UniCredit Bank

UniCredit Bank S.A.

Separate Financial Statements

31 December 2016

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

UniCredit Bank

CONTENT

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

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union 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 Bank 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment of loans and advances to customers	
Nature of the area of focus	***How our audit addressed the key audit matter***
As described in note 23 from separate financial statements the Bank has booked as at 31 Dec 2016 Impairment allowances of RON 1,405.7 mil for the Loan and advances to customers in amount of RON 20,232 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 Bank.* *As detailed in the Accounting Policies section of the separate 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 Bank.* *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 Bank 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-cut 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 separate financial statements *For the year ended 31 December 2016 the interest income represents RON 989.7 mil and fee and commission income represents RON 356.2 mil, the main source being loans to customers. These are the main contributors to the operating income of the Bank affecting the Bank'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 Bank 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:*

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 Bank.*

Report on conformity of the Administrator's Report with the separate 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 separate financial statements. The Administrators' Report is not a part of the separate 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 separate financial statements.

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

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate 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 separate 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

Separate statement of comprehensive income for the year ended 31 December 2016

	Note	2016 RON	2015 RON
Interest income		989,664,922	958,632,299
Interest expense		(257,417,348)	(311,932,683)
Interest on effect of swap transactions to refinancing lines with UniCredit Group companies		-	3,823,851
Net interest income	**7**	**732,247,574**	**650,523,467**
Fee and commission income		356,175,141	362,352,257
Fee and commission expense		(74,067,581)	(78,186,984)
Net fee and commission income	**8**	**282,107,560**	**284,165,273**
Net income from trading and other financial instruments at fair value through profit or loss	9	236,185,185	244,033,239
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	121,913,534	70,595,829
Dividend income	11	1,913,613	7,320,896
Other operating income		7,818,686	7,347,867
Operating income		**1,378,374,697**	**1,262,356,219**
Personnel expenses	12	(303,711,515)	(306,519,857)
Depreciation and impairment of tangible assets	13	(42,712,432)	(33,605,481)
Amortisation and impairment of intangible assets	13	(46,699,368)	(45,761,031)
Other administrative costs	14	(283,673,235)	(269,641,340)
Other operating costs	15	(9,135,623)	(10,787,960)
Operating expenses		**(685,932,173)**	**(666,315,669)**
Net operating income		**692,442,524**	**596,040,550**
Net impairment losses on financial assets	16	(324,099,223)	(317,161,053)
Net provision losses	17	(39,579,048)	(8,978,889)
Net gains/(loss) from other investment activities	18	(2,375,006)	(6,040,469)
Profit / (Loss) before taxation		**326,389,247**	**263,860,139**

UniCredit Bank

Separate statement of comprehensive income for the year ended 31 December 2016 (continued)

	Nota	2016 RON	2015 RON
Income tax	19	(59,834,799)	(41,805,161)
Net profit for the year		**266,554,448**	**222,054,978**
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)	28, 25	(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		**218,197,043**	**224,221,189**

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

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mrs. Mihaela Alina Lupu
Chief Financial Officer

UniCredit Bank

Separate statement of financial position as at 31 December 2016

	Note	31 December 2016 RON	31 December 2015 RON
Assets			
Cash and cash equivalents	**20**	5,760,947,655	4,594,558,795
Financial assets at fair value through profit or loss	**21**	393,210,237	291,926,020
Derivatives assets designated as hedging instruments	**30**	17,325,503	16,477,513
Loans and advances to banks	**22**	737,782,299	849,887,971
Loans and advances to customers	**23**	18,826,508,130	17,915,871,852
Financial assets available for sale	**25**	6,369,107,583	6,359,742,012
Investment in subsidiaries	**24**	143,115,683	143,115,683
Property and equipment	**26**	206,581,764	217,772,302
Intangible assets	**27**	146,937,296	148,516,836
Deferred tax assets	**28**	19,732,413	9,583,774
Other assets	**29**	63,070,064	63,400,403
Non-current assets and disposal groups classified as held for sale		2,913,821	960,324
Total assets		**32,687,232,448**	**30,611,813,485**
Liabilities			
Financial liabilities at fair value through profit or loss	**21**	99,362,520	85,383,434
Derivatives liabilities designated as hedging	**30**	98,684,522	81,900,959
Deposits from banks	**31**	3,173,396,014	4,748,273,443
Loans from banks and other financial institutions	**32**	2,545,617,646	3,433,409,158
Deposits from customers	**33**	22,443,450,800	18,111,264,179
Debt securities issued	**34**	551,024,752	550,659,161
Subordinated liabilities	**35**	223,356,340	222,533,940
Provisions	**36**	64,105,688	68,041,235
Current tax liabilities		41,002,820	11,175,775
Other liabilities	**37**	190,712,385	149,829,510
Total liabilities		**29,430,713,487**	**27,462,470,794**

UniCredit Bank

Separate statement of financial position as at 31 December 2016 (continued)

	Note	31 December 2016 RON	31 December 2015 RON
Equity			
Share capital	**38**	1,101,604,066	1,101,604,066
Share premium		55	55
Reserve on available for sale financial assets	**28**	36,697,652	80,791,377
Cash flow hedging reserve	**28**	(50,940,452)	(46,628,751)
Revaluation reserve on property and equipment	**28**	10,892,930	10,844,909
Other reserves	**39**	240,534,612	240,534,612
Retained earnings		1,917,730,098	1,762,196,423
Total equity		**3,256,518,961**	**3,149,342,691**
Total liabilities and equity		**32,687,232,448**	**30,611,813,485**

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

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mrs. Mihaela Alina Lupu
Chief Financial Officer

UniCredit Bank

Separate statement of changes in equity as at 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
Balance at 31 December 2015	1,101,604,066	80,791,377	(46,628,751)	10,844,909	240,534,612	55	1,762,196,423	3,149,342,691
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	-	-	266,554,448	266,554,448
Other comprehensive income, net of tax								
Dividends paid during the period	-	-	-	-	-	-	(111,027,489)	(111,027,489)
Transfer from revaluation reserve of property, plant and equipment to retained earnings	-	-	-	(6,716)	-	-	6,716	-
Net change in available for sale financial assets, net of tax	-	(44,093,725)	-	-	-	-	-	(44,093,725)
Net change in cash flow hedging reserve, net of tax	-	-	(4,311,701)	-	-	-	-	(4,311,701)
Revaluation of property, plant and equipment, net of tax	-	-	-	54,737	-	-	-	54,737
Total other comprehensive income for the year	-	(44,093,725)	(4,311,701)	48,021	-	-	(111,020,773)	(159,378,178)
Total comprehensive income for the year	-	(44,093,725)	(4,311,701)	48,021	-	-	155,533,675	107,176,270
Balance at 31 December 2016	1,101,604,066	36,697,652	(50,940,452)	10,892,930	240,534,612	55	1,917,730,098	3,256,518,961

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

Mr. Catălin Rasvan Radu
Chief Executive Officer

Mrs. Mihaela Alina Lupu
Chief Financial Officer

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

Separate statement of changes in equity as at 31 December 2015

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
Balance at 31 December 2014	1,101,604,066	94,919,980	(62,830,271)	10,751,615	240,534,612	55	1,540,141,445	2,925,121,502
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	-	-	222,054,978	222,054,978
Other comprehensive income, net of tax								
Transfer from revaluation reserve of property, plant and equipment to retained earnings	-	-	-	-	-	-	-	-
Net change in available for sale financial assets, net of tax	-	(14,128,603)	-	-	-	-	-	(14,128,603)
Net change in cash flow hedging reserve, net of tax	-	-	16,201,520	-	-	-	-	16,201,520
Revaluation of property, plant and equipment, net of tax	-	-	-	93,294	-	-	-	93,294
Total other comprehensive income for the year	-	(14,128,603)	16,201,520	93,294	-	-	-	2,166,211
Total comprehensive income for the year	-	(14,128,603)	16,201,520	93,294	-	-	222,054,978	224,221,189
Balance at 31 December 2015	1,101,604,066	80,791,377	(46,628,751)	10,844,909	240,534,612	55	1,762,196,423	3,149,342,691

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

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mrs. Mihaela Alina Lupu
Chief Financial Officer

UniCredit Bank

Separate statement of cash flows for the year ended 31 December 2016

In RON	Note	2016	2015
Operating activities			
Profit / (Loss) before taxation		326,389,247	263,860,139
Adjustments for non-cash items:			
Depreciation, amortisation and impairment on tangible and intangible assets	13	89,411,800	79,366,512
Net impairment losses on financial assets	16	283,295,266	317,161,053
Change in fair value of derivatives at fair value through profit or loss		(3,119,545)	(12,896,992)
Other items for which the cash effects are investing or financing		6,470,771	(65,953,948)
Other non–cash items		(124,103,879)	102,932,624
Operating profit before changes in operating assets and liabilities		**578,343,660**	**684,469,388**
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		(1,064,257,289)	(1,510,728,099)
(Increase) / Decrease in other assets		(12,383,853)	(5,264,580)
Change in operating liabilities:			
(Decrease) / Increase in deposits from banks		(1,574,944,468)	1,151,551,744
Increase in deposits from customers		4,337,787,839	1,877,144,822
Increase in other liabilities		3,652,365	23,752,120
Income tax paid		(30,881,574)	-
Cash flows from / (used in) operating activities		**2,210,000,369**	**1,427,122,533**
Investing activities			
Proceeds from sale of property and equipment		1,049,772	-
Acquisition of property and equipment and intangible assets		(79,159,794)	(101,372,409)
Proceeds from sale of equity investments		45,263,082	-
Acquisition of subsidiaries and business lines		-	-
Dividends received	11	1,913,613	1,235,366
Cash flows used in investing activities		**(30,933,327)**	**(100,137,043)**

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Separate statement of cash flows for the year ended 31 December 2016 (continued)

	Note	2016	2015
Financing activities			
Dividends paid		(107,021,635)	
Repayments of loans from financial institutions		(1,041,238,550)	(1,208,596,772)
Drawdowns from loans from financial institutions		135,582,000	187,788,320
Repayment of subordinated liabilities		-	(67,231,500)
Cash flows from financing activities		**(1,012,678,185)**	**(1,088,039,952)**
Net increase in cash and cash equivalents		1,166,388,857	238,945,538
Cash and cash equivalents at 1 January	**20**	**4,594,558,795**	**4,355,613,257**
Cash and cash equivalents at 31 December	**20**	**5,760,947,655**	**4,594,558,795**
Cash flow from operating activities include:			
Interest received		914,791,023	1,083,287,401
Interest paid		(259,580,331)	(318,076,989)

The separate financial statements were approved by the Management Board on 28 February 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 separate financial statements for the year ended 31 December 2016

1. REPORTING ENTITY

Starting with August 2015, UniCredit Bank S.A. (the "Bank") is the new brand name of formerly UniCredit Tiriac Bank SA, 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 ("NBR") to conduct banking activities.

The Bank's current registered office is 1F, Expozitiei Boulevard, District 1, Bucharest, Romania.

At 31 December 2016, the Bank is member of the UniCredit Group, being directly controlled by UniCredit S.p.A, with registered office in Rome, Italy, Via Alessandro Specchi, 16.

The management of the Bank is governed by a two-tier system, by the Management Board and respectively by the Supervisory Board, in accordance with the prerogatives provided by the Constitutive Deed of the Bank and within the authority levels given by the General Assembly of Shareholders. The members of the Management Board exercise their responsibilities under the oversight of the Supervisory Board.

The Bank provides retail and commercial banking services in Romanian Lei ("RON") and foreign currency for individuals and legal entities. 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, derivative financial instruments.

The Bank has the following directly controlled subsidiaries:

- UniCredit Consumer Financing IFN S.A. ("UCFIN"), 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 50.1% controlling interest in UCFIN starting with 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% direct and indirect controlling interest (direct controlling interest: 99.90%). The Bank's shareholding has an indirect controlling interest 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.

The Bank operates through the Head Office located in Bucharest and through its network of 159 branches (31 December 2015: 182) located in Bucharest and in the country.

2. BASIS OF PREPARATION

a) Statement of compliance

At 31 December 2016 and 31 December 2015, the separate financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union.

According to provisions of Order 27/2010 issued by National Bank of Romania, starting with 1 January 2012 the Bank applies IFRS as endorsed by European Union as statutory financial reporting framework. Transition from financial statements prepared based on Romanian Accounting standards in place until 31 December 2011 to IFRS was based on the information from financial statements as at 31 December 2011 prepared by the Bank in accordance with IFRS as endorsed by the European Union.

Additionally, the Bank prepares a set of consolidated financial statements in accordance with IFRS 10 "*Consolidated Financial Statements*".

b) Basis of measurement

The separate 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 separate 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 separate 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 recognised 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.

2. BASIS OF PREPARATION *(continued)*

Particularly, information about significant areas of estimation uncertainty and critical judgements made by management in applying accounting policies that have the most significant effect on the amount recognised in the separate financial statements are described in notes 4 and 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements, and have been applied consistently by the Bank. Where it has been considered necessary, the comparative amounts have been reclassified in order to ensure the conformity with the changes in presentation for the current reporting period and their appropriate specific disclosures have been presented in the corresponding notes to the financial statements.

a) 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

b) Accounting for the effect of hyperinflation

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 *"Financial Reporting in Hyperinflationary Economies"* ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy are restated in terms of the measuring unit current at the end of reporting period (i.e. non-monetary items are restated using a general price index from the date of acquisition or contribution). As the characteristics of the economic environment of Romania indicate that hyperinflation has ceased, effective from 1 January 2004 the Bank no longer applied the provisions of IAS 29.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c) 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 Bank 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 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 amortised cost calculated on an effective interest basis;
- interest related effect of Swap transactions regarding refinancing lines with UniCredit Group Companies - the Bank's financing in RON from the parent company 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 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.

d) Fees and commission

Fees and commission income and expense that are integral part of 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 Bank, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) 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.

f) Net income from other financial instruments at fair value through profit or 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).

g) 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.

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 at 31 December 2016 is 16% (2015: 16%).

3. SIGNIFICANT ACCOUNTING POLICIES ***(continued)***

h) Financial assets and financial liabilities

(i) Initial recognition and Classification

The Bank 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 Bank becomes a party to the contractual provisions of the instrument.

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

Financial assets

At inception date, a financial asset was classified in one of the following categories:

- Loans and receivables;
- Held to maturity;
- Available for sale;
- At fair value through profit or loss;
- Equity investments.

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

Financial liabilities

At inception date, a financial liabilities 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 (j), (k) and (u).

The Bank designates financial assets and liabilities at fair value through profit or 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)*

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

(ii) 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 rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(iii) 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 market or, in its absence the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of a financial 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 Bank establishes fair value using various valuation techniques. 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 Bank, 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 data from observable markets.

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)*

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

(iv) Identification and measurement of impairment

The Bank 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 Bank 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 Bank'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)*

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

(iv) Identification and measurement of impairment (continued)

The Bank 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 Bank'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 Bank 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 Bank 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 respective 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 Bank's rating system, expert judgement and experience of the Bank's employees (e.g. the Bank 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(iv) Identification and measurement of impairment (continued)

Collective assessment (*continued*)
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 bank's 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.

(v) Derecognition

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

3. SIGNIFICANT ACCOUNTING POLICIES ***(continued)***

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

(v) Derecognition (continued)

The Bank 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 statement of financial position. Transfer of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

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

- Either UniCredit SpA directly financed some corporate customers, while the Bank undertook the role of agent or security agent and payment agent, or

- The Bank 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 of the contracts concluded with UniCredit SPA, there is a risk participation agreement by which the Bank 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 Bank 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 Bank's balance sheet (refer also to note 41).

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)*

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

(vi) 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 Bank's trading activity.

i) 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 amortised 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 Bank in the management of its short-term commitments.

j) Assets and liabilities held for trading

Trading assets and liabilities are those assets and liabilities that the Bank 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.

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 Bank 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 a financial instrument becomes smaller than zero, which might happen in case of derivative financial instruments, then those instruments are presented in the position "Derivative financial liabilities at fair value through profit or loss".

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j) Assets and liabilities held for trading *(continued)*

The Bank has trading instruments at 31 December 2016: as 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.

k) 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) Other non-trading derivatives which are not held for trading

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.

(ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank 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.

3. SIGNIFICANT ACCOUNTING POLICIES ***(continued)***

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

(iii) Cash flow hedges

On initial designation of the hedge, the Bank 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 Bank 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 Bank 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 recognised 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 recognised in "Other comprehensive income" in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

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 recognised 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 Bank 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 Bank (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.

(iv) Fair value hedges

On initial designation of the hedge, the Bank 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 Bank 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 fair value of the respective hedged items during the period for which the hedge is designated.

Bank adopts micro fair value hedge (one or more derivatives linked in hedge relationship to one or more hedged items) of interest rate risk in financial instruments which otherwise are not carried at fair value through profit or loss. Hedge of interest rate risk minimizes variability in fair value due to changes in market interest rate curves.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(v) Fair value hedges (continued)

The Bank designated certain interest rate swap as hedging instruments and certain bond instruments classified in Available for sale portfolio with residual maturity above 1 year at the inception of the hedge, bearing fixed interest rates of the Bank as hedged items.

A fair value hedge shall be accounted for as follows: the gain or loss from re-measuring the hedging instrument at fair value (for a derivative hedging instrument) or the foreign currency component of its carrying amount measured in accordance with IAS 21 (for a non-derivative hedging instrument) shall be recognized in profit or loss; and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized in profit or loss. This applies if the hedged item is otherwise measured at cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset.

The FVH relationship is discontinued prospectively when: the hedging instrument expires or is sold, terminated or exercised; the hedge no longer meets the criteria for hedge accounting in paragraph or the Bank revokes the designation. When the hedge relationship is terminated, and the hedging instrument is not closed out, it is removed from the FVH specific portfolio and recorded as a standalone derivative in another portfolio. Any adjustment arising to the carrying amount of a hedged financial instrument for which the effective interest method is used shall be amortized to profit or loss.

For hedge accounting purposes, only instruments that involve an external party to the Bank (or intra-group transactions directly replicated with third parties outside the Group) are designated as hedging instruments.

l) Loans and advances to customers

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank'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. If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity, the entire category would be reclassified as available for sale and for a two year period the Bank would not use the held to maturity classification. The Bank has no Held-to-maturity investments as of 31 December 2016.

n) 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.

o) Equity investments

(i) Subsidiaries

Subsidiaries are entities which are controlled directly or indirectly by the Bank, through subsidiaries, by holding more than half of the voting rights, unless in exceptional circumstances, it can be proved that such ownership does not represent control.

Subsidiaries are entities in which the Bank holds half or less of voting rights and:

- The power over the majority of voting rights based on agreements concluded with the other shareholders;
- The power to govern the operational and financial policies of an entity based on its articles of association or other agreement;
- The power to appoint or to revoke the majority of board members or equivalent governing body, and the control over the entity is exercised by that body;
- The power to control the majority of voting rights in the board of directors or equivalent governing body and the control over the entity is exercised by that body.

In the 1st semester of 2014, the Bank has taken over the direct controlling stake in the following leasing entities: UCLC (99.90%) and UCLRO (99.99%) from the previous parent leasing company controlled by UniCredit Group. The merger process of UCLC and UCLRO started in 2014 has been finalized by June 2015 when UCLRO was fully absorbed by UCLC.
The Bank has accounted for all its subsidiaries at cost in its separate financial statements in accordance with IAS 27, Separate financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

o) Equity investments

(i) Subsidiaries (continued)

UCLC is also a parent company which has direct control over the following subsidiaries:

- Debo Leasing IFN S.A.("DEBO"), real estate leasing entity, directly controlled by UCLC, holding 99.99% starting with April 2014;
- UniCredit Insurance Broker S.R.L.("UCIB"), insurance broker for insurance activities related to leasing activity for retail and corporate clients, directly controlled by UCLC, holding 100.00% starting with June 2014.

(ii) Investment in associate

Associates are those entities in which the Bank has significant influence, but no control, over the financial and operating policies.

The Bank has no investment in associate as of 31 December 2016 and as of 31 December 2015.

(iii) Equity instruments

The Bank holds minor shareholdings in other entities providing auxiliary financial services and are classified as available for sale. Unquoted equity securities whose fair value cannot be reliably measured, are carried at cost. Whenever new information is available on the market regarding the fair value of these equity instruments and the respective fair values can be measured reliably, these financial instruments are measured at fair value, recognising the changes in their fair values in appropriate item within other comprehensive income. For impairment policy please refer to note 3 *h) (iv)*.

Investment in subsidiaries and associated are carried at cost in the separate financial statements of the Bank.

For the VISA In Series C preferred shares, the fair value is estimated using the methodology provided by the parent company UniCredit SpA and is based on the closing price of VISA Inc. common shares quoted on New York Stock Exchange. Please see note 25 *b*) for presentation and additional details.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) Property and equipment (*continued*)

(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 evaluators.

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.

(iii) Subsequent costs

The Bank 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 Bank 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	2.00% per year
- improvements (rentals)	6.25% - 100.00 % per year
Office equipment and furniture	6% - 25.00% per year
Computer equipment	25% per year

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

q) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the 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 "Other operating income" or "Other operating expense" 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 in the Gains or (-) losses on derecognition of non-financial assets.

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 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.

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: 5 years;
- for list of customers: 5 years;
- for licenses: contractual life time, max 5 years

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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".

t) Impairment of non – financial assets

The carrying amount of the Bank'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 profit or loss.

In case of intangible assets of "List of Customers", in case of 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, loans from banks and subordinated liabilities

Deposits, debt securities issued loans from banks and subordinated liabilities are the Bank's sources of debt funding.

When the Bank sells a financial asset and simultaneously enters into a "repo" or "sell buy back" 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 Bank's separate 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 Bank and not held for trading or designated at fair value through profit or loss. Debt securities in issue are recognized when the bank becomes part of the contract.

On initial recognition debt securities are measured at fair value, including issuing cost.

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 Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

x) Financial guarantees and loan commitments

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

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 Separate Financial Statements.

The Bank entered into the several transactions with UniCredit Bank Austria AG 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 3h(v)). In accordance with risk participation agreements related to such loans, the Bank is required to indemnify UniCredit Bank Austria AG and UniCredit Group as set out in the Note 3h *(v)*.

Starting with 1st of October 2016, UCBA has transferred 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*h (iv)*, which is stated under Provisions in the 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 Bank 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 Bank, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension, health care and unemployment benefit. All employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan).
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)*

x) Employee benefits *(continued)*

(iii) Other long term employee benefits

On the basis of internal practice and policies, the Bank has an obligation to pay to retiring employees a benefit equivalent of two salaries as at retirement date. The Bank'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 Bank's obligations.

(iv) Share - based payment transactions

The Bank 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 Bank and not by its Parent, and as a consequence it is recognised as an employee benefit expense.

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

y) 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 distinct 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") line** - 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") line** - 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.

- **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 Bank 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 Bank 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 Bank'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 Bank 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 Bank 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 Bank's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Bank's financial statements. The timing and measurement of the Bank's revenues are not expected to change under IFRS 15 because of the nature of the Bank'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 Bank to recognise in its statement of financial position assets and liabilities relating to operating leases for which the Bank 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 Bank.

- **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 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 Bank has exposure to the following significant risks:
- Credit risk
- 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 Bank also gives a special attention to the conformity risk and fiscal risk.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

b) Risk management framework

Objectives regarding the risks management are correlated with the overall strategic objectives of the Bank:
- 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 Bank'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 Bank implies:
- the culture regarding the risk management;
- the framework regarding risk management;
- the policy for the approval of new products.

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

b) Risk management framework ***(continued)***

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

The Banks' 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 Bank 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 organize 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.

4. RISK MANAGEMENT *(continued)*

b) Risk management framework *(continued)*

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 approval of risk profile of the Bank and the strategy of the Bank related to the risk management.

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 Bank's 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 Bank level for the development and monitoring the policies for risk management is achieved through 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

The Bank's **Audit Committee** is responsible for checking 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 UniCredit Group. The Audit Committee is assisted in this function 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 analysis of 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 Bank, 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.

Notes to the separate financial statements for the year ended 31 December 2016

4. RISK MANAGEMENT *(continued)*

c) Credit risk

(i) Management of credit risk

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

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

(ii) Exposure to credit risk

In RON	**31 December 2016**	**31 December 2015**
Individually significant impaired loans		
Grade 8-: Impaired	1,886,544,143	2,323,263,574
Grade 9: Impaired	168,916,181	205,282,955
Grade 10: Impaired	316,910,232	492,042,768
Gross amount	**2,372,370,556**	**3,020,589,297**
Allowance for impairment	(1,105,692,318)	(1,393,679,652)
Carrying amount	**1,266,678,238**	**1,626,909,645**

4. RISK MANAGEMENT *(continued)*

c) **Credit risk**

(ii) Exposure to credit risk (continued)

In RON	31 December 2016	31 December 2015
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-	233,392,238	311,845,537
Grade 9	4,640,032	14,930,260
Grade 10	164,492,799	202,778,505
Gross amount	**402,525,069**	**529,554,302**
Allowance for impairment	(210,965,802)	(260,365,450)
Carrying amount	**191,559,267**	**269,188,852**
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, out of which:	**609,719,593**	**767,885,889**
Less than 90 overdue days	606,426,057	764,148,570
More than 90 overdue days	3,293,536	3,737,319
Grade 8, out of which:	**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	**911,436,990**	**1,126,725,016**
Allowance for impairment	(15,016,051)	(25,827,378)
Carrying amount	**896,420,939**	**1,100,897,638**

4. **RISK MANAGEMENT** *(continued)*
c) **Credit risk**
(ii) Exposure to credit risk (continued)

In RON	31 December 2016	31 December 2015
Neither past due nor impaired		
Grade 1-7	16,252,209,931	14,626,449,109
Grade 8	293,643,487	353,126,183
Gross amount	**16,545,853,418**	**14,979,575,292**
Allowance for impairment	(74,003,732)	(60,699,575)
Carrying amount	**16,471,849,686**	**14,918,875,717**
Total carrying amount	**18,826,508,130**	**17,915,871,852**

* *Other collateral includes cash and financial risk insurance.*
** *Loans classified as Past Due, Restructured, Doubtful or Non-performing loans with rating different from 8-, 9, 10.*

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 contain impaired customers in accordance with regulatory definitions.

The Bank'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 Bank and the past due status.

Impaired loans

Loans and receivables are impaired and impairment adjustment incur whether 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.

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

c) **Credit risk**

(ii) ***Exposure to credit risk (continued)***

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 Bank.

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.

Other impaired loans

Other impaired loans include all loans to individuals with more than 90 days late and credits to businesses with grades 8-, 9 and 10 that are not individually significant.

Past due but not impaired loans

Loans with overdue contractual interest or principal cash flows which are not considered impaired due to the level of guarantees available or/and the stage of the collection of the amounts by the Bank.

Neither past due nor individually impaired

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

Allowances for impairment

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

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

31 December 2016	**Gross amounts**	**Net amounts**
In RON		
Grade 8-: Impaired	2,119,936,381	1,301,555,801
Grade 9: Impaired	173,556,213	32,606,631
Grade 10: Impaired	481,403,031	124,075,073
Total	**2,774,895,625**	**1,458,237,505**

31 December 2015	**Gross amounts**	**Net amounts**
In RON		
Grade 8-: Impaired	2,635,109,111	1,645,504,476
Grade 9: Impaired	220,213,215	68,252,362
Grade 10: Impaired	694,821,273	182,341,659
Total	**3,550,143,599**	**1,896,098,497**

4. **RISK MANAGEMENT** *(continued)*
c) **Credit risk**
(ii)Exposure to credit risk (continued)

Restructured loans are as follows:

In RON	**31 December 2016**	**31 December 2015**
Gross amount	**1,496,398,395**	**1,944,176,645**
Allowance for impairment	(716,208,956)	(862,775,130)
Carrying amount	**780,189,439**	**1,081,401,515**

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 difficulties.

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 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 performing 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 Bank'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 Bank 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.

4. **RISK MANAGEMENT (continued)**

c) **Credit risk**

(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

The Banks 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:

RON	31 December 2016	31 December 2015
Private entities (including individuals)	4,661,992,758	4,268,016,339
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
Construction and civil engineering	695,886,394	732,927,836
Agriculture - forestry - fisheries	1,109,327,613	916,151,586
Transport and storage services	517,267,503	486,243,782
Public administration and defence; social security insurance	502,948,310	567,647,393
Production and supply of electricity, gas, steam and air conditioning	383,955,326	440,729,830
Professional, scientific and technical activities	402,874,065	394,150,628
Information and communication	618,966,395	448,991,795
Financial and insurance institutions	476,189,541	214,873,892
Water supply	145,079,396	167,602,459
Hotels and public commercial concern	104,015,194	101,993,043
Administrative and support service activities	114,548,582	98,814,906
Extractive industry (mining and quarrying)	31,270,224	17,069,474
Education	4,167,711	16,438,241
Medical and social activities	36,012,694	29,159,465
Arts, entertainment and recreation	10,261,234	11,884,483
Other services	35,004,691	87,562,290
Total	**18,826,508,130**	**17,915,871,852**

4. **RISK MANAGEMENT (continued)**

c) **Credit risk**

(ii) Exposure to credit risk (continued)

In RON	2016	2015
Loans and advances to customers	18,826,508,130	17,915,871,852
Loan related commitments and contingencies	5,691,289,900	5,502,920,168
Total	**24,517,798,030**	**23,418,792,020**

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.

Other credit risk exposures

Cash and cash equivalents, loans and advances to banks and investment securities were neither impaired nor past due. Please also refer to *Note 20, Note 21, Note 22* and *Note 25.*

Placement with banks includes deposits with local and international commercial banks. These exposures with rating grades from 1 to 7 (31 December 2015: from 1 to 7) are considered performing in accordance with internal rating models of the Bank as of 31 December 2016 and 31 December 2015.

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, the Bank 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 Bank's overall liquidity management is to keep the liquidity exposure at such a level that the bank is able to honour 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 the Bank 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.

4. **RISK MANAGEMENT (continued)**

d) **Liquidity risk *(continued)***

In accordance with the strategic goal of self-sufficient funding, Bank's medium and long term funding strategy is centred 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.

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 separate financial statements for the year ended 31 December 2016

4. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

An analysis of financial assets/liabilities 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	5,760,947,655	-	-	-	-	5,760,947,655	5,760,947,655
Financial assets at fair value through profit or loss *	393,210,237	-	-	-	-	393,210,237	393,210,237
Derivatives assets designated as hedging instruments	17,325,503	-	-	-	-	17,325,503	17,325,503
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	3,252,395,534	6,347,669,506	4,891,006,103	4,503,934,938	-	18,995,006,081	18,826,508,130
Financial assets available for sale	209,098,993	893,514,457	3,051,248,205	2,197,311,406	17,934,522	6,369,107,583	6,369,107,583
Investment in subsidiaries and in associates	-	-	-	-	143,115,683	143,115,683	143,115,683
Total other financial assets	35,949,451	-	-	-	-	35,949,451	35,949,451
Total financial assets	**9,882,597,060**	**7,343,257,708**	**8,364,293,175**	**6,701,246,344**	**161,050,205**	**32,452,444,492**	**32,283,946,541**
Financial liabilities at fair value through profit or loss	99,362,520	-	-	-	-	99,362,520	99,362,520
Derivatives liabilities designated as hedging instruments	98,684,522	-	-	-	-	98,684,522	98,684,522
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	1,810,258	1,609,330,397	1,023,946,311	136,235,543	-	2,771,322,509	2,768,973,986
Deposits from customers	21,158,887,139	1,116,130,264	168,720,339	25,062	-	22,443,762,804	22,443,450,800
Debt securities issued	-	1,626,644	550,000,000	-	-	551,626,644	551,024,752
Total other financial liabilities	145,720,464	-	-	-	-	145,720,464	145,720,464
Total financial liabilities	**22,859,601,006**	**2,840,616,823**	**2,906,871,578**	**676,786,070**	**-**	**29,283,875,477**	**29,280,613,058**
Liquidity surplus/ (shortfall)	**(12,977,003,946)**	**4,502,640,885**	**5,457,421,597**	**6,024,460,274**	**161,050,205**	**3,168,569,015**	**3,003,333,483**
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	**(6,834,929,878)**	**3,609,126,428**	**2,406,173,392**	**3,827,148,868**	**161,050,205**	**3,168,569,015**	**3,003,333,483**

** 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 - 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	(1,883,949,446)	-	-	-	-	(1,883,949,446)
Irrevocable commitments taken inflow	1,893,638,700	-	-	-	-	1,893,638,700
Issued financial guarantees outflow	-	(3,807,340,454)	-	-	-	(3,807,340,454)
Commitments surplus/ (shortfall)	**9,689,254**	**(3,807,340,454)**	**-**	**-**	**-**	**(3,797,651,200)**

***) The table disclosed above shows the undiscounted cash flows of the Bank, 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 separate financial statements for the year ended 31 December 2016

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	Total contractual amount	Total carrying amount
Cash and cash equivalents	4,594,558,795	-	-	-	-	4,594,558,795	4,594,558,795
Financial assets at fair value through profit or loss *	291,926,020	-	-	-	-	291,926,020	291,926,020
Derivatives assets designated as hedging instruments	16,477,513	-	-	-	-	16,477,513	16,477,513
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	4,358,293,030	5,747,587,496	4,189,821,265	3,911,785,963	-	18,207,487,754	17,915,871,852
Financial assets available for sale	871,746,936	921,865,223	2,894,670,560	1,623,550,168	47,909,125	6,359,742,012	6,359,742,012
Investment in subsidiaries and in associates	-	-	-	-	143,115,683	143,115,683	143,115,683
Total other financial assets	36,342,277	-	-	-	-	36,342,277	36,342,277
Total financial assets	**10,215,853,310**	**6,852,939,109**	**7,704,491,656**	**5,535,336,131**	**191,024,808**	**30,499,645,014**	**30,207,922,123**
Financial liabilities at fair value through profit or loss	85,383,434	-	-	-	-	85,383,434	85,383,434
Derivatives liabilities designated as hedging instruments	81,900,959	-	-	-	-	81,900,959	81,900,959
Deposits from banks	2,218,963,636	1,267,426,757	1,131,125,000	130,758,050	-	4,748,273,443	4,748,273,443
Loans from banks and subordinated liabilities	41,408,238	161,786,330	2,610,588,144	844,441,369	-	3,658,224,081	3,655,943,098
Deposits from customers	17,013,064,068	894,340,213	158,291,329	46,128,380	-	18,111,823,990	18,111,264,179
Debt securities issued	-	1,626,644	550,000,000	-	-	551,626,644	550,659,161
Total other financial liabilities	106,989,254	-	-	-	-	106,989,254	106,989,254
Total financial liabilities	**19,547,709,589**	**2,325,179,944**	**4,450,004,473**	**1,021,327,799**	**-**	**27,344,221,805**	**27,340,413,527**
Liquidity surplus/ (shortfall)	**(9,331,856,279)**	**4,527,759,165**	**3,254,487,183**	**4,514,008,332**	**191,024,808**	**3,155,423,209**	**2,867,508,595**
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	**(3,891,770,328)**	**3,605,893,942**	**359,816,623**	**2,890,458,164**	**191,024,808**	**3,155,423,209**	**2,867,508,595**

** 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)***

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

	Pana la 3 luni	Intre 3 luni si 1 an	Intre 1 an si 5 ani	Peste 5 ani	Fara scadenta	Flux nominal brut intrari/ (iesiri)
Angajamente						
Angajamente irevocabile date	-1.515.390.601	-	-	-	-	-1.515.390.601
Angajamente irevocabile primite	904.900.000	-	-	-	-	904.900.000
Garantii financiare date	-	-3.987.529.566	-	-	-	-3.987.529.566
(Deficit)/ excedent de angajamente	**-610.490.601**	**-3.987.529.566**	**-**	**-**	**-**	**-4.598.020.167**

***) The table disclosed above shows the undiscounted cash flows of the Bank, 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 separate financial statements for the year ended 31 December 2016

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 Years	Total contractual amount
Financial liabilities at fair value through profit or loss	12,218,351	17,235,760	26,210,447	52,733,580	108,398,138
Derivatives liabilities designated as hedging instruments	1,119,855	-	11,482,031	87,754,850	100,356,736
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	72,185,055	1,806,106,681	722,736,771	317,277,300	2,918,305,807
Deposits from customers	21,062,678,815	1,254,079,202	420,734,409	6,200,599	22,743,693,025
Debt securities issued	-	34,925,000	567,414,658	-	602,339,658
Total financial liabilities	**22,513,793,185**	**3,267,460,309**	**2,986,806,828**	**1,078,998,145**	**29,847,058,467**

31 December 2015 – RON	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total contractual amount
Financial liabilities at fair value through profit or loss	5,618,731	7,222,733	16,094,325	62,132,063	91,067,852
Derivatives liabilities designated as hedging instruments	1,113,390	-	13,639,558	69,408,343	84,161,291
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	54,230,208	233,388,722	2,826,909,411	881,721,531	3,996,249,872
Deposits from customers	16,453,304,856	894,337,045	732,738,655	58,529,061	18,138,909,617
Debt securities issued	-	35,020,684	602,339,658	-	637,360,342
Total financial liabilities	**18,740,865,876**	**2,454,349,828**	**5,378,854,093**	**1,214,766,912**	**27,788,836,709**

Notes to the separate financial statements for the year ended 31 December 2016

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:

RON	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
31 December 2016							
Derivative assets	**123,246,196**	**83,519,486**	**3,964,690**	**(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		1,447,087,011	246,504,485	281,541,432	365,605,588	448,119,738	105,315,768
Derivative liabilities	**(198,047,042)**	**(147,671,673)**	**(5,272,014)**	**(5,933,943)**	**3,895,520**	**(40,443)**	**(140,320,793)**
Outflow		(2,873,083,202)	(1,060,268,816)	(488,905,239)	(810,346,652)	(328,904,156)	(184,658,339)
Inflow		2,725,411,529	1,054,996,802	482,971,296	814,242,172	328,863,713	44,337,546

RON	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
31 December 2015							
Derivative assets	**105,299,575**	**91,887,519**	**(1,152,032)**	**(5,289,141)**	**2,905,307**	**31,345,817**	**64,077,568**
Outflow		(1,440,886,343)	(511,166,975)	(134,467,538)	(445,160,225)	(314,611,645)	(35,479,959)
Inflow		1,532,773,862	510,014,943	129,178,397	448,065,532	345,957,462	99,557,527
Derivative liabilities	**(167,284,393)**	**(175,229,144)**	**(6,732,121)**	**(4,736,236)**	**(2,486,498)**	**(29,733,883)**	**(131,540,406)**
Outflow		(2,229,005,389)	(689,787,268)	(651,428,369)	(402,461,440)	(321,023,403)	(164,304,908)
Inflow		2,053,776,244	683,055,147	646,692,133	399,974,942	291,289,520	32,764,502

**) 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 Bank'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 Management Board 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 banking risks;
- the Bank'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 Bank'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 the 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 Bank's growth policies on the loans market, optimizing the Bank's exchange rate, interest rate and liquidity risk.

The Bank 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 arising from the bank's balance sheet positions is managed by Markets. Accordingly, the foreign exchange position is treated as part of the Bank'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 Bank 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 Bank'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 Bank 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 Bank Austria AG and Bank 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 Bank is as follows:

In EUR	**At 31 December 2016**	**Average 2016**	**Maximum 2016**	**Minimum 2016**
Foreign currency risk	76,367	47,538	200,131	1,466
Interest rate risk	1,912,567	2,352,458	3,507,701	1,615,910
Credit spread risk	4,218,639	4,467,880	4,941,281	3,249,837
Overall	4,121,242	4,774,701	5,575,181	3,093,162

In EUR	**At 31 December 2015**	**Average 2015**	**Maximum 2015**	**Minimum 2015**
Foreign currency risk	74,931	54,567	225,698	1,789
Interest rate risk	2,978,061	3,583,187	5,134,367	2,586,551
Credit spread risk	3,337,950	3,362,985	4,532,028	2,602,420
Overall	3,033,482	3,226,704	5,331,503	2,455,199

4. RISK MANAGEMENT *(continued)*

e) Market Risk ***(continued)***

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

Foreign exchange (FX) sensitivity analysis

The FX net open position limits are assigned by the Bank 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, which correlate also with the stable FX VaR figure.

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

Currency	Limits (EUR equiv.) 2016	Average usage 2016	Limits (EUR equiv.) 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.

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 2016:

In RON	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total contractual amount	Total carrying amount
Cash and cash equivalents	5,760,947,655	-	-	-	5,760,947,655	5,760,947,655
Financial assets at fair value through profit or loss	11,125,333	18,083,473	102,910,718	261,090,713	393,210,237	393,210,237
Derivatives assets designated as hedging instruments	-	17,325,503	-	-	17,325,503	17,325,503
Loans and advances to banks	679,029,303	58,752,996	-	-	737,782,299	737,782,299
Loans and advances to customers *	17,706,628,493	966,219,106	169,215,109	152,943,372	18,995,006,080	18,826,508,130
Financial assets available for sale **	209,098,993	893,514,457	3,051,248,205	2,197,311,406	6,351,173,062	6,351,173,062
Total other financial assets	35,949,451	-	-	-	35,949,451	35,949,451
Total financial assets	**24,402,779,228**	**1,953,895,535**	**3,323,374,032**	**2,611,345,491**	**32,291,394,287**	**32,122,896,337**
Financial liabilities at fair value through profit or loss	12,472,708	18,389,542	16,192,542	52,307,728	99,362,520	99,362,520
Derivatives liabilities designated as hedging instruments	98,684,522	-	-	-	98,684,522	98,684,522
Deposits from banks	2,473,968,113	699,427,901	-	-	3,173,396,014	3,173,396,014
Loans from banks and other financial institutions, including subordinated liabilities *	2,444,429,088	326,893,420	-	-	2,771,322,508	2,768,973,986
Deposits from customers *	21,110,088,015	1,116,130,264	168,720,339	48,824,186	22,443,762,804	22,443,450,800
Debt securities issued *	-	1,626,644	550,000,000	-	551,626,644	551,024,752
Total other financial liabilities	145,720,464	-	-	-	145,720,464	145,720,464
Total financial liabilities	**26,285,362,910**	**2,162,467,772**	**734,912,881**	**101,131,914**	**29,283,875,476**	**29,280,613,058**
Interest senzitivity surplus/ (shortfall) adjusted	**(1,882,583,681)**	**(208,572,236)**	**2,588,461,151**	**2,510,213,577**	**3,007,518,811**	**2,842,283,279**

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

***The amount of RON 17,934,521 representing equity investments are not included as they are not bearing interest. (See details for "Investment securities, available for sale" in Note 25).*

Notes to the separate financial statements for the year ended 31 December 2016

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:

In RON	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total contractual amount	Total carrying amount
Cash and cash equivalents	4,594,558,795	-	-	-	**4,594,558,795**	4,594,558,795
Financial assets at fair value through profit or loss	26,981,020	66,639,820	154,269,230	44,035,950	**291,926,020**	291,926,020
Derivatives financial instruments designated as hedging instruments	-	16,477,513	-	-	**16,477,513**	16,477,513
Loans and advances to banks *	787,233,053	62,761,907	-	-	**849,994,960**	849,887,971
Loans and advances to customers *	15,162,148,022	2,659,732,214	164,720,859	220,886,659	**18,207,487,754**	17,915,871,852
Financial assets 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	36,342,277	-	-	-	**36,342,277**	36,342,277
Total financial assets	**21,479,010,103**	**3,727,476,677**	**3,213,660,649**	**1,888,472,777**	**30,308,620,206**	**30,016,897,315**
Financial liabilities at fair value through profit or loss	25,264,665	59,073,280	1,045,489	-	**85,383,434**	85,383,434
Derivatives financial instruments designated as hedging instruments	81,900,959	-	-	-	**81,900,959**	81,900,959
Deposits from banks	4,119,253,636	629,019,807	-	-	**4,748,273,443**	4,748,273,443
Loans from banks and subordinated liabilities *	3,658,224,081	-	-	-	**3,658,224,081**	3,655,943,098
Deposits from customers *	17,013,064,068	894,340,213	158,291,329	46,128,380	**18,111,823,990**	18,111,264,179
Debt securities issued *	-	1,626,644	550,000,000	-	**551,626,644**	550,659,161
Total other financial liabilities	106,989,254	-	-	-	**106,989,254**	106,989,254
Total financial liabilities	**25,004,696,663**	**1,584,059,944**	**709,336,818**	**46,128,380**	**27,344,221,805**	**27,340,413,528**
Interest sensitivity surplus / (shortfall)	**(3,525,686,560)**	**2,143,416,733**	**2,504,323,831**	**1,842,344,397**	**2,964,398,401**	**2,676,483,787**

* *Total contractul amounts exclude any costs/revenues that are being deffered during the lifetime of the contracts*
** *The amount of RON 47,909,125 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 Bank during 2016, for interest bearing assets and liabilities:

	RON	EUR	USD
	Average	Average	Average
Assets			
Balances with National Bank of Romania	0.12%	0.07%	-
Current accounts and placements with banks	1.09%	-0.02%	0.13%
Treasury bills and bonds	3.75%	3.27%	5.55%
Loans and advances to customers	3.51%	3.67%	3.74%
Liabilities			
Deposits from banks	0.22%	0.61%	0.49%
Deposits from customers	1.12%	0.39%	0.99%
Loans from banks and other financial institutions	-	1.86%	2.39%
Subordinated loans	-	7.83%	-

The following table shows the yearly average interest rates obtained or offered by the Bank during 2015, for interest bearing assets and liabilities:

	RON	EUR	USD
	Average	Average	Average
Assets			
Balances with National Bank of Romania	0.22%	0.18%	-
Current accounts and placements with banks	3.23%	0.05%	0.46%
Treasury bills and bonds	4.22%	4.40%	6.07%
Loans and advances to customers	4.53%	4.02%	3.75%
Liabilities			
Deposits from banks	0.17%	0.05%	0.45%
Deposits from customers	1.76%	0.94%	1.22%
Loans from banks and other financial institutions	-	2.26%	2.07%
Subordinated loans	-	7.83%	-

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	2,416,533,878	44,691,915	3,194,705,967	105,015,895	5,760,947,655
Financial assets at fair value through profit or loss	165,100,277	1,191,134	226,859,557	59,269	393,210,237
Derivatives assets designated as hedging instruments	1,816,661	6,227,211	9,281,631	-	17,325,503
Loans and advances to banks	702,237,086	9,332,034	26,212,474	706	737,782,300
Loans and advances to customers	8,985,371,262	664,677,266	9,174,564,461	1,895,141	18,826,508,130
Financial assets available for sale	4,328,681,244	831,616,223	1,208,810,116	-	6,369,107,583
Investment in subsidiaries and in associates	143,115,683	-	-	-	143,115,683
Total other financial assets	10,405,658	144,786	25,372,063	26,944	35,949,451
Total financial assets	**16,753,261,749**	**1,557,880,569**	**13,865,806,269**	**106,997,955**	**32,283,946,542**
Financial liabilities					
Financial liabilities at fair value through profit or loss	100,722	1,257,080	97,945,451	59,269	99,362,521
Derivatives liabilities designated as hedging instruments	-	3,924,326	94,760,196	-	98,684,522
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	-	184,148,024	2,584,559,602	266,360	2,768,973,986
Deposits from customers	15,062,693,855	968,159,868	6,315,894,408	96,702,669	22,443,450,800
Debt securities issued	551,024,752	-	-	-	551,024,752
Total other financial liabilities	126,815,779	1,338,950	17,527,208	38,527	145,720,464
Total financial liabilities	**16,318,696,239**	**1,201,788,864**	**11,661,156,999**	**98,970,956**	**29,280,613,059**
Net financial assets/(liabilities)	**434,565,510**	**356,091,704**	**2,204,649,270**	**8,026,999**	**3,003,333,483**

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	2,568,576,057	141,223,371	1,835,611,129	49,148,238	4,594,558,795
Financial assets at fair value through profit or loss	87,874,201	6,713,530	197,338,289	-	291,926,020
Derivatives designated as hedging instruments	2,277,065	2,827	14,197,621	-	16,477,513
Loans and advances to banks	846,637,847	73,858	3,165,243	11,023	849,887,971
Loans and advances to customers	7,320,324,597	655,407,005	9,936,828,305	3,311,945	17,915,871,852
Investment securities, available for sale	3,721,138,944	934,620,133	1,703,982,935	-	6,359,742,012
Investments in subsidiaries	143,115,683	-	-	-	143,115,683
Total other financial assets	17,830,146	109,181	18,372,916	30,034	36,342,277
Total financial assets	**14,707,774,541**	**1,738,149,905**	**13,709,496,438**	**52,501,240**	**30,207,922,124**
Financial liabilities					
Financial liabilities at fair value through profit or loss	350,204	1,035,845	83,996,949	436	85,383,434
Derivatives designated as hedging instruments	-	997,566	80,903,393	-	81,900,959
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	-	207,897,041	3,448,046,057	-	3,655,943,098
Deposits from customers	11,546,470,338	921,121,957	5,540,450,734	103,221,150	18,111,264,179
Debt securities issued	550,659,161	-	-	-	550,659,161
Other liabilities - other financial liabilities	73,582,087	1,263,922	32,094,705	48,541	106,989,256
Total financial liabilities	**12,617,641,955**	**1,397,196,483**	**13,221,067,071**	**104,508,021**	**27,340,413,530**
Net financial assets/(liabilities)	**2,090,132,586**	**340,953,422**	**488,429,367**	**(52,006,781)**	**2,867,508,594**

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.

h) Taxation risk

The Bank is committed to ensure sustainable performance of tax risk management maintaining an efficient, effective and transparent tax function within the organization. The Bank 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 Bank is focused permanently on monitoring the price transfer risks, including on proper documentation of intragroup transactions through a proactive approach.

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

4. RISK MANAGEMENT *(continued)*

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 ECB and the regional central banks kept an easing bias throughout the year, the 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.

Banks continued to clean up their portfolios in 2016 via sales of nonperforming loans, thus lowering the 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 "giving in payment" law was implemented in May 2016 and according to a later decision by the Constitutional Court, lower courts must refer to article 1271 of the 2011 Civil Code when deciding whether the "giving in payment" law is to be applied, implying that borrowers will have to prove that they are struggling to repay existing debt and that they were unable to foresee important changes in conditions related to the loan contract and to hedge risks. The ruling is unlikely to have a big impact on mortgage walkaways. NBR representatives pointed out that the number of borrowers willing to give up the collateral (flats or houses) to annul contractual obligations rose very slowly after the initial wave and the total number (approximately 4000) is too small to increase systemic risk. However, a higher EUR-RON could keep the topic of an administrative FCY loan conversion in the limelight, with a large-scale conversion of FCY loans into RON representing the biggest risk for the banking sector in the coming years.

4. RISK MANAGEMENT *(continued)*

i) Operating environment (continued)

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 buffer is made gradually, starting with 2016.

Risk capital measurement

(i) Regulatory capital

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 Bank is still applying the Standardized Approach.

4. RISK MANAGEMENT *(continued)*

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 series 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.

The Bank's capital position was:

In RON	31 December 2016	31 December 2015
Tier 1 capital	2,741,674,470	2,598,639,886
Tier 2 capital	147,915,378	115,172,101
Total own funds	**2,889,589,848**	**2,713,811,987**
Risk exposure amounts for credit risk, counterparty risk and receivables value decrease risk and free deliveries	18,937,928,834	17,605,652,231
Total risk exposure amount for position, foreign exchange and commodities' risks	183,998,793	94,930,411
Total risk exposure amount for operational risk	1,560,518,820	1,700,536,227
Total risk exposure amount for credit value adjustment	2,687,594	2,988,500
Total requirements for own funds	**20,685,134,041**	**19,404,107,369**
Capital indicators		
Total capital ratio	13.97%	13.99%
Tier 1 capital ratio	13.25%	13.39%

* *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.*

4. RISK MANAGEMENT *(continued)*

j) Capital management (*continued*)

(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 (in compliance with Banking Act Austria).

5. USE OF ESTIMATES AND JUDGEMENTS

The Bank 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

Adjustments for loan losses

The Bank 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 Bank 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 Bank has estimated the impairment loss provision for loans and advances to customers based on the internal methodology harmonized with UniCredit Group policies. Because of the uncertainties on the local financial markets regarding assets valuation and operating environment of the borrowers, that Bank's estimate could be revised after the date of the approval of the separate financial statements.

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

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

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 Bank would be estimated RON 10,347 thousand higher (31 December 2015: 9,177 thousand) or RON 10,347 thousand lower (31 December 2015: RON 9,177 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 Bank would be estimated RON 31,309 thousand higher (31 December 2015: RON 37,329 thousand) or RON 20,599 thousand lower (31 December 2015: RON 22,337 thousand).

Sensitivity analysis for assets 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 Bank.

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	18,660,746	(18,211,000)
Available for sale Total	**44,923,269**	**(44,007,794)**

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

b) Critical accounting judgments in applying the Bank's accounting polices

Financial assets and liabilities classification

The Bank'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 Bank has determined that it meets the description set out in accounting policy 3(k).

Qualifying hedge relationships

In designating financial instruments in qualifying hedge relationships, the Bank 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 Bank has determined that the hedged cash flow exposure relates to highly probable future cash flows.

Determining fair value

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 Bank 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 and their classification in quoted and unquoted financial instruments is presented below:

31 December 2016	**Listed***	**Unlisted**	**Total**
In RON			
Investment securities, available for sale	5,539,250,834	811,922,228	6,351,173,062
Equity investments, available for sale	-	17,934,522	17,934,522

31 December 2015	**Listed***	**Unlisted**	**Total**
In RON			
Investment securities, available for sale	4,924,145,120	1,387,687,767	6,311,832,887
Equity investments, available for sale	-	47,909,125	47,909,125

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

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

b) Critical accounting judgments in applying the Bank's accounting polices *(continued)*

Determining fair value *(continued)*

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1**: Quoted market price (unadjusted) in an active market for an identical instrument 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)*

b) Critical accounting judgments in applying the Bank's accounting polices *(continued)*

Determining fair value *(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 categorised 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	100,428,185	5,492,508	393,210,237	393,210,237
Derivatives financial instruments designated as hedging instruments	-	17,325,503	-	17,325,503	17,325,503
Total assets held for trading and hedging	**287,289,544**	**117,753,688**	**5,492,508**	**410,535,740**	**410,535,740**
Available for sale assets					
Investment available for sale	5,433,371,375	917,801,687	17,934,522	6,369,107,584	6,369,107,583
Total available for sale assets	**5,433,371,375**	**917,801,687**	**17,934,522**	**6,369,107,584**	**6,369,107,583**
Liabilities designated for trading and for hedging					
Derivative liabilities at fair value through profit or loss	-	92,739,499	6,623,021	99,362,520	99,362,520
Derivative liabilities designated as hedging instruments	-	98,684,522	-	98,684,522	98,684,522
Total liabilities designated for trading and hedging	-	**191,424,021**	**6,623,021**	**198,047,042**	**198,047,042**

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

b) Critical accounting judgments in applying the Bank's accounting polices *(continued)*

Determining fair value *(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	92,494,331	2,202,095	291,926,020	291,926,020
Derivatives financial instruments designated as hedging instruments	-	-	16,477,513	16,477,513	16,477,513
Total assets held for trading and hedging	**197,229,594**	**92,494,331**	**18,679,608**	**308,403,533**	**308,403,533**
Available for sale assets					
Investment available for sale	4,988,723,318	1,323,109,569	47,909,125	6,359,742,012	6,359,742,012
Total available for sale assets	**4,988,723,318**	**1,323,109,569**	**47,909,125**	**6,359,742,012**	**6,359,742,012**
Liabilities designated for trading and for hedging					
Derivative liabilities at fair value through profit or loss	-	84,445,905	937,529	85,383,434	85,383,434
Derivative liabilities designated as hedging instruments	-	81,900,959	-	81,900,959	81,900,959
Total liabilities designated for trading and hedging	**-**	**166,346,864**	**937,529**	**167,284,393**	**167,284,393**

Notes to the separate 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 Bank's carrying amounts of each class of financial assets and liabilities, and their fair values.

- In RON

31 December 2016	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	18	-	5,760,947,655	-	-	5,760,947,655	5,760,947,655
Financial assets at fair value through profit or loss	19	393,210,237	-	-	-	393,210,237	393,210,237
Derivatives assets designated as hedging instruments	29	-	-	-	17,325,503	17,325,503	17,325,503
Loans and advances to banks	20	-	737,782,299	-	-	737,782,299	741,223,860
Loans and advances to customers	21	-	18,826,508,130	-	-	18,826,508,130	18,779,674,518
Financial assets available for sale	23	-	-	6,369,107,583	-	6,369,107,583	6,369,107,583
Investment in subsidiaries	22	-	-	-	143,115,683	143,115,683	143,115,683
Total financial assets		**393,210,237**	**25,325,238,084**	**6,369,107,583**	**160,441,186**	**32,247,997,090**	**32,204,605,039**
Financial liabilities at fair value through profit or loss	19	99,362,520	-	-	-	99,362,520	99,362,520
Derivatives liabilities designated as hedging instruments	29	-	-	-	98,684,522	98,684,522	98,684,522
Deposits from banks	30	-	-	-	3,173,396,014	3,173,396,014	3,217,155,133
Loans from banks and other financial institutions, including subordinated liabilities		-	-	-	2,768,973,986	2,768,973,986	2,808,367,248
Debt securities issued	33	-	-	-	551,024,752	551,024,752	604,290,649
Deposits from customers	32	-	-	-	22,443,450,800	22,443,450,800	22,479,732,927
Total financial liabilities		**99,362,520**	-	-	**29,035,530,074**	**29,134,892,594**	29,307,593,000

**) 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.*

Notes to the separate financial statements for the year ended 31 December 2016

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

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

- In RON

31 December 2015	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	18	-	4,594,558,795	-	-	**4,594,558,795**	4,594,558,795
Financial assets at fair value through profit or loss	19	291,926,020	-	-	-	**291,926,020**	291,926,020
Derivatives assets designated as hedging instruments	29	-	-	-	16,477,513	**16,477,513**	16,477,513
Loans and advances to banks	20	-	849,887,971	-	-	**849,887,971**	823,132,370
Loans and advances to customers	21	-	17,915,871,852	-	-	**17,915,871,852**	18,861,105,440
Investment securities, available for sale	23	-	-	6,359,742,012	-	**6,359,742,012**	6,359,742,012
Investments in subsidiaries	22	-	-	-	143,115,683	**143,115,683**	143,115,683
Total financial assets		**291,926,020**	**23,360,318,618**	**6,359,742,012**	**159,593,196**	**30,171,579,846**	**31,090,057,832**
Financial liabilities at fair value through profit or loss	19	85,383,434	-	-	-	**85,383,434**	85,383,434
Derivatives liabilities designated as hedging instruments	29	-	-	-	81,900,959	**81,900,959**	81,900,959
Deposits from banks	30	-	-	-	4,748,273,443	**4,748,273,443**	4,664,841,920
Loans from banks and other financial institutions, including subordinated liabilities		-	-	-	3,655,943,098	**3,655,943,098**	3,570,965,224
Debt securities issued	33	-	-	-	550,659,161	**550,659,161**	601,870,463
Deposits from customers	32	-	-	-	18,111,264,179	**18,111,264,179**	18,144,951,963
Total financial liabilities		**85,383,434**	-	-	**27,148,040,840**	**27,233,424,274**	**27,149,913,963**

**) 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 difference (105.3%):*

- *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 greater since it was calculated using a smaller actual interest rate;*
- *for the variable interest rate loans, their margins are higher than those loans granted in present moment, which has led to an increase of fair value for the loans granted in the past;*
- *due to the Romania country risk rating improvement and excess liquidity in the market, 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 separate 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 *	768,484,339	779,424,138
Treasury bills and bonds	145,575,156	125,861,008
Current accounts and placements with banks	30,217,037	27,825,165
Others (including derivatives)	45,388,390	25,521,988
Total interest income	**989,664,922**	**958,632,299**
Interest expense		
Interest expense and similar charges, arising from:		
Deposits from customers	82,536,012	94,262,273
Loans from banks and other financial institutions	67,638,852	118,417,022
Deposits from banks	33,173,658	43,675,650
Interest related to the bonds issued	35,295,567	35,272,207
Repurchase agreements	5,686	1,469,319
Others (including derivatives)	30,589,180	16,879,183
Hedging derivatives	8,178,393	1,957,029
Total interest expense	**257,417,348**	**311,932,683**
Interest related effect of swap transactions regarding refinancing lines with UniCredit Group companies**	-	3,823,851
Net interest income	**732,247,574**	**650,523,467**

*) Interest income as at December 2016 includes interest income on impaired loans of RON 88,650,691 (31 December 2015: RON 42,849,856).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 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.

Notes to the separate financial statements for the year ended 31 December 2016

8. NET FEES AND COMMISSIONS INCOME

In RON	2016	2015
Fees and commissions income		
Payments transactions	226,446,233	241,289,082
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	10,344,674	11,967,447
Other	86,120,760	62,912,223
Total fees and commission income	**356,175,141**	**362,352,257**
Fees and commission expense		
Inter-banking fees	36,576,186	47,327,585
Payments transactions	21,759,902	20,637,781
Commitments and similar fees	7,288,016	3,174,239
Intermediary agents fees	2,990,097	2,514,277
Other	5,453,380	4,533,102
Total fees and commissions expense	**74,067,581**	**78,186,984**
Net fees and commissions income	**282,107,560**	**284,165,273**

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

In RON	2016	2015
Net gains from foreign exchange operations (including FX derivatives)	239,674,718	240,127,696
Net gains /(losses) from interest derivatives	(13,524,328)	1,401,671
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	**236,185,185**	**244,033,239**

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 Proft / (Loss) from derecognition of assets measured at amortised cost	(1,687,276)	(18,475,431)
Net income on disposal of financial assets and liabilities which are not at fair value through profit or loss	**121,913,534**	**70,595,829**

11. DIVIDENDS INCOME

The Bank 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	254,025,923	249,652,311
Social security charges, unemployment fund and health fund	57,689,864	56,349,858
Other (income)/costs	(8,004,272)	517,688
Total	**303,711,515**	**306,519,857**

The number of employees at 31 December 2016 was 2,929 (31 December 2015: 2,917). Remuneration of Board's members for 2016 was RON 11,965,287 RON (2015: RON 11,516,715).

The Bank 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 Bank 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).

Notes to the separate financial statements for the year ended 31 December 2016

13. DEPRECIATION AND AMORTISATION

In RON	2016	2015
Depreciation on property and equipment	38,824,492	32,137,341
Write-off of property and equipment	3,887,940	1,468,140
Amortisation on intangible assets	46,699,368	45,761,031
Total	**89,411,800**	**79,366,512**

14. OTHER ADMINISTRATIVE COSTS

In RON	2016	2015
Office space expenses (rental, maintenance, other)	97,012,955	97,040,068
IT services	71,391,974	59,030,712
Other taxes and duties	31,925,584	47,978,004
Communication expenses	18,603,739	9,559,339
Advertising and promotional expenses	21,396,095	14,625,872
Consultancy, legal and other professional services	4,297,009	4,866,496
Materials and consumables	14,240,138	8,035,138
Personnel training and recruiting	2,834,683	3,104,536
Insurance expenses	2,958,265	2,776,719
Other	19,012,793	22,624,456
Total	**283,673,235**	**269,641,340**

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

- legal audit of annual accounts (including the audit of the first half financial report): RON 1,302,265 (31 December 2015:RON 851,563);
- tax services related to transfer price matters: RON 184,993 (31 December 2015:RON 227,241).

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	551,542	104,113
Net gain / (losses) on impairment of inventories	-	1,473,455
Other operating expenses	8,473,265	9,210,392
Total	**9,135,623**	**10,787,960**

Notes to the separate financial statements for the year ended 31 December 2016

16. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

In RON	2016	2015
Net provision charges for loans and advances to customers	339,374,113	330,090,477
Loans written-off	5,176,262	806,903
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	-	(7,362,346)
Net impairment loss on financial assets	**324,099,223**	**317,161,053**

17. NET PROVISIONS LOSSES

In RON	2016	2015
Net provision charges for off-balance loan commitments and contingencies	34,876,727	13,580,718
Net provision (charges)/ release for litigations	4,785,175	(2,699,066)
Other net charges of provisions	(82,854)	(1,902,763)
Net provision losses	**39,579,048**	**8,978,889**

18. NET GAINS / (LOSSES) ON OTHER INVESTMENTS

In RON	2016	2015
Gains/ (losses) from corporate loan portfolio acquisition 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)
Net gains/ (losses) on other investments	**(2,375,006)**	**(6,040,469)**

19. TAXATION

In RON	2016	2015
Direct taxes at 16% (2014: 16%) of taxable profits determined in accordance with Romanian law	(60,351,820)	(18,895,925)
Correction of current income tax arising from previous year	(356,799)	(3,571,968)
Deferred tax income/ (loss)	873,820	(19,337,268)
Total tax expense	**(59,834,799)**	**(41,805,161)**

Notes to the separate financial statements for the year ended 31 December 2016

19. TAXATION (continued)

Profit/ (Loss) before tax	**326,389,247**	**263,860,139**
Taxation at statutory rate of 16%	**(52,222,280)**	**(42,217,622)**
Non-deductible expenses	(32,488,623)	(23,796,371)
Non-taxable revenues	21,221,560	39,507,210
Origination and reversal of temporary differences	873,820	(19,337,268)
Fiscal credit	2,780,724	4,038,890
Taxation in the income statement	**(59,834,799)**	**(41,805,161)**

20. CASH AND CASH EQUIVALENTS

In RON	2016	2015
Balances with National Bank of Romania	4,471,752,828	3,677,913,781
Cash (including cash in ATMs)	871,572,822	697,891,916
Short term Money Market placements	373,328,816	165,633,495
Current balances with other banks	44,293,189	53,119,603
Total	**5,760,947,655**	**4,594,558,795**

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: 8%) for liabilities to customers in RON and 10% (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.

Notes to the separate financial statements for the year ended 31 December 2016

21. FINANCIAL 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	105,920,693	88,822,062
Investment securities held for trading *	287,289,544	203,103,958
Total	**393,210,237**	**291,926,020**

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

(ii) Derivative assets / liabilities

	31 December 2016		
	Notional	Present value	
		Assets	Liabilities
Foreign currency derivatives			
Forward contracts	3,875,007,445	34,080,178	34,155,088
Purchased options	124,218,536	275,828	25,312
Sold options	124,218,536	-	362,846
Total foreign currency derivatives	**4,123,444,517**	**34,356,006**	**34,543,246**
Interest rates derivatives			
Interest Rate Swaps	3,261,675,334	45,680,689	38,816,084
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	**4,669,244,682**	**71,088,958**	**64,344,035**
Other (Precious metals and Commodities)	4,326,397	475,729	475,239
Total	**8,797,015,596**	**105,920,693**	**99,362,520**

(iii) Derivative assets / liabilities

(RON)	31 December 2015		
	Notional	Present value	
		Assets	Liabilities
Foreign currency derivatives			
Forward contracts	3,377,514,851	9,048,570	11,954,727
Purchased Options	117,604,940	770,874	31,021
Sold Options	113,438,571	-	754,682
Total foreign currency derivatives	**3,608,558,362**	**9,819,444**	**12,740,430**
Interest rates derivatives			
Interest Rate Swaps	2,819,673,024	49,416,929	43,393,947
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	**4,356,942,547**	**78,175,135**	**71,886,669**
Others (Precious metals and Commodities)	11,584,585	827,483	756,335
Total	**7,977,085,494**	**88,822,062**	**85,383,434**

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

(ii) Derivative assets/ liabilities (continued)

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	809,250,906
Suspense accounts	27,132,922	40,637,065
Total	**737,782,299**	**849,887,971**

Placement with banks includes deposits with local and international commercial banks. These exposures with rating grades from 1 to 7 (31 December 2015: from 1 to 7) are considered performing in accordance with internal rating models of the Bank as of 31 December 2016 and 31 December 2015.

23. LOANS AND ADVANCES TO CUSTOMERS

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

In RON	**31 December 2016**	**31 December 2015**
Mortgages	9,128,661,032	8,207,984,993
Corporate loans	5,743,673,535	5,300,242,662
Revolving credit lines	1,889,734,158	1,884,980,099
Factoring	469,899,123	424,018,547
Credit cards and personal loans	225,320,524	289,073,969
Impaired assets *	2,774,897,660	3,550,143,637
Loans and advances to customers before provisions	**20,232,186,032**	**19,656,443,907**
Less provision for impairment losses on loans	(1,405,677,902)	(1,740,572,055)
Net loans and advances to customers	**18,826,508,130**	**17,915,871,852**

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

Notes to the separate financial statements for the year ended 31 December 2016

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

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

Specific adjustments for impaired assets

	2016	2015
Balance at 1 January	**1,654,045,102**	**1,826,383,275**
Net impairment charge for the year	337,977,100	334,357,333
Foreign currency exchange effect	5,686,453	6,042,373
Release of allowance for impairment of loans written-off and loans sold	(738,225,469)	(613,499,011)
Unwinding effect on provisions	57,193,269	100,761,131
Balance at 31 December	**1,316,676,455**	**1,654,045,101**

Collective allowances for incurred but not reported losses

	2016	2015
Balance at 1 January	**86,526,953**	**88,712,453**
Net impairment charge / (release) for the year	1,397,013	(2,474,964)
Foreign Currency Exchange Effect and other adjustments	1,077,481	289,464
Balance at 31 December	**89,001,447**	**86,526,953**
Total opening balance	**1,740,572,055**	**1,915,095,728**
Total closing balance	**1,405,677,902**	**1,740,572,054**

24. INVESTMENT IN SUBSIDIARIES

	Nature of business	Country of incorporation	31 December 2016 % interest held	31 December 2016 Carrying amount	31 December 2015 % interest held	31 December 2015 Carrying amount
UniCredit Consumer Financing IFN S.A.	Consumer finance	Romania	50.10%	64,767,136	50.10%	64,767,136
UniCredit Leasing Corporation IFN S.A. *	Leasing services	Romania	99.98%	78,348,547	99.98%	78,348,547
				143,115,683		143,115,683

The following information is taken from the individual financial statements of the associates, prepared in accordance with UniCredit Group accounting policies, which are based on IFRS as endorsed by the European Union:

In RON	Ownership	Total assets	Total liabilities	Operating income	Profit / (Loss)
2016					
UniCredit Consumer Financing IFN S.A.	50.10%	1,851,160,090	1,592,805,932	156,121,488	42,575,396
UniCredit Leasing Corporation IFN S.A	99.98%	3,714,510,371	3,511,999,959	122,941,730	17,840,904

In RON	Ownership	Total assets	Total liabilities	Operating income	Profit / (Loss)
2015					
UniCredit Consumer Financing IFN S.A.	50.10%	1,369,903,821	1,154,125,058	120,060,668	34,869,341
UniCredit Leasing Corporation IFN S.A	99.98%	3,082,103,666	2,937,434,280	172,758,573	58,775,912

25. FINANCIAL ASSETS AVAILABLE FOR SALE

a) Investment securities available for sale

As at 31 December 2016, the Bank included in investment securities available for sale bonds issued by the Ministry of Public Finance and bonds issued by the municipality of Bucharest in amount of RON 6,351,173,062 (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 Bank 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 a decrease of RON 53,797,430 before tax (31 December 2015: an increase of 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 Bank held the following unlisted equity investments, available for sale as at 31 December 2016:

31 December 2016	Nature of business	% interest held	Gross Carrying amount	Impairment	Net Carrying amount
Transfond SA	Other financial services	8.04	1,164,862	-	1,164,862
Biroul de Credit SA	Financial activities	6.80	645,525	-	645,525
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Other credit activities	3.10	1,786,564	960,253	826,311
Pioneer Asset Management S.A.I. SA	Financial activities	2.57	194,560	155,496	39,064
Casa de Compensare Bucuresti SA**)	Market studies & researches	0.91	9,727	2,230	7,497
VISA Inc – preferred shares series C*)	Cards	0.01	15,251,263	-	15,251,263
Total			**19,052,501**	**1,117,979**	**17,934,521**

The below 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 2015 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.*

UniCredit Bank

Notes to the separate financial statements for the year ended 31 December 2016

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

b) Equity investments available for sale *(continued)*

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

31 December 2015	Nature of business	% interest held	Gross Carrying amount	Impairment	Net Carrying amount
Transfond SA	Other financial services	8.04	1,164,862	-	1,164,862
Biroul de Credit SA	Financial activities	6.80	645,525	-	645,525
Fondul Roman de Garantare a Creditelor pentru Intreprinzatorii Privati IFN SA	Other credit activities	3.10	1,786,564	960,253	826,311
Pioneer Asset Management S.A.I. SA	Financial activities	2.57	194,560	155,496	39,064
Casa de Compensare Bucuresti SA	Other financial services	0.91	46,980	39,483	7,497
VISA Europe Limited*)	Cards	0.01	45,225,866	-	45,225,866
Total			**49,064,357**	**1,155,232**	**47,909,125**

The below 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 construction	Total
Cost						
Balance at 1 January 2016	**111,893,637**	**108,625,517**	**258,296**	**104,532,267**	**67,529,297**	**392,839,014**
Additions	14,916,434	34,178,275	-	16,014,558	50,122,894	**115,232,162**
Revaluation	66,480					**66,480**
Disposals	(11,891,333)	(2,949,088)	(258,296)	(9,705,652)	(72,568,233)	**(97,372,603)**
Reclassification to investment property	(4,268,170)					**(4,268,170)**
Balance at 31 December 2016	**110,717,048**	**139,854,704**	-	**110,841,173**	**45,083,958**	**406,496,883**
Depreciation and impairment losses						
Balance at 1 January 2016	**(10,930,440)**	**(91,633,095)**	**(258,296)**	**(72,244,882)**	-	**(175,066,713)**
Charge for the year	(11,879,465)	(16,040,650)	-	(10,904,378)	-	**(38,824,493)**
Disposals	2,498,073	2,718,771	258,296	8,247,029	-	**13,722,169**
Reclassification to investment property	253,918	-	-			**253,918**
Balance at 31 December 2016	**(20,057,914)**	**(104,954,974)**	-	**(74,902,231)**	-	**(199,915,119)**
Carrying amounts						
At 1 January 2016	**100,963,198**	**16,992,422**	-	**32,287,385**	**67,529,297**	**217,772,302**
At 31 December 2016	**90,659,134**	**34,899,730**	-	**35,938,942**	**45,083,958**	**206,581,764**

26. PROPERTY AND EQUIPMENT *(continued)*

In RON	Land and buildings	Computers and Equipment	Motor vehicles	Furniture and other assets	Assets in course of construction	Total
Cost						
Balance at 1 January 2015	106,377,607	128,170,555	603,115	115,806,646	36,041,939	386,999,862
Additions	5,688,917	3,005,278	-	3,623,732	31,487,358	43,805,285
Disposals	(172,886)	(22,550,316)	(344,819)	(14,898,111)	-	(37,966,132)
Balance at 31 December 2015	111,893,638	108,625,517	258,296	104,532,267	67,529,297	392,839,015
Depreciation and impairment losses						
Balance at 1 January 2015	-	(102,938,708)	(603,115)	(75,871,243)	-	(179,413,066)
Charge for the year	(10,977,165)	(11,042,510)	-	(10,117,666)	-	(32,137,341)
Disposals	46,725	22,348,123	344,819	13,744,027	-	36,483,694
Balance at 31 December 2015	(10,930,440)	(91,633,095)	(258,296)	(72,244,882)	-	(175,066,713)
Carrying amounts						
At 1 January 2015	106,377,607	25,231,847	-	39,935,403	36,041,939	207,586,796
At 31 December 2015	100,963,198	16,992,422	-	32,287,385	67,529,297	217,772,302

* *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
Cost			
Balance at 1 January 2016	**265,045,761**	**60,584,767**	**325,630,528**
Additions	51,752,257	81,049,154	132,801,411
Disposals	(12,033,516)	(76,633,297)	(88,666,813)
Balance at 31 December 2016	**304,764,502**	**65,000,624**	**369,765,126**
Depreciation and impairment losses			
Balance at 1 January 2016	**(177,113,692)**	-	**(177,113,692)**
Charge for the year	(45,867,407)	-	(45,867,407)
Disposals	153,269	-	153,269
Balance at 31 December 2016	**(222,827,830)**	-	**(222,827,830)**
Carrying amounts			
At 1 January 2016	**87,932,069**	**60,584,767**	**148,516,836**
At 31 December 2016	**81,936,672**	**65,000,624**	**146,937,296**

Notes to the separate financial statements for the year ended 31 December 2016

27. INTANGIBLE ASSETS (continued)

In RON	Intangible assets	Intangible assets in progress	Total
Cost			
Balance at 1 January 2015	**296,825,048**	**33,961,033**	**330,786,081**
Additions	24,658,891	53,387,304	78,046,195
Disposals	(56,438,178)	(26,763,571)	(83,201,749)
Balance at 31 December 2015	**265,045,761**	**60,584,766**	**325,630,527**
Amortisation and impairment losses			
Balance at 1 January 2015	**(187,790,838)**	**-**	**(187,790,838)**
Amortisation for the year	(45,562,676)	-	(45,562,676)
Disposals	56,239,823	-	56,239,823
Balance at 31 December 2015	**(177,113,691)**	**-**	**(177,113,691)**
Carrying amounts			
At 1 January 2015	**109,034,210**	**33,961,033**	**142,995,243**
At 31 December 2015	**87,932,070**	**60,584,766**	**148,516,836**

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
Property, equipment and intangible assets	-	7,237,293	(7,237,293)
Available for sale equity investments	-	24,518	(24,518)
Provisions, other debts, forecasted expenses	25,987,910	-	25,987,910
Deferred tax asset/ (liability) at 16% through profit and loss account	**25,987,910**	**7,261,811**	**18,726,099**
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 asset/ (liability) at 16%	**37,552,108**	**17,819,695**	**19,732,413**

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 2016 Liabilities	31 December 2016 Net
Property, equipment and intangible assets	-	1,527,832	(1,527,832)
Available for sale equity investments	-	24,518	(24,518)
Provisions, other debts, forecasted expenses	19,404,629	-	19,404,629
Deferred tax asset/ (liability) at 16% through profit and loss account	**19,404,629**	**1,552,350**	**17,852,279**
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 asset/ (liability) at 16%	**28,286,296**	**18,702,522**	**9,583,774**

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

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

In RON	2016	2016	2016	2015	2015	2015
	Before tax	**Deferred Tax**	**Net of tax**	**Before tax**	**Deferred Tax**	**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 of property, plant 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	2016	2016	2015	2015	2015
	Before tax	**Deferred Tax**	**Net of tax**	**Before tax**	**Deferred Tax**	**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 in OCI	71,108,279	(11,377,325)	59,730,955	72,251,495	(11,560,240)	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	2016	2016	2015	2015	2015
	Before tax	**Deferred Tax**	**Net of tax**	**Before tax**	**Deferred Tax**	**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)	48,823,009	44,294,604
Amounts receivable	5,251,660	9,843,871
Total gross amounts	**54,074,669**	**54,138,475**
Less impairment for sundry debtors	(18,125,218)	(17,796,198)
Total other financial assets	**35,949,451**	**36,342,277**
Other non-financial assets		
Prepayments	18,231,292	19,154,451
Inventories	1,908,912	6,814,296
Other	6,980,409	1,089,379
Total other non-financial assets	**27,120,613**	**27,058,126**
Total other assets	**63,070,064**	**63,400,403**

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

Notes to the separate financial statements for the year ended 31 December 2016

30. DERIVATIVES ASSETS/LIABILITIES DESIGNATED AS HEDGING INSTRUMENTS

The Bank 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 and respectively for fair value hedge (portfolio and micro hedge) are:

In RON	Notional amount 2016	Assets 2016	Liabilities 2016	Notional amount 2015	Assets 2015	Liabilities 2015
Cash Flow Hedge						
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**

In RON	Notional amount 2016	Assets 2016	Liabilities 2016	Notional amount 2015	Assets 2015	Liabilities 2015
Fair value Hedge						
Interest rate swap	993,834,394	6,999,414	17,223,695	-	-	-
Total	**993,834,394**	**6,999,414**	**17,223,695**	-	-	-

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 2016	31 December 2016	31 December 2015	31 December 2015	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	(1,152,451)	(12,150,173)	(134,215,874)	(1,113,390)	(92,309,523)	(308,689,678)

As at 31 December 2016, all cash flow hedge relationships have been assessed as highly effective.
During 2016 the Bank transferred from cash flow hedge reserve an amount of RON 1,082,320 (31 December 2015: RON (1,630,352)) to profit or loss representing credit value adjustment and foreign currency difference for the hedging 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**

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32. LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

In RON	31 December 2016	31 December 2015
Commercial Banks	2,011,811,201	2,952,479,321
Multilateral development banks	25,855,079	40,456,685
International financial institutions	507,951,366	440,473,152
Total	**2,545,617,646**	**3,433,409,158**

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

33. DEPOSITS FROM CUSTOMERS

In RON	31 December 2016	31 December 2015
Term deposits	5,774,189,862	5,299,261,677
Payable on demand	15,821,617,562	11,947,047,535
Collateral deposits	746,782,058	819,424,056
Amounts in transit	100,757,423	45,412,795
Certificates of deposits	103,895	118,116
Total	**22,443,450,800**	**18,111,264,179**

As of 31 December 2016, retail clients (individuals and small and medium companies) represents 30% of the portfolio, corporate represent 64% of the portfolio, while private banking clients represents 6% (31 December 2015: retail clients 33%, corporate clients 59%, private banking clients 8%).

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 Bank issued 55,000 medium term bonds denominated in RON listed 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 LOANS

In RON	31 December 2016	31 December 2015
UniCredit Bank Austria AG (i)	223,356,340	222,533,940
	223,356,340	**222,533,940**

At 31 December 2016, the following agreement was outstanding: a subordinated loan from UniCredit Bank Austria AG in total amount of RON equivalent 220,243,350 principal, maturing on July 2022 (31 December 2015: RON equivalent 219,438,250 principal, maturing on July 2022).

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

36. PROVISIONS

In RON	31 December 2016	31 December 2015
Provision for financial guarantees	38,431,523	64,109,938
Provision for legal disputes	5,939,096	1,143,161
Provision for off-balance commitments	17,939,290	909,503
Other provisions	1,795,779	1,878,633
Total	**64,105,688**	**68,041,235**

36. PROVISIONS *(continued)*

The movements in provisions during the year were as follows:

In RON	31 December 2016	31 December 2015
Balance at 1 January	**68,041,235**	**212,746,798**
Provision set up during the year	78,733,901	33,621,317
Provision used during the year	(2,040,961)	(5,831,923)
Provision reversed during the year	(80,218,920)	(173,979,819)
FX effect related to off-balance exposure (financial guarantees and commitments)	(409,567)	1,484,862
Balance at 31 December	**64,105,688**	**68,041,235**

37. OTHER LIABILITIES

In RON	31 December 2016	31 December 2015
Other financial liabilities		
Accruals for third party services	50,356,413	19,387,421
Amounts payable to suppliers	59,599,817	56,375,688
Accrual of employee bonus	28,647,414	27,087,559
Sundry creditors	7,116,820	4,138,586
Total other financial liabilities	**145,720,464**	**106,989,254**
Other non-financial liabilities		
Deferred income	24,140,619	20,481,301
Payable to state budget	19,663,431	20,371,233
Other	1,187,871	1,987,722
Total other non-financial liabilities	**44,991,921**	**42,840,256**
Other liabilities	**190,712,385**	**149,829,510**

Notes to the separate financial statements for the year ended 31 December 2016

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.*)	98.328
Other shareholders	1.672
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**

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 to shareholders.

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

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

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.

Notes to the separate financial statements for the year ended 31 December 2016

40. RELATED PARTY TRANSACTIONS *(continued)*

The following transactions were carried out with UniCredit S.p.A, UniCredit Bank Austria AG and its subsidiaries:

In RON

	31 December 2016		
	Parent Company	Subsidiary	Other related parties
Derivative assets at fair value through profit or loss	-	90,972	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	-	5,240	39,520,416
Other assets	4,606,525	3,041,808	39,399,724
Outstanding receivables	**776,243,726**	**3,138,020**	**197,107,059**
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	23,379,566	294,293,701
Deposit attracted	635,882,521	447,598,582	1,659,689,265
Loans received	-	-	2,010,267,302
Debts securities issued	-	-	20,648,400
Subordinated liabilities	-	-	223,404,943
Other liabilities	7,490,529	-	47,406,445
Outstanding payables	**651,896,231**	**470,978,148**	**4,432,987,473**
Interest income	25,886,211	1,569,558	683,267
Interest expense	1,793,397	(222,139)	(119,524,829)
Interest related effect of Swap transactions regarding refinancing lines with UniCredit Group companies	-	-	-
Fee and commission income	204,816	39,335,104	9,058,912
Fee and commission expense	(3,662,181)	2,261,887	(1,854,257)
Other operating income	17,470,531	1,346,502	1,875,017
Operating expenses	-	-	(45,789,493)
Net revenue / (expense)	**41,692,774**	**44,290,912**	**(155,551,383)**
Commitments	**189,708,021**	**205,728,194**	**859,436,475**

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Notes to the separate financial statements for the year ended 31 December 2016

40. RELATED PARTY TRANSACTIONS *(continued)*

In RON

	31 December 2015		
	Parent Company	Subsidiary	Other related parties
Derivative assets at fair value through profit or loss	-	329,751	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	-	84,452,633	28,475,538
Other assets	12,227,659	2,550,541	29,063,261
Outstanding receivables	**839,191,128**	**87,332,925**	**78,857,729**
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	10,249,798	158,779,224
Deposit attracted	3,884,795,660	215,681,601	222,374,301
Loans received	2,952,479,322	-	-
Debts securities issued	20,634,701	-	-
Subordinated liabilities	222,588,286	-	-
Other liabilities	369,454	-	32,310,296
Outstanding payables	**7,107,399,127**	**225,931,399**	**566,205,691**
Interest income	22,007,139	3,465,532	360,268
Interest expense	(144,896,958)	(97,734)	(22,160,678)
Interest related effect of Swap transactions regarding refinancing lines with UniCredit Group companies	3,823,851	-	-
Fee and commission income	26,611,427	24,982,589	3,308,606
Fee and commission expense	(3,022,157)	603,775	(4,354,878)
Other operating income	12,227,659	-	4,850,906
Operating expenses	-	-	(40,669,754)
Net revenue / (expense)	**(83,249,039)**	**28,954,162**	**(58,665,530)**
Commitments	**925,044,952**	**161,658,344**	**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 Bank) 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	4,525,320	4,463,162
Current accounts and deposits	6,269,062	5,149,334
Interest and similar income	154,118	19,193
Interest expenses and similar charges	(14,244)	(6,379)

In RON	2016	2015
Key management compensation	11,965,287	11,516,715
Total	**11,965,287**	**11,516,715**

41. COMMITMENTS AND CONTINGENCIES

i) Off balance sheet commitments

At any time the Bank 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 Bank 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.

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	1,883,949,446	1,515,390,601
Letters of credit	189,849,695	147,785,583
Guarantees issued	3,617,490,759	3,839,743,984
Total	**5,691,289,900**	**5,502,920,168**

41. COMMITMENTS AND CONTINGENCIES *(continued)*

i) Off balance sheet commitments (continued)

The Bank acts as a security agent, payment agent and hedging agent for a series of loan contracts between UniCredit Bank Austria AG and other entities within UniCredit Group as lender and Romanian companies as borrowers. For each of these contracts there is a risk participation agreement by which the Bank is obliged to indemnify UniCredit Bank Austria AG or the other entities within UniCredit Group. 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 Bank Austria AG, the Bank receives the commissions paid by the borrowers plus a portion of the interest margin collected from the borrowers. The Bank 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.

iii) Contingent liabilities

As at 31 December 2016, the Bank was involved in several litigations for which the probable total claims estimated by the Bank's lawyers amounted to RON 7,148,404. The Bank, based upon legal advice, has assessed that a provision amounting to RON 2,089,096 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).

42. OPERATING SEGMENTS *(continued)*

Segment reporting on income statements as of 31 December 2016:

In RON	CIB	Retail	PB	Altele	Total
Net interest income	468,269,942	260,819,302	5,935,032	(2,776,702)	**732,247,574**
Net fee and commission income	135,571,466	149,409,471	1,971,139	(4,844,517)	**282,107,560**
Net income from trading and other financial instruments	180,630,017	51,455,646	1,472,024	(1,183,957)	**232,373,730**
Net gains on financial assets available for sale	49,966,636	-	-	71,946,898	**121,913,534**
Dividend income	-	-	-	1,913,613	**1,913,613**
Other operating income	332,541	43,389	(4,132)	7,446,888	**7,818,685**
Operating income	**834,770,603**	**461,727,808**	**9,374,063**	**72,502,223**	**1,378,374,697**
Operating expenses	(255,109,867)	(407,146,496)	(4,549,376)	**(19,126,434)**	**(685,932,173)**
Net operating income	**579,660,736**	**54,581,312**	**4,824,687**	**53,375,789**	**692,442,524**
Net impairment losses on financial assets	(259,618,058)	(50,712,582)	(1,215,932)	(12,552,651)	**(324,099,223)**
Net impairment losses and provision charges	-	-	-	(39,579,048)	**(39,579,048)**
Gains on disposals of equity investments	-	-	-	(2,375,006)	**(2,375,006)**
Profit before taxation	**320,042,678**	**3,868,730**	**3,608,755**	**(1,130,916)**	**326,389,247**
Income tax	-	-	-	(59,834,799)	**(59,834,799)**
Net profit for the year	**320,042,678**	**3,868,730**	**3,608,755**	**(60,965,715)**	**266,554,448**

Notes to the separate financial statements for the year ended 31 December 2016

42. OPERATING SEGMENTS *(continued)*

Segment reporting on income statements as of 31 December 2015:

In RON	CIB	Retail	PB	Altele	Total
Net interest income	401,142,747	259,215,371	3,442,222	(13,276,873)	**650,523,467**
Net fee and commission income	134,274,277	147,727,672	2,046,030	117,295	**284,165,273**
Net income from trading and other financial instruments	214,573,029	49,964,328	1,592,454	(23,726,924)	**242,402,887**
Net gains on financial assets available for sale	89,827,806	-	-	(19,231,977)	**70,595,829**
Dividend income	-	-	-	7,320,896	**7,320,896**
Other operating income	2,974,475	2,325,233	5,231	2,042,928	**7,347,867**
Operating income	**842,792,333**	**459,232,603**	**7,085,937**	**(46,754,655)**	**1,262,356,219**
Operating expenses	(252,347,127)	(389,905,676)	(6,211,443)	(17,851,423)	**(666,315,669)**
Net operating income	**590,445,206**	**69,326,927**	**874,494**	**(64,606,078)**	**596,040,550**
Net impairment losses on financial assets	(234,723,777)	(96,892,370)	1,610,416	12,844,678	**(317,161,053)**
Net impairment losses and provision charges	-	-	-	(8,978,889)	**(8,978,889)**
Gains on disposals of equity investments	-	-	-	(6,040,469)	**(6,040,469)**
Profit before taxation	**355,721,429**	**(27,565,443)**	**2,484,910**	**(66,780,758)**	**263,860,139**
Income tax	-	-	-	(41,805,161)	**(41,805,161)**
Net profit for the year	**355,721,429**	**(27,565,443)**	**2,484,910**	**(108,585,919)**	**222,054,978**

Notes to the separate financial statements for the year ended 31 December 2016

42. OPERATING SEGMENTS *(continued)*

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

In RON	CIB	Retail	PB	Altele	Total
Total assets	**16,278,915,322**	**6,088,961,326**	**148,223,592**	**10,171,132,208**	**32,687,232,448**
Total liabilities	16,209,111,529	6,728,205,784	1,430,570,893	5,062,825,281	**29,430,713,487**
Total equity	-	-	-	3,256,518,961	**3,256,518,961**
Total liabilities and equity	**16,209,111,529**	**6,728,205,784**	**1,430,570,893**	**8,319,344,242**	**32,687,232,448**

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

In RON		Retail	CIB and PB	Altele	Total
Total assets	**15,925,364,737**	**5,688,940,742**	**151,865,864**	**8,845,642,142**	**30,611,813,485**
Total liabilities	13,373,405,886	5,920,698,220	1,410,744,759	6,757,621,929	**27,462,470,794**
Total equity	-	-	-	3,149,342,691	**3,149,342,691**
Total liabilities and equity	**13,373,405,886**	**5,920,698,220**	**1,410,744,759**	**9,906,964,620**	**30,611,813,485**

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Notes to the separate 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 separate financial statements were approved by the Management Board on 28 February 2017 and were signed on its behalf by:

Mr. Catalin Rasvan Radu
Chief Executive Officer

Mrs. Mihaela Alina Lupu
Chief Financial Officer