2016, the following agreements were outstanding: two subordinated loans from UniCredit Bank Austria AG: the first in total amount of RON equivalent 220,243,350 principal, maturing on July 2022 and respectively the second one in amount of RON 99,904,200 equivalent (31 December 2015: two facilities in total amount of RON equivalent 219,438,250 principal, maturing on July 2022, respectively, RON 99,539,000 equivalent).

The repayment of outstanding principal and accrued interest of the above-mentioned loans is subordinated to all other obligations of the Group.

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36. PROVISIONS

In RON	31 December 2016	31 December 2015
Provision for financial guarantees	38,431,523	64,109,938
Provision for legal disputes	8,604,692	1,660,377
Provision for off-balance commitments	18,469,047	1,206,762
Other provisions	1,795,779	1,878,633
Total	**67,301,041**	**68,855,710**

The movements in provisions during the year were as follows:

In RON	31 December 2016	31 December 2015
Balance at 1 January	**68,855,710**	**214,022,848**
Provision set up during the year	79,173,176	33,693,058
Provision used during the year	(80,927)	(6,365,239)
Provision reversed during the year	(80,237,351)	(173,979,820)
FX effect related to off-balance exposure (financial guarantees and commitments)	(409,567)	1,484,863
Balance at 31 December	**67,301,041**	**68,855,710**

37. OTHER LIABILITIES

In RON	31 December 2016	31 December 2015
Other financial liabilities		
Accruals for third party services	59,560,772	21,484,305
Amounts payable to suppliers	123,366,088	113,687,924
Accrual of employee bonus	37,422,204	33,461,018
Sundry creditors	7,129,636	4,142,078
Total other financial liabilities	**227,478,700**	**172,775,326**
Other non-financial liabilities		
Deferred income	33,631,396	28,761,263
Payable to state budget	30,161,414	28,198,455
Other	1,061,788	1,987,720
Total other non-financial liabilities	**64,854,598**	**58,947,438**
Other liabilities	**292,333,298**	**231,722,764**

38. ISSUED CAPITAL

The statutory share capital of the Bank as at 31 December 2016 is represented by 40,760,784 ordinary shares (31 December 2015: 40,760,784 ordinary shares) having a face value of RON 9.30 each. The shareholders of the Bank are as follows:

	31 December 2016
	%
UniCredit S.p.A.*)	98.3280
Other shareholders	1.6720
Total	**100.00**

	31 December 2015
	%
UniCredit Bank Austria AG	95.6185
Bank Austria – CEE BeteiligungsgmbH	0.0133
Arno Grundstucksverwaltungs Gesellschaft m.b.H	0.0133
Beteiligungsverwaltungsgesellschaft der Bank Austria Creditanstalt Leasing GmbH	0.0133
Bank Austria Creditanstalt Leasing GmbH	0.0133
UniCredit Leasing Corporation IFN SA	0.0001
Other shareholders	4.3282
Total	**100.00**

**) UniCredit SpA has taken over the CEE operations and subsidiaries from UniCredit Bank Austria AG since 1st of October 2016.*

The share capital comprises of the following:

In RON	31 December 2016	31 December 2015
Statutory share capital	379,075,291	379,075,291
Effect of hyperinflation – IAS 29	722,528,775	722,528,775
Share capital under IFRS	**1,101,604,066**	**1,101,604,066**

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39. OTHER RESERVES

The breakdown of other reserves is presented below:

In RON	31 December 2016	31 December 2015
Statutory general banking risks	115,785,348	115,785,348
Statutory legal reserve	78,723,680	78,723,680
Effect of hyperinflation – IAS 29	19,064,494	19,064,494
Other reserves	26,961,090	26,961,090
Total	**240,534,612**	**240,534,612**

Reserves for general banking risks include amounts set aside for future losses and other unforeseen risks or contingencies. These reserves are not distributable.

Statutory reserves represent accumulated transfers from retained earnings in accordance with relevant local banking regulations. These reserves are not distributable.

Local legislation requires 5% of the net profit of the Group to be transferred to a non-distributable statutory reserve until such time this reserve represents 20% of the statutory share capital of the group.

40. RELATED PARTY TRANSACTIONS

The Bank entered into a number of banking transactions with UniCredit SpA (Italy) and with members of the UniCredit Group (UniCredit Bank Austria AG, UniCredit Bank AG Germania, Istraturist UMAG, Cassamarca SPA, UniCredit Bulbank A.D., Banca de Sabadell SA, Bank Pekao, Kocbank, Yapi Kredi Bankas ASi) in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rate. The following transactions were carried out with UniCredit S.p.A and its subsidiaries:

31 December 2016

In RON	Parent Company	Other related parties
Derivative assets at fair value through profit or loss	-	10,733,093
Derivatives assets designated as hedging instruments	3,045,827	14,279,676
Current accounts and deposits at banks	106,357,151	84,686,096
Loans and advances to banks	662,234,223	8,488,054
Loans and advances to customers	-	39,520,416
Other assets	4,718,761	42,403,614
Outstanding receivables	**776,355,962**	**200,110,949**
Derivative liabilities at fair value through profit or loss	5,537,570	78,607,590
Derivatives liabilities designated as hedging instruments	14,695	98,669,827
Current accounts	2,970,916	294,293,701
Deposit attracted	1,370,187,997	2,488,137,401
Loans received	-	2,010,267,302
Debts securities issued	-	20,648,400
Subordinated liabilities	-	223,404,943
Other liabilities	7,490,529	47,461,665
Outstanding payables	**1,386,201,707**	**5,261,490,829**
Interest income	25,886,211	683,267
Interest expense	(801,047)	(203,463,715)
Fee and commission income	204,816	9,058,912
Fee and commission expense	(736)	(869,721)
Management fees	(3,661,445)	(984,536)
Other operating income	17,470,531	1,875,017
Administration costs: general and administrative	-	(47,528,938)
Net revenue / (expense)	**39,098,330**	**(241,229,714)**
Commitments	**189,708,021**	**859,436,475**

40. RELATED PARTY TRANSACTIONS *(continued)*

31 December 2015

In RON	Parent Company	Other related parties
Derivative assets at fair value through profit or loss	-	4,132,040
Derivatives assets designated as hedging instruments	4,608,251	11,869,262
Current accounts and deposits at banks	822,355,218	4,733,957
Loans and advances to banks	-	583,671
Loans and advances to customers	-	28,475,538
Other assets	14,793,303	31,567,110
Outstanding receivables	**841,756,772**	**81,361,578**
Derivative liabilities at fair value through profit or loss	5,295,967	70,840,912
Derivatives liabilities designated as hedging instruments	-	81,900,958
Current accounts	21,235,737	158,779,224
Deposit attracted	3,884,795,660	222,374,301
Loans received	6,369,246,050	148,842,100
Debts securities issued	20,634,701	-
Subordinated liabilities	322,127,286	-
Other liabilities	369,454	35,967,211
Outstanding payables	**10,623,704,855**	**718,704,706**
Interest income	22,007,139	368,215
Interest expense	(235,233,577)	(27,092,275)
Interest related effect of Swap transactions regarding refinancing lines with UniCredit Group companies	3,823,851	-
Fee and commission income	26,611,427	3,308,606
Fee and commission expense	(750,094)	(77,320)
Management fees	(2,336,202)	(4,277,558)
Other operating income	12,227,659	8,782,298
Administration costs: general and administrative expenses - other	-	(45,644,163)
Net revenue / (expense)	**(173,649,797)**	**(64,632,197)**
Commitments	**925,044,952**	**471,837,547**

40. RELATED PARTY TRANSACTIONS *(continued)*

Transactions with key management personnel

A number of banking transactions are entered into with key management personnel (executive management, administrators and managers of the Group) in the normal course of business. These mainly include loans, current accounts and deposits. The volumes of related-party transactions as of year ends are presented in the below tables:

In RON

	31 December 2016	31 December 2015
Loans	5,307,978	4,470,385
Current accounts and deposits	7,664,854	8,158,824
Interest and similar income	180,557	44,065
Interest expenses and similar charges	(14,881)	(32,394)

In RON

	2016	2015
Key management compensation	14,502,725	16,171,646
Total	**14,502,725**	**16,171,646**

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers and they participate in the UniCredit Group's share option programme (see Note 12).

41. COMMITMENTS AND CONTINGENCIES

i) Off-balance-sheet commitments

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

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

41. COMMITMENTS AND CONTINGENCIES *(continued)*

i) Off-balance-sheet commitments (continued)

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the end of reporting period if counterparties failed completely to perform as contracted.

In RON	**31 December 2016**	**31 December 2015**
Loan commitments	2,337,349,132	1,832,257,567
Letters of credit	189,849,695	147,785,582
Guarantees issued	3,617,490,759	3,839,743,984
Total	**6,144,689,586**	**5,819,787,133**

The Group acts as a security agent, payment agent and hedging agent for a series of loan contracts between UniCredit Bank Austria AG (starting with 1st October 2016 the rights and obligations being taken over by UniCredit SpA) as lender and Romanian companies as borrowers. For each of these contracts there is a risk participation agreement by which the Group is obliged to indemnify UniCredit SpA (or UniCredit Bank Austria AG until 1st October 2016) . The total amount of such risk participation agreements in force as at 31 December 2016 is EUR 118,373,681 and CHF 885,039 (31 December 2015: EUR 199,060,407 and CHF 1,770,079).

As compensation for the financial guarantees assumed by the risk participation agreements and for providing security and payment agent services to UniCredit SpA, the Bank receives the commissions paid by the borrowers plus a portion of the interest margin collected from the borrowers. The Group defers the commissions collected upfront from the risk participation agreements over the time period that remains until the maturity of the facilities.

The Bank concluded with UniCredit Bank Austria a series of novation contracts through which loan contracts initially concluded by UniCredit Bank Austria with Romanian companies were transferred to the Bank in exchange for full reimbursement of borrowers' exposure towards UniCredit Bank Austria. Subsequent to the signing of the novation contracts, the Group becomes lender of record while related the risk participation agreement is cancelled. Starting with 1st October 2016 UniCredit SpA took over all rights and obligations derived from the above transactions as a consequence of the reorganisation project of its CEE Business.

41. COMMITMENTS AND CONTINGENCIES *(continued)*

ii) Contingent liabilities

As at 31 December 2016, the Group was involved in several litigations for which the probable total claims estimated by the Group's lawyers amounted to RON 12,624,278. The Group, based upon legal advice, has assessed that a provision amounting to RON 4,741,638 as at 31 December 2016 is necessary to be booked for these claims (31 December 2015: total claims estimated amounted to RON 11,285,588 for which a provision of RON 3,842,227 was booked). Additionally, in 2016, a bulk provision in amount of RON 3,850,000 has been set-up so as to take a conservative approach on provisions for litigations.

42. OPERATING SEGMENTS

The segment report format is based on the internal reporting structure of business segments, which reflects management responsibilities in the Bank. (Please refer to Note 3y).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

42. OPERATING SEGMENTS *(continued)*

Segment reporting on income statements as of 31 December 2016:

In RON	CIB	Retail	PB	Leasing	Other	Total
Net interest income	468,039,376	383,436,155	5,935,032	89,514,756	(2,575,759)	**944,349,560**
Net fee and commission income	135,571,466	163,889,125	1,971,139	35,375,876	(5,596,393)	**331,211,213**
Net income from trading and other financial instruments at fair value through profit and loss	180,630,017	51,227,968	1,472,024	9,426,753	(1,121,928)	**241,634,834**
Net gains on financial assets available for sale	49,966,636	6,609,164	-	-	71,946,898	**128,522,698**
Dividend income	-	-	-	-	1,913,613	**1,913,613**
Other operating income	332,541	(2,200,245)	(4,132)	10,883,285	7,128,658	**16,140,107**
Operating income	**834,540,036**	**602,962,167**	**9,374,063**	**145,200,670**	**71,695,088**	**1,663,772,025**
Operating expenses	(255,109,867)	(460,637,225)	(4,549,376)	(63,305,501)	(16,248,864)	**(799,850,833)**
Net operating income	**579,430,169**	**142,324,942**	**4,824,687**	**81,895,169**	**55,446,224**	**863,921,192**
Net impairment losses on financial assets	(259,618,058)	(102,774,928)	(1,215,931)	(40,122,634)	(12,552,652)	**(416,284,203)**
Net impairment losses and provision charges	-	(190,687)	-	(230,157)	(39,579,048)	**(39,999,892)**
Gains on disposals of equity investments	-	-	-	-	(2,375,006)	**(2,375,006)**
Profit before taxation	**319,812,111**	**39,359,327**	**3,608,756**	**41,542,378**	**939,518**	**405,262,091**
Income tax	-	(7,802,329)	-	(8,273,421)	(59,834,799)	**(75,910,549)**
Net profit for the year	**319,812,111**	**31,556,998**	**3,608,756**	**33,268,957**	**(58,895,281)**	**329,351,542**

42. OPERATING SEGMENTS *(continued)*

Segment reporting on income statements as of 31 December 2015:

In RON	CIB	Retail	PB	Leasing	Other	Total
Net interest income	400,824,931	384,072,311	3,442,222	91,362,255	(15,541,575)	**864,160,144**
Net fee and commission income	134,274,277	143,376,336	2,046,030	32,364,644	(1,440,146)	**310,621,140**
Net income from trading and other financial instruments at fair value through profit and loss	214,466,857	50,076,237	1,592,454	7,848,499	(23,726,923)	**250,257,123**
Net gains on financial assets available for sale	89,827,806	-	-	-	(13,488,284)	**76,339,522**
Dividend income	-	-	-	-	7,320,896	**7,320,896**
Other operating income	2,974,475	1,423,402	5,231	12,345,067	1,927,447	**18,675,622**
Operating income	**842,368,345**	**578,948,286**	**7,085,937**	**143,920,465**	**(44,948,586)**	**1,527,374,447**
Operating expenses	(252,347,127)	(437,797,886)	(6,211,443)	(64,571,833)	(16,756,272)	**(777,684,561)**
Net operating income	**590,021,218**	**141,150,399**	**874,494**	**79,348,632**	**(61,704,858)**	**749,689,886**
Net impairment losses on financial assets	(234,723,777)	(128,161,581)	1,610,416	(50,722,306)	(370,869)	**(412,368,116)**
Net impairment losses and provision charges	-	(45,252)	-	(26,490)	(8,989,854)	**(9,061,596)**
Gains on disposals of equity investments	-	335	-	-	(5,452,306)	**(5,451,971)**
Profit before taxation	**355,297,441**	**12,943,902**	**2,484,910**	**28,599,835**	**(76,517,886)**	**322,808,203**
Income tax	-	-	-	(5,511,870)	(47,790,150)	**(53,302,020)**
Net profit for the year	**355,297,441**	**12,943,902**	**2,484,910**	**23,087,966**	**(124,308,036)**	**269,506,183**

42. OPERATING SEGMENTS *(continued)*

Segment reporting on consolidated statement of financial position as of 31 December 2016:

In RON	CIB	Retail	PB	Leasing	Other	Total
Total assets	**16,278,915,322**	**7,783,070,094**	**148,223,592**	**3,436,233,613**	**9,959,258,643**	**37,605,701,264**
Total liabilities	16,209,111,529	6,728,377,580	1,430,570,893	3,534,952,188	6,181,074,181	**34,084,086,371**
Total equity	-	-	-	-	3,521,614,893	**3,521,614,893**
Total liabilities and equity	**16,209,111,529**	**6,728,377,580**	**1,430,570,893**	**3,534,952,188**	**9,702,689,074**	**37,605,701,264**

Segment reporting on individual statement of financial position as of 31 December 2015:

In RON	CIB	Retail	PB	Leasing	Other	Total
Total assets	**15,925,364,737**	**6,951,389,465**	**151,865,864**	**2,980,160,553**	**8,559,007,075**	**34,567,787,694**
Total liabilities	13,373,405,886	5,920,743,472	1,410,744,759	2,944,047,775	7,567,204,275	**31,216,146,167**
Total equity	-	-	-	-	3,351,641,527	**3,351,641,527**
Total liabilities and equity	**13,373,405,886**	**5,920,743,472**	**1,410,744,759**	**2,944,047,775**	**10,918,845,802**	**34,567,787,694**

UniCredit Bank

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

43. SUBSEQUENT EVENTS

There is no significant subsequent event after the end of reporting period.

The consolidated financial statements were approved by the Management Board on February 28, 2017 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mrs. Mihaela Alina Lupu
Chief Financial Officer