Annual Report
2016

Raiffeisen BANK

Survey of key data

CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO IFRS

	2016* EUR '000	2015* EUR '000	CHANGE
PROFIT AND LOSS			
Net interest income	247,642	237,268	4%
Net commission income	138,369	141,735	-2%
Trading profit	66,969	64,909	3%
Administrative expenses	(260,877)	(272,109)	-4%
Profit/(loss) before tax	120,509	114,683	5%
Profit/(loss) after tax, before the net income obtained from the sale of interrupted activity	100,045	95,936	4%
Net profit for the year	100,045	95,936	4%
Number of ordinary shares	12,000	12,000	0%
Earnings per share (in EUR/share)	8,337	7,995	4%
BALANCE SHEET			
Loans and advances to banks (including placements with banks)	120,272	251,717	-52%
Loans and advances to customers	4,351,598	4,012,286	8%
Deposits from banks	128,386	138,597	-7%
Loans from banks	250,509	359,040	-30%
Deposits from customers	5,808,052	5,246,898	11%
Equity (including minorities and profit)	720,950	709,602	2%
Balance-sheet total	7,368,400	6,959,119	6%
REGULATORY INFORMATION			
Risk-weighted assets, including market risk	4,429,909	4,140,896	7%
Total own funds	734,878	764,506	-4%
Total own funds requirement	354,393	331,272	7%
Excess cover ratio	107.36%	130.78%	(23.4 PP)
Core capital ratio (Tier 1), including market risk	13.15%	13.90%	(0.8 PP)
Own funds ratio	16.59%	18.46%	(1.9 PP)
PERFORMANCE			
Return on equity (ROE) before tax	16.85%	15.79%	1.1 PP
Return on equity (ROE) after tax	13.99%	13.21%	0.8 PP
Cost/income ratio	53.93%	60.32%	(6.4 PP)
Return on assets (ROA) before tax	1.68%	1.71%	0 PP
Risk/earnings ratio	42.20%	27.40%	14.8 PP
RESOURCES			
Number of employees	5,265	5,379	-2%
Business outlets	478	510	-6%

*Informative conversion in Euro, unaudited

Summary

Foreword and presentation of the Group

Foreword

STEVEN VAN GRONINGEN
Awarded *"The Most Admired Banker in Romania"* at CEO Awards 2016 Gala organized by Business Magazin, Steven van Groningen is proud of the Raiffeisen team's achievements in 2016. These have also been recognized by the business and press environment, Raiffeisen Bank receiving the title of *"The Bank of the Year 2016 in Romania"* offered by The Banker, a magazine owned by Financial Times. *"I'm glad we received this distinction"*, said Steven van Groningen, *"especially since 2016 was not a simple year for the banks in Romania. We have had legislative initiatives and changes that have put pressure on and have led to strategy changes in a very short time with a rather strong impact. It was yet another proof of maturity and financial solidity that we have gone through."*

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Foreword

2016 was a good macroeconomic year for Romania; the year ended with 4.8% GDP growth which, although largely based on increased consumption, positively influenced also our customers' economic business, in general.

In this context, Raiffeisen Bank granted new loans worth about 2.5 billion EUR equivalent, so that our loan portfolio increased by 10%, compared to 2015 year-end. About one third of these new loans were granted to households, which benefited from an average net wage growth in the economy.

Financing small and medium-sized enterprises remained one of our priorities: in this segment, new investment loans and working capital financing grew by 12% yoy, supported also by dedicated SME financing lines, granted in partnership with the European Investment Fund (EIF). In the segment of mid market and large companies, new loans have doubled over the previous year, primarily due to the development of mid-market sector, but also in the context of participation in several large syndicated loans. I believe it's important to support investments in the Romanian economy so that economic growth, which is currently based mainly on consumption, to become more sustainable.

Deposits from customers registered again a consistent growth (+11% in 2016), despite the very low interest level. A strong stimulus was also shown in the retail current accounts (+30%), which confirms our customers' trust in Raiffeisen Bank.

Our balanced asset management approach persuaded more Premium customers to entrust us the management of their investment portfolios, and the 12% increase in the number of customers in this segment confirms their appreciation, which we are very proud of. The quality of our Private Banking services was also recognized by specialized international publications: Raiffeisen Bank was designated "Best Bank in Private Banking" in Romania, in 2016, by Euromoney.

We continued to simplify our products, based on the experience we have had and customer preferences. We have totally changed our offer for current account packages, so that our customers can benefit from the most common types of transactions, at prices which are easy to understand and fully transparent.

The quality of our loan portfolio continued to be better than the banking system average, with an NPL rate of 8.3% (system average was 9.5%); the customer payment behavior was a disciplined one, both in retail and corporate segments, mainly based on revenue growth, low interest rates in the market and also the overall improvement of the economic environment for companies, which were reflected into a decrease of insolvencies.

In 2016, however, we had to also assimilate negative impacts of legislative initiatives. The legislature adopted, unfortunately without an impact study, the Law 77/2016, known as "Datio in Solutum" law, which entered into force in May, 2016. This was followed by another initiative, called "conversion law", also approved by the Romanian Parliament. The Constitutional Court, addressed by banks firstly, and by the Government secondly, rebalanced a little the situation with its interpretation for these laws. However, in 2016 we had to provision about 27 million EUR into negative effects account, first of all generated by this law. The financial result of 2016 was finally positively influenced by revenues from the Visa Europe Limited share sale to Visa Inc. (21 million EUR). Overall, we registered a net profit similar to 2015.

In 2016 we continued our focus on digitization, and customers have embraced our approach. Last year, about 280,000 customers were active on the digital channels of the Bank, by 25% more than in the previous year. Starting with 2016, our customers can open an account or apply for a loan on the Bank's website, www.raiffeisen.ro. We continued to invest in our multifunctional machine network that reached 141 at the end of the year, compared to 39 in 2015. Our customers have made 89% of payments electronically, with 3 percentage points more than in the previous year.

For all these achievements, I thank the Raiffeisen Bank team, for their perseverance, creativity and responsibility, I thank our customers for their trust and good ideas that help us to improve our services, and I thank our shareholders for their long-term commitment on the Romanian market. The participation of all of you in the effort to make a better bank every day give me trust also for 2017, the year we celebrate 20 years in Romania.

Steven van Groningen,
President and CEO Raiffeisen Bank

The management of Raiffeisen Bank

MEMBERS OF THE SUPERVISORY BOARD, AS OF 2017, MARCH 31ST

Karl Sevelda* – CHAIRMAN
Martin Gruell – VICE-PRESIDENT
Johann Strobl – MEMBER
Peter Lennkh – MEMBER
Klemens Breuer – MEMBER
Andreas Gschwenter – MEMBER
Ileana-Anca Ioan – INDEPENDENT MEMBER
Ana Maria Mihăescu – INDEPENDENT MEMBER

* Karl Sevelda has resigned with effect from April 24th, 2017.

MEMBERS OF THE MANAGEMENT BOARD, AS OF 2017, MARCH 31ST

Steven van Groningen – PRESIDENT & CEO
James D. Stewart, Jr. – VICE-PRESIDENT, TREASURY & CAPITAL MARKETS DIVISION
Vladimir Kalinov – VICE-PRESIDENT, RETAIL BANKING DIVISION
Cristian Sporiș – VICE-PRESIDENT, CORPORATE BANKING DIVISION
Mircea Busuioceanu – VICE-PRESIDENT, RISK DIVISION
Bogdan Popa* – VICE-PRESIDENT, OPERATIONS & IT DIVISION
Mihail Ion* – VICE-PRESIDENT, FINANCIAL CONTROLLING & ACCOUNTING DIVISION

* To be approved by the National Bank of Romania

RAIFFEISEN BANK' STRUCTURE, AS OF 2017, MARCH 31ST

PRESIDENT
- Audit
- Legal & Corporate Governance
- Human Resources
- Communication & Public Relations
- Compliance

Financial Controlling & Accounting Vice-president
- Accounting
- Business Lines Controlling Department
- Cost Management Department
- Business Intelligence Department

Risk Vice-president
- Non-Retail Credit Risk
- Leasing Risk Department
- Retail Risk
- Credit Restructuring & Recovery
- Group Risk Controlling & Portfolio Management
- Risk Architecture & Early Warning Signs
- Collateral Department

Retail Banking Vice-president
- Marketing
- Card Administration Department
- Merchant Acquiring & E-Commerce
- Private Individual Customers
- SME
- Sales & Service Development
- Retail Sales Management & Analytics

Corporate Banking Vice-president
- Large Corporate
- Regional Corporates & Public Sector
- Cash Management
- Corporate Credit Products
- Project Finance
- Sales Management & Corporate Support Department

Treasury & Markets Vice-president
- Capital Markets
- B/S & Portfolio Management
- Economic & Sectorial Research
- Financial Institutions & GSS
- Investment Banking Department
- Middle Office Department

Operations & IT Vice-president
- Change Management & Security
- IT Architecture & Development
- IT Operations
- Operations
- Brașov Operational Center
- Procurement & Facility Management

Corporate governance stands for the set of principles and mechanisms based on which the company's management exerts its prerogatives of management and control with the purpose of reaching the envisaged objectives through implementing the adopted strategy, having an ongoing fair behavior towards its clients, counterparts, shareholders, investors or supervisory authorities.

Raiffeisen Bank S.A. (The Bank) pays major importance to a responsible and transparent management in order to maintain fair information and confidence of different interested parties (not only of the participants' on the capital market).
Threfore, the Bank applies the principles defined in the Corporate Governance Code (CGC) of the Bucharest Stock Exchange (BSE), which can be found on their web page – www.bvb.ro.

The relevant elements that Raiffeisen Bank S.A. is still working on and that may be deviations from the provisions of the Statement of Corporate Governance are as follows:
• Achieving an assessment of the Supervisory Board by the Nomination Committee according to the provisions of Art. A.8. in CGC;
• Defining a policy on the annual distribution of dividends and publishing it on the Bank's website according to the provisions of Art. D.2. in CGC;
• Defining a policy on forecasts and publishing it on the Bank's website according to the provisions of Art. D.3. in CGC.

These requirements in the Statement of Corporate Governance will be fulfilled in the first half of 2017.

THE GENERAL MEETING OF SHAREHOLDERS (GMS)

The General Meeting of Shareholders ("GMS") is the supreme authority of the Bank. The General Meeting of Shareholders may be Ordinary or Extraordinary. In accordance with the Articles of Incorporations of the Bank and the legislation in force, the General Meeting of Shareholders has a series of main competences.

The Ordinary General Meeting of Shareholders' main competences:

• To discuss, to approve or to modify the annual financial statements of the Bank, upon the analysis of the Management Board's and Supervisory Board's reports, as well as that of the report and the opinion issued by the financial auditor, and to establish the dividends, if any;
• To elect the members of the Supervisory Board and the financial auditor of the Bank;
• To revoke the members of the Supervisory Board and the financial auditor of the Bank, whenever considered necessary;
• To set the remuneration for the Supervisory Board members, as well as the general principles and limitations with respect to the additional remuneration of the Supervisory Board members, as well as the general principles and limitations with respect to the remuneration of the Management Board members;
• To consider the performance of the Management Board members, to discharge them of liability and to decide to sue them, as case may be;
• To approve the budget of revenues and expenses and the business plan for the following fiscal year.

The Extraordinary General Meeting of Shareholders' main competences:

• The change of the legal form of the Bank;
• The merger of the Bank with other companies;
• The dissolution or the split of the Bank;
• The issuance of bonds or conversion of such bonds from a category into another one or into shares;
• Any amendment to the Articles of Incorporation of the Bank.

The conducting of the General Meetings of Shareholders, as well as the regulations with respect to the shareholders' rights and obligations, are regulated by Law no. 31/1990 on trading companies.

ADMINISTRATION STRUCTURE

The administration of Raiffeisen Bank S.A. is performed by the dual management system consisting of the Management Board and the Supervisory Board. The dual management system allows for the segregation of the company's management responsibilities – carried out by the Management Board – from the responsibilities of control/supervision that are fulfilled by the Supervisory Board. The dual management system ensures the operational decision-making process to become efficient, while increasing control over the decision makers.

THE SUPERVISORY BOARD

The Supervisory Board exercises an ongoing control over the Bank's current management activity conducted by the Management Board.
The Supervisory Board consists of 8 members appointed by the General Meeting of Shareholders within four-year mandates, being possible to be re-elected for additional mandates.

As at 31.12.2016, the Supervisory Board structure and the professional background of its members were as follows:

Karl Sevelda – Chairman
Ph.D. in Economics at the University of Economics and Business Administration, Vienna, Austria

Martin Gruell – Vice-president
BA from the University of Economics and Business Administration, Vienna, Austria

Johann Strobl – Member
Ph.D. in Economics at the University of Economics and Business Administration, Vienna, Austria

Peter Lennkh – Member
Master in Economics and Business Administration at the University of Economics and Business Administration, Vienna, Austria

Klemens Breuer – Member
Kaufmann Diploma (MBA equivalent in Germany) at the Faculty of Economic Sciences, University of Aachen, Germany

Andreas Gschwenter – Member
MBA at the University of Innsbruck, Austria

Ileana-Anca Ioan – Independent member
Graduate of the Romanian-Canadian MBA Program and the Faculty of Automation of the Bucharest Polytechnical Institute; graduate of the Faculty of International Economic Relations, Academy of Economic Studies, Bucharest

Ana Maria Mihăescu – Independent member*
Graduate of the Faculty of International Economic Relations, Academy of Economic Studies, Bucharest

* Appointed by the GMS on 14.09.2016 and approved by the NBR on 19.01.2017 as a independent member.

The main competences of the Supervisory Board:

- To set the exact number of Managemet Board members, as well as their competences;
- To appoint and revoke the Management Board members;
- To verify the Bank's managerial operations are compliant with the law, with the Articles of Incorporation and with the resolutions of the General Meeting of Shareholders;
- To provide the General Meeting of Shareholders with at least a yearly report with regard to the supervision activity undertaken;
- To convene the General Meeting of Shareholders on an exceptional basis, should this be required in the best interest of the Bank;
- To establish advisory committees as required by law, but not only, as these will be considered necessary in order to develop the Bank's activities. The committees will consist of Supervisory Board members.

During 2016, 4 Supervisory Board meetings took place and their decisions were made by the unanimous votes of the attending members. Also, a number of 15 decisions were made by circulation.

The Supervisory Board has set up a number of 5 committees from among its members, namely: the Audit Committee, the Nomination Committee, the Remuneration Committee, the Executive Credit Committee and the Supervisory Board Risk Committee.

The 5 committees set up by the Supervisory Board:

Audit Committee
The Audit Committee contributes to the improvement of Raiffeisen Bank S.A.'s activity and internal control granting support to the Management Board in

accomplishing its responsibilities, acting as an interface between the Bank and its financial auditor and maintaining a transparent relationship with the Bank's shareholders. The Committee also approves the internal audit regulation and the resources required for the audit activity and it is systematically informed on the internal audit activity rolled out by the Audit Directorate; the Committee analyzes the synthesis of the audit reports drawn up by the directorate and it informs the Management Board on their making the appropriate decisions with reference to the internal audit recommendations issued by the Audit Directorate.
The responsibilities, organization and way of operation are defined by the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Audit Committeet is made up of 3 Supervisory Board members, namely:

Ileana-Anca Ioan – Chairman
Martin Gruell – Member
Klemens Breuer – Member

During 2016, 4 Audit Committee meetings took place, the Committee's decisions being made by the unanimous votes of the attending members. Also, 1 decision was made by circulation.

Nomination Committee
The Nomination Committee identifies and recommends to the Supervisory Board or the Bank's GMS to approve of the candidates who will fill in the vacancies on the Management Board, and the Supervisory Board, respectively, and it regularly assesses the knowledge, competences and expertise of each Supervisory Board and Management Board member, as well as of the Supervisory Board and Management Board overall, and it reports to the Supervisory Board and Management Board, accordingly.
The responsibilities, the organization and way of operation are defined in the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Nomination Committee is made up of 3 Supervisory Board members, namely:

Karl Sevelda – Chairman
Martin Gruell – Member
Anca Ioan – Member

During 2016, the Nomination Committee held 2 meetings, their decisions being made by the unanimous votes of the attending members.

Remuneration Committee
The Remuneration Committee assists the Supervisory Board in so far as remuneration is concerned, in particular that of the Management Board's and Supervisory Board's members in compliance with the principles and limits approved by GMS and taking into consideration the long-term interests of the shareholders, investors and other interest holders in the Bank. The responsibilities, organization and way of operation are defined in the Rules of Organization and Operations of Raiffeisen Bank S.A.

The Remuneration Committee is made up of 3 Supervisory Board members, namely:

Karl Sevelda – Chairman
Martin Gruell – Member
Anca Ioan – Member

During 2016, the Remuneration Committee held 1 meeting, its decisions being made by the unanimous votes of the attending members. Also, there were 4 decisions made by circulation.

Executive Credit Committee
The Executive Credit Committee is empowered to approve the granting of loans, including the credit lines and the contingent liabilities/off-balance sheet to a single debtor (or to one or several debtors of an "economic entity") and makes decisions on the country risk, that requires the Supervisory Board's approval, in accordance with the Credit Committee Bylaws as approved by the Supervisory Board.
The responsibilities, organization and way of operation are defined in the Rules of Organiation and Operations of Raiffeisen Bank S.A.

The Executive Credit Committee is made up of 2 Supervisory Board members, namely:

Johann Strobl – Chairman
Peter Lennkh – Member

During 2016, the Executiv Credit Committee made 68 decisions by the unanimous votes of its attending members.

The Supervisory Board Risk Committee
The Supervisory Board Risk Committee provides consultancy to the Supervisory Board and Management Board on the Bank's strategy and risk appetite, and it assists the Supervisory Board and Management Board with supervising the implementation of the

respective strategy. The responsibilities, organization and way of operation are defined in the Rules of Organization and Operations of Raiffeisen Bank S.A. The Supervisory Board Risk Committee is made up of 3 Supervisory Board members, namely:

Johann Strobl – Chairman
Karl Sevelda – Member
Peter Lennkh – Member

During 2016, the Supervisory Board Risk Committee held 1 meeting, its decisions being made by the unanimous votes of the attending members. Also, 2 decisions were made by circulation.

MANAGEMENT BOARD

The Management Board ensures the managing of the Bank's current business and it consists of 7 members appointed by the Supervisory Board for mandates of up to 4 years, with the possibility of being re-appointed for additional time periods.

As at 31.12.2016, the Management Board structure and the professional background of its members were:

Steven van Groningen – President
Master in the Corporate Law, University of Leiden, The Netherlands

James Daniel Stewart, Jr. – Vice-president
Graduate of Finances and International Relations, University Lehigh-Bethlehem, BA USA

Carl Rossey* – Vice-president
Graduate of the ENSEAD MBA Program Fontainbleau, France, and MBA in Industrial Management, Vlerick-Gent, Belgium

Vladimir Kalinov – Vice-president
Graduate of the Marketing and Management Institute, New Delhi, and of the Faculty of Commerce, University of New Delhi, India

Cristian Sporiș – Vice-president
Graduate of the Faculty of Finances, Insurance, Banks and Stock Exchanges, Bucharest University of Economic Studies, Romania

Mircea Busuioceanu – Vice-president
Graduate of the Executive MBA Program, University of Sheffield, and the Faculty of Finances, Banks and Accounting, Bucharest University of Economic Studies, Romania

Bogdan Popa – Vice-president
MBA in Financial-Banking Management, "Alexandru Ioan Cuza" University of Iași, Romania

* Resigned with the date of 01.03.2017.

The main competences of the Management Board:

- The Management Board has all the prerogatives of managing, ordering and authorizing all the transactions within the Bank's scope of business, and has responsibilities for the monitoring of the appropriate and efficient operation of the internal control system, except for the prerogatives stipulated by the Bank or the Bank's internal regulations under the exclusive competence of the Supervisory Board and/or GMS;
- To take steps in order to adopt all the legal decisions related to the implementation of the provisions in the Bank's business plan and budget;
- To endorse the setting up of the committees stipulated by law and of other subordinated committees, as well as the Rules of Organization and Operations;
- To endorse the Bank's organisational chart and the internal structure of the directorates;
- To endorse the number of employees and the salary level of the Bank's employees;
- To draw up and submit to the Supervisory Board's approval a quarterly written report on the Bank's management, its business and its potential progress, as well as information on any other issues that might have a significant impact on the Bank;
- To make the yearly financial statements and the business report available to the Supervisory Board as soon as they have been drawn up, together with its own proposals for the profit distribution, before the respective proposal is submitted to the GMS for approval.

The Management Board set up a number of 9 committees, namely: Asset and Liabilities Committee, Risk Committee, Credit Committee, Problem Loan Committee, Private Individuals Credit Committee, Project Portfolio Committee, Rules and Procedures Committee, Security Council and Investment & Product Governance Committee.

Also, mention should be made that the Management Board has delegated a series of competences as follows:

To the *Credit Committee* – the implementation of the credit policies within the limit of the competences granted and the administration of the credit risk;

To the *Risk Committee* – the supervision of the implementation and observation of the "General Principles of Risk Management" in Raiffeisen Bank S.A., except for the liquidity risk and market risk (delegated to the Asset and Liabilities Committee) and the lending risk (delegated to the Credit Committee);

To the *Asset and Liabilities Committee* – the management of the Bank's balance-sheet and the drawing up of the overall financial policy of Raiffeisen Bank S.A.; the monitoring and establishing of the limits for the liquidity risk and the market risk; the approval of the pricing strategy (interest rates, commissions and fees, and taxes);

To the *Rules and Procedures Committee* – the approval of the rules and procedures to be applied in the Bank.

During 2016, the Management Board held 43 meetings, and its decisions were made by the unanimous votes of the attending members. Also, 8 decisions were made by circulation.

The 9 committees set up by the Management Board:

Asset and Liabilities Committee (ALCO)
ALCO manages the balance-sheet of Raiffeisen Bank S.A. proactively and draws up the Bank's overall financing policy. ALCO monitors and establishes limits for the liquidity and market risks, analyzes the pricing policy and approves the prices for all the standard products supplied by the Bank (interest rates, taxes and commissions).

Risk Committee (CARS)
CARS approves the risk framework for Raiffeisen Bank S.A. and, based on the policies, standards and the corresponding risk management methods, it ensures that the risks are under control so that they are and maintain within the defined limits.

Being responsible for supervising the implementation of the policies, standards and methods, CARS makes sure that the risks are prevented or that, in case they materialize, the impact is under control. Moreover, CARS makes sure that the implementation of appropriate risk management is monitored through the regular reporting of the loss cases.

Credit Committee (CC)
The Credit Committee is authorized to review and decide on all the limit exposures additional to the existing individual approval competences and it is responsible for observing the rules and regulations, as they are mentioned in the Credit/Lending Manual and the Bank's endorsed lending procedures.

Problem Loan Committee (PLC)
The Problem Loan Committee is established and operates as a decision-making body with regard to the problem exposures and it has the authority to approve the first applications immediately after being transferred to the Credit Restructuring and Recovery Directorate, applications for restructuring/recovery strategies, credit reviewals, debt write-offs, IFRS provision build-up and release for all types of clients.

Private Individuals Credit Committee
The Private Individuals Credit Committee has the authority to analyze and decide on the Private Individuals' credit applications and non-standard post disbursements requests. The Private Individuals Credit Committee is a two-tiered structure, with distinct levels of decision.

Project Portfolio Committee
The Project Portfolio Committee is the decision-making body reviewing the performance of the existing project portfolio, analyzing and selecting new projects, prioritizing the already selected projects, examining the viability of the project portfolio based on the Bank's strategy and reconfiguring the project portfolio.

Rules and Procedures Committee
The Rules and Procedures Committee approves the rules, procedures and other regulations within the Bank and makes sure that they are compliant with the operational requirements and compatible with the other internal and external regulations.

Security Council
The Security Council proposes the strategy of security to the Management Board, it decides on the security policies and it confirms the management's

commitment to granting an active support to security within the organization.

Investment & Product Governance Committee
The Investment & Product Governance Committee has as its main purpose to support the activity of "Investment Advisory Services" provided to the private individual customers of the Top Clients segment. This involves among other things to draw up, validate and review the investment strategies for this segment.

CONFLICTS OF INTEREST

The applicable internal regulations require both the Management Board and the Supervisory Board of Raiffeisen Bank S.A. to declare any potential interest conflicts.

Therefore, the Management Board members should declare to the Supervisory Board all the personal interests significant for the transactions involving both the Bank and the Group companies, as well as any other conflicts of interest. They must inform the other Management Board members, too. The Management Board members also filling in management positions within other companies should ensure a fair balance between the interests of the companies in question.

The Supervisory Board members should immediately report to the President of the Supervisory Board all the potential conflicts of interest. In the event the President himself is faced with a conflict of interest, he should immediately report it to his Vice-president.

The company contracts concluded with the Supervisory Board members that compel them to render a service in favor of the company or a subsidiary, outside their obligations as Supervisory Board members, in exchange of a compensation at all insignificant, requires the approval of the Supervisory Board. This also applies to contracts concluded with companies in which a Supervisory Board member has a significant financial interest.

PRACTICES OF REMUNERATION AND SELECTION AND ELEMENTS OF DIVERSITY

The system of remuneration of Raiffeisen Bank S.A. promotes a fair and efficient risk management and does not encourange assuming risks over the tolerated levels. This is in line with the Bank's and Raiffeisen Bank International (RBI) Group's long-term business strategy, objectives, values and interests and it incorporates measures to avoid conflict of interest.

The remuneration policies of Raiffeisen Bank S.A. are approved by the RBRO Supervisory Board through the Remuneration Committee.

The compensation system in Raiffeisen Bank S.A. is governed by the following principles:

1 The Compensation system supports the company's long-term business strategy and objectives, its interests and values by using the set of key performance indicators (KPI) of RBI and the key cultural competences.

2 The principles of compensation incorporate measures to avoid the conflict of interest.

3 The compensation policy and principles are in accordance with and promote solid and efficient risk management practices and avoid variable payment for assuming risks over the tolerant level for the institution through KPIs and process management (eg: the process of Assessing Performance, risk committees).

4 Compensation is based on a functional structure and it is linked to performance. Besides, special rules are applied to the personnel whose professional activity has a material impact on the risk profile.

5 Compensation is competitive, sustainable and reasonable and it is defined in accordance with the relative value of work, market and practice.

6 The fixed compensation is defined in principle in accordance with the market conditions.

7 The compensation structure (the variable payment proportion relative to the fixed compensation) is balanced, which allows each employee to have an adequate level of remuneration based on the fixed salary.

8 All variable payment programmes include minimum levels of performance and a maximum payment threshold.

9 Results obtained and of the competences based on both quantitative and qualitative measures, valued within the process of performance assessment and considering financial and non-financial criteria.

10 The personnel employed in controlling functions is compensated independently from the business unit they supervise, has the appropriate authority and their remuneration is determined on the basis of achieving their own objectives without taking into consideration the results of the area they monitor. The fixed and variable remuneration structure should be in favor of the fixed remuneration.

If an employee is paid a variable compensation, this is done for the measured performance. Performance is translated into results and behavior: "what" and "how", according to the system of performance management. Therefore, all the variable compensation schemes are linked to the management of performance or a comparative system of setting the targets. Measuring the performance for the employees holding control functions (e.g. risk, audit, compliance) reflects the specific requirements of the respective positions. Compensating the employees holding control functions is in accordance with touching the objectives related to the respective functions and, in an independent manner, by the business areas they supervise, but in proportion with their role in the Bank.

In Raiffeisen Bank S.A., the recruitment policy for selecting the management structure members establishes the criteria and procedure according to which the compatibility of those proposed/ appointed as members of the management body should be assessed, and the assessment criteria of those holding key function, too.

The Fit & Proper Policy in Raiffeisen Bank S.A. establishes the applicable internal procedures and the criteria for assessing compatibility, in accordance with the local legal provisions (NBR Regulation no. 5/2013 on prudential requirements for the credit institutions, NBR Regulation no. 6/2008 on beginning the activity and modifications in the situation of the credit institutions, Romanian legal entities and the Romanian branches of third parties' credit institutions). Also, the policy defines the measures applicable in the situations whereby those persons are not compatible with the positions in question and how permanent compatibility is ensured.

As both the EBA guidelines and the NBR Regulation no. 5/2013 contain mentions with regard to the importance of diversity at the top level management, in addition to the standard set of compatibility criteria as regulated through the fit and proper policy, we are aware that the differences in gender, culture, education and experience of the top management members can only add more value to our organization.

Having in view the current structure of the management body, we precisely state that the principle of diversity from the gender point of view has been implemented by the appointment of Mrs. Ileana-Anca Ioan and Mrs. Ana Maria Mihăescu on the Supervisory Board of Raiffeisen Bank S.A.

Supervisory Board Report

Ladies and Gentlemen,

Karl Sevelda, CEO of Raiffeisen Bank International

The 2016 financial year was dominated by two key issues: firstly, the market environment, which remained challenging due to the very low interest rate level and continuing high regulatory and political pressures; secondly, the start of the process of evaluating a merger of RBI and RZB.

The capitalization requirements for banks were increased substantially following the 2008 financial crisis and there has also been extensive tightening of regulations by the national and international regulatory authorities. February 2015 saw the implementation of a transformation program designed to strengthen the capital base – it targeted a CET1 ratio (fully loaded) of at least 12 per cent, a reduction of complexity and a substantial reduction of costs. With a CET1 ratio (fully loaded) of 13.6 per cent at 31 December 2016, RBI achieved its target ahead of schedule.

Following an extensive evaluation phase, on 5 October 2016, the Management and Supervisory Boards of RBI and RZB passed in principle a resolution to merge RBI and RZB. The Extraordinary General Meeting of RBI approved the merger with RZB by a clear majority on 24 January 2017. The merger was entered in the commercial register on March 18th, 2017, and has thereby taken effect.

The strengths of the merged entity will build on prior achievements. These include the geographic footprint in the attractive growth markets of CEE, with top-five market positions in 9 of a total of 14 markets, as well as a stable business in Austria. The focus will remain on long-term customer relationships in the respective local markets. As a customer-oriented universal bank, solutions to address corporate customer needs based on local market access and an extensive network, along with a comprehensive multi-channel offering for retail customers in CEE, play an important role in the overall focus.

On the Romanian market, Raiffeisen Bank S.A. continued its organic growth, with an emphasis being laid on digitization and simplification together with careful risk management, which is reflected by the Bank's high profitability.

At the General Shareholders' Meeting as of 27 April 2016, Raiffeisen Bank S.A.'s shareholders took note of Mr. Răzvan Munteanu's resignation from his position as a member of the Supervisory Board and decided to appoint Mr. Andreas Gschwenter as a new member of the Supervisory Board and grant a new mandate to Mr. Klemens Breuer as a member of the Supervisory Board.

The Supervisory Board met four times in 2016. The Management Board of Raiffeisen Bank S.A. regularly provided the members of the Supervisory Board with comprehensive and timely information regarding the relevant business developments. Thus, the Management Board supported the Supervisory Board to fulfill its supervisory and controlling responsibilities. Also, the Supervisory Board rendered the necessary support to the Management Board to accomplish the objectives of increasing the Bank's value and results, in accordance with the shareholders' expectations.

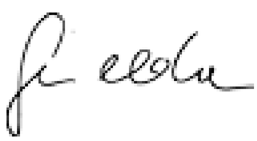
The Supervisory Board was regularly informed with regard to the activities carried out in 2016 by its sub-committees, namely the Nomination Committee, the Remuneration Committee, the Supervisory Board Risk Committee and the Audit Committee.

The Supervisory Board agreed with the Management Board's report on Raiffeisen Bank's audited financial statements related to the 2016 financial year, drawn up in compliance with the International Financial Reporting Standards.

I would like to take this opportunity to thank all employees of Raiffeisen Bank S.A. for their hard work and constant efforts to serve our customers and bring benefits to the entire Raiffeisen Group.

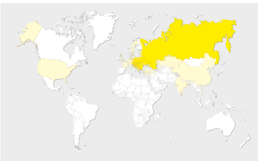
On behalf of the Supervisory Board,

Karl Sevelda,
President of the Supervisory Board



Raiffeisen Bank International at a glance

Raiffeisen Bank International AG (RBI) regards Central and Eastern Europe (including Austria) as its home market. For over 30 years, RBI has been operating in CEE, where today it maintains a closely-knit network of subsidiary banks, leasing companies and numerous specialized financial service providers.



Raiffeisen Bank International has operations in Europe, North America and Asia.
In CEE, at the end of 2016, around 46,000 RBI employees served some 14.1 million customers in around 2,500 business outlets.

As a universal bank, RBI ranks among the top five banks in several countries. This role is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. RBI has positioned itself in CEE as a fully integrated corporate and retail banking group, with a comprehensive product offering. In CEE, at the end of 2016, around 46,000 RBI employees served some 14.1 million customers in around 2,500 business outlets. In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers and large multinational corporate customers operating in CEE. All in all, RBI employs about 49,000 people and has total assets of approximately €112 billion.

Raiffeisen Zentralbank Österreich (RZB AG) was established in 1927 as "Girozentrale der österreichischen Genossenschaften" and at that time served as the liquidity balancing center for Austria's agricultural cooperatives, as envisioned by social reformer Friedrich Wilhelm Raiffeisen.
RZB AG had one of the largest banking networks in CEE through its subsidiary, Raiffeisen Bank International (RBI AG), which has been listed on the stock exchange since 2005.

At the end of 2016, RZB AG held approximately 60.7 per cent of RBI's stock, with the remaining shares in free float. RZB AG was primarily owned by the eight Raiffeisen regional banks and served as their central institution pursuant to the Austrian Banking Act (BWG). Following the merger between RZB AG and RBI AG, effective retroactively as of 30 June 2016, RBI AG will assume the role of RBG's central institution by way of universal succession.

Highlights 2016

Main accomplishments in 2016

All year round, 2016 was full of events, from launching the new corporate website in January to Raiffeisen Bank being named "The Bank of the Year in Romania" by a prestigious magazine, "The Banker".

JANUARY

Launch of the new www.raiffeisen.ro, a simpler, clearer and more customized website, which offers a new and useful experience to clients, partners and public.

In order to become more efficient at work and in servicing its clients, Raiffeisen Bank initiates the digital transformation by switching to Google Apps, thus marking a premiere on the Romanian banking market.

FEBRUARY

The Bucharest-based Veranda commercial center receives EUR 25.5 million financing from Raiffeisen Bank S.A. and Raiffeisen Bank International AG, which contributes to the strengthening of the economic environment of Romania.

Raiffeisen Bank reaches a network of 40 multifunctional machines (MFMs), also called "self-banking".

MARCH

In partnership with G4S, Raiffeisen Bank provides companies with an innovative and flexible solution of cash management: CASH360 solution.

Customers can pay their ENGIE (GDF SUEZ) invoices quicker, using "instant payments" from Raiffeisen Online service.

APRIL

Launch of the first "self -service" agency in Cluj, with non-stop access to ATM, MFM, phone and computer for online banking.

RStyle, the well-being program for Raiffeisen Bank's staff, receives recognition for employee support within the CSR Romanian Awards.

Main accomplishments in 2016

MAY *EMEA Finance,* the well-known British financial publication, awards Raiffeisen Bank "The Best Bank in Romania".

UNITER Awards Gala takes place, celebrating the Romanian theatre performance, an event which has been supported by Raiffeisen Bank for eleven years.

Raiffeisen Bank is awarded "The Bank of the Year in e-Commerce" for its 2015 activity, at NoCash Gala Awards.

JUNE The Bucharest Stock Exchange and Raiffeisen Centrobank (RCB) launch 3 warrant investment products on the Romanian market, listed in partnership with their distribution channel, Raiffeisen Bank.

Over 1,000 children concluded a financial education program for primary schools (0-IV grades) which was launched by Junior Achievement and supported, financially and with human resources, by Raiffeisen Bank.

Main accomplishments in 2016

JULY Raiffeisen Bank implements a new phone customer interaction channel based on automatic speech recognition. The customers who call in Call Center are met by Ana, the Bank's virtual operator.

Raiffeisen Bank's volunteers, together with Habitat for Humanity, build a new home for four poor families, in Cumpăna, Constanța county.

AUGUST The fifth edition of the best 3 x 3 basketball competition in Central and Eastern Europe, Raiffeisen Bank Bucharest Challanger, organized by Sport Arena Streetball, takes place.

The Bank is the official sponsor of the fourth edition of "Via Maria Theresia" marathon, in the Călimani mountains.

Raiffeisen Bank is "Together at the theatre" with customers and public at the "Undercloud" International Festival, organized by D'AYA Foundation.

SEPTEMBER The Bank becomes partner in the distribution campaign of "Sieranevada", a feature film directed by Cristi Puiu, Romania's proposal for the Best Foreign Film at the 2016 Oscar Awards.

With the "Raiffeisen Communities" Grant Program, Raiffeisen Bank supports 10 social responsibility projects from 7 communities with EUR 10,000 each.

Main accomplishments in 2016

OCTOBER Raiffeisen Bank continues to launch new digital functionalities for its customers: tax payments through Smart Mobile and Raiffeisen Online, digital print access and rapid money transfer through the Smart Mobile widget.

NOVEMBER Friedrich Wilhelm Raiffeisen segment is awarded "The Best Private Banking Service in Romania" by *Euromoney, Global Finance* and *The Banker & Professional Wealth Management.*

Launching a new real estate loan in lei, with a fix interest for the first 7 years.

Raiffeisen Bank simplifies the transactional services market by launching the new current account packages for private individuals.

DECEMBER The Bank offers another facility to its customers: a new online subscription process for Flexicredit, the personal needs loan.

Raiffeisen Bank is named "The Bank of the Year 2016 in Romania" by the prestigious magazine, *The Banker.*

Corporate Responsibility

Raiffeisen Bank plays an important role in the Romanian society, not only in the light of the 2 million clients – private individuals who the Bank serves, the 100,000 SMEs and 5,600 companies, but also due to its over 5,000 employees who work in more than 470 branches of the Bank.

We are responsible for safeguarding our customers' savings and for making sound loan placements, with respect to the private individuals, as well as the companies we service. Thus, we act responsibly in all areas and throughout the country, aiming to positively influence the communities where we operate.

We continue investing in financial education programs, supporting the Romanian art and culture, promoting a healthy lifestyle and caring for the environment. Therefore, we develop strategic community partnerships, together with local and national non-governmental organizations and the employees' involvement – volunteers, for the benefit of those in need. We deem that any programs of social responsibility that we implement in a community need the employees' support and involvement, through volunteering and fund-raising campaign. The strategy of community investment, financial programs and the results obtained are detailed annually in the responsibility report of the company.

Although the non-financial reporting became compulsory only in 2016 by Order of the Ministry no. 1938 that partially transposes the EU Directive no. 95/2014 into the national legislation, Raiffeisen Bank has been reporting the non-financial activity since 2009. The report is drafted in accordance with the reporting requirements developed by the London Benchmarking Group (LBG), which evaluates the investments in community programs and influences on beneficiaries, and based on the standards of the Global Reporting Initiative (GRI) for the indicators regarding the corporate governance and the company's economic and social behaviour. Raiffeisen Bank uses these two reporting models in a complementary way, in order to offer a complete view of its activity on the Romanian market.

Significant accomplishments in 2016 with regard to community investment:

- Raiffeisen Bank's financial contribution to the 122 community projects and programs supported in 2016 amounted to over 8.6 million lei (according to LGB reporting criteria), that is 1,647 lei (approximately 367 euro) for each of the Bank's employees; the programs were carried out in partnership with 116 non-governmental organizations, non-profit institutions, educational establishments, medical institutions or public institutions.

- The 6th edition of the "Raiffeisen Comunități" Grants Program attracted 193 community projects, and awarded the most-appreciated 10 of them with 10,000 euro each, adding up to a total grants value of 100,000 Euros. Over 100 volunteers, Raiffeisen Bank employees, took part to the evaluation of these projects, while the public vote decided the winning projects in the final stage of the program.

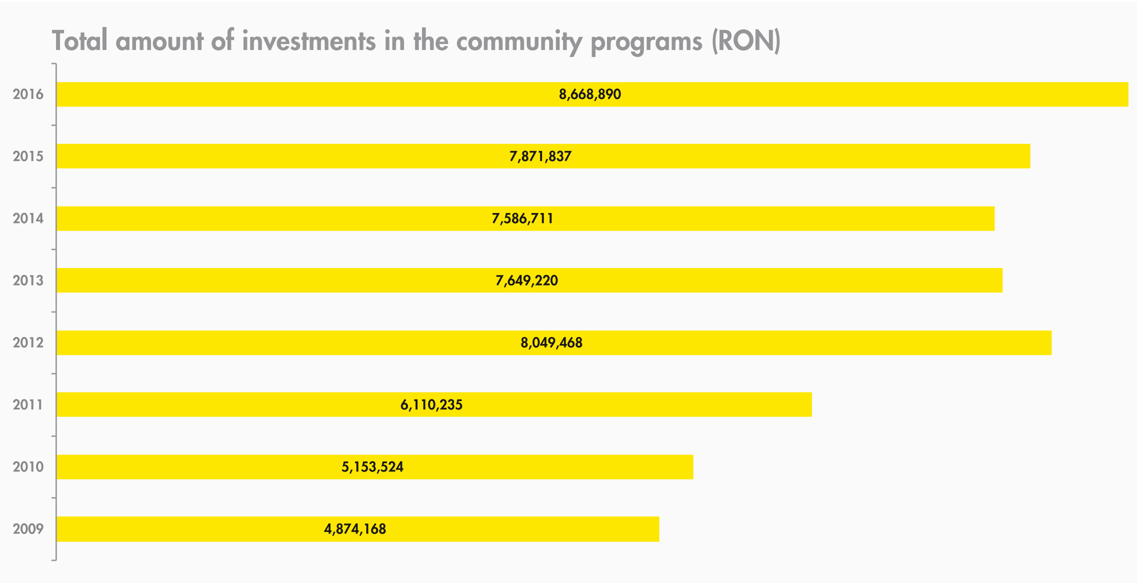
- The 254 volunteers of Raiffeisen Bank allotted a total of 870 hours to volunteering projects.

- Raiffeisen Bank continued to support some of the most prestigious cultural and sports events in Romania: Sibiu International Theatre Festival, Transilvania International Film Festival – TIFF, SoNoRo, UNITER Awards Gala, productions and tours of Act Theatre, Bucharest International Marathon and "Via Maria Theresia" Marathon.

- Furthermore, Raiffeisen Bank continued to contribute in 2016 to the programs carried out by some of the most active non-governmental organizations in the country: Green Revolution Association, OvidiuRo Association, The Association for Community Relationships, Tășuleasa Social Association, The Princess Margareta of Romania Foundation, United Way, Romania Junior Achievement, Teach for Romania, The Civic Society Development Foundation or Habitat for Humanity.

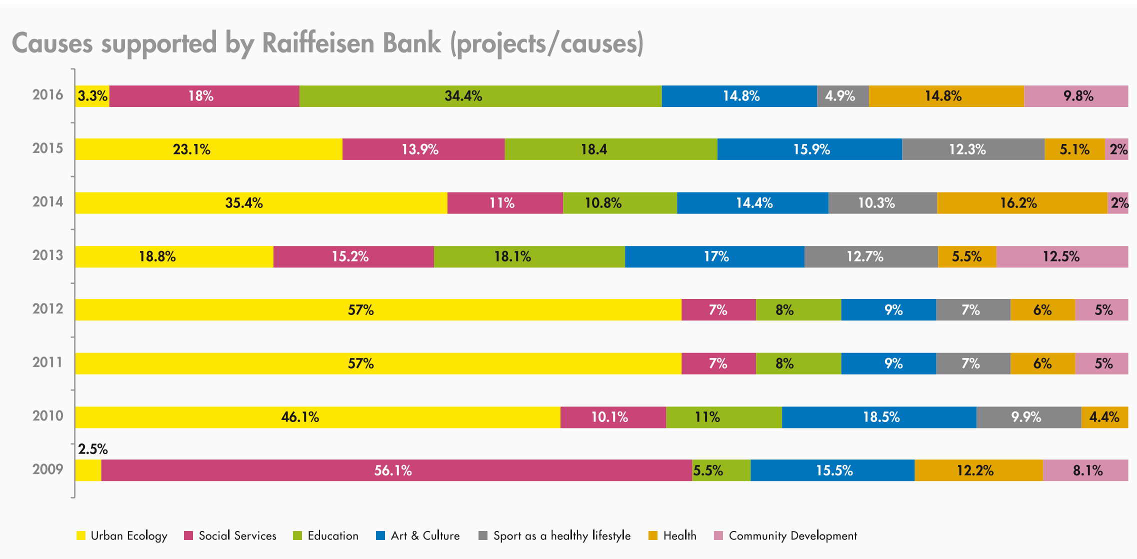
Community impact of the investments

The total amount of Raiffeisen Bank sponsorship contracts in 2016 exceeded 9,800,000 RON, up by 9% compared to the previous year. The Bank invested RON 8,668,890, up by 10% compared to 2015, in community programs (in scope of LBG reporting).



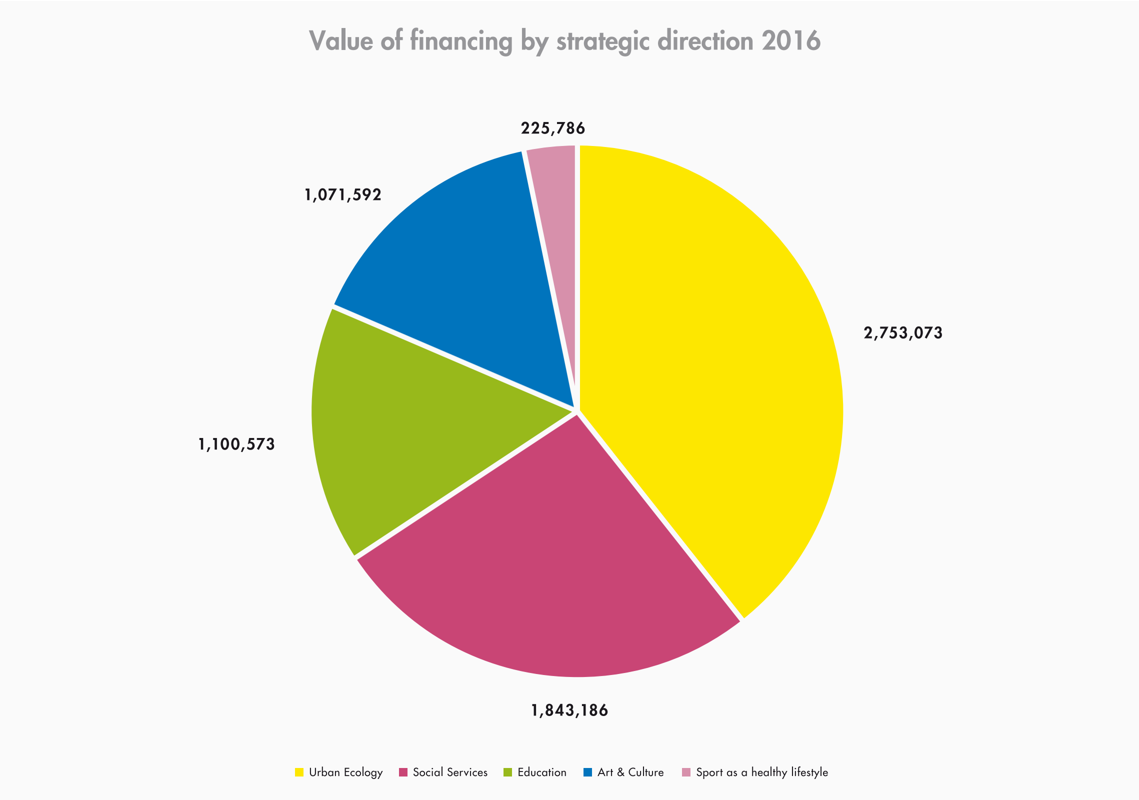
The causes supported by the Bank in 2016 reflect the 5 strategic areas of involvement: education (and financial education), social services, art and culture, sport as a healthy lifestyle and urban ecology.

Raiffeisen Bank continued to support programs and projects which offer access to basic and financial education (34.4%), facilitate the social services for disadvantaged groups (18%), promote the Romanian art and culture (14.8%), encourage sport as a healthy lifestyle (4.9%), and endorse the concern for the environment (3.3%). Moreover, Raiffeisen Bank continues to honour its existing partnership with the organizations developing projects in other areas than the strategic ones, but which bring benefits to the community (health – 14.8% and community development – 9.8%).



Sustainable community investments

Over 80% (6,994,210 RON) of the sponsorship total value was directed to the projects and programs of the company's 5 strategic orientations. Thus, in 2016, 32% (2,753,073 RON) of the financial resources was directed to the urban ecology programs, 21% (1,843,186 RON) to social programs, 13% (1,100,573 RON) to educational programs, 12% to art and culture projects, and 3.3% to projects that promote sport as a healthy lifestyle.



INVOLVEMENT OF RAIFFEISEN BANK IN 2016

For each beneficiary, Raiffeisen Bank invested an average of **37 RON**

254 employees of the Bank volunteered in different community projects

The Bank's volunteers dedicated a total of **876 hours** to volunteering initiatives

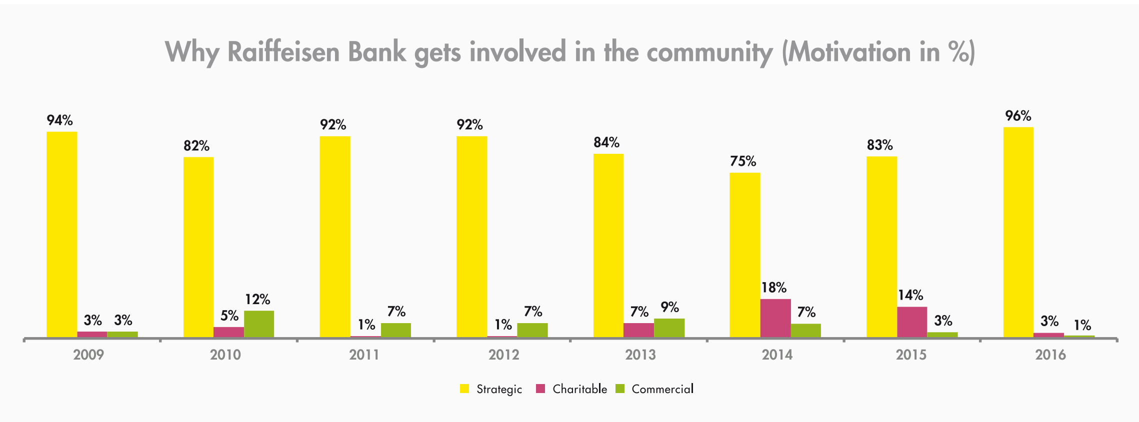
On average, community partners managed funds with a value of **72,878 RON**

The Bank's contribution in community programs represents **1.59%** of its gross profits, according to the LBG reporting criteria

Raiffeisen Bank's contribution/ employee = **1,674 RON**

Society

Raiffeisen Bank continuously supports the civil society in Romania by its permanent involvement in projects that educate and enrich the community. Urban ecology and respect for nature, education, culture, arts or sport as a healthy lifestyle influence each of us; hence the Bank is committed to sustain strategic partnerships in these areas, but also to attract, by our example, employees, clients or even business partners to join us.

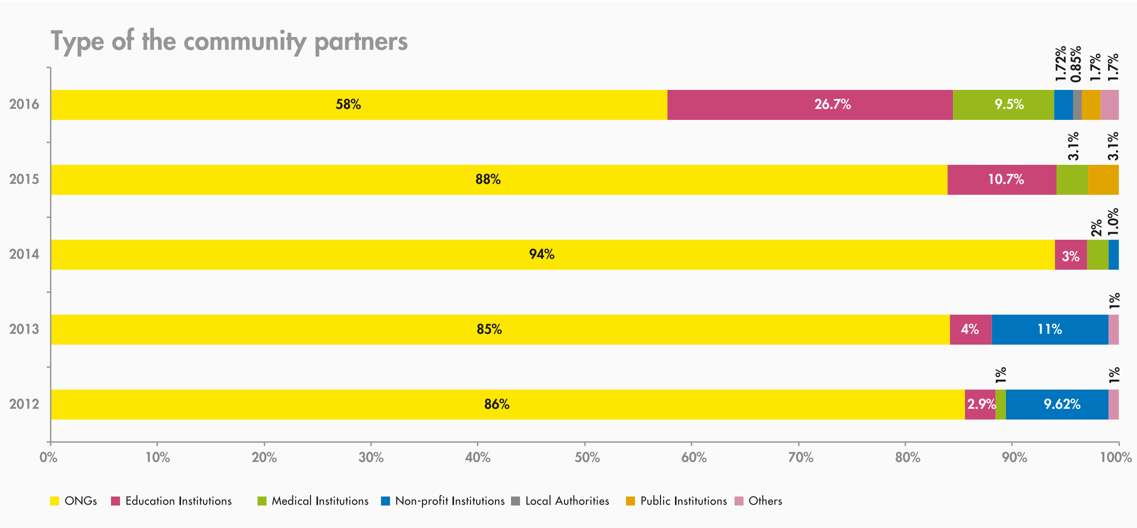


ERRATUM:
Because of a typing error, the graphic related to the Raiffeisen Bank motivation for involvement in the 2015 annual report contains an error. The values for the strategic motivation for year 2014 is 75% instead of 94%, and for 2015 is 83% instead of 94%.

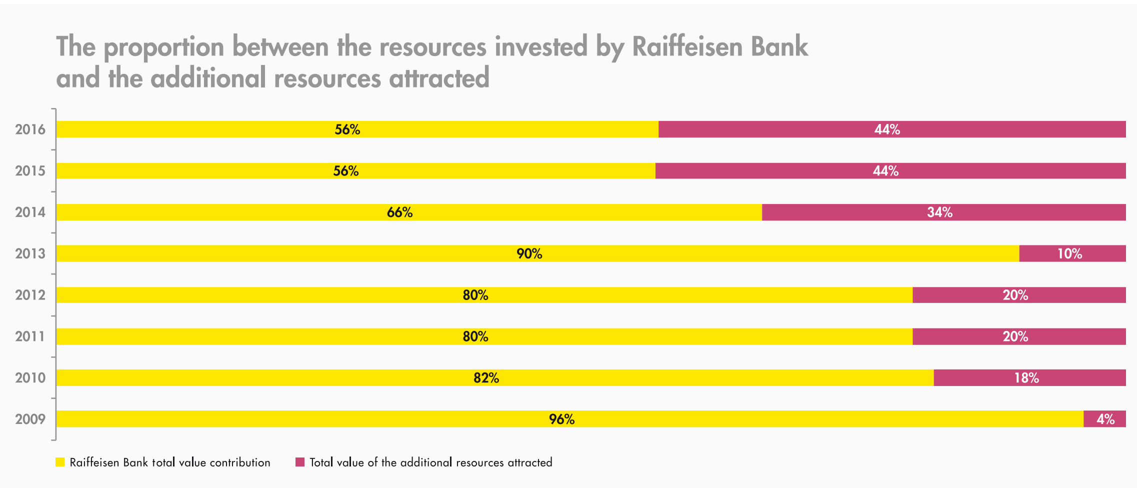
Community Partners

In order to know the needs of the community partners that we interact with and to discover their priorities and the priorities of the community they belong to, we organize meetings, consultations and surveys on a regular basis. As for social intervention and community investment, we try to facilitate the cohesion of different society factors, so that we find together solutions to the actual issues they have to deal with. We assume the role of a facilitator, but also that of an active supporter. For instance, we support arts and culture (without influencing the cultural act), not only by financing high quality projects, but also by deploying sustained efforts to increase the audience year after year.

NOTE:
The difference in comparison with the previous year is explained by the significant increase of the donations "in kind", these being directed mainly to the educational and medical institutions.

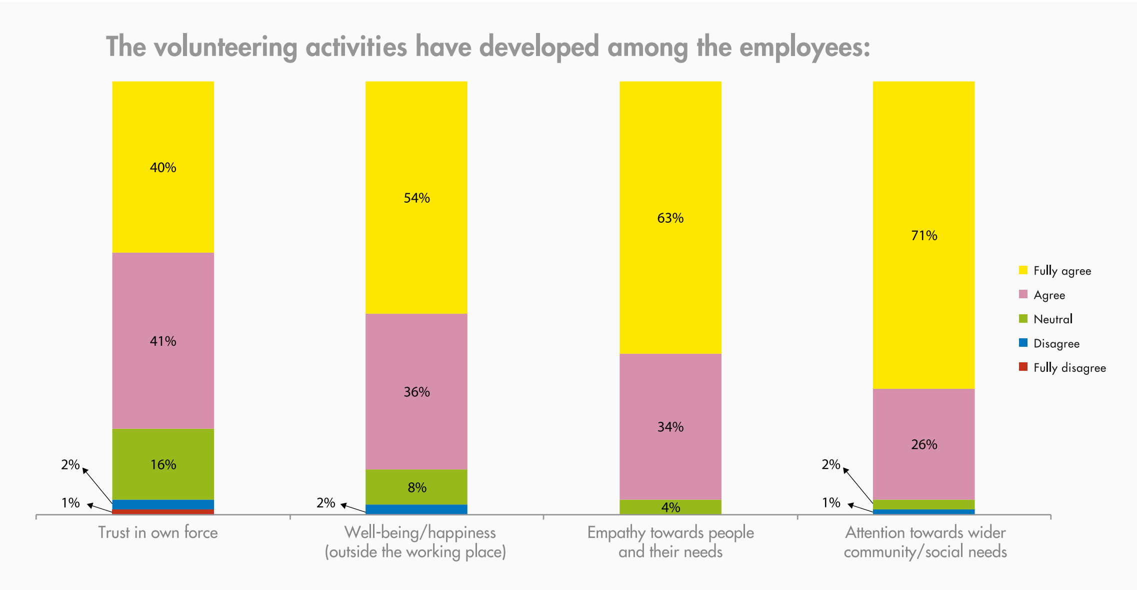


Moreover, we support our partners both in their efforts to attract additional resources for the projects they implement and in their efforts to develop their organizational capacity.



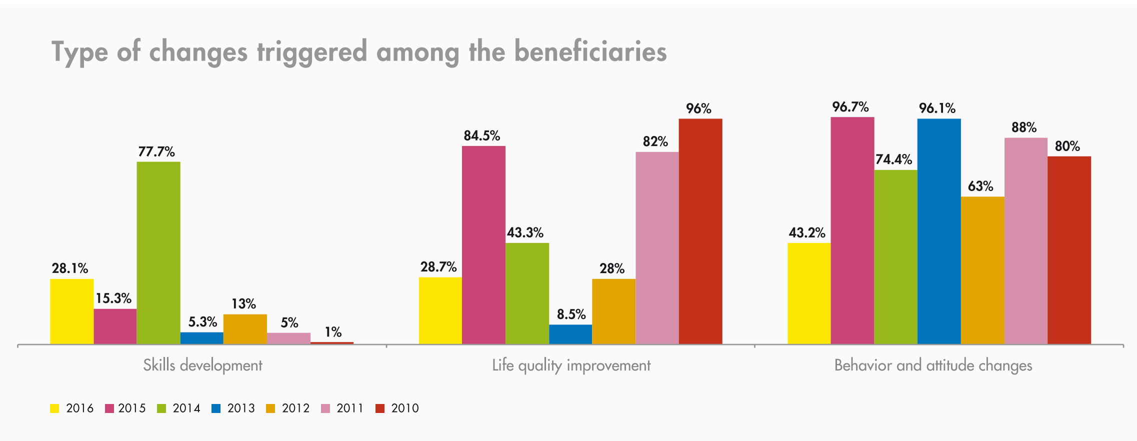
Volunteering in Raiffeisen Bank's Team

In 2016, 254 employees of Raiffeisen Bank took part in volunteering activities, involving in project assessment and selection in different financing programs managed and financed by the Bank, financial education programs, and constructions for underprivileged people.



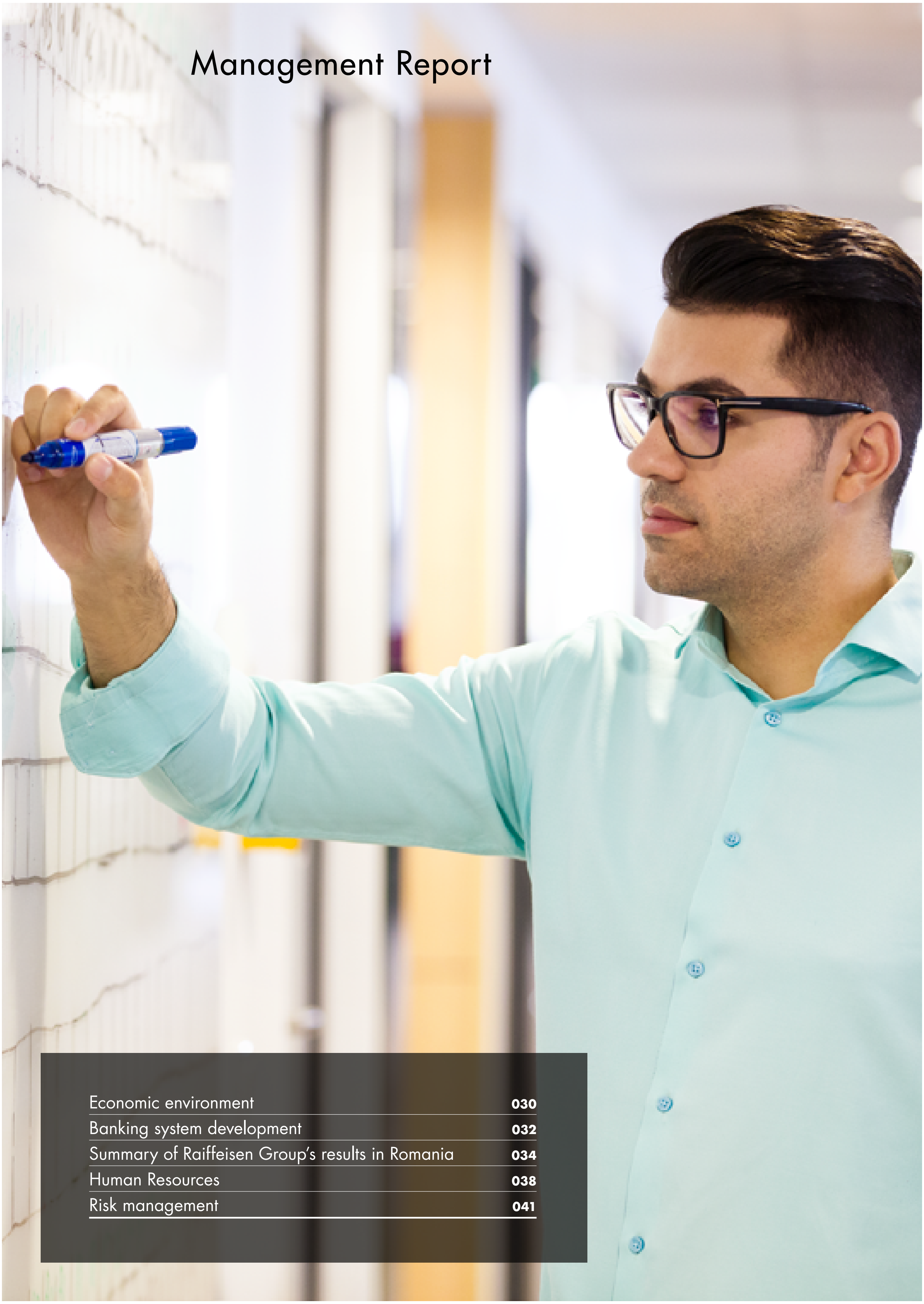
Beneficiaries of Community Projects

235,375 people benefited directly from programs implemented with the Bank's support in 2016.
Main improvements reported include changes in their behavior and attitudes, but also in their life quality.
As a consequence of the increasing number of education projects financed by Raiffeisen Bank, a significant development in skills of direct beneficiaries was registered.



Changes generated in the partner organisations

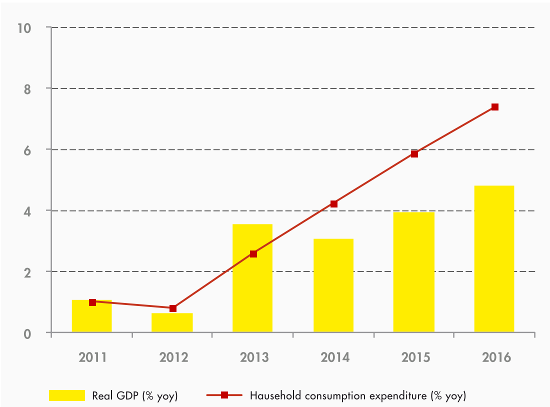
Management Report



The economic growth accelerated in 2016 as real Gross Domestic Product (GDP) advanced by 4.8%. Private consumption remained the main engine of growth. Its dynamics strengthened in 2016 on the back of the large fiscal stimulus in place that resulted in the increase of real disposable income and of the propensity of individuals to spend.

Gross fixed capital formation decreased in 2016 and it had a negative contribution to the GDP dynamics. The increase of domestic demand resulted in a faster advance of imports of goods and services, compared to exports. Hence, net exports – the difference between exports and imports – had a negative contribution to the GDP dynamics in 2016. Turning to the supply side, the GDP growth was shared by most of GDP components in 2016. Accordingly, gross value added increased in all sectors of activity (services, industry and constructions).

Dynamics of economic activity

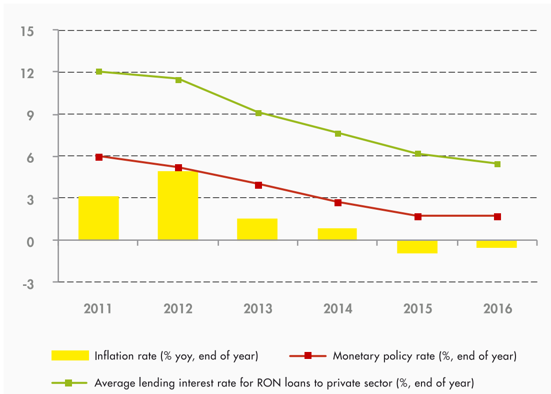


Source: National Institute of Statistics, Raiffeisen RESEARCH

The public budget deficit (cash terms) stood at 2.4% of GDP in 2016, increasing from 1.4% of GDP in 2015. The enlargement of the fiscal gap in 2016 was driven by the fiscal easing measures decided starting from 2015, which resulted in a loss in public revenues, as well as an increase of budgetary expenses. However, the public budget execution resulted in a deficit below the target set initially (2.8% of GDP) mainly as a result of an under execution of some public expenses. Consumer prices declined by 0.5% in 2016. The annual inflation rate remained in negative territory for the entire year, driven by the VAT rate cuts (June 2015 and January 2016), as well as by the reduction in energy prices. According to the Central Bank's estimate, in the absence of the VAT rate cut from January 2016, the inflation rate would have reached 0.9% at end-2016. More importantly, despite the rapid advance of private consumption, underlying inflationary pressures remained contained. We think that the low imported inflation was among the main factors restraining the strengthening of underlying inflationary pressures in 2016.

The National Bank of Romania (NBR) kept the monetary policy rate unchanged at 1.75% at all the monetary policy meetings in 2016. However, the monetary policy stance was more stimulating than it was implied by the level of the key interest rate. NBR refrained from sterilizing the excess liquidity from the money market (given the positive sentiment of investors' towards RON assets, as well as the low level of interest rates existing on the external markets). As a result, money market interest rates (ROBOR) were quoted for the whole year significantly below the key interest rate, even declining compared to the low levels recorded in 2015. This kept interest rates applicable to loans and deposits of their customers on a downward trend in 2016. NBR reduced the minimum reserve requirement ratio for foreign denominated liabilities of banks to 10% (from 12%.) The measure started being effective in October 2016, but without having implications on the transmission of the monetary policy stance given the low attractiveness of FCY lending.

Dynamics of inflation and interest rates



Source: National Bank of Romania, Raiffeisen RESEARCH

Economic environment

KEY ECONOMIC FIGURES

	2012	2013	2014	2015	2016
Nominal GDP (EUR bn)	133.6	144.3	150.3	160.0	169.6
Real GDP (% yoy)	0.6	3.5	3.1	3.9	4.8
Private consumption (% yoy)	0.8	2.6	4.2	5.9	7.3
Gross fixed investments, private and public (% yoy)	0.1	-5.4	3.2	8.3	-3.3
Industrial output (% yoy)	2.4	7.9	6.1	2.8	1.7
ILO unemployment rate (avg., %)	6.8	7.1	6.8	6.8	5.9
Average monthly gross wage, EUR	463	489	524	575	642
Producer prices (avg., % yoy)	5.4	2.1	-0.1	-2.2	-1.8
Consumer prices (avg., % yoy)	3.3	4.0	1.1	-0.6	-1.5
Consumer prices (eop., % yoy)	5.0	1.6	0.8	-0.9	-0.5
Public budget balance (% of GDP, cash terms)	-2.5	-2.5	-1.7	-1.4	-2.4
Public debt (% of GDP)	37.3	37.8	39.4	38.0	37.5
Current account balance (% of GDP)	-4.8	-1.1	-0.7	-1.2	-2.4
Gross external debt (% of GDP)	75.5	68.0	63.0	56.5	54.6
Foreign direct investment (% of GDP)	1.9	1.9	1.6	2.2	2.4
Official FX-Reserves (EUR bn, eop.)	31.2	32.5	32.2	32.2	34.2
Monetary policy rate (eop., %)	5.25	4.00	2.75	1.75	1.75
ROBOR 1-month, avg.	5.2	4.1	2.1	1.0	0.6
RON/EUR, avg.	4.46	4.42	4.44	4.45	4.49
RON/EUR, eop.	4.43	4.48	4.48	4.52	4.54

Source: National Institute of Statistics, National Bank of Romania, Raiffeisen RESEARCH

Lending dynamics remained slow in 2016 as the stock of total loans granted by banks to the private sector (households and companies) increased by only 1.1% (the dynamics of the FCY segment is adjusted for change of EUR/RON rate).

The positive dynamics was exclusively driven by RON denominated loans (+14.3% in terms of outstanding amounts) that posted consistent gains on all three segments: loans for consumer and other purposes, housing loans, and loans to companies.

On the other hand, a sharp decrease was recorded in case of outstanding loans denominated in foreign currencies (-12.3 % in EUR equivalent) as both household loans and corporate loans posted large contractions. Similar to previous years, banks preserved their propensity to lend in domestic currency. Also, demand for RON loans benefited from the decrease of interest rates and from prudential standards that were less restrictive than those for FCY loans. Housing loans granted as part of the "First Home" governmental program were also a key driver for loans disbursed in RON.

Out of total loans originated in 2016, around 81% were denominated in RON and the share of FCY denominated loans in total outstanding loans granted by the banks to the private sector decreased to 43.4% in December 2016 from 49.9% in December 2015. The ratio of non-performing loans in total loans remained on a downward trend in 2016, decreasing to 9.5% in December 2016 from 13.5% in December 2015.

Two laws with a negative impact on the activity and profitability of the banking system were voted by Parliament in 2016.

Firstly, the "Datio in Solutum" law became effective in May 2016 and it allowed the borrowers to settle their liabilities by transferring the ownership right over mortgages used as collateral for loans. In October, the Constitutional Court ruled that the provisions of the law can be applied also for all existing contracts, but the mechanism of the law should be changed.

So, a debtor could benefit from the provisions of the law only if a judge assesses and establishes the existence of the hardship situation within the loan contract. Secondly, a law allowing the borrowers to convert their CHF denominated loans in RON at historical exchange rate, i.e. those prevailing at the time of loan origination, was voted by Parliament in October. Before being effective, the law was challenged at the Constitutional Court by the Government. At the beginning of 2017, it was declared unconstitutional.

The following table shows the main developments in the aggregated balance sheet of credit institutions (banks, saving banks for housing, credit co-operative organizations) and money market funds from Romania in 2016.

AGGREGATE MONETARY BALANCE SHEET OF CREDIT INSTITUTIONS AND MONEY MARKET FUNDS

	2016 (RON BN)	2016/2015 (ANNUAL CHANGE, IN REAL TERMS %)	2016 (% OF TOTAL ASSETS)	2015 (% OF TOTAL ASSETS)
Loans and placements with banks and NBR	51.7	-0.8	12.1	12.6
– of which minimum reserve requirements	35.5	-5.4	8.3	9.1
Loans to domestic residents, at gross value:	230.6	1.9	53.9	54.5
– households	113.0	5.2	26.4	25.9
– companies	107.1	-1.7	25.0	26.2
– public sector	10.5	5.7	2.5	2.4
Debt securities issued by residents (mainly government securities)	82.9	4.4	19.4	19.1
Other assets, of which:	62.5	9.2	14.6	13.8
– external assets	24.1	20.5	5.6	4.8
– fixed assets	11.7	3.0	2.7	2.7
Total gross assets	427.8	3.1	100	100
Deposits from domestic banks and other MFIs	6.5	68.0	1.5	0.9
Deposits from domestic residents:	285.4	10.3	66.7	62.3
– households	163.5	11.9	38.2	35.2
– companies	110.8	4.4	25.9	25.6
– public sector	11.1	68.9	2.6	1.6
Debt securities issued	1.9	-15.5	0.4	0.5
External liabilities, excluding debt securities	49.7	-21.6	11.6	15.3
Capital and reserves, including provisions	67.3	-6.9	15.7	17.4
Other liabilities	17.0	16.8	4.0	3.5
Total equity and liabilities	427.8	3.1	100	100

NOTE:
Loans and assets are at gross value (which includes provisions), the figures being different from net values (gross values excluding provisions) which are reported in financial statements made public by credit institutions. In terms of liabilities, capital includes also provisions. For comparison, net assets of credit institutions amounted only to RON 393.9 billion at the end of 2016. Components may not sum up to totals due to rounding to one decimal.

SOURCE:
Own computations based on data published by the National Bank of Romania and the European Central Bank. Annual growth rates in real terms were computed by adjusting the annual nominal growth rates by the inflation rate in 2016 (-0.5% yoy).

Summary of Raiffeisen Group's results in Romania

2016 was a good year for lending and we grew our loan portolio by 10%, from EUR 4.24 billion in 2015 to EUR 4.65 billion in 2016. Newly approved loans by the Bank reached EUR 2.5 billion, out of which one third were granted to households. The Bank registered a net profit of EUR 100 million for 2016 vs EUR 98 million in 2015.

In 2016,

Raiffeisen Bank produced a 7% organic growth in loan portfolio, while customer deposit base grew by 11%.

HIGHLIGHTS

- Enhancing the customer business is always at the forefront of our agenda: in 2016, Raiffeisen Bank produced a 7% organic growth in loan portfolio, while customer deposit base grew by 11%.
- The Bank has a strong capital base (CAR 16.8%[1]), highly liquid and primarily deposit-funded balance sheet (Net Loans/Deposits at 0.75). These represent a foundation which positions Raiffeisen Bank well in sight of stricter regulatory requirements and its commitment for growth.
- Our business consistently delivers excellent return on capital, in varying market conditions. 2016 was no exception and we showed a resilient RoE of 14%, despite the challenging economic climate.
- Underlying revenues are up by 3%[2]. Diversified income streams and customer focus have allowed us to cope well with the competitive, low interest rate environment. This is a positive indicator for our earning power development, after several years of pressure.
- Raiffeisen Bank was lead global coordinator and lead joint book-runner in the IPO of Romania's largest private healthcare services provider. It was the biggest ever private IPO on the Bucharest Stock Exchange.

1 Raiffeisen Bank Romania stand-alone, local standards

2 Excluding the proceeds from the VISA Europe transaction

ACCOMPLISHMENTS

- We financed the local economy through newly approved loans of EUR 2.5 billion. More than one third was granted to households. We are also pleased to note doubled term loan production for corporate clients.
- 12% increase in the Bank's Premium private-individual clients. Customers seeking access to professional portfolio management find a quality partner in Raiffeisen Bank[3], with simple and tailored financial solutions for their oftentimes complex financial needs.
- Seamless client experience is always a primary concern for Raiffeisen Bank and this was reflected by the Net Promoter Score (NPS[4]), which has improved as compared to 2015.
- Raiffeisen Bank registered a 77% growth in active users[5] of our Mobile banking application, reaching 49 thousand at the end of 2016.
- The Bank managed to increase its interest revenues by 4% yoy. This is an important and positive indicator for Raiffeisen Bank's earning power development, after several years of economic pressure.

3 Best Private Banking Services in Romania, Euromoney Private Banking and Wealth Management Survey, 2016

4 Net promoter score for private individuals, which measures customers' willingness to recommend the Bank

5 Clients performing at least one transaction in the last month

Summary of Raiffeisen Group's results in Romania

SELECTED FINANCIALS

Raiffeisen Bank's vision and purpose are oriented towards customers' needs and real economy. This is the main underlying driver behind a resilient earning power. Operating income increased by 8% in 2016, on the background of higher net interest income, slightly lower fee contribution and EUR 21 million proceeds from the VISA Europe share sale. Without this last event, underlying revenues would have increased by 3%.

OPERATING INCOME AND PROFIT	NOTE	2016 RON '000	2015 RON '000	informative conversion 2016 EUR '000	informative conversion 2015 EUR '000
				Unaudited	Unaudited
Net interest income	7	1,112,104	1,054,647	247,642	237,268
Net fee and commission income	8	621,382	630,006	138,369	141,735
Net trading and investment income	9	308,525	293,352	68,702	65,996
Non-interest income		1,060,315	950,399	236,110	213,815
Operating income		2,172,419	2,005,046	483,752	451,082
Operating expenses	11,12	1,171,536	1,209,516	260,877	272,109
Pre-provisioning profit		1,000,883	795,530	222,876	178,973
Net charge of provision for impairment losses	13	469,269	289,012	104,496	65,020
Share of gains of associates	22	9,562	3,245	2,129	730
Profit before income tax		541,176	509,763	120,509	114,683
Net profit for the year		449,278	426,431	100,045	95,936

Net interest income proved resilience to record-low market rates and increased by 4% yoy. Rates for customer deposits fell to historic lows all over in the market, but those looking to borrow benefited from lower credit interest rates. However, main driver for the return to growth was the increase in the loan book (by 8%). On the downside, we witnessed a decrease in contribution from the portfolio of debt instruments, mainly explained by the fact that prevailing yields did not justify strong acquisitions.

Net commission income benefited from an increase in payments fees (+3%, in line with overall growth in transacted volumes) and higher insurance fees, in close relation with the intensified lending activity. Online and mobile banking are playing an increasingly bigger role in how clients interact with the bank; this is also visible in the FX trades, for which the main drivers for growth (+5% in terms of fees) have been the transactions through debit cards and online spot trades. Some notable decreases influencing net fee contribution came from interchange and acquiring business, largely due to the capping of interchange commissions (EU directive in place starting 2016) and from lower Raiffeisen Asset Management fees, due to the change in the customer pricing in Q4 2015.

Underlying cost of risk continues to decrease, in line with the improvements felt in the local economy. We are pleased to notice continued discipline in payment behavior from our clients and fewer new defaults on Corporate. Two non-recurring changes have affected the reported loan impairment charges: EUR 27 million provisions and incurred losses related to the "Datio in Solutum" law and also a one-off negative impact from a change in provisioning methodology.

8%

is the percentage our operating income increased by in 2016, on the background of higher net interest income, slightly lower fee contribution and EUR 21 million proceeds from the VISA Europe share sale.

Cost efficiency provides room for new investments. We are growing our digital capabilities and realizing efficiency gains through elimination of complexity and a leaner approach on how we do things; the released capital is being allocated to continued investments in our strategic initiatives. Total reported operating expenses show 3% decrease in 2016, on the background of some non-recurring events and lower legal and regulatory expenses.

Summary of Raiffeisen Group's results in Romania

We have a strong balance sheet, with a solid capital position and predominantly traditional banking products, resulting in client-driven assets and funding profile.

BALANCE SHEET	NOTE	2016 RON '000	2015 RON '000	informative conversion 2016 EUR '000	2015 EUR '000
				Unaudited	Unaudited
Cash and cash equivalents	16	8,203,157	6,981,390	1,806,425	1,543,019
Loans and advances to banks	19	546,165	1,138,893	120,272	251,717
Loans and advances to customers	20	19,761,042	18,153,586	4,351,598	4,012,286
Investment securities	21	3,849,590	4,115,797	847,722	909,669
Tangible and intangible fixed assets	23, 24	355,506	300,181	78,286	66,346
Total assets		33,460,643	31,486,533	7,368,400	6,959,119
Deposits from banks	27, 29	1,720,601	2,251,557	378,895	497,637
Deposits from customers	28	26,374,944	23,739,592	5,808,052	5,246,898
Debt securities issued	29	512,239	739,694	112,801	163,486
Subordinated liabilities	29	954,973	950,436	210,296	210,064
Equity	32, 33	3,273,907	3,210,595	720,950	709,602
Total liabilities and equity		33,460,643	31,486,533	7,368,400	6,959,119

We have a strong exposure to the local economy, and so it comes as no surprise that we have seen especially positive trends for our consumer loans portfolio this year. Main drivers for this development were the improved employment opportunities of the population over the recent period, higher disposable income and our ability to properly meet the customers' needs. In light of recent developments related to legislative issues, the mortgage loan production was stagnant and relied largely on the "First Home" program.

Economic growth is still heavily leaned towards consumption, so financing local businesses becomes increasingly important for setting the grounds for further sustainable growth. Our efforts to provide accessible funding solutions for legal entities translate in new term loans for SME 12% greater yoy, helped also by almost 50% higher disbursements from EIF sources. New term loans approved by the bank for Corporate clients have doubled yoy, pushed upward by some major syndicated deals.

It is worth mentioning however that this achievement came also in the context of a transaction with an entity held in proportion of 100% by Raiffeisen International Betailingungs AG, consisting in Raiffeisen Bank Romania S.A. acquiring a loan portfolio of approximately EUR 75 million in the first quarter of 2016. This leaves a picture of 7% organic growth, which is a remarkable achievement in a context of still sluggish market (loans granted by banks to private sector have grown by a near 1% in the local banking system in 2016).

Deposits from customers once again show strong, double-digit growth pace (+11%), helped primarily by Retail current accounts (+30% yoy). In a market dominated by very low interest rates, our clients know their money is in good hands at all times and this places us in a good position to continue developing our business.

Summary of Raiffeisen Group's results in Romania

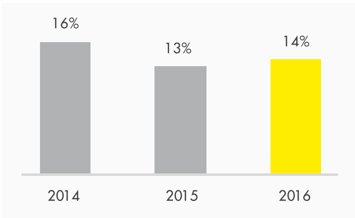
In 2016,

customer satisfaction has risen, but has not yet reached the level we are aiming for.

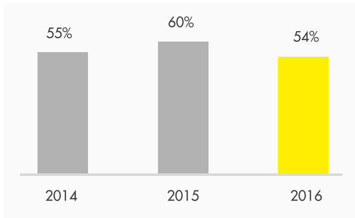
PERFORMANCE FOCUS

Consistent track record of financial strength and creating shareholder value. Effective cost management and resilient top line have kept our underlying CIR[3] at 55%, while underlying risk charge[3] has fallen below 1%.

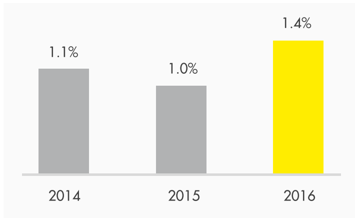
ROE[1]



CIR[2]

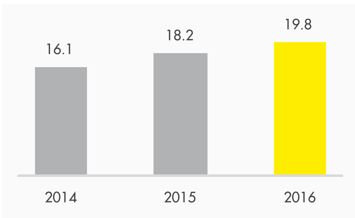


RISK CHARGE[4]

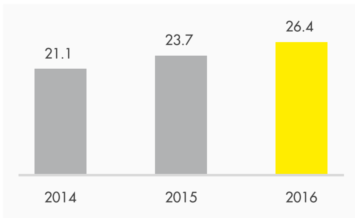


The foundations for customer focus remain in the basic services. We gradually increased our business in the past years and we are committed to further doing so, by delivering top quality banking products that meet our clients' needs.

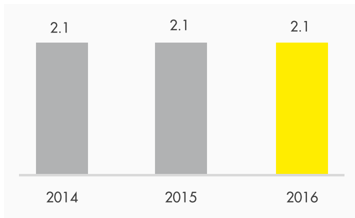
LOANS, NET (RON bn)[5]



DEPOSITS (RON bn)

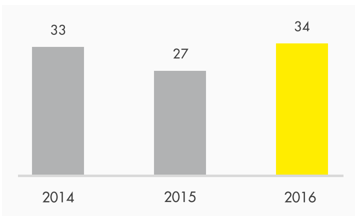


CLIENTS (mn)

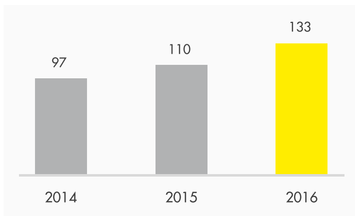


Customer satisfaction has risen but has not yet reached the level we are aiming for. Embedding Net Promoter Score in our way of working is a distinct goal for us, alongside making further steps towards our digital future.

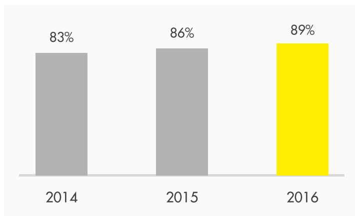
NPS PI[6]



ALTERNATIVE CHANNELS USERS (ths)[7]



ELECTRONIC PAYMENTS (% of total)



[1] Net profit divided by average stockholder's equity (including profit of the current year)
[2] Reported operating expenses divided by total operating income
[3] Underlying ratio carves out the impact of non-recurring events
[4] Provisions for impairment losses divided by total average assets
[5] Loans, net of provisions
[6] Net promoter score for PI, yearly average
[7] Active users (at least one transaction in the last month)

At the end of 2016, Raiffeisen Bank had 5,236 full-time employees (FTE), compared to 5,349 FTE in 2015.
The average age of the Bank's employees was 37.

5,236
is the number of Raiffeisen Bank full-time employees at the end of 2016.

TRAINING

Employee learning and development has been and continues to be one of our constant concerns and one of the human resources strategic approaches.

Through the development programs Raiffeisen Bank provides internally, it can directly contribute to employees' individual and team performance, and consequently to the performance of the organization. 2016 marked the continuation or launching of training programs derived from the Bank's strategy and aligned to organizational culture, which aimed at the development of both functional capabilities and leadership ones, as well as the increase of employees' engagement. The types of programs delivered were addressed to all Raiffeisen Bank's employees, either from the business segments or enabling functions areas (private individuals, SMEs, corporate, treasury, operations, IT). The learning and development methods options continued to be diverse: technical trainings, transversal initiatives for competence development, certifications, conferences or workshops. In designing and delivering training programs, the Bank also aimed to reach its learning objectives through high quality content and methods. These programs were implemented both with internal learning specialists and external providers.

Raiffeisen Bank equally continued to improve training practices and support technologies: experiential learning, interactive platforms, blended learning and gamification concepts.

As for the network units, in 2016 the Bank continued the learning program for newly-hired employees, revised according to the specific activity of each unit. This includes induction, products, operations, credit, customer relationship trainings, and combines alternative learning methods, suited to the current business context and aligned with the new trends and technologies.

The Bank also improved the induction program for its employees from the headquarters, aiming to facilitate the integration of new hires in the organization and, at the same time, continued the professional and leadership capabilities development programs.

Moreover, a new program was launched and implemented: Raiffeisen Banking University, an innovative development program for the Bank's employees. Within this program, Raiffeisen Bank identifies and officially acknowledges its own experts in various banking related topics. It's about those colleagues who, based on their experience, can build and deliver training sessions for other colleagues interested in professional development, and who can share really applicable, practical knowledge. In 2016 we had 46 lecturers joining the program and we delivered 175 sessions to a total of 2,300 participants.

At the same time, Raiffeisen Bank continued and developed its well-being program RStyle, aiming team consolidation and encouraging an ideal work-life balance. The program wins an increasing number of participants from year to year and includes workshops and events implemented throughout the year on various areas: sports, nutrition, health, personal development, and parenting.

Raiffeisen Banking University
is a new program for the Bank's employees. 46 lecturers, experts from the company in various banking related topics, delivered 175 sessions to 2,300 participants in Bucharest and major cities.

HUMAN RESOURCES-BUSINESS PARTNERSHIP

Performance Management
The Bank has implemented a new system of performance management, taking into account the need of a fast and flexible system of performance management that has to quickly adapt to changes derived from the Bank's 2020 strategy, vision and mission, organizational values and also the whole group of regulations and different environmental factors that influence our activity.

Principles of the new approach:

- Each employee contributes to the Bank's success, because the engagement increases when the employees understand the link between their activity and the Bank's strategic business objectives;

- The focus is on the development of the competencies and learning. Employee development is the most important;

- Permanent feedback is essential. Either it is about a very well reached objective or something has to be changed, it is essential for the feedback to be given. In this way, the changes needed will be implemented more rapidly;

- Harmonizing the objectives for all divisions, due to the fact that all employees have the same objective: the success of Raiffeisen Bank organization. This system uses the Balanced ScoreCard methodology;

- All takes place in the spirit of Raiffeisen Bank's values: Passion, Integrity, Respect, Judgement, Collaboration, Learning, and Simplicity.

In 2016, all managers benefited from training, in order to be prepared to implement the new performance management approach.

Employees Opinion Survey
The Bank run a new annual edition of the survey for studying the opinion of employees and their level of engagement and effectiveness, EOS, in collaboration with the company agreed at the Group level, having a response rate of 80% at Bank level. A new aspect was that the survey aimed to highlight, at a more detailed level, the leadership traits for all management levels, through a special section of additional questions.

Organizational Culture and Internal Collaboration Assessment
In 2016, Raiffeisen Bank decided to assess the current organizational culture in terms of behavioral norms, so as to gather specific indications on how to continue and improve organizational development and change in accordance with the Bank's values and with its 2020 strategy.
The survey included over 1,300 employees and provided important information on the main cultural styles used in the Bank. This allowed for further analyses run in dedicated workshops for each division, which resulted in specific improvement initiatives assumed by participants.
At the same time, Raiffeisen Bank also conducted workshops with top management to design the ideal organizational culture as a benchmark for such improvement actions, starting with 2017.

Also, for the seventh year in a row, Raiffeisen Bank assessed internal cooperation indicators through a specific survey, taken by more than 1,200 employees. The aim of the research was (1) to identify the strengths and improvement areas of internal collaboration, with direct subsequent effect over the satisfaction of the Bank's customers; and (2) to derive adequate action plans whose implementation would lead to increased customer satisfaction.

Remuneration
Raiffeisen Bank has reviewed the remuneration policy and benefits system, bringing significant improvements.
In 2016, all Bank's employees were granted the 13th salary, independently of their performance, as a differentiator in the local salary market. This acts as a motivator and a loyalty factor for the Raiffeisen Bank's employees.
During the year, all the Bank's managers have participated in information sessions, in order to understand the principles of the updated remuneration policy.

Administration
The Bank moved further with internal processes improvement and with actions to increase employees' satisfaction, by addressing important yearly or personal events: birthday, June 1st, Christmas celebration for employees and their children, as well as age relevant Christmas presents for their children.

Recruitment
In 2016, Raiffeisen Bank completed over 900

recruitment and selection processes, by identifying suitable candidates within and outside the organization.

Youth Programs
Raiffeisen Bank also continued its focus on programs designed to attract talent and shape skills. The sixth edition of Raiffeisen IT Trainee was thus conducted, with 18 participants being selected. Hired as Bank's full-time employees, they benefited from the appropriate environment and support from the IT colleagues, in order to get familiarized with the work in Solutions Development, Testing, Data Management and IT Services Operations departments, and come in contact with top technologies. The 2016 edition proved to be a success, being concluded with the integration of all 18 interns in the organization, based on their good results during the program

In 2016, Raiffeisen Bank launched a new program dedicated to young graduates who want to start a career in banking, Raiffeisen Banker 2 Be!, designed as an alternative recruitment channel for front office positions in Bucharest Retail Region.

The 40 selected people, part-time employed, benefited from three-month specific trainings, being included in the day to day activity of certain branches. They were constantly assessed and received feedback according to the established objectives. At the end of the trainee stage, participants have the opportunity to be hired as full time front officers based on their results and their evolution within the program.

The Bank continued to provide internships, both in Head Office and network. During these dedicated internships, students get familiarized with the spirit and culture of an elite multinational organization.

The practice period is between two and four weeks, during which young people are acquainted with the workflow within a banking entity and acquire practical experience, useful for a future employment. In 2016, Raiffeisen Bank provided internships for over 200 students.

Thanks to employees
Raiffeisen Bank's Directorate thanks the entire team for the good work, responsibility and professionalism it demonstrates every day, and the Trade Union, for support and cooperation.

Risk management

Raiffeisen Group approaches risk in a prudent manner, in line with its long-term development goals.

The risk management function is independent from the business and deals with credit risk, market risk, liquidity risk and operational risk. The management body has overall responsibility for the establishment and oversight of the Bank's risk management framework. In this respect, it established the Assets & Liabilities Committee (ALCO), Credit Committee, Problem Loans Committee and Risk Committee, which regularly report to the Management Board and are responsible for developing and monitoring the Bank's risk management policies in the specified areas.

Raiffeisen Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to risk limits. Risk management policies and systems are regularly reviewed to reflect changes in market conditions, products and services offered.

Starting with January 2014, following the issuance and coming into force of the EU Directive and Regulation regarding Basel III implementation, the Bank reports to the National Bank of Romania (NBR) the Leverage Ratio, the Liquidity Cover Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Bank also completed in 2014 the implementation and reporting of the European Banking Authority (EBA) standards concerning forbearance and non-performing exposures. The NBR and EBA regulations on recovery and resolution are applied by the Bank starting from 2015.

In the context of the complex regulatory environment, the Bank continued in 2016 and will extend for the following years the efforts to adapt its IT architecture and the risk policies and procedures to the new legislative requirements and to the market evolution.

Credit Risk

Credit risk analysis and assessment functions for all activity segments are fully centralized and currently represent a single point of contact for the entire Bank. Credit risk activity is organized by industries and specialized by customer segments. This allows a quick reaction to any major change in the micro or macroeconomic environment of Raiffeisen Bank or its customers.

Starting with 2009, the Bank implemented a standardized early warning system in order to monitor certain categories of non-retail borrowing customers and retail borrowing customers. This system monitors, on a monthly basis, the selected portfolio in order to identify early warning signs and explain them. Based on these signs, customer portfolio is split into risk groups and actions/strategies are proposed for the customers considered problematical.

Raiffeisen Bank S.A. received NBR's approval to determine the capital requirement for credit risk according to internal rating models approach (IRB), starting with 2009, July 1st. As regards the retail portfolio, Raiffeisen Bank received NBR's approval to determine the capital requirement for credit risk according to advanced internal rating models approach (AIRB), starting with 2013, December 1st.

Market Risk

Regarding market risk, the Bank currently uses the standard approach for capital requirement calculation. The market risk management is currently implemented through a market risk limits structure applied to the Bank's exposures towards interest rate risk, forex risk and other subtypes of market risks. The close monitoring process and the monitoring frequency of the established limits assure a prudent market risk profile for Raiffeisen Bank.

Liquidity Risk

The Management Board defines the liquidity risk strategy based on recommendations made by the units responsible for liquidity and funding management in cooperation with the area responsible for monitoring and controlling of liquidity risk. The main tools used for liquidity risk management and control purposes are: liquidity gap report, liquidity scorecard, regulatory liquidity indicator, early warning system, regulatory liquidity coverage ratio (LCR), internal stress test.

Operational Risks

Staring with 2010, January 1st, Raiffeisen Bank determines and reports the capital requirement for operational risk, using the standard approach based on the National Bank of Romania's approval from November 2009.

This approval was based on the operational risk management framework developed throughout the Bank by defining and using advanced instruments such as: an operational risk incidents database, operational risk indicators, risk scenarios, risk assessment matrix – instruments that are continuously improved.

Segments Report

Corporate Banking

2016 was another successful year for the Corporate Division under the strategy of focusing on developing long-term relationships with Corporate customers. Feedback and suggestions for improvements received from the clients were embedded in the mid-term plan as strategic objectives.

5%

was the Corporate Division of Raiffeisen Bank portfolio increment in terms of Assets net of risk provisions and 6.8% in terms of Liabilities, as compared with the previous year.

The main directions followed by the Corporate Division during the year were:

- Focus on the holistic approach towards the ecosystems formed around Corporate Customers, addressing all the stakeholders (e.g. suppliers, clients, employees, shareholders, key executives, etc.);
- Boost the efficiency program through:
  - — Continued migration to electronic channels and/or centralization of expertise,
  - — Structured sales process (e.g. trial bank, top-up volumes, pre-approved amounts campaigns),
  - — IT infrastructure for faster and more reliable response to client's needs
- Focus on business development programs (e.g. financial, human resources, research, operational processes) for the customers, especially on Mid Market segment. The events had also a strong networking component for best practice sharing;
- Conformity with regulatory requirements: complying with local, international and group requirements (e.g. Basel III, FATCA, AQR, etc.).

Raiffeisen Bank maintained its leading positions in the Romanian market for syndicated loans as mandated lead arranger positions, along with strong involvement in project finance and merger & acquisition transactions, within a diversified portfolio that increased in 2016 with several tickets in industries such as healthcare, real estate, retail, education, food and beverages.

In 2016 we launched "Raiffeisen Catalizator", a program specially designed for decision makers in mid-market companies* from Romania, to help them develop and manage their businesses more effectively, that also continues in 2017. Delivered by well-known specialists, the program is structured in several interactive sessions focused on important topics for entrepreneurs, such as how to build the business strategy and a healthy organizational culture, how to create and promote a visual identity (branding) and efficient communication channels via social media, financial management, business development and increasing sales, team building and people management.
Partnerships with institutional investors (e.g. EIB, EIF, EBRD) were continued and conferred an economic advantage to the bank-client relationship. On Mid Market segment, these partnerships were very important as they eased the access to finance for development of the SME clients. All these efforts were recognized by customers in the satisfaction survey.

The Corporate Division of Raiffeisen Bank increased its portfolio with 5% in terms of Assets net of risk provisions and 6.8% in terms of Liabilities as compared with the previous year, representing a sound base for future development. The Assets increase was fueled by new loan production, which grew at a more than doubled pace than the year before.
Top line result on the P&L followed a similar growing path with 5.1% increase yoy. Risk results were successfully reduced by 56.5%, ensuring the Bank's customers of its sound and reliable business model. These two factors determined the very good result on the bottom line, which registered an increase of 70.5% yoy. This result is also significant, considering the important investments efforts which determined a 9.5% yoy increase in operational expenditures.

* Mid-market companies – companies/group of companies that recorded a consolidated turnover between equivalent 5 to 50 million EUR per year.

Raiffeisen Bank continued to optimize its network distribution, registering a total number of 478 branches at the end of 2016, out of which 103 in Bucharest and Ilfov County only.

In addition, the Bank expanded the number of multifunctional machines (MFMs), reaching 140, out of which 129 are installed in branches. Clients can use these MFMs to make easy and quick transactions like cash deposits in lei (the local currency), bill payments in lei, foreign exchange EUR/USD in lei and cash withdrawals in lei. In March, Raiffeisen Bank opened Ardealul Agency, the first branch in which banking operations with cash can only be performed by using the MFM.

SERVICE QUALITY

Considering the strategy of increasing the customer service quality, Raiffeisen Bank aims to simplify the access to its products and services as much as possible, while being closer to its customers with appropriate offers. For this purpose, in 2016 the Bank significantly increased the number of mobile offices organized at employers' premises. This activity was extremely well received by companies' employees because it provides comfort, saves time and offers personalized advice. Also, in these companies, the Bank started a financial education program with the goal of offering a better understanding to customers about how products and services work for their benefit, the associated risks and how they can manage them.

The sales force network increased the focus on promoting electronic channels, so, as a result, the usage of Smart Mobile service and MFMs has significantly increased. These services allow customers a longer period than in branches to get information about their accounts, to purchase new products and to make transactions 24/24, thus benefiting from cost savings and time comfort as customers should not go to a banking unit this way.

In 2016, Raiffeisen Bank continued valuing customer feedback by ensuring a proper environment for receiving and solving customer complaints. As a result, it was registered an increase of complaints number (+14% more than the previous year), while client satisfaction rose slightly as compared to the previous year.

RESULTS COMPLAINTS	2011	2012	2013	2014	2015	2016
Complaints number	29,336	36,327	45,517	51,047	59,915	68,169
Positive resolutions	65%	71%	77%	75%	82%	84%
Loyalty customers with complaints	97%	98%	96%	97%	98%	98%
Satisfaction with complaint process (survey scale 1-5, 1=very unhappy, 5=very happy)	3.2	3.3	3.3	3.2	3.1	3.2

PRIVATE INDIVIDUALS

Raiffeisen Bank continued to implement its 2020 Development Strategy by achieving a very important objective: New Current Account Bundles. This offers a unique banking experience, without infrastructure and pricing limits, or requirements regarding tenure in a certain company.

The principles the bundles were built on are:

- They mix all the features you need as transactions, lending or saving;
- Clear, easy to understand pricing mechanism;
- They reward the income customers and young people, thus allowing an organic correlation with our strategy regarding students and employees.

At the same time, the Bank continued its efforts to digitize the financial services by extending the roll-out of MFMs and switch the transactions to the electronic environment. Mobile Banking was the performer of the year: more than 80% active users increase, compared to 2015, and about 2.4 million monthly log-ins at the end of the year. Regarding technology, we focused on the easy access in the app (fingerprint and PIN), account checking (widget) and payments (taxes). Regarding digital sales, the Bank launched online customer enrollment and cash loan flows through www.raiffeisen.ro

Friedrich Wilhelm Raiffeisen segment was awarded "The best Private Banking service in Romania" by some of the most prestigious financial publications in the world: *Euromoney, Global Finance, The Banker & Professional Wealth Management.* These are the most important distinctions awarded in this field and it is for the first time in Romania when a local Private Banking service receives such a reward.

Raiffeisen Bank's Private Banking Division offers a wide range of top products, addressed to customers with high revenues: financial advisory, tailor-made solutions, access to financial instruments and related services. It also services a number of 1,230 customers (15% more than in 2015) and has assets under administration that reached EUR 1.15 billion.

SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

Having in view the characteristics of the Romanian market, Small and Medium-sized Enterprises (SMEs) segment in Raiffeisen Bank comprises companies with private capital and an annual turnover of up to EUR 5 million, including Professionals and entities such as foundations and associations. The Bank's strategy for this client segment aims to develop and consolidate "home bank" relationships, through a clear and transparent communication, based on understanding the clients' specific needs and providing the most appropriate financial solutions.

Raiffeisen Bank further segments SME clients into companies with annual group sales turnover of up to EUR 1 million and companies with annual group sales turnover between EUR 1 and 5 million, to whom the Bank provides a customized approach based on the size, profile, transactional and financial needs of the respective clients.

A specialized SME team of Raiffeisen Bank develops the SME strategy and ensures a high quality customer experience, as well as loyalty increase among Raiffeisen Bank's clients. The Bank also offers financial advisory and dedicated assistance in identifying the most appropriate products and financial solutions, so that they take informed decisions that best support their business development plans.

SMEs can benefit of a wide range of alternative channels, too, through which they can access the Bank's products and services: mobile/tablet banking (Smart Mobile), Internet Banking (Raiffeisen Online) or phone banking (Raiffeisen Direct and the new interactive voice response – Natural Language Understanding), but also a national expansion of the Bank's multifunctional machines.

Continuous efforts of the Bank to adapt to the changing needs of the clients reflected in a redesign of current account operational packages for SMEs in 2016, aiming at cost optimization of the daily transactions of the entire SME database.

The SMEs lending portfolio maintained a stable growth of 7.5%, reaching EUR 385 million as of December 2016. As in 2015, working capital needs continued to represent the highest weight in total new lending, while the appetite for long-term financing remained low during 2016, in line with the general conservative appetite among legal entities, specifically to pursue investment projects. The lending activity was focused in 2016 in facilitating the access to finance of both new and existing clients, through flexible guarantee schemes.

In this framework, the JEREMIE Initiative launched in 2011 in cooperation with European Investments Fund (EIF), which allowed SME clients with growth potential to benefit from finance solutions with less stringent collateral requirements and affordable pricing, continued its success in 2016. At the end of the program, the total value of the portfolio was EUR 145 million, corresponding to a total number of 1,750 SME clients who benefited of 2,340 facilities under EIF guarantee.

Reflecting the Bank's strong brand awareness and client's confidence, the liabilities balances for SME remained stable at the level of EUR 966 million as of December 2016, up with 0.5% compared to the similar period in 2015.

A series of business seminars with representative guest speakers at national level on various topics (financing solutions, tax and investment products) were organized in important cities like Târgoviște, București, Bacău, Galați, Timișoara, Sibiu. These were accompanied by multiple micromarketing events (round tables) held at branch level.

As SMEs continue to represent a strategic segment for Raiffeisen Bank, and the Bank is looking forward to support this type of clients by providing a simple and comprehensive products and services offer based on their specific profile and by ensuring a positive sales interaction, with a focus on digital distribution channels.

Treasury and Capital Markets

As we had anticipated, 2016 turned to be the year when the first signs of trend reversing on the financial markets appeared and, perhaps, the first year when the market surveys clearly showed a change of expectations in the evolution of interest rates.

The global financial environment and the regional one were rather volatile, while the local market made no exception, although compared to the emergent markets, investors continued to see Romania as a rather safe market, less exposed to the global pressure.

Considering this context, the Capital Markets Department, through its Sales Team, has continued to be a trustworthy partner for our clients, offering them a variety of tailor-made products. Therefore, we continued to monitor the development of our partners, ensuring easy and transparent access to the products relevant to their needs.

This was the best year in terms of complex financial products intermediation, a clear sign that our partners understood the need to cover the interest rate risk, as well as the foreign exchange one where risks did exist within their cash flow and balance sheet.

Moreover, they acknowledged the need to diversify the investments where opportunity appeared.
In 2016, Raiffeisen Bank continued to be a solid partner to the Ministry of Finance, which appreciated the Bank's activity by naming it the Best Primary Dealer of the year. The quality of Raiffeisen Bank's communication with the market and its compliance with the best execution principle earned it a respectful place among the investors community, a decisive factor in being awarded the Primary Dealer title.

The Bank's plans for the future do not differ much from the ones in the previous years. We will continue to focus on our relationship with clients and invest in both the infrastructure and our training in order to respond, the best way possible, to the increasingly diversified and complex needs of Raiffeisen Bank's partners.

Economic and Equity Research
The Economic and Sectorial Research Directorate provides analyses and reports that cover main developments in Romanian economy and financial markets.

Macroeconomic research is aimed to provide a comprehensive overview of the most recent developments in the economy (with focus on GDP, external sector, inflation, interest rates, exchange rate) and an outlook for the following period. Economic research is also performed for the key sectors of the economy (companies and households) in order to identify structural characteristics of these sectors, the most recent tendencies in their activity, and their potential in terms of banking activity.

The major part of the macroeconomic analyses is disseminated outside the Bank as part of the publications issued by Raiffeisen RESEARCH. At the same time, the economic and sectorial research is a key input for Bank's business lines, helping them to shape current and strategic decisions and assess the consequences of different risk scenarios. Applied macroeconomic research activity is carried out by a professional team using quantitative techniques and public and internal available databases.

The equity research team offers comprehensive research coverage of the Romanian stock market, actively covering 17 companies, including all the companies in the Romanian BET (Bucharest Exchange Trading) index. In addition, there are around 40 companies, mainly small caps, covered without a rating. The coverage universe includes the latest companies listed on the local exchange: Romgaz, Nuclearelectrica, Electrica and MedLife. Analysts keep in contact with more than 50 institutional investors which are actively pursuing the local stock market. The team works in close cooperation with the colleagues from Raiffeisen Centrobank and Raiffeisen RESEARCH. The research team participates in side-by-side projects with the investment banking department, taking care to fully comply with the independence and non-interference principles between the corporate finance and research activities.

Key developments in the real sector and financial markets are timely covered in daily and weekly reports (Daily Market Report, CEE Daily, CEE Weekly). Comprehensive assessment of major trends in the Romanian economy and financial markets are provided in the monthly report Romania – Economic Overview and in the annual country report for Romania. The quarterly Central & Eastern European Strategy report produced by Raiffeisen RESEARCH in Vienna provides useful insights regarding past and potential developments in all the economies where the Raiffeisen Bank International is present. Developments in the banking sectors from these countries are covered in detail by the annual CEE Banking Sector Report.

Among the key equity research products are the company reports, which contain the analysts' views on the covered stocks. The analysts apply fundamental analysis and use an array of methods and techniques to arrive at a target price and thus a recommendation for the companies under coverage. The team strives to keep clients informed and relevant news is sent daily, before start of trading, or during trading hours if market moving information comes along. Brief notes are sent after trading hours with evening news. A weekly bulletin provides investors with a comprehensive overview of the current valuations for companies and sectors. Quarterly results are preceded by previews and first impression reports follow after publication.

Beginning of each year, the research team prepares a wrap-up report outlining the stock market evolution in the previous year, and trends for the starting year.

Financial Institutions & GSS (Group Securities Services)
Financial Institutions & GSS Directorate has as main responsibility origination and development of the business relationship with banking and non-banking financial institutions: commercial banks, investment banks, insurance companies, leasing companies (having a financial group as main shareholder), investment funds, pension funds, brokerage companies, finance companies (mortgage or consumer finance), financial institutions qualified as supranationals.
The main functions of the directorate comprise business origination by the relationship managers, promotion and selling of products/banking services to the above mentioned clients, under direct coordination with product experts.

Top priorities from the previous years have been extended for 2016 as well: strengthening of business relationship with the existing clients, new client acquisition, increase of income derived from non-risk products selling, enhancing cross-selling as number of products/client, multiplying the volumes routed through the Bank, efficiency. As a result, the Financial Institutions segment had a steady good performance in 2016 as well, contributing to the final result of the Bank.

Main products that registered significant increase from the income point of view, generated by FI client portfolio, have been trade finance (volume has doubled as compared with 2015), custody and fund administration (depository), equity trading, treasury sales.

The liabilities recorded a slight decrease in terms of volume, as a result of historical minimum interest rates in the market combined with the Bank's liquidity position. Net income profit decreased accordingly at the segment level.

As regards clients defined as "banks", the activity on the existing accounts has increased, with a new number of new counterparts opening settlement accounts for local currency in our books in 2016.

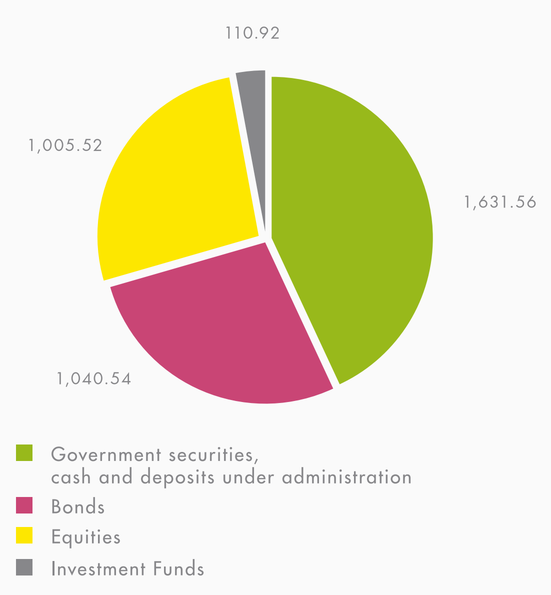
In compliance with Raiffeisen Bank's efforts to reach excellence, the correspondent banks network has been extended (currently over 800 counterparts).
The Securities Services Department – GSS is the business line for custody and depositary services for investment and pension funds. The department, part of FI&GSS Directorate, is also responsible for the distribution, information and payment agent services for external investment funds, special settlement in relation to the Bucharest Stock Exchange Central Depository and Sibex Depository, as well as for the paying agent activity provided to the bond issuers.
At the end of 2016, the value of the assets for which Raiffeisen Bank performs fund administration and custody services was of EUR 3.78 billion.

According to the provisions of FSA Norm no. 6/2015 regarding the management of the operational risk generated by the IT systems, in 2016, the Bank has evaluated the operational risk associated to custody and fund management services. The assessment report pointed out that the potential losses derived from the operational risk incidents regarding the custody and depositary activities can be absorbed by the Bank. Based on the provisions of the aforementioned regulation, Raiffeisen Bank has audited the custody and fund administration IT systems.

In 2016, in order to implement the provisions of the regulations impacting the custody and depositary activities (namely, EU Regulation no. 231/2013, Law 74/2015 and FSA Regulation no. 10/2015, EU Directive 2014/57 – MAD and EU Delegated Regulation 2016/438 regarding the obligations of the UCITS depositary bank), as well as to enforce the measures imposed by the 2015 internal audit on custody and depositary activities, we have revised the internal procedures for custody activities, as well as for depositary activities, for the assets of undertakings for the collective investment of transferable securities and alternative investment funds.

Treasury and Capital markets

Assets structure (EUR million)



Balance Sheet and Portfolio Management

The Balance Sheet and Portfolio Management Directorate is responsible for the strategic management of the Bank's assets and liabilities with the goal of ensuring a stable net interest income while maintaining a sustainable medium and long-term liquidity and capital position of the Bank. To this end, the Directorate is comprised of three interrelated teams: Asset and Liability Management (ALM), Liquidity Portfolio Management, and Funding Management.

The ALM team is responsible for the dynamic balance sheet management through an ongoing process of formulating, implementing, monitoring the strategies for the Bank's balance sheet approved in the Asset and Liability Management Committee.

The management of the balance sheet considers both the liquidity and interest rate perspective and is performed by using an ever-growing and improving set of tools, including an effective system of internal funds transfer pricing, as well as a dedicated ALM application called Kamakura for both liquidity and interest rate risk management.

Liquidity Portfolio Management team is responsible for maintaining an adequate liquidity position that allows the Bank to respond to client needs and meet payment obligations both during normal economic activity and stress conditions. For insuring adequate liquidity in stress conditions Raiffeisen Bank holds a liquidity buffer comprised of high quality liquid assets (HQLA), including cash held at central bank and bonds eligible as collateral for central bank liquidity facilities. By maintaining this buffer the Bank insures the compliance with internal and regulatory liquidity risk requirements for stress conditions.

Liquidity Coverage Ratio (LCR), the regulatory standard for stress conditions, aims to ensure sufficient liquid assets to meet liquidity needs in a stress environment for 30 days. According to regulatory requirements, for 2016 the minimum LCR value was 70% and this level will be gradually increased up to 100% starting with January 2018. In the case of Raiffeisen Bank, the value of the liquidity buffer held by the Bank was in amount of EUR 1.733 million in December 2016, the corresponding LCR value being close to 200%, significantly above the minimum required level of 70%.

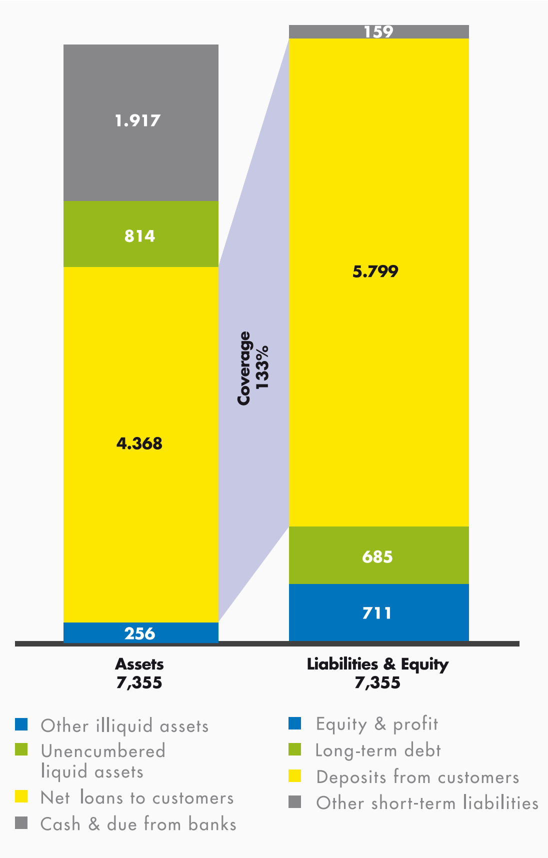
	DECEMBER 2015	DECEMBER 2016
High Quality Liquid Assets (EUR mn)	1,100	1,733
Net Outflows (EUR mn)	460	862
LCR value (%)	239%	201%

The Funding Management unit is responsible for the development, execution and regular updating of the Bank's funding plan. The funding plan reflects projected business growth, development of the balance sheet, future funding needs and maturity profiles, as well as the effects of changing market and regulatory conditions. Furthermore, the funding unit coordinates the operations that enhance the solvency of the Bank in its commitment to maintain a healthy capital position.

Treasury and Capital Markets

The balance sheet is funded primarily through core customer deposits, long-term debt (in the form of senior debt issuance, senior loans and subordinated loans) and shareholders' equity. We monitor the funding sources, including their concentrations, according to their currency, tenor, maturity, and whether they are secured or unsecured.

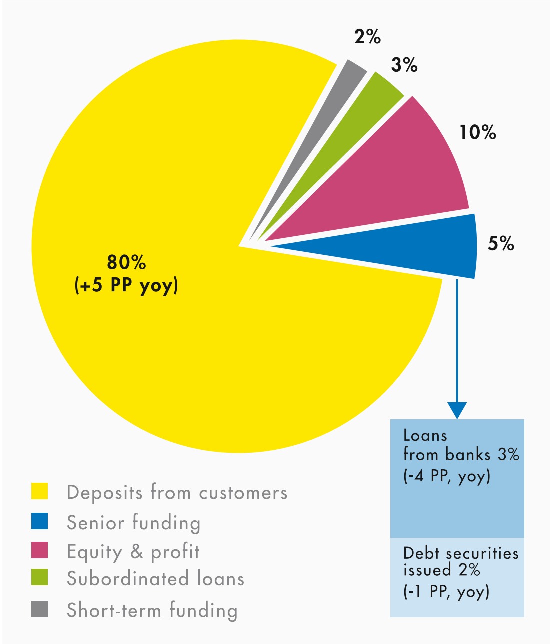
Balance sheet structure at 31 December 2016 (EUR milion)



Similar to 2015, last year was characterized by an ample liquidity of the Bank, sustained primarily by its strong deposit base.

In 2016, the bond issued by the Bank in 2013 for general funding purposes matured, consequently as of 31 December 2016, the Bank remained with one outstanding RON 500 million debt securities issued, which will mature in 2019.

As part of the Bank's funding plan, Raiffeisen Bank was involved in the Portfolio Risk Sharing Program from the European Investment Fund, which successfully ended in 2016. Under this program, the Bank managed to use all funds and direct them to local SMEs (EU definition) at more affordable pricing and lower collateral requirement, thus participating in the expansion of small business loans for the development of the local economy.



Investment Banking Services

In 2016, Raiffeisen Bank distinguished itself once more as an innovator and pioneer on the Romanian capital market through the execution of the largest initial public offering of a private company in Romania listed on the Bucharest Stock Exchange, amounting to RON 228 million, namely MedLife, the largest private medical operator in Romania.

The offering, carried out by a Consortium led by Raiffeisen Bank, was structured as a public offering addressed to retail investors in Romania and as a private placement addressed to qualified institutional investors outside the US. It is important to note that the MedLife IPO benefited from a "greenshoe" stabilization option, a first on the Romanian capital market.

The institutional book was comfortably oversubscribed, while the retail tranche was oversubscribed 3.3 times.

In July 2016, Raiffeisen Bank was part of the syndicate for the performance of the public offering of Government Bonds addressed to retail investors, Fidelis Centenar, the second such issue listed on the Bucharest Stock Exchange. The offering was oversubscribed 7 times vis-à-vis the amount initially announced, prompting the Ministry of Finance to supplement the offering up to the amount of RON 735 million.

Treasury and Capital Markets

Alongside these prominent transactions for the Romanian capital market, Raiffeisen Bank was also involved in other important projects, such as the public tender offer and share buyback program carried out by SIF Banat Crișana and the share capital increase of Comvex S.A.

Its efforts during 2016 led to Raiffeisen Bank's ranking in the top 3 most important brokers on the main segment of the Bucharest Stock Exchange and the receipt of the "Capital Market Institution of the Year" award for its support for the largest transactions and events of the year, during the Inauguration of the Stock Exchange Year 2017, event organized by the Bucharest Stock Exchange.

Asset Management Services

Raiffeisen Asset Management, the asset management company of the Group, continued attracting significant amounts from the clients throughout its investment funds during 2016, thus maintaining its position among the largest asset management companies, with a market share above 16% and approximately 1.5 billion euro assets under management (according to the Fund Managers Association's statistics).

The growth of the assets under management was sustained by the fixed income funds, Raiffeisen Dolar Plus, with an addition of 21 million lei, Raiffeisen RON Plus, with an addition of 17 million lei, but also by the absolute return fund, Raiffeisen Benefit, whose investment policy had been modified by the end of 2015 in order to allow a more flexible allocation in what concerns the equity and other alternative instruments (real estate, commodities, gold), and which contributed with an additional 32 million lei.

The extraordinary results in fund distribution are a confirmation of the fact that the sales forces succeeded to adapt very fast to the new market context, where the clients' need is the priority. Starting from the clients' expectations and risk profile, Raiffeisen Bank's client advisors offered a wide range of products, the investment funds being an attraction not only for the individuals with saving and investing interests, but for the small and medium companies who wish to maximize the return of their liquidities as well.
The wide range of products allowed the full satisfaction of the clients' investment options not only in lei, but in euro and dollars as well. The differentiation from the competitors was due to the adequate communication of the advantages of the funds on one hand, and the implication in the capital gain taxation optimization on the other hand.

The company also had a constant focus towards innovation, being:

- The first in Romania to diversify equity investments to other foreign markets, through Raiffeisen Prosper and Raiffeisen Benefit;
- The first and only company to launch an open-end capital protected investment fund, Raiffeisen Confort and Raiffeisen Confort Euro;
- The first and only to launch a voluntary pension fund, Raiffeisen Acumulare;
- The first company in Romania to manage a fixed income fund denominated in euro, Raiffeisen Euro Plus;
- The first company in Romania to manage a fixed income fund denominated in USD, Raiffeisen Dolar Plus.

Raiffeisen Group is present in Romania through its subsidiaries on different segments of the financial market: banking, investment fund management, leasing and also the building societies segment.

S.A.I. Raiffeisen Asset Management S.A. is the asset management company of the Group in Romania. The social capital, amounted to RON 10,656,000, is 99.99% owned by Raiffeisen Bank S.A. The accounting assets amounted to EUR 11 million. By the end of December, 2016, Raiffeisen Asset Management S.A was the second player on the specific market, with more than 16% market share and assets under management equivalent to approximately EUR 1.5 billion. Counting on the huge potential of the market, in the perspective of reaching the level of the developed countries, Raiffeisen Asset Management S.A. has developed a wide range of products, currently being the only asset management company in Romania offering open investment funds and voluntary pension funds.

Raiffeisen Leasing IFN S.A. has been representing the Raiffeisen Group on the Romanian Leasing Market since 2002. The company share capital is RON 14,935,400 offering a wide range of products for SMEs, corporations and, in a small part, for individuals.

At the end of 2016, Raiffeisen Leasing IFN S.A.'s assets amounted to approximately EUR 202 million and its client database included about 3,600 active clients. Raiffeisen Leasing IFN SA continued the upward trend of the recent years, registering an increase of new financed volumes in 2016, compared to the same period of the previous year.

In 2016, the Romanian Leasing Market also recorded a consolidation, growing up by 20% compared to 2015, mainly sustained by the automotive segment. In a dynamic market, Raiffeisen Leasing IFN S.A. has fully accomplished the strategic directions for 2016, by increasing sales performance, the quality of the portfolio and adequate risk control and profit increase.

Raiffeisen Banca pentru Locuințe S.A., the first building society set-up in Romania, is owned by Raiffeisen Bank S.A., Bausparkasse Schwaebisch Hall AG – Germany and Raiffeisen Bausparkasse GmbH – Austria, each having approximately equal stakes, representing 33.3% of the entire share capital. The Bauspar product represents a combination between savings and loans and, besides the state premium paid by the Romanian Government, the Bank offers fixed interest both on savings and on loans.
The Bauspar system for housing purposes has a powerful social role, encouraging the long-term savings and improving the housing conditions in Romania. At the end of 2016, Raiffeisen Banca pentru Locuințe S.A. had a share capital of RON 131 million and assets amounting to RON 745 million.

At the end of 2016, the Bank owned 100% of Raiffeisen Services S.R.L., 33.33% of Fondul de Garantare a Creditului Rural IFN S.A.'s share capital and also held equity investments in Biroul de Credit S.A, Depozitarul Central S.A., Transilvania Leasing and Credit IFN S.A., Fondul Român de Garantare a Creditelor pentru Întreprinzătorii Privați IFN S.A., Casa de Compensare București S.A., Visa Inc., Societatea de Transfer de Fonduri și Decontări-TransFond S.A.

Consolidated and separate financial statements

Statement regarding the responsibility for preparing the consolidated and separate financial statements as of 31 December 2016

In accordance with article 10, paragraph 1 from republished accounting Law No. 82/1991, the responsibility for the accounting organization and management belongs to the administrator, to the person authorized for credit release or to other person in charge with administration of the entity.

Officially in charge as president of Raiffeisen Bank S.A. - parent company, in accordance with article 31 from republished accounting Law No. 82/1991, I assume the responsibility for preparing the consolidated and separate financial statements as of 31 December 2016 and I confirm that:

a) accounting policies used for preparing the consolidated and separate financial statements as of 31 December 2016 are in accordance with Order of the National Bank of Romania No. 27/2010 and related amendments, which require that these consolidated and separate financial statements to be prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

b) consolidated and separate financial statements prepared as of 31 December 2016 fairly reflect the financial position, statement of comprehensive income, statement of changes in equity, statement of cash flow and the related notes for the activity developed in accordance with Order of the National Bank of Romania No. 27/2010 and related amendments, which require that these consolidated and separate financial statements to be prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Steven van Groningen
President

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TO THE SHAREHOLDERS OF RAIFFEISEN BANK S.A.
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the consolidated and separate financial statements of Raiffeisen Bank S.A. ("the Bank"), which comprise the statement of financial position as at December 31, 2016, the profit or loss account, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Bank as at December 31, 2016, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with the National Bank of Romania Order no. 27/2010, approving the accounting regulations compliant with the International Financial Reporting Standards for credit institutions, with all subsequent modifications and clarifications.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to the audit of the financial statements in Romania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter
Impairment of loans and advances to customers

Management's identification of impairment indicators and determination of the impairment allowance for loans and advances to customers is a complex process and involves judgement and use of estimates. Such an assessment is inherently uncertain, involving various factors and use of assumptions, including the financial condition of the counterparty, expected future cash flows of the debtors and net cash inflows from the potential sale of collaterals.

Special considerations are given to aspects that are new or experienced notable developments in 2016, like Law no. 77/2016 regarding Payment in Kind and the portfolio in Swiss francs, including the legislative developments related to these loans.

The use of different modelling techniques and assumptions could produce significantly different estimates of impairment allowance. Notes 4, 5 and 20 to the financial statements present more information on the estimation of impairment allowance for loans and advances to customers.

Due to the significance of loans and advances to customers (representing 59.06 % of total consolidated assets and 59.13% of total separate assets) and the related estimation uncertainty, we consider this a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included, among others, the assessment of the Bank's methodology regarding the identification of impairment indicators, assessment of specific impairment allowance respectively collective impairment allowance. We assessed the design and evaluated the operating effectiveness of internal controls over the monitoring of loans and advances to customers and over impairment calculations including the quality of underlying data and relevant systems.

For impairment allowance for loans calculated on an individual basis, our analysis was focused on the corporate exposures with the most significant potential impact on the financial statements and considered the key assumptions underlying the impairment identification and quantification such as estimated future cash flows of the debtors, realizable value of collaterals and estimates of recoveries subsequent to the loss event.

Our internal valuation experts were involved, as appropriate, to assist us in performing our audit procedures.

For impairment allowance for loans calculated on a collective basis we analyzed the Bank's methodology, inputs and assumptions used, as well as the model validation where the case.

We further assessed the adequacy of the Bank's disclosures in the financial statements regarding exposure to credit risk.

Key audit matter
Provisions for litigations and other risks
The process for recording provisions is an estimation process involving a high level of judgement, therefore there is an inherent risk that the existing provisions at year-end may significantly differ from the actual loss realized subsequent to the reporting date. The Bank sets up provisions for litigations and other risks, note 20 to the financial statements presenting more information on their estimation. The main aspects for which the management exercised judgment are litigations related to consumer protection issues.

Provisions for litigation and other risks are significant to our audit because the assessment process is complex and judgmental.

How our audit addressed the key audit matter
The audit procedures performed included, among others, an assessment of the Bank's governance, processes and internal controls with respect to recognition and measurement of provisions as well as of the management's assumptions considering the supporting explanations and documentation provided by management and its internal legal advisors for the recording of significant provisions.

We obtained written confirmations from the external legal counsels and compared their opinions with the management's assumptions and assessment regarding the impact and the disclosures in the financial statements related to significant litigations.

Our evaluation was focused on the significant matters, especially the ones that were new or that experienced notable developments in 2016, such as litigations related to consumer protection issues. Our legal experts were involved in the analysis and corroboration of the assumptions used in determining the provisions and contingent liabilities by considering the relevant legal requirements.

We also evaluated the adequacy of the Bank's disclosures in the financial statements regarding provisions for risks and litigations.

Key audit matter
Information Technology (IT) systems relevant for financial reporting
A significant part of the Bank's operations and financial reporting process is reliant on IT systems involving automated processes and controls over the capture, storage and processing of information. An important component of this internal control system involves the existence of and adherence to appropriate user access and change management processes and controls. These controls are particularly important because they ensure that the access and changes to IT systems and data are made by authorized persons in an appropriate manner.

The IT environment of the Bank is complex with a significant number of interconnected systems and databases. Due to the high automation of the processes relevant for financial reporting and to the complexity of the IT environment of the Bank, a high proportion of the overall audit procedures was concentrated in this area. We therefore consider that this area represents a key audit matter.

How our audit addressed the key audit matter
We focused our audit procedures on those IT systems and controls that are significant for the financial reporting. As the audit procedures over the IT systems require specific expertise, we involved our IT specialists in performing the audit procedures.

Our audit procedures included, among others, understanding and assessing the overall IT control environment and the controls in place, including the ones over access to systems and data, as well as IT system changes. We tailored our audit approach based on the financial significance of the system and the existence of automated procedures supported by the respective system.

As part of the audit procedures we tested the operating effectiveness of controls over granting access rights to determine if only appropriate users had the ability to create, modify or delete user accounts for the relevant applications. We also tested the operating effectiveness of controls around the development and changes of applications to determine whether these are appropriately authorized, tested and implemented. Additionally, we assessed and tested the design and operating effectiveness of the application and IT-dependent controls in the processes relevant to our audit.

OTHER INFORMATION

The other information comprises the Directors' Report and Annual Report, but does not include the financial statements and our auditors' report thereon. We obtained the Directors' Report prior to the date of our auditor's report, and we expect to obtain the Annual Report after the date of our auditor's report. Management is responsible for the other information.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the National Bank of Romania Order no. 27/2010, approving the accounting regulations compliant with the International Financial Reporting Standards for credit institutions, with all subsequent modifications and clarifications, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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 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,

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group (the Bank and its subsidiaries) to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 significantdeficiencies 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Reporting on Information Other than the Financial Statements and Our Auditors' Report Thereon

In addition to our reporting responsibilities according to ISAs described in section "Other information", with respect to the Directors' Report, we have read the Directors' Report and report that:

a) in the Directors' Report we have not identified information which is not consistent, in all material respects, with the information presented in the accompanying financial statements as at 31 December 2016;

b) the Directors' Report include, in all material respects, the required information according to the provisions of the National Bank of Romania Order no. 27/2010, approving the accounting regulations compliant with the International Financial Reporting Standards for credit institutions, with all subsequent modifications and clarifications, Annex 1 points 11-14 and 37;

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c) based on our knowledge and understanding concerning the entity and its environment gained during our audit of the financial statements as at 31 December 2016, we have not identified information included in the Directors' Report that contain a material misstatement of fact.

On behalf of

Ernst & Young Assurance Services SRL

Registered with the Chamber of Financial Auditors of Romania

No. 77/15 August 2001

Gelu Gherghescu

Registered with the Chamber of Financial Auditors of Romania

No. 1449/ 9 September 2002

Bucharest, Romania,

21 March 2017

The English version of the audit report represents a translation of the original audit report issued in Romanian language.

Consolidated and separate statement of comprehensive income for the year ended 31 December 2016

IN RON THOUSAND	NOTE	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Interest income		1,264,260	1,285,375	1,263,495	1,284,598
Interest expense		(152,156)	(230,728)	(152,433)	(231,078)
Net interest income	7	**1,112,104**	**1,054,647**	**1,111,062**	**1,053,520**
Fees and commissions income		772,471	811,284	758,696	790,125
Fees and commissions expense		(151,089)	(181,278)	(150,719)	(180,919)
Net fee and commission income	8	**621,382**	**630,006**	**607,977**	**609,206**
Net trading income	9	300,741	288,517	300,633	288,261
Net gain from other financial instruments carried at fair value through profit and loss	21	7,784	4,835	7,571	4,835
Other operating income	10	130,408	27,041	148,303	54,120
Operating income		**2,172,419**	**2,005,046**	**2,175,546**	**2,009,942**
Operating expenses	11	(638,723)	(681,158)	(635,986)	(678,132)
Personnel expenses	12	(532,813)	(528,358)	(527,712)	(524,355)
Net provisioning for impairment losses on financial assets	13	(469,269)	(289,012)	(469,269)	(289,012)
Share of gain from associates and joint ventures	22	9,562	3,245	-	-
Profit before income tax		**541,176**	**509,763**	**542,579**	**518,443**
Income tax expense	14,15	(91,898)	(83,332)	(90,950)	(80,879)
Net profit for the year		**449,278**	**426,431**	**451,629**	**437,564**
Other comprehensive income to be reclassified to profit and loss	33	**4,254**	**60,220**	**5,873**	**61,805**
Net gains (losses) on financial assets available-for-sale		(66,626)	71,545	(66,584)	71,583
Related tax of items to be reclassified to profit and loss		10,660	(11,766)	10,653	(11,772)
Other comprehensive income		**(55,966)**	**59,779**	**(55,931)**	**59,811**
Total comprehensive income for the year, net of income tax		**393,312**	**486,210**	**395,698**	**497,375**

The consolidated and separate statement of comprehensive income are to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 064 to 170.

The consolidated and separate financial statements were approved by the Management Board on 20 March 2017 and were signed on its behalf by:

Steven van Groningen
President

Bogdan Popa
Vice-president & Chief Financial Officer

Consolidated and separate statement of financial position for the year ended 31 December 2016

IN RON THOUSAND	NOTE	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
ASSETS					
Cash and cash with Central Bank	16	8,203,157	6,981,390	8,203,153	6,981,376
Trading assets	17	443,694	527,133	443,758	527,218
Derivative assets held for risk management	18	1,013	1,956	1,013	1,956
Loans and advances to banks	19	546,165	1,138,893	546,165	1,138,893
Loans and advances to customers	20	19,761,042	18,153,586	19,761,017	18,153,586
Investment securities	21	3,849,590	4,115,797	3,812,486	4,094,689
Investment in associates and joint ventures	22	69,122	102,192	62,655	76,761
Tax receivable		12,775	-	12,775	-
Other assets	26	205,427	149,691	208,831	153,194
Deferred tax assets	25	13,152	15,714	13,042	15,598
Property and equipment	23	236,092	212,958	235,679	212,695
Intangible assets	24	119,414	87,223	119,236	87,159
Total assets		**33,460,643**	**31,486,533**	**33,419,810**	**31,443,125**
LIABILITIES					
Trading liabilities	17	60,124	37,902	60,124	37,902
Derivative liabilities held for risk management	18	4,120	5,332	4,101	5,276
Deposits from banks	27	583,014	627,082	583,014	627,082
Deposits from customers	28	26,374,944	23,739,592	26,381,841	23,743,196
Loans from banks and other financial institutions	29	1,137,587	1,624,475	1,137,587	1,624,475
Current tax liabilities		102	16,167	-	16,095
Other liabilities	31	482,498	441,861	481,135	440,740
Debt securities issued	29	512,239	739,694	515,961	746,285
Subordinated liabilities	29	954,973	950,436	954,973	950,436
Provisions	30	77,135	93,397	77,135	93,397
Total liabilities		**30,186,736**	**28,275,938**	**30,195,871**	**28,284,884**
EQUITY					
Share capital	32	1,200,000	1,200,000	1,200,000	1,200,000
Retained earnings		1,827,525	1,729,380	1,778,066	1,677,572
Other reserves	33	246,382	281,215	245,873	280,669
Total equity		**3,273,907**	**3,210,595**	**3,223,939**	**3,158,241**
Total liabilities and equity		**33,460,643**	**31,486,533**	**33,419,810**	**31,443,125**

The consolidated and separate statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 064 to 170.

The consolidated and separate financial statements were approved by the Management Board on 20 March 2017 and were signed on its behalf by:

Steven van Groningen
President

Bogdan Popa
Vice-president & Chief Financial Officer

Consolidated and separate statement of changes in equity for the year ended 31 December 2016

GROUP

IN RON THOUSAND	SHARE CAPITAL	OTHER RESERVES	RETAINED EARNINGS	TOTAL
Balance at 1 January 2015	1,200,000	195,515	1,934,870	3,330,385
Net profit for the year	-	-	426,431	426,431
Other comprehensive income, net of income tax	-	59,779	-	59,779
Total comprehensive income for the year, net of income tax	-	59,779	426,431	486,210
Distribution to reserves	-	25,921	(25,921)	-
Distribution of dividends	-	-	(606,000)	(606,000)
Balance at 31 December 2015	1,200,000	281,215	1,729,380	3,210,595
Balance at 1 January 2016	1,200,000	281,215	1,729,380	3,210,595
Net profit for the year	-	-	449,278	449,278
Other comprehensive income, net of income tax	-	(55,966)	-	(55,966)
Total comprehensive income for the period, net of income tax	-	(55,966)	449,278	393,312
Distribution to reserves	-	21,133	(21,133)	-
Distribution of dividends	-	-	(330,000)	(330,000)
Balance at 31 December 2016	1,200,000	246,382	1,827,525	3,273,907

BANK

IN RON THOUSAND	SHARE CAPITAL	OTHER RESERVES	RETAINED EARNINGS	TOTAL
Balance at 1 January 2015	**1,200,000**	**194,936**	**1,871,930**	**3,266,866**
Net profit for the year	-	-	437,564	437,564
Other comprehensive income, net of income tax	-	59,811	-	59,811
Total comprehensive income for the year, net of income tax	**-**	**59,811**	**437,564**	**497,375**
Appropriation of profit to reserves	-	25,922	(25,922)	-
Distribution of dividends	-	-	(606,000)	(606,000)
Balance at 31 December 2015	**1,200,000**	**280,669**	**1,677,572**	**3,158,241**
Balance at 1 January 2016	**1,200,000**	**280,669**	**1,677,572**	**3,158,241**
Net profit for the year	-	-	451,629	451,629
Other comprehensive income, net of income tax	-	(55,931)	-	(55,931)
Total comprehensive income for the period, net of income tax	**-**	**(55,931)**	**451,629**	**395,698**
Appropriation of profit to reserves	-	21,135	(21,135)	-
Distribution of dividends	-	-	(330,000)	(330,000)
Balance at 31 December 2016	**1,200,000**	**245,873**	**1,778,066**	**3,223,939**

The consolidated and separate statement of changes in shareholders' equity is to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 064 to 170.

Consolidated and separate statement of cash flows for the year ended 31 December 2016

IN RON THOUSAND	NOTE	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit for the year		449,278	426,431	451,629	437,564
ADJUSTMENTS FOR NON-CASH ITEMS:					
Depreciation and amortization	11	80,362	79,280	80,238	79,170
Net impairment loss on financial assets (release from recoveries is not included)	13	611,099	376,432	611,099	376,432
Impairment on available for sale instruments	10	16,771	-	14,106	-
Group share of gain from associates and joint ventures	22	(9,562)	(3,245)	-	-
Loss on the sale of property, plant and equipment and of intangible assets		21,446	1,430	11,565	1,399
Net charge of provisions for litigation and other provisions	10,11	(14,550)	52,002	(14,550)	52,002
Income tax expense	14,15	91,898	83,332	90,950	80,879
Fair value adjustments		-95,642	(254)	(95,605)	(312)
Net interest income	7	(1,112,104)	(1,054,647)	(1,111,062)	(1,053,520)
Unrealized foreign exchange losses		(4,786)	5,842	(4,787)	5,842
Income from dividends		(1,501)	(3,612)	(15,990)	(30,083)
Operating profit before changes in operating assets and liabilities		**32,709**	**(37,009)**	**17,593**	**(50,627)**
CHANGE IN OPERATING ASSETS:					
Decrease/(Increase) in trading assets and derivatives held for risk management		83,439	(443,497)	83,460	(443,582)
(Increase)/Decrease in loans and advances to banks		(3,034)	12,208	(3,034)	12,192
Increase in loans and advances to customers		(2,111,966)	(1,147,741)	(2,111,941)	(1,147,741)
Decrease/(Increase) in investment securities		160,320	(789,556)	176,572	(788,559)
(Increase)/Decrease in other assets		(74,016)	15,885	(64,036)	14,274
Purchase of loan portfolio		(337,067)	(1,084,690)	(337,067)	(1,084,690)
Proceeds from sale of loans		146,318	88,361	146,318	88,361
CHANGE IN OPERATING LIABILITIES					
Increase/(Decrease) in trading liabilities		22,222	(16,153)	22,222	(16,412)
(Decrease)/Increase in deposits from banks		(44,068)	91,121	(44,068)	91,120
Increase in deposits from customers		2,575,204	2,477,873	2,578,497	2,475,463
Increase/(Decrease) in other liabilities		16,428	(169,670)	16,258	(167,244)
Taxation paid		(85,019)	(69,475)	(84,186)	(67,275)
Interest paid		(166,072)	(246,817)	(166,410)	(247,167)
Interest received		1,439,322	1,305,985	1,438,558	1,305,196
Cash flows from operating activities		**1,654,720**	**(13,175)**	**1,668,736**	**(26,691)**

continued on next page

Consolidated and separate statement of cash flows for the year ended 31 December 2016 (continued)

		GROUP		BANK	
IN RON THOUSAND	NOTE	2016	2015	2016	2015
INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		18,280	1,027	8,397	994
Acquisition of property, plant and equipment	23	(93,485)	(37,122)	(83,376)	(36,934)
Acquisition of intangible assets	24	(63,648)	(35,204)	(63,488)	(35,166)
Acquisition of investment in associates and joint ventures	22	-	(38,400)	-	-
Proceeds from investment in associates and joint ventures	22	25,861	51,556	-	-
Proceeds from sale of investment securities		107,608	-	107,395	-
Dividends received		1,501	3,612	15,990	30,083
Cash flows used in investing activities		**(3,883)**	**(54,531)**	**(15,082)**	**(41,023)**
FINANCING ACTIVITIES					
Cash from loans from banks		130,982	1,287,915	130,981	1,287,915
Repayments of loans from banks		(603,718)	(1,238,382)	(603,718)	(1,238,382)
Redemption of debt securities issued		(222,096)	(614)	(224,902)	(614)
Dividends paid		(330,000)	(606,000)	(330,000)	(606,000)
Cash flow from financing activities		**(1,024,832)**	**(557,081)**	**(1,027,639)**	**(557,081)**
Net increase/(decrease) in cash and cash equivalents		626,005	(624,787)	626,015	(624,795)
Cash and cash equivalents at 1 January		**8,107,256**	**8,732,043**	**8,107,242**	**8,732,037**
Cash and cash equivalents at 31 December		**8,733,261**	**8,107,256**	**8,733,257**	**8,107,242**

ANALYSIS OF CASH AND CASH EQUIVALENTS

		GROUP		BANK	
IN RON THOUSAND	NOTE	2016	2015	2016	2015
CASH AND CASH EQUIVALENTS COMPRISE:					
Cash on hand	16	3,502,500	1,373,384	3,502,496	1,373,370
Cash with Central Bank	16	4,700,657	5,608,006	4,700,657	5,608,006
		8,203,157	**6,981,390**	**8,203,153**	**6,981,376**
Loans and advances to banks – less than 3 months		530,104	1,125,866	530,104	1,125,866
Cash and cash equivalents in the cash flow statement		**8,733,261**	**8,107,256**	**8,733,257**	**8,107,242**

The consolidated and separate statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated and separate financial statements set out on pages 064 to 170.

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

1. REPORTING ENTITY

Raiffeisen Bank S.A. (the "Bank") started its operations on 1 July 2002 upon the merger by acquisition of Raiffeisen Bank Romania S.A. by Banca Agricola Raiffeisen S.A. through issue of shares. The merger between the two banks was finalized on 30 June 2002 with the purpose of streamlining the operations of the Raiffeisen Group in Romania.

The Bank is licensed by the National Bank of Romania to conduct banking activities. The current registered office is located at Sky Tower Building, Calea Floreasca no 246C, district 1, Bucharest, Romania.

The consolidated and separate financial statements of the Bank for the year ended 31 December 2016 comprise the Bank and its subsidiaries (together referred to as the "Group").

The Group is primarily involved in corporate and retail banking, brokerage, leasing and asset management services.

The main activity of the Bank is to provide day-to-day banking services to corporate and individual clients. These include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance, medium term facilities, bank guarantees and letters of credit. The Group also provides financial consultancy services for small and medium enterprises operating in Romania, financial leasing services, loan services in locative system, asset management services and brokerage services. The Group operates through the Head Office located in Bucharest and through its network of 478 branches as at 31.12.2016 (2015: 510 branches).

The Bank is managed in accordance with the dual management system by a Supervisory Board made up of 7 members and a Management Board made up of 7 members.

The members of the Supervisory Board as of December 31, 2016 are as follows:
- Karl Sevelda – Chairman
- Martin Grüll – Deputy Chairman
- Johann Strobl – Member
- Klemens Josef Breuer – Member
- Peter Lennkh – Member
- Anca-Ileana Ioan – Independent Member
- Andreas Gschwenter – Member

The structure of the Management Board as of December 31, 2016 is as follows:
- Steven van Groningen – President;
- Cristian Sporiș – Vice-president, coordinating the Corporate Division;
- James D. Stewart. Jr. – Vice-president, coordinating the Treasury and Capital Markets Division;
- Carl Rossey – Vice-president, coordinating the Operations and IT Division;
- Vladimir Kalinov – Vice-president, coordinating the Retail Division;
- Mircea Busuioceanu – Vice-president, coordinating the Risk Division;
- Bogdan Popa – Vice-president, coordinating the Accounting and Financial Controlling Division.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with Order no. 27/2010 of the National Bank of Romania and subsequent amendments, which require that these consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The accounting records of the Bank are maintained in RON in accordance with the Romanian accounting law and the National Bank of Romania banking regulations.

Starting with 2012 National Bank of Romania issued regulations through which the International Financial Reporting Standards as adopted by the European Union ("IFRS") become basis of accounting for banks. As such the statutory accounts of the Bank and of Raiffeisen Banca pentru Locuinte are in line, in all material respects, with these standards.

The non-banking subsidiaries, associates and joint ventures prepare financial statements in accordance with the Romanian accounting law and the National Bank of Romania banking regulations ("statutory accounts") except for ICS Raiffeisen Leasing S.R.L which prepares financial statements in accordance with the Moldavian accounting law.

These accounts have been restated to reflect the existing differences between the statutory accounts and IFRS. Accordingly, such adjustments have been made to the statutory accounts as have been considered necessary to bring the financial statements into line, in all material respects, with IFRS.

b) Basis of measurement
The consolidated and separate financial statements have been prepared on the historical cost basis except for the following significant items from the consolidated statement of financial position:

- derivative financial instruments are measured at fair value;
- financial instruments held for trading and those designated at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- liabilities for cash-settled share based payment arrangements are measured at fair value.

c) Functional and presentation currency
The elements included in the financial statements of each Group entity are evaluated by using the currency of the primary economic environment in which the entity operates ("functional currency"). These consolidated and separate financial statements are presented in Romanian Lei ("RON"), which is the functional and presentation currency of the Bank, rounded to the nearest thousand.

d) Use of estimates and judgments
The preparation of consolidated and separate financial statements in accordance with IFRS as endorsed by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on the historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The management judgments in applying accounting policies which have a significant impact on the consolidated and separate financial statements as well as highly uncertain estimates are disclosed in Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities controlled by the Bank. Control exists when an entity has the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Bank holds:

- 100% (2015: 100%) investment in Raiffeisen Services S.R.L., a company providing financial services with the exception of those related to services rendered on the capital markets;
- 99.99% (2015: 99.99%) investment in Raiffeisen Asset Management S.A., an asset management company with the purpose of administrating funds.

The Bank has consolidated the financial statements of its subsidiaries in accordance with IFRS 10 "Consolidated Financial Statements".

The Bank classified the investment in subsidiaries as financial assets available for sale and evaluated them at cost due to the fact that these investments are equity instruments for which there is no active market for identical instruments and their fair value cannot be reliably estimated. Fair value requires significant judgement by management.

(ii) Joint venture
The Group holds interests in the following joint ventures:

- 50% (2015: 50%) interest in Raiffeisen Leasing IFN S.A.;
- 50% (2015: 50%) interest in ICS Raiffeisen Leasing S.R.L. from the Republic of Moldova, a company held 100% by Raiffeisen Leasing IFN S.A.;
- 33.32% (2015: 33.32%) in Raiffeisen Banca pentru Locuințe S.A. which is an entity exclusively dedicated to saving and lending business.

The Group has consolidated the financial statements of its joint ventures using the equity method, in accordance to IAS 28 "Investments in Associates and Joint Ventures".

The Bank has classified these investments as financial assets available for sale and evaluated them at cost less provision for impairment, where appropriate.

(iii) Associates
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the Group's share of the total recognized gains and losses of associates and joint ventures on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases (see Note 22).

When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. After application of the equity method, including recognizing the associate's losses, the investor applies the requirements of IAS 39 "Financial Instruments: Recognition and Measurement" to determine whether it is necessary to recognize any additional impairment loss with respect to the investor's net investment in the associate.

The Bank holds investments of 33.33% (2015: 33.33%) in Fondul de Garantare a Creditului Rural - IFN S.A. Also the Group accounts proportionately for the share of gain or loss from its associates in accordance to IFRS 11 "Investments in Associates".

The Bank has classified these investments as financial assets available for sale and evaluated them at cost less provision for impairment, where appropriate.

(iv) Transactions eliminated on consolidation
Intra-Group balances and transactions, and any unrealized gains arising from intra-Group transactions (except for the gains or losses from foreign exchange differences related to these transactions), have been eliminated from the consolidated financial statements. Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in that entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Foreign Currency

(i) Foreign currency transactions
Transactions in foreign currencies are translated to RON at the official exchange rates from the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign exchange gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on settlement are recognized in profit or loss, except for differences arising from the translation of equity available-for-sale financial instruments, which are included in the fair value adjustment reserve.

The exchange rates of major foreign currencies were:

CURRENCIES	31 DECEMBER 2016	31 DECEMBER 2015	% INCREASE/DECREASE
Euro (EUR)	1:RON 4.5411	1:RON 4.5245	0.01%
US Dollar (USD)	1:RON 4.3033	1:RON 4.1477	0.04%

(ii) Foreign operations
A foreign operation is the one whose activities are based in a country other than that of the reporting entity or whose activities are denominated in the different currency than the one of the reporting entity.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RON at exchange rates at the reporting date. The income and expenses of foreign operations are translated to RON at the exchange rates at the date of the transactions.

Foreign currency differences on the translation of foreign operations are recognized directly in equity. When a foreign operation is disposed of, in part or in full, the relevant amount of the foreign currency translation reserve is transferred to profit and loss.

c) Interest income and expense
Interest income and expense are recognized in the consolidated and separate statement of comprehensive income using the effective interest rate method for all financial instruments. The effective interest rate method is used to determine the amortized cost of a financial asset or liability and apportion the interest income and expense over a relevant period of time. 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. For the effective interest rate computation, the Group estimates the future cash flows by taking into account the contractual terms of each financial instrument, however it does not account for future credit losses. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. The effective interest rate method is a method of calculating the amortized cost of loans and advances to customers whereby up-front and management fees received between parties to the contract and origination costs should be integral part of the effective interest rate and should be amortized and recognized as interest income over the relevant period.

Interest income and expense presented in the consolidated and separate statement of comprehensive income include:

- interest on loans and advances to customers on an effective interest basis;
- fees and commission income/expense attributable to loan origination and management of a financial asset or liability;
- interest on financial assets and liabilities at amortized cost on an effective interest rate basis;
- interest on available-for-sale investment securities on an effective interest basis;
- interest on investment securities designated at fair value through profit or loss.

Fees and commissions directly attributable to the origination and management of a financial asset or liability (both income and expense), are included in the measurement of the effective interest rate.

Loan origination fees which can be separately identified are deferred, together with the directly attributable costs and are recognized as an adjustment to the effective interest rate of the loan.

Interest income and expense on all trading assets and liabilities are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

d) Fees and commissions
Fees and commissions income arises on financial services provided by the Group including commitment fees, card fees, cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset management services.

Other fees and commissions income arising on the financial services provided by the Group including cash management services, brokerage services, investment advice, financial planning, investment banking services are recognized in the consolidated and separate statement of comprehensive income on the accrual basis i.e. when the corresponding service is provided. Other fees and commissions expense relates mainly to transaction and service fees, which are expensed as the services are received.

Other fees and commissions income and expenses corresponding to saving-lending products, which are not part of the effective interest rate of the financial instruments, are recognized when the related services are provided.

e) Net trading income
Net trading income comprises gains and losses from trading assets and liabilities and includes all realized and unrealized fair value changes, interests, dividends and foreign exchange differences.

f) Net gain/loss from other financial instruments at fair value
Net gain/loss from other financial instruments at fair value arises from derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit and loss and include all realized and unrealized fair value changes, interests, dividends and foreign exchange differences.

g) Dividends
Dividend income is recognized in the consolidated and separate statement of comprehensive income when the right to receive the income is established. Usually, this is the ex-dividend date for equity securities. Dividends are reflected as a component of other operating income based on the underlying classification of the equity instrument.

Tax on dividends is recognized at the same time as the payment of the related dividends and is due in the following month.

Dividends to be distributed by the Bank or Group are treated as an appropriation of profit in the period they are declared and approved by the General Shareholders Meeting.

h) Lease payments
Payments made under operating leases are recognized in the consolidated and separate statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognized in the consolidated and separate statement of comprehensive income as an integral part of the total lease expense. Operating lease expense is reflected as a component of operating expense.

Minimum lease payments made under financial leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability.

(i) Income tax
Income tax for the year comprises current and deferred tax. Income tax is recognized in profit or loss or equity except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is determined using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for the goodwill from transactions that are not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates which are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be used. 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 realized.

j) Financial assets and liabilities

(i) Classification
The Group classifies its financial instruments into the following categories:

Financial asset or financial liability at fair value through profit or loss.
This category has two sub-categories:
- financial assets or financial liabilities held for trading
- and those designated at fair value through profit or loss at inception.

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

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss.

Trading assets and liabilities are not reclassified subsequent to their initial recognition, unless the following conditions are met:

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

Derivatives held for risk management purposes
Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the consolidated statement of financial position.

After initial recognition, the derivative financial instruments are measured at fair value without accounting for any additional cost of trading which may arise at the moment of sale or acquisition.

Changes in the fair value of these instruments are directly recognized in the profit or loss account, as part of the trading result.

Derivatives except for derivatives held for risk management are also classified as held for trading.

Held-to-maturity investments
These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity.

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. The available for sale financial assets comprise unquoted equity instruments, bonds, discount or coupon treasury bills issued by Government of Romania and credit institutions.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(b) those that the entity upon initial recognition designates as available for sale; or
(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

(ii) Recognition
The Group initially recognizes loans financial assets and liabilities at fair value on the date that they are originated.

(iii) Derecognition
The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when the Group 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 the transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognized in the consolidated and separate 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 derecognized from the consolidated and separate statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

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

The transferred asset is derecognized if it meets the de-recognition criteria.

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated and separate statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to 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 in the Group's trading activity.

(v) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method, for the differences between the initial amount and the maturity amount, minus any reduction from impairment or from impossibility of recovery.

(vi) Fair value measurement

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

All estimates and judgments used in fair value measurement are described in Note 5. Unquoted equity instruments for which a reliable estimate of the fair value cannot be made are measured at cost and periodically tested for impairment.

(vii) Identification and measurement of impairment

Assets carried at amortized cost

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets loss are impaired. A financial asset or a group of financial assets are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may be difficult to identify a single 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 loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the effective interest rate, consisting in the current variable component of interest rate and the margin from the date of classification as default.

The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated and separate statement of comprehensive income. 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 using an allowance account. The amount of the reversal is recognized in the consolidated and separate statement of comprehensive income.

Loans and advances to customers

The Group has included observable data on the following loss events that come to its attention as objective evidence that loans and advances to customers or groups of loans to customers are impaired:

(a) Significant financial difficulty of the borrower, in accordance with the internal customer evaluation procedure;

(b) A breach of contract, such as a default or delinquency in interest or principal payments;

(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;

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

(e) The disappearance of an active market for that financial asset because of financial difficulties;

(f) Reliable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

(i) Adverse changes in the payment status of borrowers in the group, or
(ii) National or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists as described above individually for loans and advances to customers that are individually significant, and individually or collectively for loans that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed loans and advances to customers, whether significant or not, it includes the loans and advances to customers in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans and advances to customers that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. For the purpose of the collective evaluation of impairment, loans and advances 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 (e.g based on the Group's credit risk evaluation or the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).

The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

For some loans fully covered with allowances for impairment, the Group has written off their value. At the same time these loans were recorded in off balance sheet and the Bank is still monitoring for further recoverability.

For corporate and small exposures, at least one of the following preconditions must be met before the write off of a financial asset in the balance sheet, for which the contractual rights can still be exercised:

a) the guarantee recovery process has ended or this process does not make economic sense;
b) the debtor bankruptcy legal proceedings were concluded, respectively there is no probability of future cash flow from the debtor.

For retail exposures (private individuals and micro), the following three conditions must be cumulatively fulfilled in order to write off a financial asset from the balance sheet, for which the contractual rights of the cash flows are not expired:
a) the last payment/collection is older than 360 days (payments under 10 euro are not taken into account);
b) all guarantees decreased the corresponding receivable and there are no real estate mortgages and/or movable (e.g. cars, equipment) in Group's favour that can be executed in any form required by law/or the value of the guarantee is zero;
c) recovery process by realization of real estate collateral is already completed.

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 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.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

Also, the Group recognizes the impairment loss related to equity instruments classified as available for sale if there is a significant and prolonged depreciation of the fair value under the acquisition cost. Professional judgment should be applied to determine what "significant" and "prolonged" is and, when applying the professional judgment, the Group evaluates, among other factors, the duration and the extent in which the fair value of the investment is less than its cost. However, any subsequent recovery in the fair value of an impaired available for sale equity instrument is recognized in other comprehensive income.

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 respective financial asset and the present value of estimated future cash flows discounted at the current internal market rate of return for a similar financial asset. Such impairment losses are not reversed through profit and loss.

(vii) Designation at fair value through profit or loss
The Group has designated financial assets and liabilities at fair value through profit or loss when either:

- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- The assets or liabilities are managed, evaluated and reported internally on a fair value basis or
- The asset/liability contained an embedded derivative that significantly modified the cash flow that would otherwise have been required under the contract.

Note 6 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss. The financial assets designated at fair value through profit and loss comprise listed and unlisted bonds and other fixed income financial instruments issued by the government and corporate institutions. The Group has made the designation due to the fact that the respective assets are part of a group of financial assets evaluated and reported internally on a fair value basis in accordance with the risk management procedure and investment strategy of the Group.

k) Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprise: cash balances on hand, current accounts and other placements with the National Bank of Romania, nostro accounts and placements with other banks which have a short maturity of three months or less from the date of acquisition.

l) Property, plant and equipment

Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Costs include expenditures that are directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The costs with maintenance of property, plant and equipment are recognized in profit and loss account as they incur. Expenses generated by replacing a component of a property, plant and equipment item, including major repairs, are capitalized, if improve the future performance of the property, plant and equipment item.

Depreciation
Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each item. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	**50 years**
Office equipment and furniture	**5 years**
Motor vehicles	**4 years**
Computer equipment	**4 years**

Depreciation methods, useful life and residual values are reassessed at each reporting date and adjusted if appropriate.

m) Intangible assets

Software
Software acquired by the Group is stated at cost less accumulated amortization and accumulated impairment losses. Expenditure on internally developed software is recognized as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software and are amortized over its useful life.

Subsequent expenditure on software 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. Amortization is recognized in profit or loss 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 of software is between 1 and 8 years. Amortization methods, useful life and residual values are reassessed at each reporting date and adjusted if appropriate.

n) Leased assets
Lessee: Leases in terms of which the Group assumes substantially all risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and are not recognized in the Group's statement of financial position.

Lessor: The Group also acts as lessor in contract through which substantially all the risks and rewards of ownership are transferred to the lessee. These contracts are classified as finance leases and a receivable equal to the present value of minimum lease payments is recognized in the consolidated financial statements.

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

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

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

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

Impairment losses recognized in prior periods are assessed at each reporting date. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

p) Inventory
Inventories are measured at the lower of cost or net realizable value. Repossessed real estates resulting from loans are booked in accordance with IAS 2 "Inventories", at the lower of the cost (i.e.: loan net of provision) and net realizable value (i.e.: realization value of collateral, decreased by selling costs).

q) Deposits from customers, loans from banks, debt securities issued and subordinated liabilities
Deposits from customers, loans from banks, debt securities issued and subordinated liabilities are the Group's sources of funding.
The Group classifies issued financial instruments as financial liabilities or equity instruments in accordance

with the substance of the contractual terms of the instrument. Deposits from customers, loans from banks, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method.

r) Employee benefits

Short-term benefits
Short-term employee benefit obligations are expensed as the related service is provided. Short-term employee benefits include wages, bonuses and social security contributions.

A provision is recognized for the amounts expected to be paid under short-term cash bonus or profit-sharing plans, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognized as an expense in the consolidated statement of comprehensive income as incurred.

The Group, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension (Pillar 3), health care and unemployment benefit. All employees of the Group are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognized as an expense in the consolidated statement of comprehensive income as incurred. The Group does not have any further obligations.

Defined benefit plans
The Group does not operate any defined benefit plan and, consequently, has no obligation in this respect.

Long-term employee benefits
The Group's net obligation in respect of long-term service benefits, other than postemployment plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

In case of retirement, the Group offers to the respective employees a number of salaries, depending on the service period. The obligation for this jubilee granted under the provisions of the Group's collective labour agreement is estimated using the projected unit credit method and is recognized to the consolidated statement of comprehensive income on an accruals basis. Changes in the discount rate and from other actuarial assumptions are recognized as income or expense over the expected average remaining working lives of the employees participating in the plan.

Share-based payment transactions
The fair value of the amount payable to employees in respect of share appreciation rights that are settled in cash is recognized as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payment. The liability is premeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

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

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payments (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

t) Provisions
A provision is recognized in consolidated financial position if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. 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. Provisions include provisions for pending legal issues, provisions for un-drawn commitments and other provisions.

u) Standards, interpretations and amendments to published International Financial Reporting Standards

Changes in accounting policy and disclosures
Standards issued but not yet effective and not early adopted:
• *IFRS 9 Financial Instruments: classification and measurement:* In July 2014, the IASB issued IFRS 9 "Financial Instruments", the standard that will replace IAS 39 "Financial Instruments: Recognition and Measurement" for annual periods on or after 1 January 2018, with early adoption permitted. IFRS 9 contains requirements for the classification, measurement, hedge accounting, recognition and derecognition of financial instruments. The IASB published the final version of the standard within the context of completion of the various phases on July 24, 2014 and it was definitively incorporated into EU law through the EU Commission's adoption of Regulation (EU) No. 2016/2067 of November 22, 2016. Key requirements of IFRS 9 are:

a. *Classification and measurement*
From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost.

IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

b. *Impairment of financial assets*
For subsequent measurement of financial assets measured at amortized cost, IFRS 9 provides for three stages which determine the future amount of losses to be recognized and the recognition of interest.

The first stage requires that at the time of initial recognition, expected losses must be shown in the amount of the present value of an expected twelve-month loss. If there is a significant increase in the default risk, the risk provision must be increased up to the amount of the expected full lifetime loss (stage 2). When there is an objective indication of impairment, the interest in step 3 must be recognized on the basis of the net carrying amount.

In addition to transitional provisions, IFRS 9 also includes extensive provisions on disclosure both during transition and during ongoing application.

c. *Hedge accounting*
IFRS 9 grants accounting options for hedge accounting. Group plans to continue to apply the provisions on hedge accounting pursuant to IAS 39.

In addition Group will change the structure of consolidated and separated financial statements due to both first time adoption of IFRS 9 and changes in the information in the notes pursuant to IFRS 7 and also regulatory requirements (especially FINREP).

For IFRS 9 implementation, an internal project was set up provide support in matters relating to methodology, data acquisition and modelling, IT processes and accounting. Overall steering is the responsibility of an IFRS 9 steering committee whose members includes Finance and Risk employees together with the board members with relevant responsibility.

During the 2016 financial year, the Group developed the relevant technical concepts and associated implementation guidelines. As part of the project, steps were commenced to conduct Group-wide iterative impact analyses with regard to classification and measurement ("SPPI test" and "benchmark test") and impairment of financial instruments. The Group will complete the analyses in stages during 2017.

Group anticipates that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. It is expected that overall, IFRS 9 will increase the level of risk provision. This estimate is based on the requirement to recognize a risk provision in the amount of the expected loan defaults for the first twelve months even for those instruments where the credit risk has not increased significantly since initial recognition. Moreover, it is based on the estimate that the volume of assets for which the "lifetime expected loss" is applied is probably larger than the volume of assets where loss events pursuant to IAS 39 have already occurred.

Regarding the classification of financial instruments, it was established that the impact of changes is not significant at Group level and that the majority of financial instruments will continue to be measured in the same categories as required by IAS 39.

• *IFRS 15 Revenue from Contracts with Customers:* The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Group is in the process of assessing the impact on the consolidated and separate financial statements.

• *IFRS 15: Revenue from Contracts with Customers (Clarifications):* The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 "Revenue from Contracts with Customers", particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. These Clarifications have not yet been endorsed by the EU. Group is in the process of assessing the impact on the consolidated and separate financial statements.

• *IFRS 16: Leases:* The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. Group is in the process of assessing the impact on the consolidated and separate financial statements.

• *IAS 7: Disclosure Initiative (Amendments):* The Amendments are effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfill the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. These Amendments have not yet been endorsed by the EU. Group is in the process of assessing the impact on the consolidated and separate financial statements.

v) Segment reporting

The Group discloses information at segment level to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

An operating segment is a component of the Group: (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group)
(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to take decisions about resources to be allocated to the segment and assess its performance, and
(c) for which discrete financial information is available

Segment reporting is based on the following business lines of the Group: corporate, individuals, small and medium entities (referred to as "SME") and Treasury, the latter including financial institutions.

4. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

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

Click here
The disclosure requirements according to part 8 of Regulation 575/2013 on prudential requirements for credit institutions and investment firms are published on the Bank's internet page at the address.

This note provides details of the Group's exposure to each of the above-mentioned risks, as well as Group's policies and processes for measuring and managing risk. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and equity price risk.

Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the risk management framework. Assets and Liabilities Committee ("ALCO"), Credit Risk Committee, Risk Management Committee and Problem Loan Committee are responsible for developing and monitoring Group's risk management policies in their specified areas. All committees report regularly to the Management Board. The framework for risk management is defined in the risk strategy, elaborated and reviewed with annual frequency. The risk profile is also annually reviewed and comprises the evaluation of all risks considered significant. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and compliance with the approved limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. This process of risk management is critical to the Bank's continuing profitability and each employee within the Group is responsible for monitoring compliance with the Group's risk management procedures.

The Audit Committee reports to the Supervisory Board and has the responsibility to monitor the compliance with risk management procedures. Internal Audit assists the Audit Committee in these functions. 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 Stress Testing exercises are a common practice in the Group. Stress tests to be performed are either locally developed or developed and run at Raiffeisen Bank International Group level. The bank put in place a "Business stress testing concept paper" which establishes the steps, concepts, methodologies and timelines in stress testing process. All stress tests results are analyzed and reported to management.

b) Credit risk

i) Credit risk management

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentration, and by monitoring exposures in relation to such limits. The Group is exposed to credit risk through its lending, trading and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties, or in the situation in which it conducts financial leasing operations, or it issues guarantees.

Credit risk associated with trading and investing activities is managed through the Group's credit risk management process. The risk is mitigated through selecting counterparties of good financial standings and monitoring their activities and through the use of credit limits and when appropriate, by obtaining collateral. The Group's primary exposure to credit risk arises through its loans and advances to customers as well as from conduction of activities related to concluding finance lease contracts. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Group is exposed to credit risk on various other financial assets, including derivative instruments and debt investments, the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Group is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued (see Note 35). In order to minimize this risk, Group procedures are in place to screen the customers before granting the loans and lease contracts and to monitor their ability to repay the principal and interest during the duration of the loans and lease contracts and to establish exposure limits.

The Management Board has delegated the responsibility for the credit risk management to the Credit Committee. A Risk Division, reporting to the Chief Risk Officer is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies, by pursuing the target of maintaining a healthy loan portfolio, by establishing adequate limits and defining specific lending criteria for certain products, clients categories etc.
- Establishing and implementing of procedures related to: the treatment and valuation of collaterals, periodical loan reviews, classification and loan portfolio reporting, legal documentation related to loans and lending activity, monitoring and treatment of nonperforming loans, ensuring compliance with the regulatory requirements.
- Establishing an authorization structure of approval and renewing of loan facilities: the authorization limits can be settled at the individual level of certain designated risk analysts or at the Credit Committee level or at the level of the approving entity designated at Group level. The authorization limits are stipulated in the Credit Committee and are established on different criteria like loan amount, compliance with the credit policies.
- Evaluation and review of the credit risk take place in accordance with the authorization limits set out in the Credit Committee as well as with the regulatory requirements.
- Limiting concentrations of exposure to counterparties, geographical areas, industries and by issuer, loan classification category, market liquidity and country (for investment securities). The concentration risk is monitored throughout the portfolio management activity. It is analyzed on a monthly basis through reports and presented to the personnel involved in the lending activity as well as to the management.
- Developing and maintaining the client classification systems depending on the risk grading. Unitary client classification systems are used at Group level depending on the client risk grading. These systems comprise both scoring and rating methodologies. The Group performs periodical reviews of the clients' classification systems. The risk grading measured through the above mentioned systems stands at the base of determining the loan loss provision necessary to cover the default risk.
- Reviewing and monitoring the compliance of business units with the limits established through the Credit Policies and internal norms.
- Regular reports are provided to Credit Committee on loan portfolio quality and appropriate corrective actions are proposed and implemented.
- Providing information, advice, guidance and expertise to business units in order to promote credit risk management best practice throughout the Group.

The Group has implemented an Early Warning Signs, which is used for a monthly credit portfolio screening targeting identification of upcoming problematic exposures as early as possible. The system is based on triggers automatically detected for each client on monthly basis, but it is also based on ad-hoc manual input if adverse information is known.

The implementation of the credit policies and procedures is insured at the Group's level. Each branch is obliged to respect and implement the Group's loan policies and procedures. Each branch is responsible for the quality and performance of its credit portfolio. The Group has process of centralization of both credit approval and loan administration for companies and individuals, which leads to improved quality of the credit portfolio and better monitoring.

Internal Audit undertakes regular audits of branches/agencies and Group credit processes.

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

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

ii) Credit risk management

In the table below are presented the risk concentrations by product for retail customers and by economic sectors for non-retail customers. In the table are presented gross balance sheet and off balance sheet exposures.

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2016	31 DECEMBER 2015	31 DECEMBER 2016	31 DECEMBER 2015
RETAIL CUSTOMERS*, OF WHICH:				
Personal loan	**4,645,085**	3,952,493	**4,645,085**	3,952,493
Mortgage	**4,040,945**	3,890,214	**4,040,945**	3,890,214
Home equity	**1,944,249**	2,221,540	**1,944,249**	2,221,540
Credit Card	**2,152,308**	1,904,771	**2,152,308**	1,904,771
Overdraft	**1,440,046**	1,455,166	**1,440,046**	1,455,166
Investment financing	**520,966**	483,366	**520,966**	483,366
Other	**6,377**	5,650	**6,377**	5,650
NON-RETAIL CUSTOMERS, OF WHICH:				
Agriculture	**628,031**	617,289	**628,031**	617,289
Electricity, oil & gas	**1,010,665**	1,624,989	**1,010,665**	1,624,989
Manufacturing	**2,313,557**	2,299,917	**2,313,557**	2,299,917
Construction	**2,196,387**	1,828,400	**2,196,387**	1,828,400
Wholesale and retail trade	**3,819,098**	3,104,180	**3,819,098**	3,104,180
Services	**3,037,247**	2,314,546	**3,037,221**	2,314,546
Public sector	**707,999**	590,154	**707,999**	590,154
Total**	**28,462,960**	**26,292,675**	**28,462,934**	**26,292,675**

* Retail customers include individuals and SMEs with turnover below EUR 1,000,000 and the maximum exposure of EUR 200,000.
** Out of total credit risk exposure, at group level and also at bank level, the amount of RON 7,466,857 thousand represents off balance exposure (2015: RON 7,104,203 thousand).

In the table below is presented the split of loans and advances to customers by credit quality:

IN RON THOUSAND	NOTE	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
IMPAIRED LOANS					
RETAIL CUSTOMERS, OF WHICH:					
Rating 1 (minimal risk)		891	56,025	891	56,025
Rating 2 (excellent credit standing)		1,187	94,166	1,187	94,166
Rating 3 (very good credit standing)		358	44,465	358	44,465
Rating 4 (good credit standing)		757	21,295	757	21,295
Rating 5 (average credit standing)		1,835	20,261	1,835	20,261
Rating 6 (mediocre credit standing)		1,405	35,057	1,405	35,057
Rating 7 (weak credit standing)		1,606	26,762	1,606	26,762
Rating 8 (very weak credit standing)		521	16,075	521	16,075
Rating 9 (doubtful and/or partial write off)		5,987	64,755	5,987	64,755
Rating 10 (default)		853,870	665,388	853,870	665,388
Un-rated		5,161	28,637	5,161	28,637
Gross amount		**873,578**	**1,072,886**	**873,578**	**1,072,886**
Specific allowance for impairment	20	(556,320)	(527,055)	(556,320)	(527,055)
Carrying amount		**317,258**	**545,831**	**317,258**	**545,831**
NON-RETAIL CUSTOMERS, OF WHICH:					
Rating 8 (weak credit sub-standard)		551	-	551	-
Rating 9 (very weak credit standard - doubtful)		8,048	21,904	8,048	21,904
Rating 10 (default)		562,770	480,500	562,744	480,500
Project finance*		149,515	61,446	149,515	61,446
Un-rated		12	-	12	-
Gross amount		**720,896**	**563,850**	**720,870**	**563,850**
Specific allowance for impairment	20	(390,888)	(350,444)	(390,888)	(350,444)
Carrying amount		**330,008**	**213,406**	**329,982**	**213,406**

* The Project finance rating model is a tool defined by the Group for non-retail customers.

IN RON THOUSAND	NOTE	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
PAST DUE BUT NOT IMPAIRED					
RETAIL CUSTOMERS, OF WHICH:					
Rating 1 (minimal risk)		7,790	4,233	7,790	4,233
Rating 2 (excellent credit standing)		28,210	14,948	28,210	14,948
Rating 3 (very good credit standing)		57,730	51,051	57,730	51,051
Rating 4 (good credit standing)		118,637	94,879	118,637	94,879
Rating 5 (average credit standing)		281,157	243,629	281,157	243,629
Rating 6 (mediocre credit standing)		215,140	252,976	215,140	252,976
Rating 7 (weak credit standing)		155,822	198,800	155,822	198,800
Rating 8 (very weak credit standing)		98,069	93,342	98,069	93,342
Rating 9 (doubtful and/or partial write off)		242,309	229,588	242,309	229,588
Rating 10 (default)*		37,149	79,052	37,149	79,052
Un-rated		11,403	10,707	11,403	10,707
Gross amount		**1,253,416**	**1,273,205**	**1,253,416**	**1,273,205**
Collective allowance for impairment	20	(89,604)	(86,930)	(89,604)	(86,930)
Carrying amount		**1,163,812**	**1,186,275**	**1,163,812**	**1,186,275**
NON-RETAIL CUSTOMERS, OF WHICH:					
Rating 3 (very good credit standing)		319	-	319	-
Rating 5 (sound credit standing)		107,314	24,122	107,314	24,122
Rating 6 (acceptable credit standing)		18,999	97,439	18,999	97,439
Rating 7 (marginal credit standing)		37,987	23,658	37,987	23,658
Rating 8 (weak credit standard – sub-standard)		2,514	45,765	2,514	45,765
Rating 9 (very weak credit standard – doubtful)		2,633	3,601	2,633	3,601
Rating 10 (default)		2,595	-	2,595	-
Project finance		243,620	352,481	243,620	352,481
Un-rated		253	9,786	253	9,786
Gross amount		**416,234**	**556,852**	**416,234**	**556,852**
Collective allowance for impairment	20	(1,613)	(3,033)	(1,613)	(3,033)
Carrying amount		**414,621**	**553,819**	**414,621**	**553,819**

*Over collateralised exposures which are individually analysed.

IN RON THOUSAND	NOTE	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
NEITHER PAST DUE NOR IMPAIRED					
RETAIL CUSTOMERS, OF WHICH:					
Rating 1 (minimal risk)		3,694,531	2,571,244	3,694,531	2,571,244
Rating 2 (excellent credit standing)		2,380,723	2,291,443	2,380,723	2,291,443
Rating 3 (very good credit standing)		1,585,503	1,828,845	1,585,503	1,828,845
Rating 4 (good credit standing)		1,007,027	1,174,309	1,007,027	1,174,309
Rating 5 (average credit standing)		849,078	898,256	849,078	898,256
Rating 6 (mediocre credit standing)		534,131	463,511	534,131	463,511
Rating 7 (weak credit standing)		244,623	220,358	244,623	220,358
Rating 8 (very weak credit standing)		86,678	76,312	86,678	76,312
Rating 9 (doubtful and/or partial write off)		65,771	51,079	65,771	51,079
Rating 10 (default)*		14,377	6,695	14,377	6,695
Un-rated		91,852	118,359	91,853	118,359
Gross amount		**10,554,294**	**9,700,411**	**10,554,295**	**9,700,411**
Collective allowance for impairment	20	(157,720)	(31,702)	(157,720)	(31,702)
Carrying amount		**10,396,574**	**9,668,709**	**10,396,575**	**9,668,709**
NON-RETAIL CUSTOMERS, OF WHICH:					
Rating 1 (minimal risk)		35,751	11	35,751	11
Rating 2 (excellent credit standing)		374,106	114,705	374,106	114,705
Rating 3 (very good credit standing)		134,955	77,932	134,955	77,932
Rating 4 (good credit standing)		366,353	243,334	366,353	243,334
Rating 5 (sound credit standing)		1,405,471	1,173,374	1,405,471	1,173,374
Rating 6 (acceptable credit standing)		2,339,194	2,198,414	2,339,194	2,198,414
Rating 7 (marginal credit standing)		1,414,159	1,425,461	1,414,159	1,425,461
Rating 8 (weak credit standard – sub-standard)		305,551	288,871	305,551	288,871
Rating 9 (very weak credit standard – doubtful)		73,962	14,128	73,962	14,128
Rating 10 (default)*		10,098	-	10,098	-
Project finance		717,143	481,592	717,143	481,592
Un-rated		942	3,446	942	3,446
Gross amount		**7,177,685**	**6,021,268**	**7,177,685**	**6,021,268**
Collective allowance for impairment	20	(38,916)	(35,722)	(38,916)	(35,722)
Carrying amount		**7,138,769**	**5,985,546**	**7,138,769**	**5,985,546**
Total carrying amount		**19,761,042**	**18,153,586**	**19,761,017**	**18,153,586**

*Over collateralised exposures which are individually analysed.

At Group level, loans and advances to banks in amount of RON 546,165 thousand (31 December 2015: RON 1,138,893 thousand), trading assets in amount of RON 443,694 thousand (31 December 2015: RON 527,133 thousand), derivative assets held for risk management in amount of RON 1,013 thousand (31 December 2015: RON 1,956 thousand), as well as investment securities in amount of RON 3,849,590 thousand (31 December 2015: RON 4,115,797 thousand), are all classified as current.

At bank level, loans and advances to banks in amount of RON 546,165 thousand (31 December 2015: RON 1,138,893 thousand), trading assets in amount of RON 443,758 thousand (31 December 2015: RON 527,218 thousand), derivative assets held for risk management in amount of RON 1,013 thousand (31 December 2015: RON 1,956 thousand), as well as investment securities in amount of RON 3,812,486 thousand (31 December 2015: RON 4,094,689 thousand), are all classified as current.

Loans and advances to banks as of 31 December, 2016 mainly represent money market placements and balances in correspondent accounts. Most important counterparts in terms of exposure are Germany (47%), Denmark (17%) and Austria (14%). Nostro accounts are always available to the Group, are not restricted, not overdue or impaired.

For corporate entities, small and medium entities, financial institutions, local and central public authorities customers, the Group uses rating scales associated with the financial performance, both for the individually and for the collectively impaired loans and advances. In accordance with the Group's policies and procedures, a rating can be associated for each category of risk, from the lowest risk considered (Rating 1) to defaulted loans category (Rating 10). In the case of private individuals and micro exposures, the credit risk is assessed based on advanced internal model rating approach and is compliant with Basel regulatory requests. The Bank assigns ratings to customers at facility level for private individuals and at customer level for micro. After the calibration process a probability of default is assigned to rating classes associated.

An analysis of collaterals (presented as the minimum between the exposure and the net realizable value of collateral) related to the loans granted to clients is presented as follows:

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2016	31 DECEMBER 2015	31 DECEMBER 2016	31 DECEMBER 2015
VALUE OF COLLATERALS HELD AGAINST IMPAIRED LOANS AND ADVANCES				
Property	500,517	558,853	500,517	558,853
Other guarantees	7,080	14,643	7,080	14,643
Cash collateral deposit	2,462	1,269	2,462	1,269
Letters of guarantee	17,326	71	17,326	71
Debt securities	36	-	36	-
Total	**527,421**	**574,836**	**527,421**	**574,836**
VALUE OF COLLATERALS HELD AGAINST UNIMPAIRED LOANS AND ADVANCES				
Property	5,449,804	5,488,330	5,449,804	5,488,330
Other guarantees	1,119,692	884,429	1,119,692	884,429
Cash collateral deposit	98,897	106,769	98,897	106,769
Letters of guarantee	1,848,463	1,158,908	1,848,463	1,158,908
Debt securities	36,441	42,894	36,441	42,894
Total	**8,553,297**	**7,681,330**	**8,553,297**	**7,681,330**

The Group holds collateral against loans and advances to customers in the form of pledge over cash deposits, mortgage interests over property, guarantees and other pledge over equipments and/or receivable. The value of the mortgage collaterals executed by the Group as a result of the enforcement was RON 95,737 thousand (2015: RON 77,474 thousand).

The table below shows the amount of over collateralized exposures and the value of guarantees related to Group:

GROUP

	31 DECEMBER 2016			31 DECEMBER 2015		
IN RON THOUSAND	GROSS EXPOSURE	VALUE OF COLLATERALS	NET	GROSS EXPOSURE	VALUE OF COLLATERALS	NET
RETAIL CUSTOMERS, OF WHICH:	1,672,414	2,833,219	1,160,805	1,387,151	2,411,772	1,024,621
Personal loan	2,357	4,379	2,022	4,859	9,070	4,211
Mortgage	797,154	1,101,636	304,482	593,759	834,066	240,307
Home equity	595,117	1,151,973	556,856	525,766	970,158	444,392
Overdraft	97,879	220,654	122,775	88,357	198,214	109,857
Investment financing	179,795	354,299	174,504	173,888	399,713	225,825
Other	112	278	166	522	551	29
NON-RETAIL CUSTOMERS, OF WHICH:	2,408,185	3,727,287	1,319,102	1,608,451	2,671,299	1,062,848
Agriculture	91,600	162,434	70,834	106,401	228,780	122,379
Electricity, oil & gas	59,941	112,108	52,167	79,267	154,438	75,171
Manufacturing	253,165	508,977	255,812	347,678	592,740	245,062
Construction	688,347	888,074	199,727	317,170	539,872	222,702
Wholesale and retail trade	407,825	812,332	404,507	329,091	570,901	241,810
Services	843,877	1,119,362	275,485	397,526	535,560	138,034
Public sector	63,430	124,000	60,570	31,318	49,008	17,690
Total	**4,080,599**	**6,560,506**	**2,479,907**	**2,995,602**	**5,083,071**	**2,087,469**

The table below shows the amount over collateralized exposures and the value of guarantees related to Bank:

BANK

	31 DECEMBER 2016			31 DECEMBER 2015		
IN RON THOUSAND	GROSS EXPOSURE	VALUE OF COLLATERALS	NET	GROSS EXPOSURE	VALUE OF COLLATERALS	NET
RETAIL CUSTOMERS, OF WHICH:	1,672,414	2,833,219	1,160,805	1,387,151	2,411,772	1,024,621
Personal loan	2,357	4,379	2,022	4,859	9,070	4,211
Mortgage	797,154	1,101,636	304,482	593,759	834,066	240,307
Home equity	595,117	1,151,973	556,856	525,766	970,158	444,392
Overdraft	97,879	220,654	122,775	88,357	198,214	109,857
Investment financing	179,795	354,299	174,504	173,888	399,713	225,825
Other	112	278	166	522	551	29
NON-RETAIL CUSTOMERS, OF WHICH:	2,408,185	3,727,287	1,319,102	1,608,451	2,671,299	1,062,848
Agriculture	91,600	162,434	70,834	106,401	228,780	122,379
Electricity, oil & gas	59,941	112,108	52,167	79,267	154,438	75,171
Manufacturing	253,165	508,977	255,812	347,678	592,740	245,062
Construction	688,347	888,074	199,727	317,170	539,872	222,702
Wholesale and retail trade	407,825	812,332	404,507	329,091	570,901	241,810
Services	843,877	1,119,362	275,485	397,526	535,560	138,034
Public sector	63,430	124,000	60,570	31,318	49,008	17,690
Total	**4,080,599**	**6,560,506**	**2,479,907**	**2,995,602**	**5,083,071**	**2,087,469**

Credit exposure under collateralized at Group level is showed in the table below:

GROUP

	31 DECEMBER 2016			31 DECEMBER 2015		
IN RON THOUSAND	GROSS EXPOSURE	VALUE OF COLLATERALS	NET	GROSS EXPOSURE	VALUE OF COLLATERALS	NET
RETAIL CUSTOMERS, OF WHICH:	11,008,874	3,402,637	(7,606,237)	10,659,351	3,451,027	(7,208,324)
Personal loan	4,642,728	5	(4,642,723)	3,947,634	91	(3,947,543)
Mortgage	3,243,791	2,456,412	(787,379)	3,296,455	2,399,856	(896,599)
Home equity	1,345,449	689,918	(655,531)	1,695,219	833,928	(861,291)
Credit Card	733,075	-	(733,075)	672,161	-	(672,161)
Overdraft	701,520	62,385	(639,135)	736,209	84,465	(651,744)
Investment financing	341,171	193,629	(147,542)	309,478	131,885	(177,593)
Other	1,140	288	(852)	2,195	802	(1,393)
NON-RETAIL CUSTOMERS, OF WHICH:	5,906,630	1,473,395	(4,433,235)	5,533,519	1,885,005	(3,648,514)
Agriculture	326,435	137,500	(188,935)	359,736	139,621	(220,115)
Electricity, oil & gas	210,524	25,130	(185,394)	343,487	31,630	(311,857)
Manufacturing	1,234,187	364,703	(869,484)	1,105,295	422,744	(682,551)
Construction	613,092	161,517	(451,575)	693,618	403,716	(289,902)
Wholesale and retail trade	1,754,050	479,983	(1,274,067)	1,423,380	567,110	(856,270)
Services	1,212,839	265,195	(947,644)	1,131,326	267,518	(863,808)
Public sector	555,503	39,367	(516,136)	476,677	52,666	(424,011)
Total	**16,915,504**	**4,876,032**	**(12,039,472)**	**16,192,870**	**5,336,032**	**(10,856,838)**

Credit exposure under collateralized at Bank level is showed in the table below:

BANK

IN RON THOUSAND	31 DECEMBER 2016 GROSS EXPOSURE	31 DECEMBER 2016 VALUE OF COLLATERALS	31 DECEMBER 2016 NET	31 DECEMBER 2015 GROSS EXPOSURE	31 DECEMBER 2015 VALUE OF COLLATERALS	31 DECEMBER 2015 NET
RETAIL CUSTOMERS, OF WHICH:	11,008,874	3,402,637	(7,606,237)	10,659,351	3,451,027	(7,208,324)
Personal loan	4,642,728	5	(4,642,723)	3,947,634	91	(3,947,543)
Mortgage	3,243,791	2,456,412	(787,379)	3,296,455	2,399,856	(896,599)
Home equity	1,345,449	689,918	(655,531)	1,695,219	833,928	(861,291)
Credit Card	733,075	-	(733,075)	672,161	-	(672,161)
Overdraft	701,520	62,385	(639,135)	736,209	84,465	(651,744)
Investment financing	341,171	193,629	(147,542)	309,478	131,885	(177,593)
Other	1,140	288	(852)	2,195	802	(1,393)
NON-RETAIL CUSTOMERS, OF WHICH:	5,906,605	1,473,395	(4,433,210)	5,533,519	1,885,005	(3,648,514)
Agriculture	326,435	137,500	(188,935)	359,736	139,621	(220,115)
Electricity, oil & gas	210,524	25,130	(185,394)	343,487	31,630	(311,857)
Manufacturing	1,234,187	364,703	(869,484)	1,105,295	422,744	(682,551)
Construction	613,092	161,517	(451,575)	693,618	403,716	(289,902)
Wholesale and retail trade	1,754,050	479,983	(1,274,067)	1,423,380	567,110	(856,270)
Services	1,212,814	265,195	(947,619)	1,131,326	267,518	(863,808)
Public sector	555,503	39,367	(516,136)	476,677	52,666	(424,011)
Total	**16,915,479**	**4,876,032**	**(12,039,447)**	**16,192,870**	**5,336,032**	**(10,856,838)**

Impaired loans and securities
Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s).

Past due but not impaired loans
Loans and securities, where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate due to the fact that there are no objective evidence for impairment or there are objective evidence of impairment but there is no identified loss at the level of these customers.

GROUP

Loans and advances to customers past due but not impaired as of December 31, 2016 were as follows:

IN RON THOUSANDS	< 30 DAYS	31 – 60 DAYS	61 – 90 DAYS	91 – 180 DAYS	181 DAYS – 1 YEAR	>1 YEAR*	TOTAL
Non retail customers	392,294	20,814	1,416	892	357	462	416,235
Retail customers	980,626	168,116	78,929	9,595	3,927	12,723	1,253,916
Total	**1,372,920**	**188,930**	**80,345**	**10,487**	**4,284**	**13,185**	**1,670,151**

*Over collateralised exposures which are individually analysed

Loans and advances to customers past due but not impaired as of December 31, 2015 were as follows:

IN RON THOUSANDS	< 30 DAYS	31 – 60 DAYS	61 – 90 DAYS	91 – 180 DAYS	181 DAYS – 1 YEAR	>1 YEAR*	TOTAL
Non retail customers	546,483	3,329	113	5,166	610	1,151	556,852
Retail customers	976,968	154,298	68,421	72,165	1,353	-	1,273,205
Total	**1,523,451**	**157,627**	**68,534**	**77,331**	**1,963**	**1,151**	**1,830,057**

*Over collateralised exposures which are individually analised

BANK

Loans and advances to customers past due but not impaired as of December 31, 2016 were as follows:

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Total	**1,523,451**	**157,627**	**68,534**	**77,331**	**1,963**	**1,151**	**1,830,057**

*Over collateralised exposures which are individually analysed

Allowances for impairment

The Group sets-up an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

An analysis of gross and carrying amount (taking into account the loan loss allowances) of individually impaired loans and advances on ratings is shown below:

31 DECEMBER 2016		GROUP		BANK
IN RON THOUSAND	GROSS AMOUNT	CARRYING AMOUNT	GROSS AMOUNT	CARRYING AMOUNT
INDIVIDUALLY IMPAIRED LOANS AND ADVANCES TO CUSTOMERS				
RETAIL CUSTOMERS, OF WHICH:				
Rating 1 (minimal risk)	891	426	891	426
Rating 2 (excellent credit standing)	1,187	620	1,187	620
Rating 3 (very good credit standing)	358	169	358	169
Rating 4 (good credit standing)	757	297	757	297
Rating 5 (average credit standing)	1,835	611	1,835	611
Rating 6 (mediocre credit standing)	1,405	549	1,405	549
Rating 7 (weak credit standing)	1,606	744	1,606	744
Rating 8 (weak credit standard – sub-standard)	521	323	521	323
Rating 9 (very weak credit standard – doubtful)	5,987	2,420	5,987	2,420
Rating 10 (default)	853,870	309,659	853,870	309,659
Un-rated	5,161	1,440	5,161	1,439
Total retail customers	**873,578**	**317,258**	**873,578**	**317,257**
NON-RETAIL CUSTOMERS, OF WHICH:				
Rating 8 (weak credit standard – sub-standard)	551	443	551	443
Rating 9 (very weak credit standard – doubtful)	8,048	6,943	8,048	6,943
Rating 10 (default)	562,770	266,749	562,744	266,748
Project Finance	149,515	55,870	149,515	55,846
Un-rated	12	3	12	3
Total Non-retail customers	**720,896**	**330,008**	**720,870**	**329,983**
Total	**1,594,474**	**647,266**	**1,594,448**	**647,240**

31 DECEMBER 2016	GROUP		BANK	
IN RON THOUSAND	GROSS AMOUNT	CARRYING AMOUNT	GROSS AMOUNT	CARRYING AMOUNT
INDIVIDUALLY IMPAIRED LOANS AND ADVANCES TO CUSTOMERS				
RETAIL CUSTOMERS, OF WHICH:				
Rating 1 (minimal risk)	56,025	48,631	56,025	48,631
Rating 2 (excellent credit standing)	94,166	82,789	94,166	82,789
Rating 3 (very good credit standing)	44,465	34,534	44,465	34,534
Rating 4 (good credit standing)	21,295	17,560	21,295	17,560
Rating 5 (average credit standing	20,261	16,516	20,261	16,516
Rating 6 (mediocre credit standing)	35,057	28,543	35,057	28,543
Rating 7 (weak credit standing)	26,762	21,204	26,762	21,204
Rating 8 (weak credit standard – sub-standard)	16,075	12,004	16,075	12,004
Rating 9 (very weak credit standard doubtful)	64,755	44,704	64,755	44,704
Rating 10 (default)	665,388	226,131	665,388	226,131
Un-rated	28,637	13,215	28,637	13,215
Total Retail customers	**1,072,886**	**545,831**	**1,072,886**	**545,831**
NON-RETAIL CUSTOMERS, OF WHICH:				
Rating 9 (very weak credit standard – doubtful)	21,904	8,069	21,904	8,069
Rating 10 (default)	480,500	193,730	480,500	193,730
Project Finance	61,446	11,607	61,446	11,607
Total Non-retail customers	**563,850**	**213,406**	**563,850**	**213,406**
Total	**1,636,736**	**759,237**	**1,636,736**	**759,237**

Non-performing not defaulted exposure (NPE not defaulted)

Regulation for forborne and non-performing exposures
The regulation for forbearance pursuant to EBA/ITS/2013/03/rev1 from 24th of July 2014 and updated in 10th of March 2015 was implemented at Group level.

For reporting purposes, according to EBA ITS, non-performing exposures are considered those that satisfy at least one of the following conditions:
a) The exposure was classified as default;
b) The exposure was impaired according to IAS 39 "Financial Instruments: Recognition and Measurement";
c) Performing restructured exposure that was reclassified from non-performing exposure and for which the restructuring measures have been extended during the monitoring time frame;
d) Performing restructured exposure that was reclassified from non-performing exposure and for which number of days past due reached more that 30 days during the monitoring time frame.

Non-retail
For non-retail clients, when terms or loan conditions are modified in favour of the customer, the Group differentiates between normal renegotiation and forborne loans according to the definition of the EBA document "Implementing Technical Standard (ITS) on Supervisory Reporting (Forbearance and non-performing exposures)". Non-performing exposure according to EBA definition includes exposure without any reason for default according to Article 178 CRR.

Loans are defined as forborne loans if the debtor is assessed to be in financial difficulties and the modification is assessed as concession. For non-retail customers, financial difficulties are measured by means of an internal early warning system that is based on numerous representative and accepted input factors for customers risk classification (e.g. due days, rating downgrade etc.).

IAS 39 "Financial Instruments: Recognition and Measurement" requires that impairment must be derived from an incurred loss event; default according to Article 178 CRR is still the main indicators for individual and portfolio-based loan loss provisions.

Retail
For retail customers, the restructured loans are the subject of probation period for at least three months, extended to one year if the customer not passed the observation period. During this probation period the customer is reported as individually impaired based on days past due computed considering the days past due before restructuring and past due registered after restructuring. The restructuring loss is included in the provision amount and is calculated as the difference between future cash flows following the restructuring discounted at the effective interest rate before restructure and loan exposure (principal, interest and fees).

In the case of a non-performing exposure to Micro SME, the non-performing status is in principle considered to apply at debtor level.

In the case of a non-performing exposure to a PI, all other debtor's exposures of the same product group shall be considered non-performing (i.e. at product level).

Due to pulling effect, when a PI debtor has on-balance sheet exposures past due more than 90 days, the gross carrying amount of which represents 20% of the gross carrying amount of all its on-balance sheet exposures, all on- and off-balance sheet exposures of this debtor shall be considered as non-performing and so the non default facilities might be reclassified as non performing due to contamination at product and debtor level.

c) Liquidity risk
Liquidity risk is generated in the normal course of banking activity being a consequence of the bank's response to client needs. While depositors need short term access to their funds, borrowers need the possibility to repay the loans in medium to long term timeframes, therefore by responding to these needs the Bank accepts a degree of liquidity risk that has to be actively managed.

The Management Board defines the liquidity risk strategy based on recommendations made by the units responsible for liquidity and funding management in cooperation with the area responsible for monitoring and controlling of liquidity risk. Management Board approves each year the limits which are applied to measure and control liquidity risk as well as the Bank's funding plan.

The risk tolerance of the Bank represents the foundation of the liquidity risk management framework and is defined:

- for normal business conditions, using a set of limits for the long term liquidity risk profile. The role of the limits is to prevent the accumulation of liquidity risk from current activity of the Bank;
- for stress conditions, tolerance is the Bank's capacity to operate for an acceptable time without significant changes to the strategy or business model.

Treasury and Capital Markets Division function is responsible for the management of liquidity and funding risk of the Bank and Risk Management Division has responsibilities for liquidity risk monitoring and controlling, as defined in the liquidity and funding strategies.

For liquidity management, the Bank analyses, monitors and forecasts the liquidity behaviour of products and business segments and maintain long-term liquidity, including stable deposits, in excess of illiquid assets, at an optimal cost, as defined in the risk appetite.

Diversification of funding profile in terms of investor types, products and instruments is an important element of the liquidity management framework. The core funding resources come from retail clients while other customer's deposits, interbank deposits and borrowings are additional sources of funding. This improves the Bank's flexibility in funding and diminishes the liquidity cost.

The transfer pricing mechanism represents an important instrument for the management of liquidity risks. It covers the balance sheet and off balance sheet elements and is designed to allocate all costs and benefits to the business segments in a way that incentivizes the efficient use of liquidity.

The main tools used for liquidity and funding risk management are:

- the liquidity gap report: used to identify and measure the maturity mismatch between assets and liabilities;
- liquidity scorecard: tool for assessing the robustness of the balance sheet structure (loans to deposits ratio, funding concentration, size of liquid assets in relation to total obligations, etc.);
- regulatory liquidity gap: the Bank has to comply with a regulatory liquidity indicator which sets minimum liquidity risk standards at banking system level;
- funding scorecard: the Bank ensures that funding risk is mitigated through the monitoring of several triggers, among which: the concentration in sources of wholesale funding, maturity concentration, the dependence on short term funding and the percentage of unencumbered assets.

At Bank level, there are pre-established trigger levels set for the main tools which are monitored and, in case a breach is observed or anticipated, a specific action plan is taken based on senior management decision.

For stress conditions, the Bank maintains a sufficient liquidity buffer that can be used to compensate the limited access to funding sources and liquidity outflows during stress periods. The Bank determines the necessary liquidity buffer based on stress test analysis. In addition the Bank defines a contingency plan which establishes responsibilities and specific actions that can be taken to strengthen liquidity position on short term and reduce liquidity risk on medium to long term.

The main tools used for stress conditions are:

- Early warning system: used to monitoring financial markets and internal liquidity indicators in order to anticipate accumulation of risks and potential stress conditions;
- Internal stress test: scenario based analysis used to evaluate Bank's ability to operate in stress conditions;
- Regulatory liquidity coverage ratio: scenario based analysis standardized at banking system level, used to evaluate Bank's ability to operate in stress conditions, as described in CRR/ CRD IV package. According to the standard, banks are required to hold an adequate stock of unencumbered high quality assets (HQLA) to cover potential liquidity outflows in stress conditions.

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

Group

The financial assets and liabilities analyzed over the remaining period from the balance sheet date to contractual maturity are as at 31 December 2016 as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY*	TOTAL
FINANCIAL ASSETS						
Cash and cash with Central Bank	8,203,157	-	-	-	-	8,203,157
Trading assets	26,805	43,900	317,251	55,738	-	443,694
Derivative assets held for risk management	-	-	1,013	-	-	1,013
Loans and advances to banks	546,165	-	-	-	-	546,165
Loans and advances to customers	3,769,230	3,730,445	7,162,371	5,098,996	-	19,761,042
Investment securities	270,878	1,187,223	2,128,711	235,418	27,360	3,849,590
Total financial assets	**12,816,235**	**4,961,568**	**9,609,346**	**5,390,152**	**27,360**	**32,804,661**
FINANCIAL LIABILITIES						
Trading liabilities	25,402	13,689	18,602	2,431	-	60,124
Derivative liabilities held for risk management	-	19	4,101	-	-	4,120
Deposits from banks	568,545	-	14,469	-	-	583,014
Deposits from customers	22,559,236	3,594,078	190,751	30,879	-	26,374,944
Loans from banks and other financial institutions	86,855	564,773	485,959	-	-	1,137,587
Debt securities issued	-	16,482	495,757	-	-	512,239
Subordinated liabilities	119,086	-	835,887	-	-	954,973
Total financial liabilities	**23,359,124**	**4,189,041**	**2,045,526**	**33,310**	**-**	**29,627,001**
Maturity surplus/(shortfall)	**(10,542,889)**	**772,527**	**7,563,820**	**5,356,842**	**27,360**	**3,177,660**

*Without maturity includes equity instruments.

The financial assets and liabilities analyzed over the remaining period from 31 December 2015 to contractual maturity are as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
FINANCIAL ASSETS						
Cash and cash with Central Bank	6,981,390	-	-	-	-	6,981,390
Trading assets	14,294	167,447	242,069	103,323	-	527,133
Derivative assets held for risk management	542	-	1,414	-	-	1,956
Loans and advances to banks	1,138,893	-	-	-	-	1,138,893
Loans and advances to customers	3,281,683	3,561,500	6,035,261	5,275,142	-	18,153,586
Investment securities	1,237,566	1,250,768	1,306,838	248,889	71,736	4,115,797
Total financial assets	**12,654,368**	**4,979,715**	**7,585,582**	**5,627,354**	**71,736**	**30,918,755**
FINANCIAL LIABILITIES						
Trading liabilities	13,886	5,647	17,134	1,235	-	37,902
Derivative liabilities held for risk management	839	527	3,966	-	-	5,332
Deposits from banks	600,751	-	26,331	-	-	627,082
Deposits from customers	20,206,141	3,323,278	194,773	15,400	-	23,739,592
Loans from banks and other financial institutions	45,484	578,584	974,979	25,428	-	1,624,475
Debt securities issued	-	243,452	496,242	-	-	739,694
Subordinated liabilities	5,745	-	854,203	90,488	-	950,436
Total financial liabilities	**20,872,846**	**4,151,488**	**2,567,628**	**132,551**	**-**	**27,724,513**
Maturity surplus/(shortfall)	**(8,218,478)**	**828,227**	**5,017,954**	**5,494,803**	**71,736**	**3,194,242**

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

Bank

The financial assets and liabilities analyzed over the remaining period from the balance sheet date to contractual maturity are as of 31 December 2016 as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
FINANCIAL ASSETS						
Cash and cash with Central Bank	8,203,153	-	-	-	-	8,203,153
Trading assets	26,869	43,900	317,251	55,738	-	443,758
Derivative assets held for risk management	-	-	1,013	-	-	1,013
Loans and advances to banks	546,165	-	-	-	-	546,165
Loans and advances to customers	3,769,205	3,730,445	7,162,371	5,098,996	-	19,761,017
Investment securities	254,941	1,186,693	2,108,079	235,418	27,355	3,812,486
Total financial assets	**12,800,333**	**4,961,038**	**9,588,714**	**5,390,152**	**27,355**	**32,767,592**
FINANCIAL LIABILITIES						
Trading liabilities	25,402	13,689	18,602	2,431	-	60,124
Derivative liabilities held for risk management	-	-	4,101	-	-	4,101
Deposits from banks	568,545	-	14,469	-	-	583,014
Deposits from customers	22,566,133	3,594,078	190,751	30,879	-	26,381,841
Loans from banks and other financial institutions	86,855	564,773	485,959	-	-	1,137,587
Debt securities issued	-	16,483	499,478	-	-	515,961
Subordinated liabilities	119,086	-	835,887	-	-	954,973
Total financial liabilities	**23,366,021**	**4,189,023**	**2,049,247**	**33,310**	**-**	**29,637,601**
Maturity surplus/(shortfall)	**(10,565,688)**	**772,015**	**7,539,467**	**5,356,842**	**27,355**	**3,129,991**

The financial assets and liabilities analyzed over the remaining period from the balance sheet date to contractual maturity are as of 31 December 2015 as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
FINANCIAL ASSETS						
Cash and cash with Central Bank	6,981,376	-	-	-	-	6,981,376
Trading assets	14,379	167,447	242,069	103,323	-	527,218
Derivative assets held for risk management	542	-	1,414	-	-	1,956
Loans and advances to banks	1,138,893	-	-	-	-	1,138,893
Loans and advances to customers	3,281,683	3,561,500	6,035,261	5,275,142	-	18,153,586
Investment securities	1,237,323	1,250,241	1,286,505	248,889	71,731	4,094,689
Total financial assets	**12,654,196**	**4,979,188**	**7,565,249**	**5,627,354**	**71,731**	**30,897,718**
FINANCIAL LIABILITIES						
Trading liabilities	13,886	5,647	17,134	1,235	-	37,902
Derivative liabilities held for risk management	839	471	3,966	-	-	5,276
Deposits from banks	600,751	-	26,331	-	-	627,082
Deposits from customers	20,209,745	3,323,278	194,773	15,400	-	23,743,196
Loans from banks and other financial institutions	45,484	578,584	974,979	25,428	-	1,624,475
Debt securities issued	-	246,323	499,962	-	-	746,285
Subordinated liabilities	5,745	-	854,203	90,488	-	950,436
Total financial liabilities	**20,876,450**	**4,154,303**	**2,571,348**	**132,551**	**-**	**27,734,652**
Maturity surplus/(shortfall)	**(8,222,254)**	**824,885**	**4,993,901**	**5,494,803**	**71,731**	**3,163,066**

Usually, the most significant liquidity gap is registered in the first interval (up to 3 months) mainly due to non-banking customers, which prefer short term maturities for deposits and long term maturities for loans. This behaviour that determines a negative gap in the first interval generates a positive gap on the other intervals (higher than 3 months). In practice the negative gap in the first bucket does not represent outflows as most customer deposits are rolled over or replaced by new deposits.

Also the Group securities portfolio can be turned to cash (repo or sale) in a short time representing thus a buffer that diminishes the liquidity risk in the first bucket.

The negative liquidity gap on the first bucket has increased in 2016 by RON 2,324,411 thousand versus 2015, being generated by the increase in deposits from customers.

As regards to the other buckets, the increase by RON 2,545,866 thousand in the 1 – 5 years bucket is due to: increase of loan and advances to customer by RON 1,127,110 thousand, higher investment securities by RON 821,873 thousand in this time bucket and decrease of loans from banks and other financial institutions by RON 489,020 thousand.

The amounts disclosed in the below table represent contractual maturity analysis for financial liabilities disclosed in accordance with IFRS 7 whereby the undiscounted cash flows to be shown in these predefined maturity-bands differ from the amounts included in the balance sheet because the balance sheet amount is based on discounted cash flows.

Group

Financial liabilities analyzed over the remaining period from the reporting date by using undiscounted cash flows as of 31 December 2016 are as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES					
Net settled trading liabilities	1,309	5,298	11,128	-	17,735
Gross settled trading liabilities	2,543,276	1,808,276	2,722	1,115	4,355,389
Net settled derivative liabilities held for risk management	603	56	1,173	-	1,832
Gross settled derivative liabilities held for risk management	830	3,156	5,932	-	9,918
Deposits from banks	570,776	-	14,469	-	585,245
Deposits from customers	22,591,593	3,573,335	216,059	8,641	26,389,628
Loans from banks	88,071	567,547	487,134	-	1,142,752
Debt securities issued	-	26,774	549,778	-	576,552
Subordinated liabilities	11,208	145,247	949,169	-	1,105,624
Irrevocable credit lines	618,631	332,266	1,587,119	246,276	2,784,292
Contingent liabilities	5,270	47,608	29,738	6,218	88,834
Total financial liabilities	**26,431,567**	**6,509,563**	**3,854,421**	**262,250**	**37,057,801**

Financial liabilities analyzed over the remaining period from the balance sheet date by using undiscounted cash flows as of 31 December 2015 are as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES					
Net settled trading liabilities	1,534	4,006	8,609	-	14,149
Gross settled trading liabilities	1,858,673	1,025,785	116,833	-	3,001,291
Net settled derivative liabilities held for risk management	565	438	1,088	-	2,091
Gross settled derivative liabilities held for risk management	23,682	3,076	145,761	-	172,519
Deposits from banks	600,958	429	28,664	-	630,051
Deposits from customers	20,210,810	3,338,322	200,033	15,691	23,764,856
Loans from banks	47,462	585,847	980,695	25,304	1,639,308
Debt securities issued	-	260,676	577,298	-	837,974
Subordinated liabilities	11,785	34,688	1,010,947	95,373	1,152,793
Irrevocable credit lines	403,105	574,737	930,810	405,671	2,314,323
Contingent liabilities	18,336	16,949	3,530	3,608	42,423
Total financial liabilities	**23,176,910**	**5,844,953**	**4,004,268**	**545,647**	**33,571,778**

Bank

Financial liabilities analyzed over the remaining period from the reporting date by using undiscounted cash flows as of 31 December 2016 are as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES					
Net settled trading liabilities	1,308	5,298	10,864	263	17,733
Gross settled trading liabilities	2,543,276	1,808,267	2,722	1,115	4,355,380
Net settled derivative liabilities held for risk management	603	56	1,173	-	1,832
Gross settled derivative liabilities held for risk management	830	3,156	5,932	-	9,918
Deposits from banks	570,775	-	14,469	-	585,244
Deposits from customers	22,598,489	3,573,335	216,059	8,641	26,396,524
Loans from banks	88,071	567,547	487,134	1	1,142,753
Debt securities issued	0	26,771	553,504	-	580,275
Subordinated liabilities	11,208	145,247	949,169	-	1,105,624
Irrevocable credit lines	618,631	332,266	1,587,119	246,276	2,784,292
Contingent liabilities	5,270	47,608	29,738	6,218	88,834
Total financial liabilities	**26,438,461**	**6,509,551**	**3,857,883**	**262,514**	**37,068,409**

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

Financial liabilities analyzed over the remaining period from the reporting date by using undiscounted cash flows as of 31 December 2015 are as follows:

IN RON THOUSAND	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	1 YEAR TO 5 YEARS	OVER 5 YEARS	TOTAL
FINANCIAL LIABILITIES					
Net settled trading liabilities	1,533	4,006	8,712	(103)	14,148
Gross settled trading liabilities	1,858,673	1,034,256	116,833	-	3,009,762
Net settled derivative liabilities held for risk management	564	438	1,088	-	2,090
Gross settled derivative liabilities held for risk management	23,682	3,076	145,761	-	172,519
Deposits from banks	600,959	429	28,664	-	630,052
Deposits from customers	20,214,414	3,338,322	200,033	15,691	23,768,460
Loans from banks	47,462	585,847	980,695	25,305	1,639,309
Debt securities issued	-	264,396	580,176	-	844,572
Subordinated liabilities	11,785	34,688	1,010,947	95,373	1,152,793
Irrevocable credit lines	403,105	574,737	930,810	405,671	2,314,323
Contingent liabilities	18,336	16,949	3,530	3,608	42,423
Total financial liabilities	**23,180,513**	**5,857,144**	**4,007,249**	**545,545**	**33,590,451**

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

d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and others will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Group separates its exposure to market risk between trading and non-trading portfolios. The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR).

The VaR of a trading portfolio is the maximum estimated loss that can arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). In 2016, the VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period.

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 when 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 used model 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 Group uses VaR limits for total market risk and for individual foreign exchange and interest rate risk. The overall structure of VaR limits is subject to review and approval by the Assets and Liabilities Committee (ALCO). VaR is calculated on a daily basis. Reports including VaR limits utilization are submitted daily to Group management and monthly summaries are submitted to ALCO.

A summary of the VaR position of the Group's trading portfolios at December 31, 2016 and 2015 and during the period is as follows (trading portfolio includes trading assets and trading liabilities as well as the overall FX position of the Group):

IN RON THOUSAND	AT 31 DECEMBER	AVERAGE RISK	MAXIMUM RISK	MINIMUM RISK
2016				
Foreign currency risk*	642	460	1,775	44
Interest-rate risk	1,107	542	1,638	161
Total	**1,749**	**1,002**	**3,412**	**204**
2015				
Foreign currency risk*	291	489	1,859	49
Interest-rate risk	886	397	1,071	69
Total	**1,177**	**886**	**2,930**	**118**

*Foreign currency risk is calculated based on the overall foreign exchange position of the Group.

Financial liabilities analyzed over the remaining period from the reporting date by using undiscounted cash flows as of 31 December 2015 are as follows:

IN RON THOUSAND	AT 31 DECEMBER	AVERAGE RISK	MAXIMUM RISK	MINIMUM RISK
2016				
Foreign currency risk*	**634**	**460**	**1,775**	**44**
Interest-rate risk	1,090	542	1,638	161
Total	1,723	1,002	3,412	204
2015				
Foreign currency risk*	290	489	1,859	49
Interest-rate risk	886	397	1,071	69
Total	**1,176**	**886**	**2,930**	**118**

*Foreign currency risk is calculated based on the overall foreign exchange position of the Bank.

Exposure to interest rate risk for non-trading portfolios

The main risk to which non-trading portfolios are exposed is the interest rate risk. Interest rate risk represents the risk of loss due to adverse and unexpected movements in interest rates. On one side interest rate movements influence bank's earnings by affecting the net interest rate revenues (earnings perpective). On the other side movements in interest rates also affect the economic value of banks's assest, liabilities and off balance sheet items as the present value of future cash flows (and even the actual cash flows) may change following interest rate movements (economic value perspective). Interest rate risk is principally managed by monitoring the interest rate gap and a set of pre-approved limits. ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

The derivative financial instruments used by the Group to reduce the interest rate risk include swaps that fluctuate in value depending on the interest rates variations.

The swaps are over the counter market commitments and are traded between the Group and third parties with the purpose of exchanging future cash flows on agreed amounts. Through interest rate swaps, the Group agrees to exchange with third parties, at determined time intervals the difference between the fixed and variable interest rates.

A summary of the Group's interest rate gap position on non-trading portfolios as at 31 December 2016 is as follows:

IN RON THOUSAND	LESS THAN 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
ASSETS						
Cash and cash with Central Bank	6,675,371	-	-	-	1,527,786	8,203,157
Loans and advances to banks	546,165	-	-	-	-	546,165
Loans and advances to customers	12,640,363	4,833,969	2,189,409	97,301	-	19,761,042
Investment securities	419,902	1,226,351	2,059,197	144,140	-	3,849,590
	20,281,801	**6,060,320**	**4,248,606**	**241,441**	**1,527,786**	**32,359,954**
LIABILITIES						
Deposits from banks	569,644	-	13,370	-	-	583,014
Deposits from customers	15,732,521	4,351,917	6,287,071	3,435	-	26,374,944
Loans from banks and other financial institutions	1,122,450	7,568	7,569	-	-	1,137,587
Debt securities issued		16,356	495,883	-	-	512,239
Subordinated liabilities	954,973	-	-	-	-	954,973
	18,379,588	**4,375,841**	**6,803,893**	**3,435**	**-**	**29,562,757**
Effect of derivatives held for risk management purposes	196,644	-	(193,108)	-	-	3,536
Net position	**2,098,857**	**1,684,479**	**(2,748,395)**	**238,006**	**1,527,786**	**2,800,733**

A summary of the Group's interest rate gap position on non-trading portfolios as at 31 December 2015 is as follows:

IN RON THOUSAND	LESS THAN 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
ASSETS						
Cash and cash with Central Bank	5,608,019	-	-	-	1,373,371	6,981,390
Loans and advances to banks	1,138,893	-	-	-	-	1,138,893
Loans and advances to customers	11,027,007	4,726,295	2,266,231	134,053	-	18,153,586
Investment securities	1,449,147	1,295,073	1,244,700	126,877	-	4,115,797
	19,223,066	**6,021,368**	**3,510,931**	**260,930**	**1,373,371**	**30,389,666**
LIABILITIES						
Deposits from banks	602,011	-	25,071	-	-	627,082
Deposits from customers	14,960,819	4,088,299	4,684,243	6,231	-	23,739,592
Loans from banks and other financial institutions	1,572,149	37,244	15,082	-	-	1,624,475
Debt securities issued	-	243,294	496,400	-	-	739,694
Subordinated liabilities	950,436	-	-	-	-	950,436
	18,085,415	**4,368,837**	**5,220,796**	**6,231**	**-**	**27,681,279**
Effect of derivatives held for risk management purposes	241,918	(45,245)	(192,943)	-	-	3,730
Net position	**1,379,569**	**1,607,286**	**(1,902,808)**	**254,699**	**1,373,371**	**2,712,117**

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

A summary of the Bank's interest rate gap position on non-trading portfolios as at 31 December 2016 is as follows:

IN RON THOUSAND	LESS THAN 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
ASSETS						
Cash and cash with Central Bank	6,675,367	-	-	-	1,527,786	8,203,153
Loans and advances to banks	546,165	-	-	-	-	546,165
Loans and advances to customers	12,640,339	4,833,969	2,189,409	97,300	-	19,761,017
Investment securities	403,964	1,225,937	2,038,444	144,141	-	3,812,486
	20,265,835	6,059,906	4,227,853	241,441	1,527,786	32,322,821
LIABILITIES						
Deposits from banks	569,645	-	13,369	-	-	583,014
Deposits from customers	15,739,418	4,351,917	6,287,071	3,435	-	26,381,841
Loans from banks and other financial institutions	1,122,450	7,568	7,569	-	-	1,137,587
Debt securities issued	-	16,478	499,483	-	-	515,961
Subordinated liabilities	954,973	-	-	-	-	954,973
	18,386,486	4,375,963	6,807,492	3,435	-	29,573,376
Effect of derivatives held for risk management purposes	196,644	-	(193,108)	-	-	3,536
Net position	**2,075,993**	**1,683,943**	**(2,772,747)**	**238,006**	**1,527,786**	**2,752,981**

A summary of the Bank's interest rate gap position on non-trading portfolios as at 31 December 2015 is as follows:

IN RON THOUSAND	LESS THAN 3 MONTHS	3 – 12 MONTHS	1 – 5 YEARS	OVER 5 YEARS	WITHOUT MATURITY	TOTAL
ASSETS						
Cash and cash with Central Bank	5,608,005	-	-	-	1,373,371	6,981,376
Loans and advances to banks	1,138,893	-	-	-	-	1,138,893
Loans and advances to customers	11,027,007	4,726,295	2,266,231	134,053	-	18,153,586
Investment securities	1,448,898	1,294,666	1,224,248	126,877	-	4,094,689
	19,222,803	6,020,961	3,490,479	260,930	1,373,371	30,368,544
LIABILITIES						
Deposits from banks	602,011	-	25,071	-	-	627,082
Deposits from customers	14,964,423	4,088,299	4,684,243	6,231	-	23,743,196
Loans from banks and other financial institutions	1,572,149	37,244	15,082	-	-	1,624,475
Debt securities issued	-	246,285	500,000	-	-	746,285
Subordinated liabilities	950,436	-	-	-	-	950,436
	18,089,019	4,371,828	5,224,396	6,231	-	27,691,474
Effect of derivatives held for risk management purposes	241,918	(45,245)	(192,943)	-	-	3,730
Net position	**1,375,702**	**1,603,888**	**(1,926,860)**	**254,699**	**1,373,371**	**2,680,800**

The management of interest rate risk through the set of interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. From the economic value perspective the standard scenarios include a 200 basis point (bp) parallel shift in the yield curve for all currencies and all maturities.

The sensitivity scenarios calculate the change in the present value of the banking book interest rate sensitive assets and liabilities of the Bank under the assumption that interest rates change according to the each of the scenarios mentioned above. Under each scenario the sensitivity result is calculated by comparing the present value of the banking book under stress scenario with the present value calculated using the base interest rate curve. The present value of the banking book is calculated by discounting future cash flows generated by interest rate sensitive assets and liabilities which are distributed on repricing gaps according to next reset date – in case of floating rate instruments – or according to maturity date – in case of fixed rate instruments.

An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

IN RON THOUSAND	200 BP INCREASE	200 BP DECREASE
AT 31 DECEMBER 2016	**192,129**	**(216,617)**
Average for the period	166,095	(184,524)
Minimum for the period	131,051	(140,145)
Maximum for the period	192,129	(216,617)
AT 31 DECEMBER 2015	**109,034**	**(122,860)**
Average for the period	55,854	(62,732)
Minimum for the period	2,463	(4,339)
Maximum for the period	109,034	(122,860)

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

IN RON THOUSAND	200 BP INCREASE	200 BP DECREASE
AT 31 DECEMBER 2016	**193,240**	**(217,807)**
Average for the period	166,128	(185,916)
Minimum for the period	127,627	(141,890)
Maximum for the period	193,240	(217,807)
AT 31 DECEMBER 2015	**110,631**	**(124,608)**
Average for the period	55,844	(62,309)
Minimum for the period	2,463	(4,339)
Maximum for the period	110,631	(124,608)

According to EBA requirements (EBA/GL/2015/08), measurement and monitoring of interest rate risk in the banking book is done based on two approaches: economic value and net interest income (NII) volatility.
In order to assess the impact of interest rate changes on net interest income, a set of scenarios and assumptions are defined and used to measure net interest income volatility and potential losses.
The assessment is made using a constant balance sheet, i.e. each maturing item is replaced by an item with similar characteristics, over a 12-month period and an instantaneous shock.

The impact of interest rate shocks on net interest income for 2016 is presented below:

IN RON MILLION

APPLIED SHOCK ON NET INTEREST INCOME*	**2016**
Parallel +200bp	189
Parallel -200bp	(218)
Steepening 5Y +200bp	21
Flattening 5Y -200bp	(22)
Flattening 1D +200bp	168
Steepening 1D -200bp	(193)
Maximum positive impact in 2016	273
Maximum negative impact in 2016	(295)

*The change in projected Net Interest Income over a forward-looking rolling 12-month period, using a constant balance sheet assumption and an instantaneous shock

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

CURRENCIES	**INTEREST RATE**	**31 DECEMBER 2016**	**31 DECEMBER 2015**
RON	ROBOR 3 months	0.90%	1.02%
EUR	EURIBOR 3 months	-0.32%	-0.13%
EUR	EURIBOR 6 months	-0.22%	-0.04%
USD	LIBOR 6 months	1.32%	0.84%

The following table shows the average interest rates per annum obtained or offered by the Group for its interest-bearing assets and liabilities during the 2016 financial year:

	AVERAGE INTEREST RATE		
	RON	EUR	USD
ASSETS			
Current accounts with National Bank of Romania	0.12%	0.07%	0.06%
Trading assets	3.40%	2.20%	0.09%
Loans and advances to banks	0.37%	-0.42%	0.44%
Investment securities	2.52%	2.28%	4.46%
Loans and advances to customers	5.78%	4.03%	3.75%
LIABILITIES			
Deposits from banks	0.21%	1.59%	1.03%
Deposits from customers	0.54%	0.52%	0.23%
Loans from banks and other financial institutions	3.92%	0.99%	N/A
Subordinated liabilities	N/A	3.88%	N/A

The following table shows the interest rates per annum obtained or offered by the Group for its interest-bearing assets and liabilities during the 2015 financial year:

	AVERAGE INTEREST RATE		
	RON	EUR	USD
ASSETS			
Current accounts with National Bank of Romania	0.22%	0.19%	0.08%
Trading assets	4.05%	3.77%	5.00%
Loans and advances to banks	0.89%	-0.18%	0.11%
Investment securities	3.22%	3.82%	4.85%
Loans and advances to customers	7.19%	4.85%	4.00%
LIABILITIES			
Deposits from banks	0.27%	1.26%	2.20%
Deposits from customers	0.99%	0.74%	0.40%
Loans from banks and other financial institutions	4.87%	1.21%	N/A
Subordinated liabilities	N/A	3.39%	N/A

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

The following table shows the average interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during the 2016 financial year:

	AVERAGE INTEREST RATE		
	RON	EUR	USD
ASSETS			
Current accounts with National Bank of Romania	0.12%	0.07%	0.06%
Trading assets	3.40%	2.20%	0.09%
Loans and advances to banks	0.37%	-0.42%	0.44%
Investment securities	2.52%	2.28%	4.46%
Loans and advances to customers	5.78%	4.03%	3.75%
LIABILITIES			
Deposits from banks	0.21%	1.59%	1.03%
Deposits from customers	0.54%	0.52%	0.23%
Loans from banks and other financial institutions	3.92%	0.99%	N/A
Subordinated liabilities	N/A	3.88%	N/A

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during the 2015 financial year:

	AVERAGE INTEREST RATE		
	RON	EUR	USD
ASSETS			
Current accounts with National Bank of Romania	0.22%	0.19%	0.08%
Trading assets	4.05%	3.77%	5.00%
Loans and advances to banks	0.89%	-0.18%	0.11%
Investment securities	3.22%	3.82%	4.85%
Loans and advances to customers	7.19%	4.85%	4.00%
LIABILITIES			
Deposits from banks	0.27%	1.26%	2.20%
Deposits from customers	0.99%	0.74%	0.40%
Loans from banks and other financial institutions	4.87%	1.21%	N/A
Subordinated liabilities	N/A	3.39%	N/A

Exposure to currency risk

The Group is exposed to currency risk due to transactions in foreign currencies. There is also a balance sheet risk that the net monetary assets in foreign currencies will take a lower value when translated into RON as a result of currency movements or net monetary liabilities in foreign currencies will take a higher value as a result of these currency movements.

Group

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2016 are presented below:

IN RON THOUSAND	RON	USD	EUR	OTHER	TOTAL
MONETARY ASSETS					
Cash and cash with Central Bank	4,843,585	32,051	3,276,105	51,416	8,203,157
Trading assets	429,134	73	14,487	-	443,694
Derivative assets held for risk management	15	-	998	-	1,013
Loans and advances to banks	168,274	5,721	364,923	7,247	546,165
Loans and advances to customers*	12,542,659	710,854	5,614,791	892,738	19,761,042
Investment securities	3,063,900	73,556	712,134	-	3,849,590
Investment in associates and joint ventures	69,122	-	-	-	69,122
Tax receivable	12,775	-	-	-	12,775
Other assets	105,101	2,369	21,700	34,183	163,353
Total monetary assets	**21,234,565**	**824,624**	**10,005,138**	**985,584**	**33,049,911**
MONETARY LIABILITIES					
Trading liabilities	58,342	73	1,709	-	60,124
Derivative liabilities held for risk management	1,247	-	2,873	-	4,120
Deposits from banks	423,423	9,948	148,704	939	583,014
Deposits from customers	16,779,455	1,352,496	8,019,774	223,219	26,374,944
Loans from banks and other financial institutions	299,673	-	635,057	202,857	1,137,587
Debt securities issued	512,239	-	-	-	512,239
Subordinated liabilities	-	-	777,499	177,474	954,973
Other liabilities	296,815	18,622	120,581	4,567	440,585
Total monetary liabilities	**18,371,194**	**1,381,139**	**9,706,197**	**609,056**	**30,067,586**
Net currency position	**2,863,371**	**(556,515)**	**298,941**	**376,528**	**2,982,325**

*"Other" include mainly loans and advances to customers in CHF.

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

Group

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2015 are presented below:

IN RON THOUSAND	RON	USD	EUR	OTHER	TOTAL
MONETARY ASSETS					
Cash and cash with Central Bank	5,129,214	24,385	1,794,646	33,145	6,981,390
Trading assets	512,572	532	14,029	-	527,133
Derivative assets held for risk management	24	-	1,932	-	1,956
Loans and advances to banks	94,338	151,274	799,375	93,906	1,138,893
Loans and advances to customers*	10,606,542	671,061	5,627,534	1,248,449	18,153,586
Investment securities	2,777,230	1,095	1,337,472	-	4,115,797
Investment in associates and joint ventures	102,192	-	-	-	102,192
Other assets	51,212	1,453	18,375	22,574	93,614
Total monetary assets	**19,273,324**	**849,800**	**9,593,363**	**1,398,074**	**31,114,561**
MONETARY LIABILITIES					
Trading liabilities	31,849	513	5,540	-	37,902
Derivative liabilities held for risk management	1,369	-	3,963	-	5,332
Deposits from banks	581,113	18,883	26,272	814	627,082
Deposits from customers	14,345,748	1,379,598	7,833,821	180,425	23,739,592
Loans from banks and other financial institutions	168,834	-	903,887	551,754	1,624,475
Debt securities issued	739,694	-	-	-	739,694
Subordinated liabilities	-	-	774,845	175,591	950,436
Other liabilities	259,680	18,483	126,369	3,750	408,282
Total monetary liabilities	**16,128,287**	**1,417,477**	**9,674,697**	**912,334**	**28,132,795**
Net currency position	**3,145,037**	**(567,677)**	**(81,334)**	**485,740**	**2,981,766**

* "Other" include mainly loans and advances to customers in CHF.

Derivative financial instruments used by the Group to mitigate currency risk include foreign exchange swaps.

Bank

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2016 are presented below:

IN RON THOUSAND	RON	USD	EUR	OTHER	TOTAL
MONETARY ASSETS					
Cash and cash with Central Bank	4,843,581	32,051	3,276,105	51,416	8,203,153
Trading assets	429,198	73	14,487	-	443,758
Derivative assets held for risk management	15	-	998	-	1,013
Loans and advances to banks	168,274	5,721	364,923	7,247	546,165
Loans and advances to customers*	12,542,486	710,854	5,614,939	892,738	19,761,017
Investment securities	3,039,934	73,556	698,996	-	3,812,486
Investment in subsidiaries, associates and joint ventures	62,655	-	-	-	62,655
Tax receivable	12,775	-	-	-	12,775
Other assets	108,504	2,369	21,700	34,183	166,756
Total monetary assets	**21,207,422**	**824,624**	**9,992,148**	**985,584**	**33,009,778**
MONETARY LIABILITIES					
Trading liabilities	58,342	73	1,709	-	60,124
Derivative liabilities held for risk management	1,228	-	2,873	-	4,101
Deposits from banks	423,423	9,948	148,704	939	583,014
Deposits from customers	16,785,935	1,352,522	8,020,165	223,219	26,381,841
Loans from banks and other financial institutions	299,673	-	635,057	202,857	1,137,587
Debt securities issued	515,961	-	-	-	515,961
Subordinated liabilities	-	-	777,499	177,474	954,973
Other liabilities	295,456	18,622	120,581	4,567	439,226
Total monetary liabilities	**18,380,018**	**1,381,165**	**9,706,588**	**609,056**	**30,076,827**
Net currency position	**2,827,404**	**(556,541)**	**285,560**	**376,528**	**2,932,951**

*"Other" include mainly loans and advances to customers in CHF.

Bank

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2015 are presented below:

IN RON THOUSAND	RON	USD	EUR	OTHER	TOTAL
MONETARY ASSETS					
Cash and cash with Central Bank	5,129,200	24,385	1,794,646	33,145	6,981,376
Trading assets	512,657	532	14,029	-	527,218
Derivative assets held for risk management	24	-	1,932	-	1,956
Loans and advances to banks	94,338	151,274	799,375	93,906	1,138,893
Loans and advances to customers*	10,606,542	671,061	5,627,534	1,248,449	18,153,586
Investment securities	2,769,428	1,095	1,324,166	-	4,094,689
Investment in subsidiaries associates and joint ventures	76,761	-	-	-	76,761
Other assets	54,715	1,453	18,375	22,574	97,117
Total monetary assets	**19,243,665**	**849,800**	**9,580,057**	**1,398,074**	**31,071,596**
MONETARY LIABILITIES					
Trading liabilities	31,849	513	5,540	-	37,902
Derivative liabilities held for risk management	1,313	-	3,963	-	5,276
Deposits from banks	581,113	18,883	26,272	814	627,082
Deposits from customers	14,349,284	1,379,608	7,833,879	180,425	23,743,196
Loans from banks and other financial institutions	168,834	-	903,887	551,754	1,624,475
Debt securities issued	746,285	-	-	-	746,285
Subordinated liabilities	-	-	774,845	175,591	950,436
Other liabilities	258,560	18,483	126,369	3,750	407,162
Total monetary liabilities	**16,137,238**	**1,417,487**	**9,674,755**	**912,334**	**28,141,814**
Net currency position	**3,106,427**	**(567,687)**	**(94,698)**	**485,740**	**2,929,782**

*"Other" include mainly loans and advances to customers in CHF.

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risk, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.This definition includes legal risk, but excludes strategic and reputational risk.

Legal risk is a component of the operational risk and is defined as the risk due to non-observance of the legal or statutory requirements and/or inaccurately drafted contracts and their execution due to lack of diligence in applying the respective law or a delay in reacting to changes in legal framework conditions.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The main responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirement for inclusion of operational risk responsibilities in each job position;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risk faced by the Group, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where this is effective.

f) Capital management

The National Bank of Romania (NBR) regulates and monitors the capital requirements at individual level and at Group level.

Regulation (EU) no 575/2013 of the European Parliament and of the Council requires that the Group maintain a minimum Common Equity Tier 1 capital ratio of 4.5%, a minimum Tier 1 capital ratio of 6% and a minimum total capital ratio of 8%. The capital adequacy ratio is calculated dividing total Group's own funds to the total risk weighted assets (Note 37).

Capital allocation

a) Credit risk: Starting with July 1st, 2009, the method for the risk weighted assets applied by the Group is internal ratings based approach for Raiffeisen Bank non-retail exposures. Starting with December 1st, 2013, Raiffeisen Bank received National Bank of Romania approval for calculating capital requirements for credit risk related to retail portfolio using advanced internal ratings based approach (AIRB). For the subsidiaries portfolios the method used is the standard approach.

b) Market risk: The Group calculates the capital requirements for market risk and for the trading book using the standard model.

c) Operational Risk: Starting with 2010, the Group calculates the capital requirements for operational risk capital using the standard approach.

The Group complies with the regulatory requirements regarding capital adequacy as at 31 December 2016 and 2015, being above the minimum required values.

5. USE OF ESTIMATES AND JUDGMENTS

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

Impairment losses on loans and advances
The Group reviews its loan portfolios to assess impairment on a monthly basis. As to determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before it's 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.

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

Assets accounted for at amortized cost are evaluated for impairment as described in accounting policy 3(j) (vii).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its actual value, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. Country risk is a component in the assessment of collective allowances.

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions.

The actual amount of the allowances depends on the accuracy of the estimated future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

To determine the impairment allowances sensitivity to changes in risk parameters (adjusted value of real estate collateral, probability of default) underlying provisioning computation, the Group has drawn up the following scenarios:

First scenario assumes changes in loss given default and price guarantees for retail real estate portfolio for the entire portfolio, taking into account a variation of +/- 5%. In this scenario the provision for loan impairment loss would have been increased by RON 15,235 thousand (2015: decreased by RON 12,307 thousand) or decreased by RON 14,791 thousand (2015: increased by RON 11,809 thousand).

Second scenario assumes PD variation of +/- 5%. In this scenario the provision for loan impairment loss would have been increased by RON 10,589 thousand (2015: increased by 9,684 thousand RON) or decreased by RON 10,598 thousand (2015: decreased by RON 8,647 thousand|).

Third scenario assumes aggregation assumptions of the previous scenarios. In this scenario the provision for loan impairment loss would have been increased by RON 26,250 thousand (2015: decreased by RON 10,094 thousand) or decreased by RON 24,963 thousand (2015: increased by RON 9,596 thousand).

Parameters change by +/-5% are done in relation to the values used in provision calculation for December 2016 figures (December 2015).

Fair value of financial instruments
The fair value of financial instruments that are not traded on an active market (for example, unlisted treasury securities, bonds and certificates of deposit) is determined by using valuation techniques. The Group uses its judgment to select the valuation method and make assumptions that are mainly based on market conditions existing at statement of financial position date. The Group has used discounted cash flow analysis for the available-for-sale financial instruments that were not traded in active markets.

Valuation of financial instruments
The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less 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 could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group measures fair values mainly using valuation techniques based on observable inputs, i.e. all significant inputs are directly or indirectly observable from market data. Valuation techniques include net present value and discounted cash flow models like Black Scholes related models and option pricing models as well as other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, bond yields, foreign currency exchange rates, expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models for determining the fair value of common and simpler financial instruments, like interest rate and currency swaps, foreign exchange forwards and swaps, that use only observable market data and require little management judgment and estimation.

Observable prices and model inputs are usually available in the market for bonds and simple over the counter derivatives. Availability of these reduces the need for management judgment and estimations and also reduces the uncertainty associated with determination of fair values.

For bonds valuation the Group uses prices or yields which are observable in the market, quotes published by Central Bank or quotes received upon request from third parties.

For more complex instruments, like over the counter foreign exchange options or interest rate options, the Group uses valuation models, which are usually developed from recognized valuation models. These models also use inputs, which are observable in the markets.

The valuation techniques used to determine the fair value of customers' loans and deposits not measured at fair value and disclosed in the notes consider unobservable inputs and assumptions, such as the specific credit risk and contractual characteristics of the portfolios, but also observables inputs, the benchmark interest rates.

The fair value of the unimpaired customer loans was determined based on the cash flows estimated to be generated by the portfolio. These amounts were discounted using the interest rates that would be currently offered by the Group to clients for similar products (the available offer as of the valuation date or loans granted during the last 6 months), by considering the characteristics of each loan, namely product type, currency, remaining tenor, interest rate type, customer segmentation. For the products no longer in the Group's offer, and for which no current market-observed interest rates are available, following assumptions were used: similar products' prevailing margins for discounting, adjusted with the relevant market rate index correspondent to the particular products' currencies, the swap points required for the currency conversion (if applicable) and remaining tenors.

For the depreciated loan portfolio, a similar discounted cash flow calculation resulted in a fair value calculation that can be approximated by the net book value.

The fair value of deposits from customers portfolio was determined based on the interest rate differential of the current portfolio as of end-2016 and the prevailing interest rates offered by the Group, during the last month of the current financial period, for deposits. For the term deposits, a discounted cash flows calculation was performed using for discounting the interest rates pertaining to the new deposits opened during December 2016 with tenors, currencies and client types similar to the structure of the portofolio subject to the fair value calculation. The fair value of the current accounts and savings accounts from clients was estimated to be equal to the book value, with no evidence of product characteristics requiring a different value than the one currently in accounting books. The results show that the fair value of the customer deposits portfolio is slightly higher than the book value, thus reflecting an interest rate environment dominated by decreasing rates throughout the local banking system, but in a context of relatively short renewal period for the deposits portfolio.

For the borrowings and the issued bonds, the Group performed a discounted cash flows analysis in order to estimate the fair value. In discounting was used the most recent quotations for similar instruments in terms of remaining tenor, fixing period and currency.

Held-to-maturity investments
The Group follows the guidance of IAS 39 "Financial instruments: recognition and measurement" and classifies part of the non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

In case the so classified instruments are not held to maturity, except for the specific cases mentioned by IAS 39 "Financial instruments: recognition and measurement", the Group is obliged to reclassify the whole class as available for sale.

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

6. FINANCIAL ASSETS AND LIABILITIES

The table below analyses financial instruments at fair value and at carrying amount by using the valuation methods described in Note 5:

GROUP

IN RON THOUSAND 31 DECEMBER 2016	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	CARRYING AMOUNT
ASSETS						
Financial instruments measured at fair value						
Trading assets	17	384,206	59,488	-	443,694	443,694
out of which:						
Government debt securities		384,206	-	-	384,206	384,206
Foreign exchange contracts		-	41,463	-	41,463	41,463
Interest rate swaps		-	18,025	-	18,025	18,025
Derivative assets held for risk management	18	-	1,013	-	1,013	1,013
Investment securities available for sale		1,851,912	72,043	16,002	1,939,957	1,939,957
Investment securities designated at fair value through profit or loss		1,197,222	127,556	9,501	1,334,279	1,334,279
Financial instruments for which fair value is discloses						
Cash and cash with Central Bank		8,203,157	-	-	8,203,157	8,203,157
Loans and advances to banks	19	546,165	-	-	546,165	546,165
Loans and advances to customers		-	-	19,826,503	19,826,503	19,761,042
Investment securities held to maturity		573,634	-	-	573,634	555,639
Mutual funds		15,687	-	-	15,687	15,687
Investment securities available for sale		-	-	4,028	4,028	4,028
Investment in associates and joint ventures		-	-	69,122	69,122	69,122
Other assets		-	-	163,353	163,353	163,353
LIABILITIES						
Financial instruments measured at fair value						
Trading liabilities	17	-	60,124	-	60,124	60,124
Derivative liabilities held for risk management	18	-	4,120	-	4,120	4,120
Financial instruments for which fair value is discloses						
Deposits from banks	27	583,014	-	-	583,014	583,014
Deposits from customers		-	-	26,378,802	26,378,802	26,374,944
Loans from banks and other financial institutions	29	-	-	1,139,564	1,139,564	1,137,587
Debt securities issued		554,483	-	-	554,483	512,239
Subordinated liabilities	29	-	-	954,973	954,973	954,973
Other liabilities		-	-	440,587	440,587	440,587

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

The table below analyses financial instruments at fair value and at carrying amount by using the valuation methods described in Note 5:

GROUP

IN RON THOUSAND	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	CARRYING AMOUNT
31 DECEMBER 2015						
ASSETS						
Financial instruments measured at fair value						
Trading assets	17	487,018	40,115	-	527,133	527,133
out of which:						
Government debt securities		487,018	-	-	487,018	487,018
Foreign exchange contracts		-	27,994	-	27,994	27,994
Interest rate swaps		-	12,121	-	12,121	12,121
Derivative assets held for risk management	18	-	1,956	-	1,956	1,956
Investment securities available for sale*		1,859,940	158,462	81,543	2,099,945	2,099,945
Investment securities designated at fair value through profit or loss*		1,568,450	176,994	11,003	1,756,447	1,756,447
Financial instruments for which fair value is disclosed						
Cash and cash with Central Bank		6,981,390	-	-	6,981,390	6,981,390
Loans and advances to banks	19	1,138,893	-	-	1,138,893	1,138,893
Loans and advances to customers		-	-	18,147,474	18,147,474	18,153,586
Investment securities held to maturity		270,885	-	-	270,885	255,373
Investment securities available for sale		-	-	4,032	4,032	4,032
Investment in associates and joint ventures		-	-	102,192	102,192	102,192
Other assets		-	-	93,614	93,614	93,614
LIABILITIES						
Financial instruments measured at fair value						
Trading liabilities	17	-	37,902	-	37,902	37,902
Derivative liabilities held for risk management	18	-	5,332	-	5,332	5,332
Financial instruments for which fair value is disclosed						
Deposits from banks	27	627,082	-	-	627,082	627,082
Deposits from customers		-	-	23,747,385	23,747,385	23,739,592
Loans from banks and other financial institutions	29	-	-	1,620,131	1,620,131	1,624,475
Debt securities issued		786,203	-	-	786,203	739,694
Subordinated liabilities	29	-	-	950,436	950,436	950,436
Other liabilities		-	-	408,282	408,282	408,282

*The amounts of RON 16,005 thousand and RON 11,003 thousand represents transfer of bonds issued by European Bank for Reconstruction and Development from level 2 to level 3 due to the fact that the market became inactive between aquisiton date and current period.

The table below analyses financial instruments at fair value and at carrying amount by using the valuation methods described in Note 5:

BANK

IN RON THOUSAND 31 DECEMBER 2016	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	CARRYING AMOUNT
ASSETS						
Financial instruments measured at fair value						
Trading assets	17	384,206	59,552	-	443,758	443,758
out of which:						
Government debt securities		384,206	-	-	384,206	384,206
Foreign exchange contracts		-	41,527	-	41,527	41,527
Interest rate swaps		-	18,025	-	18,025	18,025
Derivative assets held for risk management	18	-	1,013	-	1,013	1,013
Investment securities available for sale		1,851,912	72,043	16,002	1,939,957	1,939,957
Investment securities designated at fair value through profit or loss		1,197,222	127,556	9,501	1,334,279	1,334,279
Financial instruments for which fair value is disclosed						
Cash and cash with Central Bank		8,203,153	-	-	8,203,153	8,203,153
Loans and advances to banks	19	546,165	-	-	546,165	546,165
Loans and advances to customers		-	-	19,826,477	19,826,477	19,761,017
Investment securities held to maturity		551,179	-	-	551,179	534,227
Investment securities available for sale		-	-	4,023	4,023	4,023
Investment in associates and joint ventures		-	-	62,655	62,655	62,655
Other assets		-	-	166,757	166,757	166,757
LIABILITIES						
Financial instruments measured at fair value						
Trading liabilities	17	-	60,124	-	60,124	60,124
Derivative liabilities held for risk management	18	-	4,101	-	4,101	4,101
Financial instruments for which fair value is disclosed						
Deposits from banks	27	583,014	-	-	583,014	583,014
Deposits from customers		-	-	26,385,698	26,385,698	26,381,841
Loans from banks and other financial institutions	29	-	-	1,139,564	1,139,564	1,137,587
Debt securities issued		558,511	-	-	558,511	515,961
Subordinated liabilities	29	-	-	954,973	954,973	954,973
Other liabilities		-	-	439,224	439,224	439,224

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

The table below analyses financial instruments at fair value and at carrying amount by using the valuation methods described in Note 5:

BANK

IN RON THOUSAND 31 DECEMBER 2015	NOTE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	CARRYING AMOUNT
ASSETS						
Financial instruments measured at fair value						
Trading assets	17	487,018	40,200	-	527,218	527,218
out of which:						
Government debt securities		487,018	-	-	487,018	487,018
Foreign exchange contracts		-	28,079	-	28,079	28,079
Interest rate swaps		-	12,121	-	12,121	12,121
Derivative assets held for risk management	18	-	1,956	-	1,956	1,956
Investment securities available for sale*		1,859,940	158,462	81,543	2,099,945	2,099,945
Investment securities designated at fair value through profit or loss*		1,568,449	176,994	11,003	1,756,446	1,756,446
Financial instruments for which fair value is disclosed						
Cash and cash with Central Bank		6,981,376	-	-	6,981,376	6,981,376
Loans and advances to banks	19	1,138,893	-	-	1,138,893	1,138,893
Loans and advances to customers		-	-	18,147,474	18,147,474	18,153,586
Investment securities held to maturity		248,371	-	-	248,371	234,271
Investment securities available for sale		-	-	4,027	4,027	4,027
Investment in associates and joint ventures		-	-	76,761	76,761	76,761
Other assets		-	-	97,117	97,117	97,117
LIABILITIES						
Financial instruments measured at fair value						
Trading liabilities	17	-	37,902	-	37,902	37,902
Derivative liabilities held for risk management	18	-	5,276	-	5,276	5,276
Financial instruments for which fair value is disclosed						
Deposits from banks	27	627,082	-	-	627,082	627,082
Deposits from customers		-	-	23,750,989	23,750,989	23,743,196
Loans from banks and other financial institutions	29	-	-	1,620,131	1,620,131	1,624,475
Debt securities issued		793,157	-	-	793,157	746,285
Subordinated liabilities	29	-	-	950,436	950,436	950,436
Other liabilities		-	-	407,162	407,162	407,162

*The amounts of RON 16,005 thousand and RON 11,003 thousand represents transfer of bonds issued by European Bank for Reconstruction and Development from level 2 to level 3 due to the fact that the market became inactive between aquisiton date and current period.

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

The below table presents financial instruments measured at carrying amount and at fair value:

GROUP

IN RON THOUSAND 31 DECEMBER 2016	NOTE	HELD FOR TRADING	DESIGNATED AT FAIR VALUE	HELD TO MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	TOTAL CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS								
Trading assets	17	443,694	-	-	-	-	443,694	443,694
Derivative assets held for risk management	18	1,013	-	-	-	-	1,013	1,013
Loans and advances to banks	19	-	-	-	546,165	-	546,165	546,165
Loans and advances to customers	20	-	-	-	19,761,042	-	19,761,042	19,826,503
Investment securities	21	-	1,349,966	555,639	-	1,943,985	3,849,590	3,867,585
Total financial assets		**444,707**	**1,349,966**	**555,639**	**20,307,207**	**1,943,985**	**24,601,504**	**24,684,960**
FINANCIAL LIABILITIES								
Trading liabilities	17	60,124	-	-	-	-	60,124	60,124
Derivative liabilities held for risk management	18	4,120	-	-	-	-	4,120	4,120
Deposits from banks	27	-	-	-	583,014	-	583,014	583,014
Deposits from customers	28	-	-	-	26,374,944	-	26,374,944	26,378,802
Loans from banks and other financial institutions	29	-	-	-	1,137,587	-	1,137,587	1,139,564
Debt securities issued	29	-	-	-	512,239	-	512,239	554,483
Subordinated liabilities	32	-	-	-	954,973	-	954,973	954,973
Total financial liabilities		**64,244**	**-**	**-**	**29,562,757**	**-**	**29,627,001**	**29,675,080**

The below table presents financial instruments measured at carrying amount and at fair value.

GROUP

IN RON THOUSAND	NOTE	HELD FOR TRADING	DESIGNATED AT FAIR VALUE	HELD TO MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	TOTAL CARRYING AMOUNT	FAIR VALUE
31 DECEMBER 2015								
FINANCIAL ASSETS								
Trading assets	17	527,133	-	-	-	-	527,133	527,133
Derivative assets held for risk management	18	1,956	-	-	-	-	1,956	1,956
Loans and advances to banks	19	-	-	-	1,138,893	-	1,138,893	1,138,893
Loans and advances to customers	20	-	-	-	18,153,586	-	18,153,586	18,147,474
Investment securities	21	-	1,756,447	255,373	-	2,103,977	4,115,797	4,131,309
Total financial assets		**529,089**	**1,756,447**	**255,373**	**19,292,479**	**2,103,977**	**23,937,365**	**23,946,765**
FINANCIAL LIABILITIES								
Trading liabilities	17	37,902	-	-	-	-	37,902	37,902
Derivative liabilities held for risk management	18	5,332	-	-	-	-	5,332	5,332
Deposits from banks	27	-	-	-	627,082	-	627,082	627,082
Deposits from customers	28	-	-	-	23,739,592	-	23,739,592	23,747,385
Loans from banks and other financial institutions	29	-	-	-	1,624,475	-	1,624,475	1,620,131
Debt securities issued		-	-	-	739,694	-	739,694	786,203
Subordinated liabilities	32	-	-	-	950,436	-	950,436	950,436
Total financial liabilities		**43,234**	**-**	**-**	**27,681,279**	**-**	**27,724,513**	**27,774,471**

The below table presents financial instruments measured at carrying amount and at fair value.

BANK

IN RON THOUSAND	NOTE	HELD FOR TRADING	DESIGNATED AT FAIR VALUE	HELD TO MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	TOTAL CARRYING AMOUNT	FAIR VALUE
31 DECEMBER 2016								
FINANCIAL ASSETS								
Trading assets	17	443,758	-	-	-	-	443,758	443,758
Derivative assets held for risk management	18	1,013	-	-	-	-	1,013	1,013
Loans and advances to banks	19	-	-	-	546,165	-	546,165	546,165
Loans and advances to customers	20	-	-	-	19,761,017	-	19,761,017	19,826,477
Investment securities	21	-	1,334,279	534,227	-	1,943,980	3,812,486	3,829,438
Total financial assets		**444,771**	**1,334,279**	**534,227**	**20,307,182**	**1,943,980**	**24,564,439**	**24,646,851**
FINANCIAL LIABILITIES								
Trading liabilities	17	60,124	-	-	-	-	60,124	60,124
Derivative liabilities held for risk management	18	4,101	-	-	-	-	4,101	4,101
Deposits from banks	27	-	-	-	583,014	-	583,014	583,014
Deposits from customers	28	-	-	-	26,381,841	-	26,381,841	26,385,698
Loans from banks and other financial institutions	29	-	-	-	1,137,587	-	1,137,587	1,139,564
Debt securities issued	29	-	-	-	515,961	-	515,961	558,511
Subordinated liabilities	32	-	-	-	954,973	-	954,973	954,973
Total financial liabilities		**64,225**	**-**	**-**	**29,573,376**	**-**	**29,637,601**	**29,685,985**

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

The below table presents financial instruments measured at carrying amount and at fair value.

BANK

IN RON THOUSAND 31 DECEMBER 2015	NOTE	HELD FOR TRADING	DESIGNATED AT FAIR VALUE	HELD TO MATURITY	LOANS AND RECEIVABLES	AVAILABLE FOR SALE	TOTAL CARRYING AMOUNT	FAIR VALUE
FINANCIAL ASSETS								
Trading assets	17	527,218	-	-	-	-	527,218	527,218
Derivative assets held for risk management	18	1,956	-	-	-	-	1,956	1,956
Loans and advances to banks	19	-	-	-	1,138,893	-	1,138,893	1,138,893
Loans and advances to customers	20	-	-	-	18,153,586	-	18,153,586	18,147,474
Investment securities	21	-	1,756,446	234,271	-	2,103,972	4,094,689	4,108,789
Total financial assets		**529,174**	**1,756,446**	**234,271**	**19,292,479**	**2,103,972**	**23,916,342**	**23,924,330**
FINANCIAL LIABILITIES								
Trading liabilities	17	37,902	-	-	-	-	37,902	37,902
Derivative liabilities held for risk management	18	5,276	-	-	-	-	5,276	5,276
Deposits from banks	27	-	-	-	627,082	-	627,082	627,082
Deposits from customers	28	-	-	-	23,743,196	-	23,743,196	23,750,989
Loans from banks and other financial institutions	29	-	-	-	1,624,475	-	1,624,475	1,620,131
Debt securities issued		-	-	-	746,285	-	746,285	793,157
Subordinated liabilities	32	-	-	-	950,436	-	950,436	950,436
Total financial liabilities		**43,178**	**-**	**-**	**27,691,474**	**-**	**27,734,652**	**27,784,973**

7. NET INTEREST INCOME

IN RON THOUSAND	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
INTEREST INCOME				
Current accounts and loans and advances to banks	11,716	11,793	11,716	11,793
Loans and advances to customers (i)	1,212,388	1,204,198	1,212,388	1,204,198
Derivatives held for risk management	124	785	124	785
Available for sale investments	18,313	16,924	18,313	16,924
Held to maturity investments	11,608	9,415	11,608	9,415
Other investment securities	15,800	46,237	15,035	45,460
Negative interest	(5,700)	(4,425)	(5,700)	(4,425)
Other	11	448	11	448
Total interest income	**1,264,260**	**1,285,375**	**1,263,495**	**1,284,598**
INTEREST EXPENSE AND SIMILAR CHARGES				
Deposits from banks	(906)	(1,033)	(906)	(1,033)
Deposits from customers	(58,132)	(118,656)	(58,132)	(118,660)
Debt securities issued	(33,454)	(38,931)	(33,732)	(39,277)
Loans from banks and subordinated liabilities	(54,629)	(67,630)	(54,629)	(67,630)
Other	(5,035)	(4,481)	(5,034)	(4,481)
Negative interest	-	3	-	3
Total interest expense	**(152,156)**	**(230,728)**	**(152,433)**	**(231,078)**
Net interest income	**1,112,104**	**1,054,647**	**1,111,062**	**1,053,520**

(i) The amount of interest income from impaired loans amounts to RON 71,759 thousand (31 December 2015: RON 60,258 thousand).

8. NET FEE AND COMMISSION INCOME

	GROUP		BANK	
IN RON THOUSAND	2016	2015	2016	2015
FEE AND COMMISSION INCOME				
Transactions from payments transfer business	573,394	584,388	573,394	584,388
Loans administration and guarantee issuance	53,052	57,813	53,052	57,813
Variable component referring to the sale of loans to RIEEF (Note 34)	-	12,159	-	12,159
Asset management fee	48,745	76,114	-	-
Commissions from insurance premium collections	57,719	39,226	57,719	39,226
Commissions for buying/selling cash	4,090	3,666	4,090	3,666
Other	35,471	37,918	70,441	92,873
Total fee and commission income	**772,471**	**811,284**	**758,696**	**790,125**
FEES AND COMMISSIONS EXPENSE				
Commissions for payment transfers	(129,094)	(151,598)	(129,094)	(151,598)
Loan and guarantees received from banks	(10,222)	(12,254)	(10,222)	(12,254)
For securities business	(1,040)	(902)	(670)	(543)
Other	(10,733)	(16,524)	(10,733)	(16,524)
Total fee and commission expense	**(151,089)**	**(181,278)**	**(150,719)**	**(180,919)**
Net fee and commission income	**621,382**	**630,006**	**607,977**	**609,206**

9. NET TRADING INCOME

	GROUP		BANK	
IN RON THOUSAND	2016	2015	2016	2015
NET TRADING INCOME FROM:				
Currency based instruments (i), out of which:	283,086	276,357	282,978	276,101
Gain/(loss) from foreign exchange derivative transactions	(1,915)	(4,893)	(1,915)	(4,893)
Net gain on revaluation of monetary assets and foreign currency transactions	285,001	281,250	284,893	280,994
Interest rate instruments (ii), out of which:	17,655	12,160	17,655	12,160
Net trading result from government securities and corporate debt securities	13,448	9,483	13,448	9,483
Interest rate swaps gain/(loss)	4,207	2,677	4,207	2,677
Net trading income	**300,741**	**288,517**	**300,633**	**288,261**

(i) Net foreign exchange income from currency based transactions includes gains and losses from spot and forward contracts, money market instruments, currency swaps and from the translation of foreign currency assets and liabilities;
(ii) Net trading income from interest rate instruments includes the net result on trading in government securities, corporate debt securities and interest rate swaps.

10. OTHER OPERATING INCOME

	GROUP		BANK	
IN RON THOUSAND	2016	2015	2016	2015
Net proceeds from sales of available for sale instruments*	99,824	9,648	99,824	9,648
Impairment for investments in associates and joint ventures (Note 22)	(16,771)	-	(14,106)	-
Reversal of litigation provision	7,573	-	7,573	-
Revenues from additional leasing services	425	519	425	519
Reversal of other provisions	19,743	3,342	19,743	3,342
Dividend income	1,501	3,612	15,992	30,083
Other computer services	2,491	2,142	2,491	2,142
Revenues from insurance recovery	3,770	3	3,770	3
Income from repossessed assets	2,288	-	2,288	-
Sundry income	9,564	7,775	10,303	8,383
Total	**130,408**	**27,041**	**148,303**	**54,120**

*Net proceeds from sale of available for sale instruments includes proceeds from sale of Visa Europe share (Note 21).

11. OPERATING EXPENSES

IN RON THOUSAND	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
Rental of office space expenses	157,599	155,901	157,249	155,544
IT repairs and maintenance	76,411	81,781	75,867	81,281
Depreciation and amortization (Note 23, Note 24)	80,362	79,280	80,238	79,170
Deposit insurance fees*	32,194	50,368	32,194	50,368
Resolution fund fee**	10,704	8,708	10,704	8,708
Security expenses	54,557	57,753	54,557	57,753
Advertising	57,035	43,048	56,830	42,796
Charge of litigation provision	-	42,393	-	42,393
Legal, advisory and consulting expenses	46,128	41,015	45,973	40,926
Postal and telecommunication expenses	30,498	32,208	30,468	32,182
Office supplies	29,173	31,719	29,159	31,697
Sundry operating expenses	20,262	16,788	20,552	16,721
Charge of other provisions	12,766	12,951	12,766	12,951
Training expenses for staff	11,694	10,890	11,657	10,853
Travelling expenses	7,570	6,030	7,495	5,957
Transport costs	5,054	5,622	5,043	5,611
Other taxes	6,716	4,703	5,234	3,221
Total	**638,723**	**681,158**	**635,986**	**678,132**

*The Bank pays annually contributions to the Bank Deposit Guarantee Fund for guaranteed deposits. Guaranteed deposits represent any credit balance, including the due interest, which results from funds left in an account or from temporary situations deriving from normal banking transactions and which a credit institution must repay in the legal and contractual conditions applicable. Examples of guaranteed deposits are: time deposits, current accounts, savings accounts, debit/credit card accounts.
**Bank pays contribution to resolution fund for liabilities not covered, respectively for liabilities (excluding own funds) less covered deposits.

The Group recognizes its liabilities related to the deposit insurance fee and resolution fund fee in accordance to IFRIC Interpretation 21, "Levies". The liability to pay these levies is recognized when they become constructive. In this case, the obligation arises annually on January 1, as the Bank performs activities related to deposits received.

12. PERSONNEL EXPENSE

	GROUP		BANK	
IN RON THOUSAND	**2016**	**2015**	**2016**	**2015**
Salary expense (i)	**431,636**	**424,929**	**427,433**	**421,801**
Social contributions (ii)	**93,319**	**95,136**	**92,444**	**94,283**
Other staff expenses	**6,206**	**5,688**	**6,183**	**5,666**
Long term employee benefits (iii)	**1,652**	**2,605**	**1,652**	**2,605**
Total	**532,813**	**528,358**	**527,712**	**524,355**

The number of employees at Group level as at 31 December 2016 was 5,265 (31 December 2015: 5,379). The number of employees at Bank level as at 31 December 2016 was 5,235 (31 December 2015: 5,349).
(i) Out of the total salary expense, the Group has recorded in 2016 RON 3,978 thousand, representing contribution for employees to Pillar 3 pension plan (2015: RON 4,114 thousand).
(ii) Out of Social contributions expense, the contribution for National House of Pensions and Social Insurance is RON 63,700 thousand (2015: RON 65,306 thousand).
(iii) The long term benefits for employees also include the provision for benefits granted on retirement as a one-off compensation and deferred performance bonus. Out of the total long term employee benefits, the Group has recorded in 2016 RON 287 thousand, representing the expense for share incentive plan (2015: RON 753 thousand).

Share-based remuneration
The Management Board, with approval by the Supervisory Board, of Raiffeisen Bank International has approved the existence of a share incentive program (SIP) which could offer performance based allotments of shares to eligible employees at home and abroad for a given period. Eligible employees were board members and selected executives of Raiffeisen Bank International, as well as executives of its affiliated bank subsidiaries and other affiliated companies.

The number of ordinary shares of Raiffeisen Bank International which will ultimately be transferred depends on the achievement of two performance criteria: the targeted return on equity (ROE) and the performance of the share of the RBI AG compared to the total shareholder return of the shares of companies in DJ EURO STOXX Banks index after a three-year holding period. Participation in SIP is voluntary.

Expenses related to the share incentive program are recognized in staff expenses in accordance with IFRS 2 for cash settled share-based payment transactions and the liability incurred at the fair value of the liability. The share incentive plan was in place until 31 December 2013 and from 2014 the Group has cancelled this form of remuneration. The number of contingently allotted shares was: SIP 2011: 9,581, SIP 2012: 12,143, SIP 2013: 18,075.

The number of shares as determined above considers full performance achievement. The value of the finally paid out Raiffeisen Bank International shares to personnel depends on the value of shares at payout. For each annual SIP there is a vesting period of 5 years.

13. NET CHARGE OF PROVISION FOR IMPAIRMENT LOSSES

GROUP

IN RON THOUSAND	2016	2015
Impairment charge on loans and advances to customers (Note 20)	895,960	515,100
Release of the impairment for loans and advances to customers (Note 20)	(376,371)	(175,611)
Impairment charge on un-drawn commitments (Note 30)	7,880	11,534
Release of the impairment for un-drawn commitments (Note 30)	(13,598)	(16,926)
Loans written-off	97,228	42,335
Recoveries from loans and advances to customers	(141,830)	(87,420)
Net charge of provision for impairment losses	**469,269**	**289,012**

BANK

IN RON THOUSAND	2016	2015
Impairment charge on loans and advances to customers (Note 20)	895,960	515,100
Release of the impairment for loans and advances to customers (Note 20)	(376,371)	(175,611)
Impairment charge on un-drawn commitments (Note 30)	7,880	11,534
Release of the impairment for un-drawn commitments (Note 30)	(13,598)	(16,926)
Loans written-off	97,228	42,335
Recoveries from loans and advances to customers	(141,830)	(87,420)
Net charge of provision for impairment losses	**469,269**	**289,012**

*Increase in impairement losses is mainly due to Law no. 77/2016 regarding the commissioning of immovable property payment on redemption loan's obligations, which generated an additionaly impact of RON 120,221 thousand. The law entered into force on May 13, 2016. The loans subject to this law are loans granted to consumers, pleged with at least one immovable property suited for home, whose value original granted does not exceed EUR 250 thousand.

14. INCOME TAX EXPENSE

GROUP

IN RON THOUSAND	2016	2015
Current tax expenses at 16% (2015:16%) of taxable profits determined in accordance with Romanian law	78,698	82,975
Deferred tax expense (Note 25)	13,200	357
Total	**91,898**	**83,332**

BANK

IN RON THOUSAND	2016	2015
Current tax expenses at 16% (2015:16%) of taxable profits determined in accordance with Romanian law	77,740	80,702
Deferred tax expense (Note 25)	13,210	177
Total	**90,950**	**80,879**

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

15. RECONCILIATION OF INCOME BEFORE TAX WITH THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP		BANK	
IN RON THOUSAND	**2016**	**2015**	**2016**	**2015**
Profit subject to corporate income tax	535,714	509,727	542,579	518,443
Taxation at statutory rate of 16% (2015: 16%)	**85,714**	**81,556**	**86,812**	**82,951**
Non-deductible expenses	36,807	57,797	36,886	57,586
Non-taxable revenues	(34,214)	(46,502)	(36,350)	(49,960)
Corporate income tax before fiscal credit	**88,307**	**92,851**	**87,348**	**90,577**
Fiscal credit	(10,007)	(7,209)	(10,006)	(7,208)
Adjustments recognized in the period for current tax of prior periods	398	(2,667)	398	(2,667)
Corporate income tax	**78,698**	**82,975**	**77,740**	**80,702**
Effect of origination and reversal of temporary differences	13,200	357	13,210	177
Taxation in the consolidated statement of comprehensive income	**91,898**	**83,332**	**90,950**	**80,879**

The main non taxable income are from reversal of provisions and dividends received, and non deductible expenses are from provisions, sponsorships, accruals and other non-deductible expenses according to the Fiscal Code.

Fiscal credit represents sponsorship expense according to the applicable fiscal regulations.

16. CASH AND CASH WITH CENTRAL BANK THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP		BANK	
IN RON THOUSAND	**31 DECEMBER 2016**	**31 DECEMBER 2015**	**31 DECEMBER 2016**	**31 DECEMBER 2015**
Cash on hand	3,502,500	1,373,384	3,502,496	1,373,370
Minimum compulsory reserve	3,000,633	3,207,989	3,000,633	3,207,989
Sight deposits held with central bank	1,700,024	2,400,017	1,700,024	2,400,017
Total	**8,203,157**	**6,981,390**	**8,203,153**	**6,981,376**

The Bank maintains with the National Bank of Romania the minimum compulsory reserve established under Regulation no. 6/2002 issued by the National Bank of Romania, with subsequent amendments and addendums. As of 31 December 2016 the mandatory minimum reserve ratio was 8% (31 December 2015: 8%) for funds raised in RON and 10% (31 December 2015: 14%) for funds raised in foreign currency with residual maturity of less than 2 years, at the end of the observation period. For liabilities having residual maturity over 2 years at the end of the observation period, without reimbursement, conversion or early retirement clauses, compulsory minimum reserve ratio was set at 0% (31 December 2015: 0%).

As of 31 December 2016, the interest paid by the NBR for the RON reserves was 0.10% per year and for EUR reserves was 0.05% per year.

The minimum compulsory reserve can be used by the Group for daily activities but under the condition that the monthly average balance of the minimum compulsory reserve is kept within the legal limits.

17. TRADING ASSETS / LIABILITIES

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2016	31 DECEMBER 2015	31 DECEMBER 2016	31 DECEMBER 2015
TRADING ASSETS				
Bonds (i)	384,206	487,018	384,206	487,018
Derivative financial instruments	59,488	40,115	59,552	40,200
Total	**443,694**	**527,133**	**443,758**	**527,218**
TRADING LIABILITIES				
Derivative financial instruments	60,124	37,902	60,124	37,902
Total	**60,124**	**37,902**	**60,124**	**37,902**

(i) The bonds held as at 31 December 2016 and as at December 2015 include discount treasury bills and bonds.

18. DERIVATIVES HELD FOR RISK MANAGEMENT

GROUP

31 DECEMBER 2016	NOTIONAL	NOTIONAL		FAIR VALUE
IN RON THOUSAND	BUY	SELL	ASSETS	LIABILITIES
OTC PRODUCTS:				
Currency swaps	136,233	132,698	998	2,282
Interest rate swaps	60,411	60,411	15	1,838
Total			**1,013**	**4,120**

31 DECEMBER 2015	NOTIONAL	NOTIONAL		FAIR VALUE
IN RON THOUSAND	BUY	SELL	ASSETS	LIABILITIES
OTC PRODUCTS:				
Currency swaps	158,358	154,628	1,932	3,253
Interest rate swaps	105,490	105,490	24	2,079
Total			**1,956**	**5,332**

BANK

31 DECEMBER 2016	NOTIONAL	NOTIONAL		FAIR VALUE
IN RON THOUSAND	BUY	SELL	ASSETS	LIABILITIES
OTC PRODUCTS:				
Currency swaps	136,233	132,698	998	2,263
Interest rate swaps	60,411	60,411	15	1,838
Total			**1,013**	**4,101**

31 DECEMBER 2015	NOTIONAL	NOTIONAL		FAIR VALUE
IN RON THOUSAND	BUY	SELL	ASSETS	LIABILITIES
OTC PRODUCTS:				
Currency swaps	158,358	154,628	1,932	3,197
Interest rate swaps	105,490	105,490	24	2,079
Total			**1,956**	**5,276**

Certain monetary items denominated in foreign currency are economically hedged using swap contracts as set out in the table above. The Group does not use hedge accounting for its currency and interest rate derivative contracts. The fair value of derivative financial instruments is determined using the market quotations at the valuation date using discounted cash flow models.

Foreign exchange transactions are measured on the basis of discounting future cash flows with market rates; the sites of Reuters and the fixing price of National Bank of Romania are the source of rates.

19. LOANS AND ADVANCES TO BANKS

Group
As at 31 December 2016, out of the total loans and advances to banks of RON 546,165 thousand (2015: RON 1,138,893 thousand), term deposits held with commercial banks amount to RON 412,720 thousand (2015: RON 765,716 thousand). Loans and advances to banks include also collateral deposits of RON 16,056 thousand (2015: RON 13,029 thousand), the rest of the amount represent current accounts and sight deposits.

Bank
As at 31 December 2016, out of the total loans and advances to banks of RON 546,165 thousand (2015: RON 1,138,893 thousand), term deposits held with commercial banks amount to RON 412,720 thousand (2015: RON 765,716 thousand). Loans and advances to banks include also collateral deposits of RON 16,056 thousand (2015: RON 13,029 thousand), the rest of the amount represent current accounts and sight deposits.

20. LOANS AND ADVANCES TO CUSTOMERS

The Group's commercial lending is concentrated on companies and individuals. Economic sector risk concentrations within the customer loan portfolio at balance sheet date were as follows:

	GROUP		BANK	
	31 DECEMBER 2016	31 DECEMBER 2015	31 DECEMBER 2016	31 DECEMBER 2015
IN RON THOUSAND				
Retail customers	12,681,288	12,046,502	12,681,288	12,046,502
Non-retail customers, of which:				
Agriculture and food industry	418,035	466,137	418,035	466,137
Electricity, oil & gas	270,465	422,754	270,465	422,754
Manufacturing	1,487,352	1,452,973	1,487,352	1,452,973
Construction	1,301,440	1,010,788	1,301,440	1,010,788
Wholesale and retail trade	2,161,874	1,752,471	2,161,874	1,752,471
Services	2,056,716	1,528,852	2,056,691	1,528,852
Public sector	618,933	507,995	618,933	507,995
Total loans and advances to customers before allowances	20,996,103	19,188,472	20,996,078	19,188,472
Less allowance for impairment losses on loans and advances to customers	(1,235,061)	(1,034,886)	(1,235,061)	(1,034,886)
Net loans and advances to customers	19,761,042	18,153,586	19,761,017	18,153,586

The allowances for impairment losses on loans and advances to customers can be further analyzed as follows:

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2016	31 DECEMBER 2015	31 DECEMBER 2016	31 DECEMBER 2015
RETAIL CUSTOMERS				
Specific allowances for impairment				
Balance as at the beginning of the year	527,055	500,561	527,055	500,561
Impairment loss for the year				
Charge for the year	535,037	260,594	535,037	260,594
Release	(251,798)	(84,771)	(251,798)	(84,771)
Decreases due to amounts taken against allowances	(255,194)	(168,508)	(255,194)	(168,508)
Effect of foreign currencies movements	1,220	19,179	1,220	19,179
Balance at the end of the year	556,320	527,055	556,320	527,055
Collective allowances for impairment				
Balance as at the beginning of the year	118,632	71,647	118,632	71,647
Impairment loss for the year				
Charge for the year	165,537	80,556	165,537	80,556
Release	(37,144)	(34,067)	(37,144)	(34,067)
Effect of foreign currencies movements	299	496	299	496
Balance at the end of the year	247,324	118,632	247,324	118,632
Total	**803,644**	**645,687**	**803,644**	**645,687**
CORPORATE CUSTOMERS				
Specific allowances for impairment				
Balance as at the beginning of the year	350,444	341,039	350,444	341,039
Impairment loss for the year				
Charge for the year	171,274	154,387	171,274	154,387
Release	(62,607)	(21,493)	(62,607)	(21,493)
Decreases due to amounts taken against allowances	(71,334)	(127,770)	(71,334)	(127,770)
Effect of foreign currencies movements	3,111	4,281	3,111	4,281
Balance at the end of the year	390,888	350,444	390,888	350,444
Collective allowances for impairment				
Balance as at the beginning of the year	38,755	53,573	38,755	53,573
Impairment loss for the year				
Charge for the year	24,112	19,564	24,112	19,564
Release	(24,822)	(35,279)	(24,822)	(35,279)
Effect of foreign currencies movements	2,484	897	2,484	897
Balance at the end of the year	40,529	38,755	40,529	38,755
Total	**431,417**	**389,199**	**431,417**	**389,199**
Total allowances for impairment	**1,235,061**	**1,034,886**	**1,235,061**	**1,034,886**

Non-Performing exposure in accordance with EBA/ITS/2013/03/rev1 Regulation from July 24th 2014 with subsequent amendments can be further analysed as follows:

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2016	31 DECEMBER 2015	31 DECEMBER 2016	31 DECEMBER 2015
Exposure	**1,918,049**	**1,742,589**	**1,918,049**	**1,742,589**
out of which retail:	1,174,675	1,166,577	1,174,675	1,166,577
out of which non-retail:	743,374	576,012	743,374	576,012
Allowance for impairment	**992,894**	**897,109**	**992,894**	**897,109**
out of which retail:	596,506	549,423	596,506	549,423
out of which non-retail:	396,388	347,686	396,388	347,686
Net Book Value	**925,155**	**845,480**	**925,155**	**845,480**
out of which retail:	578,169	617,154	578,169	617,154
out of which non-retail:	346,986	228,326	346,986	228,326

21. INVESTMENT SECURITIES

IN RON THOUSAND	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
INVESTMENT SECURITIES AT FAIR-VALUE THROUGH PROFIT OR LOSS				
Treasury securities issued by the Government of Romania (i)	246,068	298,166	246,068	298,166
Bonds issued by the Government of Romania (ii)	951,154	1,270,284	951,154	1,270,283
Bonds issued by other public sector	127,556	176,994	127,556	176,994
Bonds issued by Multilateral Development Banks	9,501	11,003	9,501	11,003
Mutual funds	15,687	-	-	-
Total investment securities at fair value through profit or loss	**1,349,966**	**1,756,447**	**1,334,279**	**1,756,446**
INVESTMENT SECURITIES AVAILABLE-FOR-SALE				
Bonds issued by other public sector	47,884	158,462	47,884	158,462
Treasury securities issued by the Government of Romania (i)	708,622	653,027	708,622	653,027
Bonds issued by the Government of Romania (ii)	1,088,917	1,204,747	1,088,917	1,204,747
Unquoted equity instruments (iii)	4,028	69,570	4,023	69,565
Quoted equity instruments	23,333	2,166	23,333	2,166
Bonds issued by Multilateral Development Banks	71,201	16,005	71,201	16,005
Total investment securities available-for-sale	**1,943,985**	**2,103,977**	**1,943,980**	**2,103,972**
INVESTMENT SECURITIES HELD-TO-MATURITY (II)				
Bonds issued by private sector issuers	5,155	5,155	-	-
Bonds issued by the Government of Romania (ii)	550,484	250,218	534,227	234,271
Total investment securities held-to-maturity	**555,639**	**255,373**	**534,227**	**234,271**
Total investment securities	**3,849,590**	**4,115,797**	**3,812,486**	**4,094,689**

i) Treasury bills issued by the Government of Romania include discount securities denominated in RON. Discount treasury bills bear fixed interest rates.
ii) Bonds issued by the Government of Romania include bonds issued by the Ministry of Finance denominated in RON, EUR and USD, bearing fixed interest rate between 1.25% p.a. and 7.00% p.a. As at 31 December 2016, bonds issued by the Government of Romania amounting to RON 60,732 thousand (31 December 2015: RON 63,204 thousand) are pledged as security in order to comply with National Bank of Romania prudential regulations for settlement of inter-banking operations.
iii) Unquoted equity instruments represent equity investments that do not have a quoted price in an active market for an identical instrument and whose fair value cannot be reliably measured. Any fair value measurement would require significant management judgement due to the difficulties in obtaining information that might be relied on to use in valuation. Therefore, these equity investments are measured at cost less impairment, if any.

As of December 31, 2016 the carrying amount of unquoted equity instruments held by the Group amounted to RON 4,028 thousand (31 December 2015: RON 69,570 thousand). No impairment losses have been recognized in respect of these instruments (31 December 2015: RON nil).

The decrease in unquoted equity instruments is mainly due to sale Visa Europe Limited shares.
As of December 31, 2015 the Bank as principal member of Visa Europe Limited held a share in the share capital of this company.

Until 2015, the Bank held this participation at cost, as it did not have a quoted market price in an active market and its fair value could not be reliably measured.

In November 2015, Visa Inc. and Visa Europe Limited have signed a contract according to which Visa Inc. acquires 100% of the share capital of Visa Europe. In June 2016 the transaction of Visa Europe acquisition was finished. For the share held in Visa Europe, the Bank relised revenue in the form of cash, Visa Inc. shares and a deferred cash payment component.

Group: Net income from financial investments for the period ended December 31st, 2016 are in amount of RON 7,784 thousand (31 December 2015: RON 4,835 thousand).

Bank: Net income from financial investments for the period ended December 31st, 2016 are in amount of RON 7,571 thousand (31 December 2015: RON 4,835 thousand).

The increase in Net income from financial investments is due to Visa transaction, explained above.

22. INVESTMENT IN AN ASSOCIATE AND JOINT VENTURE

	GROUP		BANK	
IN RON THOUSAND	**2016**	**2015**	**2016**	**2015**
Balance at 1 January	**102,192**	**112,103**	**123,799**	**123,799**
Additions	-	38,400	-	-
Disposals	(25,824)	(51,524)	-	-
Other comprehensive income	(37)	(32)	-	-
Group's share of gain from associates	9,562	3,245	-	-
Total	**85,893**	**102,192**	**123,799**	**123,799**
Allowance for impairment	(16,771)	-	(61,144)	(47,038)
Balance at 31 December	**69,122**	**102,192**	**62,655**	**76,761**

Starting with 2016, the Group reclassified its investments in unit funds from associates to investment securities. The reason for the reclassification is that the interest held into the unit funds decreased constantly in the past years and the remaining part became insignificant. Also, due to the low interest held, the participation in its unit funds do not qualify as associates anymore.

INVESTMENT IN ASSOCIATES

IN RON THOUSAND	ASSETS	LIABILI-TIES	REV-ENUES	INTEREST INCOME	INTEREST EXPENSE	INCOME TAXES	PROFIT	NET ASSETS	INTEREST HELD%	% NET ASSETS
31 DECEMBER 2016										
Fondul de Garantare a Creditului Rural IFN S.A.	724,282	677,560	25,746	511	(65)	(1,253)	3,834	46,722	33.33%	15,572

INVESTMENT IN ASSOCIATES

IN RON THOUSAND	ASSETS	LIABILI-TIES	REV-ENUES	INTEREST INCOME	INTEREST EXPENSE	INCOME TAXES	PROFIT	NET ASSETS	INTEREST HELD%	% NET ASSETS
31 DECEMBER 2015										
Raiffeisen RON Plus	2,665,409	20,276	97,965	81,454	(561)	-	57,942	2,645,133	0.92%	24,405
Fondul de Garantare a Creditului Rural IFN S.A.	1,236,531	1,189,382	35,410	2,658	(559)	(164)	4,581	47,149	33,33%	15,715

INVESTMENT IN JOINT VENTURES

IN RON THOUSAND	ASSETS	LIABILI-TIES	REV-ENUES	INTEREST INCOME	INTEREST EXPENSE	INCOME TAXES	PROFIT	NET ASSETS	INTEREST HELD%	% NET ASSETS
31 DECEMBER 2016										
Raiffeisen Leasing IFN S.A.	935,305	846,487	107,727	42,667	(10,760)	(3,256)	16,222	88,818	50.00%	44,409
ICS Raiffeisen Leasing S.R.L.	26,895	21,638	3,739	3,311	(844)	794	(94)	5,258	50.00%	2,629
Raiffeisen Banca pentru Locuințe S.A.	744,827	672,308	33,774	25,720	(11,794)	(493)	2,062	72,519	33.33%	24,167

INVESTMENT IN JOINT VENTURES

IN RON THOUSAND	ASSETS	LIABILI-TIES	REV-ENUES	INTEREST INCOME	INTEREST EXPENSE	INCOME TAXES	PROFIT	NET ASSETS	INTEREST HELD%	% NET ASSETS
31 DECEMBER 2015										
Raiffeisen Leasing IFN S.A.	822,206	749,609	100,358	48,685	(14,112)	(3,208)	12,773	72,596	50.00%	36,298
ICS Raiffeisen Leasing S.R.L.	29,616	25,059	4,640	4,113	(1,166)	(118)	661	4,557	50.00%	2,279
Raiffeisen Banca pentru Locuințe S.A.	676,043	605,475	39,989	25,077	(9,803)	(385)	1,008	70,568	33.33%	23,517

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

23. PROPERTY, PLANT AND EQUIPMENT

GROUP

IN RON THOUSAND	LAND AND BUILDINGS	FURNITURE AND COMPUTER EQUIPMENT	MOTOR VEHICLES	ASSETS IN PROGRESS	TOTAL
COST					
Balance at 1 January 2015	**206,013**	**415,455**	**40,946**	**9,774**	**672,188**
Additions	176	7,237	1,635	28,074	37,122
Transfers	2,772	26,312	2,890	(31,974)	-
Disposals	(4,255)	(12,335)	(1,797)	-	(18,387)
Balance at 31 December 2015	**204,706**	**436,669**	**43,674**	**5,874**	**690,923**
Balance at 1 January 2016	**204,706**	**436,669**	**43,674**	**5,874**	**690,923**
Additions	-	21,092	5,318	67,075	93,485
Transfers	5,984	26,640	3,378	(36,002)	-
Disposals	(8,304)	(13,644)	(18,974)	(7,174)	(48,096)
Balance at 31 December 2016	**202,386**	**470,757**	**33,396**	**29,773**	**736,312**
DEPRECIATION AND IMPAIRMENT LOSSES					
Balance at 1 January 2015	**144,543**	**284,251**	**16,047**	-	**444,841**
Charge for the year	11,140	31,750	5,119	-	48,009
Disposals	(3,399)	(9,877)	(1,609)	-	(14,885)
Balance at 31 December 2015	**152,284**	**306,124**	**19,557**	-	**477,965**
Balance at 1 January 2016	**152,284**	**306,124**	**19,557**	-	**477,965**
Charge for the year	9,628	34,067	5,252	-	48,947
Disposals	(6,558)	(11,482)	(8,652)	-	(26,692)
Balance at 31 December 2016	**155,354**	**328,709**	**16,157**	-	**500,220**
CARRYING AMOUNTS					
At 1 January 2015	**61,470**	**131,204**	**24,899**	**9,774**	**227,347**
At 31 December 2015	**52,422**	**130,545**	**24,117**	**5,874**	**212,958**
At 1 January 2016	**52,422**	**130,545**	**24,117**	**5,874**	**212,958**
At 31 December 2016	**47,032**	**142,048**	**17,239**	**29,773**	**236,092**

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

BANK

IN RON THOUSAND	LAND AND BUILDINGS	FURNITURE AND COMPUTER EQUIPMENT	MOTOR VEHICLES	ASSETS IN PROGRESS	TOTAL
COST					
Balance at 1 January 2015	**206,620**	**421,556**	**29,037**	**13,545**	**670,758**
Additions	176	7,237	1,447	28,074	36,934
Transfers	2,772	26,312	2,890	(31,974)	-
Disposals	(4,255)	(12,335)	(1,499)	-	(18,089)
Balance at 31 December 2015	**205,313**	**442,770**	**31,875**	**9,645**	**689,603**
Balance at 1 January 2016	**205,313**	**442,770**	**31,875**	**9,645**	**689,603**
Additions	-	14,979	5,092	63,305	83,376
Transfers	5,984	26,640	3,378	(36,002)	-
Disposals	(8,911)	(13,644)	(7,685)	(7,175)	(37,415)
Balance at 31 December 2016	**202,386**	**470,745**	**32,660**	**29,773**	**735,564**
DEPRECIATION AND IMPAIRMENT LOSSES					
Balance at 1 January 2015	**144,423**	**284,776**	**14,389**	**-**	**443,588**
Charge for the year	11,140	31,748	5,048	-	47,936
Disposals	(3,399)	(9,876)	(1,341)	-	(14,616)
Balance at 31 December 2015	**152,164**	**306,648**	**18,096**	**-**	**476,908**
Balance at 1 January 2016	**152,164**	**306,648**	**18,096**	**-**	**476,908**
Charge for the year	9,628	34,065	5,176	-	48,869
Disposals	(6,438)	(12,008)	(7,446)	-	(25,892)
Balance at 31 December 2016	**155,354**	**328,705**	**15,826**	**-**	**499,885**
CARRYING AMOUNTS					
At 1 January 2015	**62,197**	**136,780**	**14,648**	**13,545**	**227,170**
At 31 December 2015	**53,149**	**136,122**	**13,779**	**9,645**	**212,695**
At 1 January 2016	**53,149**	**136,122**	**13,779**	**9,645**	**212,695**
At 31 December 2016	**47,032**	**142,040**	**16,834**	**29,773**	**235,679**

Group: Included in additions and disposals are transfers between the groups of fixed assets. Purchases of property, plant and equipment during year 2016 were in amount of RON 93,485 thousand (2015: RON 37,122 thousand).

Bank: Included in additions and disposals are transfers between the groups of fixed assets. Purchases of property, plant and equipment during year 2016 were in amount of RON 83,376 thousand (2015: RON 36,934 thousand).

24. INTANGIBLE ASSETS

GROUP

IN RON THOUSAND	PURCHASED SOFTWARE	ASSETS IN PROGRESS	TOTAL
COST			
Balance at 1 January 2015	**312,798**	**21,569**	**334,367**
Additions	2,662	32,542	35,204
Transfers	12,599	(12,599)	-
Balance at 31 December 2015	**328,059**	**41,512**	**369,571**
Balance at 1 January 2016	**328,059**	**41,512**	**369,571**
Additions	7,337	56,311	63,648
Transfers	53,230	(53,230)	-
Disposals	(238)	(16)	(254)
Balance at 31 December 2016	**388,388**	**44,577**	**432,965**
AMORTIZATION AND IMPAIRMENT LOSSES			
Balance at 1 January 2015	**253,149**	**-**	**253,149**
Charge for the year	31,271	-	31,271
Disposals	(2,072)	-	(2,072)
Balance at 31 December 2015	**282,348**	**-**	**282,348**
Balance at 1 January 2016	**282,348**		**282,348**
Charge for the year	31,415	-	31,415
Disposals	(212)	-	(212)
Balance at 31 December 2016	**313,551**	**-**	**313,551**
CARRYING AMOUNTS			
At 1 January 2015	**59,649**	**21,569**	**81,218**
At 31 December 2015	**45,711**	**41,512**	**87,223**
At 1 January 2016	**45,711**	**41,512**	**87,223**
At 31 December 2016	**74,837**	**44,577**	**119,414**

BANK

IN RON THOUSAND	PURCHASED SOFTWARE	ASSETS IN PROGRESS	TOTAL
COST			
Balance at 1 January 2015	**312,424**	**21,163**	**333,587**
Additions	2,624	32,542	35,166
Transfers	12,599	(12,599)	-
Balance at 31 December 2015	**327,647**	**41,106**	**368,753**
Balance at 1 January 2016	**327,647**	**41,106**	**368,753**
Additions	7,177	56,311	63,488
Transfers	53,230	(53,230)	-
Disposals	(238)	(16)	(254)
Balance at 31 December 2016	**387,816**	**44,171**	**431,987**
AMORTIZATION AND IMPAIRMENT LOSSES			
Balance at 1 January 2015	**252,434**	**-**	**252,434**
Charge for the year	31,234	-	31,234
Disposals	(2,074)	-	(2,074)
Balance at 31 December 2015	**281,594**	**-**	**281,594**
Balance at 1 January 2016	**281,594**	**-**	**281,594**
Charge for the year	31,369	-	31,369
Disposals	(212)	-	(212)
Balance at 31 December 2016	**312,751**	**-**	**312,751**
CARRYING AMOUNTS			
At 1 January 2015	**59,990**	**21,163**	**81,153**
At 31 December 2015	**46,053**	**41,106**	**87,159**
At 1 January 2016	**46,053**	**41,106**	**87,159**
At 31 December 2016	**75,065**	**44,171**	**119,236**

Group: Included in additions and disposals are transfers between the groups of intangible assets. Purchases of intangible assets during year 2016 were in amount of RON 63,648 thousand (2015: RON 35,204 thousand).

Bank: Included in additions and disposals are transfers between the groups of intangible assets. Purchases of intangible assets during year 2016 were in amount of RON 63,488 thousand (2015: RON 35,166 thousand).

25. DEFERRED TAX

Deferred tax assets as at December 31, 2016 are attributable to the items detailed in the table below:

GROUP

IN RON THOUSAND	ASSETS	LIABILITIES	NET	DEFERRED TAX ASSET/ (LIABILITY)
Property, plant and equipment and intangible assets	1,359	73,812	(72,453)	(11,593)
Other liabilities	77,908	1,947	75,961	12,154
Valuation reserve financial assets (AFS)	-	5,322	(5,322)	(852)
Provisions for liabilities and charges	84,016	-	84,016	13,443
Total	**163,283**	**81,081**	**82,202**	**13,152**

BANK

IN RON THOUSAND	ASSETS	LIABILITIES	NET	DEFERRED TAX ASSET/ (LIABILITY)
Property, plant and equipment and intangible assets	1,359	72,142	(70,783)	(11,325)
Other liabilities	77,908	1,947	75,961	12,154
Valuation reserve financial assets (AFS)	-	5,322	(5,322)	(852)
Provisions for liabilities and charges	83,325	-	83,325	13,332
Investment in associates and joint ventures	-	1,670	(1,670)	(267)
Total	**162,592**	**81,081**	**81,511**	**13,042**

Deferred tax assets as at December 31, 2015 are attributable to the items detailed in the table below:

GROUP

IN RON THOUSAND	ASSETS	LIABILITIES	NET	DEFERRED TAX ASSET/ (LIABILITY)
Investment in associates and joint ventures	46,993	1,789	45,204	7,233
Property, plant and equipment and intangible assets	1,632	67,820	(66,188)	(10,591)
Other assets	28,654	-	28,654	4,585
Other liabilities	86,525	37	86,488	13,838
Valuation reserve financial assets (AFS)	119	71,906	(71,787)	(11,486)
Provisions for liabilities and charges	75,741	-	75,741	12,119
Fiscal loss	101	-	101	16
Total	**239,765**	**141,552**	**98,213**	**15,714**

BANK

IN RON THOUSAND	ASSETS	LIABILITIES	NET	DEFERRED TAX ASSET/ (LIABILITY)
Investment in associates and joint ventures	46,993	1,789	45,204	7,233
Property, plant and equipment and intangible assets	1,632	67,820	(66,188)	(10,590)
Other assets	28,654	-	28,654	4,585
Other liabilities	86,525	37	86,488	13,838
Valuation reserve financial assets (AFS)	119	71,906	(71,787)	(11,486)
Provisions for liabilities and charges	75,115	-	75,115	12,018
Total	**239,038**	**141,552**	**97,486**	**15,598**

	GROUP		BANK	
IN RON THOUSAND	2016	2015	2016	2015
Investment in associates and joint ventures	(7,234)	(286)	(7,501)	(286)
Property, plant and equipment and intangible assets	(1,002)	893	(735)	893
Other assets	(4,604)	1,634	(4,604)	1,634
Other liabilities	(1,684)	(818)	(1,684)	(818)
Provisions for liabilities and charges	1,324	(1,796)	1,314	(1,600)
Fiscal loss	-	16	-	-
Deferred tax expense	**(13,200)**	**(357)**	**(13,210)**	**(177)**

Deferred tax related to items recognised in Other Comprehensive Income during the year is due to unrealised gain/loss on available for sale financial assets.

26. OTHER ASSETS

IN RON THOUSAND	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
Prepayments	38,563	30,276	38,425	30,217
Income receivable	2,495	2,420	2,495	2,420
Clearing claims from payment transfer business (i)	68,078	61,911	68,078	61,911
Receivable from sale of loans	2,568	8,937	2,568	8,937
Sundry debtors (ii)	69,356	30,414	78,354	39,222
Inventories	7,109	10,487	7,109	10,487
Repossessed assets	11,802	-	11,802	-
Other	5,456	5,246	-	-
Total	**205,427**	**149,691**	**208,831**	**153,194**

i) Clearing claims from payment transfer business include amounts to be settled as of December 31, like: cards transactions of RON 30,693 thousand (2015: RON 37,370 thousand), sales and purchase of cash transactions of RON 34,627 thousand (2015: RON 22,437 thousand), Western Union transactions in course of settlement of RON 2,803 thousand (2015: RON 1,768 thousand) and others.
ii) Group : Sundry debtors balance is presented at net book value, respectively gross book value in amount of 119,132 RON thousand (2015: 73,897 RON thousand) decreased with impairment in amount of RON 49,776 thousand (2015: RON 43,483 thousand).
Bank: Sundry debtors balance is presented at net book value, respectively gross book value in amount of 128,130 RON thousand (2015: 82,705 RON thousand) decreased with impairment in amount of RON 49,776 thousand (2015: RON 43,483 thousand).

In the tables below is presented the split of other assets to customers by their quality:

IN RON THOUSAND	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
Financial assets	140,392	101,524	143,796	105,027
Non-financial assets	65,035	48,167	65,035	48,167
Total	**205,427**	**149,691**	**208,831**	**153,194**

IN RON THOUSAND	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
Neither past due nor impaired	139,732	98,278	143,136	101,781
Past due but not impaired	3	2,310	3	2,310
Impaired assets	657	936	657	936
Total	**140,392**	**101,524**	**143,796**	**105,027**

27. DEPOSITS FROM BANKS

IN RON THOUSAND	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
Payable on demand	546,988	499,652	546,988	499,652
Sight deposits	-	96,000	-	96,000
Term deposits	36,026	31,430	36,026	31,430
Total	**583,014**	**627,082**	**583,014**	**627,082**

28. DEPOSITS FROM CUSTOMERS

IN RON THOUSAND	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
PAYABLE ON DEMAND				
Retail customers	8,985,808	6,692,067	8,985,808	6,692,067
Non-retail customers	6,351,505	5,027,800	6,358,402	5,031,404
	15,337,313	**11,719,867**	**15,344,210**	**11,723,471**
TERM DEPOSITS				
Retail customers	9,405,196	9,257,098	9,405,196	9,257,098
Non-retail customers	1,631,203	2,761,333	1,631,203	2,761,333
	11,036,399	**12,018,431**	**11,036,399**	**12,018,431**
SAVINGS ACCOUNTS				
Retail customers	1,232	1,294	1,232	1,294
	1,232	**1,294**	**1,232**	**1,294**
Total	**26,374,944**	**23,739,592**	**26,381,841**	**23,743,196**

29. LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS AND DEBT SECURITIES ISSUED

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2016	31 DECEMBER 2015	31 DECEMBER 2016	31 DECEMBER 2015
Commercial banks	713,958	1,208,073	713,958	1,208,073
Multilateral Development Banks	123,957	247,569	123,957	247,569
Other financial institutions	299,672	168,833	299,672	168,833
Total	**1,137,587**	**1,624,475**	**1,137,587**	**1,624,475**

The loans received from banks and other financial institutions are denominated in EUR, CHF and RON, with a final maturity, which varies between March 2017 and December 2026.

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2016	31 DECEMBER 2015	31 DECEMBER 2016	31 DECEMBER 2015
Senior loans from banks and financial institutions	1,137,587	1,624,475	1,137,587	1,624,475
Of which unsecured	1,013,611	1,444,646	1,013,611	1,444,646
Debt securities issued	512,239	739,694	515,961	746,285
Subordinated	954,973	950,436	954,973	950,436
Total	**2,604,799**	**3,314,605**	**2,608,521**	**3,321,196**

The below table shows the split of total long term debt by contractual maturities as of December 31, 2016:

GROUP

IN RON THOUSAND	LESS THAN 1 YEAR	OVER 1 YEAR	TOTAL
Senior loans from banks and financial institutions	651,628	485,959	1,137,587
Of which unsecured	603,582	410,029	1,013,611
Debt securities issued	16,482	495,757	512,239
Subordinated	119,086	835,887	954,973
Total	**787,196**	**1,817,603**	**2,604,799**

BANK

IN RON THOUSAND	LESS THAN 1 YEAR	OVER 1 YEAR	TOTAL
Senior loans from banks and financial institutions	651,628	485,959	1,137,587
Of which unsecured	603,582	410,029	1,013,611
Debt securities issued	16,483	499,478	515,961
Subordinated	119,086	835,887	954,973
Total	**787,197**	**1,821,324**	**2,608,521**

The below table shows the split of total long term debt by contractual maturities as of December 31, 2015:

GROUP

IN RON THOUSAND	LESS THAN 1 YEAR	OVER 1 YEAR	TOTAL
Senior loans from banks and financial institutions	624,068	1,000,407	1,624,475
Of which unsecured	574,757	869,889	1,444,646
Debt securities issued	243,452	496,242	739,694
Subordinated	5,745	944,691	950,436
Total long term debt	**873,265**	**2,441,340**	**3,314,605**

BANK

IN RON THOUSAND	LESS THAN 1 YEAR	OVER 1 YEAR	TOTAL
Senior loans from banks and financial institutions	624,068	1,000,407	1,624,475
Of which unsecured	574,757	869,889	1,444,646
Debt securities issued	246,323	499,962	746,285
Subordinated	5,745	944,691	950,436
Total long term debt	**876,136**	**2,445,060**	**3,321,196**

Long term debt includes senior debt issued, senior loans and subordinated loans from banks. Senior debt has greater seniority in the Bank's liabilities structure than subordinated debt and regulatory capital instruments as regulated by applicable insolvency law.

As of December 31, 2016, the Group has outstanding long term debt in the form of debt securities issued, the one issue 2014, which are tradable on Bucharest Stock Exchange (BSE).

As of December 31, 2016, the Bank has outstanding long term debt in the form of debt securities issued, the one issue 2014, which are tradeable on Bucharest Stock Exchange (BSE).

Group: The balance of debt securities issued as at December 31, 2016, including accrued interest, is in amount of RON 512,239 thousand (December 31, 2015: RON 739,694 thousand).

Bank: The balance of debt securities issued as at December 31, 2016, including accrued interest, is in amount of RON 515,961 thousand (December 31, 2015: RON 746,285 thousand).

The Group makes sure that all the necessary measures are taken in order to ensure the compliance with the financial covenants that may be attached to the loans from banks and other financial institutions. Consequently, there have been no breaches in the financial covenants of any loans from banks and other financial institutions in the analyzed period.

The subordinated loans in balance as of December 31, 2016 were in amount of EUR 170,000 thousand and CHF 42,000 thousand (December 31, 2015: EUR 170,000 thousand; CHF 42,000). The balance of subordinated liabilities as at December 31, 2016, in RON equivalents, including accrued interest is RON 954,973 thousand (December 31, 2015: RON 950,436 thousand). During 2016 and 2015, the Group had no new subordinated liabilities drawn.

30. PROVISIONS

IN RON THOUSAND	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
Provisions for litigations and potential risks	31,943	45,125	31,943	45,125
Provision for un-drawn commitments	24,286	30,030	24,286	30,030
Provision for employee benefits	4,487	4,724	4,487	4,724
Provisions for overdue vacations	8,746	8,112	8,746	8,112
Provisions for share incentive plan	2,513	2,816	2,513	2,816
Provisions for severance payments and similar obligations	42	490	42	490
Sundry provisions	5,118	2,100	5,118	2,100
Total	**77,135**	**93,397**	**77,135**	**93,397**

During 2016 the provisions can be further analyzed as follows:

GROUP

IN RON THOUSAND	OPENING BALANCE	ALLOCATION	RELEASE	USAGE	FX	TOTAL
Provisions for litigations and potential risks	45,125	-	(7,573)	(5,627)	18	31,943
Provision for un-drawn commitments	30,030	7,880	(13,598)	-	(26)	24,286
Provisions for employee benefits	4,724	-	(237)	-	-	4,487
Provisions for overdue vacations	8,112	634	-	-	-	8,746
Provisions for share incentive plan	2,816	754	(48)	-	(1,009)	2,513
Provisions for severance payments and similar obligations	490	-	(294)	(154)	-	42
Sundry provisions	2,100	7,666	(1,551)	(3,097)	-	5,118
Total	**93,397**	**16,934**	**(23,301)**	**(8,878)**	**(1,017)**	**77,135**

During 2015 the provisions can be further analyzed as follows:

GROUP

IN RON THOUSAND	OPENING BALANCE	ALLOCATION	RELEASE	USAGE	FX	TOTAL
Provisions for litigations and potential risks	6,166	42,393	-	(4,316)	882	45,125
Provision for un-drawn commitments	35,353	11,534	(16,926)	-	69	30,030
Provisions for employee benefits	4,911	-	(187)	-	-	4,724
Provisions for overdue vacations	8,112	-	-	-	-	8,112
Provisions for share incentive plan	2,044	772	-	-	-	2,816
Provisions for severance payments and similar obligations	780	-	(38)	(252)	-	490
Sundry provisions	3,143	5,570	(1,519)	(5,094)	-	2,100
Total	**60,509**	**60,269**	**(18,670)**	**(9,662)**	**951**	**93,397**

During 2016 the provisions can be further analyzed as follows:

BANK

IN RON THOUSAND	OPENING BALANCE	ALLOCATION	RELEASE	USAGE	FX	TOTAL
Provisions for litigations and potential risks	45,125	-	(7,573)	(5,627)	18	31,943
Provision for un-drawn commitments	30,030	7,880	(13,598)	-	(26)	24,286
Provisions for employee benefits	4,724	-	(237)	-	-	4,487
Provisions for overdue vacations	8,112	634	-	-	-	8,746
Provisions for share incentive plan	2,816	754	(48)	-	(1,009)	2,513
Provisions for severance payments and similar obligations	490	-	(294)	(154)	-	42
Sundry provisions	2,100	7,666	(1,551)	(3,097)	-	5,118
Total	**93,397**	**16,934**	**(23,301)**	**(8,878)**	**(1,017)**	**77,135**

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Provisions for employee benefits	4,911	-	(187)	-	-	4,724
Provisions for overdue vacations	8,112	-	-	-	-	8,112
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Provisions for severance payments and similar obligations	780	-	(38)	(252)	-	490
Sundry provisions	3,143	5,570	(1,519)	(5,094)	-	2,100
Total	**60,509**	**60,269**	**(18,670)**	**(9,662)**	**951**	**93,397**

The provision for employee benefits is the Group's one off obligation to offer a number of salaries depending on the service period. The Group has calculated provision for contributions granted to employees on retirment as at year end 2016 using indicators such as: remaining number of years with the company up to retirement, probability that employee will stay with the company up to retirement, current salary, average number of salaries paid as benefit at retirement, age, sex, expected age of retirement as per current legislation.

The nature of provisions for litigation represents legal disputes. Expected timing of outflows for litigations represents the completion of the dispute and it cannot be appreciated, any assesment being slightest, depending on various factors. Given the complexity and inherent uncertainties related to the outcome of possible scenario regarding the provision for litigation, the Group's estimates needed may differ from actual obligation resulting from the completion of such legal disputes in future periods.

As of December 31, 2016, the provisions related to consumer loans litigations amounted to 23,873 RON thousand (2015: RON 41,460 thousand). Those litigations are due to contractual clauses that may generate losses because they are considered unfair by customers. The existing provisions are both for ongoing litigations and for potential litigations which might result in litigation in the future and may generate losses as a result of potential unfavorable court decision.

During 2016 the Group reversed part of the december 31st, 2015 provision for such litigations.

In one of the Bank's litigations concerning the exception of unconstitutionality regarding the provisions of art. 12 – 13 of Law no. 193/2000 on abusive clauses in contracts between professionals and consumers the Constitutional Court of Romania has ruled by Decision no. 602/2016., the Constitutional Court of Romania overruled the exception of unconstitutionality referred by Raiffeisen Bank, but on the on the one hand, the Constitutional Court of Romania overruled the exception of unconstitutionality referred by Raiffeisen Bank, but on the other hand, has ruled that the legal provisions concerning the right of the national courts to order the removal of the abusive clauses from all the contracts concluded by professionals do not refer to the cancellation of an abusive clause with effects for the past, but only for the future, so that the payments already performed cannot be affected.

Therefore, taking into consideration the fact that since the Government Emergency Ordinance no. 50/2010 on consumer credit came into force, the credit institutions have adapted their contracts to the new legislative requirements, the Decision no. 602/2016 of the Constitutional Court of Romania will have a low impact, with greater importance in the realm of theory by explaining if the concept of retroactivity applies to the contracts in performance or not.

For off balance sheet commitments, provisions are calculated by multiplying net exposure (gross exposure minus allocate collateral value) with historical loss rates specific for each risk category, further adjusted with a standard Credit Conversion Factor (as defined under Basel) and with loss given default related to exposure not covered by collaterals.

Statistical assumptions used in provision computation in 2016 are consistent with those at year end 2015, revised as per current year available information.

31. OTHER LIABILITIES

IN RON THOUSAND	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
Amounts due to state budget for social security	25,256	13,814	25,077	13,628
Short-term employee benefits	66,179	56,100	65,488	55,474
Accrual for suppliers	96,801	102,585	105,516	102,274
Cash in transit (i)	159,407	170,605	159,407	170,605
Deferred income	44,745	37,769	44,745	37,769
Other liabilities (ii)	90,110	60,988	80,902	60,990
Total	**482,498**	**441,861**	**481,135**	**440,740**

i) Cash in transit includes payments which should be settled with other banks of RON 126,460 thousand (2015: RON 94,283 thousand) and receipts which should be settled with current accounts RON 32,933 thousand (2015: RON 76,288 thousand).
ii) Other liabilities include credit cards of RON 14,682 thousand (2015: RON 13,307 thousand), deposits representing the share capital at companies in course of set-up of RON 13,115 thousand (2015: RON 12,385 thousand) and receivable from guarantees received of RON 10,257 thousand (2015: RON 5,533 thousand).

32. SHARE CAPITAL AND TREASURY SHARES

Share capital
As of December 31, 2016 the number of shares is 12,000 and in 2016 there were no changes in shares structure.

Share capital in amount of RON 1.2 bln consists in 12,000 shares with a nominal value of RON 100,000/share.

The dividends paid by Raiffeisen Bank S.A during 2016 were amounted to RON 330,000,000 from retained earnings.

The shareholders of the Group are as follows:

	31 DECEMBER 2016 %	31 DECEMBER 2015 %
Raiffeisen SEE Region Holding GmbH	99.925	99.925
Other shareholders:	0.075	0.075
Total	**100**	**100**

33. OTHER RESERVES

IN RON THOUSAND	GROUP 31 DECEMBER 2016	GROUP 31 DECEMBER 2015	BANK 31 DECEMBER 2016	BANK 31 DECEMBER 2015
Statutory reserve (i)	242,128	220,995	240,000	218,865
Fair value loss taken to equity (net of tax), available for sale investments	4,254	60,220	5,873	61,804
Total	**246,382**	**281,215**	**245,873**	**280,669**

IN RON THOUSAND	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
At 1 January	**220,995**	**195,074**	**218,865**	**192,943**
Appropriations of profit	21,133	25,921	21,135	25,922
At 31 December	**242,128**	**220,995**	**240,000**	**218,865**

(i) Statutory reserves represent accumulated transfers from retained earnings in accordance with local banking regulations that require 5% of the Group's gross profit to be transferred to a non-distributable statutory reserve until such time this reserve represents 20% of the Group's share capital.

The statutory reserves are not distributable to shareholders.

FAIR VALUE RESERVE FOR FINANCIAL ASSETS AVAILABLE FOR SALE

IN RON THOUSAND	GROUP 2016	GROUP 2015	BANK 2016	BANK 2015
At 1 January	**60,220**	**441**	**61,804**	**1,993**
Change in fair value reserve (for available for sale financial assets)	(55,966)	59,779	(55,931)	59,811
At 31 December	**4,254**	**60,220**	**5,873**	**61,804**

Decrease in available for sale reserve is mainly due to Visa Inc shares (Note 21).

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

34. RELATED PARTY TRANSACTIONS

The Group entered into a number of banking transactions with Raiffeisen Bank International AG, the ultimate controlling party, and its subsidiaries in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rate.

The transactions and balances with related parties are presented in tables below:

GROUP

						2016
IN RON THOUSAND	**PARENT**	**ASSOCIATES**	**JOINT VENTURES**	**KEY PERSONNEL**	**OTHER INTEREST**	**TOTAL**
Trading assets	22,835	-	72	-	-	22,907
Derivative assets held for risk management	1,013	-	-	-	-	1,013
Deposits to banks	21,372	-	-	-	216	21,588
Loans and advances to customers	-	-	93,455	8,055	89,735	191,245
Investment securities	-	-	-	-	2,233	2,233
Other assets	790	1,420	1,110	10	5,204	8,534
Outstanding receivables	**46,010**	**1,420**	**94,637**	**8,065**	**97,388**	**247,520**
Derivative liabilities held for risk management	4,101	-	-	-	-	4,101
Trading liabilities	43,035	-	-	-	-	43,035
Deposits from banks	47,571	-	5	-	25,516	73,092
Deposits from customers	-	17	73,881	13,708	96,185	183,791
Loans from banks and other financial institutions	713,939	-	-	-	-	713,939
Debt securities issued	-	-	-	-	4,572	4,572
Subordinated liabilities	955,076	-	-	-	-	955,076
Other liabilities	18,826	-	-	-	2,917	21,743
Outstanding payables	**1,782,548**	**17**	**73,886**	**13,708**	**129,190**	**1,999,349**
Commitments given	87,239	-	7,000	683	173,181	268,103
Guarantees issued	119,304	-	2,779	-	48,533	170,616
Commitments received	681,165	-	-	-	-	681,165
Guarantees received	182,511	-	-	-	54,254	236,765
Notional amount of derivative instruments	6,010,140	-	7,073	-	-	6,017,213

GROUP

						2015
IN RON THOUSAND	PARENT	ASSOCIATES	JOINT VENTURES	KEY PERSONNEL	OTHER INTEREST	TOTAL
Trading assets	16,759	-	280	-	-	17,039
Derivative assets held for risk management	1,956	-	-	-	-	1,956
Deposits to banks	24,561	-	-	-	205	24,766
Loans and advances to customers	-	-	55,943	8,887	168,891	233,721
Investment securities	-	-	-	-	2,233	2,233
Other assets	315	595	2,624	21	5,407	8,962
Outstanding receivables	**43,591**	**595**	**58,847**	**8,908**	**176,736**	**288,677**
Derivative liabilities held for risk management	5,276	-	-	-	-	5,276
Trading liabilities	27,290	-	-	-	-	27,290
Deposits from banks	35,149	-	641	-	36,585	72,375
Deposits from customers	-	27	37,878	10,055	81,829	129,789
Loans from banks and other financial institutions	1,117,684	-	-	-	90,389	1,208,073
Debt securities issued	-	-	-	-	4,574	4,574
Subordinated liabilities	950,436	-	-	-	-	950,436
Other liabilities	12,148	-	-	-	4,287	16,435
Outstanding payables	**2,147,983**	**27**	**38,519**	**10,055**	**217,664**	**2,414,248**
Commitments given	87,755	-	28,644	810	146,518	263,727
Guarantees issued	122,906	-	2,779	-	15,357	141,042
Commitments received	678,675	-	-	-	-	678,675
Guarantees received	190,956	-	-	-	22,246	213,202
Notional amount of derivative instruments	3,121,181	-	15,914	-	-	3,137,095

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

BANK

IN RON THOUSAND	PARENT	SUBSIDIARIES	ASSOCIATES	JOINT VENTURES	KEY PERSONNEL	OTHER INTEREST	TOTAL
							2016
Trading assets	22,835	64	-	72	-	-	22,971
Derivative assets held for risk management	1,013	-	-	-	-	-	1,013
Deposits to banks	21,372	-	-	-	-	216	21,588
Loans and advances to customers	-	-	-	93,455	8,055	89,735	191,245
Investment securities	-	-	-	-	-	2,233	2,233
Investment in associates and joint ventures	-	10,656	6,069	45,900	-	-	62,625
Other assets	790	8,955	1,420	1,110	10	5,204	17,489
Outstanding receivables	**46,010**	**19,675**	**7,489**	**140,537**	**8,065**	**97,388**	**319,164**
Derivative liabilities held for risk management	4,101	-	-	-	-	-	4,101
Trading liabilities	43,035	-	-	-	-	-	43,035
Deposits from banks	47,571	-	-	5	-	25,516	73,092
Deposits from customers	-	6,897	17	73,881	13,708	96,185	190,688
Loans from banks and other financial institutions	713,939	-	-	-	-	-	713,939
Debt securities issued	-	3,724	-	-	-	4,572	8,296
Subordinated liabilities	955,076	-	-	-	-	-	955,076
Other liabilities	18,826	-	-	-	-	2,917	21,743
Outstanding payables	**1,782,548**	**10,621**	**17**	**73,886**	**13,708**	**129,190**	**2,009,970**
Commitments given	87,239	-	-	7,000	683	173,181	268,103
Guarantees issued	119,304	-	-	2,779	-	48,533	170,616
Commitments received	681,165	-	-	-	-	-	681,165
Guarantees received	182,511	-	-	-	-	54,254	236,765
Notional amount of derivative instruments	6,010,140	8,555	-	7,073	-	-	6,025,768

BANK

							2015
IN RON THOUSAND	PARENT	SUBSI-DIARIES	ASSOCI-ATES	JOINT VENTURES	KEY PER-SONNEL	OTHER INTEREST	TOTAL
Trading assets	16,759	86	-	280	-	-	17,125
Derivative assets held for risk management	1,956	-	-	-	-	-	1,956
Deposits to banks	24,561	-	-	-	-	205	24,766
Loans and advances to customers	-	-	-	55,943	8,887	168,891	233,721
Investment securities	-	-	-	-	-	2,233	2,233
Investment in associates and joint ventures	-	10,686	6,069	60,006	-	-	76,761
Other assets	315	8,705	595	2,624	21	5,407	17,667
Outstanding receivables	**43,591**	**19,477**	**6,664**	**118,853**	**8,908**	**176,736**	**374,229**
Derivative liabilities held for risk management	5,276	-	-	-	-	-	5,276
Trading liabilities	27,290	-	-	-	-	-	27,290
Deposits from banks	35,149	-	-	641	-	36,585	72,375
Deposits from customers	-	3,604	27	37,878	10,055	81,829	133,393
Loans from banks and other financial institutions	1,117,684	-	-	-	-	90,389	1,208,073
Debt securities issued	-	6,597	-	-	-	4,574	11,171
Subordinated liabilities	950,436	-	-	-	-	-	950,436
Other liabilities	12,148	-	-	-	-	4,287	16,435
Oustanding payables	**2,147,983**	**10,201**	**27**	**38,519**	**10,055**	**217,664**	**2,424,449**
Commitments given	87,755	-	-	28,644	810	146,518	263,727
Guarantees issued	122,906	-	-	2,779	-	15,357	141,042
Commitments received	678,675	-	-	-	-	-	678,675
Guarantees received	190,956	-	-	-	-	22,246	213,202
Notional amount of derivative instruments	3,121,181	8,524	-	15,914	-	-	3,145,619

GROUP

						2016
IN RON THOUSAND	**PARENT**	**ASSOCIATES**	**JOINT VENTURES**	**KEY PERSONNEL**	**OTHER INTEREST**	**TOTAL**
Interest income	127	-	1,577	215	3,169	5,088
Interest expenses	(56,180)	-	(1)	(42)	(1,533)	(57,756)
Fees and commissions income	1,238	32	5,312	1	829	7,412
Fees and commissions expenses	(325)	-	-	-	(13,583)	(13,908)
Net trading income	(4,793)	-	49	-	-	(4,744)
Operating expenses	(39,050)	-	(1,251)	-	(34,991)	(75,292)
Personnel expenses	-	-	-	(31,683)	-	(31,683)
Other operating income	21	1,421	3,430	-	2,724	7,596

						2015
IN RON THOUSAND	**PARENT**	**ASSOCIATES**	**JOINT VENTURES**	**KEY PERSONNEL**	**OTHER INTEREST**	**TOTAL**
Interest income	806	-	2,489	238	7,289	10,822
Interest expenses	(68,734)	-	(55)	(63)	(2,497)	(71,349)
Fees and commissions income	440	129	7,253	3	16,188	24,013
Fees and commissions expenses	(810)	-	-	-	(14,310)	(15,120)
Net trading income	(3,129)	-	182	-	-	(2,947)
Operating expenses	(37,324)	-	(1,227)	-	(16,895)	(55,446)
Personnel expenses	-	-	-	(33,117)	-	(33,117)
Other operating income	-	1,845	4,364	-	2,762	8,971

Operating expenses include mostly IT costs, legal, advisory and consulting expenses and office space expenses such as rental, maintenance and others.

BANK

IN RON THOUSAND	PARENT	SUBSI-DIARIES	ASSOCIATES	JOINT VENTURES	KEY PERSONNEL	OTHER INTEREST	TOTAL
							2016
Interest income	127	-	-	1,577	215	3,169	5,088
Interest expenses	(56,180)	(275)	-		(42)	(1,533)	(58,031)
Fees and commissions income	1,238	34,949	32	5,312	1	829	42,361
Fees and commissions expenses	(325)	-	-	-	-	(13,583)	(13,908)
Net trading income	(4,793)	263	-	49	-	-	(4,481)
Operating expenses	(39,050)	(321)	-	(1,251)	-	(34,991)	(75,613)
Personnel expenses	-	-	-	-	(31,683)	-	(31,683)
Other operating income	21	13,454	1,421	3,430	-	2,724	21,050

IN RON THOUSAND	PARENT	SUB-SIDIARIES	ASSOCIATES	JOINT VENTURES	KEY PERSONNEL	OTHER INTEREST	TOTAL
							2015
Interest income	806	-	-	2,489	238	7,289	10,822
Interest expenses	(68,734)	(351)	-	(55)	(63)	(2,497)	(71,700)
Fees and commissions income	440	54,959	129	7,253	3	16,188	78,972
Fees and commissions expenses	(810)	-	-	-	-	(14,310)	(15,120)
Net trading income	(3,129)	85	-	182	-	-	(2,862)
Operating expenses	(37,324)	(363)	-	(1,227)	-	(16,895)	(55,809)
Personnel expenses	-	-	-	-	(33,117)	-	(33,117)
Other operating income	-	25,037	1,845	4,364	-	2,762	34,008

The Group has sold retail and non-retail loans and advances to customer's portfolios to RIEEF (RI Eastern European Finance B.V.), an entity held in proportion of 100% by Raiffeisen Bank International, a related party. The Group provided asset management services related to the respective transferred loan portfolios on an arm's length basis, until February 2016. The Group has transferred substantially all risks and rewards related to the transferred assets; as such the transferred assets are not included in these financial statements.
The management fees are included in fees and commission income the value for 2016 being of RON 275 thousand (2015: RON 3,129 thousands).

The Group has concluded a number of selling contracts with RIEEF, through which, loan contracts concluded by the Group with legal entities and individuals have been sold to the above mentioned entity. In 2016 the Group purchased from Rieef loan portfolio in amount of RON 337,067 thousand (2015: RON 1,085,690 thousand).

The cashed in variable component of the selling price during the year 2015 amounts to RON 12,159 thousand and was recorded as commission income (please refer to note 8).

Transactions with key management personnel
Key management personnel is comprised of the members of the Supervisory Board, Management Board and other senior management as defined by the National Bank of Romania Regulation no.5/20.12.2013 related to the prudential requirements for credit institutions and amended by the Regulation no.5/17.12.2014.

The transactions between the Group and key management personnel are in the normal course of business, representing: loans granted, deposits placed, foreign currency transactions and guarantees issued.

The volumes of related-party transactions as at year-ends and expense and income for the year are presented in the below tables.

	GROUP		BANK	
IN RON THOUSAND	**2016**	**2015**	**2016**	**2015**
Loans	**8,055**	**8,887**	**8,055**	**8,887**
Interest income and fees and commission income	**216**	**241**	**216**	**241**
Deposits	**13,708**	**10,055**	**13,708**	**10,055**
Interest expense paid	**(42)**	**(63)**	**(42)**	**(63)**

No impairment losses have been recognized in respect of loans given to key management personnel of the Group (31 December 2015: RON nil).

The following table shows total remuneration of the members of the Key management personnel according to IAS 24.17. The expenses according to IAS 24 were recognized on an accrual basis and according to the rules of the underlying standards, respectively IAS 19 and IFRS 2:

KEY MANAGEMENT PERSONNEL COMPENSATION

	GROUP		BANK	
IN RON THOUSAND	**2016**	**2015**	**2016**	**2015**
Short-term employee benefits	**29,347**	**29,830**	**29,347**	**29,830**
Other long term benefits	**2,049**	**2,534**	**2,049**	**2,534**
Share-based payment	**287**	**753**	**287**	**753**
Total compensation	**31,683**	**33,117**	**31,683**	**33,117**

Short-term employee benefits shown in the above table contain salaries and benefits in kind and other benefits and those parts of the bonuses which become due for the short term. Furthermore, changes possibly arising from the difference between the bonus provision and the later awarded bonus are also contained.

Other long-term benefits contains portions of the provision for bonus payments regarding deferred bonus portions in cash and retained portion payable in instruments. For the latter, valuation changes due to currency fluctuations are taken into account.

35. COMMITMENTS AND CONTINGENCIES

i) Credit related commitments

Guarantees and letters of credit
The Group issues guarantees and letters of credit for its customers. Guarantees and letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. The primary purpose of letters of credit is to ensure that funds are available to a customer as required.

Credit related commitments
Loan commitments represent unused amounts of approved credit facilities.
Off-balance sheet contractual amounts of loan commitments, guarantees and letters of credit issued are presented in the following table:

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2016	31 DECEMBER 2015	31 DECEMBER 2016	31 DECEMBER 2015
Loan commitments	7,075,803	6,732,669	7,075,803	6,732,669
Guarantees issued	1,606,984	1,479,072	1,606,984	1,479,072
Letters of credit	405,260	309,734	405,260	309,734
Total	**9,088,047**	**8,521,475**	**9,088,047**	**8,521,475**

ii) Contingencies from operating lease

Contingencies from operating lease rentals are as follows:

	GROUP		BANK	
IN RON THOUSAND	31 DECEMBER 2016	31 DECEMBER 2015	31 DECEMBER 2016	31 DECEMBER 2015
Less than 1 year	104,537	110,228	104,285	110,011
1 – 5 year	269,870	274,087	268,863	273,222
More than 5 years	151,016	172,853	149,433	171,274
Total	**525,423**	**557,168**	**522,581**	**554,507**

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

36. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled.

GROUP

			2016			2015
IN RON THOUSAND	WITHIN 12 MONTHS	AFTER 12 MONTHS	TOTAL	WITHIN 12 MONTHS	AFTER 12 MONTHS	TOTAL
Cash and cash with Central Bank	8,203,157	-	8,203,157	6,981,390	-	6,981,390
Trading assets	443,694	-	443,694	527,133	-	527,133
Derivative assets held for risk management	1,013	-	1,013	1,956	-	1,956
Loans and advances to banks	546,165	-	546,165	1,138,893	-	1,138,893
Loans and advances to customers	7,499,675	12,261,367	19,761,042	6,843,183	11,310,403	18,153,586
Investment securities	1,458,101	2,391,489	3,849,590	2,488,334	1,627,463	4,115,797
Investment in associates and joint ventures	-	69,122	69,122	-	102,192	102,192
Tax receivable	12,775	-	12,775	-	-	-
Property, plant and equipment	-	236,092	236,092	-	212,958	212,958
Intangible assets	-	119,414	119,414	-	87,223	87,223
Deferred tax assets	-	13,152	13,152	-	15,714	15,714
Other assets	192,015	13,412	205,427	140,040	9,651	149,691
Total	**18,356,595**	**15,104,048**	**33,460,643**	**18,120,929**	**13,365,604**	**31,486,533**
Trading liabilities	60,124	-	60,124	37,902	-	37,902
Derivative liabilities held for risk management	4,120	-	4,120	5,332	-	5,332
Deposits from banks	568,545	14,469	583,014	600,751	26,331	627,082
Deposits from customers	26,153,314	221,630	26,374,944	23,529,419	210,173	23,739,592
Current tax liabilities	102	-	102	16,167	-	16,167
Loans from banks and other financial institutions	651,628	485,959	1,137,587	624,068	1,000,407	1,624,475
Debt securities issued	16,482	495,757	512,239	243,452	496,242	739,694
Subordinated liabilities	119,086	835,887	954,973	5,745	944,691	950,436
Provisions	41,440	35,695	77,135	44,684	48,713	93,397
Other liabilities	469,537	12,961	482,498	428,199	13,662	441,861
Total	**28,084,378**	**2,102,358**	**30,186,736**	**25,535,719**	**2,740,219**	**28,275,938**

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

BANK

			2016			2015
IN RON THOUSAND	WITHIN 12 MONTHS	AFTER 12 MONTHS	TOTAL	WITHIN 12 MONTHS	AFTER 12 MONTHS	TOTAL
Cash and cash with Central Bank	8,203,153	-	8,203,153	6,981,376	-	6,981,376
Trading assets	443,758	-	443,758	527,218	-	527,218
Derivative assets held for risk management	1,013	-	1,013	1,956	-	1,956
Loans and advances to banks	546,165	-	546,165	1,138,893	-	1,138,893
Loans and advances to customers	7,499,650	12,261,367	19,761,017	6,843,183	11,310,403	18,153,586
Investment securities	1,441,634	2,370,852	3,812,486	2,487,564	1,607,125	4,094,689
Investment in associates and joint ventures	-	62,655	62,655	-	76,761	76,761
Tax receivable	12,775	-	12,775	-	-	-
Property, plant and equipment	-	235,679	235,679	-	212,695	212,695
Intangible assets	-	119,236	119,236	-	87,159	87,159
Deferred tax assets	-	13,042	13,042	-	15,598	15,598
Other assets	196,652	12,179	208,831	143,543	9,651	153,194
Total	**18,344,800**	**15,075,010**	**33,419,810**	**18,123,733**	**13,319,392**	**31,443,125**
Trading liabilities	60,124	-	60,124	37,902	-	37,902
Derivative liabilities held for risk management	4,101	-	4,101	5,276	-	5,276
Deposits from banks	568,545	14,469	583,014	600,751	26,331	627,082
Deposits from customers	26,160,211	221,630	26,381,841	23,533,023	210,173	23,743,196
Current tax liabilities	-	-	-	16,095	-	16,095
Loans from banks and other financial institutions	651,628	485,959	1,137,587	624,068	1,000,407	1,624,475
Debt securities issued	16,483	499,478	515,961	246,323	499,962	746,285
Subordinated liabilities	119,086	835,887	954,973	5,745	944,691	950,436
Provisions	41,440	35,695	77,135	44,684	48,713	93,397
Other liabilities	468,174	12,961	481,135	427,078	13,662	440,740
Total	**28,089,792**	**2,106,079**	**30,195,871**	**25,540,945**	**2,743,939**	**28,284,884**

37. CAPITAL

The Capital management of the Group is defined through the capital strategy approved by the Management Board and is reviewed at least once every year.

The primary objective of the Group's capital management is to ensure an adequate level of capital which meets not only the regulatory requirements, but also the limits set in the capital strategy.

The Management Board of the Group actively manages the capital structure and seeks to maintain at all times a higher level of capital than the regulatory one in order to ensure a comfortable position in achieving the Group's business objectives.

No major changes have been made to the objectives and policies regarding capital management compared to the previous year.

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 requires that the Group maintain a minimum Common Equity Tier 1 capital ratio of 4.5%, a minimum Tier 1 capital ratio of 6% and a minimum total capital ratio of 8%.

According to supervisory review, Group was requested through an official notification to hold additional capital to cover risks which are not or not adequately taken into account under pillar I. The Group is also subject to Conservation and other systemically important institutions buffer. The Group is compliant with all of the above requirements.

	GROUP		BANK	
IN RON THOUSAND	**2016**	**2015**	**2016**	**2015**
Tier 1 Capital	2,645,108	2,604,026	2,586,669	2,531,344
Tier 2 Capital	692,046	854,982	685,237	844,591
Total capital	3,337,154	3,459,008	3,271,906	3,375,935
Risk weighted assets	20,116,661	18,735,484	19,479,667	18,168,762
Common Equity Tier 1 Capital ratio	13.15%	13.90%	13.28%	13.93%
Tier 1 Capital ratio	13.15%	13.90%	13.28%	13.93%
Total Capital ratio	16.59%	18.46%	16.80%	18.58%

Regulatory capital consists of Tier 1 and Tier 2 layers of capital. Tier 1 is made of share capital, premium reserves, retained earning (excluding current year profit) and deductions according to legislation in force. Tier 2 capital includes subordinated long term debt and deductions according to legislation in force.

38. SEGMENTS CONSOLIDATION

Key decisions are made by chief operating decision makers determining the resources allocated to each segment based on its financial strength and profitability.

The Group follows financial performance and steers the business by segments and products, namely customer business consists of Corporate, Retail, Financial Institutions and Own employees. Corporate comprises legal entities with an annual turnover exceeding EUR 5 million. Retail contains individual clients and legal entities with an annual turnover below the EUR 5 million threshold (small and medium entities), while Financial Institutions (part of Treasury Division) deals with brokers, banks, insurance companies, leasing firms, investment and pension funds, as well as asset management companies.

The Group offers a wide array of banking services to its customers, adapted to the ever changing needs of our clients, but with maintained focus on the basics of banking.

Customer business lines bring in more than 85% of the Group's operating income, with following specifics worth mentioning: corporate clients chiefly draw their revenue streams from lending business, followed by fees from cash management, account services, foreign currency deals and investment banking activity.

Small clients also share these characteristics, while their unique business traits are visible through more intense payment and account activity, thus generating visibly greater proportion of the revenues as fees.

Private individual customers provide a highly diversified revenue source for the Group, mainly from unsecured loans, credit card and overdraft facilities, but also from mortgage loans, saving products and transactional business, FX deals and asset management services, as well as from the activity of intermediating transactions on the stock exchange; the Group continues to focus its attention on promoting alternative channels usage and thus provide improved services with advantages for both sides. Revenues are also brought in from loans and deposits granted to own employees, reported below as part of segment "Others".

Proprietary business consists of Treasury Division (less Financial Institutions) and "Others" segment (less Own employees). The first mainly provides income streams from treasury activities, namely trading revenues, net income from financial assets held at fair value through profit and loss, as well as from interest contribution. The latter shows revenues mainly obtained as a result of transfers among segments, capital benefit, income generated by participations.

Regarding the segmentation by geographical area, the Group is performing its activity mainly under geographical area of Romania.

GROUP

						2016
IN RON THOUSAND	**CORPORATE CUSTOMERS**	**PRIVATE INDIVIDUALS**	**SME**	**TREASURY DIVISION**	**OTHERS**	**TOTAL UNIT**
Total Assets before impairment losses on loans and advances	7,122,355	11,326,556	1,748,259	11,802,209	2,696,325	34,695,704
Impairment losses on loans and advances	(530,030)	(572,663)	(124,847)		(7,520)	(1,235,061)
Total Assets	**6,592,325**	**10,753,893**	**1,623,412**	**11,802,208**	**2,688,805**	**33,460,643**
Total Liabilities	**6,475,599**	**14,792,510**	**4,387,066**	**3,597,000**	**934,561**	**30,186,736**
Equity	**-**	**-**	**-**	**-**	**3,273,907**	**3,273,907**
Net interest income	227,205	688,285	157,322	5,396	33,896	1,112,104
Net commission income	105,951	316,784	183,038	14,775	834	621,382
Net Trading income	51,948	108,520	56,260	83,222	791	300,741
Net income from financial investments	2,134	63,016	27,773	(85,352)	213	7,784
Other net operating income	4,441	2,286	-	(2)	123,683	130,408
Total Operating income	**391,679**	**1,178,891**	**424,393**	**18,039**	**159,417**	**2,172,419**
Operating expenses	(96,636)	(352,047)	(114,244)	(18,928)	(56,868)	(638,723)
Personnel expenses	(80,789)	(326,655)	(100,608)	(18,192)	(6,569)	(532,813)
Net provisioning for impairment losses	(53,892)	(366,884)	(45,307)	(2)	(3,184)	(469,269)
Share of loss of associates	-	708	1	-	8,853	9,562
Profit before tax	**160,362**	**134,013**	**164,235**	**(19,083)**	**101,649**	**541,176**
Income taxes	-	-	-	-	(91,898)	(91,898)
Profit after tax	**160,362**	**134,013**	**164,235**	**(19,083)**	**9,751**	**449,278**

GROUP

						2015
IN RON THOUSAND	**CORPORATE CUSTOMERS**	**PRIVATE INDIVIDUALS**	**SME**	**TREASURY DIVISION**	**OTHERS**	**TOTAL UNIT**
Total Assets before impairment losses on loans and advances	6,280,854	10,827,494	1,594,781	11,318,675	2,499,615	32,521,419
Impairment losses on loans and advances	(341,895)	(577,744)	(105,917)	-	(9,330)	(1,034,886)
Total Assets	**5,938,959**	**10,249,750**	**1,488,864**	**11,318,675**	**2,490,285**	**31,486,533**
Total Liabilities	**6,001,488**	**12,433,992**	**4,351,550**	**3,712,160**	**1,776,748**	**28,275,938**
Equity	-	-	-	-	**3,210,595**	**3,210,595**
Net interest income	206,468	621,811	166,369	2,686	57,313	1,054,647
Net commission income	101,283	340,165	171,304	16,153	1,101	630,006
Net Trading income	47,419	103,790	54,810	81,605	893	288,517
Net income from financial instruments carried at fair value	396	7,130	3,550	(6,244)	3	4,835
Other net operating income	(11)	(1)	-	(1)	27,054	27,041
Total Operating income	**355,555**	**1,072,895**	**396,033**	**94,199**	**86,364**	**2,005,046**
Operating expenses	(84,714)	(366,880)	(116,267)	(24,190)	(89,107)	(681,158)
Personnel expenses	(76,311)	(322,222)	(101,075)	(21,941)	(6,809)	(528,358)
Net provisioning for impairment losses	(73,487)	(184,770)	(26,936)	-	(3,819)	(289,012)
Share of loss of associates	69	1,687	198	-	1,291	3,245
Profit before tax	**121,112**	**200,710**	**151,953**	**48,068**	**(12,080)**	**509,763**
Income taxes	-	-	-	-	(83,332)	(83,332)
Profit after tax	**121,112**	**200,710**	**151,953**	**48,068**	**(95,412)**	**426,431**

BANK

						2016
IN RON THOUSAND	CORPORATE CUSTOMERS	PRIVATE INDIVIDUALS	SME	TREASURY DIVISION	OTHERS	TOTAL UNIT
Total Assets before impairment losses on loans and advances	7,122,355	11,326,553	1,748,259	11,765,149	2,692,555	34,654,871
Impairment losses on loans and advances	(530,030)	(572,663)	(124,847)	(1)	(7,520)	(1,235,061)
Total Assets	**6,592,325**	**10,753,890**	**1,623,412**	**11,765,148**	**2,685,035**	**33,419,810**
Total Liabilities	**6,475,599**	**14,792,510**	**4,387,066**	**3,597,000**	**943,696**	**30,195,871**
Equity	-	-	-	-	**3,223,939**	**3,223,939**
Net interest income	227,205	688,285	157,322	4,353	33,897	1,111,062
Net commission income	105,399	305,390	181,579	14,775	834	607,977
Net Trading income	51,948	108,520	56,260	83,114	791	300,633
Net income from financial investments	2,134	63,016	27,773	(85,352)	-	7,571
Other net operating income	4,451	2,288	-	-	141,564	148,303
Total Operating income	**391,137**	**1,167,499**	**422,934**	**16,890**	**177,086**	**2,175,546**
Operating expenses	(96,523)	(349,722)	(113,946)	(18,928)	(56,867)	(635,986)
Personnel expenses	(80,579)	(322,319)	(100,053)	(18,192)	(6,569)	(527,712)
Net provisioning for impairment losses	(53,892)	(366,884)	(45,307)	(2)	(3,184)	(469,269)
Profit before tax	**160,143**	**128,574**	**163,628**	**(20,232)**	**110,466**	**542,579**
Income taxes	-	-	-	-	(90,950)	(90,950)
Profit after tax	**160,143**	**128,574**	**163,628**	**(20,232)**	**19,516**	**451,629**

BANK

						2015
IN RON THOUSAND	CORPORATE CUSTOMERS	PRIVATE INDIVIDUALS	SME	TREASURY DIVISION	OTHERS	TOTAL UNIT
Total Assets before impairment losses on loans and advances	6,280,854	10,827,494	1,594,781	11,273,432	2,501,450	32,478,011
Impairment losses on loans and advances	(341,895)	(577,744)	(105,917)	-	(9,330)	(1,034,886)
Total Assets	**5,938,959**	**10,249,750**	**1,488,864**	**11,273,432**	**2,492,120**	**31,443,125**
Total Liabilities	**6,001,488**	**12,433,992**	**4,351,550**	**3,712,160**	**1,785,694**	**28,284,884**
Equity	**-**	**-**	**-**	**-**	**3,158,241**	**3,158,241**
Net interest income	206,468	621,811	166,369	1,559	57,313	1,053,520
Net commission income	100,411	322,761	168,782	16,153	1,099	609,206
Net Trading income	47,419	103,790	54,810	81,349	893	288,261
Net income from financial instruments carried at fair value	396	7,130	3,550	(6,244)	3	4,835
Other net operating income	-	-	-	-	54,120	54,120
Total Operating income	**354,694**	**1,055,492**	**393,511**	**92,817**	**113,428**	**2,009,942**
Operating expenses	(84,587)	(364,349)	(115,900)	(24,190)	(89,106)	(678,132)
Personnel expenses	(76,142)	(318,873)	(100,589)	(21,941)	(6,810)	(524,355)
Net provisioning for impairment losses	(73,487)	(184,770)	(26,936)	-	(3,819)	(289,012)
Profit before tax	**120,478**	**187,500**	**150,086**	**46,686**	**13,693**	**518,443**
Income taxes	-	-	-	-	(80,879)	(80,879)
Profit after tax	**120,478**	**187,500**	**150,086**	**46,686**	**(67,186)**	**437,564**

39. SUBSEQUENT EVENTS

1. Conversion of CHF loan portfolio at the exchange rate applicable on the origination date
On October 18, 2016, the Romanian Parliament has adopted the conversion law which allows the consumers to convert their outstanding loans in CHF into RON at the exchange rate applicable on the origination date. A few days later, the Government asked the Constitutional Court to review the law. The objections from Government were related to the breach in the principles of retrospective application and predictability. The Constitutional Court concluded, on February 7, 2017, that the law is unconstitutional. This subsequent event does not impact the calculation of the loan loss provision as of December 31, 2016 as the Bank did not include, in its provision estimates, any negative effect from this law.

2. Voluntary offer to exchange the CHF mortgage loans into RON, with 25% discount
Starting with February 1, 2017, the Bank made an improved offer to its personal individual clients regarding the conversion of its mortgage loan portfolio in CHF, at the current exchange rate. The offer includes a haircut of 25% of the outstanding loan principal and a fixed interest rate for the following 5 years, while for the remaining period the interest is variable. Clients eligible for the offer are those who have difficulties in repayment of their loan installments, having a debt to income ratio above 60%.

3. "Datum in solutum" law
At the end of November 2015, the Romanian Parliament has adopted the law which allows the consumers to settle an outstanding mortgage loan by returning the related pledged property („datum in solutum law"). The „datum in solutum law" entered into force starting with May 2016, but subsequently was reviewed by the Constitutional Court for several constitutional issues. The Court decided, on October 25, 2016, that the law is constitutional to the extent that the payment in kind is applied in the context of hardship and the ordinary courts verify the existence of the hardship situation. On January 13, 2017, the motivation of the Court was published, confirming the fact that the law can be applicable if the hardship is confirmed and if so, the parts should agree on how to modify the existing loan contract. Under the new clarifications, much of the negative impact from the law was eliminated.

The Bank considered the motivation of the Court in assessing the loan loss provision as of December 31, 2016, as this is an adjusting subsequent event for the financial year 2016.

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated and separate financial statements is provided as a free translation from Romanian which is the official and binding version.

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