BANCA COMERCIALA CARPATICA S.A.
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Prepared in accordance with
the International Financial Reporting Standards
as adopted by the European Union
for the year ended on 31 December 2016
Free translation

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BANCA COMERCIALA CARPATICA S.A.
CONSOLIDATED AND SERPARATE STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016
(All amounts are expressed in thousand RON ('000RON), unless otherwise indicated)

		Group		Bank	
	Note	December 31 2016	December 31 2016	December 31 2016	December 31 2016
Interest income	3	70,936	109,363	68,330	106,576
Interest expense	4	(29,446)	(58,677)	(29,495)	(58,677)
Net interest income		**41,490**	**50,686**	**38,835**	**47,899**
Fee and commission income		24,058	25,919	24,121	26,025
Fee and commission expense		(4,388)	(4,766)	(4,090)	(4,470)
Net fees and commissions	5	**19,670**	**21,153**	**20,031**	**21,555**
Net income from trading	6	13,316	15,039	12,322	14,347
Net income from financial assets available for sale	7	8,871	17,534	8,871	17,534
Other income from operations	8	4,253	9,197	3,209	13,374
Total operating income		**87,600**	**113,609**	**83,268**	**114,708**
Net expenses with guarantees and other provisions	13	(8,262)	(2,795)	(7,304)	(3,415)
Net impairment loss for loans granted to customers	9	(5,312)	(40,919)	(5,312)	(40,591)
Net impairment loss on financial assets	21,23	(27)	(153)	(567)	(5,003)
Net operating income		**73,999**	**69,742**	**70,085**	**65,699**
Personnel expenses	10	(57,721)	(64,630)	(57,046)	(64,026)
Depreciation of tangible and intangible assets	11	(9,080)	(10,074)	(9,042)	(10,063)
Other operating expenses	12	(50,130)	(62,189)	(49,786)	(61,165)
Total operating expenses		**(116,931)**	**(136,893)**	**(115,874)**	**(135,254)**
Gain from sale of inventory classified assets (real-estate)		861	1,686	861	1,686
Expenses related to financial liabilities to owners of fund units	33	(2,037)	(1,760)	-	-
Gross loss		**(44,108)**	**(67,225)**	**(44,928)**	**(67,869)**
Income tax expense	14	(41)	(8,019)	-	(7,579)
Net loss for the financial year		**(44,149)**	**(75,244)**	**(44,928)**	**(75,448)**
Other elements of comprehensive income:	16				
Items that may be reclassified to profit or loss:					
Losses from fair value revaluation of financial assets available for sale		(1,732)	(11,279)	(2,211)	(11,279)
Deferred tax corresponding to the fair value of the financial assets available for sale		277	1,805	277	1,805
Items that may not be reclassified to profit or loss account:					
Gains/ (losses) from the revaluation of the tangible assets		88	(4,553)	-	(4,553)
Deferred tax corresponding to the revaluation of tangible assets		400	1,169	400	1,169

Total other elements of the comprehensive income, after taxation		**(967)**	**(12,858)**	**(1,534)**	**(12,858)**
Total comprehensive income		**(45,115)**	**(88,102)**	**(46,462)**	**(88,306)**
Loss attributable:		**(44,149)**	**(75,244)**	**-**	**-**
To equity holders of the parent		(44,149)	(75,244)	-	-
To non-controlling interests		-	-		
Total comprehensive income attributable:		**(45,115)**	**(88,102)**	**(46,462)**	**(88,306)**
To equity holders of the parent		(45,115)	(88,102)	-	-
To non-controlling interests		-	-	-	-
Earnings per share (basic and diluted)	15	**(0.0211)**	**(0.0285)**	**(0.0215)**	**(0.0286)**

The consolidated and separate financial statements were approved by the management on 27 March 2017 and signed on behalf of the management by

Valentin Vancea,
Executive Director

Diana Kallos,
Deputy General Manager

BANCA COMERCIALA CARPATICA S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION
As at 31 December 2016
(All amounts are expressed in thousand RON ('000RON), unless otherwise indicated)

	Note	Group		Bank	
		December 31 2016	**December 31 2015**	**December 31 2016**	**December 31 2015**
ASSETS					
Cash in hand	17	121,538	139,796	121,538	139,796
Due from Central Bank	18	417,191	420,862	417,191	420,862
Due from banks	19	35,675	48,827	9,136	18,706
Financial assets held for trading	20	115,148	106,142	52,788	58,808
Financial assets available for sale	21	996,463	1,178,190	996,463	1,177,944
Investments held to maturity	22	109,860	111,971	109,860	111,971
Investment in associates and subsidiaries	23	810	1,327	6,332	7,026
Loans and advances to customers, net	24	581,239	793,973	581,239	793,973
Tangible assets	25	127,058	133,787	127,053	133,445
Investment property	26	99,503	108,479	96,438	104,044
Intangible assets	25	7,255	8,828	7,255	8,826
Deferred tax asset	14	16,890	16,212	17,215	16,537
Other assets	27	61,431	65,249	60,993	64,054
Total assets		**2,690,061**	**3,133,643**	**2,603,502**	**3,055,993**
LIABILITIES					
Due to banks	28	5	8	5	8
Derivative financial instruments	32	744	387	560	-
Due to customers	29	2,386,858	2,852,630	2,394,993	2,853,542
Borrowings	30	15,278	63,353	15,278	63,353
Other liabilities	31	27,558	28,435	27,138	25,865
Total liabilities excluding finanicial liabilities to owners of fund units		**2,430,443**	**2,944,813**	**2,437,974**	**2,942,768**
Finanicial liabilities to owners of fund units	33	91,346	74,553	-	-
Total liabilities		**2,521,789**	**3,019,366**	**2,437,974**	**2,942,768**
Share capital	34	220,274	121,608	220,274	121,608
Share premium	34	2,050	1,951	2,050	1,951
Surplus from revaluation of share capital	34	5,689	5,689	5,689	5,689
Redeemed own shares	34	(1,055)	(1,453)	-	-
Retained earnings/ (Accumulated deficit)	34	(151,490)	(109,898)	(153,491)	(110,625)
Available for sale reserve	35	446	1,901	446	1,901
Revaluation reserve	35	65,171	67,277	63,372	65,514
Other reserves	35	27,187	27,187	27,187	27,187
Total shareholders' equity attributable to equity holders of the parent		**168,272**	**114,262**	**165,527**	**113,225**

Non controlling interests	-	15	-	-
Total shareholders' equity	**168,272**	**114,277**	**165,527**	**113,225**
Total liabilities and shareholders' equity	**2,690,061**	**3,133,643**	**2,603,502**	**3,055,993**

The consolidated and separate financial statements were approved by the management on 27 March 2017 and signed on behalf of the management by

Valentin Vancea,
Executive Director

Diana Kallos,
Deputy General Manager

BANCA COMERCIALA CARPATICA S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2016
(All amounts are expressed in thousand RON ('000RON), unless otherwise indicated)

		Group		Bank	
	Note	**December 31 2016**	**December 31 2015**	**December 31 2016**	**December 31 2015**
Cash flow from operating activities					
Gross loss		**(44,108)**	**(67,225)**	**(44,928)**	**(67,869)**
Adjustments for non-monetary items:					
Expenses related to the amortization of tangible and intangible assets	11	9,080	10,074	9,042	10,063
Impairment losses related to other assets, inventory, participations and other provisions		9,992	(3,310)	9,992	2,161
Net movement in the allowances for impairment of loans and advances to customers	24	17,712	60,061	17,712	61,492
(Net income) from the sale of financial assets available for sale		(8,871)	(17,534)	(8,871)	(17,533)
(Gain)/loss from the sale of tangible and intangible assets and investment property		18	(785)	18	(808)
Losses from the change in the fair value of investment property	12	(451)	7,639	(451)	3,452
Losses from the revaluation of fixed assets	12	-	384	-	384
Interest expense related to term borrowings	4	337	520	337	520
Interest expenses for repo operations	4	2	142	2	132
Income from dividends		(581)	(56)	(581)	(368)
Other non-monetary adjustments, of which:		(17,027)	(56,298)	(19,054)	(57,321)
Exchange rate differences		(16,855)	(52,654)	(18,302)	(51,380)
Other adjustments		(753)	(3,690)	753	(5,940)
Total adjustments for non-monetary items		**10,212**	**837**	**8,146**	**2,174**
Income adjusted for non-monetary items		**(33,896)**	**(66,388)**	**(36,781)**	**(65,695)**
Changes in:					
Due from banks		(86)	24,299	(2,400)	(355)
Financial assets held for trading		(9,006)	(19,811)	6,019	(10,025)
Loans and advances to customers, gross		186,884	214,439	186,878	212,485
Other assets		4,876	30,318	6,293	30,005
Liabilities to credit institutions		(3)	(42,614)	(3)	(42,614)
Derivative financial instruments	32	357	(297)	560	-
Due to customers	29	(465,772)	(31,364)	(458,550)	(30,918)
Other debts		(877)	(1,105)	(2,248)	(1,497)
Finanicial liabilities to owners of fund units	33	16,793	6,313	-	-
Total changes in operating assets and liablities		**(266,834)**	**180,178**	**(263,450)**	**157,080**
Income tax paid		-	(116)	-	-
Net cash flow from/ (used in) operating activities		**(300,731)**	**113,674**	**(300,231)**	**91,385**
Cash flows from investing activities					
Acquisition of financial instruments		(2,775,868)	(4,400,181)	(2,775,868)	(4,400,180)
Proceeds from financial instruments		2,992,880	4,458,768	2,992,880	4,458,768

Acquisition of tangible and intangible assets	25	(1,422)	(4,376)	(1,418)	(4,355)
Acquisition of real estate investments	26	(565)	(85)	-	(85)
Proceeds from real estate investments	26	-	162	-	-
Proceeds from sale of tangible and intagible assets		320	1,156	320	1,018
Dividends received	8	581	1,009	581	368
Net cash flow from/ (used in) investing activities		**215,925**	**56,453**	**216,495**	**55,533**
Net cash flow from/ (used in) financing activities					
Issue of share capital		98,765	11,471	98,765	11,471
Proceeds from repo transactions		91,722	1,501,970	91,722	1,501,970
Proceeds from lombard borrowing		100	100	100	100
Repayment of long-term borrowings		(48,412)	(10,803)	(47,817)	(10,803)
Repayment of repo transactions		(91,777)	(1,502,102)	(91,775)	(1,502,102)
Repayment of lombard borrowing		(100)	(100)	(100)	(100)
Purchase of own shares		-	(349)	-	-
Sale of own shares		398	-	-	-
Net cash flow from/ (used in) financing activities		**50,696**	**187**	**50,895**	**536**
Net increase/ (decrease) in cash and cash equivalents		**(34,110)**	**170,314**	**(32,841)**	**147,454**
Cash and cash equivalents at the beginning of the period		**604,438**	**434,124**	**576,631**	**429,177**
Cash and cash equivalents at the end of the period		**570,328**	**604,438**	**543,789**	**576,631**

		Group		**Bank**	
Cash and cash equivalents for the statement of cash flows		**December 31 2016**	**December 31 2015**	**December 31 2016**	**December 31 2015**
Cash in hand	17	121,538	139,796	121,538	139,796
Due from Central Bank	18	417,191	420,862	417,191	420,862
Due from banks (maturity under 3 months)	19	30,056	43,294	3,517	15,487
Recivables from credit institutions	27	1,543	486	1,543	486
Total cash and cash equivalents		**570,328**	**604,438**	**543,789**	**576,631**

Additional information for the statement of cash flows	**December 31 2016**	**December 31 2015**	**December 31 2016**	**December 31 2015**
Interest received *	147,596	115,541	144,312	111,621
Interest paid*	35,451	64,811	35,451	64,811

* *Classified as cash flow from operating activities*

BANCA COMERCIALA CARPATICA S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016
(All amounts are expressed in thousand RON ('000RON), unless otherwise indicated)

Group	Share capital - par value	Share premium	Surplus from revaluation of share capital (IAS 29)	Redeemed own shares	Retained earnings/ (accumulated deficit)	Available for sale reserve	Revaluation reserve	Other reserves*	Total shareholders' equity attributable to equity holders of the parent	Non controlling interests	Total shareholders' equity
Balance at 1 January 2016	**121,608**	**1,951**	**5,689**	**(1,453)**	**(109,898)**	**1,901**	**67,277**	**27,187**	**114,262**	**15**	**114,277**
Consolidated statement of profit or loss and other comprehensive income											
Net result of the year	-	-	-	-	(44,149)	-	-	-	(44,149)	-	(44,149)
Other comprehensive income											
Gains/ (losses) from the fair value of financial assets available for sale	-	-	-	-	-	286	-	-	286	-	286
Available for sale reserve transferred to profit or loss	-	-	-	-	-	(2,018)	-	-	(2,018)	-	(2,018)
Gains from the revaluation of tangible assets	-	-	-	-	-	-	88		88	-	88
Deferred tax related to other comprehensive income						277	400		677	-	677
Total comprehensive income	**-**	**-**	**-**	**-**	**(44,149)**	**(1,455)**	**488**	**-**	**(45,116)**	**-**	**(45,116)**
Other contributions and appropriations											
Increase in share capital by cash contribution**	98,666	-	-	-	-	-	-	-	98,666	-	98,666
Own shares	-	99	-	-	-	-	-	-	99	-	99
Transfers between equity components	-	-	-	-	2,542	-	(2,542)	-	-	-	-
Changes in the consolidation scope	-	-	-	-	15		(52)		(37)	(15)	(52)
Sale of own shares	-	-	-	398	-	-	-	-	398	-	398

Total contributions and appropriations	**98,666**	**99**	**-**	**398**	**2,557**	**-**	**(2,594)**	**-**	**99,126**	**(15)**	**99,111**
Balance at 31 December 2016	**220,274**	**2,050**	**5,689**	**(1,055)**	**(151,490)**	**446**	**65,171**	**27,187**	**168,272**	**-**	**168,272**

As of 31 December 2016, the statutory reserves non-distributable set in accordance with the Romanian law were 27,187 th RON (2015: 27,187 th RON).
***** Includes the Bank's reserves: legal reserve, general reserve for credit risk, the reserve representing funds for general banking risks.
** See note 34 "Share capital"

BANCA COMERCIALA CARPATICA S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016
(All amounts are expressed in thousand RON ('000RON), unless otherwise indicated)

Group	Share capital - par value	Share premium	Surplus from revaluation of share capital (IAS 29)	Redeemed own shares	Retained earnings/ (accumulated deficit)	Available for sale reserve	Revaluation reserve	Other reserves*	Total shareholders' equity attributable to equity holders of the parent	Non controlling interests	Total shareholders' equity
Balance at 1 January 2015	**314,629**	**1,951**	**21,809**	**(1,104)**	**(258,019)**	**11,375**	**73,414**	**27,187**	**191,242**	**15**	**191,257**
Consolidated statement of profit or loss and other comprehensive income											
Net result of the year	**-**	**-**	**-**	**-**	**(75,244)**	**-**	**-**	**-**	**(75,244)**	**-**	**(75,244)**
Other comprehensive income											
Gains/ (losses) from the fair value of financial assets available for sale	-	-	-	-	-	1,173	-	-	1,173	-	1,173
Available for sale reserve transferred to profit or loss	-	-	-	-	-	(12,452)	-	-	(12,452)	-	(12,452)
Loss from the revaluation of tangible assets	-	-	-	-	-	-	(4,553)	-	(4,553)	-	(4,553)
Deferred tax related to other comprehensive income	-	-	-	-	-	1,805	1,169		2,974	-	2,974
Total comprehensive income	**-**	**-**	**-**	**-**	**(75,244)**	**(9,474)**	**(3,384)**	**-**	**(88,102)**	**-**	**(88,102)**
Other contributions and appropriations											
Decrease in share capital**	(204,492)	-	(16,120)	-	220,612	-	-	-	-	-	-
Increase in share capital by cash contribution **	11,471								11,471		11,471
Transfers between equity components	-	-	-	-	2,753	-	(2,753)	-	-	-	-
Acquisition of own shares	-	-	-	(349)	-	-	-	-	(349)	-	(349)
Total contributions and appropriations	**(193,021)**	**-**	**(16,120)**	**(349)**	**223,365**	**-**	**(2,753)**	**-**	**11,122**	**-**	**11,122**
Balance at 31 December 2015	**121,608**	**1,951**	**5,689**	**(1,453)**	**(109,898)**	**1,901**	**67,277**	**27,187**	**114,262**	**15**	**114,277**

BANCA COMERCIALA CARPATICA S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016
(All amounts are expressed in thousand RON ('000RON), unless otherwise indicated)

Bank	Share capital - par value	Share premium	Surplus from revaluation of share capital (IAS 29)	Retained earnings/ (accumulated deficit)	Available for sale reserve	Revaluation reserve	Other reserves*	Total own equity
Balance at 1 January 2016	**121,608**	**1,951**	**5,689**	**(110,625)**	**1,901**	**65,514**	**27,187**	**113,225**
Separate statement of profit or loss and other comprehensive income								
Net result of the year	**-**	**-**	**-**	**(44,928)**	**-**	**-**	**-**	**(44,928)**
Other comprehensive income								
Gains/ (losses) from the fair value of financial assets available for sale	-	-	-	-	286	-	-	286
Available for sale reserve transferred to profit or loss	-	-	-	-	(2,498)	-	-	(2,498)
Deferred tax related to other comprehensive income	-	-	-	-	277	400	-	677
Total comprehensive income	**-**	**-**	**-**	**(44,928)**	**(1,934)**	**400**	**-**	**(46,462)**
Other contributions and appropriations								
Share capital increase by cash contribution **	98,666	-	-	-	-	-	-	98,666
Share capital increase by issuance of share premium**	-	99	-	-	-	-	-	99
Own shares BCC	-	-	-	-	-	-	-	-
Transfers between equity components	-	-	-	2,063	479	(2,542)	-	-
Other increases or decreases or decreases of share capital	-	-	-	(1)	-	-	-	(1)
Total contributions and appropriations	**98,666**	**99**	**-**	**2,541**	**-**	**(2,542)**	**-**	**98,764**
Balance at 31 December 2016	**220,274**	**2,050**	**5,689**	**(153,491)**	**446**	**63,372**	**27,187**	**165,527**

As of December 31, 2016, the statutory reserves non-distributable set in accordance with the Romanian law were worth of 27,187 th RON (2015: 27,187 th RON).
***** Includes the Bank's reserves: legal reserve, general reserve for credit risk, the reserve representing funds for general banking risks.
** See note 34 "Share capital"

BANCA COMERCIALA CARPATICA S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016
(All amounts are expressed in thousand RON ('000RON), unless otherwise indicated)

	Share capital - par value	Share premium	Surplus from revaluation of share capital (IAS 29)	Retained earnings/ (accumulated deficit)	Available for sale reserve	Revaluation reserve	Other reserves*	Total own equity
Bank								
Balance at 1 January 2015	**314,629**	**1,951**	**21,809**	**(258,541)**	**11,375**	**71,650**	**27,187**	**190,061**
Net result of the year				**(75,448)**	-			**(75,448)**
	-	-	-			-	-	
Other comprehensive income								
Gains/ (losses) from the fair value of financial					1,173			1,173
assets available for sale	-	-	-	-		-	-	
Available for sale reserve transferred to profit or					(12,452)			(12,452)
loss	-	-	-	-		-	-	
Gains from the revaluation of tangible assets					-	(4,553)		(4,553)
	-	-	-	-			-	
Deferred tax related to other comprehensive					1,805	1,169		2,973
income	-	-	-	-			-	
Total comprehensive income	**-**	**-**	**-**	**(75,448)**	**(9,474)**	**(3,384)**	**-**	**(88,306)**
Other contributions and appropriations								
Decrease in share capital **	(204,492)	-	(16,120)	220,612	-	-	-	-
Share capital increase by cash contribution**	11,471	-	-	-	-	-	-	11,471
Transfer between equity components				2,753	-	(2,753)		
	-	-	-				-	-
Total contributions and appropriations	**(193,021)**	**-**	**(16,120)**	**223,364**	-	**(2,753)**	**-**	**11,471**
Balance at 31 December 2015	**121,608**	**1,951**	**5,689**	**(110,625)**	**1,901**	**65,514**	**27,187**	**113,225**

***** Includes the Bank's reserves: legal reserve, general reserve for credit risk, the reserve representing funds for general banking risks.
** See note 34 "Share capital"

1. HISTORY AND GENERAL INFORMATION

The Group Banca Comerciala Carpatica SA ("The Group") includes Banca Comerciala Carpatica SA („The Bank" or „BCC") and its subsidiaries incorporated in Romania: Imobiliar Invest SRL and SAI Carpatica Asset Management SA (together with managed investment funds: FDI Carpatica Stock, FDI Carpatica Global si FDI Carpatica Obligatiuni). Banca Comerciala Carpatica S.A. is the parent company of the Group.

Banca Comerciala Carpatica SA ("The Bank") started its activity as private bank in 1999 in Sibiu.

The Bank's registered office is Bucuresti, district 1, 31 Brezoianu Ion, Street.

The Bank carries out its activity through the central office in Bucuresti and the operational offices in Sibiu and Targu Mures and has 79 agencies (56 branches and 57 agencies as of 31 December 2015). The Bank provides the whole range of banking services for individuals and legal entities, including deposits, cash management, lending and foreign exchange operations. It provides traditional banking services and products, including payment orders, documentary transactions and issuance of letters of credit and guarantees. The Bank carries out its activity in Romania.

As of 31 December 2016 the Group had 710 employees (31 December 2015: 943). As of 31 December 2016 BCC had 698 employees (31 December 2015: 931) including also inactive employees.

The Bank is listed on Bucharest Stock Exchange tier I, under the symbol BCC.

As of 31 December 2016 and 31 December 2015 the shareholding structure is:

	December 31 2016	**December 31 2015**
Patria Bank SA (previous Nextebank SA)	64.16%	-
Carabulea Ilie	18.46%	41.27%
Individuals	11.49%	40.45%
Legal entities	5.89%	18.28%
TOTAL	**100.00%**	**100.00%**

Banca Comerciala Carpatica SA is a subsidiary of Patria Bank SA and it is subject to consolidation in the consolidated financial statements of the parent company, which, in its capacity as parent credit institution in Romania, consolidates Banca Comerciala Carpatica SA at both accounting and prudential level.

By the decisions of the General Shareholders Meetings ("GSM") of BCC held on 5 October 2016 and of Patria Bank SA held on 8 November 2016, the two banks approved the merger by absorption of Patria Bank SA (as absorbed bank) by Banca Comerciala Carpatica SA (as absorbing bank). The effective date of the merger is the first day of the month following the month during which all necessary approvals are obtained and formalities are fulfilled. This means that prior approval is obtained from the National Bank of Romania and a written decision is issued by the competent court which approves the merger and its effects are registered at the National Trade Register Office. More details regarding the stage of completion of the merger between the Bank and the parent bank Patria Bank SA are disclosed in Note 44.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Statement of compliance

In accordance with the National Bank of Romania Order No. 27 of 16 December 2010 as subsequently amended and supplemented, which stipulates that annual financial statements are prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union, the Bank prepared the Separate annual financial statements for the year ended 31 December 2016.

2.2. Basis of preparation

The Bank and its subsidiaries ("the Group") consolidated financial statements and the Bank's separate financial statements are prepared based on the historic cost convention as modified by: the inflation adjustments under IAS 29 "Financial reporting under hyper-inflationary economies" until 31 December 2003, the fair value of the financial assets available for sale, of the financial assets available for trading, of the derivatives and of the tangible assets and investment property.

The consolidated financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union.

The Group presents the assets and liabilities in the consolidated statement of financial position by funds liquidity' (assets) and due date to settle (liabilities). An analysis regarding the likelihood to recover or settle in a period shorter than 12 months from the (current) reporting date, respectively longer than 12 months from the (non-current) reporting date, is disclosed in Note 40 maturity structure.

The financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is the intention to offset the liabiltiy on a net basis or to realise the assets and to simultaneously offset liabilities. The revenues and charges must not be offset in the overall profit or loss, except for, when the compensation is provided or permitted by an IFRS, as specified in the Group's accounting policies.

Going concern

The preparation of the consolidated and separate financial statements si based on the going concern assumption which involves the management's appraisals, estimates and hypotheses related to the income, expenses, assets, liabilities, cash flows, liquidity and capital requirements. The uncertainty in relation to these hypotheses and estimates could determine results that require significant adjustments of the assets, liabilities and capital requirements in the future periods.

The Bank's ability to continue its activity depends, as presented below, on obtaining future net profits, on the shareholder's financial support, attracting new capital and new investors, as well as the compliance with the regulations of the National Bank of Romania.

Due to the bank's historical losses, the accumulated deficit as at 31 December 2016 is 153 mio. lei (2015: 110 mio. lei). The Bank has recorded a loss of 44.9 mio lei as at 31 December 2016. As at 31 December 2016 the solvency ratio calculated according to the regulations of the National Bank of Romania is 14.21% (as at 31 December 2015, before the share capital increase at the beginning of 2016, the solvency ratio was 4.9%). The Bank complies with the limit specifically imposed by the National Bank of Romania, based on regulations applicable to credit institutions in EU.

On 18 June 2016 the Extraordinary General Shareholders' Meeting („EGSM") aproved the decrease of share capital in order to cover losses of 204,492 th lei, followed by an increase in share capital of 110,137 th lei. The Board was mandated to implement these decisions. In the share issuance process, the existing shareholders of BCC have subscribed shares in total amount of 11,471 th lei. Thus, in the absence of significant interest from existing shareholders of BCC, BCC's Board offered the newly issued shares, left unsubscribed, to investors outside the existing shareholders of the Bank at that moment.
During this process, Patria Bank SA (formerly known as Nextebank) subscribed 986,663,916 new BCC shares for a price of 0.1001 lei/share in a private placement, the total value of the subscribed and paid capital with the share premium being of 98,765 th lei. More details regarding the process of share issue which started at the end of 2015 and which was finalized at the beginnig of 2016 can be found in Note 34. Thus, BCC has doubled its capital basis at the beginning of 2016, increase which was done by the new main shareholder Patria Bank SA, which now holds 64.16% of the share capital of Banca Comerciala Carpatica.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The main indirect shareholder of the Bank is the investment fund Emerging Europe Accession Fund Cooperatief U.A. (EEAF), which is the third private equity fund managed by Axxess Capital Partners and reunits as significant investors some important international financial institutions such as:

- EBRD - European Bank for Reconstruction and Development,
- EIF - European Investment Fund part of European Investment Bank (EIB),
- BSTDB - Black Sea Trade and Development Bank,
- DEG – Developement Bank part of the group KFW.

In the second half of 2016, BCC has undergone a reorganization process of its activities as well as an optimization of the territorial network of branches and agencies, while reducing administrative costs at headoffice. Thus, the Bank has achieved a reduction of operating costs by 15% in 2016 as compared to 2015, but considering that most optimization spending measures occurred in the last quarter of 2016, the Bank considers it has made a reduction of operating expenses of 24% in the 4th trimester of 2016 as compared to the average quarterly operating expenses in 2015.

Based on all of the above, the Bank's management has made an assessment regarding the going concern principle and has concluded that the going concern principle is applicable as basis for the preparation of this set of financial statements.

Basis of consolidation

The entities in the Group are incorporated in Romania, keep their accounting books and prepare their statutory financial statements as follows:

- the Bank, SAI Carpatica Asset Management S.A., FDI Carpatica Stock, FDI Carpatica Global, FDI Carpatica Obligatiuni in accordance with IFRS as adopted by the European Union
- SC Imobiliar Invest S.R.L. in accordance with Romanian accounting regulations

The consolidated financial statements are presented in Romanian Lei (RON) and all values are rounded to the nearest thousand RON („th RON") unless otherwise stated.

Information on the entities falling within the scope of consolidation and the proportion of capital held by the bank in entities included in the consolidation at 31 December 2016 and 31 December 2015 is as follows:

- SSIF Carpatica Invest S.A. with its headoffice in Sibiu, 5 Mihai Vitezau Street. SSIF Carpatica Invest S.A is a financial investment company, authorized, regulated and supervised by the Financial Supervisory Authority ("ASF"); the Bank owns 95.68% of the shares (2015: 95.68%). The Financial Supervisory Authority has ruled to suspend the trading activity of SSIF Carpatica Invest SA, considering that the company is not compliant with the legal requirements regarding the level of own funds. Thus, the main shareholder, Banca Comerciala Carpatica SA, has decided to disolve the company. Considering the disolving decision and the insignificant impact of consolidatig SSIF Carpatica Invest SA, the Group has decided to modify the scope of the consolidation by excluding SSIF Carpatica Invest SA for the 2016 statements. The Group has consolidated SSIF Carpatica Invest SA as at 31 December 2015.
- SC Imobiliar Invest S.R.L. has its headoffice in Sibiu, 1 Autogarii Street. The company's main activity is buying and selling real-estate. The Bank owns 100% of the shares (2015: 100%).
  Banca Comerciala Carpatica SA has decided an early dissolution of the subsidiary SC Imobiliar Invest SRL followed by voluntary liquidation of the company, in the next period. Considering the dissolution decision the Bank has booked in its consolidated financial statements a provision for the net assets of Imobiliar Invest up to the level of the net value of shares held presented in the separate financial statements of the Bank.
- S.A.I. Carpatica Asset Management S.A. with its headoffice in Sibiu, 1 G-ral Vasile Milea Street. The company's main activity is managing mutual funds and other similar financial entities. The Bank owns 99.99% of the shares (2015: 99.99%).

The Group controls SAI Carpatica Asset Management and the investment funds managed by it at 31 December 2016 and at 31 December 2015. The funds are consolidated, and the Group's shareholdings in these funds is as follows:

- FDI Carpatica Stock - 93.49% (2015: 93.16%);
- FDI Carpatica Global - 19.91% (2015: 8.31%);
- FDI Carpatica Obligatiuni - 2.59% (2015: 4.05%).

Romania was a hyperinflationary economy until 1 July 2004, when officially the country was no longer hyperinflationary for the purpose of IFRS reporting. The Bank's financial statements were restated so as to take into account the effects of inflation until 31 December 2003, in accordance with the provisions of IAS 29. IAS 29 requires that the financial statements prepared

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

based on the historic cost principle to be restated in terms of current unit at reporting date and all gains or losses on the net monetary position should be included in the consolidated statement of profit or loss and other comprehensive income and disclosed separately.

The consolidated financial statements include the Bank's financial statements and the consolidated subsidiaries as of 31 December for each year presented.

(i) Subsidiaries

The financial statements of the subsidiaries have been prepared for the same reporting date as for the bank and also using the same accounting policies.

All balances, transactions, revenues and expenses, profits and losses obtained through transactions between the consolidated entities, are eliminated in full. The subsidiaries are fully consolidated starting with the date when control was transferred to the Bank. The control is obtained when the Bank has the power to govern over the financial and operating policies of an entity with the purpose of obtaining benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

The non-controlling interests represent the portion of profit or loss and net assets which are not owned directly or indirectly by the Group and are presented in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position, separate from parent shareholders' equity. Changes in shareholdings in subsidiaries that do not result in loss of control are accounted for as transactions between shareholders in their capacity as shareholders.

(ii) Investment Funds management

The Group manages and administers assets invested in unit funds on behalf of investors. The financial statements of these entities are included in the consolidated financial statements, as the Group has control over the investment funds.

(iii) Investments in associates

The Group has no entities that are consolidated by the equity method.

2.3. Significant accounting judgments and critical estimates

In the applying the Group's accounting policies, the management used its judgments and made estimates as to the determination of the values recognized in the financial statements. The most frequent uses of the judgments and estimates are the following:

(1) Fair value of financial instruments

Where the fair values of the financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, due to the specialized nature of the assets and the volume and reduced frequency of the transactions, they are determined using the valuation techniques that include the use of mathematical or economic - financial models. The values used in these models are taken from the existing markets when possible, but when this is not possible, a specific type of judgment is required to determine the fair value. The judgments include considerations of liquidity and model inputs.

(2) Losses from impairment on loans and advances to customers

The Group analyses its impaired loans and advances at every reporting date to assess whether an impairment loss should be recorded in the consolidated statement of profit and loss and other comprehensive income. Specifically, the management's judgments are necessary in order to estimate the value of future cash flows so as to determine the type of adjustment necessary. Such estimates are based on hypotheses relying on a series of factors: the financial statement and debtor's

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

repayment capacity, the collateral net value, taking into consideration the net market value and the enforcement costs. The actual result may be different, causing future changes in the amounts of impairment losses.

In addition to the individually identified allowances for impairment related to loans and advances ("specific allowances"), the Group also assesses collective impairment for incurred losses but not yet identified.
The level of impairment allowances, for the exposures related to customers subject to insolvency proceedings, was calculated having in view the historic data on the actual level of recovery, customer status and collateral, within the current context. However the future cash flows estimated to be recovered from the clients subject to insolvency proceedings could be different from those considered by the Bank , being influenced by factors, such as: significant uncertainties related to the difficult economic environment of the Bank's debtors, the low liquidity of the actual secured transaction on the market and the prices obtained in recent transaction on the market, as well as the high number of real estate assets subject to forced execution on the local market.
According to internal policies, the Bank performed write off operations for the balance sheet exposure of fully provided loans with no or very limited chances of recovery. The criteria considered are:

- if, further to the completion of the recovery stages described in the internal procedures, the Bank's receivable is not fully covered, and:
  - the debtor/ co-debtor/ sureties, have no assets or income that may be subject to forced execution according to the Civil Code Procedure;
  - the legal recovery procedures are not completed, but the sources of recovery are uncertain, expensive and do not justify the Bank's effort taking into account the expected value of recoveries.

(3) Impairment of the financial assets available for sale

The Group assesses at every reporting date whether there is objective evidence that the financial assets classified as available for sale are impaired. The accounting policies related to the impairment of the financial assets available for sale are presented in note 2.6 (7) (ii).

(4) Deferred tax asset

A deferred tax asset will be recognized for carry forward fiscal losses if it is probable that there will be a future taxable profit against which the unused tax losses may be used, according to the tax provisions enacted.

The Group sets the estimates of future gross profits in its development strategy and business plan. Based on this strategy, the degree of recovery of the fiscal loss and implicitly the deferred tax asset will be forecast. These calculations are annually reviewed based on the actual results obtained. If it is not probable that a taxable profit will be obtained in future against which the fiscal losses can be charged, the deferred tax asset is not recognized.

(5) Investment property

The Group accounts for the investment property at fair value, the changes in fair value being recognized in the comprehensive income. The land and buildings are subject to revaluation, and the changes in fair value are recognized in other comprehensive income. The assets taken over during foreclosure proceedings are recognised in other assets and are subject to fair value revaluation; the impairment, if any, is recognized in the comprehensive statement of profit or loss. The Gruoup appointed expert appraisers to determine the fair value on 31 December 2016. The appraisers used the direct capitalization method and the sales comparison method, in compliance with the valuation principles and techniques provided by the International Valuation Standards.
In view of the current market conditions, including the low liquidity of the actual asset transactions, the prices of the recent market transactions and the lack of actual offers for these types of assets, the future cash flows estimated to be recovered could be different from those considered by external appraisers when determining the market value of these types of assets.

(6) Provisions for employees' benefits

The Group assesses the cost of employees' benefits (performance bonuses, prizes in cash or kind, retirement benefits, severance package) based on algorithms that take into consideration historic data for such benefits. For the estimated amount, the Group sets a provision for the employees' benefits.
The Group asseses the cost of the employees' untaken holiday related to the previous periods as the amount payable according to the standard pay scheme. For the estimated amount, the Group sets a provision for the untaken holiday.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Control over investment funds

The Group manages the assets invested in the investment funds on behalf of investors. The analysis regarding the control over the investment funds consisted of the following: the Group's power to coordinate the relevant activities of the investment funds, exposure to variable returns according to the investment decisions and the Group's ability to coordinate relevant activities of funds in order to obtain benefits - in making decisions the Group acts as a principal or as an agent of the owners of fund units. Given the fact that holders of fund units can't revoke the appointment of the Group as manager of the investment funds and also the fact that the liquidation of the funds' administrator (SAI Carpatica Asset Management) can only be carried out by the Bank in its capacity as shareholder, the Group concluded that it acts as principal in the management activity of the investment funds and decided it has control over the funds, thereby the funds are consolidated.

2.4 Amendments to the accounting policies

The accounting policies adopted are consistent with those used in the previous financial year.

a) New interpretations and amendments to the IFRS standards

The Group has adopted the following IFRS standards, without significant impact on the consolidated financial statements:

- IFRIC 21 "Government taxes" (starting with 17 June 2014 or later);
- Annual amendments to IFRS (2010 – 2012 and 2011 – 2013 cycles, the majority applicable to annual periods starting with 1 February 2015)
    - Amendments to the IFRS 8 "Operating Segments" introduce presentation requirements for the judgements made in the aggregated disclosure of the operating segments;
    - Amendments for IFRS 13 "Fair Value Measurement" clarify the fact that the short-term payable and receivables not bearing interest may be disclosed in the fair value note at their invoiced amounts if the effect of discounting is immaterial;
    - Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – clarify the restatement of the depreciation accumulated at the date of the revaluation;
    - Amendments to IAS 24 "Related Party Disclosures" – extend the definition of related parties;
    - Amendments to IAS 40 "Property investment" clarify the separation criteria between a property investment according to IAS 40 or a business combination according to IFRS 3;
    - Amendments to IFRS 7 "Financial Instruments Presentation" clarifiy the continuing involvement in a transferred asset.

2.5. Future amendments to the accounting policies

New interpretations and standards not yet in force

Some new standards, amendments and interpretations of standards are not in force yet for the financial year ended on 31 December 2016 and have not been applied when preparing these financial statements:

A. Standards adopted by the European Union

On the reporting date of these financial statements, the following standards, revisions and interpretations were issued by IASB and adopted by the EU, but were not yet entered into force:

- IFRS 9 "Financial Instruments" adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after January 1, 2018);
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 *Effective date of IFRS 15* adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after January 1, 2018).

IFRS 9 includes requirements for financial instruments related to recognition, classification and evaluation, impairment losses, derecognition and hedge accounting:

- *Classification and evaluation* - IFRS 9 introduces a new logical approach of classification of the financial assets, and it referes to three financial asset types: measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. IFRS 9 classification is determined by the cash flow characteristics and the business model in which an asset is held. This holistic approach based on these principles eliminates the classification categories for financial assets from IAS 39: at fair value through profit or loss, held to maturity, loans and advances and financial assets available for sale. The new model also generates a single model of depreciation applicable to all financial instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

According to IFRS 9, embedded derivatives, where the host instrument is a financial instrument, for the purpose of this standard, are not separated, but the entire hybrid instrument is considered for classification.

- *Impairment:* IFRS 9 introduced a new impairment model based on expected losses that will require a more timely recognition (in a timely manner) of the expected credit losses. Specifically, the new standard requires the entities to account for credit losses expected at the time of the initial recognition of the financial instrument and recognize the expected losses for the full lifetime of the instrument in a more adequate model.
- *Hedge accounting:* IFRS 9 introduces a new significant model for hedge accounting, including an enhanced presentation of information on risk management activity. The new model represents a significant revision of the accounting for hedging that aligns the accounting treatment with the risk management activities.
- *The entity's own credit rating:* IFRS 9 also eliminates the volatility of projected financial results due to changes in credit risk of the selected liabilities to be measured at fair value. This change in the accounting treatment means that the financial results of the gains arising from deterioration in the entity's own credit risk in the case of such liabilities will no longer be recognised in profit or loss.

The Bank is currently implementing the changes that IFRS 9 will bring in the methodology for calculating impairment losses (by changing the approach from "incurred loss model" to "life time expected loss model") but can not assess at the reporting date the impact of its application.

B. Standards not adopted so far by the European Union

On the reporting date of these financial statements, IFRS as adopted by the EU does not differ significantly from the standards adopted by the IASB, except for the following standards, amendments and interpretations, whose application has not yet been approved by the EU until the date of authorization of these financial statements:

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016) - The European Commission has decided not to pursue the adoption of this interim standard, but to wait for the final standard issue.
- IFRS 16 „Leasing" (effective for annual periods beginning on or after January 1, 2019).
- Amendments to IFRS "Share-based Payment" - Classification and assessment of share-based transactions (effective for annual periods beginning on or after January 1, 2018), adoption is expected in the second half of 2017.
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 „Financial Instruments" together with IFRS 4 „Insurance Contracts" (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 "Financial Instruments" is applied first). Adoption expected in 2017.
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Subsidiaries and Joint Ventures" - The sale or contribution of assets between an investor and an associate or joint venture thereof and subsequent amendments (effective date was postponed indefinitely until the research project on the equity method is complete).
- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarification to IFRS 15 „Revenue from Contracts with Customers (effective for annual periods beginning on or after January 1, 2018), adoption is expected in the second quarter of 2017.
- Amendments to IAS 7 "Cash flow statement" - initiative on disclosure requirements (effective for annual periods beginning on or after January 1, 2017,
- Amendments to IAS 12 "Income Taxes" - recognition of deferred tax assets from unrealized loss (effective for annual periods beginning on or after January 1, 2017).
- Amendments to IAS 40 "Investment Property" - the transfer of real estate investments (effective for annual periods beginning on or after January 1, 2018), adoption is expected in the second half of 2017.
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) with the main aim to remove inconsistencies and clarify certain formulations (amendments IFRS 12 is effective for annual periods beginning on or after January 1, 2017 and the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018), adoption is expected in the second half of 2017.
- IFRIC 22 " Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after January 1, 2018), adoption is expected in the second half of 2017.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(1) Foreign currency translation

The consolidated and separate financial statements are presented in RON, which is the Group's and the Bank's respectively functional and reporting currency.

Transactions and balances

The currency transactions are initially recorded at the exchange rate of the functional currency on the transaction date.

The monetary assets and liabilities denominated in foreign currency are converted at the exchange rate of the functional currency at the reporting date. All the differences are recorded in the consolidated and separate eparate statement of profit or loss and other comprehensive income.

The non-monetary items measured historical cost in foreign currency are converted applying the exchange rates at the transaction date. The non-monetary items measured at fair value in foreign currency are converted using the exchange rate valid at the date when the fair value was determined.

The exchange rates of the main currencies were the following:

Currency	31 December 2016	31 December 2015	variation (%)
EUR	1: RON 4.5411	1: RON 4.5245	+ 0.37%
USD	1: RON 4.3033	1: RON 4.1477	+ 3.75%

(2) Financial instruments – initial recognition and subsequent measurement

(i) Recognition date

The purchase or sale of financial assets requiring the delivery of the asset within a time frame generally established by regulation or convention in the marketplace are recognized at the settlement date. The derivatives are recognized on the trade date.

(ii) Initial recognition of financial instruments

Upon initial recognition the financial instruments are classified depending on the purpose to which the financial instruments were purchased and their characteristics. All the financial instruments are initially measured at their fair value plus, in the case of financial assets and liabilities classified at fair value through profit or loss, any directly attributable cost related to the acquisition or issuance. The financial instruments are classified in one of the following categories:

- Financial assets or liabilities at fair value through profit or loss in sub category held for trading
- Loans and receivables
- Financial assets available for sale
- Held-to-maturity financial assets

(iii) Financial assets or liabilities held for trading

The financial assets or liabilities held for trading are recorded in the consolidated statement of financial position at fair value. Changes in the fair value are included in „Net trading income". The interest and dividend income or costs are recorded in „Net trading income" according to the contractual terms or when the right to payment is established. This classification may include the government bonds, other bonds, shares and short positions in bonds and shares, including fund units, that were purchased for the purpose of sale or repurchase in the near future.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The financial assets or liabilities are included in the assets held for trading if those assets or liabilities are purchased in order to be traded in the short term (a period of maximum 6 months) and have the following characteristics:

- the Group intends to obtain short-term benefits from the price movements;
- they are free of encumbrances (are not subject to any guarantee, contract, etc.);
- are assessed at fair value;
- are actively managed/ administered;
- there is an active market for them.

Subsequent to the initial recognition, the financial assets and liabilities held for trading are measured at fair value. The favourable or unfavourable differences in the monthly measurement of the financial assets and liabilities held for trading, are recorded in designated accounts of gains or losses from revaluation and related transfer, as the case may be.

The fixed and variable income financial instruments held for trading are derecognised upon sale using the weighted average cost method.

(iv) Due from banks, loans and advances to customers, net

Credits and receivables include: "Due from banks" and "Loans and advances to customers, net" and are financial assets with fixed or determinable payments and fixed maturities that are not quoted on an active market. These are not used to be resold immediately or in the short term and are not classified as „Financial assets held for trading", designated as „Financial assets available for sale" or „Financial assets designated at fair value through profit or loss". After the initial measurement, the amounts to be received from banks, loans and advances to customers are subsequently measured at amortised cost using the effective interest method less the impairment allowance.

The amortised cost is calculated considering any discount or premium upon purchase and fees and costs that are part of the effective interest rate. Amortization is included in „Interest income" line in the consolidated statement of profit or loss and other comprehensive income. The impairment losses are recognized in the consolidated statement of profit and loss and other comprehensive income under „ Net impairment loss for loans granted to customers".

(v) Financial assets available for sale

The financial assets available for sale are those that cannot be classified as designated at fair value through profit or loss, held until maturity or loans and receivables. These assets include equity instruments and debt instruments (assets eligible for trading and as collateral in the monetary operations of the National Bank of Romania, government and corporate bonds and other fixed income securities).

Subsequent to initial recognition, the financial assets available for sale are monthly measured at fair value. The unrealised gains and losses are recognized directly in equity under „Available for sale reserve".
When the financial instrument is sold the accumulated gains or losses previously recognized in equity, are recognized in the consolidated statement of profit or loss and other comprehensive income under „Net income form financial assets available for sale". The fixed income financial assets available for sale are derecognised on sale by using the specific identification method (asset-by-asset), and the variable income financial assets by using the weighted average cost method.

The interest gained while holding the financial assets available for sale is recognised as interest income using the effective interest rate. The dividends gained while holding the financial assets available for sale are recognized in the consolidated statement of profit or loss and other comprehensive income under „Other operating income" when the payment right was established. The impairment losses of such assets are recognized in the consolidated statement of profit or loss and other comprehensive income and are derecognized in equity, as the case may be. The reversal of the impairment of debt instruments classified as financial assets available for sale is recognised as income in the consolidated statement of profit or loss and other comprehensive income.

(vi) Financial assets held-to-maturity

The financial assets held-to-maturity are are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group intends and is able to hold to maturity. The Group will not classify a financial asset as held-to-maturity if during the current financial year or the two previous financial years it sold or reclassified a significant number of the held-to-maturity financial assets before maturity. This prohibition is not applicable if that sale or reclassification is in one of the follwoing situations:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- it is so close to the maturity of the financial assets (for example less than three months before maturity) that the changes in the interest rate on the market could not have had a significant effect on the fair value of the financial asset;
- it occurs after the value of the principal financial asset is substantially recovered by scheduled payments or prepayments;
- is attributed to a separate event, that is not repetitive, outside the control of the Group and which could not have been reasonably foreseen.

On initial recognition, the assets held-to-maturity are measured at fair value comprising the purchase price and the transaction costs.

Subsequent to initial recognition, the assets held-to-maturity are measured at amortised cost using the effective rate method less the impairment allowance. The amortised cost is calculated considering any discount or premium upon purchase and fees and costs that should be part of the effective interest rate. The amortization is included in "Interest income" in the consolidated statement of profit or loss and other comprehensive income. Impairment allowances are recorded if impairment losses occur.

The financial instruments held-to-maturity are derecognised by using the specific identification method (asset-by-asset).

The gains or losses from derecognition of held-to-maturity financial assets are recorded in the consolidated statement of profit or loss and other comprehensive income under "Gains/ losses from held-to-maturity assets".

(vii) Due to customers and borrowed funds

The financial liabilities or their components, not designated as fair value through profit or loss, are classified as liabilities under „Due to banks", „Liabilities under repo operations", „Due to customers" and „Borrowings". These are initially recognized at fair value plus trading costs and subsequently, are measured at amortised cost using the effective interest rate.

(viii) Reclassification of financial assets

Reclassification of a financial instrument in a different category from „financial assets held for trading" is only rarely allowed.

The transfer from the „financial assets available for sale" category into the „held-to-maturity assets" (for debt instruments) is possible if there is a change in the intention and/or ability or if the tainting period has ended. The fair value of the financial asset at the transfer date becomes its new cost or the amortised cost, as the case may be.

If, further to the change in the intention or ability, the classification of an asset as "held-to-maturity" is no longer suitable, it has to be reclassified as „available for sale" and will be remeasured at fair value.

Reclassification is at the Group management's discretion and is determined by the reclassified instrument. An analysis of the reclassified assets is presented in the note on „Financial assets held for trading" and the note on „Financial assets available for sale".

(ix) Derivative financial instruments and embedded derivatives

The derivatives purchased by the Group are financial instruments held for trading. These instruments are recorded at fair value accounted for as assets when the fair value is positive and as liabilities when the fair value is negative. The changes in the fair value of derivatives are included in „Net trading income".

In the case of hybrid contracts, if the host contract contains an asset subject to the IFRS provisions, then the whole hybrid contract is classified as asset held for trading and is measured at fair value. In the case of a hybrid contract (structured financial instruments) the fair value is formed of the market value of the reference asset (the host contract) and the market value of the hypothetical incorporated derivative.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The derivatives incorporated in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characterisitics and the risks are not closely related to those of the host contract, they would be considered derivatives if part of an independent contract, as well as if the host contract itself is not held for trading or designated at fair value through profit or loss. The embeded derivatives separated from the host are accounted for at fair value in the trading portfolio, having the changes in the fair value being recognized in the consolidated profit or loss account.

(3) Investments in associates

The Group's investments in associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment is accounted for in the consolidated statement of financial position at cost plus subsequent acquisition costs and the Group's part of profit or loss and of other comprehensive income. Goodwill relating to the associate is included in the amount of the investment and is not amortized or impaired. The consolidated profit or loss and other comprehensive income reflect the result from the associate's operations. Any changes that are recognized directly in the associate's equity, are recognized by the Group and disclosed when applicable in the statement of changes in equity. Unrealized gains or losses resulting from the Group and associates' transactions are eliminated up to the level of the associates' interest.

When the significant influence on the associates is lost, the Group assesses and recognizes any remaining investment at fair value. When the significant influence on the associates is lost, any difference between the carrying amount and the fair value of the remaining investments, including cash obtained from the sale are recognized in profit or loss. As mentioned in note 2.2 iii) the Group has no investments in entities that are classified as associates and consolidated by the equity method

(4) Derecognition of financial assets and liabilities

A financial asset is derecognized when: the right to receive cash flows from assets expired; or the Group transfers the financial asset and the transfer meets the derecognition requirements. The Group transfers a financial asset if and only if it either: (a) transfers the contractual rights to receive the cash flows from the financial asset; or (b) maintains the contractual rights to receive the cash flows from the financial asset, but undertakes a contractual obligation to pay the cash flows to one or more recipients by a specific contract.

When the Group transferred its rights to receive cash flows from an assets and did not transfer or retain all asset risks and benefits, the asset is recognized if the Group's involvement in the asset is continuing. Continuing involvement in the form of the guarantee for the transferred asset is measured at the lowest carrying amount of the asset and the maximum value of the amount that the Group could have to pay.

A financial liability is derecognized when the contractual obligations are cancelled or expired.

The Group derecognises the financial assets (loans, other receivables) by the full reduction of the gross value of those assets.

The group carries out write off procedures if at least one of the following conditions is met::

- If Group receivables have not been recovered and:
  - the debtor/ co-debtor/ sureties, have no assets or income that may be subject to forced pursuit according to the Civil Codee Procedure;
  - the legal recovery procedures are not completed, but the sources of recovery are uncertain, expensive and do not justify the Group's effort taking into account the expected value of recoveries ;
- the pursuit of receivables is barred by prescription;
- the debtor's bankruptcy procedure has been closed, and the Group's exposure has not been fully covered;
- there are no realistic perspectives to recover any amount to reduce the depreciated exposure;
- the exposure has been partially transferred to another entity (third party), and the remainining exposure has no chances to be recovered.

It is mandatory that before analyzing the write off, the Group makes sure that the whole exposure to the doubtful debtor is fully covered by impairment allowances.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) Repurchase agreements, reverse repurchase agreements and borrowed securities

The securities sold under the repurchase agreement at a specific future date („repo") are not derecognized from the consolidated statement of financial position. The corresponding cash received, including related interest income, is recognized in the consolidated statement of the financial position under „Liabilities under repo operations", reflecting the economic substance in the form of a loan granted to the Group.

The difference between the selling price and the repurchase price is deemed interest related expense and is recognised during the agreement, using the effective interest rate method. When the transfering party is entitled to sell or secure the asset, the asset is recorded in the separate statement of the financial position under „Financial assets available for sale".

Sell/ buy back agreements actually involve two transactions, a sale and a purchase, which are totally separate. A key element of these operations is that the purchase and the sale transactions are simultaneously performed and are concluded with the same counterparty, but the purchase due date is a future date established in advance, being actually a transaction for forward delivery. Just like in the case of repo agreements, the sold securities are not derecognized from the consolidated statement of financial position and the cash received is recognized in the consolidated statement of financial position under the same item as that related to repo agreements.

The securities lending against cash collateral are recorded similar to repurchase agreements (repo operations), the difference being that the amounts received in these cases are booked in the loaned securities accounts.

But the securities purchased under agreements to resell at a future date („reverse repo") are not recognized in the consolidated statement of financial position. The corresponding cash paid, including the accumulated interest, is recognized in the consolidated statement of financial position representing receivables from reverse repo operations. The difference between the purchase and reselling prices is treated as interest income and is recognized during the agreement using the effective interest rate method.

(6) Determination of the fair value

The fair value is the price that would be received further to the sale of an asset or the price that would be paid to transfer a liability under a regular transaction between the market participant on the measurement date, on a main market (the market with the highest volume and level of activity) or, in the absence of a main market, on the most advantageous market to which the Group has access at that date. The fair value of a liability reflects the effect of the failure to perform the obligations (the non-performance risk).

When available, the Group measures the fair value of an instrument using the quoted price on an active market for this instrument. A market is deemed active, if the items traded on that market are homogeneous, if regularly there are purchasers and sellers interested at any time and the prices are accessible to the public.

The fair value of the assets on and off balance sheet (to be received) is generally determined, considering the market record data, that may be the main market (the market with the highest volume and level of activity for the security) or the most advantageous market (the market on which the Group would usually conclude a security sale).

The fair value of the financial instruments traded on the active markets at the reporting date is based on the market (stock exchange, dealer, broker markets) price or on the market price set by the broker/ dealer or posted on the electronic financial information systems (Bloomberg, Reuters), with no discount for transaction related costs.

If there are no fair value data on the market, due to the specialized nature of the assets and the low volume and frequency of transactions, the fair value is determined using a valuation technique.

The Group uses the following techniques for the subsequent valuation of the securities in the portfolio or to be received:

a) mark to market (market based approach), if there is a quoted (not adjusted) price on an active market, that takes into account the following references: the closing price quotations, the stock market indicators in case of the securities traded on the active regulated markets, the net asset value per unit (VUAN), the closing quotations existing in the Bloomberg or Thomson Reuters systems for fixed income securities, on the last calendar or trading day of each month (of these are published).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) mark to model (income based approach), that uses the discounted cash flow method for the fixed income securities for which there is no active regulated market. This method consists in determining the discounted value of cash flows.

The fair value of a „sight" deposit is not lower than the amount payable at „sight", discounted from the first date when the amount may be subject to payment.

The Group recognizes the transfers between fair value hierarchical levels at the date of the event or change in the circumstances having caused the transfer.

(7) Financial assets impairment

The Group assesses at every reporting date whether there is objective evidence of impaired financial asset or group of financial assets. A financial asset or group of financial assets are deemed impaired if and only if there is obvious evidence of impairment as a result of one or more event(s) having occurred after the initial recognition of the asset ("an event of loss") and this (these) event(s) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that may be reasonably estimated. Evidence of the impairment may include indications that the debtor or a group of debtors have financial problems, the failure to pay the the interest rate or loan rates, the likelihood of bankruptcy or financial reorganization, the disappearance of an active market for that financial asset due to the financial problem and it is noted a decrease in the forecasted cash flows, such as late payments or variations in the economic conditions correlated to the failure to pay.

(i) Financial assets at amortized cost

For the Due from banks, as well as for the loans and advances to customers recorded at amortized cost, the Group assesses individually whether there is any objective evidence of impairment for financial assets that are individually significant and then individually or collectively for the financial assets that are not individually significant.

If the Group decides that there is no objective evidence of impairment for the financial assets assessed individually, significant or insignificant, it includes the financial asset in a group of financial assets subject to similar credit risks and assesses them collectively for impairment. The financial assets individually assessed for impairment and whose impairment loss is or continues to be recognized, are not included in the collective assessment of impairment.
The assets which, further to the individual assessment, are determined not to have any impairment indicators, but the loss is not recognized, will not be included in the collective assessment for impairment.

If there is objective evidence that an impairment loss occurred, the loss is assessed as the difference between the carrying amount of the asset and the present value of the estimated cash flows (less future loan losses that have not been incurred) discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is reduced by the use of an account for impairment allowance and the amount of the loss is recognized in the consolidated statement of profit or loss and other comprehensive income. The interest income is further recognized based on the impaired value and on the original effective interest rate of that asset.

The present value of the estimated cash flows is discounted at the financial asset original effective interest rate. If a loan has a variable income rate, the discount rate for the assessment of any impairment loss is the current effective interest rate. The calculation of the present value of future estimated cash flows for a financial asset backed by collateral reflects the cash flows likely to be obtained further to the realization of the loan collateral less the costs to obtain and sell the collateral, regardless whether the proceedings for collateral realization are likely or not to be initiated.

For the purposes of collective assessment, the loans and advances to customers are grouped based on the similar credit risk characteristics that are relevant for the debtor's ability to pay all amounts owed in accordance with the contractual terms (for example, type of customer, type of loan, currency, past due status, etc.)

The future cash flows of a group of financial assets collectively assessed for impairment are estimated based on the historical loss experience for assets with credit risk similar to those in the group. Historical loss is adjusted on the basis of current data to reflect the effects of current conditions that did not affect the years on the historical losses are based and to remove the effects of previous conditions that do not exist currently.
The methods and hypotheses used to estimate the future cash flows are regularly reviewed to reduce any differences between the estimated and the actual losses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Financial assets available for sale

In the case of financial assets available for sale measured at fair value, a reduction in the value may have been recognized in „Available for sale reserve", further to the regular process of market assessment.

When there is objective evidence that the asset is impaired, the net accumulated value of loss directly recognized in „Available for sale reserve", is reversed (reclassified) from equity and recognized in the consolidated statement of profit or loss and other comprehensive income, even if the financial asset was derecognized. The amount is determined as the difference between the purchase cost (net of any principal payment and amortization) and the current fair value, less any impairment loss for that financial asset previously recognized in profit or loss.

If in a subsequent period, the fair value of a financial instrument classified as available for sale increases and that increase can be related objectively to an event occurring after the impairment loss was recognized in the consolidated profit or loss and other comprehensive income, the impairment loss shall be reversed and the resulted amount will be recognized in the consolidated statement of profit or loss and other comprehensive income.

(iii) Financial assets held-to-maturity

In case of the investments held to maturity, if there is clear evidence of impairment, the impairment loss is calculated as the difference between the carrying amount and the present value of future cash flows that are expected to be collected, discounted at the initial rate of effective interest rate (i.e. the effective interest rate computed at initial recognition because discounting at the current interest rate on the market would, in fact, impose fair value measurement, which does not apply to investments carried at cost).

The accounted value of the assets is reduced to the estimated amount to be recovered and the loss (difference) is recognized in the consolidated statement of profit or loss and other comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment was recognized (such as an improvement in the credit rating of the issuer), the impairment loss previously recognized should be reversed either directly or by the depreciation adjusting account.

(iv) Restructured loans

When possible, the Group tries to restructure the loans, rather than to enforce the guarantees. This may involve extension of the payment period and agreeing on new lending conditions. Once the terms are renegotiated any impairment is assessed using the effective interest rate calculated before the amendments of the terms and the loan is no longer considered past due. The management constantly reviews the restructured loans in order to make sure that all criteria are satisfied and that the future payments are possible. The loans are further subject to individual or collective impairment, calculated using the effective interest rate of the original loan.

A restructured loan is deemed impaired when, further to or subsequent to the operation, the estimated cash flows (from voluntary repayments or potential enforcement of collaterals) do not fully cover contractual exposure. A similar situation may occur when for the restructured agreement, the number of past due days exceeds 90 days.

(v) Assessment of guarantees

The Group intends to use guarantees where applicable, in order to mitigate the risks related to financial assets. The guarantees may originate from various forms such as cash, securities, letters of guarantee/ comfort, mortgages, receivables, stocks, pledges.

In the Group's accounting records, the guarantees received are recorded at fair value. The financial guarantees (collateral deposit, letters of guarantee) are recorded at the carrying amount. The mortgaged/ pledged goods are recorded at the fair value established by valuers, using the methods provided in the International Valuation Standards and ANEVAR provisions.

During the loan term, the Group monitors the guarantee value and quality, using specific evaluation procedures. Usually, the guarantees are annually revalued, and if applicable (new loans are granted against the same guarantees), revaluation is carried out more frequently, each individual asset being revalued by specialists (who may be employees of the

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Bank or the company with whom the Bank has cooperation agreements). See the note on risk management – Guarantees and other credit enhancements.

(vi) Taking over the guarantees (collaterals)

The real and personal property that, after the forced execution of loans or further to the liquidation of the Group debtors' net assets, has become the Group's possession are classified as „Other assets"; the original and subsequent assessment is caried out in compliance with the inventory assessment rules.

In relation to the real and personal property taken over by the Group in order to be resold and realized by installment sale, the income corresponding to the sale price net of interest, is recognized at the sale date. The selling price recognized is the discounted value of the provisions, determined by discounting the instalments to be received with the implicit interest rate. The interest is recognized as income, as it is being earned, using the effective interest method.

If destintion of these assets is changed, being accounted for as tangible assets (investment property respectively), then these assets will be transferred from inventory to fixed assets at fair value that is determined as follows: (a) carrying amount for the assets taken over during the year; (b) revalued amount established at the end of the previous financial year for the goods taken over in a different period than the current year.

The Group monitors the carrying amount of the assets recovered by the use of specific revaluation procedures. Each item is analysed and assessed at fair value by a qualified external independent appraiser.

(8) Offsetting financial instruments

The financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is the intention to offset the liabiltiy on a net basis or to realise the assets and to simultaneously offset liabilities.

The income and expenses must not be offset in the consolidated statement of profit or loss and other comprehensive income, unless the offsetting is provided or allowed by an IFRS, as specified in the Group's accounting policies.

(9) Leasing

The decision to consider an agreement to be or not leasing depends on the substance of the contract and requires to establish that the agreement performance depends on the use of a specific asset or group of assets and that agreement establishes the right of use of the good.

The Group as a lessor

The financial leases that substantially transfer to the Group all risks and rewards of a leased item are capitalised at the beginning of the lease at the fair value of the leased item or, if that value is lower, at the present value of the future minimum lease payments and included in intangble assets, tangible assets or other assets, the lessee's debt being included under „Loans". The lease payments are divided between financial expenses and the reduction of the lease debt. The interests payable under the lease agreements, calculated according to the contractual terms, that have not reached maturity are amortized using the effective interest rate method.

The financial expenses are directly recognized in the consolidated statement of profit or loss and other comprehensive income in „Interest expenses".

The capitalized leased assets are amortized on a basis consistent with the amortization policy for similar assets.

The operating lease payments are not recognized in the consolidated statement of financial position. Any debt related to rents is recognized on a straight-line basis during the lease agreement and is included under „Other operating expenses".

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group as a lesee

The leases under which the Group does not transfer substantially all risks and rewards of the ownership of the asset are classified as operating lease. Contingent rents are recognized as income in the period when they are obtained, under „Other operating income".

(10) Recognition of income and expenses

The income and expenses are registered when obtained/ incurred, regardless of the time of actual receipt or payment, according to the accrual basis of accounting.

(i) Interest income and expense

For all financial instruments measured at amortized cost and the interest bearing financial instruments classified as available for sale, the interest income or expense are recorded at the level of effective interest rate, that is the rate which discounts the future flows of receipts or payments during the estimated useful life of the financial instrument or a shorter period, where applicable, to the net carrying amount of the financial asset or liability.

The calculation takes into account all contractual terms of the financial instrument (for example, the advance payment options) and includes any incremental costs or commissions that may be directly attributed to the financial instruments and are integral part of the effective interest rate, but not future losses from loans.

The carrying amount of the financial asset or liability is adjusted if the Group reviews its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate, and the variation in the carrying amount is recorded as interest income or expense.

Once the carrying amount of a financial asset or group of financial assets was reduced due to an impairment loss, the interest income continues to be recognized using the interest rate for discounting the future cash flows in order to measure the impairment loss.

(ii) Commission income

The Group obtains commission income from a wide range of services provided to customers. The commission income may be classified into two categories:

Commission income obtained from services provided over a determined period of time

The income obtained from providing services during a period are recognized during that period. Such income include commission, asset management, custody income and other management services and charges for the consultant. The commitment commissions for the loans which will be drawn and other loan related charges are deferred (along with other incremental costs) and recognized as adjustment to the loan effective interest rate . When it is less likely for a loan to be used by the customer, the commissions related to the loan are recognized on a straight-line basis throughout the commitment.

Commission income related to the provision of trading services

The commissions derived from the negotiation or participation in the negotiation of a transaction on behalf of a third party, such as the intermediation in the acquisition of shares or other securities or the purchase or sale of business, are recognized on the completion of that transaction. The commissions or their items related to a specific performance are recognized after the related criteria are satisfied.

(iii) Dividend income

The income is recognized when the Group's right to receive payment is established.

(iv) Net trading income

The income obtained from trading includes all fair value gains and losses and the interest income or expense, the dividends and financial liabilities held for trading and the exchange rate differences.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(11) Cash and cash equivalents

The cash and cash equivalents referred to in the consolidated statement of cahs flows include the cash in hand, current accounts with the Central Bank and the amounts deposited in other banks in sight deposits or maximum three-month term deposits. The cash and cash equivalents referred to in the consolidated statement of cahs flows also include the values recoverable from banks and the receivables from reverse repo operations further to their maturity. Regarding the cash in the ATMs, it is considered cash when its related risk is managed by the Group.

(12) Tangible assets

Tangible assets, except for land and buildings are recorded at cost less the accumulated amortization and accumulated depreciation. This cost also includes the cost of partial replacement of that tangible asset at the time of replacement, if the cost recognition criteria are satisfied. At the same time the replaced part is derecognized, if the derecognition criteria are satisfied. Also, when conducting a major overhaul, its cost is recognized in the fixed asset value as a replacement if the recognition criteria are satisfied. All the other costs related to the maintenance repairs and services are recognized in the consolidated statement of profit or loss and other comprehensive income when realised.

The land and buildings are recorded at fair value less the accumulated amortization of buildings and the depreciation losses recognized after the revaluation date. Revaluation is carried out with sufficient frequency to make sure that the fair value of the revalued asset is not significantly different from the net carrying amount. Any revaluation surplus is recognized by crediting the asset revaluation reserve included in the equity section of the consolidated statement of financial position, except for the reversal of a decrease in the value of the same asset, initially recognized in the profit or loss account, in which case the increase is recognized in the profit or loss account. A revaluation deficit is recognized in the consolidated statement of profit or loss and other comprehensive income, unless it reduces a surplus existing for the same asset recognized in the revaluation reserve.

The revaluation reserve of tangible assets is deemed realised and is transferred in retained earnings as the asset is used and when the assets is sold or otherwise derecognised.

The amortization is calculated using the straight-line method, to reduce the cost of tangible assets to their residual value, during the estimated useful life. Land is not amortised. The estimated useful lives are the following:

Buildings*	40 years
Furniture and equipment	2 - 16 years
Means of transport	4 - 5 years

* improvements in the rented premises recorded under buildings are amortised during the rental agreement.

If works for the improvement of fully amortised tangible and intangible assets are carried out, the costs will be amortised during a period equal to 10% of the useful life of the improved asset.

A tangible asset item is derecognized at the time of sale or when no other benefits are expected from the use or withdrawal from use of the asset. Any gain or loss resulted from the asset derecognition (calculated as the difference between the net sale proceeds and the asset carrying amount) is recognized as "Other operating income" or "Other operating expenses" in the consolidated statement of profit or loss and other comprehensive income, in the year when the asset is derecognized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(13) Intangible assets

The intangible assets include the value of software and software licences and other licences for software use. The intangible assets purchased are recognized at their purchase value. After the initial recognition, the intangible assets are recorded at cost less the accumulated amortisation and any accumulated depreciation losses.

The intangible assets useful life is assessed as finite or indefinite. The Group has no intangible assets with indefinite useful life. The intangible assets with finite useful lives are amortised during the economic life. The amortization period and the amortization methos for an intangible asset item having a finite useful life is reviewed at the end of every financial year. The changes in the estimated useful life or in the estimated consumption model of future economic benefits included in assets, are recognized in the change of the amortization period or method, as the case may be, and treated as changes in the accounting estimates. The expenses related to the amortization of intangible assets with finite useful lives are recognized in the consolidated statement of profit or loss and other comprehensive income, under expenses, in accordance with the function of that intangible asset.

The amortization is calculated using the straight-line method, to reduce the cost of intangible assets to their residual value, during the estimated useful life, as folows: Software and licences – 2-10 years.

(14) Investment property

On recognition in the blance sheet, an investment property is accounted at cost or fair value in the case of those acquired free of charge. The investment property cost includes the trading costs and any expenses directly attributable to the investment property. Subsequent to initial recognition, investment property is measured using the revaluation model (fair value based model). The gains or losses from the change in the fair value of the investment property are included in the consolidated statement of profit or loss and other comprehensive income for that year.

If a property held by the owner becomes an investment property, the Group will treat that property in accordance with the policy established for tangible assets, until the date when the use is changed.

In the case of assets that were originally earmarked for lease and that subsequently change their destination, and are to be used for a long period or they are intended to be realized by sale, a transfer from investment property to tangible assets or inventory, as the case may be, will be accounted for accordingly. The transfer is made at the date when the destination is changed, at the asset value booked in the accounting records.
The investment property is derecognized when they were either sold or permanently withdrawn from use and no economic benefit is expected from their sale. The difference between the cash obtained from the sale and the carrying amount of the asset is recognized in the consolidated statement of profit or loss and other comprehensive income for the derecognition period.

For the investment property resulting from repossessed assets, the Group adopted a new business model that involves identifing among the repossessed assets those assets considered by the Group to be investment property and that ensure the value recovery in time from future lease income, as an alternative more profitable than the sale.

(15) Impairment of non-financial assets

The Group asseses at each reporting date or even more often if certain events or changes in circumstances indicate that the carrying amount could be impaired, if there is an indication of impairment of a non-financial asset. If there is such an indication or when annual impairment test is required for an asset , the Group estimates the recoverable amount. When the carrying amount of the asset (or the cash- generating unit) exceeds the recoverable amount, the asset (or the cash- generating unit) is deemed as impaired and its value writen down to its recoverable value.

An impairment loss related to other assets, except for goodwill, is assessed at every reporting date if there is an indication that the loss was reduced or does not exist currently. If there is such an indication, the Group estimates the recoverable amount of the asset or cash-generating unit. In the case of other assets, other than goodwill, the losses from the impairment of the previously recognized value are reversed if there is a change in the estimates used for the determination of the recoverable amount. An impairment loss is limited so that the asset carrying amount does not exceed the recoverable or carrying amount which would have been determined, net of amortization or depreciation, if no impairment loss had been recognized in the previous years. Such a reversal is recognized in the consolidated statement of profit or loss and other comprehensive income, if the asset is not accounted for at a revalued amount, in which case the reversal is treated as a revaluation increase.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

After applying the equity method, the Group determines whether it is necessary to recognize an additional loss on investment in associates. The Group determines at the reporting date, if there are any indications that the investment in associates is impaired. In this case, the Group calculates the impairment as the difference between the fair value of investment in associates and the acquisition cost and recognizes the value in the consolidated statement of profit or loss and other comprehensive income.

(16) Financial guarantees

The financial guarantees are contracts pursuant to which the Group undertakes a commitment to make specific payments to the holder of the financial guarantee to compensate for the loss incurred by the holder if a specific debtor fails to make the payment on the due date in accordance with the terms of a debt instrument.

The debt related to financial guarantees is initially recognized at fair value and this is amortised during the life of the financial guarantee. The debt related to financial guarantees is subsequently measured at the highest of the amortised amount and the present value of payments (when the payment became probable).

(17) Employees' benefits

(i) Short term benefits

Short-term benefits granted to employees include salaries, bonuses, medical insurance, meal vouchers, gift vouchers for Easter and Christmas, voucher to purchase outfit for work, social benefits (for childbirth or funeral) and social security contributions. The short term benefits are recognized as expenses at the time when the services are provided.

(ii) Defined contribution plans

The Bank and its subsidiaries, during their regular course of business make payements to the Romanian State budget on behalf of the Romanian employees, to the pension, health insurance and unemployment funds. All the employees of the Bank and its subsidiaries are members of and are bound by law to make contributions (included in the social security plan) to the pension system of the Romanian State (a contribution plan defined by the state). All relevant payment to the Romanian State pension system are recognized in the consolidated and separate statement of profit and loss and other comprehensive income when made.

The Group does not operate any independent pension plan and therefore, has no pension related obligations, nor does it operate another plan of post-retirement benefits. The Group does not have the obligation to provide services to current or former employees.

(18) Provisions

The provisions are recognized when the Group has a current (legal or implicit) obligation derived from a past event, and it is probable that an outflow of resources bearing economic benefits be required to settle that obligation and a reliable estimate may be made in relation to the amount of the obligation.

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(19) Own shares

When the Bank purchases its own shares, these are reduced from equity at the value deemed paid upon the receipt of shares. The loss and profit upon purchase, sale, issuance or cancellation of own shares are not recognized.

(20) Profit tax

The profit tax for the year includes the current and deferred tax.

(i) Current tax

The current tax is the amount of payable (recoverable) profit tax in relation to the taxable income (tax loss). The taxation rate at 31 December 2016 and 31 December 2015 is 16%.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Deferred tax

The deferred tax is calculated based on the temporary difference at the reporting date, between the tax base of assets and liabilities and their carrying amount for the purpose of financial reporting.

The deferred tax liabilities are recognized for all taxable temporary differences, except for:

- the cases when the deferred tax liabilities arise from initial recognition of goodwill or of an asset or liability in a transaction other than in a business combination which, at the time of the transaction, does not affect either the accounting profit or the taxable profit or loss; and
- the liabilities arising from taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the temporary differences can be controlled and it is probable that the temporary differences not occur in the near future.

The deferred tax assets are recognized based on the deductible temporary differences, unused tax credits and lfiscal osses carryforward to the extent that it is probable that taxable profit will be available for settlement against the deductible temporary differences and the unused tax credits and unused tax losses, which can be utilised, except for:

- the cases when the deferred tax asset related to deductible temporary differences arises from an initial recognition of an asset or liability in a transaction other than in a business combination which, at the time of the transaction, does not affect accounting profit or taxable profit or loss; and
- the deferred tax asset arising from taxable temporary differences arising from investments in subsidiaries, and associates, which are only recognized to the extent that it is probable that the temporary differences occur in the near future and that taxable profit will be available for settlement against the temporary differences which can be utilised.

The carrying amount of deferred tax assets is assessed at the reporting date and written down to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. The unrecognized deferred tax assets are assessed at the reporting date and are recognized to the extent that it is probable that future taxable profit will allow the recovery of deferred tax assets.

The deferred tax assets and liabilities are measured using the tax rates expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

The profit tax is recognized in the consolidated statement of profit or loss and other comprehensive income for the year or equity if the tax is related to an item whose value is recognised in equity.

The deferred tax assets and liabilities are offset if there is a legal right that allows offsetting the current tax receivables against the current tax liabilities, and the deferred tax refers to the same taxed entity and the same tax authority.

(21) Fiduciary assets

The Group offers asset management activities and fiduciary services which result in holding or investing assets on behalf of its customers The assets held as fiduciary are not reported in the financial statements because these are not assets of the Group. The Group does not record taxes and commissions from fiduciary activities.

(22) Dividends from ordinary shares

The dividends from ordinary shares are recognized as liabilities and deducted from equity when approved by the Group's shareholders.

(23) Basic and diluted earnings per share result

Basic earnings per share is calculated based on the net income for the year attributable to the Group's ordinary shareholders divided by the weighted average of ordinary shares issued during that year.

Diluted earnings per share is determined by adjusting the net profit/(loss) attributable to the Group's ordinary shareholders and the weighted average of the number of shares in circulation adjusted with the value of own shares held, for the dilutive effects of all potential ordinary shares, which include convertible instruments and share options.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(24) Reserves

The reserves recorded in equity in the consolidated statement of financial position include:

- the available for sale reserve which includes the changes in the fair value of the financial assets available for sale;
- the tangible asset reserve that includes the changes in the fair value of land and buildings;
- other reserves that satisfy the requirements for being recognized in equity (see Note 35 Reserves).

(25) Segment reporting

A segment is a distinct component of the Group that provides specific products or services (segment of activity) and that is subject to different risks and benefits than the other segments.

The Bank's segment reporting is based on the following business segments:

- individuals
- legal entities
- trading
- other

(26) Financial liabilities to owners of fund units

Fund units held by participants outside the Group are classified as financial liabilities and are measured as present value of the amount that can be redeemed by owners.

3. INTEREST INCOME

	Group		Bank	
	December 31 2016	**December 31 2015**	**December 31 2016**	**December 31 2015**
Interest on performing loans	36,492	64,923	36,492	64,922
Interest on impaired loans *	12,400	10,980	12,400	10,980
Interest income from loans	**48,892**	**75,903**	**48,892**	**75,902**
Interest on NBR deposits and other banks	873	867	630	141
Interest on NBR current accounts and other banks	421	689	242	622
Interest income from deposits	**1,294**	**1,556**	**872**	**763**
Interest related to financial assets available for sale	15,440	27,698	15,440	27,698
Interests related to reverse repo operations	-	106	-	99
Interest related to investments held for trading	2,184	1,986	-	-
Interest related to investments held to maturity	3,126	2,114	3,126	2,114
Interest income from securities	**20,750**	**31,904**	**18,566**	**29,911**
Total	**70,936**	**109,363**	**68,330**	**106,576**

* The interests related to impaired loans are presented at net value, respectively interest income for impaired loans in amount of 23,201 th lei (2015: 26,264 th lei), less the expenses for adjustments for interests related to impaired receivables in amount of 10,801 th lei (2015: 15,284 th lei); also see Note 24 Loans and advances to customers, net.

4. INTEREST EXPENSE

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Interest on term deposits	28,857	57,551	28,906	57,551
Interest on current accounts and sight deposits	209	472	209	472
Total interest expense on due to customers	**29,066**	**58,023**	**29,115**	**58,023**
Interests on term borrowings	336	520	336	520
Interests for repo operations	2	132	2	132
Interests on Lombard operations	2	-	2	2
NBR interest	40	2	40	-
Total interest expense related to borrowings	**380**	**654**	**380**	**654**
Total interest expense	**29,446**	**58,677**	**29,495**	**58,677**

5. NET COMMISSION INCOME

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Related to transactions (financial, with and without cash)	16,861	17,017	16,924	17,123
Related to non-financial customers (includes the crediting activity)	5,212	6,580	5,212	6,580
Related to other services	1,985	2,322	1,985	2,322
Total commission income	**24,058**	**25,919**	**24,121**	**26,025**
Expenses with commissions	(4,338)	(4,766)	(4,090)	(4,470)
Net commission income	**19,670**	**21,153**	**20,031**	**21,555**

6. NET TRADING INCOME

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Net profit from foreign exchange transactions	11,233	16,264	11,233	16,265
Net (loss) from currency position	119	(2,214)	109	(3,493)
Net profit from financial assets held for trading	8,207	795	1,739	341
Net profit /(loss) from derivatives	(6,243)	194	(759)	1,234
Net trading income	**13,316**	**15,039**	**12,322**	**14,347**

7. NET INCOME FROM FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Losses from financial assets available for sale	(5,573)	(19,584)	(5,573)	(19,584)
Profit from financial assets available for sale	14,444	37,118	14,444	37,118
Net profit from financial assets available for sale	**8,871**	**17,534**	**8,871**	**17,534**

The Group presents the net earnings from the sale of financial assets available for sale on a net basis by calculating current losses or gains from sale, compared to the amortized cost of investments, plus any gains or losses on derecognition of financial assets held for sale, representing favorable or unfavorable differences from revaluation, highlighted previously in equity (available for sale reserve).

8. OTHER OPERATING INCOME

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Dividend income *	581	2,667	581	2,667
Gain/(loss) from fair value revaluation of investment property	451	(7,639)	451	(3,452)
Rental income (investment property)	4,965	4,307	4,965	4,237
Gain/(loss) from disposal of tangible assets	(18)	785	(18)	808
Gain/(loss) from tangible assets held for sale	(1,628)	444	(238)	444
Income from other assets impairment adjustments	-	6,262	-	6,262
Net impairment charges of other assets	(1,818)	-	(4,290)	-
Rental income (property used in the Bank's activity)	627	581	656	610
Other operating income	1,093	1,790	1,102	1,798
Total	**4,253**	**9,197**	**3,209**	**13,374**

* * Dividends were collected in the amount of 581 th lei in 2016 (1,009 th lei in 2015).

9. NET IMPAIRMENT LOSSES FOR LOANS TO CUSTOMERS

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Legal entities	4,300	42,498	4,300	42,170
Individuals	1,012	(1,579)	1,012	(1,579)
Total	**5,312**	**40,919**	**5,312**	**40,591**

9. NET IMPAIRMENT LOSSES FOR LOANS TO CUSTOMERS (continued)

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Net recoveries	(23,834)	(4,441)	(23,834)	(6,200)
Net expenses during the year	29,146	45,360	29,146	46,791
Total	**5,312**	**40,919**	**5,312**	**40,591**

10. PERSONNEL EXPENSES

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Salaries and other personnel expenses, of which:	47,256	53,060	46,712	52,570
Expenses with salaries	45,679	50,291	45,145	49,811
Expenses with social insurance contributions, of which:	10,465	11,570	10,334	11,456
Expenses related to pensions	7,347	8,126	7,260	8,049
Total	**57,721**	**64,630**	**57,046**	**64,026**

11. DEPRECIATION OF TANGIBLE AND INTANGIBLE ASSETS

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Depreciation of tangible assets	6,243	7,535	6,242	7,535
Depreciation of intangible assets	2,837	2,539	2,800	2,528
Total	**9,080**	**10,074**	**9,042**	**10,063**

12. OTHER OPERATING EXPENSES

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Rent	8,793	10,450	8,793	10,457
Taxes and duties, other than profit tax	13,988	18,770	13,891	18,622
Inventory and consumables	1,468	2,414	1,450	2,397
Maintenance	3,025	3,495	3,021	3,490
Utilities	2,811	3,257	2,810	3,255
Post, telephones	3,963	3,703	3,950	3,691
Advertisement, donations and sponsorships	106	674	95	664
Losses from the revaluation of fixed assets	-	384	-	384
Expenses with insurance premiums	503	946	499	940

Expenses with travels, secondments, transfers,etc.	393	608	392	606
Expenses with security	1,106	2,608	1,106	2,608
Expenses for IT systems improvements and support	1,761	1,745	1,761	1,728
Other	12,213	13,135	12,018	12,323
Total	**50,130**	**62,189**	**49,786**	**61,165**

13. NET EXPENSES WITH GUARANTEES AND OTHER PROVISIONS

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Expenses /Recoveries with/from employees benefits for contract terminations and other provisions	3,958	(1,798)	3,958	(1,798)
Expensese with FNGCIMM warranty	2,169	-	2,169	-
Net expenses for untaken holidays provisons	199	(29)	199	(29)
Expenses/(reversals) for litigations	(14)	948	(14)	948
Expenses /(Reversals) with/(of) provisions for loans and other financial guarantees granted	(620)	(501)	(620)	(501)
Other net expenses with provisions	2,570	4,175	1,612	4,795
TOTAL	**8,262**	**2,795**	**7,304**	**3,415**

14. PROFIT TAX

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Current tax on income	41	49	-	-
Deferred tax, expense (reversal)	-	7,970	-	7,579
Total profit tax, expenses/(reversal)	**41**	**8,019**	**-**	**7,579**

Profit tax rate in 2016 was 16% (2015: 16%).
The accounting result according to IFRS before taxation and tax expenses for 2016 and 2015 may be reconciled as follows:

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2016**
(Gross loss)	**(44,108)**	**(67,225)**	**(44,929)**	**(67,869)**
Income tax expense 16%	(7,057)	(10,756)	(7,188)	(10,859)
Effect of non taxable elements	(15,633)	(15,707)	(15,629)	(15,703)
Effect of non deductible elements	22,731	34,482	22,818	34,141
Total	**41**	**8,019**	**-**	**7,579**

14. PROFIT TAX (conutinued)

Assets/(liabilities) from deferred tax, net at 31 December 2016 and 31 December 2015 comprises of:

Group	The year ended on December 31, 2016			The year ended on December 31, 2015		
	Temporary difference	**Deferred tax asset, net**	**Deferred tax liability, net**	**Temporary difference**	**Deferred tax asset, net**	**Deferred tax liability, net**
					Receivable	Liability
Revaluation of financial assets available for sale	531		(85)	2,263	-	(362)
Revaluation of tangible assets	74,014	-	(11,841)	76,514	-	(12,242)
Other temporary adjustments	(3,855)	617	-	(3,855)	617	-
Fiscal loss carried forward	(176,245)	28,199	-	(176,245)	28,199	-
Total temporary differences and the respective deferred tax (all at 16%)	**(105,555)**	**28,816**	**(11,926)**	**(101,323)**	**28,816**	**(12,604)**

Bank	The year ended on December 31, 2016			The year ended on December 31, 2015		
	Temporary difference	**Deferred tax asset, net**	**Deferred tax liability, net**	**Temporary difference**	**Deferred tax asset, net**	**Deferred tax liability, net**
					Receivable	Liability
Revaluation of financial assets available for sale	531	-	(85)	2,263	-	(362)
Revaluation of tangible assets	71,978	-	(11,516)	74,478	-	(11,916)
Other temporary adjustments	(3,855)	617	-	(3,855)	617	-
Fiscal loss carried forward	(176,245)	28,199	-	(176,245)	28,199	-
Total temporary differences and the respective deferred tax (all at 16%)	**(107,591)**	**28,816**	**(11,601)**	**(103,359)**	**28,816**	**(12,279)**

As of December 31, 2015, the cumulated fiscal losses accounted by the Bank were of 211,917 th lei (266,499 th lei in 2015). The Bank did not account for the deferred tax asset of 5,708 mii lei (14,441 lei in 2015), for the fiscal loss 35,672 mii lei (90,254 lei in 2015).
The analysis of recoverability of the deferred tax asset was carried out by the Bank based on the estimates on future profits and the future merger with Patria Bank (formerly Nextebank), merger which the management expects that it will be completed during the next 12 months after the reporting date. The recoverability of the deferred tax asset was considered also through the assumption that sufficient tax losses carried forward will be available to cover for the deferred tax asset recognised, even in the case that the taxable profits made by applying the fiscal and accounting treatment of the merger might not be realised during 2017, when a fiscal loss of 38 mil lei referring to 2010 will expire.
The following table presents the tax loss per expiry years:

		2017	2018	2019	2020	2021	2022	2023
Loss 3 months 2010	38,173							
Loss 2011	25,966							
Loss 2012	8,360							
Loss 2014	104,782							
Loss 2016	34,636							
TOTAL	**211,917**							

Movements related to the deferred tax for 2016 si 2015:

14. PROFIT TAX (conutinued)

Group	2016 Asset	2016 Liability	2015 Asset	2015 Liability
Deferred tax asset/(Liability) at the beggining of the	**16,212**	**-**	**21,209**	**(3)**
Reversal / (expense) with the deferred tax recognized in the consolidated statement of profit and loss and other comprehensive income	-	-	(7,971)	3
Change in debt related to the deferred tax recorded directly in equity	678	-	2,974	-
Deferred tax asset/(Liability)at the end of the year	**16,890**	**-**	**16,212**	**-**

Bank	2016 Asset	2016 Liability	2015 Asset	2015 Liability
Deferred tax asset/(Liability) at the beggining of the	**28,816**	**(12,279)**	**36,480**	**(15,337)**
Reversal / (expense) with the deferred tax recognized in the consolidated statement of profit and loss and other comprehensive income	-	-	(7,664)	85
Change in debt related to the deferred tax recorded directly in equity	-	678	-	2,973
Deferred tax asset/(Liability)at the end of the year	**28,816**	**(11,601)**	**28,816**	**(12,279)**

15. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year 2016, respectively 2015, attributable to the ordinary equity holders of the Group to the weighted average of the ordinary shares issued in 2016, respectively 2015.

The diluted earnings per share is determined by adjusting the net profit/(loss) attributable to the Bank's ordinary shareholders and the weighted average of the number of shares in circulation adjusted with the value of own shares held, for the diluting effects of all potential ordinary shares, which include convertible instruments and share options. The calculation of the diluted earnings per share was not necessary, because the Bank issued only ordinary shares.

At December 31, 2015 the number of shares issued by the Bank, registered at the Trade Register and the Central Depository was 1,101,371,411 shares of 0.1 lei / nominal value.
But in the period October 2015 - January 2016 was conducted capital increase for the Bank, totaling 110,137,141,1 RON (by issuing a total of 1,101,371,411 new BCC shares 01. lei / nominal value in two steps:

Step 1: Exercising the preemptive right for the existing shareholders: between November 3rd to December 3rd , 2015 took place the exercising of preemptive right by the bank's existing shareholders, during which they subscribed a total of 114,707,495 shares of 0.1 lei / share, total nominal value of 11,470,749.50 lei. Given the capital situation of the Bank at December 31st , 2015, BCC requested NBR's approval for including this amount in equity, before operating the Trade Register of the capital increase total 110,137,141.1 RON. Thus, the number of BCC shares at December 31st, 2015 was 1,216,078,906 shares, although these new shares were not registered in the Trade Register, the argument being that the money was in the Bank's accounts and subscriptions are irrevocable and the registration with the Trade Register is just for opposability.

Step 2: After the period for exercising of preemptive rights, the management was mandated by GSM to offer the new shares unsubscribed in Step 1 to JC Flowers, and if they don't subscribe, the management should identify potential new investors to subscribe in a private placement the unsubscribed new shares. So, after JC Flowers declined the invitation for subscription of new BCC shares, the management offered the unsubscribed shares (a total of 986,663,916 shares) to Patria Bank (formerly Nextebank) at a subscription price of 0.1001 lei / share . The transaction was concluded on January 29th, 2016, the Bank cashed an amount of 98,765,057.99 lei, of which 98,666,391.6 lei subscribed and paid up share capital and share premium of 98,666.39 lei.

15. EARNINGS PER SHARE (continued)

Note: Since it was not legally possible to register the capital increase with the Trade Register in two stages (first stage with the amount of 11,470,749.50 lei and second step with the amount of 98,765,057.99 lei) the solution was to record the capital increase of 110,137,141.1 lei at the end of the second step.The Trade Registry notification of capital increase was made on February 8, 2016 and the updating of the list of shareholders BCC was made by the Central Depository on 18 February 2016, For calculating the average number of shares, the date February 8, 2016 was considered as relevant for the capital increase.

	Number of shares in circulation	fraction of days	fractions of year %	No. of days in the year
Number of shares in circulation between 01.01.2016 -08.02.2016 (date of notification the Trade Registry of the capital increase)	1,101,371,411	38	0,10	366
Number of shares in circulation between 08.02.2016 -31.12.2016	2,202,742,822	328	0,90	366
Average number of shares in circulation in 2016	2,088,392,785			

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Profit/ (Loss) attributable to shareholders of the parent company	(44,149)	(75,244)	(44,928)	(75,448)
Average weighted number of shares existing during the year	2,088,392,785	2,642,063,871	2,088,392,785	2,642,063,871
Reported earnings per share (RON)	**(0.0211)**	**(0.0285)**	**(0.0215)**	**(0.0286)**

Between the reporting date and the closing date of the consolidated or separate financial statements, no transactions which would require the recalculation of the earnings per share took place.

16. OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Available for sale reserves transferred to the profit and loss account	(2,018)	(12,452)	(2,018)	(12,452)
(Net loss) / net profit from the fair value of financial assets available for sale	286	1,173	286	1,173
Profit/(loss) from financial assets available for sale	(1,732)	(11,279)	(2,211)	(11,279)
Deferred tax related to financial assets available for sale	277	1,805	277	1,805
Gains/ (losses) from the revaluation of the tangible assets	88	(4,553)	-	(4,553)
Deferred tax corresponding to the revaluation of tangible assets	400	1,169	400	1,169
Total other comprehensive income, after taxes	**(967)**	**(12,858)**	**(1,534)**	**(12,858)**

17. CASH IN HAND

The cash is made up of coins and banknotes, both at December 31, 2016 and at December 31, 2015,

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Cash in hand	113,391	132,718	113,391	132,718
Cash available in ASV and ATM	8,147	7,078	8,148	7,078
Total	**121,538**	**139,796**	**121,538**	**139,796**

18. DUE FROM CENTRAL BANK

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Current accounts	417,191	420,862	417,191	420,862
Total	**417,191**	**420,862**	**417,191**	**420,862**

The National Bank of Romania ("NBR" or "Central Bank") requests the banks to keep reserves calculated according to specific regulations ("the minimum mandatory reserve" or "MMR"), as a percentage of all deposits drawn from customers, foreign banks and other borrowed funds. NBR calculates and pays interests to banks for these reserves. At December 31st 2016 the reserve rates imposed by NBR in RON and foreign currency were 8% and respectively 10% (8%, respectively 14% as at December 31st, 2015).

The value of the deposit of minimum mandatory reserve is calculated on a monthly basis and must be kept in the form of cash accounts at NBR. The mandatory reserve is denominated in RON and EUR. The Bank expressed its choice to keep reserves in RON for pecuniary resources expressed in the national currency and reserves in EUR for pecuniary resources expressed in EUR, USD and other foreign currencies.

NBR current accounts also include the balance of available funds in an account opened for the settlement of foreign currency through the trans-European settlement system for transferring funds with gross settlement in real time - TARGET2. On 31.12.2016 the balance of TARGET2 was 7,313,085 EUR (33,209,449 eqRON). At 31.12.2015 the balance of TARGET2 was 61,753 EUR (279,402 eqRON).

At December 31st, 2016 the balance of reserves at the central bank, which represents the available in respect of the minimum required reserve amounted 272,831,049 RON; 24,476,478 EUR (December 31st, 2015: 218,795,668 RON; 44,598,676 EUR).

The interest rates granted by NBR in 2015 varied between 0,10% - 0,14% for reserves in RON (0,14% - 0,27% in 2015) and between 0,05%- 0,09% for reserves in foreign currency (0,07%- 0,31% in 2015).

At December 31st, 2016/2015, the Bank has no deposits at NBR.

19. DUE FROM BANKS

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Deposits in Romanian and other foreign banks	30,185	35,671	5,619	7,781
Current accounts	5,490	13,156	3,517	10,925
Total,	**35,675**	**48,827**	**9,136**	**18,706**
out of which with Maturity under 3 months	**30,056**	**43,294**	**3,517**	**15,487**

At December 31st, 2016 the Group had depoits use restrictions in the amount of 5,619 th RON (collateral deposit established at Banca Transilvania SA for issuing and accepting cards in the amount of 430 th RON; collateral deposit at Unicredit Tiriac Bank SA to guarantee the Bank's obligations resulting from the signing of the Convention with the Ministry of Agriculture and Rural Development under the Fermierul program in the amount of 25 th RON; collateral deposit at HSBC Bank PLC for the Bank status as MasterCard Principal Member in the amount of 5,164 th RON).

The interest rates received by the Bank for bank accounts in 2016, and 2015 respectively, are presented hereinafter:

2016	**USD**	**EUR**	**RON**
Current accounts	0%	0%	Not the case
Deposits in Romanian and foreign banks	0.10% – 0.95%	0% – 0.10%	0.26% – 0.70%

2015	**USD**	**EUR**	**RON**
Current accounts	0%–0.50%	0%–0.50%	Not the case
Deposits in Romanian and foreign banks	0.05% – 0.37%	0.05% – 0.35%	0.3% – 2.80%

20. FINANCIAL ASSETS HELD FOR TRADING

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Listed shares (i)	7,511	9,704	-	-
Fund units	844	377	6,195	7,263
Debt instruments (ii)	106,793	95,703	46,593	51,187
Derivatives (iii)	-	358	0	358
Total	**115,148**	**106,142**	**52,788**	**58,808**

(i) The listed shares include shares listed at the Bucharest Stock Exchange;
(ii) Debt instruments include:
- bonds issued in RON, EUR and USD by banking and non-banking financial institutions; public central and local
- securities issued by the Romanian Government;
(iii) Derivative financial instruments are presented in note 32.

21. FINANCIAL ASSETS AVAILABLE FOR SALE

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Listed shares (i)	-	245	-	-
Debt instruments (ii)	996,463	1,177,945	996,463	1,177,944
Total	**996,463**	**1,178,190**	**996,463**	**1,177,944**

(i) Listed shares are valued at market value. The expense recorded during 2015 for impairment of financial assets available for sale was 152 th RON (0 in 2016).
(ii) Debt instruments include bonds and securities issued by public institutions bonds issued by other issuers (see table below):

	Group		Bank	
Debt instruments	**December 31, 2016 Fair value (RON eq)**	**December 31, 2015 Fair value (RON eq)**	**December 31, 2016 Fair value (RON eq)**	**December 31, 2015 Fair value (RON eq)**
Ministry of Public Finance in Romania	996,463	1,161,534	996,463	1,161,534
Treasury of the United States of America	-	16,410	-	16,410
Total	**996,463**	**1,177,944**	**996,463**	**1,177,944**

During 2016 or 2015, the Bank has not made portfolio transfers between trading portfolio and the portfolio of financial assets available for sale.

22. INVESTMENTS HELD TO MATURITY

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Bonds and other fixed-income securities issued by Ministry of Public Finance in Romania	109,860	111,971	109,860	111,971
Total	**109,860**	**111,971**	**109,860**	**111,971**

23. INVESTMENT IN ASSOCIATES AND SUBSIDIARIES

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Investment in associates and subsidiaries, net	810	1,327	6,332	7,026
Total	**810**	**1,327**	**6,332**	**7,026**

Investments in associated are measured at cost less impairment since the fair value can not be determined in a reliable way; they include shares in Transfond SA., SWIFT, the Credit Bureau, Bucharest Clearing House, BSE, etc. the Group does not intend to give them up, unles there are be favorable conditions in the market.
Adjustments for impairment as at December 31st, 2016, respectively December 31st, 2015 were due to the Bank's shareholding in Bucharest Clearing House (77,000 lei at 31.12.2016; at 31.12.2015, 51,000 lei) and SSIF Carpatica Invest SA (6,806 th December 31st, 2016, and 0 at December 31st, 2015 due to the fact that in 2015 SSIF Carpatica was in the consolidation scope of the Group).

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Investments in subsidiaries, gross	6,807	-	19,620	19,620
Adjustments for impairment of investments in subsidiaries	(6,807)	-	(14,098)	(13,556)
Investments in other entities	887	1,502	887	1,014
Adjustments for impairment in other entities	(77)	(175)	(77)	(52)
Total	**810**	**1,327**	**6,332**	**7,026**

24. LOANS AND ADVANCES TO CUSTOMERS, NET

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Gross loans	752,792	1,023,953	752,792	1,023,357
Loans impairment	(193,544)	(255,821)	(193,544)	(255,226)
Receivables from instalment sales of repossessed assets	25,817	29,808	25,817	29,808
Impairment for receivables from instalment sales of repossessed assets	(3,826)	(3,967)	(3,826)	(3,967)

Total	**581,239**	**793,973**	**581,239**	**793,973**

Interest rates charged by the Bank for loans granted in national currency varied in 2016 between 0%- 50% (in 2015: 0%-50%) and for loans granted in foreign currency varied in 2016 between 0% - 21% (in 2015: 0% - 21%).
The interest rate of 0% relates to loans in the Bank's portfolio for which the Bank ceased to calculate interest. These loans belong to customers under insolvency or for which the forced execution procedure was initiated.
The analysis of loans and advances according to their maturity is presented in note 40 Structure by maturity. he loans may be reimbursed before the established due date. In case of early reimbursement, for certain categories of loans an early reimbursement fee/ penalty is charged.

Loans and advances granted in December 31,2016 and December 31, 2015 had the following structure by industries

	Bank and Group			
	2016	**%**	**2015**	**%**
Agriculture	80,978	13.93%	111,109	13.99%
Trade	92,154	15.85%	92,628	11.67%
Constructions	35,409	6.09%	42,705	5.39%
Industry	147,564	25.39%	257,581	32.44%
Transportation	6,234	1.07%	16,392	2.06%
Services	107,326	18.47%	141,152	17.78%
Individuals	111,574	19.20%	131,425	16.55%
Others	-	0.00%	981	0.12%
Total	**581,239**	**100.0%**	**793,973**	**100.0%**

Reconciliation of provision for impairment losses on loans and advances to customers, by customer classes, is presented in the tables below:

a) For the loans and advances analyzed individually:

Group	**Legal entities**	**Individuals**	**Total**
At January 1 st, 2016	**245,676**	**3,245**	**248,921**
Expenditure for the year (Note 9)	31,801	1,754	**33,555**
Net recoveries (Note 9)	(22,504)	(1,330)	(23,834)
Impairment of interest for impaired loans (Note 3)	12,157	242	12,399
Write-off from the balance sheet of fully provisioned loans	(86,463)	(2,020)	(88,483)
Influences of exchange rate differences	7,719	1,248	8,967
At December 31st, 2016	**188,386**	**3,139**	**191,525**

Group	**Legal entities**	**Individuals**	**Total**
At January 1st 2015	**405,932**	**4,903**	**410,835**
Expenditure for the year (Note 9)	46,223	34	46,258
Net recoveries (Note 9)	(4,699)	(1,501)	(6,200)
Impairment of interest for impaired loans (Note 3)	14,602	99	14,701
Write-off from the balance sheet of fully provisioned loans	(222,040)	(1,661)	(223,701)
Influences of exchange rate differences	5,658	1,371	7,029
At December 31st, 2015	**245,676**	**3,245**	**248,921**

24. LOANS AND ADVANCES TO CUSTOMERS, NET (continued)

Bank	Legal entities	Individuals	Total
At January 1 st, 2016	**245,676**	**3,245**	**248,921**
Expenditure for the year (Note 9)	31,801	1,754	33,555
Net recoveries (Note 9)	(22,504)	(1,330)	(23,834)
Impairment of interest for impaired loans (Note 3)	12,157	242	12,399
Write-off from the balance sheet of fully provisioned loans	(86,463)	(2,020)	(88,483)
Influences of exchange rate differences	7,719	1,248	8,967
At December 31st, 2016	**188,386**	**3,139**	**191,525**

Bank	Persoane juridice	Persoane fizice	Total
At January 1st 2015	**405,932**	**4,903**	**410,835**
Expenditure for the year (Note 9)	46,223	34	46,258
Net recoveries (Note 9)	(4,699)	(1,501)	(6,200)
Impairment of interest for impaired loans (Note 3)	14,602	99	14,701
Write-off from the balance sheet of fully provisioned loans	(222,040)	(1,661)	(223,701)
Influences of exchange rate differences	5,658	1,371	7,029
At December 31st, 2015	**245,676**	**3,245**	**248,921**

b) For loans analyzed collectively:

Bank si Group	Legal entities	Individuals	Total
At January 1st, 2016	**8,671**	**1,601**	**10,272**
Expenditure for the year (Note 9)	(4,997)	588	(4,408)
Influences of exchange rate differences	350	(368)	18
At December 31st, 2016	**4,024**	**1,821**	**5,845**

	Persoane juridice	Persoane fizice	Total
At January 1st, 2016	**7,947**	**1,708**	**9,655**
Expenditure for the year (Note 9)	646	(112)	534
Influences of exchange rate differences	78	5	83
At December 31st, 2016	**8,671**	**1,601**	**10,272**

The amounts presented are before impairment of interest on impaired loans
Further to the recommendations of the National bank of Romania on the non-performing loans and the loans granted to companies subject to insolvency proceedings, recommendations included in letters 533, 612, 831/831, the Bank reviewed these exposures (regardless of stage), the history of cash recovery and recovery recovery estimates related to the remaining guarantees. The results of analyses (cash recovery percentages of approximately 20% until the date of analysis, significant collateral subject to forced execution, lengthy insolvency proceedings, delayed/ protracted on legal ground) were communicated to the National bank of Romania and the Bank also increased the level of impairment allowances for these exposures.

At December 31st, 2016, the Bank's loan portfolio included 92 clients subject to insolvency proceedings, with a related gross exposure of 208,047 th RON, in relation to which the Bank created impairment allowances worth of 138,655 th RON. These exposures are secured by real estate mortgages, with fair value of 164,350 th RON and other guarantees worth of 44,149 th RON.

24. LOANS AND ADVANCES TO CUSTOMERS, NET (continued)

At 31 December 2015, the Bank's loan portfolio included 113 clients subject to insolvency proceedings, with a related gross exposure 244,827 thousand RON, in relation to which the Bank created impairment allowances worth of 156,281 thousand RON. These exposures are secured by real estate mortgages, having a fair value of 207,421 thousand RON, and other guarantees worth of 58,616 thousand RON

In 2016, has written off balance sheet loans amounting 88,258 th RON, recording also recovery of debts written off balance sheet of 23,839 mii RON. At December 31st, 2016, the balance of loans fully covered by provisions is 5,141 mii RON.

In 2015, the Bank has written off balance sheet loans amounting 223,701 th RON, recording also recovery of debts written off the balance sheet of 6,556 thousands RON. At December 31st, 2014 the balance of loans fully covered by provisions is 4,597 thousands RON.

Collaterals taken over

During 2016 the Group has taken over (for the respective receivables) 2 assets (land, buildings) following the termination of installments sales contracts concluded in previous exercises for the purpose of recovery of collaterals values.
During 2015 the Bank acquired two assets (lands, buildings) for the debts of the customers toward the Bank, to sell them, amounting 651,327 lei. The assets taken over are presented in the individual statement of financial position under the position "Other Assets" and "Real Estate Investments".

The status of the assets taken over in account of receivables and the history of the take-overs are presented in the table below:

Year of take-over	Takeover / acceptance of payment/ purchase value	Weight in total repossessed assets	Reversals of prudential provisions due to the takeover of the assets in the account of the claim (amounts by which the own funds increased as a result of reversals, with a positive impact on solvency).	Book value at 31.12.2016
2008	2,460	1.54%	(4,808)	2,460
2010	2,144	1.34%	(1,606)	2,193
2011	35,594	22.3%	(28,585)	32,194
2012	90,280	56.56%	(32,327)	86,499
2013	24,188	15.16%	(19,364)	24,739
2014	2,648	1.66%	(1,664)	2,335
2015	553	0.35%	-	556
2016	1,747	1.09%	-	994
TOTAL	**159,614**	**100,00%**	**(88,353)**	**151,969**

25. INTANGIBLE AND TANGIBLE ASSETS

At December 31 st, 2016:

Group	Land	Buildings	Construction in progress	Equipment, furniture and computers	Machine ry	Total tangible assets	Intangible assets in progress	Intangible assets	Total intangible assets
Cost									
January 1 st, 2016	**9,200**	**124,132**	**498**	**37,058**	**433**	**171,321**	**644**	**21,824**	**22,468**
Additions	-	-	186	3	-	189	677	553	**1,229**
Disposals	-	(1,700)	-	(297)	-	(1,997)	-	(3)	**(3)**
Re-classifications from / to other assets	-	-	-	-	-	-	-	-	-
Transfers between categories	-	296	(365)	69	-	-	(431)	431	-
Revaluation increase by revaluation reserve	-	-	-	-	-	-	-	-	-
Revaluation increase by consolidated statement of profit and loss and other comprehensive income	-	-	-	-	-	-	-	-	-
Decrease due to incorporation of accumulated depreciation	-	-	-	-	-	-	-	-	-
At December 31 st, 2016	**9,200**	**122,728**	**319**	**36,833**	**433**	**169,513**	**890**	**22,805**	**23,694**
Accumulated depreciation									
At January 1 st, 2016	**-**	**6,951**	**-**	**30,150**	**433**	**37,534**	**-**	**13,640**	**13,640**
Depreciation for the year	-	4,311	-	1,931	-	6,242	-	2,800	2,800
Disposals	-	(1,048)	-	(273)	-	(1,321)	-	-	-
Reversal of accumulated depreciation for revaluation	-	-	-	-	-	-	-	-	-
At December 31st 2016	**-**	**10,214**	**-**	**31,808**	**433**	**42,455**	**-**	**16,440**	**16,440**
Book value at December 31st, 2016	**9,200**	**112,514**	**319**	**5,025**	**-**	**127,058**	**890**	**6,365**	**7,255**

Cost of fully depreciated fixed assets at December 31st, 2016 este de 34,760 th RON (2015: 29,927 th RON).

25. INTANGIBLE AND TANGIBLE ASSETS (continued)

The last revaluation of land and buildings was carried out at the end of 2015 by an expert assessor, a member of ANEVAR (National Association of Assessors of Romania). The appraisal methods used were direct capitalization method (which the Bank considered to be the most appropriate for the category of assets subject to revaluation) and relative comparison method, in compliance with the principles and techniques of assessment contained in the International Valuation Standards. Tangible assets include assets subject to leasing operations in which the Bank is a lessor. The net book value of these assets subject to operating leasing operations is not significant At December 31st, 2016 the net book value of land/buildings which would have been recognized if the assets had been accounted for using the cost method is 3,110 lei/45,295 lei.

At December 31 st 2015:

Group	Land	Buildings	Construction in progress	Equipment, furniture and computers	Machine ry	Total tangible assets	Intangible assets in progress	Intangible assets	Total intangible assets
Cost									
January 1 st, 2015	**5,375**	**137,873**	**1,878**	**36,785**	**7,131**	**189,042**	**445**	**19,078**	**19,523**
Additions	-	-	1,091	271	21	**1,383**	467	2,526	**2,993**
Disposals	-	(1,304)	-	(1,763)	(6,719)	**(9,786)**	-	(48)	**(48)**
Re-classifications from / to other assets	-	-	-	-	-	**-**	-	-	**-**
Transfers between categories	-	706	(2,471)	1,765	-	**-**	(268)	268	**-**
Revaluation increase by revaluation reserve	3,941	(8,494)	-	-	-	**(4,553)**	-	-	**-**
Revaluation increase by consolidated statement of profit and loss and other comprehensive income	(116)	(267)	-	-	-	**(383)**	-	-	**-**
Decrease due to incorporation of accumulated depreciation	-	(4,382)	-	-	-	**(4,382)**	-	-	**-**
At December 31 st, 2015	**9,200**	**124,132**	**498**	**37,058**	**433**	**171,321**	**644**	**21,824**	**22,468**
Accumulated depreciation									
At January 1 st, 2015	**-**	**7,785**	**-**	**29,170**	**6,990**	**43,945**	**-**	**11,153**	**11,153**

Depreciation for the year	-	4,800	-	2,622	119	**7,541**	-	2,533	**2,533**
Disposals	-	(1,252)	-	(1,642)	(6,676)	**(9,570)**	-	(46)	**(46)**
Reversal of accumulated depreciation for revaluation	-	(4,382)	-	-	-	**(4,382)**	-	-	-
At December 31st 2015	**-**	**6,951**	**-**	**30,150**	**433**	**37,534**	**-**	**13,640**	**13,640**
Book value at December 31st, 2015	**9,200**	**117,181**	**498**	**6,908**	**-**	**133,787**	**644**	**8,184**	**8,828**

Bank	**Land**	**Buildings**	**Construction in progress**	**Equipment, furniture and computers**	**Machine ry**	**Total tangible assets**	**Intangible assets in progress**	**Intangible assets**	**Total intangible assets**
Cost									
January 1st, 2016	**9,200**	**123,751**	**498**	**36,360**	**49**	**169,857**	**644**	**21,406**	**22,050**
Additions	-	-	186	3	-	189	677	553	1,229
Disposals	-	(1,362)	-	(297)	-	(1,659)	-	(3)	(3)
Re-classifications from / to other assets	-	-	-	-	-	-	-	-	-
Transfers between categories	-	296	(365)	69	-	-	(431)	431	-
Revaluation increase by revaluation reserve	-	-	-	-	-	-	-	-	-
Revaluation increase by consolidated statement of profit and loss and other comprehensive income	-	-	-	-	-	-	-	-	-
Decrease due to incorporation of accumulated depreciation	-	-	-	-	-	-	-	-	-
At December 31st, 2016	**9,200**	**122,685**	**319**	**36,135**	**49**	**168,387**	**890**	**22,387**	**23,277**
Accumulated depreciation									
At January 1st, 2016	**-**	**6,899**	**-**	**29,465**	**49**	**36,413**	**-**	**13,225**	**13,225**
Depreciation for the year	-	4,312	-	1,931	-	**6,243**	-	2,800	**2,800**

Disposals	-	(1,048)	-	(273)	-	**(1,321)**	-	(3)	**(3)**
Reversal of accumulated depreciation for revaluation	-	-	-	-	-	-	-	-	-
At December 31st 2016	**-**	**10,162**	**-**	**31,123**	**49**	**41,334**	**-**	**16,021**	**16,021**
Book value at December 31st, 2016	**9,200**	**112,522**	**319**	**5,013**	**-**	**127,053**	**890**	**6,365**	**7,255**

Bank	**Land**	**Buildings**	**Construction in progress**	**Equipment, furniture and computers**	**Machinery**	**Total tangible assets**	**Intangible assets in progress**	**Intangible assets**	**Total intangible assets**
Cost									
January 1st, 2015	**5,375**	**137,492**	**1,878**	**36,086**	**6,752**	**187,583**	**446**	**18,661**	**19,107**
Additions		-	1,091	272	-	**1,363**	467	2,525	**2,992**
Disposals	-	(1,304)	-	(1,763)	(6,703)	**(9,770)**	-	(48)	**(48)**
Re-classifications from / to other assets	-	-	-	-	-	-	-	-	-
Transfers between categories	-	706	(2,471)	1,765	-	-	(268)	268	-
Revaluation increase by revaluation reserve	3,941	(8,494)	-	-	-	**(4,553)**	-	-	-
Revaluation increase by consolidated statement of profit and loss and other comprehensive income	(116)	(268)	-	-	-	**(384)**	-	-	-
Decrease due to incorporation of accumulated depreciation	-	(4,382)	-	-	-	**(4,382)**	-	-	-
At December 31st, 2015	**9,200**	**123,751**	**498**	**36,360**	**49**	**169,858**	**644**	**21,406**	**22,050**
Accumulated depreciation									

At January 1st, 2015	**-**	**7,734**	**-**	**28,489**	**6,591**	**42,813**	**-**	**10,743**	**10,743**
Depreciation for the year	-	4,800	-	2,620	116	**7,535**	-	2,528	2,528
Disposals	-	(1,253)	-	(1,643)	(6,658)	**(9,554)**	-	(46)	(46)
Reversal of accumulated depreciation for revaluation	-	(4,382)	-	-	-	**(4,382)**	-	-	-
At December 31st 2015	**-**	**6,899**	**-**	**29,465**	**49**	**36,413**	**-**	**13,225**	**13,225**
Book value at December 31st, 2015	**9,200**	**116,852**	**498**	**6,896**	**-**	**133,445**	**644**	**8,182**	**8,826**

26. INVESTMENT PROPERTY

a) Reconciliation of book value

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Balance at January 1st	108,479	**112,057**	104,044	103,273
Acquisitions of investment property	-	85	-	85
Reclassifications from other assets and tangible asstes	(8,056)	4,138	(8,056)	4,138
Sale of investment property	-	(162)	-	-
Loss on revaluation of real estate investments	(920)	(7,639)	450	(3,452)
Balance at December 31st	**99,503**	**108,479**	**96,438**	**104,044**

During 2016, the rental incomes from real estate investments amounted 4,965 th RON (in 2015: 4,237 th RON). Direct operating costs (repairs, maintenance, taxes and local taxes, etc.) resulting from investment property that did not generate rental income during 2016 amounted 0 th RON (in 2015: 0 th RON). Direct operating expenses (repair, maintenance, local taxes, etc.) with Investment property that generated rental income during 2016 were in the amount of 2,644 th lei (in 2015: 3,115 th lei).

b) Fair value measurement

The fair value of real estate investments is based on an assessment carried out by expert assessors, members of ANEVAR (National Association of Assessors of Romania). The fair value of the real estate investments is presented on level 3 of the hierarchy of fair value. The following table presents a reconciliation between the original and final balances for the fair value of the real estate investments:

The Group did not acquire Investment property using the financial leasing at December 31st, 2016 or at December 31st, 2015

c) The evaluation techniques for measuring the fair value of real estate investments and the dates of entry used:

Evaluation techniques

- The evaluation of of land (measuring a free land or where there is a construction, the six recognized valuation methods - direct comparison, market extraction, allocation technique, residual capitalization, direct rent / lease (rent), discounted cash flow analysis)
- The income approach (by this method estimated the annual income to be generated by a property converts to value by applying an appropriate rate of income. In this case, a capitalization rate was used applied to gross income from estimated operations);
- The cost approach (The purpose of the cost approach is to determine the market value of the property by estimating the cost of purchasing the land (the market value of the land) and building a new property with the same utility or adapting an old property with the same use, without considering related costs during the construction / adaptation. The cost of the land is added to the total cost of construction. If necessary, usually in construction costs incentives / real estate developer's profit are added.

Entry data

- Inventory lists with investments owned by the client;
- Documents and information taken from specialized staff from the owner regarding the history, the repairs made, the rate of exploitation, degree of impairment, etc.
- Information taken from the location by the evaluator to inspect each objective;
- The evolution of the exchange rate published by BNR;
- Information regarding the local real estate market;
- Web Sites specialized in placing ads for selling/renting similar properties with the ones owned by the company;
- The book "Reconstruction costs - replacement costs of industrial buildings, commercial and agricultural, special construction" - Corneliu Schiopu, publisher IROVAL Bucharest 2010 - updated;
- Other necessary information available in the specialized literature;
- The evaluator's data base.

27, OTHER ASSETS

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Sundry debtors, gross	12,970	13,486	12,505	12,539
Adjustments for depreciation sundry debtors	(9,042)	(7,428)	(8,894)	(7,279)
Prepayments	1,327	2,366	1,206	2,228
Current income tax	272	272	272	272
Materials and stationary	690	920	690	920
Other assets	103	159	103	158
Accounts of stock exchange companies	241	4,216	241	4,216
Receivables from customers	19,372	11,036	19,372	11,036
Recivables from credit institutions	1,543	486	1,543	486
VAT to recover	-	445	-	171
Social claims, overdue claims	5,210	4,808	5,206	4,808
Adjustments for depreciation of outstanding receivables	(4,285)	(3,926)	(4,285)	(3,926)
Dividends receivable	48	2,405	51	2,422
Non-current assets held for sale, gross	15,268	12,180	15,268	12,180
Adjustments for impairment of fixed assets held for sale	(4,690)	(4,135)	(4,690)	(4,135)
Assets taken over in account receivables	41,274	43,448	41,275	43,447
Adjustments for depreciation intangible taken in the account of receivables	(18,870)	(15,489)	(18,870)	(15,489)
Total	**61,431**	**65,249**	**60,993**	**64,054**

The effect of adjustments for impairment of various overdue receivables, assets held for sale and assets taken in account of receivables is presented in the table below:

	2016			2015		
Group	**Balance at the beginning of the period**	**Adjustments for depreciation**	**Balance at the end of the period**	**Balance at the beginning of the period**	**Adjustments for depreciation**	**Balance at the end of the period**
Adjustments for depreciation sundry debtors	(7,428)	(1,614)	(9,042)	(7,342)	(86)	(7,428)
Adjustments for depreciation for outstanding Receivables	(3,926)	(359)	(4,285)	(3,966)	40	(3,926)
Adjustments for impairment of fixed assets held for sale	(4,135)	(555)	(4,690)	(3,425)	(710)	(4,135)
Adjustments for depreciation of repossessed assets	(15,489)	(3,381)	(18,870)	(18,631)	3,142	(15,489)
Total	**(30,978)**	**(5,909)**	**(36,887)**	**(33,364)**	**2,386**	**(30,978)**

27. OTHER ASSETS (continued)

	2016			2015		
Bank	**Balance at the beginning of the period**	**Adjustments for depreciation**	**Balance at the end of the period**	**Balance at the beginning of the period**	**Adjustments for depreciation**	**Balance at the end of the period**
Adjustments for depreciation sundry debtors	(7,280)	(1,614)	(8,894)	(6,424)	(856)	(7,280)
Adjustments for depreciation for outstanding Receivables	(3,926)	(359)	(4,285)	(3,966)	40	(3,926)
Adjustments for impairment of fixed assets held for sale	(4,135)	(555)	(4,690)	(3,425)	(710)	(4,135)
Adjustments for depreciation of repossessed assets	(15,489)	(3,381)	(18,870)	(18,631)	3,142	(15,489)
Total	**(30,830)**	**(5,909)**	**(36,739)**	**(32,446)**	**1,616**	**(30,830)**

The repossessed assets represent guarantees for loans granted and taken over by the Bank to be recovered through sale. They are recorded at the lower value between book value and fair value. Assessment methods for non-financial assets (inventory such as "Materials and stationary". "Property taken in the account of receivables") are presented in Note 2,6 (15) Impairment of non-financial assets.

The Group made reclassifications from Other assets to Investment Property, as follows:

	2016	2015
Input "Non-current assets held for sale" to "Investment poperties"	8,056	2,732
Output "Receivables taken over" to "Investment property	-	(6,870)
Total reclassification for real estate investments and Tangible assets	**8,056**	**(4,138)**

28. DUE TO BANKS

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Sight deposits	5	8	5	8
Total	**5**	**8**	**5**	**8**

The interest rates for deposits attracted from banks in RON varied between 0,25% si 0,55% during 2016 (between 0,25% si 2,00% in 2015). The interest rate for deposits in foreign currency attracted was 0,0% during 2016 (between 0,01% and 0,20% in 2015).

29. DUE TO CUSTOMERS

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Current accounts and sight deposits	348,579	346,954	351,665	347,866
Term deposits (include collateral deposits)	2,038,279	2,505,676	2,043,328	2,505,676
Total	**2,386,858**	**2,852,630**	**2,394,993**	**2,853,542**

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Legal entities	299,461	393,715	307,596	394,627
Individuals	2,087,397	2,458,915	2,087,397	2,458,915
Total	**2,386,858**	**2,852,630**	**2,394,993**	**2,853,542**

The interest rates granted by the Group for deposits placed both by individuals and legal entities are indicated below:

	2016		2015	
	Current accounts and sight deposits	**Term deposits**	**Current accounts and sight deposits**	**Term deposits**
RON	0%-0.25%	0%-2.25%	0%-1.25%	0%-4.00%
EUR / USD	0%-0.15%	0%-1.75%	0%-0.30%	0%-2.40%

Term deposits for which the interest rate paid by the Bank is 0% are represented by collateral deposits of customers for which the Bank issued letters of guarantee.

30. BORROWINGS

Financer	Date of agreement	Currency	Disbursed amount (M.U.)	Balance at December 31st 2016 (RON)	Balance at December 31st 2015 (RON)	Interest rate
1, Ministry of Public Finances - BIRD (A and B)	April - May 2005	USD	22,640	8,317	16,883	LIBOR USD 6M + 0.59%* World Bank margin + 0.3% MFP margin – 0.25% World Bank waiver
2, Farmer (MADR)	March 23rd, 2006	RON	30,000	-	666	0.01%
Farmer (MADR)	August 27th, 2008	RON	1,130	70	460	0.01%
3, European Investment Bank	June 29th, 2009	EUR	10,000	6,812	45,245	Rate provided by IEB in notice of drawing e
TOTAL BORROWINGS				**15,199**	**63,254**	
Accrued debts and amounts to be amortized		RON		79	99	
TOTAL BORROWINGS				**15,278**	**63,353**	

* Since August 15th, 2015 the World Bank margin has changed from 0.54% to 0.59%

The interest related to the above contracts is payable monthly for the MADR Conventions, the quarterly for the European Investment Bank Convention, twice a year for the Subsidiary Loan Agreements concluded with the Ministry of Public Finance (IBRD).

1, On April 7th, 2005, the Bank signed with the Public Finance Ministry a loan agreement worth USD 10 million for a period of 12 years under the Rural Financing Project - Part A, funded by the World Bank. The funds were used for financing production investments of the eligible beneficiaries with the head office/domicile in rural areas (towns with less than 200,000 inhabitants). This agreement was also approved by the World Bank. Grace period: 18 months from the date of the signing of the agreement. This agreement was amended at the following dates:

I) on October 30th, 2006, the loan was supplemented with the amount of USD 3,499,942,30;
ii) on January 26th, 2007, the loan was supplemented with the amount of USD 1,062,201,33;
iii) on March 15th, 2007, the loan was supplemented with the amount of USD 8,000,000,00;
iv) on December 11th, 2007, the loan was reduced by the amount of USD 4,286,817,18;

The agreement is in force with the final maturity date on October 7th, 2017.

2, On May 13th, 2005, the Bank signed with the Public Finance Ministry a loan agreement in amount of USD 2,865 million for a period of 12 years, under the Rural Financing Project - Part B, funded by the World Bank. The funds were used to finance the expansion of the territorial network of BCC in rural area (localities with less than 100,000 inhabitants). This agreement was also approved by the World Bank. Grace period: 18 months from the date of the signing of the agreement. On May 15th, 2006, this agreement was supplemented with the amount of USD 1,5 million by signing an addendum. The agreement in force with final maturity on May 13th, 2017.

3, On March 23th, 2006, the Bank signed with the Ministry of Agriculture and Rural Development a working agreement in amount of RON 20 million for a period of 10 years. The funds were aimed at funding the loans granted by BCC to economic operators for financing investments in agriculture. On June 12th, 2007, the Bank concluded with MADR an addendum by which the amount of the loan was supplemented with RON 10 million. The agreement is in force with the final maturity date on October 22nd, 2016.

4, On August 27th, 2008, the Bank signed with the Ministry of Agriculture and Rural Development a working agreement in amount of RON 124,344 million for a period of 10 years. The funds are aimed at funding the loans granted by BCC to economic operators for financing investments in agriculture, for co-financing of eligible investment projects through FEADR and FEP, provided in Annex 1 of MADR Order no. 102 of 17 February 2009, as further amended and

supplemented. The funds were not drawn due to lack of legal framework which had to be developed by the Ministry of Agriculture and Rural Development. The agreement is in force with final maturity date on August 27th, 2018.

5, On August 27th, 2008, the Bank signed with the Ministry of Agriculture and Rural Development a working agreement in amount of RON 19,822 million for a period of 10 years. The funds are aimed at funding the loans granted by BCC to economic operators for financing investments in agriculture, for co-financing of investment projects which do not benefit from funding from European funds or the state budget, which comply with the levels provided in Annex 2 of MADR Order no. 102 of 17 February 2009, as further amended and supplemented. The funds were drawn in part. The agreement is in force with final maturity date on August 27th, 2018.

6, On 29th June, 2009, the Bank signed with the European Bank for Investments an open rate financing agreement in amount of EUR 10 million. The funds are aimed at funding small and medium-sized enterprises. The financing agreement is secured by a Pledge Agreement which on February 07, 2013, was amended by the Addendum no. 1 (including EU sovereign bonds with rating below BBB-, in order to allow the Romanian state securities to be included among the eligible financing instruments). The agreement is in force with the final maturity on December 21st, 2017.
As at 31 December 2016 the guarantees set by the Bank based on the clauses included in the agreements mentioned above consist of:

- European Investment Bank, eligible bonds (nominal value /fair value) 22,706/ 25,730 th RON (Romanian 2018 bonds, ISIN XS0371163600)

At 31st December 2015 the guarantees placed by the Group based on the clauses stipulated by the above mentioned agreements consisted in:

- The European Investment Bank, for the financing contract consisted of eligible bonds (nominal value/fair value) 44,566/ 52,249 th RON (Romanian bonds, 2018, ISIN XS0371163600 – 22,623/ 26,756 th RON, Romanian bonds, 2019, ISIN XS0852474336 – 21,944/ 25,492 th RON).

31. OTHER LIABILITIES

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Deferred income	352	494	109	222
Sundry creditors	7,925	8,097	7,703	7,116
Salary debts	1,576	1,616	1,562	1,592
Salary-related contributions and taxes	1,682	2,027	1,660	1,962
Provisions	7,903	5,263	7,622	4,101
Other payables	4,694	7,301	4,837	7,301
Expenses payable	3,235	2,877	3,211	2,835
Other payables to the state budget	191	760	434	736
Total	**27,558**	**28,435**	**27,138**	**28,865**

Group

Provisions	**Balance at January 1st, 2016**	**Increase**	**Reversals**		**Difference exchange rate**	**Balance at December 31st, 2016**
			values used	**values not used**		
Pensions and other post employment benefit obligations	-	4,114	-	-	-	4,114
Litigation operating risk**	1,264	988	-	(1,002)	1	1,251
Liabilities and warranties	1,214	1,341	-	(1,961)	(3)	591
Other provisions*	1,625	1,411	(1,368)	-	(1)	1,667
SSIF Provision	880	-	(880)	-	-	0

Imobiliar Invest Provision	280	-	-	-	-	280
Total	**5,263**	**7,854**	**(2,248)**	**(2,963)**	**(3)**	**7,903**

Group

Provisions	Balance at January 1st, 2015	Increase	Reversals		Difference exchange rate	Balance at December 31st, 2015
			values used	values not used		
Pensions and other post employment benefit obligations	1,614	-	-	(1,614)	-	-
Litigation operating risk**	316	1,047	-	(99)	-	1,264
Liabilities and warranties	1,723	772	-	(1,297)	16	1,214
Other provisions*	1,641	1,552	(1,569)	-	1	1,625
SSIF Provision	1,007	-	(127)	-	-	880
Imobiliar Invest Provision	-	280	-	-	-	280
Total	**6,301**	**3,651**	**(1,696)**	**(3,010)**	**17**	**5,263**

Bank

Provisions	Balance at January 1st, 2016	Increase	Reversals		Difference exchange rate	Balance at December 31st, 2016
			values used	values not used		
Pensions and other post employment benefit obligations	-	4,114	-	-	-	4,114
Litigation operating risk**	1,264	988	-	(1,002)	1	1,251
Liabilities and warranties given	1,214	1,341	-	(1,961)	(3)	591
Other Provisions*	1,623	1,411	(1,368)	-	1	1,667
Total	**4,101**	**7,854**	**(1,368)**	**(2,963)**	**(1)**	**7,623**

Bank

Provisions	Balance at January 1st, 2015	Increase	Reversals		Difference exchange rate	Balance at December 31st, 2015
			values used	values not used		
Pensions and other post employment benefit obligations	1,614	-	-	(1,614)	-	-
Litigation operating risk**	316	1,047	-	(99)	-	1,264
Liabilities and warranties given	1,723	772	-	(1,297)	16	1,214
Other Provisions*	1,636	1,552	(1,566)	-	1	1,623
Total	**5,289**	**3,371**	**(1,566)**	**(3,010)**	**17**	**4,101**

* Nature of liability: days of annual leave for the year 2016 and outstanding in 2016 (the provision will be canceled in the first half of 2017, the employees benefiting in 2017 of the outstanding leave for 2016), providing gift certificates to employees for buying an outfit for work, other expenses with salaries, provision for damaged currencies.
** Nature of liability: general legal disputes in which the Bank is involved.

32,. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Assets				
Forward exchange transactions	-	358	-	358
Total	**-**	**358**	**-**	**358**
Liabilities				
Forward exchange transactions	744	387	560	387
Total	**744**	**387**	**560**	**387**

The derivative financial instruments are classified according to the risk that determines how changing the value of the instruments as derivatives on the exchange rate, share capital, interest rate and other derivative financial instruments (credit risk, merchandise)

Derivatives are recorded at fair value and accounted for as assets when fair value is positive and as liabilities when fair value is negative. Changes in fair value of derivatives are included in net trading income.

Derivatives in balance at 31.12.2016 include two treasury swaps, each of them representing exchange operations of a nominal sum in foreign currency based on two different exchange rates: open exchange at inception and forward exchange at transaction maturity). In fact, it represents the combination between a forward exchange transaction with an open exchange transaction. Un-matured forward exchange transactions were valued at fair value (at the forward exchange remaining since the date of the balance sheet).

COUNTERPARTY	CURRENCY	NOTIONAL	Fair value th RON
BANCA		5,000	238
TRANSILVANIA	USD		
IDEA BANK SA	USD	5,100	322
TOTAL	**USD**	**10,100**	**560**

At December 31st, 2015 acestea includ:
- eight swaps contracts, representing each two exchange operations of a nominal sum in foreign currency based on two different exchanges open exchange at inception and on forward exchange at transaction maturity). In fact, it represents the combination between a forward exchange transaction with an open exchange transaction. Un-matured forward exchange transactions were valued at fair value (at the forward exchange remaining since the balance sheet date) (please see Note 20 Financial assets held for trading).

	31,12,2015		
COUNTERPARTY	**CURRENCY**	**NOTIONAL**	**Fair value th RON**
IDEA BANK S.A	USD	1,865	45
IDEA BANK S.A	USD	1,868	59
BANCA TRANSILVANIA	USD	2,195	56
BANCA TRANSILVANIA	GBP	923	18
BANCA TRANSILVANIA	USD	2,093	87
BANCA TRANSILVANIA	USD	1,981	75
BANCA TRANSILVANIA	USD	2,406	25
BANCA TRANSILVANIA	USD	871	(7)
	RON equiv th	**60,758**	**358**

- forward exchange rate contracts, which represent currency sales, for which the settelment date is two days after the trading date, at the Forward exchange rate.

COUNTERPARTY	CURRENCY	NOTIONAL	Fair value th RON
CREDIT EUROPE BANK	EUR	14,252	(129)
CREDIT EUROPE BANK	USD	1,970	(10)
RAIFFEISEN BANK	EUR	4,791	(161)

RAIFFEISEN BANK	USD	4,276	(87)
Total	**Echivalent mii RON**	**25,289**	**(387)**

33. FINANCIAL LIABILITIES TO OWNERS OF FUND UNITS

The Group has classified the fund units issued by FDI Carpatica Stock, FDI Carpatica Global and FDI Carpatica Obligatiuni as financial liabilities.

Reconciliation of financial liability to fund units owners is presented below:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Balance at Janury 1st	**74,553**	**66,480**	**-**	**-**
Expenditure related to financial liability to fund units holders	2,037	1,760	-	-
The effect of subscriptions and redemptions of fund units	14,756	6,313	-	-
Balance at December 31st	**91,346**	**74,553**	**-**	**-**

34, SHARE CAPITAL, SHARE PREMIUM AND RETAINED EARNINGS

	2016 RON'000	2016 Numar actiuni	2015 RON'000	2015 Numar actiuni
Balance at Janury 1st	**121,608**	**1,216,078,906**	**314,629**	**3,146,290,494**
Decrease in share capital	-	-	(204,492)	(2,044,919,083)
Issued during the year	98,666	986,663,916	11,471	114,707,495
Balance at December 31st (fully paid)	**220,274**	**2,202,742,822**	**121,608**	**1,216,078,906**

During 2016 the Bank carried out the following:
At December 31st, 2015 the number of shares issued by the bank, notified to the Trade Registry and the Central Depository was 1,101,371,411 shares at 0.1 lei/nominal value.
But between October 2015 – January 2016 the bank conducted a process to increase its share capital in total amount of 110,137,141,1 RON (by issuing 1,101,371,411 BCC new shares for 0.1 lei/nominal value), in two steps:

Step 1: Exercising the preemptive right for the existing shareholders: between November 3rd to December 3rd , 2015 took place the exercising of preemptive right by the bank's existing shareholders, during which they subscribed a total of 114,707,495 shares of 0.1 lei / share, total nominal value of 11,470,749.50 lei. Given the capital situation of the Bank at December 31st , 2015, BCC requested NBR's approval for including this amount in equity, before operating the Trade Register of the capital increase total 110,137,141.1 RON. Thus, the number of BCC shares at December 31st, 2015 was 1,216,078,906 shares, although these new shares were not registered in the Trade Register, the argument being that the money was in the Bank's accounts and subscriptions are irrevocable and the registration with the Trade Register is just for opposability.

Step 2: After the period for exercising of preemptive rights, the management was mandated by GSM to offer the new shares unsubscribed in Step 1 to JC Flowers, and if they don't subscribe, the management should identify potential new investors to subscribe in a private placement the unsubscribed new shares. So, after JC Flowers declined the invitation for subscription of new BCC shares, the management offered the unsubscribed shares (a total of 986,663,916 shares) to Patria Bank (formerly Nextebank) at a subscription price of 0.1001 lei / share . The transaction was conducted on January 29th, 2016, the Bank cashed an amount of 98,765,057.99 lei, of which 98,666,391.6 lei subscribed and paid up share capital and share premium of 98,666.39 lei.

34, SHARE CAPITAL, SHARE PREMIUM AND RETAINED EARNINGS (continued)

Note: Since it was not legally possible to register the capital increase with the Trade Register in two stages (first stage with the amount of 11,470,749.50 lei and second step with the amount of 98,765,057.99lei) the solution was to record the capital increase of 110,137,141.1 lei at the end of the second step.The Trade Registry notification of capital increase was made on February 8, 2016 and the updating of the list of shareholders BCC was made by the Central Depository on 18 February 2016. For calculating the average number of shares, the date February 8, 2016 was considered as relevant for the capital increase.

The merger between the Bank and Patria Bank

By the Decisions of the General Shareholders Meetings ("GSM") held on 05.10.2016 of Bancii Comerciala Carpatica SA, as absorbing bank and starting with 08.11.2016 Patria Bank SA, as absorbed bank, have approved the merger by absorbtion project, the merger effect being the increase share capital for Banca Carpatica from 220,274,282 RON to 376,239,921 RON, divided in 3,762,399,213 shares, with a nominal value for each 0.1 RON/share. The share capital of Banca Carpatica increases as a merger effect, by issuing new shares with a value of 297,299,541 RON which will be allocated Patria Bank SA shareholders, according to the exchange agreement specified in the merger plan, meaning 3.0566 BCC shares for 1 Patria Bank share. According to art. 250 from Law no. 31/1990 regarding corporate law the shares held by Patria Bank SA in Banca Comerciala Carpatica SA will not be changed for BCC shares, thus, the BCC shares held by Patria Bank SA with a value of 141,333,902 RON will be cancelled, thus resulting the nominal value of share capital, upon the merger to be 376,239,921 RON.

According to the merger plan approved, the Bank's share capital movements expected to be achieved during 2017 are the following:

	Number of shares	Nominal value total
Number of shares before the merger	2,202,742,822	220,274,282
No. of shares issued for Patria Bank's shareholders, during the merger	2,972,995,407	297,299,541
No shares owned by Bank Patria and canceled acc to art. 250 din Legea no. 31/1990	-1,413,339,016	-141,333,902
No shares after the merger	3,762,399,213	376,239,921

The share premiums with a value of 2,050 th RON represent premiums regarding the increase in share capital conducted.

According to the decision of the Extraordinary General Shareholders Meeting no. 1/18.06.2015, the Bank reduced the revaluation surplus of the share capital from the implementation of IAS 29 in the amount of 21,809,077 RON on 31.12.2014 up to the amount of 5.689.375 RON on 31.12.2015, to partially cover the losses accumulated by the Bank registered on 31 December 2015
The surplus from revaluation of share capital in amount of RON 5,689,375 is represented by:
- the impact of hyperinflation on the share capital in amount of RON 8,681,898 RON;
- adjustments of the share capital with amounts representing the revaluation differences that were previously included in the share capital in amount of RON (2,992,523), reclassified in 2012 in "Revaluation reserve".

Own shares	**2016**	**2015**
Balance at January 1st	**1,453**	**1,104**
Purchase of own shares	-	349
Sales of own shares	398	-
Balance at December 31st	**1,055**	**1,453**

34. SHARE CAPITAL, SHARE PREMIUM AND RETAINED EARNINGS (continued)

The retained earnings/(accumulated deficit) recorded under share capital in the consolidated and separate statement of the financial position are presented in the table below:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Result for the period	(44,149)	(75,244)	(44,928)	(75,448)
Retained earnings from the application of IAS 29	2,549	2,549	-	-
Retained earnings representing the surplus from revaluation of assets	5,295	2,753	5,295	2,753
Retained earnings from the application of IAS 29 - Share capital	(8,774)	(8,682)	(8,683)	(8,682)
Reported result from the previous years	(110,720)	(35,583)	(109,484)	(33,557)
Other reserves from the net profit (tax facilities)	4,309	4,309	4,309	4,309
Total	**(151,490)**	**(109,898)**	**(153,491)**	**(110,625)**

35. RESERVES

According to the Romanian legislation in the field of banking and banking activities, the Bank must distribute the profit as dividends or make a transfer to retained earnings (reserves) based on the financial statements prepared in accordance with the applicable standards. The amounts transferred to reserves should be used for the purposes set when the transfer is carried out.

After the expense for taxes and setting up the legal reserves according to those mentioned above, the value of the balance of the net profit may be distributed to the shareholders. The dividends may be declared only in the current profit.

According to the legislation, legal reserves must be allocated at a level of 5% of the profit up to the limit of 20% of the share capital.

The general reserve for credit risk was set up until the end of the financial year 2013, from the profit determined before the profit tax deduction, depending on the balance of the loans granted, existing in the balance at that date.

The reserve representing the fund for general banking risks was set up, starting with the financial year 2004 until the end of the financial year 2006, from the accounting profit determined before the deduction of the profit tax - gross profit (insofar as the distributed amounts can be found in the net profit), within the shares and limits provided by the law.

The reserves recorded in equity in the Seaparate and Consolidated statement of the financial position are presented in the following table:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Reserve corresponding to the financial assets available for sale	446	1,901	446	1,901
Reserve for tangible assets	65,171	67,277	63,372	65,514
Other reserves, of which:	27,187	27,187	27,187	27,187
Legal reserves from gross profit	11,886	11,886	11,887	11,887
General reserve for credit risk	3,426	3,426	3,426	3,426
Reserve - fund for general banking risks	11,875	11,875	11,875	11,875
Total	**92,804**	**96,365**	**91,005**	**94,602**

At December 31st, 2016, the non-distributable statutory reserves set up according to the Romanian legislation were in amount of 27,187 th RON (2015: 27,187 th RON). They include: legal reserves, general reserves for credit risk, reserves representing funds for general banking risks

36. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

The Bank issues letters of guarantee and letters of credit on behalf of its customers. The credit risk for letters of guarantee is similar to that for loan disbursement. In case of an occurrence of a payment request resulting from the customer's inability to honour its debts, such instruments pose a high liquidity risk to the Bank.

The aggregate value of the guarantees, financial commitments and other off-balance sheet items is presented below:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Letters of guarantee, of which:	5,735	9,852	5,735	9,852
- for own business	16	30	16	30
Loan commitments	105,473	142,273	105,473	142,273
Total	**111,208**	**152,125**	**111,208**	**152,125**

The total uncommitted value of the loan commitments does not necessarily represent future needs of cash flows. Most of the commitments are loans confirmed and are to be drawn. The provisions for guarantees issued and loan commitments are presented in note 31 Alte datorii.

Operating lease commitments - Group as lessee

a) The Group concluded rental agreements for commercial premises. The future value of the minimum operating leasing operations is presented in the table below:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
< 1 year	4,265	5,718	4,265	5,718
Between 1 and 5 years	8,490	11,911	8,490	11,911
> 5 years	-	315	-	315
	12,755	**17,944**	**12,755**	**17,944**

The future leasing payments are terminable, with an average period of notice of 60 days.

b) The Group has under development operating leasing contracts for car rental. The future value of the minimum operating leasing operations is presented in the table below:

	Group		Bank	
	2015	**2015**	**2015**	**2015**
< 1 year	1,752	2,072	1,752	2,072
Between 1 and 5 years	1,360	3,964	1,360	3,965
	3,112	**6,036**	**3,112**	**6,037**

Operating lease commitments - Group as lessor
The Bank concluded rental agreements for commercial premises. The future value of the minimum revenues from operating leasing is presented in the table below:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
< 1 year	2,587	3,076	2,573	3,061
Between 1 and 5 years	2,241	3,811	2,241	3,811
> 5 years	137	174	137	174
	4,964	**7,061**	**4,951**	**7,046**

36. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS (continued)

The rental income are presented in note 9 Other operating income.

Litigations

a) The Group is subject to disputes relating to current activity. The management consider that the final provisions in connection with these issues will not have a significant adverse effect on the consolidated or separate financial statements of the Group.

	Group		Bank	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Contingent debts from potential legal risk losses	1,117	5,000	1,117	5,000

The Bank cannot estimate at which time the losses may be actually recorded: the disputes may be tried within a shorter or longer period of time, the decisions may be or may not be challenged with appeal/recourse, the cases may be submitted by the courts of appeal for retrial, the terms are granted by the court, and the period during which the disputes are completed do not depend on the Bank. If the decision is not in favor of the Bank, there is no possibility to recover the damage. For the litigation of labor law involving the appeal of the decision to dismiss, the value of the dispute was calculated based on a term originally estimated of 12 months, following that, in case the duration of the dispute will extend beyond the initial period, to update the value.

b) The contingent assets represent amounts receivable by the Group for the disputes won. The Group estimates that the impact on the consolidated or separate financial statements will not be significant.
.

	Group		Bank	
	31 decembrie 2016	**31 decembrie 2015**	**31 decembrie 2016**	**31 decembrie 2015**
Contingent assets	103	134	103	134

Contingent debt towards minority shareholders

In the context of the merger process with Patria Bank, the Bank has published on the 04th of October 2016 „The procedure for the exit of Banca Carpatica's shreholders in the context of the merger with Patria Bank" according to which any shareholder who: (a) did not vote in favor of the merger in the General Shareholders Meeting („GSM") from the 05th of October 2016, respectively (i) voted against the merger, (ii) has refrained from voting or (iii) was not present, either in person, or through representative or through mail voting, at the GSM and (b) was a shareholder of Banca Carpatica both as of the reference date (26 septembrie 2016), and as of 30th of December 2016, could opt to exit the shareholding of Banca Carpatica during the opting period between 5th of October 2016 and 7th of November 2016.

According to the above mentioned Exit procedure, three of the minority shareholders of Banca Carpatica exercised their exit right for a number of 414,699,946 shares, representing 18,83% of Banca Carpatica's share capital as of the balance sheet date (pre-merger). Banca Carpatica will have an obligation to buy its own shares from the mentioned minority shareholders at a price of 0.0896 lei/share, which in fact represents a distribution of capital to its minority shareholders, only if the merger takes place and only if, as per the art. 15^{1b} of NBR Regulation 6/2008, and as per the art.78 of the EU Regulation 575/2013 and as per the art.126^{2} of the Emergency Ordinance 99/2006, such a capital distribution gets prior approval from the National Bank of Romania.
The price of 0.0896 lei/share set for the Bank' buying obligation was determined by an independent valuator, appointed by a judge in the Trade Registry as per the requirements of Companis Law (Law 31/1990) at the two bank's request.

In the event that the 414,699,946 shares, representing 18.83% of the share capital of Banca Carpatica, for whoch the eexit rights have been exercised, would still be available for the Bank to purchase after the completion of the merger, the financial impact of such a purchase for the Bank and the Group would amount to 37,157,115.16 lei and the own funds of the Bank and the Group would be reduced with the same amount. This is a contingent liability of the Bank and the Group and its recognition as a liability in the future is contingent to the cummulative realisation of the following two conditions, independent from the Bank's or the Group's actions:

- merger completion as described in note 44;

- National Bank of Romania's prior approval for the own shares purchase by the Bank after the merger, accordin to the regulatory framework applicable to credit institutions, of which, as mentioned under point 6 in the Merger Project approved, includes the article 151[b] of the NBR Regulation 6/2008, the article 78 of the EU Regulation 575/2013 and the article126[2] of the Emergency Ordinance 99/2006 regarding credit institutions.

37. RELATED PARTIES

The related parties are the persons with direct or indirect authority of decision, the members of their families, the bank's management and other related companies:
- at December 31st, 2016 The Group Patria Bank (which in 2016, became the majority shareholderof the Bank) and other companies in which the management exercises significant influence;
- at December 31st, 2015 The Group Atlassib and other companies in which the management exercised significant influence.

The group "Key management personnel" includes:
- at December 31st, 2016 members of the Committee of Directors and the Board of Directors (the Bank is managed in unitary);
- at December 31st, 2015 the members of the Supervisory Board and of the Executive (The Bank was managed by two bodies).

All the transactions with related parties have been concluded under terms similar to the transactions with non-related parties, taking into account the interest rates and the related securities.

Group **Consolidated statement of financial position**	**December 31st, 2016**			
	Key management personnel		**Parent Company**	
	Receivables	**Debts**	**Receivables**	**Debts**
Current accounts and deposits	-	247	-	587
Other debts	-	-	-	10
Loans	18	-	-	-
Other assets	-	-	-	-
Adjustments for depreciation of loans and receivables	-	-	31	-
Total	**18**	**247**	**31**	**597**

Group **Consolidated statement of profit or loss and other comprehensive income**	**31 decembrie 2016**			
	Key management personnel		**Parent Company**	
	Revenue	**Expense**	**Revenue**	**Expense**
Expenses with interests and commissions	-	-	-	-
Other expenses (Rents, Utilities, Other)	-	-	-	4
Revenues from interests and commissions	13	-	81	-
Other revenues (Rents, re - invoicing, Other)	11	-	27	-
Total	**24**	**-**	**108**	**4**

37. RELATED PARTIES (continued)

Group **Contingent liabilities and commitments**	**December 31st, 2016**			
	Key management personnel		**Parent company**	
	Revenue	**Expenses**	**Revenue**	**Expenses**
Loan commitments				
Given	22		-	-
Received	-		-	-

Group **Consolidated statement of financial position**	**December 31st, 2015**			
	Key management personnel		**Parent Company**	
	Receivables	**Debts**	**Receivables**	**Debts**
Current accounts and deposits	-	1,741	-	22,900
Other debts	-	-	-	80
Loans	14	-	5,396	-
Other assets	2	-	1,212	-
Adjustments for depreciation of loans and receivables	-	-	(2,760)	-
Total	**16**	**1,741**	**3,848**	**22,980**

Group **Consolidated statement of profit and loss and other comprehensive income**	**December 31st 2015**			
	Key management personnel		**Parent Company**	
	Revenue	**Expense**	**Revenue**	**Expense**
Expenses with interests and commissions	-	15	-	449
Other expenses (Rents, Utilities, Other)	-	-	-	1,841
Revenues from interests and commissions	6	-	1,683	-
Other revenues (Rents, re - invoicing, Other)	12	-	293	-
Total	**18**	**15**	**1,976**	**2,290**

Group **Contingent liabilities and commitments**	**December 31st 2015**			
	Key management personnel		**Parent company**	
	Revenue	**Expense**	**Revenue**	**Expense**
Loan commitments				
Given	-	-	2	22
Received	-	-	-	-
Financial warranties				
Given	-	-	-	-
Received	-	-	-	1,144

37. RELATED PARTIES (continued)

Bank	December 31st, 2016					
Statement of financial position	**Subsidiaries**		**Key management personnel**		**Parent company**	
	Receivables	**Debts**	**Receivables**	**Debts**	**Receivables**	**Debts**
Current accounts and deposits	-	7,549	-	-	-	-
Other debts	-	-	-	274	-	10
Loans	-	-	18	-	-	-
Adjustments for depreciation of loans and receivables	-	-	-	-	-	-
Other assets	9	-	-	-	31	-
Equity instruments	6,195	-	-	-	-	-
Total	**6,204**	**7,549**	**18**	**274**	**31**	**10**

Bank	December 31st, 2016					
Consolidated statement of profit and loss and other comprehensive income	**Subsidiaries**		**Key management personnel**		**Parent company**	
	Revenue	**Expenses**	**Revenue**	**Expenses**	**Revenue**	**Expenses**
Expenses with interests and fees	-	49	-	-	-	-
Other expenses (Rents, Utilities, Other)	-	-	-	-	-	4
Revenues from interests and fees	9	-	13	-	81	-
Other revenues (Rents, re - invoicing, Other)	94	-	11	-	27	-
Total	**103**	**49**	**24**	**-**	**108**	**4**

Bank	December 31st, 2016		
Contingent liabilities and commitments	**Subsidiaries**	**Key management personnel**	**Parent company**
Loan commitments			
Given	-	22	-
Received	-	-	-
Financial warranties			
Given	-	-	-
Received	-	-	-

37. RELATED PARTIES (continuare)

Bank **Statement of financial position**	December 31st, 2015					
	Subsidiaries		Key management personnel		Other related parties	
	Receivables	Debts	Receivables	Debts	Receivables	Debts
Current accounts and deposits	-	912	-	1,734	-	22,900
Other debts	-	-	-	-	-	80
Loans	-	-	-	-	5,396	-
Adjustments for depreciation of loans and receivables	-	-	-	-	(2,760)	-
Other assets	24	-	1	-	1,211	-
Total	**24**	**912**	**1**	**1,734**	**3,847**	**22,980**

Bank **Consolidated statement of profit and loss and other comprehensive income**	December 31st, 2015					
	Subsidiaries		Key management personnel		Other related parties	
	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses
Expenses with interests and fees	-	-	-	15	-	449
Other expenses (Rents, Utilities, Other)	-	-	-	-	-	1,841
Revenues from interests and fees	106	-	1	-	1,683	-
Other revenues (Rents, re - invoicing, Other)	38	-	12	-	293	-
Total	**144**	**-**	**13**	**15**	**1,976**	**2,290**

Bank **Contingent liabilities and commitments**	December 31st, 2015		
	Subsidiaries	Key management personnel	Other related parties
Loan commitments			
Given	-	-	22
Received	-	-	-
Financial warranties			
Given	-	-	-
Received	-	-	1,144

38. INFORMATION ON EMPLOYEES AND KEY MANAGEMENT PERSONNEL

Allowances and other short-term benefits granted to key management personnel* in year 2016 and 2015 are as follows:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
The Executive (Bank) and directors (subsidiaries)	2,829	3,326	2,560	3,086
Administrators	84	95	-	-
Supervisory Board	470	482	470	482
Total salaries paid to key management personnel	**3,383**	**3,903**	**3,030**	**3,568**

*The Group "Key management personnel" includes the members of the Supervisory Board and of the Executive, the members of the Board of Directors (subsidiaries).

During 2016, respectively 2015, the bank did not grant other benefits to the key management personnel against the ones mentioned in the above table.

The loans granted in 2015 and 2014 respectively to the key management personnel and the conditions for their granting are as follows:

	2016	**2015**
Total loans granted to the key management personnel	-	16
Period of disbursement	-	1 year
Interest rate for loans granted in RON	0%	18%
Repaid amount		-

Average number of the main categories of employees by method of organization of the activity is presented below:

	Group		Bank	
Category of employee	**Average number 2016**	**Average number 2015**	**Average number 2016**	**Average number 2015**
Managers and Head of Agency	117	173	117	171
Managers (relations, product, project)	79	122	79	122
Head of Department/Head of Unit	78	59	77	58
Administrator/Credit and Account Analyst	294	340	294	340
Bank clerks, bank officers, specialist	118	144	118	144
IT Specialist	18	20	18	20
Legal Advisor	11	17	11	17
Administrative personnel	18	26	18	26
Economist	0	2	0	0
Traders	0	-	0	-
Brokers / Financial Investment Services Agents	0	-	0	-
Other categories	20	24	14	23
TOTAL	**753**	**927**	**746**	**921**

During 2016 the salary expenses totalled an amount of 45,679 th RON (50,291 th RON in 2015).

38. INFORMATION ON EMPLOYEES AND KEY MANAGEMENT PERSONNEL (continued)

Average monthly number by main category of employees employed in 2016 and 2015 respectively, is as follows :

	Group		Bank	
Category of employee	**Average number 2016**	**Average number 2015**	**Average number 2016**	**Average number 2015**
Managers and Head of Agency	13	9	13	9
Managers (relations, product, project)	2	13	2	13
Head of Department/Unit	2	1	1	1
Administrator/Credit and Account Analyst	22	25	22	25
Bank clerks, bank officers, specialist	9	4	9	4
Legal Advisor	-	1	-	1
Administrative personnel	-	2	-	2
Economists	-	1	-	-
Brokers / Financial Investment Services Agents	-	-	-	-
Other categories	1	1	-	1
TOTAL	**49**	**57**	**48**	**56**

39. RISK MANAGEMENT

Risk is inherent in the Group's business, however it is managed by specially-defined processes and procedures. The internal evaluation of the Group generated the following significant risks - credit risk, market risk, liquidity risk, operating risk and reputation risk. Also, the Group's policy is to track the strategic risk within the business planning process and the compliance risk during daily activities.

The policies are structured in a manner able to cover the areas of identification, assessment, monitoring or control and reduction of these risks.

The management structure of the Bank is responsible for establishing the risk profile and strategies / policies, and each bank structure will manage its own business risk. Within the Bank, a structure that manages the global risk (Risk Division) is established, and the risk control function is assigned to a special unit within the structure mentioned.

The risk control unit is responsible for monitoring the compliance with the activity for implementing the risk policies and the Bank limits system, the capital adequacy risk, also being the key cell of the reporting system.

In the same time, the risk team is involved in the assessment of each transaction that involves taking new risks, the risk assessment related to new products and significant activities.

The reporting system was set up to provide direct and rapid communication by the Executive and the Board of Directors, they were given a description of the risk control unit, monthly reports on risk exposures and reports on the risks that exceeded levels accepted (wherever occurring) with these exceptions management measures. Also, within the Bank, there is a Risk Management Committee (subordinated to the Supervisory Board), which analyzes the risk exposures on a monthly basis or whenever it is convened.

The monitor and control of the risks is mainly developed with the help of the limitation system which the Bank imposed to each significant risk. The limits are monitored daily within the risk control unit, assuring also a daily communication to the members of the Executive. The limits are established by level of activity, client (in order to avoid the concentration risk), by sectors/ industries, by types of products. If the risk indicators rise in an alarming manner, the Bank intervenes and imposes limits or takes other control measures in order to control the risk. The limits are revised at least annually, the validation of the new levels being the role of the Executive. The limits mainly regard the Bank's risk tolerance and appetite, indicators which are established by the general risk strategy.

The Bank established own models of quantification of the internal capital demand. An important role within this exercise is stress tests which the Bank runs four times a year.

39. RISK MANAGEMENT (continued)

In order to reduce the risk, according to its policy and risk profile, the Bank uses guarantees and transfer through insurance (credit risk). Also, insurances are used within operating risk.

Market risk

Market risk is the risk that the fair value or the future cash flow related to the financial instruments will fluctuate due to changes in the variables of the market (currency risk, price of shares). The Bank classified the exposures to market risk in exposures related to the trading portfolio and exposures outside the trading portfolio. The risks in the first category are managed and monitored using the Value-at-Risk model (VaR). The risks in the second category are managed and monitored using other sensitivity analysis.

Market risk related to the trading portfolio
Objectives and limitations of the VaR methodology

The Bank uses simulation models to determine possible changes in market value of the instruments in the trading portfolio based on the historic data in the past year. VaR model is devised to measure risk under normal market conditions. The main assumption is that any change occurring in the risk factors affecting the normal operating conditions of the market follows a normal distribution. Due to the fact that VaR is based solely on historical data to provide information and may not accurately predict future changes in risk factors, the likelihood of a massive market move may be underestimated if changes in risk factors do not fit into the normally assumed distribution. VaR may be underestimated or overestimated due to the assumptions on risk factors and the links between these factors for specific instruments. Although the positions change during a day, VaR is the risk of the portfolio at the end of the trading day and does not take into account any loss that may occur beyond the confidence level of 99%.

In practice, the actual results of trading differ from the calculation of VaR. In order to determine the accuracy level of the model, the Bank monitors periodically the results to test the accuracy of the assumptions and the parameters used in the VaR calculation.

VaR assumptions

The VaR method which the Bank uses is an estimate, using the last 255 observations and a confidence level of 99% of the potential loss that is expected not to be exceeded if the current market positions will remain unchanged for 10 days. The use of a confidence level of 99% means that the losses exceeding VaR will occur, on average, at a frequency of 1 every 100 days.

As VaR is an integral part of the market risk management by the Bank, VaR limits have been set at individual level, and exposures are compared daily with the limits by the management.

At the individual level, the Bank has used VaR to monitor the portfolio of shares. In case of Fund units, the Bank does not use the VaR model.

The VaR model applied by the Bank also takes into account the correlation effect between the closing quotations of a trading day.

The evolution of the indicator is the following (the limit is 1% of the own funds):

	2016		**2015**	
		% of own funds		**% of own funds**
December 31st	78,502	0,07%	83,376	0,14%
Average value of the period	115,091	-	80,355	-
Maximum value	314,975	0,22%	371,666	0,19%
Minimum value	21,905	0,01%	24,881	0,01%

39. RISK MANAGEMENT (continued)

The interest rate risk outside the trading portfolio

The interest rate risk arises from the likelihood that changes in the interest rate will affect the future cash flow or the fair value of the financial instruments. According to the Bank's policy, the positions are monitored on a monthly basis, and the Bank ensures that these positions are maintained within the set limits. In order to quantify the sensitivity of the interest rate, the Bank uses at 31st December, 2016, the model in the NBR Regulation no. 5/2013.

BCC reports to the NBR "The potential change in the economic value of the Bank following the change in the interest rate level" by applying the standardized calculation methodology provided in the NBR Regulation No. 5/2013 The size of the standard shock on the interest is 2 percentage points (200 basis points) in both directions, for each currency exceeding 5% of the interestrate sensitive assets or liabilities (lei and EUR respectively), as well as cumulated for the other currencies.

In acest sens, toate activele si datoriile din afara portofoliului de tranzactionare si toate elementele extrabilantiere din afara portofoliului de tranzactionare care sunt senzitive la schimbari ale ratelor dobanzii sunt incadrate pe benzi de repricing (repretuire). Incadrarea pe benzi de scadenta se face separat pentru fiecare moneda in care sunt exprimate mai mult de 5% din activele sau datoriile din afara portofoliului de tranzactionare.
The calculation process consists in the following phases:
a) the long positions are offset by short positions within each repricing band, resulting only one long or short position on each repricing band.
b) the resulting long and short positions will be weighted with the weighting factors provided in the NBR Regulation no. 5/2013, reflecting the sensitivity of the positions in various maturity bands to the assumed change in the interest rates;
c) the resulting weighted positions are added up, offsetting the long positions with the short positions, and the net, short or long, position is obtained, weighted outside the trading portfolio in that currency;
d) the weighted position is calculated for the entire portfolio, excluding the trading portfolio, by adding up the net short or long positions, weighted, calculated for various currencies.

The following table shows the potential change in the economic value of the Bank following the application of the standard shock of 2 percentage points (200 bp).

	2016		**2015**	
	Increase 200 bp	**Decrease 200 bp**	**Increase 200 bp**	**Decrease 200 bp**
December 31st	16,089	(16,089)	18,432	(18,432)

The table below presents the sensitivity of the profit and loss account of the Bank to a possible reasonable change in the interest rates (all the other variables are constant). The sensitivity of the profit and loss account of the Bank is the effect of the assumed changes in interest rates on annual profit or loss, based on interest rate sensitive assets and liabilities outside the trading portfolio in balance at December 31st, 2016, The assumed change in interest rate was 50 bp and was applied to the interest rate GAP (difference between the interest rate sensitive assets and liabilities) for the repricing intervals 0 - 6 months and 6 - 12 months.

		Sensitivity of net income 2016		
Currency	Increase in basis points	0 - 6 months	6 to 12 months	Total
RON equivalent	+50	(2,923)	(2,039)	(4,962)

		Sensitivity of net income 2015		
Currency	Increase in basis points	0 - 6 months	6 to 12 months	Total
RON equivalent	+50	(3,739)	(1,617)	(5,356)

39. RISK MANAGEMENT (continued)

The table below shows the sensitivity of the Bank's capital to a possible reasonable change in interest rates (all other variables are constant). The sensitivity of the Bank's capital is calculated by the revaluation of the financial assets available for sale with fixed interest rate in balance at December 31st, 2016 as an effect of the assumed changes in the interest rates. The total sensitivity of capital is based on the assumption that there is a parallel shift in the yield curve rates.

	Increase/decrease in bp 2016	Equity impact 2016
RON	+ 50 / (50)	(3,675) / 3,716
EUR	+ 25 / (25)	(1,583) / (1,854)
USD	+ 25 / (25)	- / -

	Increase/decrease in bp 2015	Equity impact 2015
RON	+ 50 / (50)	(10,075) / 13,392
EUR	+ 25 / (25)	(2,881) / 2,672
USD	+ 25 / (25)	(181) / 184

The table below shows the Group's exposure to the interest rate risk for balance sheet items in the at December 31st, 2016 and 2015, Assets and liabilities are presented at the net value and allocated to buckets depending on the earliest between the date of the following change in interest rate and the date of residual maturity.

Group 2016	0-1 month	1 - 3 months	3 - 12 months	1-5 years	Over 5 years	No interest	Total
ASSETS							
Accounts in the Central Bank	417,191	-	-	-	-	-	417,191
Due from banks	5,515	24,503	5,658	-	-	-	35,675
Financial assets available for sale	82,397	-	231,268	682,798	-	-	996,463
Investments held to maturity	14,860	-	-	45,000	50,000	-	109,860
Loans and advances to customers, net	569,247	6,263	1,873	3,363	492	-	581,239
TOTAL ASSETS	**1,089,210**	**30,766**	**238,800**	**731,160**	**50,492**	**-**	**2,140,428**
LIABILITIES							
Due to banks	5	-	-	-	-	-	5
Due to customers	872,237	629,605	848,098	36,283	634	-	2,386,858
Borrowings	-	15,199	-	79	-	-	15,278
TOTAL LIABILITIES	**872,242**	**644,804**	**848,098**	**36,362**	**634**	**-**	**2,402,141**
Net exposure to interest rate risk	**216,967**	**(614,039)**	**(609,298)**	**694,797**	**49,858**	**-**	**(261,713)**

39. RISK MANAGEMENT (continued)

Group 2015	0-1 month	1 - 3 months	3 - 12 months	1-5 years	Over 5 years	No interest	Total
ASSETS							
Accounts in the Central Bank	420,862	-	-	-	-	-	420,862
Due from banks	32,561	10,758	5,508	-	-	-	48,827
Financial assets available for sale	121,848	99,765	330,502	360,609	265,466	-	1,178,190
Investments held to maturity	16,971	-	-	30,000	65,000	-	111,971
Loans and advances to customers, net	711,725	27,107	5,304	22,331	27,506	-	793,973
TOTAL ASSETS	**1,303,967**	**137,630**	**341,314**	**412,940**	**357,972**	**-**	**2,553,823**
LIABILITIES							
Due to banks	8	-	-	-	-	-	8
Due to customers	1,031,887	846,899	946,288	27,492	64	-	2,852,630
Borrowings	-	62,893	-	460	-	-	63,353
TOTAL LIABILITIES	**1,031,895**	**909,792**	**946,288**	**27,952**	**64**	**-**	**2,915,991**
Net exposure to interest rate risk	**272,072**	**(772,162)**	**(604,974)**	**384,988**	**357,908**	**-**	**(362,168)**

Bank 2016	0-1 month	1 - 3 months	3 - 12 months	1-5 years	Over 5 years	Total
ASSETS						
Accounts in the Central Bank	417,191	-	-	-	-	417,191
Due from banks	3,542	-	5,594	-	-	9,136
Financial assets available for sale	82,397	-	231,268	682,798	-	996,463
Investments held to maturity	14,860	-	-	45,000	50,000	109,860
Loans and advances to customers, net	569,247	6,266	1,873	3,362	491	581,239
TOTAL ASSETS	**1,087,237**	**6,266**	**238,735**	**731,160**	**50,491**	**2,113,889**
LIABILITIES						
Due to banks	5	-	-	-	-	5
Due to customers	880,372	629,605	848,098	36,283	634	2,394,993
Borrowings	-	15,199	-	79	-	15,278
TOTAL LIABILITIES	**880,377**	**644,804**	**848,098**	**36,362**	**634**	2,410,276
Net exposure to interest rate risk	**206,859**	**(638,541)**	**(609,362)**	**694,797**	**49,858**	**(296,388)**

39. RISK MANAGEMENT (continued)

Bank 2015	0-1 month	1 - 3 months	3 - 12 months	1-5 years	Over 5 years	Total
ASSETS						
Accounts in the Central Bank	420,861	-	-	-	-	420,861
Due from banks	15,512	-	3,194		-	18,706
Financial assets available for sale	121,603	99,765	330,502	360,609	265,465	1,177,944
Investments held to maturity	16,971	-	-	30,000	65,000	111,971
Loans and advances to customers, net	711,725	27,107	5,304	22,331	27,505	793,972
TOTAL ASSETS	**1,286,672**	**126,872**	**339,000**	**412,940**	**357,970**	**2,523,454**
LIABILITIES						
Due to banks	8	-	-	-	-	8
Due to customers	1,032,799	846,898	946,288	27,492	64	2,853,542
Borrowings	-	62,893	-	460	-	63,353
TOTAL LIABILITIES	**1,032,806**	**909,791**	**946,288**	**27,952**	**64,**	**2,916,903**
Net exposure to interest rate risk	**253,866**	**(782,919)**	**(607,288)**	**384,988**	**357,907**	**(393,446)**

Currency risk

The currency risk is the risk that the value of the financial instruments will fluctuate due to changes of the exchange rates. The management team has established a set of limits to manage the currency risk. In accordance with the Bank policy, the positions are monitored daily to ensure that they are kept within the established limits. Also, the National Bank of Romania has established a number of limitations applicable to the whole system, that the Bank must comply with on a daily basis. The Bank protects itself against the exchange rate variations through swap and forward operations.

The main currencies in which the Bank performs operations are EUR and USD (Note 41 presents the Balance Sheet structure by currency). The currency exchange positions are a source of curency risk. The management team has established a set of limits to manage the currency risk. In accordance with the Bank policy, the positions are monitored daily to ensure that they are kept within the established limits - a currency position of maximum 10% of the value of the own funds for each currency and 20% total currency position.

The table below shows the currencies for which the Bank has significant exposures at December 31st, 2016 and at December 31st, 2015, The analysis calculates the effect of a possible reasonable changes in the exchange rate (annual variation of the rate: previous year - current year), with all the other variables maintained constant on the profit. A negative value in the table shows a potential eduction in profit, while a positive value reflects a potential increase of the profit.

Currency	Variation of exchange rate 2016(%)	Effect on gross profit 2016	Variation of exchange rate 2015 (%)	Effect on gross profit 2015
EUR	-0,4	(12)	-1	63
USD	-4	(58)	-11	(6)

39. RISK MANAGEMENT (continued)

Credit risk

Credit risk is the current or future risk which negatively affects profit and capital as a consequence of the debtors' default or failure in fulfilling their contractual conditions.
In order to manage this risk, the Bank applies its own policy, the risk management being structured on identification, assessment, control and discount phases. In conclusion, each transaction is subject to special procedures by which the Bank tries to ensure its position created as a result of the assumed exposure.
The identification procedures mainly refer to the use of sources of information to detect the risk factors that have an overwhelming significance on the quality of the exposure to be assumed.
The evaluation procedures aim to establish the degree of risk for the transaction under review. In this regard, the Bank uses ratings/scores - indicator systems validated by the supervisory authority. The ratings are subject to a periodical revision.

In order to control the risk, the main measure is the limitation of individual exposures both as absolute and relative size in relation to own funds, and also the limitation of the exposure by industries and geographic areas. The monitoring of these limits is assured within the Risk Department. Also within the control procedures, the Bank also develops the following exposure quality monitoring procedures, represented by the customer analysis, revision of value and inspection of guarantees and also of the manner in which the customer fulfilled its contractual obligations. The Bank has defined a system of warning indicators/ signals regarding the depreciation of the quality of the loans, as well as restructuring procedures of deteriorated customers.

The settlement risk, a component of the credit risk, is the likelihood that the settlement or clearing of a transaction will fail and occurs whenever the exchange of cash, securities and/or other assets is not simultaneous. In general, the settlement risk is not related to the debtor, by it is induced by the counterparty - banks and other financial institutions that have the obligation to perform a settlement or payments on behalf of the Bank. The Bank monitors and quantifies the level of exposures to counterparties - banks and other financial institutions, following up the diversification of exposures.

Within the Bank the following committees are organized, which contribute to the decrease in the credit risk: Credit Committees (ensures a proper credit portfolio management and development, with approval competences delegated by the Executive); The Restructuring and Credit Recovery Committee (ensures a proper management process of the general credit portfolio, with approval competences delegated by the Executive.

(i) Concentration risk to a counterparty

The maximum exposure to a single debtor (customer group, consisting of client companies and / or retail) December 31st, 2016 was of 30,125 th lei (before applying of the exemptions and credit risk mitigation*)* compared to December 31st, 2015 when it was 31,408 th lei (before applying of the exemptions and credit risk mitigation*)*. As at December 31st, 2016 the maximum amount of exposure after applying exemptions and credit risk mitigation was of 28,968 th lei, compared to December 31st, 2015 when it was 30,224 th lei.

(ii) Concentration risk by geographical areas

Between 31.12.2015-31.12.2016, the Bank did not grant loans or letters of guarantees to the entities residing outside Romania.

Between 31.12.2015-31.12.2016, the exposure to credit risk in the form of available financial assets available for sale, of the financial assets held until maturity, the financial assets held for trade, investments with other banks and receivables from repo reverse operations and investments in shareholdings, to the non-banking customers, is as follows:

	Group		**Bank**	
	2016	**2015**	**2016**	**2015**
Romania	16,520	8,420	4,722	5,264
Other EU countries (not in EU zone)	3,115	1,128	-	-
Euro Zone	-	451	-	-
	19,635	**9,999**	**4,722**	**5,264**

39. RISK MANAGEMENT (continued)

Exposures to credit risk (financial assets available for sale, financial assets held to maturity, financial assets held for trading, investments with other banks and receivables from reverse repo operations), investments in shareholdings to counter-parties in the financial services sector focused on geographical regions are as follows:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Romania	38,069	49,358	10,141	21,590
Euro Zone	1,731	5,069	523	3,230
Other EU countries (outside the Euro Zone)	1,097	6,844	1,097	3,202
Other countries (USA, Japan)	5,180	3,198	5,180	68
TOTAL	**46,077**	**64,469**	**16,941**	**28,090**

Loan risk exposure to governments – including local and regional administrations (financial assets available for sale, financial assets held to maturity and financial assets held for trading, due from banks) are as follows:

	Group		Bank	
	2016	**2015**	**2016**	**2015**
Romania	1,600,433	1,770,095	1,570,106	1,745,554
Euro Zone	-	1,644	-	0
Other EU countries (outside the Euro Zone)	3,345	4,702	-	16,410
USA	-	16,410	-	0
Turkey	935			
TOTAL	**1,604,713**	**1,792,851**	**1,570,106**	**1,761,964**

The Group may have indirect exposures in the Euro Zone countries perceived as having the highest risk (Portugal, Irland, Italy, Greece, Spain, Cyprus and Slovenia). Indirect exposures arise from the Group's transactions with counterparties, which have exposures to Euro Zone countries, perceived as having the highest risk. The Bank does not estimate the effect of these indirect exposures as being significant.

(iii) Credit risk concentration by lines of business

The concentration of credit activity by lines of business is presented without (gross) and with (net) taking into consideration the guarantees like financial values.

The maximum gross exposure is presented as gross exposure of loans and advances less adjustments for impairment of loans and advances. Net maximum exposure, as shown in the table below, is the maximum gross exposure from which the guarantees such as cash collateral are exposed, related to loans and advances in each economic sector.

	Maximum gross exposure		Maximum gross exposure	
	2016	**2015**	**2016**	**2015**
Agriculture	80,978	111,109	79,934	109,894
Trade	92,154	92,628	90,322	91,153
Constructions	35,409	42,705	33,542	42,517
Industry	147,564	257,581	145,795	256,028
Transports	6,234	16,392	6,129	16,226
Services	107,326	141,152	107,076	138,221
Individuals	111,574	131,425	109,858	119,174
Other	0	981	0	981
	581,239	**793,973**	**572,656**	**774,195**

39. RISK MANAGEMENT (continued)

(v) Guarantees and other credit enhancements

The value and the type of guarantee requested depend on the result of the evaluation of the risk degree related to the lending transaction. The internal regulation establishes the internal loan guarantee policy. As a general rule, any loan granted by the Bank is secured.

Guarantees may be real estate mortgages or securities of any kind, including financial values, or letters of guarantee, surety, endorsements. In order to present financial data for assessing the net value, the Group uses and deducts only the value of deposits set up for securing loans. The Bank uses also guarantees received from insurance companies, usually for securing loans for individuals.

At the date of the loan disbursement, the value of the loan should be fully covered with guarantees, whose value is established starting from their market value, established by assessors, using the methods provided in the International Valuation Standards and ANEVAR provisions. During the agreement performance, the Group monitors the guarantee value and quality, using specific evaluation procedures.

(vi) Loan quality

The classification of the loans depending on the quality criterion is based on the internal rating system (see point vii):
- The "high degree" category includes customers with very good financial performance (A)
- The "medium degree" category includes customers with good financial performance (B)
- The "low degree" category includes customers with poor financial performance (C, D, E) and clients from receivablkes related to instalments sales of Group's assets, with no overudes or with a maximum of 60 overdue days.

39. RISK MANAGEMENT (continued)

The internal rating system is detailed below:

GROUP and BANK	2016						
Type of customer	**Neither past due nor impaired *****			**Past due but not impaired*****	**Impaired***	**Total**	**Fair value of guarantees for outstanding / impaired loans and advances****
	High degree	**Medium degree**	**Low degree**				
Legal entities, of which:	189,405	57,704	6,202	33,107	356,057	642,476	517,830
Corporate	93,253	29,667	1,137	11,542	233,440	369,039	316,631
NFI	0	0	0	0	7,212	7,212	2,866
SME	96,152	28,037	5,065	21,565	115,405	266,224	198,333
Individuals	56,196	28,034	10,015	10,933	5,139	110,316	25,372
Receivables from installment selling of the bank buildings	9,798	0	3,865	0	12,154	25,817	0
Gross Exposure Loans and advances	**255,399**	**85,738**	**20,081**	**44,040**	**373,350**	**778,609**	**543,202**
Adjustments for impairment	1,697	675	975	2,498	191,525	197,370	
Net Exposure Loans and advances	**253,702**	**85,063**	**19,106**	**41,543**	**181,825**	**581,239**	

GROUP and BANK	2015						
Type of customer	**Neither past due nor impaired *****			**Past due but not impaired *****	**Impaired ***	**Total**	**Fair value of guarantees for outstanding / impaired loans and advances****
	High degree	**Medium degree**	**Low degree**				
Legal entities, of which:	285,612	125,309	10,190	19,441	453,991	894,543	743,579
Corporate	176,361	72,737	1,597	481	319,069	570,245	403,817
NFI	-	-	-	-	8,815	8,815	19,381
SME	109,251	52,572	8,593	18,960	126,107	315,483	320,381
Individuals	64,731	35,994	10,471	8,796	9,418	129,410	32,872
Receivables from installment selling of the bank buildings	0	0	11,141	0	18,667	29,808	0
Gross Exposure Loans and advances	350,343	161,303	31,802	28,237	482,076	1,053,761	**776,451**
Adjustments for impairment	3,935	2,956	1,776	1,548	249,573	259,788	
Net Exposure Loans and advances	**346,408**	**158,347**	**30,026**	**26,689**	**232,503**	**793,973**	

* This category includes the significant exposures marked as impaired within the individual analysis, as well as the exposures which record more than 90 days past due and those in a process of forced execution; the classification as impaired loans is made at the level of customer facility.
** Collaterals such as mortgages, pledges, FGCR (Guarantee Fund of Rural Credit) and FNGCIM (National Fund of Guarantee of Loans for SME), cash collateral, and letters of indemnity.
*** These categories include exposures which are considered when calculating impairment at collective level.

39. MANAGEMENTUL RISCULUI (continuare)

The individual analysis of the exposures aims to establish whether a loan held by a customer is impaired or not. In this regard, the Bank established a set of signals which, following a review (monthly, quarterly, biannually), determine the inclusion of the borrower in the category of impaired customers. We exemplify the following risk signals:

- significant default on the payment obligation, established by recording more than 60 days, at the end of the current month;
- start of insolvency procedures;
- being part of a group, representing "one debtor", which includes a customer who has a non-performing loan granted by the Group;
- entry in the category non-performing customers, according to the group's classification, the employer (customer groups), for loans to individual customers;
- restructuring the exposure;
- evolution of the economic sector in which the company operates;
- evolution of the financial indicators;
- alte qualitative signals (garnishments, numerous litigations, miss of presentation of the financial statements, failure to meet contractual conditions etc).

The classification of the off-balance sheet commitments depending on the quality criterion, which is based on the internal rating system:

GROUP and BANK	**2016**					
Type of customer	**Neither past due nor impaired ****			**Past due but not impaired ****	**Impaired***	**Total**
	High degree	**Medium degree**	**Low degree**			
Legal entities, of which:	70,114	13,187	10,654	54	4,439	98,449
Corporate	29,797	845	4,219	0	3,308	38,169
NFI	0	0	0	0	0	0
SME	40,318	12,342	6,434	54	1,131	60,279
Individuals	11,232	1,434	75	1	1	12,743
Gross exposure off-balance sheet commitments	**81,347**	**14,621**	**10,729**	**55**	**4,440**	**111,192**
Provisions	333	34	136	-	88	591
Net exposure off-balance sheet commitments	**81,014**	**14,587**	**10,593**	**55**	**4,352**	**110,601**

	2015					
Type of customer	**Neither past due nor impaired ****			**Past due but not impaired ****	**Impaired***	**Total**
	High degree	**Medium degree**	**Low degree**			
Legal entities, of which:	105,597	22,855	6,802	76	2,947	138,277
Corporate	49,213	6,103	4,572	-	1,573	61,461
SME	56,384	16,752	2,230	76	1,374	76,816
Individuals	12,189	1,577	50	-	2	13,818
Gross exposure off-balance sheet commitments	**117,786**	**24,432**	**6,852**	**76**	**2,949**	**152,095**
Provisions	1	88	1,025	-	100	1,214
Net exposure off-balance sheet commitments	**117,785**	**24,344**	**5,827**	**76**	**2,849**	**150,881**

Off-balance sheet exposures refers to letters of guarantee issued by the bank undisbursed loan commitments.

39. RISK MANAGEMENT (continued)

* This category includes the significant exposures marked as impaired within the individual analysis, as well as the exposures which record a more than 90 days past due and those in a process of forced execution; the classification as impaired loans and advances is made at the level of each credit facility.
**These categories include exposures which are considered when calculating impairment at collective level.

The degrees for other assets than the credits and advances granted to non-banking customers were established depending on the level of the credit quality assessment scale Basel III, as follows:

High degree	level 1-3	corresponds to investment level ratings Moody's, Standard &Poor's, Fitch*
Medium degree	level 4	corresponds to rating levels Ba1-Ba3(Moody's), from BB+ to BB-(S&P, Fitch)*
Low degree	level 5-6	the remaining speculative level ratings*

* provided that the following rules are applied: if there are more than two ratings from agencies available, one shall consider those two ratings which lead to the best credit quality levels; then, one shall consider the least good level of them - the same applies if only two ratings are available.

For exposures with no rating (of the issuer and of the issuance), the country rating was considered.
For exposures with no rating (of the issuer and of the issuance), in case of branches, the rating of the parent-company was considered.

Group 2016	Neither past due nor impaired			Past due but not impaired	Individually impaired	Total
	High degree	Medium degree	Low degree			
Cash and accounts opened at central banks	**538,729**	-	-	-	-	**538,729**
	6,121	**29,554**	-	-	-	**35,675**
Due from banks, of which:	5,189	24,997	-	-	-	30,186
deposits	932	4,557	-	-	-	5,490
current accounts						
	115,148	-	-	-	-	**115,148**
Financial assets held for trading, of which:						
fund units	8,355	-	-	-	-	8,355
derivatives	-	-	-	-	-	-
government bonds	106,793	-	-	-	-	106,793
debt instruments issued by financial institutions	-	-	-	-	-	-
debt instruments issued by local governments	-	-	-	-	-	-
debt instruments issued by companies	-	-	-	-	-	-
	996,463	-	-	-	-	**996,463**
Financial assets available for sale, of which:	996,463	-	-	-	-	996,463
government bonds						
capital securities						
Investments held to maturity, of which	**109,860**	-	-	-	-	**109,860**
government securities and bonds	109,860	-	-	-	-	109,860
Investment in affiliates*	802	-	-	-	8	810

**includes the impaired exposure from Bucharest Clearing House SA – investment worth of 85 th lei before impairment (77 th lei impairment value)*
*** The tables include the amounts net of depreciation*

39. RISK MANAGEMENT (continued)

Group 2015	Neither past due nor impaired			Past due but not impaired	Individually impaired	Total
	High degree	Medium degree	Low degree			
Cash and accounts opened at central banks	**560,658**	-	-	-	-	**560,658**
Due from banks, of which:	**35,380**	**13,447**	-	-	-	**48,827**
deposits	29,661	6,010	-	-	-	35,671
current accounts	5,719	7,437	-	-	-	13,156
Financial assets held for trading, of which:	**92,971**	**13,171**	-	-	-	**106,142**
fund units	10,080	-	-	-	-	10,080
derivatives	104	254	-	-	-	358
government bonds	71,289	4,703	-	-	-	75,992
debt instruments issued by financial institutions	4,282	5,493	-	-	-	9,775
debt instruments issued by local governments	6,082	-	-	-	-	6,082
debt instruments issued by companies	1,134	2,721	-	-	-	3,855
Financial assets available for sale, of which:	**1,178,190**	-	-	-	-	**1,178,190**
government bonds	1,177,944	-	-	-	-	1,177,944
capital securities	246	-	-	-	-	246
Investments held to maturity, of which	**111,971**	-	-	-	-	**111,971**
government securities and bonds	111,971	-	-	-	-	111,971
Investment in affiliates	**819**	-	-	-	**508***	**1,327**

** includes the impaired exposure from Bucharest Clearing House SA – investment worth of 682 th lei before impairment*
*** The tables include the amounts net of depreciation*

Bank 2016	Neither past due nor impaired			Past due but not impaired	Individually impaired	Total
	High degree	Medium degree	Low degree			
Cash and accounts opened at central banks	**538,729**					**538,729**
Due from banks, of which:	**6,121**	**3,015**	-	-	-	**9,136**
deposits	5,189	430	-	-	-	5,619
current accounts	932	2,585	-	-	-	3,517
Financial assets held for trading, of which:	**52,788**	-	-	-	-	**52,788**
fund units	6,195	-	-	-	-	6,195
derivatives	-	-	-	-	-	-
government bonds	46,593	-	-	-	-	46,593
Financial assets available for sale, of which:	**996,463**	-	-	-	-	**996,463**
government bonds	996,463	-	-	-	-	996,462

Investments held to maturity, of which	**109,860**	**-**	**-**	**-**	**-**	**109,859**
government securities and bonds	109,860	-	-	-	-	109,859
		-	-			
Investment in affiliates	**1,602**	**-**	-	-	**5,480**	**6,332**

***Bank* 2015**	**Neither past due nor impaired**			**Past due but not impaired**	**Individually impaired**	**Total**
	Grad ridicat	**Grad mediu**	**Grad scazut**			
Cash and accounts opened at central banks	**560,658**					**560,657**
Due from banks, of which:	**6,340**	**12,366**	-	**-**	**-**	**18,706**
deposits	2,804	4,977	-	**-**	**-**	7,781
current accounts	3,536	7,389				10,924
Financial assets held for trading, of which:	**58,554**	**254**	**-**	**-**	**-**	**58,808**
fund units	7,263	**-**	**-**	**-**	**-**	7,263
derivatives	104	254	-	**-**	**-**	358
government bonds	51,187	**-**	**-**	**-**	**-**	51,187
Financial assets available for sale, of which:	**1,177,944**	**-**	**-**	**-**	**-**	**1,177,944**
government bonds	1,177,944	**-**	**-**	**-**	**-**	1,177,944
Investments held to maturity, of which	**111,971**	**-**	**-**	**-**	**-**	**111,971**
government securities and bonds	111,971	**-**	**-**	**-**	**-**	111,971
		-	**-**			
Investment in affiliates	**1,602**	**-**	-	-	**5,424**	**7,026**

(vii) Loans exposure by rating categories

The Bank rating is structured on categories of customers – economic subjects or population, using the analysis of creditworthiness indicators (per which economic sector) and of some qualitative elements (management, market/sector, payment behaviour both in relation to the credit institutions and the business partners etc). The Bank conducts analyses of the accuracy of the internal rating system and readjusts it to reflect the customer's situation as accurate as possible.

The classification in categories A-E is made based on an internal rating, designed in accordance with NBR regulations:

39. RISK MANAGEMENT (continued)

- category "A" – the financial results are very good. It is foreshadowed that the financial results will be maintained at a high level also in the future;
- category "B" – the financial results are good, the customer is stable in the short run;
- category "C" – the financial results are satisfying and the credit impact may lead to the improvement thereof;
- category "D"– the financial results are low, stable in the short run;
- category "E" – the financial results are low or indicate negative results and may cause an imminent credit risk unless an intervention is made to support the business.

Net exposure of adjustments for depreciation:

	2016		
	Legal entities	**Individuals**	**Total**
A	243,562	57,842	301,404
B	85,055	30,335	115,389
C	20,221	4,591	24,812
D	3,478	1,241	4,719
E	101,568	11,356	112,923
Receivables from installment sales	15,782	6,209	21,991
Total	**469,665**	**111,574**	**581,239**

	2015		
	Legal entities	**Individuals**	**Total**
A	295,420	67,136	362,556
B	190,968	38,010	228,978
C	20,023	5,731	25,754
D	8,302	1,394	9,696
E	128,855	12,292	141,147
Receivables from installment sales	18,980	6,862	25,842
Total	**662,548**	**131,425**	**793,973**

The above indicated numbers are not influenced by the collateral

For other assets than the loans granted to non-banking customers it was used the level of the credit quality assessment scale Basel III as follows:

level 1 corresponds to rating levels Aaa-Aa3(Moody's), from AAA to AA-(S&P,Fitch)*
level 2 corresponds to rating levels A1-A3(Moody's), from A+ to A-(S&P,Fitch)*
level 3 corresponds to rating levels Baa1-Baa3(Moody's), from BBB+ to BBB-(S&P, Fitch)*
level 4 corresponds to rating levels Ba1-Ba3(Moody's), from BB+ to BB-(S&P, Fitch)*
level 5 corresponds to rating levels B1-B3(Moody's), from B+ to B-(S&P, Fitch)*
level 6 corresponds to rating levels lower than Caa1(Moody's) and CCC+ (S&P,Fitch)*

* provided that the following rules are applied: if more than two ratings supplied by assessment agencies are available, one shall consider those two ratings which lead to the best credit quality levels; then, one shall consider the least good level of them - the same applies if only two ratings are available.

For exposures with no rating (of the issuer and of the issuance), the country rating was considered.
For exposures with no rating (of the issuer and of the issuance), in case of branches, the rating of the parent-company was considered.

39. RISK MANAGEMENT (continued)

	The credit quality assessment scale (for other assets than loans to non-banking clients)						
***Group* 2016**	**1**	**2**	**3**	**4**	**5**	**6**	**Total**
Cash and Due from Central Banks	**-**	**-**	**538,729**	**-**	-	-	**538,729**
	5,163	**893**	**63**	**29,554**	**-**	**-**	**35,675**
Due from banks, of which:	5,163	-	25	24,997	-	-	30,186
deposits	-	893	38	4,557	-	-	5,489
current accounts							
Financial assets held for trading, of which:	**-**	**-**	**115,148**	**-**	-	-	**115,148**
fund units	-	-	8,355	-	-	-	8,355
derivatives							
government bonds	-	-	106,792	-	-	-	106,793
debt instruments issued by financial institutions							
debt instruments issued by local governments							
debt instruments issued by companies							
Financial assets available for sale, of which:	**-**	**-**	**996,463**	**-**	**-**	**-**	**996,463**
government bonds	-	-	996,463	-	-	-	996,463
capital securities							
Investments held to maturity, of which	-	-	**109,860**	**-**	**-**	**-**	**109,860**
government securities and bonds	-	-	109,860	-	-	-	109,860
Investment in affiliates	**-**	**-**	**810**	**-**	-	-	**810**

	The credit quality assessment scale (for other assets than loans to non-banking clients)						
***Group* 2015**	**1**	**2**	**3**	**4**	**5**	**6**	**Total**
Cash and Due from Central Banks	**-**	**-**	**560,658**	**-**	**-**	**-**	**560,658**
	2,779	**3,536**	**29,065**	**13,447**	**-**	**-**	**48,827**
Due from banks, of which:	2,779	-	26,882	6,010	-	-	35,671
deposits	-	3,536	2,183	7,437	-	-	13,156
current accounts	**-**	**-**	**92,971**	**13,171**	-	-	**106,142**
		-	10,080	-	-	-	10,080
Financial assets held for trading, of which:	-	-	104	254	-	-	358
fund units	-	-	71,289	4,703	-	-	75,992
derivatives	-	-	4,282	5,493	-	-	9,775
government bonds	-	-	6,082	-	-	-	6,082

debt instruments issued by financial institutions	-	-	1,134	2,721	-	-	3,855
debt instruments issued by local governments							
debt instruments issued by companies	**-**	**-**	**1,178,190**	**-**	**-**	**-**	**1,178,190**
	-	-	1,177,944	-	-	-	1,177,944
Financial assets available for sale, of which:	-	-	246	-	-	-	246
government bonds							
debt instruments issued by financial institutions	-	-	111,971	-	-	-	**111,971**
capital securities	-	-	111,971	-	-	-	111,971
Investment in affiliates	**-**	**-**	**1,327**	-	-	-	**1,327**

The tables include the amounts net of depreciation

	The credit quality assessment scale (for other assets than loans to non-banking clients)						
***Bank* 2016**	**1**	**2**	**3**	**4**	**5**	**6**	**Total**
Cash and Due from Central Banks	-	**-**	**538,729**	-	**-**	-	**538,729**
Due from banks, of which:	**5,163**	**893**	**63**	**3,014**	-	**-**	**9,136**
deposits	5,163	-	25	430	-	**-**	5,619
current accounts	-	893	38	2,584	**-**	**-**	3,517
Financial assets held for trading, of which:	-	**-**	**52,788**	**-**	-	-	**52,788**
fund units	-	**-**	6,195	-	**-**	**-**	6,195
derivatives	-	**-**	-	-	-	**-**	-
government bonds	-	**-**	46,593	-	**-**	-	46,593
Financial assets available for sale, of which:	-	**-**	**996,463**	**-**	**-**	**-**	**996,463**
government bonds	-	**-**	996,463	-	-	-	996,463
	-	**-**		-	**-**	-	
Financial assets held to maturity, of which:	-	**-**	**109,859**	-	**-**	-	**109,859**
government securities and bonds	-	**-**	109,859	-	-	-	109,859
Investment in affiliates	**-**	**-**	**6,332**	-	**-**	-	**6,332**

39. RISK MANAGEMENT (continued)

	The credit quality assessment scale (for other assets than loans to non-banking clients)						
***Bank* 2015**	**1**	**2**	**3**	**4**	**5**	**6**	**Total**
Cash and Due from Central Banks	-	-	**560,657**	-	-	-	**560,657**
Due from banks, of which:	**2,779**	**3,536**	**25**	**12,366**	-	-	**18,706**
deposits	2,779	-	25	4,977	-	-	7,782
current accounts	-	3,536	-	7,389	-	-	10,924
Financial assets held for trading, of which:	-	-	**58,554**	**254**	-	-	**58,808**
fund units	-	-	7,263	-	-	-	7,263
derivatives	-	-	104	254	-	-	358
government bonds	-	-	51,187	-	-	-	51,187
Financial assets available for sale, of which:	-	-	**1,177,944**	-	-	-	**1,177,944**
government bonds	-	-	1,177,944	-	-	-	1,177,944
	-	-		-	-	-	
Financial assets held to maturity, of which:	-	-	**111,971**	-	-	-	**111,971**
government securities and bonds	-	-	111,971	-	-	-	111,971
Investment in affiliates	-	-	**7,026**	-	-	-	**7,026**

(viii) Analysis of overdue loans and advances (principal and/or interest) and which are not impaired

These exposures are considered when computing the gross impairment collectively.
The table shows these loans classified by days past due (number of days overdue)

	2016				
	<= 30 days	**31-60 days**	**61-90 days**	**>90 days**	**Total**
Legal entities, of which:	22,578	5,477	1,056	3,996	**33,107**
Corporate	11,542	0	0	0	**11,542**
NFI	-	0	0	-	**-**
SME	11,036	5,477	1,056	3,996	**21,565**
Individuals	6,655	2,259	1,150	869	**10,933**
	29,233	**7,736**	**2,207**	**4,865**	**44,040**

	2015				
	<= 30 days	**31-60 days**	**61-90 days**	**>90 days**	**Total**
Legal entities, of which:	9,202	8,396	1,843	-	**19,441**
Corporate	-	481	-	-	**481**
SME	9,202	7,915	1,843	-	**18,960**
Individuals	6,561	1,553	682	-	**8,796**
	15,763	**9,949**	**2,525**	**-**	**28,237**

39. RISK MANAGEMENT (continued)

* Contains gross exposures, net of unwind; They were not included in the table arrears related to the exposure of 25,817 th lei (2016), respectively 29,808 th lei (2015), representing amounts from receivables from instalment sales of the group's real estate;

Guarantees taken over by the Group

In 2016 and 2015 respectively, the Group took over assets which represented, initially, guarantees for the granted loans. The Bank considered that such operations were in its best interest, as the value and quality of assets could be better safeguarded and the selling process was supposed to be handled subsequently (please see note 24).
As for the collaterals of bad loans, the Bank's intention is to capitalise the guarantees mainly by legal forced execution procedures.

The decision to start the forced execution procedure is made within the work committees organized within the Head Office, when the cash flow generated by the activity of the debtor is missing or insufficient to guarantee the reimbursement of the loan within a reasonable time frame. The forced execution file is handed over to a court enforcement officer (third party), whereby the legal provisions specify this aspect. Then, an expert appraisal will be conducted in order to establish the starting price of the bid and the organisation of bids.

If the object of interest to the Group (for example, can be a Group headquarter), the internal procedures foresee the possibility of taking over the property by the Group in the account of non-performing debts (such cases are extremely rare). The capitalisation of assets is also performed within the insolvency/ bankruptcy procedure; in this case, the meeting of creditors will establish the selling rules, enforced by the official receiver/ liquidator. Another operation by which the bad assets are liquidated is taking over the collaterals on account of the receivable. After entering the Group patrimony, the guarantee can be sold under full payment/ payment in installments or it can be leased.

(ix) Renegotiated loans

The table presents the net exposure of adjustments for impairment for credits granted to customers under monitoring belonging to various categories – credits whose crediting conditions had been renegotiated (most of the cases relate to modifications concerning the reimbursement schedule – amounts, due dates, credit periods).

	2016	**2015**
Legal entities, of which:	**144,109**	213,043
Corporate	96,927	154,260
NFI	839	1,304
SME	46,343	57,479
Individuals	2,172	2,435
Total	**146,281**	**215,478**

the amounts are not influenced by the value of guarantees

The credits identified as impaired are treated differently by the Group, whereby to this end, special procedures which should facilitate the recovery in full are prepared. The Group intends, first of all, to improve its current position and analyses the possibility of renegotiating the conditions of the impaired loan (both in what the payment schedule and the collateral are concerned). For the management of these loans, the Group has defined a special structure, which monitors, also subsequently, the evolution of the loan quality and the non-payment probability. In what the related adjustment for impairment is concerned, whether the loan is subject to assessment individually or collectively, while the calculations are made depending on the actual interest recalculated according to the new loan conditions.

39. RISK MANAGEMENT (continued)

	2016		
	Gross exposure	**Adjustments**	**Value of available guarantees*, ** **
Legal entities	267,753	(123,644)	159,715
Individuals	2,747	(575)	2,594
Total	**270,500**	**(124,219)**	**162,309**

	2015		
	Gross exposure	**Adjustments**	**Value of available guarantees*, ** **
Legal entities	389,558	(176,514)	238,393
Individuals	2,865	(431)	2,661
Total	**392,423**	**(176,945)**	**241,054**

* The Group uses guarantees such as – mortgages, pledges, collateral deposits, letters of guarantee, guarantee fund
** the guarantees are presented at discounted value. The discounted recovery value is the fair value of the guarantee discounted for the estimated recovery period and using discounting factor as in the case of adjustments for impairment.

(x) Fair value of collaterals in favor of the Group

	2016	**2015**
Mortgages	953,457	1,398,628
Pledges	240,676	336,836
Collateral deposits	8,582	9,745
Elements under collection	6,526	12,498
Guarantee fund	66,425	119,232
Other	715,079	707,309
Total	**1,990,744**	**2,584,248**

The table hereinafter presents the fair value of the guarantees in favour of the Bank for outstanding or impaired loans:

Year 2016	**Related to impaired loans**	**Related to past due but not impaired**	**Fair value of guarantees held for outstanding or impaired loans**
Mortgages	325,243	94,623	419,866
Pledges	93,869	5,342	99,211
Guarantee fund	16,661	6,001	22,662
Collateral deposits	1,051	413	1,463
Total	**436,824**	**106,379**	**543,202**

Year 2015	**Related to impaired loans**	**Related to past due but not impaired**	**Fair value of guarantees held for outstanding or impaired loans**
Mortgages	532,927	62,355	595,282
Pledges	126,390	5,622	132,012
Guarantee fund	43,999	4,155	48,154
Collateral deposits	50	953	1,003
Total	**703,366**	**73,085**	**776,451**

39. RISK MANAGEMENT (continued)

(xi) Fair value of guarantees sold by the Group (during the forced execution procedure)

	2016	2015
Mortgages	59,945	19,502
Pledges	7,792	342
Total	**67,737**	**19,844**

The above indicated guarantees were sold by the Group through an official receiver, amicably, by liquidator (during the Groupruptcy procedure), whereby the sales with payment in installments (for which the price has not been cashed in full) were not presented.

(xii) Assessment of impairment

For accounting purposes, the Group uses a model of incurred loss to record the loss in relation to the depreciated financial assets. This means that the losses may be recorded only if an objective proof of a specific loss event was noticed.
The main factors considered to assess the impairment of the loan quality include the existence of amounts outstanding for more than 60 days in what the payment of the principal or the interests is concerned, or if there are any kind of known difficulties related to the cash flow of the counterparties, rating decreases or the initial contract terms have been breached.
The Group conducts quality impairment assessments in two areas: amounts assigned for provisions assessed individually and amounts assigned for provisions assessed collectively

Amounts assigned for provisions assessed individually

The Group determines, on an individual basis, the adequate amounts to be assigned for every significant loan. The elements considered to determine the amounts assigned include the sustainability of the business plan of the counter-party, its ability to improve the performance when a financial difficulty occurs, estimated collections and the expected payment in case of bankruptcy, the availability of another financial support, achievable value of guarantees and scheduling the expected cash flows. The amounts assigned for depreciation are assessed at every reporting date, except for the cases when unpredictable circumstances require more attention

Amounts assigned for provisions assessed collectivelly

The amounts assigned are assessed collectivelly for losses related to credits which are not significant at individual level and credits which had been assessed individually and for which a depreciation was ascertained.
The amounts assigned for provisions are assessed separately at each reporting date and for each portfolio.
The collective assessment is conducted for Banks of assets with similar characteristics in what risk is concerned, to determine whether the provision should be calculated for events of incurred loss for which an objective proof exists, but whose effects have not been emphasized yet in the individual assessments of credits. The collective assessment considers the data related to the credit portfolio (including historical losses related to the portfolio).

<u>The liquidity risk and the funds management</u>

The liquidity risk is the current or future risk which negatively affects the profit and capital, determined by the credit institution's incapacity to fulfil its obligations at their due term.

For comparing funds inputs with outputs, the allocation of funds per maturity buckets of the assets, the liabilities and the elements outside the balance sheet, according to the residual maturity, is used.

In order to continue its activities, the Bank must make sure that it has a positive liquidity position and that the conditions to procure sufficient liquidity to meet daily needs of the funds.

The Bank ensures the possession of a stock of assets that can be used as financial guarantees represented both by encumbered assets, as well as unencumbered assets. The purpose of owning such assets is to ensure the funding of liabilities with immediate eligibility or to cover unexpected / unanticipated cash demands.

Complementary, the Bank maintains also amounts for the minimum compulsory reserve required according to NBR regulations, calculated at December 31st, 2016 with 8% of the deposits in lei and with 10% of the currency deposits of foreign customers.

39. RISK MANAGEMENT (continued)

The Bank also has a system of limits to ensure adequate liquidity. For the Bank it is also important to ensure an adequate level of immediate liquidity as the ratio between the liquid unencumbered assets and the attracted and loaned sources. The evolution of this indicator is as follows:

	2016	2015
	%	%
December 31st	67.72	61.77
Average value of the period	63.33	55.94
Maximum value	67.72	61.77
Minimum value	57.47	51.53

According to the liquidity requirements regulated by NBR, a minimum level of the liquidity indicator (the level is 1) was established as ratio between the actual liquidity and the necessary liquidity. The evolution of this indicator is as follows:

%			2016		
	Bucket < 1	Bucket 1-3 months	Bucket 3-6 months	Bucket 6-12 months	Bucket >12 months
December 31st	3,73	13,09	18,07	15,56	77,91
Average value of the period	4,21	11,27	17,78	14,52	19,74
Maximum value	4,99	14,89	23,15	18,97	83
Minimum value	2,29	1,49	0,95	0,21	1,42

%			2015		
	Bucket < 1	Bucket 1-3 months	Bucket 3-6 months	Bucket 6-12 months	Bucket >12 months
December 31st	4,01	11,74	20,68	17,87	8,45
Average value of the period	3,7	10,3	18,31	14,94	8
Maximum value	4,07	11,74	20,68	17,87	8,45
Minimum value	3,08	8,69	16,62	7,75	7,55

According to the NBR Regulation no. 25/2011, a minimum threshold of 1 was established for the total liquidity indicator, calculated in lei equivalent, per maturity buckets: up to one months, between one month and 3 months, between 3 and 6 months and between 6 and 12 months

The analysis of the financial liabilities depending on the remaining period from the contractual maturity
The tables hereinafter present the due dates of financial debts also including future not updated contractual payment obligations.

***Group* 2016**	**Total**	**0-1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Without fixed due date**
Due to banks	5	5	-	-	-	-	-
Due to customers	2,395,970	847,019	631,164	873,221	42,267	2,299	-
Derivative financial instruments	744	744	-	-	-	-	-
Borrowings	15,405	100	37	15,212	56	-	-
Other liabilities	27,415	19,536	-	-	-	-	7,879
Total liabilities excluding the financial liabilities to owners of fund units	**2,439,681**	**867,547**	**631,201**	**888,432**	**42,323**	**2,299**	**7,879**
Liabilities to owners of fund units	91,346						91,346
Total liabilities	**2,531,027**	**867,547**	**631,201**	**888,432**	**42,323**	**2,299**	**99,225**

39. RISK MANAGEMENT (continued)

***Group* 2015**	**Total**	**0-1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Without fixed due date**
Due to banks	8	8	-	-	-	-	-
Due to customers	2,867,130	993,635	857,643	980,680	32,347	2,825	-
Derivative financial instruments	387	35	16	336	-	-	-
Borrowings	64,005	229	682	9,231	53,863	-	-
Other liabilities	28,435	19,796	-	-	-	-	8,639
Total liabilities excluding the financial liabilities to owners of fund units	**2,959,965**	**1,013,703**	**858,341**	**990,247**	**86,210**	**2,825**	**8,639**
Liabilities to owners of fund units	74,553	-	-	-	-	-	74,553
Total liabilities	**3,034,518**	**1,013,703**	**858,341**	**990,247**	**86,210**	**2,825**	**83,192**

***Bank* 2016**	**Total**	**0-1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Without fixed due date**
Due to banks	5	5	-	-	-	-	-
Derivative financial instruments	560	-	-	-	-	-	-
Due to customers	2,404,104	850,105	636,212	873,221	42,267	2,299	-
Borrowings	15,405	100	37	15,212	56	-	-
Other liabilities	27,138	19,260	-	-	-	-	7,879
Total liabilities	**2,447,212**	**869,469**	**636,250**	**888,432**	**42,323**	**2,299**	**7,879**

***Bank* 2015**	**Total**	**0-1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Without fixed due date**
Due to banks	7	7	-	-	-	-	-
Due to customers	2,868,042	994,547	857,643	980,680	32,346	2,825	-
Borrowings	64,005	229	682	9,231	53,863	-	-
Other liabilities	25,865	18,702	-	-	-	-	7,162
Total liabilities	**2,957,920**	**1,013,486**	**858,325**	**989,910**	**86,210**	**2,825**	**7,162**

The table hereinafter indicates the expiry period of contractual maturities related to financing commitments, letters of guarantee and derivatives (notional value):

2016	**0-1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financing commitments	725	6,613	31,163	28,966	38,006	105,473
Letters of guarantee	944	1,689	995	2,090	-	5,719
Derivatives	-	-	-	-	-	-
Total	**1,671**	**8,302**	**32,158**	**31,056**	**38,006**	**111,192**

39. RISK MANAGEMENT (continued)

2015	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financing commitments	2,450	12,113	45,197	19,392	63,121	142,273
Letters of guarantee	397	1,834	4,460	2,614	518	9,823
Derivatives	30,970	31,628	3,885	-	-	66,483
Total	**33,817**	**45,575**	**53,542**	**22,006**	**63,639**	**218,579**

Early repayment risk

The early repayment risk is the risk for the Group to record a financial loss as a result of the early repayment of the loan by a counterpart sooner than it was contractually established.
Such operations affect the Group cash flow, in terms of the safety of the income generated by interests and management commissions. The management of this is ensured through decisions contractually treating requests of this nature coming from the customers.

In this regard, the Group requests from the customer a compensation that is collected differently, depending on the quality of the counterpart. In order to reduce the impact of risk, together with the early reimbursement commission, the Group charges to the income the commissions for granting the loans, which usually are deferred during the entire loan period.
In current market conditions, the Group believes that the early repayment situations have no significant effect over the cash flow.

The operational risk

The operational risk is the risk of loss determined either by the use of certain inappropriate processes, systems and human resources, which had not fulfilled their function accordingly, or by external events and actions.
The operational risk also includes the legal risk occurred following fines, penalties and sanctions to which the Bank may be subject in case of non-enforcement or faulty enforcement of the legal or contractual provisions, as well as due to the fact that the contractual rights and obligations of the bank and/ or of its counterparty are not established accordingly.

The operational risk includes the risk related to information technology (IT) that relate to current or prospective risk of adverse outcome on profits and capital, caused by the inadequate IT strategy and policy, information technology and information processing, with reference to the management capacity, its integrity, level of control and continuity, or misuse of information technology.
The bank can not totally eliminate the effects caused by the manifestation of the operational risk, but has control and limitation measures of this type of risk.

Basel III
To determine the capital requirement for operational risk The Bank uses the basic indicator approach (BIA), the simplest Basel III approach. This approach involves applying a rate of 15% to the relevant indicator consisting of the total of the following items in the income statement:
a) Interest income and similar income;
b) Interest expense and similar charges;
c) Income from shares and other securities with variable/fixed yield;
d) Income from fees/charges;
e) Expenses with commissions/fees;;
f) Net profit or loss from financial operations;
g) Other operating revenue.

In determining the relevant indicator, elements like income or profits are taken into account with positive sign and the nature of expenses or losses with the minus sign. When determining the relevant indicator the following conditions are taken into account:

a) The relevant indicator is calculated before deducting the provisions and other operating expenses than the ones mentioned explicitly. Within operating expenses, other than those explicitly mentioned, will be included fees paid for outsourced services rendered by third parties, in cases where the third party is not the parent company or subsidiary of the credit institution or subsidiary of parent credit institution. Expenses with the outsourced services rendered by third parties may reduce the relevant indicator if the service delivered is carried out by an entity subject to prudential supervision by a competent authority or a supervision equivalent to the one covered by Regulation no. 575/2013 of

39. RISK MANAGEMENT (continued)

the European Parliament and of the Council regarding prudential requirements for credit institutions and investment companies and amending Regulation EU No. 648/2012

b) Extraordinary income and income from insurance are not included in the relevant indicator profits or losses from the sale of items included in the trading book

c) If the revaluation of items included in the trading book are recorded in the income statement, they can be taken in the relevant indicator. The adjustments on trading securities included in the income statement should also be included in the relevant indicator.

Capital management

The main objective of the capital management is to meet the external requirements related to capital, to maintain healthy capital ratios in order to support the business and maximize the shareholder value. The Bank manages its capital structure and makes adjustments necessary to align to the changes in economic conditions and to the risk specific to its activity.

The Bank maintains a level of equity that can be used at any time and with priority in order to cover the risks inherent in the activity, that does not involve fixed costs for the bank and actually be available to it, respectively to be fully paid.

The Bank's own funds consist of 1st tier own funds and of 2nd tier own funds. Within the 1st tier own funds are included the share capital, the share premiums, the reserves, adjusted with the tax liabilities predictable at the date of the calculation of own funds, the audited profit and minus the accounting registration value of intangible assets.
The Equity Tier II include unrealized gains from fair value measurement of assets, adjusted with the related tax liabilities, foreseeable at the date of calculation of own equity.
From Tier I and II equity, the Bank deducted the value of the applicable prudential filters.

The adequacy of the Bank's capital envisages the maintenance of a corresponding capital according to the nature and risk profile of the Bank. In order to establish the degree of appropriateness of the capital, the loan risks, market risks and other risks regarding the Bank's financial condition are taken into account. The types and size of the risks in the Bank activity determine how much capital should be over the minimum level imposed by the regulations in order to cope with unwanted situations /consequences The solvency ratio is monitored using measures, rules and rates set by the National Bank of Romania. At 31,12,2015, the Bank did not comply with the level of indicators required by the National Bank of Romania for capital adequacy (10% in 2015 and 2014) and in 2015, the rates stipulated in Article 92 (1) of Regulation no. 575/2013 of the European Parliament and of the Council: Tier 1 capital ratio of 6% and total own funds ratio of 8%. In January 2016, the Bank received a capital increase of 98,66 mill lei, which allowed a return to the minimum limits of all the indicators mentioned in this paragraph.

Required capital	**2016**	**2015**
Own funds level I	135,228*	57,701
Own funds level II		-
Total own funds*	**135,228***	**57,701***
Assets and off-balance sheet items adjusted for risk	**951,646***	**1,182,820**
Solvency ratio	**14,21%***	**4,88%***

*reported values to the National Bank of Romania

39. RISK MANAGEMENT (continued)

Taxation-related risk

The Romanian tax laws stipulates detailed and comprehensive rules, which have undergone several changes during the last past years. Text interpretation and the practical enforcement procedures of the tax laws might vary, thus occurring the risk that certain transactions are, for example, interpreted differently by the tax authorities and the Group.

Moreover, the transition to IFRS for the Romanian banks brought additional tax implications, which are not yet fully clarified in the legislation and could generate taxation risk.

Romanian Government has a number of agencies authorized to conduct audits (controls) of companies operating in Romania. These controls are similar to tax audits in other countries and may extend not only to tax matters but also other legal and regulatory matters of interest to these agencies. It is possible that the Group is further subject to tax controls as new tax regulations are being issued.

The reputation risk

The reputational risk is the current or future risk that the profit and capital are adversely influenced following an unfavourable perception of the Bank's image by the customers, counterparties, shareholders, investors or the supervisory authority.

The image of the credit institution was significantly improved, once Patria Bank joind the Bank's shareholding. Since the merger in which the credit institution is involved, the Bank considered that reputational risk to which it is exposed is average and started the procedures for establishing the an internal capital requirement worth of 1% of the Bank's regulated capital requirement (in amount of 763 th lei).

Strategic risk

The strategic risk is the risk of negatively affecting current or future earnings and capital due to changes in the business environment or adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

For being able to control the strategic risk, the Bank is constantly working to raise the efficiency of planning and monitoring the market developments so that they are able to adapt to the new developments appropriately and in due time. As part of its business planning, the Board of Directors permanently monitors reaching the goals of business and is regularly informed on the following: certain issues of the the Bank's current development, income and its costs, deviation from the planned budget and strategic objectives, market analysis and its trends.

Compliance risk

Compliance risk is the risk of current or future impairment of profits and capital, which can result in fines, and / or termination of contracts or which may affect the bank's reputation as a result of violations or non-compliance with the legal and regulatory framework, with agreements, recommended practices or ethical standards.

During 2016 the bank incurred losses such as fines or penalties due to failure of the regulatory / legal / codes of conduct in amount of 2,500 lei.

To maintain an adequate level of compliance risk the Bank is considering::

- ✓ maintaining the compliance function in accordance with the legal standards, including in terms of resource adequacy;
- ✓ constantly revising and adapting the instruments of monitoring and controlling, including automatization, in order to manage and report, as appropriate, all compliance risk categories;
- ✓ increasing the efficiency and quality of the compliance function;
- ✓ implementing training programs that provide learning principles and recommended practices for compliance, conduct and ethics and customer knowledge, prevent money laundering and terrorist financing and the implementation of international sanctions, also at the level the employees from the compliance department;
- ✓ improving collaboration with other independent control functions..

39, RISK MANAGEMENT (continued)

The risk of excessive use of leverage

The risk associated with excessive use of leverage is the risk arising from banks' vulnerability to leverage or to a contingent leverage which may require unplanned measures to correct the business plan, including the sale of assets in an emergency, which could result in losses or revaluation of remaining assets.This risk is quantified by calculating mainly an indicator called the leverage indicator, which is determined by dividing a capital indicator by an indicator measuring the total exposure of the institution. The obtained indicator is expressed as a percentage. At 31.12.2016, the value of this indicator is 5.42%.

Business environment

(The information has been retrieved from the press releases of the National Bank of Romania and of the Institute of Statistics)

Within the macroeconomic environment the 2015 general trends were kept, but with cerain negative aspects (slowdown of growth in some areas). The latest estimates (February 2017) of the National Statistics Institute on economic growth, 2016 shows a GDP of 4.8% higher than the one recorded in 2015 (+ 3.9%). Under these circumstances GDP in 2016 is estimated at 758.5 billion lei. The advance is due mainly to increases in services (about 71% increase, compared to only 49% in 2015). The industry has reduced the increase from 5.4% to 2.4%, which was reflected in the contribution to the increase (from 36% to 12.5%). A positive aspect was the return of agriculture to the contribution, but which has advanced with only 5.2% as oposed to the decrease of 11.8% in 2015, In terms of GDP use, the household final consumption expenditure recorded, similar to 2015, the largest increase, but more accelerated (+ 8.1% to + 5.5%). Growth of gross fixed capital formation was reduced from 8.3% to 6.3% and government consumption increased by 3% (from -0.7% in 2015). Exports increased by 4.5% compared to 2015 (+ 5.4% in 2015), and imports had a relatively constant increase (9.3% to 9.2%). In these conditions the trade balance has been increased, from 7.79 billion euros to 9.38 billion euros. The current account deficit continued the upward trend from 1.2% to 2.2% of GDP

The balance of loans granted by the banking system towards the nongovernmental sector increased slightly (+ 1.2% in 2016 to + 3% in 2015) of which -3.1% loans to non-financial companies (+ 0.8% in 2015) -2.5% consumer loans (1.7% in 2015) and + 12.5% mortgage (+ 17.6% in 2015). Loans in foreign currency had an accelerated decline, dropping to 42.8% of total balance (49.3% in December 2015). The NPL ratio recorded further fall from 13.51% to 9.46%, but also as a result of continuing operations of non-performing loan balances write-offs.

Government loans balance increased by approximately 4.1%, due to significant decrease in yields, which resulted in a sustained growth in demand from the Romanian state, especially amid increasing demand from credit institutions seeking of placements for the available sources. But the increase was smaller than in 2015 (4.8%). Public debt as a percentage slightly decreased and was maintained around 37% of GDP and budget deficit was 2.6%, below the forecast of 2.8%.

The increase in internal saving (non-government clients) was maintained at a level close to 2015 (+ 8.2% to + 8.6%), in spite of further decrease in deposit rates. The highest growth related to household deposits, which in December 2016 represented about 60% of the total (compared to about 58% in December 2015). The ratio of loans to deposits for non-government clients, decreased from 83.3% as at 80.3%.

Level of financial intermediation was reduced compared to 2015 (from 58.7% of GDP to 56.4%) due to the increas in bank balance of only 2.5%. Foreign liabilities were reduced by 22% (mainly deposits and loans from foreign institutions) at this moment representing only 11.8% of the balance sheet. Thus, cross-border financial deleveraging continues. Bank liquidity increased slightly, thus, maintaining a high level.

The capitalization of the banking system decreased by 7%, but while maintaining at an appropriate level. The solvency ratio has a level of 18.33% in December 2016 (19.16% at 31.12.2015).

Banks interest income continued to be affected by the narrowing of interest margins, given that since 2013, the National Bank of Romania initiated a cycle of monetary easing. In this cycle, the key monetary policy interest rate remained at 1.75% throughout 2016.

This led to further adjustments of interest rates on the money market, where the ROBOR indicator for three months maturity (3M) fell 1% per year (January 4, 2016, being the moment of the peak in 2016) reaching the level of 0.9% (December 30, 2016). Minimum reached during the year was 0.68% (October). In the first 2 months of 2017 the indicator remained in the range of 0.8% -0.87%.

39. RISK MANAGEMENT (continued)

Monetary policy rate is likely to increase during 2017, given the expected inflation, including possible increases due to relatively accelerated household available income.

NBR's inflation target 2016 and 2017 remained at 2.5% (+/- 1%). Inflation in 2016 is estimated at 0.5% (+ 0.9%, without taking into account the effect of reducing the VAT first round during the summer 2015). The forecast for the end of 2017 is 1.7% (+ 2%, without taking into account the effect of the first round of the VAT reduction). While official forecasts predict an accelerated growth in investments and exports and maintaining a steady consumption growth, even with a decline in import growth, it is expected that these last two developments have an important impact on inflation. CNP projected growth of GDP in 2017 to 5.2% at an annual average exchange rate of 4.46 lei / euro.

The Bank's management believes that all necessary measures are considered to support the sustainability and growth of the Bank in the current conditions by:

- constantly monitoring liquidity positions and excessive dependence on certain source categories;
- short-term forecasting of the net liquidity position;
- examining the terms and conditions of the financing agreements and considering the implications of the obligations imposed and identified risks such as maturity dates, or the implications of any other terms or provisions that may have been violated or could be violated in the near future.

40. MATURITY STRUCTURE

The structure by maturities is presented considering the remaining period from the agreed contractual maturity.

***Group* 2016**	**Total**	**0-1 year**	**>1 year**	**Without fixed due date**
ASSETS				
Cash in hand	121,538	121,538	-	-
Due from Central Bank	417,191	417,191	-	-
Due from banks	35,675	35,675	-	-
Financial assets held for trading	115,148	-	106,792	8,356
Financial assets available for sale	996,463	245,003	751,460	-
Investments held to maturity	109,860	-	109,860	-
Investment in associates and subsidiaries	810	-	-	810
Loans and advances to customers, net	581,239	367,461	213,777	-
Tangible assets	127,058	-	-	127,058
Investment property	99,503	-	-	99,503
Intangible assets	7,257	-	-	7,257
Deferred tax asset	16,890	-	-	16,890
Other assets	61,431	27,320	-	34,111
TOTAL ASSETS	**2,690,061**	**1,214,189**	**1,181,889**	**293,984**
LIABILITIES				
Due to banks	5	5	-	-
Derivative financial instruments	744	744	-	-
Due to customers	2,386,858	2,343,463	43,395	-
Borrowings	15,278	15,230	48	-
Other liabilities	27,415	19,679	-	7,879
TOTAL LIABILITIES excluding financial liabilities to owners of fund units	**2,430,443**	**2,379,122**	**43,443**	**7,879**
Financial liabilities to owners of fund units	**91,346**	-	-	**91,346**
TOTAL LIABILITIES	**2,521,789**	**2,379,122**	**43,443**	**99,225**
Net liquidity	**168,272**	**(1,164,933)**	**1,138,446**	**194,759**

40. MATURITY STRUCTURE (continued)

***Group* 2015**	**Total**	**0-1 year**	**>1 year**	**Without fixed due date**
ASSETS				
Cash in hand	139,796	139,796	-	-
Due from Central Bank	420,862	420,862	-	-
Due from banks	48,827	48,827	-	-
Financial assets held for trading	106,142	3,797	92,264	10,081
Financial assets available for sale	1,178,190	448,682	729,263	245
Investments held to maturity	111,971	-	111,971	-
Investment in associates and subsidiaries	1,327	-	-	1,327
Loans and advances to customers, net	793,973	485,964	308,009	-
Tangible assets	133,787	-	-	133,787
Investment property	108,479	-	-	108,479
Intangible assets	8,828	-	-	8,828
Deferred tax asset	16,212	-	-	16,212
Other assets	65,249	16,169	28,990	20,090
TOTAL ASSETS	**3,133,643**	**1,564,097**	**1,270,497**	**299,049**
LIABILITIES				
Due to banks	8	8	-	-
Derivative financial instruments	387	387	-	-
Due to customers	2,852,630	2,818,886	33,744	-
Borrowings	63,353	9,749	53,604	-
Other liabilities	28,435	19,796	-	8,639
TOTAL LIABILITIES excluding financial liabilities to owners of fund units	**2,944,813**	**2,848,826**	**87,348**	**8,639**
Financial liabilities to owners of fund units	**74,553**	-	-	**74,553**
TOTAL LIABILITIES	**3,019,366**	**2,848,826**	**87,348**	**83,192**
Net liquidity	**114,277**	**(1,284,729)**	**1,183,149**	**215,857**

40. MATURITY STRUCTURE (continued)

Bank 2016	Total	0-1 year	>1 year	Without fixed due date
ASSETS				
Cash in hand	121,538	121,538	-	-
Due from Central Banks	417,191	417,191	-	-
Due from banks	9,136	9,136	-	-
Financial assets held for trading	52,788	-	46,593	6,195
Financial assets available for sale	996,463	245,003	751,460	-
Investments held to maturity	109,860	-	109,860	-
Investment in associates and subsidiaries	6,332	-	-	6,332
Loans and advances to customers, net	581,239	367,461	213,777	-
Tangible assets	127,053	-	-	127,053
Investment property	96,438	-	-	96,438
Intangible assets	7,255	-	-	7,255
Deferred tax asset	17,215	-	-	17,215
Other assets	60,993	27,320	-	33,673
TOTAL ASSETS	**2,603,501**	**1,187,649**	**1,121,690**	**294,161**
LIABILITIES				
Due to banks	5	5	-	-
Derivative financial instruments	560	560		
Due to customers	2,394,993	2,351,597	43,395	-
Borrowings	15,278	15,230	48	-
Other liabilities	27,138	19,260	-	7,878
TOTAL LIABILITIES	**2,437,974**	**2,386,652**	**43,443**	**7,878**
Net Liquidity	**165,527**	**(1,199,003)**	**1,078,247**	**286,283**

40. MATURITY STRUCTURE (continued)

Bank 2015	Total	0-1 year	>1 year	Without fixed due date
ASSETS				
Cash in hand	139,796	139,796	-	-
Due from Central Banks	420,862	420,862	-	-
Due from banks	18,706	18,706	-	-
Financial assets held for trading	58,808	358	51,187	7,263
Financial assets available for sale	1,177,944	448,682	729,263	-
Investments held to maturity	111,971	-	111,971	-
Investment in associates and subsidiaries	7,026	-	-	7,026
Loans and advances to customers, net	793,973	485,964	308,009	-
Tangible assets	133,445	-	-	133,445
Investment property	104,044	-	-	104,044
Intangible assets	8,826	-	-	8,826
Deferred tax asset	16,537	-	-	16,537
Other assets	64,054	16,169	28,990	18,895
TOTAL ASSETS	**3,055,992**	**1,530,537**	**1,229,420**	**296,036**
LIABILITIES				
Due to banks	8	8	-	-
Due to customers	2,853,542	2,819,798	33,744	-
Borrowings	63,353	9,749	53,604	-
Other liabilities	25,865	18,702	-	7,163
TOTAL LIBILITIES	**2,942,768**	**2,848,256**	**87,348**	**7,163**
Net Liquidity	**113,224**	**(1,317,719)**	**1,142,072**	**288,873**

41. BALANCE SHEET STRUCTURE BY FOREIGN CURRENCIES

Group	2016				
	Total	**RON**	**EUR**	**USD**	**Alte**
ASSETS					
Cash in hand	121,538	55,765	50,474	6,730	8,569
Due from Central Bank	417,191	272,831	144,360	-	-
Due from banks	35,675	26,539	922	5,901	2,314
Financial assets held for trading	115,148	101,275	11,398	2,475	-
Financial assets available for sale	996,463	586,568	409,894	-	-
Investments held to maturity	109,860	109,860	-	-	-
Investment in associates and subsidiaries	810	810	-	-	-
Loans and advances to customers, net	581,239	402,464	145,405	33,370	-
Tangible assets	127,058	127,058	-	-	-
Investment property	99,503	99,503	-	-	-
Intangible assets	7,255	7,255	-	-	-
Deferred tax asset	16,890	16,890	-	-	-
Other assets	61,431	59,742	1,533	154	2
TOTAL ASSETS	**2,690,061**	**1,866,558**	**763,986**	**48,630**	**10,885**
LIABILITIES					
Due to banks	5	-	3	2	-
Derivative financial instruments	744	744	-	-	-
Due to customers	2,386,858	1,512,255	756,038	103,553	15,012
Borrowings	15,278	69	6,814	8,395	-
Other liabilities	27,558	24,454	2,653	430	20
TOTAL LIABILITIES excluding financial liabilities to owners of fund units	**2,430,443**	**1,537,522**	**765,508**	**112,380**	**15,032**
Financial liabilities to owners of fund units	**91,346**	**91,346**	**-**	**-**	**-**
TOTAL LIABILITIES	**2,521,789**	**1,628,868**	**765,508**	**112,380**	**15,032**
NET POSITION	**168,272**	**237,692**	**(1,524)**	**(63,750)**	**(4,147)**

41. BALANCE SHEET STRUCTURE BY FOREIGN CURRENCIES (continued)

Group	2015				
	Total	**RON**	**EUR**	**USD**	**Alte**
ASSETS					
Cash in hand	139,796	58,714	64,007	6,770	10,305
Due from Central Bank	420,862	218,796	202,066	-	-
Due from banks	48,827	30,100	6,455	8,894	3,378
Financial assets held for trading	106,142	80,119	19,332	6,691	-
Financial assets available for sale	1,178,190	643,015	518,765	16,410	-
Investments held to maturity	111,971	111,971	-	-	-
Investment in associates and subsidiaries	1,327	1,320	7	-	-
Loans and advances to customers, net	793,973	521,362	236,230	36,381	-
Tangible assets	133,787	133,787	-	-	-
Investment property	108,479	108,479	-	-	-
Intangible assets	8,828	8,828	-	-	-
Deferred tax asset	16,212	16,212	-	-	-
Other assets	65,249	60,558	443	4,246	2
TOTAL ASSETS	**3,133,643**	**1,993,261**	**1,047,305**	**79,392**	**13,685**
LIABILITIES					
Due to banks	8	-	5	3	-
Derivative financial instruments	387	387	-	-	-
Due to customers	2,852,630	1,799,889	910,743	126,313	15,685
Borrowings	63,353	1,117	45,265	16,971	-
Other liabilities	28,435	24,040	3,516	765	114
TOTAL LIABILITIES excluding financial liabilities to owners of fund units	**2,944,813**	**1,825,433**	**959,529**	**144,052**	**15,799**
Financial liabilities to owners of fund units	74,553	74,553	-	-	-
TOTAL LIABILITIES	**3,019,366**	**1,899,986**	**959,529**	**144,052**	**15,799**
NET POSITION	**114,277**	**93,275**	**87,776**	**(64,660)**	**(2,114)**

41. BALANCE SHEET STRUCTURE BY FOREIGN CURRENCIES (continued)

Bank	2016				
	Total	**RON**	**EUR**	**USD**	**Alte**
ASSETS					
Cash in hand	121,538	55,764	50,474	6,730	8,569
Due from Central Bank	417,191	272,831	144,360	-	-
Due from banks	9,136	-	922	5,901	2,314
Financial assets held for trading	52,788	52,788	-	-	-
Financial assets available for sale	996,463	586,568	409,894	-	-
Investments held to maturity	109,860	109,860	-	-	-
Investment in associates and subsidiaries	6,332	6,325	7	-	-
Loans and advances to customers, net	581,239	402,464	145,405	33,370	-
Tangible assets	127,053	127,053	-	-	-
Investment property	96,438	96,438	-	-	-
Intangible assets	7,255	7,255	-	-	-
Deferred tax asset	17,215	17,215	-	-	-
Other assets	60,993	59,304	1,533	154	2
TOTAL ASSETS	**2,603,502**	**1,793,867**	**752,595**	**46,155**	**10,885**
LIABILITIES					
Due to banks	5	-	3	2	-
Derivative financial instruments	560	560	-	-	-
Due to customers	2,394,993	1,520,389	756,038	103,553	15,012
Borrowings	15,278	69	6,814	8,395	-
Other liabilities	27,138	24,034	2,653	431	20
TOTAL LIABILITIES excluding financial liabilities to owners of fund units	**2,437,974**	**1,545,053**	**765,509**	**112,380**	**15,032**
Financial liabilities to owners of fund units	-	-	-	-	-
TOTAL LIABILITIES	**2,437,974**	**1,545,053**	**765,509**	**112,380**	**15,032**
NET POSITION	**165,527**	**248,814**	**(12,914)**	**(66,225)**	**(4,147)**

41. BALANCE SHEET STRUCTURE BY FOREIGN CURRENCIES (continued)

Bank	2015				
	Total	**RON**	**EUR**	**USD**	**Alte**
ASSETS					
Cash in hand	139,796	58,714	64,007	6,770	10,305
Due from Central Bank	420,862	218,796	202,066	-	-
Due from banks	18,706	-	6,434	8,894	3,379
Financial assets held for trading	58,808	58,808	-	-	-
Financial assets available for sale	1,177,944	642,770	518,765	16,410	-
Investments held to maturity	111,971	111,971	-	-	-
Investment in associates and subsidiaries	7,026	7,019	7	-	-
Loans and advances to customers, net	793,973	521,362	236,230	36,381	-
Tangible assets	133,445	133,445	-	-	-
Investment property	104,044	104,044	-	-	-
Intangible assets	8,826	8,826	-	-	-
Deferred tax asset	16,537	16,537	-	-	-
Other assets	64,054	59,363	443	4,246	2
TOTAL ASSETS	**3,055,992**	**1,941,655**	**1,027,952**	**72,701**	**13,686**
LIABILITIES					
Due to banks	8	-	5	3	-
Due to customers	2,853,542	1,800,802	910,743	126,313	15,685
Borrowings	63,353	1,117	45,265	16,971	-
Other liabilities	25,865	21,470	3,516	765	114
TOTAL LIABILITIES excluding financial liabilities to owners of fund units	**2,942,768**	**1,823,389**	**959,529**	**144,052**	**15,799**
Financial liabilities to owners of fund units	-	-	-	-	-
TOTAL LIABILITIES	**2,942,768**	**1,823,389**	**959,529**	**144,050**	**15,799**
NET POSITION	**113,224**	**118,266**	**68,423**	**(71,349)**	**(2,113)**

42. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The following table presents a reconciliation between consolidated statement of finanacial position and the categories of financial instruments:

***Group* 2016**	**Book value**	**Financial assets/ liabilities held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Investments held to maturity**	**Other - at amortized cost**
FINANCIAL ASSETS						
Cash in hand	121,538	-	121,538	-	-	-
Due from Central Bank	417,191	-	417,191	-	-	-
Due from banks	35,675	-	35,675	-	-	-
Financial assets held for trading	115,148	115,148	-	-	-	-
Financial assets available for sale	996,463	-	-	996,463	-	-
Investments held to maturity	109,860	-	-	-	109,860	
Investment in associates and subsidiaries	810	-	-	-	-	810
Loans and advances to customers, net	581,239	-	581,239	-	-	-
TOTAL FINANCIAL ASSETS	**2,377,925**	**115,148**	**1,155,644**	**996,463**	**109,860**	**810**
FINANCIAL LIABILITIES						
Due to banks	5	-	-	-	-	5
Derivative financial instruments	2,386,858	-	-	-	-	2,386,858
Due to customers	744	744	-	-	-	-
Borrowings	15,278	-	-	-	-	15,278
TOTAL FINANCIAL LIABILITIES excluding financial liabilities to owners of fund units	**2,402,885**	**744**	-	-	-	2,402,141
Financial liabilities to owners of fund units	91,346	91,346	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**2,494,231**	**92,090**	-	-	-	**2,402,141**

42. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

***Group* 2015**	**Book value**	**Financial assets/ liabilities held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Investments held to maturity**	**Other - at amortized cost**
FINANCIAL ASSETS						
Cash in hand	139,796	-	139,796	-	-	-
Due from Central Bank	420,862		420,862	-	-	-
Due from banks	48,827	-	48,827	-	-	-
Financial assets held for trading	106,142	106,142	-	-	-	-
Financial assets available for sale	1,178,190	-	-	1,178,190	-	-
Investments held to maturity	111,971	-	-	-	111,971	
Investment in associates and subsidiaries	1,327	-	-	-	-	1,327
Loans and advances to customers, net	793,973	-	793,973	-	-	-
TOTAL FINANCIAL ASSETS	**2,801,088**	**106,142**	**1,403,458**	**1,178,190**	**111,971**	**1,327**
FINANCIAL LIABILITIES						
Due to banks	8	-	-	-	-	8
Derivative financial instruments	2,852,630	-	-	-	-	2,852,630
Due to customers	387	387	-	-	-	-
Borrowings	63,353	-	-	-	-	63,353
TOTAL FINANCIAL LIABILITIES excluding financial liabilities to owners of fund units	**2,916,378**	**387**	-	-	-	2,915,991
Financial liabilities to owners of fund units	74,553	74,553	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**2,990,931**	**74,940**	-	-	-	**2,915,991**

42. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

***Bank* 2016**	**Book value**	**Financial assets/ liabilities held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Investments held to maturity**	**Other - at amortized cost**
FINANCIAL ASSETS						
Cash in hand	121,538	-	121,538	-	-	-
Due from Central Bank	417,191	-	417,191	-	-	-
Due from banks	9,136	-	9,136	-	-	-
Financial assets held for trading	52,788	52,788	-	-	-	-
Financial assets available for sale	996,463	-	-	996,463	-	-
Investments held to maturity	109,860	-	-	-	109,860	
Investment in associates and subsidiaries	6,332	-	-	-	-	6,332
Loans and advances to customers, net	581,239	-	581,239	-	-	-
TOTAL FINANCIAL ASSETS	**2,294,547**	**52,788,**	**1,129,104**	**996,463**	**109,860**	**6,332**
FINANCIAL LIABILITIES						
Due to banks	5	-	-	-	-	5
Due to customers	2,394,993	-	-	-	-	2,394,993
Borrowings	15,278	-	-	-	-	15,278
TOTAL FINANCIAL LIABILITIES	**2,410,276**	-	-	-	-	**2,410,276**

2015	**Book value**	**Financial assets/ liabilities held for trading**	**Loans and receivables**	**Financial assets available for sale**	**Investments held to maturity**	**Other - at amortized cost**
FINANCIAL ASSETS						
Cash in hand	139,796	-	139,796	-	-	-
Due from Central Bank	420,862	-	420,862	-	-	-
Due from banks	18,706	-	18,706	-	-	-
Financial assets held for trading	58,808	58,808	-	-	-	-
Financial assets available for sale	1,177,944	-	-	1,177,944	-	-
Investments held to maturity	111,971	-	-	-	111,971	-
Investment in associates and subsidiaries	7,026	-	-	-	-	7,026
Loans and advances to customers, net	793,973	-	793,973	-	-	-
TOTAL FINANCIAL ASSETS	**2,729,087**	**58,808**	**1,373,337**	**1,177,944**	**111,971**	**7,026**
FINANCIAL LIABILITIES						
Due to banks	8	-	-	-		8

Due to customers	2,853,542	-	-	-	2,853,542
Borrowings	63,353	-	-	-	63,353
TOTAL FINANCIAL LIABILITIES	**2,916,903**	**-**	**-**	**-**	**2,916,903**

a) Determination of the fair value and the fair value hierarchy

The Group uses the following hierarchy to determine and disclose the fair value of the financial instruments based by valuation techniques:
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Other techniques for which all inputs significantly influencing the recorded fair value are noticeable, either directly or indirectly; this category includes assets valued at quotations from active markets for similar instruments, quotations for identical or similar instruments on less active markets; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data techniques which use inputs which have a significant effect on the recorded fair value
that are not based on observable market data; this category includes assets valued at quotations for similar instruments, adjusted using less noticeable data to reflect the differences between instruments.

The purpose of the assessment techniques is to achieve a fair value which reflects the price that would be received upon selling an asset or the price that would be paid to offset a liability, within transactions on the market between participants, at the reporting and measurement date.

During 2016 and 2015, the Group did not transfer financial assets between level 1 and level 2 in the hierarchy of the fair value.

For evaluating the financial assets at level 2 and at level 3 in the hierarchy of fair value, the Bank uses the income-based approach, which transforms the future values (cash flows) in a single current value (discounted).

For the financial assets available for sale classified at level 2 and at level 3 in the hierarchy of the fair value, the yield curve uses the following input data:
- for securities issued in RON by the Ministry of Public Finance in Romania (MFP):
  - the arithmetic mean of ROBID + ROBOR reference rates for maturity periods up to 0 - 6 months, exclusive, published on the last banking day in the calculation month;
  - mean of the reference rates (fixing) for maturity periods longer than or equal to 0 - 6 months, published on the last banking day of the calculation month. The rates Fixing Bid Rate and Fixing Offer Rate for each series listed at Fixing, from the last banking day of the month for which the assessment is conducted, are included in the Bank's model used for assessment.
- for other securities with fixed income (excluding those issued in RON by Ministry of Public Finance), the cost of covering the credit risk (CDS) is added to the following input data:
  - for the currency RON: mean of the interest rate swaps(IRS), for each maturity;
  - for the currency EUR: EURIBOR rates (up to 1 year inclusive) and the interest rate swap mean more than 1 year exclusive;
  - for the currency USD: LIBOR rates (up to 1 year inclusive) and the bid and ask mean of interest rate swaps for more than 1 year exclusive.

The cost of covering the credit risk (CDS) is applied in the following order, depending on the availability of the information on Bloomberg or Thomson Reuters:
- The cost of covering the credit risk (CDS) related to the issuer of the relevant security;
- The cost of covering the credit risk (CDS) of the activity sector and the rating equal to that of the issuer (considering the classification of the issuer's rating on short/ long term);
- Sovereign cost of covering the credit risk (CDS).

In order to calculate the assessment yield, including the related cost of covering the credit risk (if applicable), one uses the linear interpolation, which requires the estimation of a new value by connecting two adjacent known values to a straight line.

43. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Bank deems that a change in one of those variables would not influence significantly the assessment of the instruments at level 3 in the hierarchy of the fair value.

In case of financial assets held for trading classified at level 2 in the hierarchy of the fair value, which comprise derivatives on exchange rate – swap, (the yield curve uses the following input data: the exchange rate of foreign currency market, communicated by NBR on the last banking day of the month during which the assessment is conducted, to which the swap points (mean between bid+ask) are added, which are calculated until the settlement of step 2 of the swap transaction or until the settlement date of the Forward. In case the settlement date is between the values offered by Bloomberg/ Thomson Reuters, one uses the linear interpolation technique.

b) Financial instruments recorded at fair value – fair value hierarchy

The following table presents the analysis of the financial instruments recorded at fair value based on the fair value hierarchy:

***Group* December 31st, 2016**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets held for trading	31,817	47,256	36,075	115,148
Financial assets available for sale	-	996,463	-	996,463
	31,817	**1,043,719**	**-**	**1,111,611**
Financial liabilities				
Derivative financial instruments	-	744	-	**744**
Financial liabilities to owners of fund units	91,346	-	-	**91,346**

***Group* December 31st, 2015**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets held for trading	44,729	52,267	9,146	106,142
Financial assets available for sale	245	1,177,945	-	1,178,190
	44,974	**1,230,212**	**9,146**	**1,284,332**
Financial liabilities				
Derivative financial instruments	-	387	-	387
Financial liabilities to owners of fund units	74,553	-	-	74,553
	74,553	**387**	**-**	**74,940**

***Bank* December 31st, 2016**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets held for trading	6,195	46,593	-	52,788
Financial assets available for sale	-	996,463	-	996,463
	6,195	**1,043,056**	**-**	**1,049,251**

***Bank* December 31st, 2015**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets held for trading	7,263	51,545	-	58,808
Financial assets available for sale	-	1,177,944	-	1,177,944
	7,263	**1,229,489**	**-**	**1,236,752**

For the listed instruments, the fair value is determined based on the available prices. For the instruments for which no quotations may be used, the method of discounted cash flows is used.

Financial assets available for sale – Group	**2016**	**2015**
Balance at January 1st	9,146	6,036
Total gains/(losses) recognized in the statement of profit and loss	-	314
Acquisitions	36,075	5,922
Sales	(9,146)	(679)
Issuance	-	-
Settlements	-	(2,013)
Transfers to / from Level 3	-	(434)
Balance at December 31st	36,075	9,146

Movements regarding the level 3 financial instruments registered at fair value:

Financial assets available for sale - Bank	**2016**	**2015**
Balance at January 1st	-	4,405
Transfers from level 2 to level 3	-	-
Acquisitions	-	-
Sales	-	(4,405)
Cashed-in coupon	-	-
Interest income	-	-
Change in fair value	-	-
Balance at December 31 st	-	-

c) Financial instruments which are not recorded at fair value – fair value hierarchy

The Group's short term assets and liabilities are presented in the financial statements at amortized cost which is considered, in certain cases, to approximate the fair value thereof because these instruments have short term maturities and are convertible in cash or settled without significant trading costs. Borrowings and advance payments, as well as loans, have mainly short term interest changes and bear interest rates that reflect the current market conditions.

Hereinafter, a comparison by categories between the book values and the fair values of the Group's financial instruments, which are not presented at fair value in the financial statements. This table does not include the fair value of non-financial assets and liabilities.

	2016		**2015**	
Group	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Financial assets				
Cash	121,538	121,539	139,796	139,796
Due from Central Bank	417,191	417,191	420,862	420,862
Due from banks	35,675	35,675	48,827	48,827
Investments held to maturity	109,860	110,085	111,971	112,310
Loans and advances to customers, net	581,239	581,659	793,973	796,488
Investments in associates and subsidiaries	810	810	1,327	1,327
	1,266,314	**1,268,488**	**1,516,756**	**1,519,610**
Financial liabilities				

Liabilities to credit institutions	5	5	8	8
Liabilities to customers	2,386,858	2,386,858	2,852,630	2,852,630
Borrowings	15,278	15,278	63,353	63,353
	2,402,141	**2,402,141**	**2,915,991**	**2,915,991**

	2016		**2015**	
Bank	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Financial assets				
Cash	121,538	121,538	139,796	139,796
Due from Central Bank	417,191	417,191	420,862	420,862
Due from banks	9,136	9,136	18,706	18,706
Investments held to maturity	109,860	111,085	111,971	112,310
Loans and advances to customers, net	581,239	581,659	793,973	796,488
Investments in associates and subsidiaries	6,332	6,332	7,026	7,026
	1,245,296	**1,246,941**	**1,492,335**	**1,495,188**
Financial liabilities				
Liabilities to credit institutions	5	5	8	8
Liabilities to customers	2,394,993	2,394,993	2,853,542	2,853,542
Borrowings	15,278	15,278	63,353	63,353
	2,410,276	**2,410,276**	**2,916,903**	**2,916,903**

Balances with the Central Bank is cash and cash equivalents at the National Bank, which is available for Bank's daily operations (Note 17) and therefore the fair value equals the book value. The fair value of sight deposits is equal to their book value.

Due from banks are money market instruments and the interest they bear is established in the market and usually have a short-term maturity, thus, the Group considers that their book value approximate their fair value.

For investments in affiliates at December 31st, 2016, with a book value of 810 th RON (December 31st, 2015: 1,327 th RON), the Bank has not presented the fair value because it cannot be reliably measured. Therefore, the Bank recorded the investments in affiliates at cost in the statement of the financial position

"Due to customers" are repriced at every due date, generally they have a short-term maturity, so that it is assumed that their book values are approximately equal to their fair value.

The fair value of receivables from reverse repo operations reflects the fair value of the supporting asset represented by the securities used as collateral for these transactions.

The fair value for loans with fixed interest rate is estimated by comparing the interest rates in the market at initial booking date with the current interest rate in the market for similar financial instruments.

The borrowings bear variable interests, being repriced every 3-6 months, so that it is assumed that their book values are approximately equal to their fair value.

44. SUBSEQUENT EVENTS

The merger with Patria Bank

By the decisions of the General Shareholders Meeting on 5th of October 2016 BCC, as absorbing bank and starting with 8th of November 2016 Patria Bank SA, as the absorbed bank, approved the merger by absorption, with the reference date May 31st, 2016, based on the audited interim financial information of the two banks as at that reference date, the effects of the merger, including but not being limited to the following:

a. fully transfer of all assets and liabilities, and their respective rights and obligations, for the whole patrimony of Patria to Banca Carpatica, including but not limited to transfer all secondary offices of Patria Bank to Banca Carpatica as a result of the merger.

b. increase in share capital for Banca Carpatica from 220,274,282 lei to 376,239,921 lei, representing 3,762,399,213 shares, each with a nominal value of 0.1 RON / share..

c. changing the name of the acquiring company Banca Comerciala Carpatica S.A. in Patria Bank SA .;

d. the date on which the merger will take effect, will be the first day in the month following the month in which all necessary approvals are obtained and formalities are fulfilled, that is obtaining prior approval from the National Bank of Romania and written judgment is issued by the the competent court that the merger has been approved and also its effects are notified to the National Trade Registry Office ("Implementation Date");

e. dissolution without liquidation of Patria Bank SA, as the company absorbed as a result of merger.

The merger of Banca Comerciala Carpatica with Patria Bank received on November 29th, 2016 prior approval from the National Bank of Romania. In December 2016 legal formalities were initiated, concerning the legality of the merger and the application for registration regarding the merger and its effects to the Trade Register by the court of justice. The application for registration of the merger was rejected by the first instance by the Bucharest Court on January 17, 2017, the court arguing that since the merger increases the share capital of the acquiring company and transfer property, would actually increase the intake in kind consisting of buildings, so it is necessary that the decisions of the general shareholders meeting of each of the two companies to be in authentic form.

On March 6, 2017 was filed an appeal with the Bucharest Court against the decision rejecting the merger and a request to speed up the sending of the file to the Appeal Court. According to the Bank's administrators and external legal consultants and lawyers, the two banks involved in the merger have complied with all legal provisions regarding the merger and there are chances for a favorable decision from the Appeal Court. However, to prevent a new different interpretation of the legal provisions on the merger from the Appeal Court, in the appeal file will be added the decision of BCC general shareholders meeting on October 5th, 2016 authenticated, according to the procedure set by the National Union of Public Notaries in Romania in a letter dated March 8, 2017 that indicates a response to the request through which the Bank requires explanations on the process of authenticating the decision of the general shareholders meetings of a listed company.

At the date of this report, the Appeal Court's finding on the legality of merger and application for registration of the merger and its effects at the trade register has not yet been obtained.

Following the merger, the new bank will operate under the name PATRIA BANK SA, and its activity will focus on the retail segment, integrating technology to facilitate customer access to performant financial services with the aim of financial inclusion and will continue to be a solid reliable partner for small and medium Romanian companies, contributing to the local business environment. The merged bank's shares will continue to be listed on the Bucharest Stock Exchange.

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The present English version of these Financial Statements is an unaudited translation of the official Romanian version of the Financial Statements. In case of any discrepancy, misunderstanding or difference of interpretation, between the English and Romanian version, the Romanian version shall prevail. This translation should not be interpreted as audited Financial Statements of the issuer.

Statement

I, Dragos Horia Manda, chairman of the Management Board, as the legal representative of Banca Comerciala Carpatica S.A., according to the provisions of the art. 30 of the Accounting Law no. 82/1991 republished and of the art. 1121 par. 1 c of the Regulation FSA no. 1/2006 as amended and supplemented, I take the responsibility for preparing the annual financial statements and consolidated as of 31.12.2016 and certify that, to my knowledge:

a) The accounting policies used for preparing the individual and consolidated annual financial statements as of 31.12.2016 are in accordance with the accounting regulations applicable to credit institutions, based on NBR Order no. 27/2010 for the approval of accounting regulations compliant with the International Financial Reporting Standards as adopted by the European Union;

b) The financial statements as of 31.12.2016 present a fair image of the financial position, of the financial performance and of the other information regarding the activity carried out by Banca Comerciala Carpatica SA and its subsidiaries included in the consolidation of the financial statements;

c) Banca Comerciala Carpatica SA operates in terms of continuity;

d) The report of the Management Board related to the above mentioned financial statements includes an accurate analysis of the development and performance of the Bank and the Group as well as a description of the principal risks and uncertainties specific fo the activity carried on.

DRAGOS HORIA MANDA

Chairman of the Management Board

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Banca Comerciala Carpatica S.A.
Bucharest, Romania

Opinion

We have audited the consolidated and standalone financial statements of Banca Comerciala Carpatica S.A. (the Bank) and its subsidiaries (the Group), which comprise the consolidated and standalone statement of financial position as of December 31 2016, the consolidated and standalone statement of comprehensive income, the consolidated and standalone statement of changes in equity and the consolidated and standalone cash flow statement for the financial year then ended, explanatory information on the consolidated and standalone statements and a summary of significant accounting policies.

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

The basis of the opinion

We conducted our audit in accordance with the Auditing Standards adopted by the Chamber of Financial Auditors of Romania, which are the International Standards on Auditing (ISA). Our responsibilities based on these standards are detailed in the section "Auditor's Responsibilities during a financial statements audit" in our report. We are independent of the Group, in accordance with the Code of Ethics for Professional Accountants (the IESBA Code) issued by the International Ethics Standards Board for Accountants and we have fulfilled our other ethical responsibilities, in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

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

Key audit matter	**How our audit addressed the key matter**
Continuing as a going concern	
According to Notes 1, 2.2 and 44 in the consolidated and standalone financial statements, the net losses registered by the Group and the Bank for the year ended on December 31, 2016 amount to RON 44,149 thousands, and RON 44,928 thousands respectively, and the cumulated losses as of that date amount to RON 151,490 thousands for the Group, and RON 153,492 thousands for the Bank respectively. Also, the level of loans and advances to customers suffered a significant decrease by 26.8% compared to the previous period. The Bank is currently undergoing a process of merger by acquisition with the parent entity Patria Bank. Following the merger, Patria Bank S.A. will be acquired by Banca Comerciala Carpatica S.A. The Bank Management acknowledged that these requirements must be met in order to increase the level of credit operations in the near future. Nonetheless, as detailed in the consolidated and standalone financial statements, the Bank Management has reasonable expectations regarding the fact that the Bank and its Shareholders command sufficient resources as to continue as a going concern in the near future. The Bank's ability to continue as a going concern depends on its capability to generate sufficient profit in the future, to successfully finalise the merger and on its creditors and shareholders' continued financial support. Considering the significance of these matters and the high level of estimates based on professional judgement, continuing as a going concern is a key audit matter.	We analysed the Bank Management's assessment on its ability to continue as a going concern for 12 months from the balance sheet date, namely from December 31, 2016. We analysed the increase in equity made by the major shareholder, who made a cash contribution in amount of RON 98,765 thousand and we have also analysed whether the Bank complied with the capital adequacy requirements as of December 31, 2016. We analysed the reorganisation process for the Bank and its subsidiaries' operations, which contributed to a decrease in operating costs for the Bank. We also assessed the approval of the merger by the Bank's shareholders in the General Shareholders' Assembly. We analysed the approval granted by the National Bank of Romania on the submitted documentation regarding the merger and the subsequent court resolution to deny the merger. We discussed with the Bank Management the implications of the court decision and the measures required to address this matter. We analysed whether the information presented by the Bank on the applicability of the going concern principle are thorough and compliant with the requirements of "IAS 1 Presentation of Financial Statements".

Key audit matter	**How our audit addressed the key matter**
Impairment of loans and advances to customers	
According to Note 24 in the consolidated and standalone financial statements, as of December 31 2016, the Bank registered provisions for impairment in amount of RON 193,554 thousands for the loans and advances granted to customers in amount of RON 752,792 thousands. The provisions for impairment represent the Management's estimations on the loan portfolio losses at the balance sheet date, based on complex hypotheses and professional judgements. The provisions for impairment are calculated in aggregate for similar loan portfolios and individually for loans that are significant or show indications of depreciation. The aggregate provisions for impairment are calculated based on certain risk parameters deriving from the Group's internal models and historical data. For individually assessed loans, professional judgement is required to identify the moment when the impairment event happened and to determine the estimated future cash flow to reimburse the credit exposure. Considering the significance of these professional judgements and the volume of loans and advances granted to customers, the impairment assessment thereof is a key audit matter.	We analysed the provisioning methodology applied by the Bank and assessed whether it complies with the IFRS and the National Bank of Romania requirements. We analysed whether the key processes and corresponding internal controls implemented by the Management to support the calculation of the aggregate and specific impairment are adequate, assessing the controls' method of preparing, implementing and efficiency. For provisions calculated collectively, we assessed the internal models used and implemented by the Bank, the historical data used for these models and the comparative assessments made at the banking system level. For provisions calculated individually, we selected a sample of loans and we followed specific procedure to determine whether there are any loss generating events and whether they were identified in a timely manner. In reviewing the sample, we looked at the recent evolution of the debtor's situation and we assessed whether the main professional judgements were appropriate to the debtor's condition. We independently searched for indications to potential financial difficulties, such as failure to comply with the financial indicators and delayed payments. For a sample of loans taken from the portfolio of nonperforming loans individually assessed by the Bank, we have analysed the Management's estimations of amounts to collect and compared them to our estimates and the market practices.

Report on the consistency between the Directors' Report and the consolidated and standalone financial statements

In accordance with Order no. 27/2010 of the National Bank of Romania, article 40, letter e) and article 16.1, letter e), we read the Directors' Report accompanying the consolidated and standalone financial statements. The Directors' Report is not part of the consolidated and standalone financial statements. In the Directors' Report, we didn't identify any historical financial data significantly inconsistent with the information presented in the accompanying consolidated and standalone financial statements.

Responsibilities of Management and Directors for the Consolidated and Standalone Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards adopted by the European Union and Order no. 27/2010, and for such internal control as management determines is necessary to enable the preparation of consolidated and standalone financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and standalone financial statements, management is responsible for assessing the Group's and 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 Group or the Bank or to cease operations, or has no realistic alternative but to do so.

The directors are responsible with overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Standalone Financial Statements

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

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated and standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on

the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

We also provide the directors with a statement that we have complied with all relevant ethical requirements regarding independence, and that we will 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 to the directors, we determine those matters that were of most significance in the audit of the consolidated and standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ahmed Hassan, Audit Partner

Illegible signature

Registered with the Chamber of Financial Auditors of Romania with certificate no. 1529/25.11.2003

On behalf of:
DELOITTE AUDIT S.R.L.

Registered with the Chamber of Financial Auditors of Romania with certificate no. 25/25.06.2001

Bucharest, Romania
April 12th 2017

The present English version is an unaudited translation of the official Romanian version of the Independent Auditor's Report. In case of any discrepancy, misunderstanding or difference of interpretation, between the English and Romanian version, the Romanian version shall prevail.

CARPATICA
Membră a Grupului PATRIA BANK

Annual Report

of the Management Board

2016

In accordance with the National Bank of Romania Order No. 27/2010
Regulation of the Romanian National Securities Commission no. 1/2006
Regulation of the National Bank of Romania no. 5/2013
and with Regulation (EU) No. 575/2013

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Financial year:	2016
Report date:	27.03.2017
Company name:	Banca Comerciala Carpatica SA
Registered office:	Bucharest, Ion Brezoianu Actor Street, no. 31, floors 1, 2 and attic, district 1, Bucharest
Tax identification number:	RO 11447021
Trade Register number:	J40/9252/2016
Phone/fax:	+40 21 313 30 44
Issued and paid-in share capital:	Lei 220,274,282.20
Regulated market on which the issued shares are traded:	Bucharest Stock Exchange - Premium category, under symbol "BCC"
BSE listing date:	09.06.2004 (second category), respectively 6.04.2005 (first category)
Main characteristics of the securities issued by the trading company:	2,202,742,822 registered, ordinary shares, each having a nominal value of 0.1 lei

1. About the company and its shareholders

Banca Comerciala Carpatica (hereinafter referred to as the "Bank" or "BCC") is a joint-stock company incorporated in 1999 in Sibiu, currently seated in Bucharest, authorized as a credit institution to carry out banking activities on Romanian territory, according to EGO no. 99/2006 regarding the credit institutions and capital adequacy.

In 2016, Banca Comerciala Carpatica changed its governance system, passing in April 2016 from the two-tier governance system, consisting of a Supervisory Board and a Directorate, to the one-tier governance system, consisting of a Management Board and a Committee of Directors, in accordance with the size, nature and complexity of the Bank's activity.

Banca Comerciala Carpatica SA operates a wide range of bank products and services for individual and legal entity customers, including mainly the following:

- attracting deposits;
- managing liquidities;
- lending activities, in lei and foreign currency;
- receipt and payment operations, in lei and foreign currency.

On 31 December 2016, Banca Comerciala Carpatica SA owned a network of 79 agencies (113 territorial units as of 31 December 2015).

The Group that Banca Carpatica belongs to on the date of the financial statements (31 December 2016)

Banca Comerciala Carpatica SA (BCC) is a subsidiary of Patria Bank, being part of the Patria Bank SA Group, which includes:

- ***Patria Bank SA***, a credit institution authorized to carry out banking activities on Romanian territory;
- ***Banca Comerciala Carpatica SA***;
- ***Patria Credit IFN SA***, a non-banking financial institution, authorized by the National Bank of Romania to carry out lending activities on Romanian territory, registered with the General Registry of non-banking financial institutions kept by the NBR, specialised in rural lending;
- ***SAI Carpatica Asset Management SA***, an investment company authorized by the FSA (Romanian Financial Supervision Authority);
- ***S.A.I. Patria Asset Management SA (formerly called S.A.I. Intercapital Investment Management SA),*** an investment company authorized by the FSA (Romanian Financial Supervision Authority).

Thus, BCC is subject to consolidation in the consolidated financial statements of the parent company Patria Bank SA, which, in its quality as parent credit institution at Romania's level, consolidates Banca Comerciala Carpatica SA both at bookkeeping level and at prudential level.

Patria Bank holds 64.16% of the share capital of Banca Comerciala Carpatica SA, currently being the majority shareholder of the Bank, whereas the main indirect shareholder of the Bank (BCC) is the investment fund Emerging Europe Accession Fund Cooperatief U.A. ("EEAF"), about which more details are provided in the next section.
The Bank's Group also includes some other investments of the indirect majority shareholder EEAF, which activates in other industries than the financial one, such as: Deutek SA (paints industry, Romania), STAR Storage SA (IT industry, Romania), Elefant Online SA (on-line commerce, Romania), FrontEx International Services Ltd. (Bulgaria), the List of the Bank's affiliates being provided as Appendix 1 hereto.
The Bank carried out only few commercial activities with other parties of its Group, excepting the parent company.

Banca Comerciala Carpatica SA is the parent company of the following subsidiaries, all seated in Romania:

- SAI Carpatica Asset Management SA (together with the managed investment funds: FDI Carpatica Stock, FDI Carpatica Global, FDI Carpatica Obligatiuni);
- SSIF Carpatica Invest SA (currently subject to dissolution); considering the dissolution decision and the insignificant impact of consolidating SSIF Carpatica Invest SA, the Group took the decision to change the consolidation perimeter in 2016 so as to exclude SSIF Carpatica Invest SA. The Group consolidated SSIF Carpatica Invest SA on 31 December 2015 but it entirely provisioned its net asset;
- Imobiliar Invest SRL (currently subject to voluntary winding-up).

All the above mentioned Bank's subsidiaries (excepting SSIF Carpatica Invest), including the three investment funds managed by SAI Carpatica Asset Management SA, have been included in the accounting consolidation perimeter for the purpose of consolidated financial statements for 2016.

Changes that took place during 2016 – change of the majority shareholder

On 31 December 2015, Patria Bank SA showed its interest in subscribing for new shares of the Bank under the form of a private investment and following a due-diligence process organized between 31 December 2015 and 28 January

2016, Patria Bank SA submitted to the Bank, on 28 January 2016, an unconditioned binding offer to subscribe for the new shares of the Bank under the form of a private investment. Therefore, on 29 January 2016, Patria Bank SA acquired 986,663,916 new BCC shares at the price of 0.1001 lei / share, the equivalent of the issued and paid-in capital and of the issue premium amounting to Lei 98,765,058. In addition, on 28 January 2016, Patria Bank SA acquired on the secondary market, from the shareholders without voting rights, a number of 220,274,282 shares issued by the Bank.

After registering the capital increase with the Trade Register and after obtaining the Securities Registration Certificate from FSA, starting with 18 February 2016, Patria Bank SA held 54.7925% of the share capital of Banca Comerciala Carpatica SA. Given that Patria Bank held more than 33% of the share capital of the Bank, it started running the mandatory public takeover bid, under the Document of mandatory public takeover bid approved by FSA by Decision no. 465/25 February 2016, such this public takeover bid running from 02 March 2016 until 22 March 2016. Through the public takeover bid, Patria Bank SA purchased 206,400,818 shares of Banca Comerciala Carpatica SA, representing 9.37% of the total shares of BCC.

Thus, after going through these steps, starting with 25 March 2016, Patria Bank SA holds 64.16% of the share capital of Banca Comerciala Carpatica SA, in this way Patria Bank becoming the majority shareholder of Banca Comerciala Carpatica SA, and the latter becoming a member of the Patria Bank Group.

Patria Bank SA (formerly Nextebank SA) is a Romanian credit institution incorporated in 1993 in Targu Mures under the name "Banca de Credit si Dezvoltare Romexterra". EEAF Financial Services BV purchased from MKB Bank Zrt. Hungary (subsidiary of Bayerische Landesbank) the majority share package representing 98% of the share capital of Nextebank SA (originally called MKB Romexterra and subsequently Nextebank SA) and in 2016 changed the name of the bank into Patria Bank SA.

The main shareholder of Patria Bank SA is EEAF Financial Services B.V., a company registered in the Netherlands and entirely owned by the investment fund Emerging Europe Accession Fund Cooperatief U.A. (EEAF), the later becoming in this way the main indirect shareholder of Patria Bank SA. The investment fund EEAF is the third private equity fund, of which the investment consultant is Axxess Capital Partners and reunites, as significant investors, some important international financial institutions (multilateral development banks) such as:

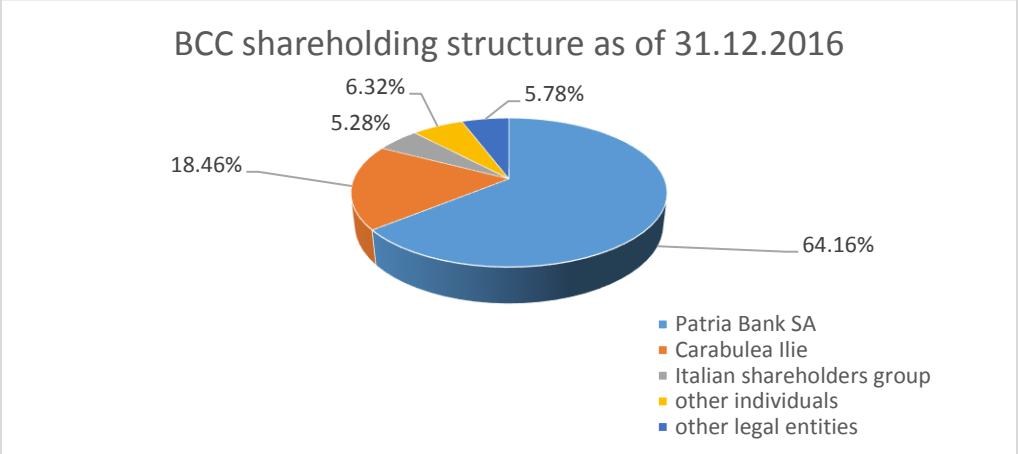
- EBRD - European Bank for Reconstruction and Development,
- EIF - European Investment Fund, part of the European Investment Bank (EIB) Group,
- BSTDB - Black Sea Trade and Development Bank,
- DEG - Development Bank part of the KFW bank group.

Axxess Capital Partners is a consultant for private equity investment funds, with an investment experience of more than 15 years in Romania and in the Central and Eastern European region, which includes investments in over 35 companies from Romania and other countries in the Southeast Europe. The Axxess Capital team has a vast experience in financial and banking sector, with 10 successful investments in companies from the financial services sector, out of which 7 such investments in Romania.

Shareholding structure

On 31 December 2016, according to the data registered with the Central Depositary, the shareholding structure of Banca Comerciala Carpatica SA was as follows:

	Number of shares (thousand)	Nominal value (lei)	%
Romanian capital	**2,018,069.87**	**201,806,987**	**91.62**
Individuals	520,147.61	52,014,761	23.62
Legal entities	1,497,922.26	149,792,226	68
Foreign capital	**184,672.95**	**18,467,295**	**8.38**
Individuals	142,026.91	14,202,691	6.45
Legal entities	42,646.04	4,264,604	1.94
Total	**2,202,742.78**	**220,274,282**	**100.0**



	Shareholder name	Number of shares (thousand)	Nominal value (lei)	%
Shareholders without voting right	Ilie Carabulea	406,669.49	40,666,949	18.46
	Daniela Tanase	1,235.51	123,551	0.0005
			40,790,500	**18.46**

In 2016 there were no cases of acquisition/buyback of own shares by the Bank.

On 31 December 2016, the status of the shares issued by Banca Comerciala Carpatica owned by subsidiaries (entities within the consolidation perimeter) is as follows:

It. No.	Name	Number of shares	Value (lei)
1	FDI CARPATICA GLOBAL- SAI CARPATICA AM	928,164	92,816
2	FDI CARPATICA STOCK - SAI CARPATICA AM	3,963,328	396,332

Merger process with Patria Bank

By the decisions of their General Assembly of Shareholders dated 05 October 2016 and 08 November 2016, respectively, Banca Comerciala Carpatica SA, as absorbing bank, and PATRIA BANK SA, as absorbed bank, approved the project of merger by absorption, having the date of 31 May 2016 as reference date, based on the audited interim financial information of the two banks as of such reference date, and the effects of the merger included without limitation the following:

a. The universal transfer of all the assets and liabilities and of all the rights and obligations relevant to the entire patrimony of Patria Bank to Banca Carpatica, including, without limitation, the transfer of all the secondary offices from Patria Bank to Banca Carpatica as a result of the Merger.

b. Increasing of the share capital of Banca Carpatica from RON 220,274,282 to RON 376,239,921, divided into 3,762,399,213 shares, each having a nominal value of 0.1 RON/share. The total share capital of Banca Carpatica is increased as a result of the merger by issuing new shares totalling of RON 297,299,541 to be allotted to the shareholders of Patria Bank SA, according to the exchange ratio mentioned in the Merger Project, i.e. 3.0566 BCC shares for 1 Patria Bank share. According to article 250 of Law no. 31/1990 regarding the companies, the shares held by Patria Bank SA in Banca Comerciala Carpatica SA will not be exchanged for shares issued by BCC, therefore a number of BCC shares held by Patria Bank SA totalling of RON 141,333,902 will be cancelled, thus obtaining the nominal value of the share capital following the merger, i.e. RON 376,239,921.

c. Changing the name of the absorbing company from Banca Comerciala Carpatica SA into Patria Bank SA;

d. The date as of which the merger will become effective, which will be the last day of the month following the calendar month when all the necessary approvals have been obtained and the required formalities have been accomplished, respectively the prior approval of the National Bank of Romania has been obtained and the court decision approving the Merger has been issued by the competent court of law and ordering its results to be registered with the Trade Register National Office ("Implementation Date");

e. Dissolution without winding-up of Patria Bank SA, as absorbed company, as a result of the merger.

The merger project of Banca Comerciala Carpatica with Patria Bank received on 29 November 2016 the prior approval from the National Bank of Romania, and in December 2016 the legal formalities were started in view of having the court of law acknowledgement about the legality of the merger and registering the merger and its effects in the Trade Register. The merger registration application was rejected in the first instance by the Bucharest District Court on 17 January 2017. The court's justification was that, considering that the share capital of the absorbing company is to be increased as a result of the merger and that real estate assets are to be transferred, it was in fact

a capital increase with contribution in kind consisting of real estate assets, which is why the decision of the general assembly of shareholders of each of the two companies had to be in the authentic form.

On 6 March 2017, an appeal against this decision to reject the merger as well as an application to accelerate the submission of the file to the Bucharest Court of Appeals were lodged with the Bucharest District Court. In the opinion of the banks' administrators and lawyers, the two banks involved in the merger observed the legal provisions in achieving the merger and there are chances for a favourable settlement by the appeal court. However, to prevent another divergent interpretation of the legal provisions by the appeal court regarding the merger, the decision of the general assembly of shareholders of BCC, dated 5 October 2016, in authentic form, will be lodged in the pending appeal file, according to the procedure indicated by the National Union of Notaries Public from Romania in its letter of 8 March 2017 providing an answer to the Bank's application asking for explanations regarding the possibility to authenticate the decision of the general assembly of shareholders of a company listed on the Stock Exchange Market.

On the date of this report, the decision of the Bucharest Court of Appeals acknowledging the legality of the merger and registering the merger and its effects in the Trade Register has not been obtained yet.

Following the merger, the new bank will operate under the name of PATRIA BANK SA and its activity will focus on the retail segment, integrating the technology to simplify the access of customers to high-performance financial services and will continue to be a solid and reliable partner for the Romanian SMEs, contributing to the development of the local entrepreneurial environment. The bank's shares deriving from the merger will continue to be listed in the Bucharest Stock Exchange.

Minority shareholders' withdrawal right as a result of the merger

Based on the Merger Project between Banca Comerciala Carpatica SA, as absorbing company, and Patria Bank SA, as absorbed company, on 04 October 2016 the Bank provided its shareholders who did not vote in favour of the merger with the Procedure of withdrawal from Banca Comerciala Carpatica SA. In accordance with the provisions of this procedure, during the period in which the shareholders were entitled to exercise their right of withdrawal (05 October 2016 - 7 November 2016), 3 shareholders expressed their right of withdrawal, holding together 414,699,946 shares representing 18.83% of the issued and paid-in share capital of the Bank.

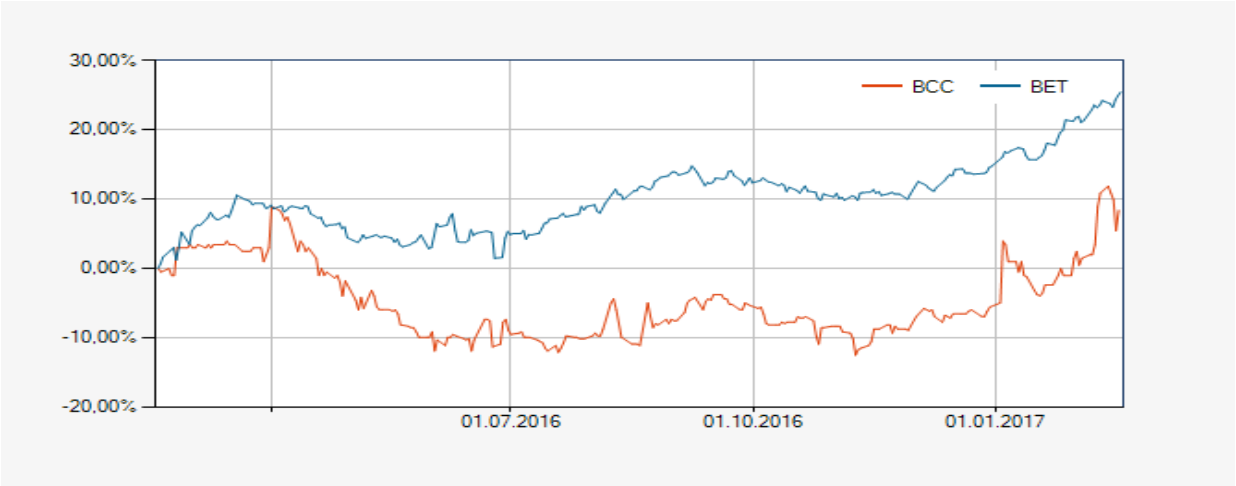
Company shares

Starting with 26 April 2005, the Bank's shares have been listed in the Premium category of the Bucharest Stock Exchange and are included in the BETPlus indicators, BET-XT, BET-XT-TR, BET-BK. The Bank's shares are ordinary, registered, dematerialized and indivisible.

The closing price for a BCC share on 31 December 2016 was 0.0954 lei/share. On the same date, the market capitalization was 210,141,665 lei (≈EUR 46.7 mil.).

In 2016, neither the Bank nor its subsidiaries redeemed their own shares.

The evolution of the BCC share price as compared to BET index in 2016



Source: BSE

Dividends and their payment

Dividends may be distributed only if the company registers profit, as reported in the annual financial statements, approved by the Ordinary General Assembly of Shareholders. For the closed year 2016, the Bank recorded losses and therefore it cannot distribute any dividends.

2. Corporate Governance

Corporate governance is the set of principles underlying the administration and control framework of the Bank's and Group's activity.

2.1 Administration and management of the Bank

Banca Comerciala Carpatica SA applies the provisions of the Corporate Governance Code of the Bucharest Stock Exchange (BSE) and reports on an annual basis the conformity with its provisions (Appendix 2 – Declaration on compliance with the principles of the Corporate Governance Code of the BSE).

During the period of ***January - April 2016*** Banca Comerciala Carpatica SA was administered based on a ***two-tier governance system***, consisting of i) the Directorate – representing the management function, ensuring the operative management of the Bank, and ii) the Supervisory Board – representing the supervisory function, ensuring the supervision, administration and coordination of the Directorate's activity. Their competences and duties were regulated by the Articles of Incorporation, by their respective Organization and Operation Regulations, and by the Bank's Organization and Operation Regulation.

Following the decision of the General Assembly of Shareholders ***dated 02 April 2016***, Banca Comerciala Carpatica SA adopted ***the one-tier*** *governance system*, consisting of the Management Board and of the Committee of

Directors, a system in full accordance with the size, nature and complexity of the activities carried out, observing the corporate governance objectives, the transparency of the relevant corporate information, the protection of the interests of various categories of participants, and the principles of an efficient operation on the banking market.

Thus, Banca Comerciala Carpatica SA is administered by a Management Board consisting of 5 members appointed by the Ordinary General Assembly of Shareholders for a 4-year mandate, with a possibility of being re-elected for subsequent 4-year mandates. The Board of Directors delegates the operative management and the coordination of the daily activity of the Bank to several managers, appointing among them a General Manager and a Deputy General Manager (Committee of Directors).

The management body of the bank (the Management Board and the Committee of Directors) conduct their activity based on organizational and operation rules regulated by the Articles of Incorporation, by their respective Organization and Operation Regulations, and by the Bank's Organization and Operation Regulation. The management body promotes high ethical and professional standards and a solid internal control culture.

The composition, size and competencies of the management body are tailored to the size and complexity of the Bank's activity.

The members of the management body meet the eligibility criteria required for the efficient management of the Bank's activity:

- They have a good reputation and the required expertise to discharge their responsibilities in accordance with the rules of a prudent and healthy banking practice;
- They have proficiency, namely theoretical and practical knowledge suitable for the nature, size and complexity of the bank's activity and for the entrusted responsibilities, as well as experience in executive positions;
- They ensure the requirements of the collective competency of the management body for an efficient administration and management and for a high performance of the Bank's activity;
- They dedicate enough time to discharging their responsibilities as established by the law and by the statutory bodies;
- They prove involvement and commitment in discharging their responsibilities as established by the law and by the statutory bodies.

The nomination and evaluation of the appropriateness of the management body members are performed based on a rigorous process defined in the "Policy of appointing and alternating the management body members and the persons filling key positions" and in the "Policy of evaluating the appropriateness of the management body members and of the persons filling key positions", which comply with the provisions of the NBR Regulation no. 5/2013 on prudential requirements for credit institutions (articles 15 and 16) and with the principles of the Corporate Governance Code of the Bucharest Stock Exchange.

The diversity within the Management Board and the Committee of Directors is ensured by the Bank through the selection process taking into account: the candidates' gender, their education and their professional experience. The two management structures of the Bank include persons of both genders, whose higher education and experience cover various business segments (commercial, financial, audit, risk, etc.).

The Supervisory Board 01 January 2016 - 27 April 2016

Composition

Governance system	Management body	Members	Office	Period
Two-tier governance system	**The Supervisory Board**	Ionut Patrahau and Silviu Popa Ioan Trenca Giaime Marzo	Starting from 01 September 2015 until 28 April 2016, the presidency of the board was ensured alternatively, as interim, by Mr. Ionut Patrahau and Mr. Silviu Popa. Interim member *(mandate expired and extended until the next General Assembly of Shareholders)* Non-functional member *(until 08 April 2016 when the appointment proposal was withdrawn)*	01 January 2016 28 January 2016
		Ionut Patrahau Silviu Popa Ioan Trenca Giaime Marzo	Chairman – functional member Interim member *(until 01 April 2016)* Interim member *(mandate expired and extended until the next General Assembly of Shareholders)* Non-functional member *(until 08 April 2016 when the appointment proposal was withdrawn)*	29 January 2016 27 April 2016

The activity of the Supervisory Board during the period 01 January 2016 -27 April 2016

Starting from 01 January 2016 - 27 April 2016, the Supervisory Board gathered in 14 meetings and adopted 73 decisions generally with unanimity of the votes. The meetings of the Board were generally organized at the Bank's headquarters, but modern communication methods were also used in order to increase the efficiency of the decision-making process (conference call, e-mail). In some meetings of the Board participated the members of the Directorate as well as the representatives of the Italian shareholders, as invitees, and, after Patria Bank SA became part of the shareholding structure of the Bank, the representatives of the majority shareholder appointed to that effect participated in the meetings of the Supervisory Board, as observers.

Thus, the presence of the Board members in its meetings was as follows:
- Mr. Ionut Patrahau – 14 meetings;
- Mr. Silviu Popa – 10 meetings;
- Mr. Ioan Trenca – 14 meetings.

A minute was drafted after each meeting, identifying aspects that needed improvement, as well as recommendations for placing the same into practice.

Starting from January until April 2016, the duties and responsibilities of the Audit Committee and of the Risk Management Committee were taken over by the Supervisory Board.

Management Board 28 April 2016 – present

The management body ensuring the supervisory function of the bank is the Management Board, consisting of 5 members appointed by the Ordinary General Assembly of Shareholders. At least one member of the Management Board must be independent.

He supervises and is held responsible for implementing a framework of activity's administration ensuring the efficient and prudent administration of the Bank, including separation of responsibilities within the Bank and prevention of conflicts of interests. The organization and operation are ensured according to the Articles of Incorporation, to the applicable laws and to the internal organization and operation regulation.

The candidates for member positions in the Management Board are nominated by the shareholders or by the existing members of the Management Board and can only be individuals who have a good reputation, knowledge, skills and experience suitable for the nature, scope and complexity of the Bank's activity and for the entrusted responsibilities, in order to ensure a prudent and healthy management of the Bank.

Composition

One-tier system	**Management Board** (according to the decision of the General Assembly of Shareholders dated 02 April 2016)	Dragos Horia Manta Daniela Elena Iliescu Bogdan Merfea Johan Gabriëls Ionut Patrahau	Chairman of the Management Board Non-executive member Non-executive member Non-executive member *(withdraws from the member position on 27 April 2016)* Executive member *(resigns on 23 June 2016)*	28 April 2016 – present

On 31 December 2016, the Bank's Management Board consisted of 3 members, the Management Board not including any independent member. The Management Board's members' mandate is 4 years. On 31 December 2016, 2 member positions were vacant in the Management Board.

Dragoș Horia Manda
Chairman of the Management Board
Chairman of the Risk Management Committee
Member of the Audit Committee

Born on 15 July 1960

Residence - Bucharest

Mr. Manda graduated the Bucharest University, Faculty of Physics, with a doctorate in mathematics from the University – VII of Paris France (1993), an MBA (summa cum laude) through the Romanian-Canadian MBA Program (McGill, Quebec University - Montreal, Academy of Economic Studies of Bucharest, 1996) and an M.Sc. in theoretical Physics from University of Bucharest (1984).

With an experience of more than 19 years in private equity investments in Southeast Europe, he has built a successful career in the management and administration, as Chairman or Manager of the Management Board, of many companies from the investment funds' portfolio such as RAEF, BAAF and EEAF, with a special emphasis on the financial services sector.

Along his career, Mr. Manda personally supervised capital investments of more than 200 million €, with successful projects in various industries such as financial services, IT, retail, energy and production.

Mr. Manda has been the chairman of the Management Board of Patria Bank SA since 2014. He has been an administrator and the General Manager of Axxess Capital Partners S.A. and chairman of the Investment Committee of EEAF since 2006.

Also, he has filled positions such as: Chairman (non-executive) of the Management Board of Patria Credit IFN S.A. (2008 – December 2015), Chairman (non-executive) of the Management Board of Emerging Europe Leasing and Finance (EELF) B.V., holding incorporated by BAF, specialised in leasing activity, holding majority package of shares in the companies BM Leasing Bulgaria, Total Leasing Moldova and Landeslease Albania (2006 – June 2014).

Also, he filled positions such as investment officer (1996-1997), vice-president and senior investment officer (1997 – 2002) and prime vice-president and investment manager (2002 – present) within RAEF, non-executive member in the Management Board of Banca Romaneasca (1999-2003), non-executive chairman of the Management Board of Motoractive S.A. (leasing) (2003-2006), non-executive chairman of the Management Board of Domenia Credit S.A. (mortgage loan) (2003-2006).

Between 1986 and 1996 he acted as a researcher in several institutes, such as: the Institute of Mathematics of the Romanian Academy, the National Center of Scientific Research - Paris, the Institute of Atomic Physics of Bucharest.

He was elected in the Management Board of Banca Comerciala Carpatica SA on 02 April 2016, for a 4-year mandate, starting with 28 April 2016.

Daniela Elena Iliescu
Member of the Management Board
Chairman of the Audit Committee
Member of the Risk Management Committee

Born on 23 September 1977

Residence - Bucharest

Ms Iliescu graduated the Academy of Economic Studies of Bucharest, she is a certified member of ACCA, of the Romanian Chamber of Auditors and of the Romanian Organization of Accountants, and graduated the Executive MBA courses of the University of Economics of Wien and of the Business & Carlson Business School - USA.

Ms Iliescu has been a member of the Management Board of Patria Bank SA since 2014, having a vast experience in finance (financial management, reporting and budgeting) for important institutions such as EEAF and BAF, being very actively involved in monitoring the funds' investments in the financial services sector, the most relevant being the investments in Patria Bank and Patria Credit.

During the period 2000-2007 she worked in PWC România, where she was responsible with coordinating the audit and financial consulting services for important customers from the banking sector, leasing, credit companies and asset management companies.

Since 2007 she has been working with Axxess Capital Partners S.A., filling positions such as Chief Financial Officer (2013-Present), senior project manager (2007-2013).

She was elected in the Management Board of Banca Comerciala Carpatica SA on 02 April 2016, for a 4-year mandate, starting with 28 April 2016.

Bogdan Merfea
Member of the Management Board
Member of the Audit Committee
Member of the Risk Management Committee

Born on 20 September 1957

Residence - Brasov

Mr. Merfea graduated the Transilvania University of Brasov – Faculty of Machine Manufacturing Technology, he is a doctor of Mechanical Engineering and has a master of Business Management, also attending to courses at the prestigious school INSEAD, IMD Laussane, Harvard, Wharton University.

Being trained as an engineer, Mr. Merfea has academic experience, having worked as a university professor, lecturer and head of works, assistant professor and researcher in the Machine Manufacturing Technology department between 1984 and 1999.

He created and coordinated the Foundation for the Promotion of Small and Medium Enterprises, Brasov and as Executive Manager between 1995 and 1999 he coordinated regional development projects, training programs dedicated to SMEs, he coordinated consulting activities dedicated to micro companies in collaboration with USAID.

Starting with year 1999, he began his banking activity as manager of the branch of Demir Bank in Brasov, until 2001. Between 2001 and 2008, Mr. Merfea filled various management positions within Raiffeisen Bank Romania. Also, Mr. Merfea filled management positions such as the Executive Chairman of Raiffeisen Bank Kosovo and Raiffeisen Leasing Kosovo SA between 2008 and 2009, as well as the position of Sales and Distribution Executive Manager - Retail Division of Raiffeisen Bank between 2006 and 2008 and Branch Network Management Executive Manager between 2005 and 2006. Also, in 2008, Mr. Merfea was a member of the Management Board of Raiffeisen Leasing Romania, and between 2007 and 2008 he was a member of the Management Board of Raiffeisen Asset Management Romania.

Mr. Merfea has a vast experience in the micro-financing activity, filling management positions such as that of General Manager (between 2009 and 2015) and that of member of the Management Board (since 2015 to the present) of Patria Credit IFN SA. Also, since 2013, Mr. Merfea has been a member of the Management Board of European Microfinance Network.

Mr. Bogdan Merfea has been, since 2014, a member of the Management Board of Patria Bank SA, and since 2015 its General Manager.

He was elected in the Management Board of Banca Comerciala Carpatica SA on 02 April 2016, for a 4-year mandate, starting with 28 April 2016.

Activity of the Management Board during the period 28 April 2016 - 31 December 2016

Duties and responsibilities of the Management Board

The main competences of the Management Board, including those that cannot be delegated to the members of the executive management, are established by the law, the Articles of Incorporation, the Bank's Organization and Operation Regulation, as well as by the Organization and Operation Regulation of the Management Board. In cases permitted by the law, the General Assembly of Shareholders may delegate other duties as well to the Management Board.

The main responsibilities of the Management Board are to establish the main business and development’s directions of the Bank, to establish the accounting policies and the financial control system, as well as to approve the financial planning, the appointment and dismissal of managers, and to establish their compensation, to supervise the managers' activity, to prepare the annual report, to organize the General Assembly of Shareholders and to implement its decisions, to establish the reference date for shareholders entitled to participate and vote in the General Assembly of Shareholders, the duties allotted to the Management Board by the Bank's General Assembly of Shareholders, to represent the Bank in its relationship with the managers, other duties and responsibilities set forth by the legal provisions in force and that cannot be delegated to the managers, to create advisory boards.

Meetings of the Management Board

The Management Board gathers in periodic meetings at least once every 3 months, on the request of the Chairman of the Management Board, on the motivated request of at least two members of the Management Board or of the general manager.

The calls for the meetings of the Management Board in 2016 mentioned the place, time and agenda of the organized meeting. The meetings of the Board were generally organized at the Bank's headquarters, but modern communication methods were also used in order to increase the efficiency of the decision-making process (conference call, e-mail).

In every meeting, a minute was drafted, including the names of participants, the order of deliberation, the decisions adopted, the number of votes gathered, and the dissenting opinions.

Starting from 28 April 2016 until 31 December 2016, the Management Board gathered in 63 meetings and adopted 402 decisions generally with unanimity of the votes. In certain meetings of the Management Board, members of the Committee of Directors participated as well, along with representatives of the structures within the Bank's head office, as invitees.

Thus, the presence of the Board members in its meetings was as follows:

- Mr. Dragos Horia Manda – 61 meetings and 2 meetings by representative;
- Ms Daniela Iliescu – 58 meetings and 5 meetings by representative;
- Mr. Bogdan Merfea – 62 meetings and 1 meeting by representative.

The members of the Management Board permanently aimed at ensuring continuity in the Bank's business, at supervising the merger process between Banca Comerciala Carpatica SA and Patria Bank SA, at implementing the measures ordered by the National Bank of Romania and by other institutions of the state, and at monitoring the implementation of the decisions of the Committee of Directors.

The Management Board approved in 2016 its own Organization and Operation Regulation, the Statute of the Committee of Directors, the Organization and Operation Regulation of the Bank, as well as those of other subordinated committees. Moreover, the Bank's risk management policies and strategies and the policy on the conflicts of interests were revised and the new procedural framework for the bank that would be born from the merger was analysed and approved.

During 2016, the Management Board negotiated a new collective bargaining contract with the Bank's Trade Union called “Unitate” and, at the same time, started a reorganization and optimization process regarding the Bank's territorial network, by relocating or closing non-performing units during 2016.

The Management Board approved the periodic financial reports (quarterly, biannual) relevant to year 2016 and organized a meeting with financial analysts, investment consultants, brokers and investors to present the details of the merger process between the two banks, the post-merger strategy, the operational pattern of the post-merger bank.

Due to its approval competences, in 2016, the Management Board approved the sale of some real estate assets taken over by the Bank to compensate for its claims for certain customers managed in the workout area.

Moreover, considering that between 28 April 2016 and 03 July 2016 the Committee of Directors lacked the requisite majority, the relevant decisions were taken at the level of the Management Board.

A minute was drafted after each meeting of the Management Board, identifying aspects that needed improvement, as well as recommendations for placing the same into practice.

Senior management

Year 2016 brought many changes for the Bank, including those regarding its management structure.

Thus, from January to April 2016, Banca Comerciala Carpatica SA had a *two-tier governance system*, where the Directorate represented the senior management function, ensuring the operative management of the Bank. Their competences and duties were regulated by the Articles of Incorporation, by their respective Organization and Operation Regulations, and by the Bank's Organization and Operation Regulation.

After Patria Bank SA became part of the shareholding structure of Banca Comerciala Carpatica SA on 02 April 2016, the Bank adopted a *one-tier governance system*, where the Committee of Directors represented the senior management function, ensuring the operative management of the Bank. Its competences and duties were regulated by the Articles of Incorporation, by its own Bylaws, and by the Bank's Organization and Operation Regulation.

Thus, on 31 December 2016, the operative management and the coordination of the Bank's daily business was delegated by the Management Board to several managers who formed together the Committee of Directors.

Composition of the Directorate

Governance system	Management body	Members	Role within the Committee	Office	Period
Two-tier governance system	**Directorate**	Johan Gabriëls Elena Badeanu Cosmin Bucur Cornel Benchea Gheorghe Cismaru *(mandate expired on 15 January 2016)*	Chairman Member Member Member Member	General manager Deputy General Manager of the Corporate Identity and Human Resources Division Deputy Manager of the Commercial Division Deputy General Manager of the Asset Solutions and Treasury Division Deputy General Manager of the IT and Operations Division	01 January 2016 27 April 2016

Activity of the Directorate from 01 January 2016 until 27 April 2016

Starting from 01 January 2016 until 27 April 2016, the Directorate gathered in 57 meetings and adopted 336 decisions generally with unanimity of the votes. The meetings of the Directorate were generally organized at the Bank's headquarters, but modern communication methods were also used in order to increase the efficiency of the decision-making process (conference call, e-mail).

Thus, the presence of the Directorate's members in its meetings in 2016 was as follows:

- Mr. Johan Gabriëls – 57 meetings
- Mr. Bucur Cosmin – 57 meetings
- Mr. Cornel Benchea - 54 meetings
- Mr. Cismaru Gheorghe – 3 meetings
- Ms Badeanu Elena – 57 meetings

During its mandate, the Directorate:

- He conducted a continuous process for identification potential investors in view of improving the capital base of the Bank, while analysing potential acquisitions considering the excessive liquidity of the Bank;
- He convened the General Assembly of Shareholders, having as main objective to pass from a one-tier governance system, since the new majority shareholder Patria Bank SA became part of the shareholding structure of the Bank, and to preliminarily approve the merger between Banca Comerciala Carpatica SA and Patria Bank SA;
- He started the pre-integration (pre-merger) project between the two banks, taking steps to ensure the necessary resources for the project;
- He analysed and forwarded for the approval of the Supervisory Board proposals regarding the collaboration between Patria Bank SA and Banca Comerciala Carpatica SA, so that Patria Bank SA may ensure the consolidated supervision (and submit the reports on a consolidated basis);
- He continued the reorganization and optimization process of the Bank's territorial network, by relocating or closing non-performing units based on territorial network annual classification criteria;
- He analysed and approved a series of sales for the real estate assets taken over in exchange of the Bank's claims regarding certain customers of the bad loans portfolio;
- He analysed and approved proposals aiming to render more efficient the activity of the Bank's structures, to improve the services provided to customers and took a set of decisions regarding the procedural framework (approval of procedures, standards, manuals).

A minute was drafted after each meeting of the Directorate, identifying aspects that needed improvement, as well as recommendations for placing the same into practice.

Composition of the Committee of Directors

One-tier system	**Committee of Directors**	*Between 28 April 2016 and 03 July 2016 the Steering Committee lacked the requisite majority and the relevant decisions were taken at the level of the Board of Directors.* *Mr. Ionut Patrahau, nominated for the position of General Manager of the Bank by the Board of Directors, resigned on 23 June 2016*			
		Diana Maria Kallos	Member	Deputy General Manager of the Risk and Finance Division	04 July 2016 - present
		Valentin Grigore Vancea	Member	Executive Manager of the Operations and IT Division	04 July 2016 - present

Information on managers

Diana Maria Kallos
Deputy General Manager of the Risk and Finance Division
Member of the Committee of Directors
Chairman of the Asset and Liability Management Committee (ALCO)
Member of the Credit Committee
Member of the Loan Restructuring and Recovery Committee
Member of the HR Committee (between 04 July 2016 and 15 September 2016)

Born on 27 June 1975
Residence - Bucharest

Ms Kallos graduated the Faculty of Economics within the Babes-Bolyai University of Cluj and in 2007 she graduated the Executive MBA program of ASSEBUSS organized in collaboration with Kenesaw State University Atlanta. Ms Kallos began her career in 1996, acting in the finance & accounting area of several Romanian companies, filling the position of chief accountant. During the period 2000 – 2006 Ms Kallos held the position of Finance Manager at RALFI IFN SA (a consumer loans company that operated under the "Estima Finance" brand) and then the position of Pricing and Financial Planning & Analysis Manager within GE Money Romania, during the period 2006 – 2007. Between 2007 and 2010 she held positions such as that of operations manager at a consumer loans broker or that of finance manager at Industrial Access S.A. Between 2010 and 2014, Ms Kallos filled the position of Deputy General Manager at Patria Credit IFN SA, and since 2015 she has been a member of the Management Board of this non-banking financial institution. Between 2014 and 2016, Ms Kallos was a Deputy General Manager at Patria Bank SA, coordinating the financial area, the treasury and the ALM. Starting from 04 July 2016 she has been a Deputy General Manager at Banca Comerciala Carpatica SA, with a 4-year mandate, coordinating the financial and risk area.

Valentin Grigore Vancea
Executive Manager of the Operations and IT Division
Member of the Committee of Directors
Member of the Asset and Liability Management Committee (ALCO)
Chairman of the Occupational Health and Safety Committee

Born on 19 July 1975
Residence - Bucharest

Mr. Vancea graduated the Faculty of International Economic Relations within the Academy of Economic Studies of Bucharest, holding an MBA Degree issued by the City University of Washington in Financial Management. During the period 1999 and 2000 Mr. Vancea was an auditor at KPMG Romania and between 2000 and 2003 he acted in the audit area within HVB Romania. Between 2003 and 2007 Mr. Vancea filled the position of Internal Audit Manager within HVB Bank. During this period he coordinated the implementation of the merger projects between HVB Bank Romania S.A. and Banca Comerciala Ion Tiriac S.A., and Unicredit Bank respectively. Between 2008 and 2011 Mr. Vancea held the position of vice-president at Volksbank Romania as Chief Operations Officer. Being specialized in the operations area, IT and information security, starting with 2012 he filled management positions at ANSSI - National Association for Information Systems Security. Also, between 2014 and 2015, he coordinated the business development and strategy segment from the position of executive manager at Star Storage. Starting with 2015 Mr. Vancea filled the position of Operations Manager, member of the executive committee within Patria Bank SA, and starting with 04 July 2016, he has been an Executive Manager at Banca Comerciala Carpatica SA for a 4-year mandate, coordinating the IT and operations area.

Activity of the Committee of Directors from 04 July 2016 until 31 December 2016

The meetings of the Committee of Directors are held on a weekly basis or whenever required by the Bank's activity. The decisions of the Committee of Directors are taken based on the absolute majority (half+1 of the total number of its members) of the votes of its members. Should the Committee of Directors be incapable of taking valid decisions because the absence of quorum, the issue shall be subject to approval by the Management Board, together with the divergent opinions expressed by each Manager, if applicable.

The minute of the meeting is signed by the participating managers, right after drafting it.

Thus, during 2016, 71 meetings of the Committee of Directors were organized, in which all the members of the Committee participated; 397 decisions were approved with unanimity of the votes. The meetings of the Committee of Directors were generally organized at the Bank's headquarters, but modern communication methods were also used in order to increase the efficiency of the decision-making process (conference call, e-mail).

Since between 28 April 2016 and 03 July 2016 the Committee of Directors lacked the requisite majority and the relevant decisions were taken at the level of the Management Board.

During the reference period, the Committee of Directors analysed and approved proposals of how to make the activity of the Bank's structures more efficient, to improve the services provided to customers, and a set of internal regulations.

The main action areas of the Committee of Directors were the following:

- The proposal of the Bank's Business Strategy and the Risk Strategy for the year 2016, the update of the ICAAP framework and its harmonization with the requirements of the parent company for prudential consolidation purposes;
- The preparation of the merger and operational integration between Banca Comerciala Carpatica SA and Patria Bank SA, the endorsement and forwarding of the new procedural framework regarding the merged bank to be approved by the Management Board;
- In 2016, the Committee of Directors implemented the territorial network reorganization and optimization measures approved by the Management Board in the technical & economical plan that contemplated mainly the change of the Bank's organization chart, the reorganization of the territorial network, the closing of non-performing units and the adoption of a new business model;
- Also, due to its approval competences, the Committee of Directors analysed and approved a set of sales of real estate assets taken over by the Bank to compensate for its claims for certain customers managed in the workout area;
- The proposal and implementation of measures established in view of repairing the deficiencies acknowledged in the NBR's supervisory missions, during the internal audit missions or during the external auditor's missions.
- Throughout the year 2016, the Committee of Directors analysed and closely monitored the financial indicators of the bank, the accomplishment degree of the budget approved for year 2016, on the background of a continuous cost reduction process and of making the Bank's activity more efficient.

The Committee of Directors regularly and exhaustively provided the Management Board with detailed information on all the important aspects of the Bank's activity, including those regarding the risk management, the evaluation of potential risks and the compliance aspects, the measures taken and the recommended measures, the irregularities identified while performing its duties.

Any event of major importance is immediately communicated to the Management Board.

Committees created to support the Committee of Directors

The committees created to support the Committee of Directors assist it in performing its duties on various business lines, particularly regarding the Bank's operational activity. These committees are composed of members of the Committee of Directors and representatives of the management of the affected structures. The responsibilities and competences of each committee are established in its own regulation.

a) The Asset and Liability Management Committee (ALCO)

The Asset and Liability Management Committee operates with the aim of ensuring balance at the level of the financial risks undertaken by the Bank in the process of meeting its objectives.

During 2016, the Asset and Liability Management Committee gathered in 15 meetings. 64 subjects have been analysed and 25 decisions have been made.

b) The Credit Committee

The purpose of the Credit Committee is to approve the credit facilities for the Bank's corporate and retail customers within the limit of its competences established in its own organization and operation regulation, ensuring the proper management and development process of the loans portfolio. The Credit Committee has the approval competences delegated by the Committee of Directors, being composed of five members and two permanent invitees. Also, the Credit Committee also operates through a sub-committee, the competences of which are established in its own organization and operation regulation.

The Credit Committee gathers whenever necessary, at least once a week.
In 2016, the Credit Committee gathered in 110 meetings. 882 files were analyzed and 838 resolutions and 12 notifications were issued in total. The Credit Committee of 1st tier gathered in 69 meetings, 569 files were analyzed and 562 resolutions were issued. Between 28 April 2016 and 05 July 2016 the Committee lacked the requisite majority and the relevant decisions were taken at the level of the Management Board.

c) The Loans Restructuring and Recovery Committee

The Loans Restructuring and Recovery Committee is a committee with approval competences delegated by the Committee of Directors, ensuring a proper management process of the loans portfolio managed by the Workout Division, having as main function the analysis and decision-taking regarding proposals of loans restructuring, of new loans granted to customers from the portfolio of the Workout Division, of recovery of outstanding debts, elaborated and presented by the Workout Division, or of capitalization and management of real estate assets and movable assets owned by the bank as a result of taking over the same as compensation for its claims, or of the assets that are no longer used in the main business or are intended for capitalization.

The Loans Restructuring and Recovery Committee is gathered whenever necessary, upon the express request of any of its members in order to debate on issues of its competence. Also, the Loans Restructuring and Recovery Committee operates through a sub-committee, the competences of which are established in its own organization and operation regulation.

In 2016, the Loans Restructuring and Recovery Committee gathered in 77 meetings, 273 applications were analysed and 243 resolutions were issued in total. The Committee of 1st tier gathered in 47 meetings, 193 applications were analysed and 188 resolutions were issued in total.

d) Other committees:

The Occupational Health and Safety Committee, the Commercial Policies and Programs Committee and the HR Committee (the last two were eliminated on 15 September 2016).

2.2 Assessment of the appropriateness of the management body members

The bank has a Policy for assessing the appropriateness of the management body and of the persons holding key positions, establishing the criteria and processes observed by the Bank in assessing the appropriateness of the proposed and appointed members of the management body and of the persons holding key positions.

Considering the passage from a two-tier governance system to the one-tier one, that took place in 2016, the appropriateness was assessed for all members of the Management Board and of the Committee of Directors upon their appointment. They were approved by the National Bank of Romania in 2016 (April 2016 - members of the Management Board and July 2016 - members of the Committee of Directors) for holding the position and exercising the relevant responsibilities.

2.3 Remuneration of the management bodies' members

The Management Board proposes for approval by the Bank's General Assembly of Shareholders the amount and conditions for granting the compensations payable to the members of the Management Board. The remuneration of the Committee of Directors' members is established by the Management Board.

The remuneration of the management bodies' members (Supervisory Board / Management Board / Directorate / Committee of Directors) - gross remunerations in 2006 - is as follows:

Year 2016 (gross in Lei)	
Total, out of which:	3,030,316
- fixed remuneration (gross in Lei)	2,905,691
- variable remuneration (gross in Lei) out of which:	124,625
- cash	124,625
- shares	0
- other titles	0

In 2016, the Bank did not grant any other benefits to the Board Management's members, excepting the ones mentioned in the table above.

2.4 Participation of the members of the management bodies in the share capital

On 31 December 2016, the members of the management bodies (Management Board and Committee of Directors) do not hold any interests in the share capital of Banca Comerciala Carpatica SA.

2.5 Risk management and internal control

The main objective of the risk management activity is to make sure that all risks are properly managed so as to satisfy the interests of all the parties involved.

The risk management within Banca Comerciala Carpatica SA is governed by the Management Board, assisted by the Audit Committee and the Risk Management Committee. The specialized committees support the Management Board and the Committee of Directors in view of discharging their responsibilities in terms of risk management and control.

Advisory committees at the Management Board's level

In order to develop and maintain good business management practices, along with passing to a one-tier governance system, starting with April 2016, the Management Board created two committees that assist it in discharging its duties. The composition, organization and operation rules, and the duties of these committees are defined in their own organization and operation regulations.

a) The Audit Committee

Starting with 28 April 2016, the composition of the Audit Committee is the following:

- Daniela Elena Iliescu – Chairman (non-executive administrator)
- Bogdan Merfea – Member (non-executive administrator)
- Dragos Horia Manda – Member (non-executive administrator)

The Audit Committee plays an advisory role and is subordinated to the Management Board.

The members of the Audit Committee have the proper experience for the specific duties they have within the committee.

The Audit Committee is gathered at least once every quarter or whenever necessary, having the role of assisting the Management Board in discharging its responsibilities in terms of internal control, internal audit, risk management and financial audit. To that effect, the Audit Committee makes recommendations to the Management Board regarding the strategy and policy of the credit institution in the area of internal control, internal audit, risk management and financial audit.

In 2016, the Audit Committee gathered in 5 meetings, all the members of the committee participating in each of them. The main subjects discussed dealt with the internal audit plan, the risk assessment, the examinations made by the internal audit.

Each meeting was properly formalized by concluding minutes that mentioned the items on the agenda, their analysis and the measures established.

b) The Risk Management Committee

Starting with 28 April 2016, the composition of the Risk Management Committee is the following:

- Dragos Horia Manda – Chairman (non-executive administrator)
- Daniela Elena Iliescu – Member (non-executive administrator)
- Bogdan Merfea – Member (non-executive administrator)

The Risk Management Committee plays an advisory role and is subordinated to the Management Board.

The members of the Risk Management Committee have the proper experience for the specific duties they have within the committee.

The Risk Management Committee is gathered on a monthly basis or whenever necessary, having the role of assisting the Management Board regarding the risk appetite and the global strategy regarding the management of the current and future risks of the Bank and to assist the Management Board in supervising the implementation of the strategy.

The Audit Committee gathered in 6 meetings, all the members of the committee participating in each of them. The main subjects discussed dealt mainly with:

- The monthly general reports regarding risk management and other specific reports;
- The risk management strategy;
- The revision of the of the internal capital adequacy assessment process (ICAAP);
- The capital planning for years 2016-2019;
- The policy regarding the development of new products and change of existing products;
- Analysis and endorsement of the product sheets, of the retail and corporate lending rules.

A minute was drafted after each meeting, identifying aspects that needed improvement, as well as recommendations for placing the same into practice.

The specialized risk management committees supporting the Committee of Directors

The main objective of the Assets and Liabilities Management Committee is to ensure the management of the structure of assets and liabilities, the management of liquidities and financing sources, the management of structural risks (interest rate risk and foreign exchange risk outside the trading portfolio) and the capital management.

The main objective of the Credit Committee is to assess and improve the Bank's lending activity performance.

The Bank's independent functions of control

The internal control functions are independent of the activity lines they monitor and control and they are independent one from another from the organizational point of view.

✓ ***The internal audit function***

The internal audit function is ensured at Bank level by the Internal Audit Division and has the role of assessing whether the quality level of the internal control framework is both effective and efficient.

The internal audit function checks particularly the integrity of the processes ensuring the credibility of the Bank's methods and techniques, of its assumptions and sources of information used in its internal models. The internal audit function also assesses the quality and manner in which qualitative instruments are used in order to identify and assess the risks.

The internal audit function is not directly involved in conceiving or selecting models or other risk management instruments. Through the activities it carries out, the internal audit function contributes to the identification and assessment of significant exposures to risks as well as to the improvement of the risk management and control systems.

✓ ***The risk management function***

The risk management office is ensured at Bank level by the Risk Management Division. The duties of this structure mainly consist of identifying, analysing and assessing the various risk types and areas deriving from the Bank's current activity.

The global risk management strategy approved in 2016 is meant to create the general framework for a healthy and prudent management of the risks that could affect the Bank's activity. The Bank promotes and develops an integrated culture regarding risks, both at individual level and at general level of the Bank, based on the full understanding of the risks and of how they are managed, considering the tolerance/appetite for risk of the credit institution.

The risk management responsibility is not limited to the risk specialists or the control functions. The operational units, coordinated by the management body, are responsible for the daily risk management, considering the Bank's tolerance/appetite for risk and in compliance with the Bank's policies, procedures and internal regulations.

✓ ***The compliance function***

The compliance function is ensured at Bank level by the Compliance Division and has the role of identifying, assessing, monitoring, granting consulting and reporting to the management body about the compliance risk. At the bank level, the Policy and bylaws of the compliance function were adopted, establishing the basic principles of development of compliance culture, to be followed by the entire staff of the Bank, including by the management, as well as the main processes through which the compliance risks are going to be identified and managed.

2.6 Transactions with affiliates and the conflict of interests

Transactions with affiliates

The bank has procedures for the identification and treatment of the Bank's affiliates and their transactions. The competence of approving the loans granted to the Bank's affiliates devolves on the Management Board. The members of the Management Board who are in a conflict of interests are excluded from the approval process.

The affiliates are those persons with direct or indirect decision power, their family members, the management of the bank and other related companies:

- on 31 December 2016, Patria Bank Group (having become the Bank's majority shareholder in 2016) and other companies where the management has a major influence – see the List of affiliates in Appendix 1;
- on 31 December 2015, the Atlassib Group and other companies in which the management has a major influence.

The "Key management personnel" group includes:

- on 31 December 2016, the members of the Committee of Directors and of the Management Board of Directors (the Bank is managed based on a one-tier governance system);
- on 31 December 2015, the members of the Supervisory Board and of the Executive (the Bank was managed based on a two-tier governance system).

All the transactions with affiliates have been concluded in similar terms with the transactions with non-affiliates, taking into account the interest rate and the related securities.

The transactions with affiliates are presented in a distinct comment to the individual annual financial statements for the year ending on 31 December 2016 as well as for comparative periods.

Transactions of insiders

Through the Bank's internal procedures, persons with management responsibilities, as well as persons who have a tight connection with these have the obligation to notify the Bank regarding every transaction made on their behalf in connection with the Bank's shares or debentures or with the derivatives or other accessory financial instruments, regarding the Bank.

On the other hand, through the internal insider procedure, the Bank makes sure that privileged information is not used in case of transactions with shares issued by the Bank. Thus, there are specific provisions regarding the periods during which it is prohibited to insiders - employees or managers of the Bank - to trade the Bank's bonds. The interdiction periods (*blackout-period*) are in close connection with the financial reporting periods.

Thus, in 2016, no situations coming in conflict with the Bank's interests were identified regarding insiders.

Conflict of interests

In 2016, no conflicts of interests were identified between the members of the Management Board and of the Committee of Directors and the Bank's interests. The main rules established by the Bank to prevent and avoid conflicts of interests and observed by the members of the Management Board and of the Committee of Directors are the following:

1. the obligation to act only in the Bank's interest and to take decisions without getting influenced by potential own interests that could appear during business;
2. the obligation to keep confidentiality of all facts, data or information they become aware of while discharging their responsibilities, both during business and after its completion;
3. the obligation to notify the other members of the Management Board and the internal auditors regarding any operation in which they have direct or indirect interests that are contrary to the Bank's interests and to not take part in any deliberation regarding such operation;
4. the members of the Management body abstain when the agenda of the Management Board and of the Committee of Directors requires taking decisions regarding third parties with whom, due to the nature of their position, they are in a conflict of interests.

2.7 Transparency and communication with shareholders and investors

The bank has on its own website (www.carpatica.ro) a section dedicated to its shareholders, within whom GSM documents, periodical and annual financial statements drafted under the laws in force and all the communications on the bank on the capital market law can be accessed and downloaded. Also, the bank complies with all the publication requirements under the banking and capital market legislation.

To that effect, the Bank created and maintains a structure dedicated to its relationship with investors, shareholders and other interested parties within the Financial Markets Department. Shareholders/investors may submit their requests to the Bank both by e-mail and by phone, to the dedicated contact data published on the Bank's website (capital@carpatica.ro).

Financial calendar and communication with shareholders and investors

To inform the shareholders and investors, at the beginning of the year the Bank establishes a financial reporting calendar that it submits to the Bucharest Stock Exchange and to the Financial Supervisory Authority.

The updated financial reporting calendar submitted by the Bank for 2016 was the following:

- Presentation of the preliminary annual *financial* results 2015 **26 January 2016**
- Decision of the GSM for approval of the annual financial *results* **2015** **27/28 April 2016**
- Presentation of the *annual financial* results 2015 **27/28 April 2016**
- Presentation of the biannual *financial* results 2016 **11 August 2016**
- Presentation of the quarterly financial *results*
  - Q1 2016 **9 May 2016**
  - Q 3 2016 **28 October 2016**

On 10 November 2016, the Bank organized a meeting with financial analysts, investment consultants, brokers and investors to present the aspects of the merger process between the two banks, the post-merger strategy and the post-merger operational model of the bank.

The financial calendar for 2017, as established and published, is the following:

Publication of the preliminary financial results 2016	15-Feb-2017
GAS decision approving the audited annual accounts (individual and consolidated)	28-Apr-2017
Communication of the audited annual accounts 2016	28-Apr-2017
Meeting with the investors	08-May-2017
Communication of the results Q1 2017	15-May-2017
Communication of the results H1 2017	16-Aug-2017
Meeting with the investors	18-Aug-2017
Communication of the results Q3 2017	15-Nov-2017
Conference call with investors regarding the results Q3 2017	16-NOV-2017

Other rights of the shareholders

a) On the proposal of some shareholders accounting, individually or jointly, for at least 5% of the Bank's share capital, the Bank supplemented the agenda of the General Shareholders Meetings convened in 2016, as follows:

- ✓ The agenda of the Extraordinary General Assembly of Shareholders held on 02 April 2016 was supplemented as a result of such right being exercised by the significant shareholder Patria Bank SA;
- ✓ The agenda of the Extraordinary General Assembly of Shareholders held on 27 April 2016 was supplemented as a result of such right being exercised by the significant shareholder Patria Bank SA.

b) As regards the right to secured mechanisms of registration and confirmation of the ownership on the shares issued by the bank, the Bank's shareholders registry is kept by an independent company – the Central Depositary, authorized and supervised by the Financial Supervisory Authority, to ensure transparency of operations, the proper carrying out of the business and the protection of investors.

2.8 Social responsibility and ethical code

The Bank applies the principles of corporate responsibility both in its activities and business lines, through a responsible management of the banker's job and of the human resources, and in the management of its impact on the environment.

During the first half of 2016, the Bank also provided support to the campaign "Sibiu Partner" by making street billboards and roll-up promotional materials for the Bank's units in Sibiu.

Also, the bank got actively involved in the continuous financial information and education process developed on specialized websites, with articles regarding its banking products and services.

As part of the organizational culture, the Bank promotes ***ethical standards***, the proper implementation of which would ensure a decrease of the risks it is exposed to:

- The Bank organizes its activity in accordance with the rules of a prudent and healthy banking practice.
- As a member of the Romanian Banks Association, the Bank promotes cooperation with the other banks in the Romanian banking system, as well as with the national and international institutions and authorities.
- Discharging, to the highest professional standards, of the main role of the Bank, i.e. to promote a culture of integrity by setting an example of professional ethics.
- Being aware of the general objective of the banking system, the Bank is concerned with permanently increasing the quality of the products and services offered to its customers.

Banca Comerciala Carpatica SA expects all its collaborators and employees to fulfil their obligations deriving from contractual relations and to undertake the responsibilities deriving thereof in accordance with the legal provisions.

The Bank does not tolerate from its employees, collaborators or partners, contractors and suppliers, irrespective of the situation, any fraud (or attempt of fraud) or any illegal activity inside or outside the Bank.

The Bank immediately acts and investigates any suspicion of fraud, irregularity or failure to observe the provisions regarding the conflict of interests and, if applicable, conducts disciplinary investigations and orders disciplinary actions (including termination of the individual employment contract or of the contract of mandate) or approaches the relevant authorities for additional investigations.

3. Human Resources

On 31 December 2016, Banca Comerciala Carpatica SA had an average of 698 employees (2015: 931).

As regards the training level of the Bank's employees as well as the syndication level, approximately 660 employees have higher education and 360 employees are members of the Trade Union “Unitate” within the Bank.

The relationships between employees and managers are defined by fulfilment of the relevant activities and duties, based on the principle of good faith. In the Human Resources Division there is a labour relations coordinator who manages any request-aspect regarding the relationships between employees and/or between employees and employer.

In 2016, the activity of the Human Resources focused mostly on:

- Restructuring of the Headquarters and of the territorial units network and adopting a new business model;
- Supplying resources at the level of the Bank's structures to fulfil the strategic plan,
- Developing an efficient performance management system;
- Continuing the professional development and training programs and increasing the motivation and commitment of the employees using specific programs;
- Negotiation of a new collective bargaining contract with the Bank's Trade Union "Unitate".

Also, throughout the year, situations such as conflicts of interest existing at the level of the Bank were addressed and resolved.

Professional development programs were continued through the "e-learning" management system, as an alternative to the "class" courses, aiming at two major benefits of the solution: addressability at the level of the entire organization and cost efficiency.

The purpose of the e-learning programs was to submit and check the information regarding the prevention of money laundering, conflicts of interests, information security, as well as on the operational side.

Also, training programs were organized by the bank in collaboration with institutions, trainers and external resources, as well as internal programs that aimed at developing the general competences to discharge the responsibilities of the banking business, as well as the specific skills concerning the technical side of the business.

The evaluation of the professional performance of the Bank's employees was made on an annual basis and aimed at measuring the extent to which the business objectives were attained and the required skills for discharging the responsibilities. The evaluation process was addressed to all the Bank's employees, regardless of their seniority in the organization.

Moreover, the activities intended for the identification of proper solutions for the needs of external and internal customers of the Bank, improvement of the quality of services, management of the Bank's project portfolio, as well as the development of new operational models within the organization continued.

Last but not least, the purpose of the Human Resources Division to improve the image and brand of Banca Comerciala Carpatica SA was attained due to the active involvement in the internal information actions dedicated to the Bank's employees regarding to the events, projects and actions conducted by the Bank throughout the year.

3 Activity and results of the BCC Group in 2016

3.1 Macroeconomic framework of the banking sector in 2016

The international economic and financial context continued to have an increased volatility. The more tense geopolitical relations on a global level determined an increase of the risk of deterioration of the investors' trust in the emerging economies. In the developed countries, the resumption of the economic growth continued to be problematic even though the interest rates were maintained at a historical low. This situation contributed to the increase of the uncertainties regarding the future evolution of the global economy.

Internal economic and financial context

Romania's economic growth was among the highest in the EU and it is expected to remain above the potential in 2017 and 2018 as well. The growth has been robust since 2013, being determined by (i) strong exports as a result of plentiful harvests and a massive industrial production in 2013 and 2014, and (ii) the gradual recovery of the internal demand starting with 2014.

According to the current data, the actual GDP increased by 4.8% in 2016 (3.9% in 2015), at a significantly higher rate than in 2015 due to the increase of the individual consumption, even if the investments continued to grow at a high pace (6.3% as compared to 8.3% in 2015). It is expected that the growth rhythm will continue to increase so as to reach 5.2% in 2017. In forecasts, the reason of this evolution is the acceleration of the investment growth rhythm, which will equal the estimated advance of individual consumption (7.2%). In this scenario, the acceleration of investments and the deceleration of the consumption increase will positively, respectively negatively influence the increase of exports and imports. Also, during the recent years, most of the increase of the internal demand was covered in 2016 and will be covered in 2017 by the advance of the internal offer, which is also in the significantly lesser increase of the balance of trade deficit as compared to the increase of the internal consumption. The current account deficit increased to 2.2% of the GDP (from -1.2% in 2015), largely as a reflection of the evolution of the balance of trade deficit. As a potential risk, some of the fiscal measures/measures taken or to be taken on the labour market in 2017 could exert pressure on the investment plans of companies and could boost consumption and imports more rapidly. This evolution could have a higher impact than the estimated one (1.7% annual inflation at the end of 2017) on inflation and on the monetary policy of the central bank.

The labour market did not generate any pressure on the financial stability, but structural vulnerabilities are maintained. The unemployment rate is maintained at a low level compared with the EU average and slightly decreased to 4.77% in December 2016 (lower as compared to the previous years, i.e. 6.8% in 2014 and 4.9% in 2015), which did not affect the debtors' capacity of honouring the debt service. The increase in the labour force is focused especially in sectors with a high added value, a challenge being the integration of young people in the labour market.

Contrary to the situation in 2015, the budgetary deficit increased in 2016 from -1.4% to -2.6% (but below the forecast of -2.8%). The public debt slightly decreased, remaining around 37% of the GDP. For 2017, the estimations vary between -2.8% and -3.6%/-3.9% of the GDP.

In the fourth quarter of 2016, the yearly rate of CPI inflation remained negative, reaching in December 2016 at -0.54%. The annual inflation rate registered negative values starting with June 2015, as a result of the expansion of the scope of the reduced VAT rate of 9% on all food products, non-alcoholic beverages and catering services[1].

Banking sector

The main elements that characterized the banking system in 2016 are listed below:

As a result of the progress made in 2014 and 2015, the cleaning up of the banks' balance sheets continued in 2016: the rate of bad loans decreased in the system from 13.51% in December 2015 to 9.46% in December 2016 (this process was accomplished partly by write-offs, the removal of unrecoverable loans, wholly or partly provisioned, from the balance sheet).

The balance of the loans granted by the bank system to the non-government segment slightly increased (+1.2% in 2016 against +3% in 2015) of which -3.1% loans to non-financial companies (+0.8% in 2015), -2.5% consumer loans (-1.7% in 2015) and +12.5% mortgage loan (-17.6% in 2015). The loans in foreign currency accelerated their decline, dropping to 42.8% of the total balance (49.3% in December 2015). The bad loans rate continued to decrease, from 13.51% to 9.46%, while continuing the operations of removing non-performing loans from the balance sheet.

The governmental loan balance grew by 4.1%, due to important lowering of yields, which led to the sustained growth in demand from the Romanian State, and especially considering the rising demand from credit institutions looking for investments for their available sources. However, the increase was lesser than in 2015 (4.8%). The public debt slightly decreased in weight, remaining around 37% of the GDP, and the budget deficit, 2.6%, was below the forecasted one, i.e. 2.8%.

The increase of internal saving (non-governmental customers) remained at a level close to 2015 (+8.2% as compared to +8.6%), despite the continued decrease of the passive interests. The population's deposits increased the most, representing as of December 2016 approx. 60% of the total (as compared to approx. 58% as of December 2015). Thus, the ratio between loans and deposits of resident non-governmental customers at aggregate level decreased from -83.3% to -80.3%.

The financial intermediation degree was reduced as compared to 2015 (from 58.7% of the GDP to 56.4%), due to the increase of the banks' balance sheet by only 2.5%. External liabilities were reduced by 22% (particularly deposits and loans with foreign institutions) and currently account for only 11.8% of the balance sheet. Thus, the cross-border financial deleverage process continues. The liquidity of the banks slightly increased, thus remaining at a high level.

The own equity from the banking system decreased by 7%, however being maintained at a proper level. The solvency indicator was at the level of 18.33% in December 2016 (19.16% as of 31 December 2015).

The banks' interest income was also influenced by the narrowing of the interest margins, considering that the National Bank of Romania initiated, starting with year 2013, a relaxation cycle of the monetary policy.

3.2 Main achievements of year 2016

Through its budget approved in July 2016, Banca Comerciala Carpatica SA purported to develop, during the second half of 2016, a business reorganization program so as to make its territorial network of branches and agencies more efficient, while reducing the administrative expenses and relaunching the lending activity.

[1] Source: Inflation report, www.bnro.ro

A preliminary balance sheet of these initiatives conducted in 2016 shows that the bank fully attained its objectives regarding the reorganization of the territorial network, optimizing its structure to a number of 79 banking agencies, ensuring a national coverage, and specializing the sale force on the main targeted customer segments.

Another objective fully accomplished is that of reducing the operational costs by -15% at the level of the entire year 2016 as compared to year 2015; however, considering the descending monthly trend of these expenses, the bank estimates that was achieved a reduction of the operational costs relevant to Q4 of year 2016 by -24% as compared to year 2015, and at the level estimated for Q1 of year 2017 (after completing the optimization of the network in December 2016) a reduction by more than 30% of the recurrent operational costs as compared to year 2015.

Also, the bank exceeded its objectives proposed in the budget regarding the recovery of non-performing loans (both the balance sheet ones and the off-balance sheet ones), thus achieving a result that was 9.7 mil Lei better than the one budgeted for year 2016 and 35.3 mil. Lei better than the previous year, considering that it also succeeded to write-off the bank's bad loans with low chances of recovery amounting to 88 mil. Lei.

Under these conditions, the bank achieved a net loss of 45 mil. Lei, a result that is 31 mil. Lei better than the previous year.

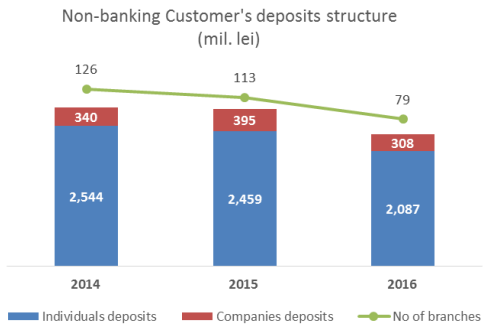
The relaunching of the lending activity and the promotion of new products that the Bank has not offered during the recent years was particularly achieved starting with September 2016 and with launching new retail products in February 2017.

Starting with 2017, BCC lost its status of primary dealer on the public securities market because it failed to meet the minimum operations share on the primary market for year 2016.

The Bank took the most important operational steps in order to achieve the merger by absorption of Patria Bank SA in 2016 and during January 2017; however, part of the investments made in order to achieve the merger will only be completed and put into operation in 2017, upon completing the merger process.

The commercial activity

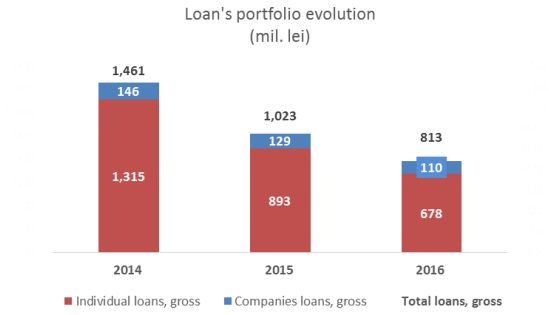
In 2016, the Bank conducted an extensive restructuring and optimization process on its territorial units' network, as well as a specialization of the sale force on business lines. The amount of deposits attracted from non-banking customers proved to be stable and the reduction by -16% was mainly due to the closing of 34 territorial units in 2016 and to a lesser extent to the reduction of the interest paid for deposits.



At the same time, while preparing the integration process in view of its merger with Patria Bank SA, the Bank conducted an alignment process regarding the procedures and the standard workflows. Also, in 2016, the Bank implemented a lending flow optimization and eligibility criteria improvement process in order to ensure a better management of the credit risk and to boost the lending business.

The products and services offered by the Bank in 2016 suffered no substantial changes regarding the features of products, the Bank's offer remaining roughly similar to that of 2015 and 2014. The target customer segments of the Bank this year were individuals and SMEs (including micro companies) and less the corporate customers.

In ***July 2016*** the General Assembly of Shareholders approved the Business Plan for 2016, based on which the Bank resumed its lending activity, with an increase of the lending activity during the months of September to December 2016, however inferior to the amounts budgeted for the same period. In the context of the deleverage process in 2015 and of the *write-off* operations (taking off-balance sheet) regarding the non-performing loans with low recovery chances, the balance of the loans portfolio declined during the last 2 years, and 2016 was no exception in this respect, considering the late start of lending boosting (Q4 2016).



For the year 2017, the Bank will rearrange its range of products and will include products differentiated by various business lines aligned to the products offered by the Patria Bank SA Group.

Operational reorganization of the Bank

In 2016, the main objectives of the operational and IT business were to make processes more efficient and to significantly reduce operational costs. In the context of the merger process with Patria Bank SA, the aim was to ensure the continuity, the control of operational risks while preparing the operational integration process in view of the merger and carrying out activities with an impact on the lending institution:

- In November 2016 the upgrade operation of Core Banking System Absolut (the first upgrade from its commissioning in 2005) was achieved, thus bringing new improvements and functionalities;
- Preparation of the implementation of new products from the catalogue of products that will be available to the bank after the merger;
- Preparation of the implementation of new applications modelling the approval and loans origination flows for all business lines;
- Preparation of the implementation of a new software application for the workout and collection business;

Also, in 2016, the registered office of the Bank was relocated in Bucharest and two operational centres of the Bank were created, one in Sibiu and the other in Targu Mures. The one in Sibiu was in fact a conversion of the Bank's former registered office into an operational centre, both dedicated particularly to the back-office activities.

Activity of the Bank's subsidiaries – SAI Carpatica

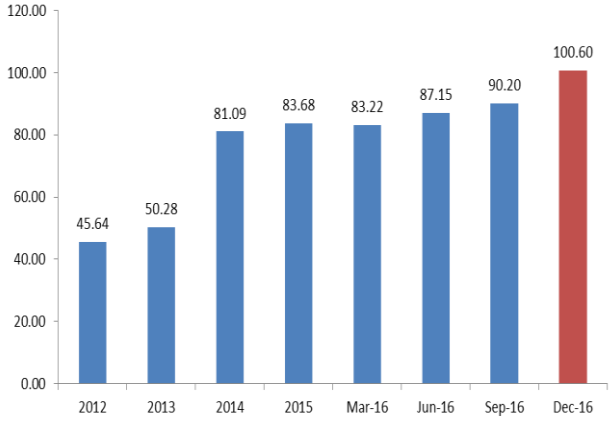
S.A.I. Carpatica Asset Management was authorized by the Romanian National Securities Commission in 2008 as an investment management company. Its share capital amounts to Lei 800,100, out of which 99.99% is owned by Banca Comerciala Carpatica, and the equity amounts to Lei 3,364,857.

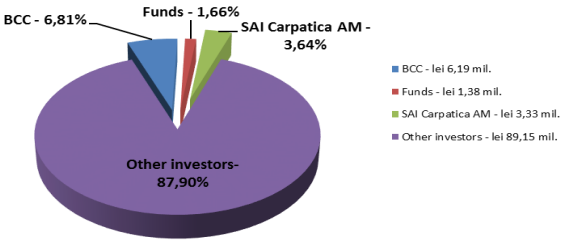
S.A.I. Carpatica Asset Management manages three open investment funds that are part of the Bank's consolidation perimeter, namely:

- FDI Carpatica STOCK – a diversified dynamic fund, high average risk, more than 60% of the fund's assets are invested in shares.
- FDI Carpatica GLOBAL - a diversified dynamic fund, low average risk, the investments in shares, mainly in the energetic sector, account for max. 40% of the fund's asset.
- FDI Carpatica Obligatiuni – securities fund, low risk, invests at least 90% in fixed income instruments (bonds, deposits, government bonds).

If in 2011 more than 80% of the managed assets originated from investments of the Bank in funds managed by SAI Carpatica, this radically changed so that in 2016 the Bank holds less than 10% of the assets managed by its subsidiary (in FDI Carpatica Securities and in FDI Carpatica Global, the Bank holds no units), the funds relying on investors attracted from outside the Bank's Group.

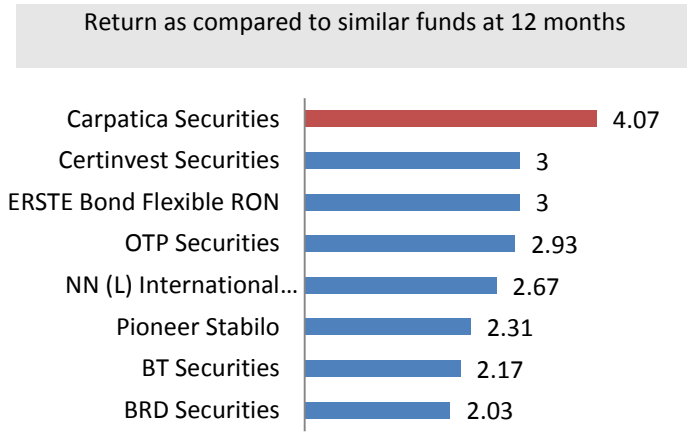
In 2016, the sales of the managed funds increased, mainly due to continuing the distribution program through the territorial units of Banca Comerciala Carpatica SA. The level of the assets managed at the end of 2016 was higher by Lei 16.93 (EUR 3.73 mil.) as compared to the previous year.

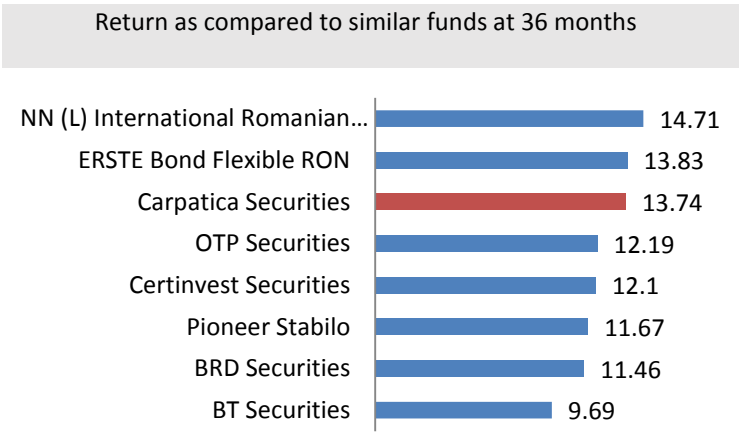




At the end of 2016, SAI Carpatica recorded a net profit of Lei 239 thousand, and the turnover amounted to Lei 1,036,824. The turnover comes exclusively from the management fees of the three open investment funds.

FDI CARPATICA SECURITIES YIELD EVOLUTION (a fixed income bonds and instruments fund)





At the end of December 2016, the net asset amounted to Lei 85.69 mil., **40% higher as compared to the end of the previous year,** coming from 1,302 investors.

In 2016, ***FDI CARPATICA OBLIGATIUNI*** **obtained a return of 4.07%, thus being** ***the best securities and fixed income instruments fund*** **in Romania (out of 14 such funds)** for the 12-month period, the fund being structured on 31 December 2016 in proportion of 47.90% on government bonds, 32.40% on deposits and 17.55% on corporate and municipal bonds.

FDI CARPATICA GLOBAL YIELDS EVOLUTION (diversified fund – max. 40% exposure on shares)

In 2016, FDI CARPATICA GLOBAL obtained a return of 4.69% at 12 months, a very good return among the diversified funds with a similar structure (exposure on shares under 45%), as compared to returns between 2.71% and 3.41% for similar funds in the portfolios of certain banks (BT Clasic, Raiffeisen Benefit, BRD Diverso).

However, on 31 December 2016, the value of the net asset amounted to only Lei 8.22, coming from 505 investors, the fund's asset structure being: 39.06% traded shares, 37.36% government, municipal and corporate bonds, 9.31% deposits, and 14.27% equity interests and other assets.

3.3 Analysis of the financial position as of 31 December 2016

Starting with 01 January 2012, the Bank has been applying the International Financial Reporting Standards (IFRS) as base of its accounting, according to Order 27/2010 of the NBR. Thus, the financial standing analysis below is based on the Bank's individual and consolidated annual accounts complying with the IFRS for the period ending on 31 December 2016 and for comparative periods.

THE BANK

Asset (thousands RON)	dec.14	dec.15	dec.16	% total	vs. Dec-15	BUDGET 31 dec 2016	Actual vs Budget (%)
Liquid assets	1,759,268	1,928,087	1,706,976	66%	-11%	1,568,887	9%
Equity investments	12,029	7,026	6,332	0%	-10%	7,062	-10%
Loans and advances to customers, net	1,069,610	793,973	581,239	22%	-27%	870,729	-33%
Other assets	375,990	326,906	308,955	12%	-5%	333,751	-7%
Total ASSET	**3,216,897**	**3,055,993**	**2,603,502**	**100%**	**-15%**	**2,780,428**	**-6%**

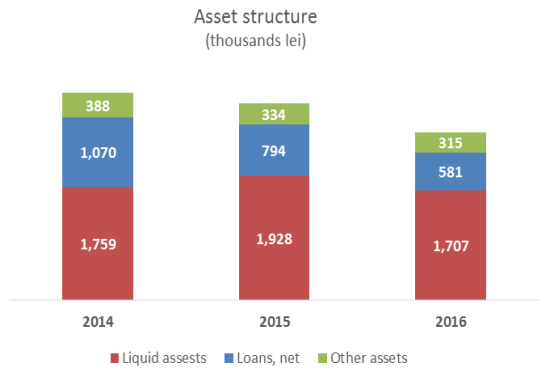
Liabilities (thousands RON)	dec.14	dec.15	dec.16	% total	vs. Dec-15	BUDGET 31 dec 2016	Actual vs Budget (%)
Due to customers	2,884,460	2,853,542	2,394,993	92%	-16%		
Loans and other liabilities	142,377	89,225	42,982	2%	-52%	46,086	-7%
Total Liabilities	**3,026,837**	**2,942,768**	**2,437,974**	**94%**	**-17%**	**2,600,480**	**-6%**
	0	0	0	0	0%		
Total equity	**190,061**	**113,225**	**165,527**	**6%**	**46%**	**179,948**	**-8%**
	0	0	0	0	0%	0	
Total LIABILITIES AND EQUITY	**3,216,897**	**3,055,993**	**2,603,502**	**100%**	**-15%**	**2,780,428**	**-6%**

THE GROUP

Asset (thousands RON)	dec.14	dec.15	dec.16	% total	vs. Dec-15
Liquid assets	1,829,129	2,005,788	1,795,874	67%	-10%
Equity investments	1,327	1,327	810	0%	-39%
Loans and advances to customers, net	1,070,133	793,973	581,239	22%	-27%
Other assets	386,298	332,555	312,138	12%	-6%
Total ASSET	**3,286,887**	**3,133,643**	**2,690,061**	**100%**	**-14%**

Liabilities (thousands RON)	dec.14	dec.15	dec.16	% total	vs. Dec-15
Due to customers	2,883,996	2,852,630	2,386,858	89%	-16%
Loans and other liabilities	211,634	166,736	134,931	5%	-19%
Total Liabilities	**3,095,630**	**3,019,366**	**2,521,789**	**94%**	**-16%**
	0	0	0	0	0%
Total equity	**191,257**	**114,277**	**168,272**	**6%**	**47%**
	0	0	0	0	0%
Total LIABILITIES AND EQUITY	**3,286,887**	**3,133,643**	**2,690,061**	**100%**	**-14%**

On 31 December 2016***, the total assets of the Bank*** were Lei 452 mil. (-15%) lower than on 31 December 2015, the reasons of such decrease being analysed in the following.



The liquid assets (cash at hand, accounts with the Central Bank, receivables form credit institutions, portfolio of government bonds - both those held for trading and those available for sale and held to maturity) remained at a high level of 66% of the total assets (2015: 63%).

The Bank's tangible and intangible assets *account* for Lei 134.3 mil., i.e. 5.2% (2015: 142.3 mil., i.e. 4.7%) of the Bank's total assets. The heaviest weight is represented by lands and buildings, i.e. 91% (2015: 89%). The Bank's assets in tangible and intangible assets amounted to Lei 1.4 mil., a lot less than the amount invested the previous year (2015: Lei 4.4 mil.), mostly in developments of the IT systems. There are no capitalized research and development costs. Besides its tangible and intangible assets, the Bank also holds a portfolio of ***Real Estate Investments*** amounting to Lei 96.4 mil., -7% lower than the previous year (2015: Lei 104 mil.), mostly consisting of lands and buildings originating from pledges relevant to non-performing loans adjudged by the Bank in exchange of the receivables ("repossessed assets"). That part of the repossessed assets that the bank rents or intends to get income from the assessment of their fair value are classified as Real Estate Investments and distributed to accounts based on their fair value. No purchases or sales of real estate investments took place in 2015.

The loans and advances granted to customers, as net value, witnessed a decrease by Lei 213 mil. (-27%) as compared to the previous year, considering that the bank intensified its non-performing loans recovery and loans portfolio clean-up activity by taking off-balance the amount of Lei 88 mil. from bad loans fully covered by provisions. The balance of the loans taken out of the balance sheet on 31 December 2016 is RON 417 mil. (RON 353 mil. on 31 December 2015).

The total debts of the Bank decreased, as of 31 December 2016, by Lei 505 mil. (-17%) as compared to 31 December 2015, as a result of the reduction of the amount of ***deposits attracted from non-banking customers*** by Lei 459 mil. (-16%), as a result of the reduction of the number of branches and agencies from 113 at the end of 2015 to 79 at the end of 2016. Out of the total ***number of 34 units closed in 2016***, 18 were closed in December 2016, having a limited impact on the decrease of deposits by the end of 2016.

The Bank has a high liquidity position, 66% of the assets being liquid assets and mainly the government bonds portfolio (44%). The Loans/Deposits ratio is at 34% (December 2015: 36%), much lower than the banking system level of 80.3% (2015: 83.3%), reflecting this high liquidity position of the bank, and a sub-investment level of the attracted resources, which however also brings a lower liquidity and credit risk of the Bank as compared to other banks of similar size. The liquidity indicators are at levels much higher than the regulated ones.

On 31 December 2016, the Bank had ***attracted loans*** amounting to Lei 15 mil. (Lei 63 mil. as of 31 December 2015) with the Ministry of Agriculture and Rural Development, with the Ministry of Public Finance for rural financing programs, as well as with the European Investment Bank, dedicated to the implementation of special financing programs for SME customers. The balance decrease is due to the early reimbursement, on the BCC's initiative, of a finance facility amounting to EUR 8.5 mil. to the European Investment Fund, with a view to reducing the interest expenses.

The Bank's equity in December 2016 increased by 46% as compared to December 2015 due to the increase of the ***authorized share capital*** by Lei 98.7 mil. as a result the purchase by Patria Bank S.A. (formerly NexteBank S.A.) of

986,663,916 new BCC shares as part of a private investment, the equivalent of the issued and paid-in share capital and of the issue premium being of Lei 98.8 million.

The calculated solvency of 14.2% has increased by 9.3% as compared to 4.9% as of 31 December 2015; the return of solvency above the regulated requirements is due to the capital increase registered in February 2016. At the end of 2016, the Bank met the applicable combined buffer requirement.

3.4 Analysis of the individual financial performance of the Bank in relation to the Budget for year 2016

Comparative analysis of the profit and loss account of the Bank in the last 3 years is hereinafter indicated together with the analysis regarding the accomplishment of the approved Budget for 2016:

THE BANK

- thousands lei -

FINANCIAL PERFORMANCE STATEMENT	2014	2015	2016	16/15	Budget 2016	Actual vs Budget	
Net interest income	66,589	47,899	38,835	-19%	47,840	(9,005)	-19%
Net fees and commission income	24,576	21,555	20,031	-7%	21,728	(1,697)	-8%
Other banking income	106,453	45,255	24,403	-46%	27,930	(3,527)	-13%
Net banking income	**197,618**	**114,709**	**83,268**	**-27%**	**97,497**	**(14,229)**	-15%
Net expense with guarantees and staff benefits provisions and litigations	(3,958)	(3,415)	(7,304)	114%	1,257	(8,561)	-681%
Cost of Risk	(233,376)	(45,594)	(5,879)	-87%	(14,968)	9,089	-61%
Net operating income	**(39,716)**	**65,701**	**70,085**	**7%**	**83,786**	**(13,701)**	-16%
Total operating expences	**(150,358)**	**(135,254)**	**(115,874)**	**-14%**	**(115,366)**	**(508)**	0%
Staff cost	(69,432)	(64,026)	(57,046)	-11%	(59,897)	2,851	-5%
Operational expences, other than Staff cost	(80,926)	(71,228)	(58,828)	-17%	(55,469)	(3,359)	6%
Gains/(Loss) from properties investments release	7,040	1,684	861	-49%	(1,576)	2,437	-155%
Gross Profit/(Gross Loss)	**(183,034)**	**(67,869)**	**(44,928)**	**-34%**	**(33,156)**	**(11,772)**	36%
Income tax	13,529	(7,579)	-	-	-	-	-
Net Profit/(Net Loss) for the year	**(169,505)**	**(75,448)**	**(44,928)**	**-40%**	**(33,156)**	**(11,772)**	**36%**

THE GROUP

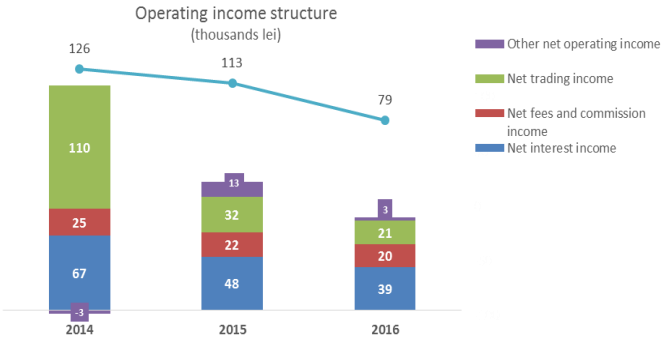
- thousands lei -

FINANCIAL PERFORMANCE STATEMENT	2014	2015	2016	VARIATION 2016/2015
Net interest income	**69,047**	**50,686**	**41,490**	**-18%**
Net fees and commission income	**24,646**	**21,153**	**19,670**	**-7%**
Net trading income	17,050	15,039	13,316	-11%
Net income from disposals of investment securities available for sale	95,999	17,534	8,871	-49%
Other net operating income	14,948	9,197	4,253	-54%
Total operating income	**221,691**	**113,608**	**87,600**	**-23%**
Net expense with guarantees and staff benefits provisions and litigations	-	(2,795)	(8,262)	196%
Cost of Risk	(231,983)	(41,071)	(5,339)	-87%
Net operating income	**(10,292)**	**69,742**	**73,999**	**6%**
Salaries and related expenses	(70,617)	(64,630)	(57,721)	-11%
Depreciation and amortization	(10,560)	(10,074)	(9,080)	-10%
Other operating expenses	(119,285)	(62,189)	(50,130)	-19%
Total operating expenses	**(200,462)**	**(136,893)**	**(116,931)**	**-15%**
Gains/(Loss) from stoks and properties investments release	-	1,686	861	-49%
Financial liabilities expense to unit-holders	(4,224)	(1,760)	(2,037)	0%
Gross Profit/(Gross Loss)	**(214,978)**	**(67,225)**	**(44,108)**	**-34%**
Income tax	13,540	(8,019)	(41)	-
Net Profit/(Net Loss) for the year	**(201,438)**	**(75,244)**	**(44,149)**	**-41%**

Variation 2015-2016

- **Revenues from interests and fees:** Through the Business Plan for 2016, the bank aimed at achieving in the second half of 2016 a reorganization of the activity, the sales force and the local network simultaneously with a significant program of reducing administrative costs, and in these conditions, through the Budget approved in July 2016, the bank has set ambitious goals as to maintain net income from interests and fees at the level of the previous year. At the end of 2016, ***the bank reports an achievement degree of 81 % in net income from interests and 92% in* the net income from fees**, in the context of a lower sales performance of new loans than expected, but in the context of maintaining active clients and a constant trading level and of reducing interest expenses for deposits attracted from households and companies.

- **Net income in the administration of government bonds portfolio** (financial assets available for sale and trading portfolio): *is 39% above the budgeted level for 2016, with positive* ***impact in the net result of lei 2.482 million to the*** budget, although almost half as compared to the previous year, as government bonds market yields have declined during the past year. During 2016 the bank has undertaken a more prudent policy to lower exposure to interest rate risk, which has reduced the average maturity of the government bonds portfolio and thus its yield and it has also significantly reduced the income from bonds trading as compared to previous years (especially compared to 2013/2014), as shown in the graph below.



We consider this approach to be prudent and we mention that both the government bonds market conditions, in the context of significantly lower yields in 2016 (and largely in 2015) and the composition of the bank T-bills portfolio in 2016 have been significantly different as compared to the market conditions and the risk appetite of the bank from previous years (2013/2014), which did not allow maintaining the same level of incomes from government bonds trading activity.

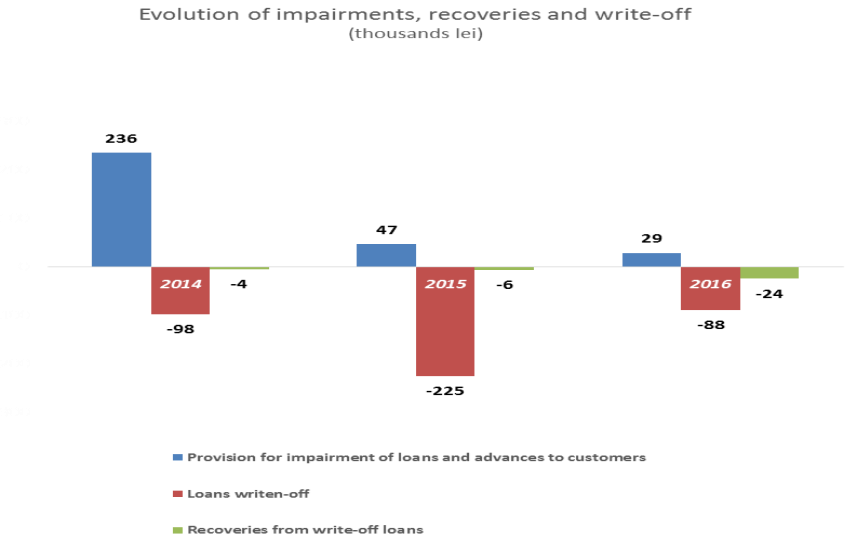
- **The net impact of provisions related to the credit portfolio and actions to recover non-performing loans** *(net expenses with adjustments of impairment of loans and collections from written-off loans)*:

In the budget for 2016, the Bank has undertaken a recovery level (incomes) from written off receivables of lei 18.6 million to be achieved in the second half of 2016, a *level 3 times higher than the amount of the previous year (2015)* and similar to the total income of this type in the last 3 years (in 2013/2015 a total income of lei 19.2 million was achieved). The Bank managed to reach in ***2016 a recovery levels from written off loans of lei 23.8 million, with positive impact in the final result better with lei 5.214 million (+28%) than budgeted***.

Budget 2016 Achieved vs Budget 2016

	2014	2015	2016	16/15	Budget 2016	Actual vs Budget	
Cost of Risk, net	**(231,578)**	**(40,591)**	**(5,312)**	**-87%**	**(14,968)**	**9,656**	-65%
Net expense for loans impairment	(235,599)	(46,791)	(29,147)	-38%	(33,588)	4,442	-13%
Recoveries from write-off loans	4,020	6,200	23,834	284%	18,620	5,214	28%
Equity investments impairment	(1,798)	(5,003)	(567)	-89%	-	(567)	-

Regarding the non-performing loans in the balance sheet, despite of the fact that the bank has written off loans fully covered with provisions totalling lei 88 million, the bank achieved ***a recovery of balance sheet non-performing loans totalling lei 85*** million, generating write-back of provisions related to non-performing loans*, after which the (net) expense related to adjustments for impairment of loans and advances* granted ***is lei 29.1 million lei,*** 33.6 *million lower (-87%) than 2015* level. As it can be seen also in the chart below, the pace of recording losses in the risk cost was significantly reduced in 2016 as compared to previous years and the cleaning of the Bank loan portfolio started in the previous years has continued.



- **Operational expenses:**

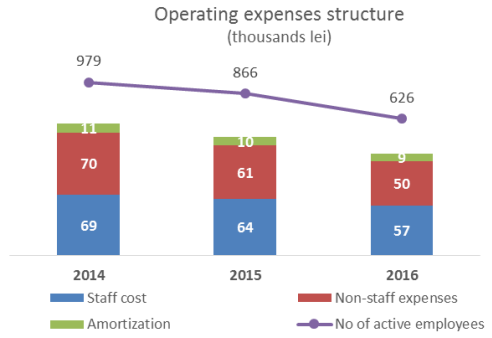
The budget for 2016 envisaged a declared goal even from the moment of its approval as an ambitious target to reduce operational expenses by -15% (lei 19.5 million) for the full year 2016 as compared to the last year, although the costs reduction and reorganization program has started only in the second half of 2016. The ***Bank has reached the budgeted goal to reduce*** operational expenses by ***lei - 19 million as compared to the previous year,*** totalling lei 115.9 million, without a significant ***deviation from the budgeted level amounting to*** lei 115 million.

This level of operational expenses includes also an amount of lei 1.25 million, representing merger costs partially achieved during 2016, which are not likely to be recurring expenses and which have not been included in the budgeted operational expenses.

Taking into consideration the downward trend of monthly operational expenses in 2016, during the implementation of the cost reduction and restructuring program, **we *consider relevant the operational expenses* level *recorded in the fourth quarter of 2016*, *a level which is -24% lower compared to the quarterly average of 2015***.

Given that in the last quarter of 2016 the Bank has implemented a program of reorganization of the branches network and optimization of its territorial presence whose effects were felt only starting with the first quarter of 2017, the level of operational expenses *of the bank estimated for the* first *quarter of 2017 will* continue to record *additional decreases as compared to the quarterly average of 2015, with a better quantification of the effects of the cost restructuring program conducted during 2016*.

The evolution of the main operational expenses categories is illustrated below:
- **personnel costs** have decreased by - 11% as compared to previous year due to a reduction of the active employees from 866 on 31 December 2015 to 626 on 31 December 2016 (the total number of employees was reduced from 931 on 31 December 2015 to 698 on 31 December 2016). The 28% decrease of active personnel is consistent with the cost reduction plan approved by the Plan of Activity for 2016.
- **the non-salary operational** expenses have diminished by 19% as compared to 2015 due to the implementation of measures to streamline the activities both at the level of territorial network and the head office.



3.5 Bank Capital adequacy and other prudential indicators

The bank does not consolidate prudentially any of its branches as they do not reach the minimum level provided for in this regard by art. 19 of the (EU) regulation 575/2013 (CRR). Thus, BCC consolidation perimeter includes only the Bank, but the Bank is included in the consolidation perimeter of the parent institution Patria Bank SA which makes the prudential consolidation.

Own funds

Bank's own funds on 31 December 2016 were amounting to lei 135 million (2015: lei 57.7 million) and consisted solely of level 1 own fund instruments (CET1) whereas the Bank did not hold additional level 1 or level 2 own funds instruments on 31 December 2016 (they did not exist at the end of 2015 either) classified according to CRR.

Regulatory capital (RON)	**2015**	**2016**
Own funds of 1st level	57,700,865	135,228,100
Own funds of 2nd level	-	-
Total own funds (RON)*	**57,700,865**	**135,228,100**
Assets and elements off balance-sheet adjusted at risk (RON)	**1,182,819,738**	**951,645,543**
Solvency indicator	**4.88%**	**14.21%**

*Values expressed in RON, preliminary reported to the National Bank of Romania

The internal capital adequacy assessment process (ICAAP)

In accordance with Article 148 of EGO 99/2006 on the capital adequacy for credit institutions, as supplemented by NBR Regulation no. 5/2013 on prudential requirements for credit institutions, BCC has organized an internal capital adequacy assessment process regarding risks.

The Bank carries out regular internal capital adequacy assessment regarding risks, by comparing the level of own funds and the internal capital requirements. The general framework of ICAAP is updated annually and the monitoring of the internal capital adequacy regarding risks is carried out quarterly.

An assessment of all risks to which the Bank may be exposed is conducted annually were the significant risks are identified.

The internal capital requirements are determined using the "Pillar 1 plus" approach, where the capital requirements for the following risks are added to the regulated capital requirements:

- Loan risk concentration risk, residual risk from using loan risk reduction techniques, loan risk in the currency of creditors exposed to currency risk;
- Underestimation risks related to the implementation of standardized, less sophisticated approaches;
- The interest rate risk outside the trading portfolio;
- Strategic risk;
- Other significant risks: reputation risk, compliance risk, external risks.

For ICAAP purposes, internal capital is considered equal to regulated own funds.

Based on the Business Strategy and Risk Strategy and on the approved risk appetite, the Bank is planning the capital and the capital requirements for the next 3 years, in order to provide capital adequacy, both in normal and crisis circumstances.

Indicator (%)	31.12.2014	31.12.2015	31.12.2016
Solvency (total own funds ratio)	10.75	4.88	14.21
Immediate liquidity	53.9	61.8	67.6
ROA (net profit/total assets)	(5.89)	(2.37)	(1.58)
ROE (net profit/equity)	(55.88)	(37.94)	(24.91)
Credits/ Deposits	51.9	37.1	34.0

The liquidity indicator on maturity buckets is presented as follows:

Date	<= 1 month	1 - 3 months	3 - 6 months	6 - 12 months	>12 months
31.12.2014	3.91	10.64	18.04	7.58	7.48
31.12.2015	4.01	11.74	20.68	17.87	8.45
31.12.2016	3.73	13.09	18.70	15.56	77.91
Regulated limit	>= 1	>= 1	>= 1	>= 1>= 1	-

The financial statements of the Bank are examined by an independent financial auditor. The financial auditor of Banca Comerciala Carpatica SA is, starting with 2015, Deloitte Audit SRL, J40/6775/10.08.1995, Sole registration code 7756924/7756924.1995.1995, with the registered office in Nicolae Titulescu street, No. 4-8, East Entry, Floor 2, district 1, Bucharest, Romania, member of the Chamber of Financial Auditors of Romania with authorization no. 25 as of 25.06.2001. It currently undertakes the activity of external financial auditor of the bank based on the appointment made by the Resolution no. 1 as of 18.06.2015 issued by the General Shareholders Ordinary Meeting, for a period of 3 years.

3.6 Perspectives of the Bank and the Group for 2017

Given the initial hypothesis of a merger with Patria Bank on 01.01.2017, the Bank has prepared a set of financial projections for 2017 by taking into consideration this hypothesis. After postponing the merger date to a later date that is currently unknown but it can be reasonably estimated, the Bank management resumed the budgeting process under the hypothesis of the merger in the first half of 2017 and shall submit for approval by the General Shareholders Meeting the Budget and the Business Plan for 2017 within 5 months maximum from the beginning of the financial year.

In 2017 the main objectives of the Bank consist of the successful completion of the merger process with Patria Bank SA and relaunching the credit program for individuals and legal entities.

The Business Plan for 2017 shall focus on the following goals:

- successful completion of the merger process with Patria Bank SA;
- relaunching the lending activity and accommodating new lines of business purchased from Patria Bank SA based on the merger: microfinance, SME, agro-lending and retail;
- maintaining the level of funds from non-bank customers and streamlining the branches and agencies network;
- increasing equity by issuing shares on the capital market;
- gradually increasing of the credits/deposits ratio level (gross) at the closest level to the market average, including by purchasing performing loans portfolios, business lines or other credit institutions;
- launching new products, with impact and visibility on the market, launching campaigns to promote Patria Bank's new brand;
- identifying opportunities to purchase performing loans or financial institutions portfolios.

4. Risk management

The internal evaluation of the Bank generated the following significant risks - credit risk, market risk, liquidity risk, operational risk and reputation risk. Also, the Bank's policy is tracking the strategic risk within the business planning process and the compliance risk during daily activities and the macroeconomic risk within the crisis simulation program.

The policies are structured in a manner able to cover the areas of identification, assessment, monitoring, control and reduction of these risks.

The management structure of the Bank is responsible for establishing the risk profile and strategies / policies, and each bank structure will manage its own business risk. Within the Bank there is established a risk control function that manages the overall risk (Risk Management Division).

The Risk Management Division submits to the Committee of Directors and to the Management Board monthly and quarterly reports on risk exposures, the current overall risk profile for each significant risk and reports on risks that have exceeded the warning thresholds (whenever they occur) in order to comply with the risk tolerance set by the Risk Strategy, proposing measures to mitigate risks that exceed the approved risk appetite. Also, the Risk Management Committee (consisting of non-executive members of the Management Board) assesses the risk exposures on a monthly/quarterly basis or whenever it is convened.

The Bank established own models of quantification of the capital's internal requirement. An important role within this exercise is represented by crisis simulation which the Bank runs bi-annually.

In order to reduce the risk, according to its policy and risk profile, the Bank uses the guarantees. Also, insurances are used within operational risk.

Considering the activity conducted, the Bank is exposed to the following risks:

- The market risk (including currency risk);
- The interest rate risk outside the trading portfolio;
- The credit risk and its related risks (residual risk, concentration risk, crediting risk in the currency of debtors exposed in currency purposes);
- The liquidity and funds management risk;
- The operational risk;
- The reputational risk;
- The strategic risk;
- The compliance risk;
- The excessive leverage effect using risk

The market risk

It represents the risk of registering losses corresponding to the on balance-sheet positions and off-balance and it due to unfavourable market fluctuations of prices (such as, for example, share prices, interest rates, currency exchange rates).

The currency risk

The currency risk is the risk that the value of the financial instruments will fluctuate due to changes of the exchange rates. The currency exchange positions are a source of currency risk. The management team has established a set of limits to manage the currency risk. In accordance with the Bank policy, the positions are monitored daily to ensure that they are kept within the established limits - a currency position of maximum 10% of the value of the own funds for each currency and 20% total currency position. The Bank protects itself against the exchange rate variations through swap and forward operations. The main currencies in which the Bank performs operations are EUR and USD.

The interest rate risk outside the trading portfolio

The market risk is the risk that the fair value or the future cash flow related to the financial instruments will fluctuate due to changes in the market's variables (currency risk, shares price). The Bank classified the exposures to market risk in exposures related to the trading portfolio and exposures outside the trading portfolio. The risks in the first category are managed and monitored using the Value-at-Risk model (VaR). The risks in the second category are managed and monitored using other sensitivity analysis.

The credit risk

The credit risk is the current or future risk which negatively affects profit and capital as a consequence of the debtors' default or failure in fulfilling their contractual conditions.

In order to manage this risk, the Bank applies its own policy, the risk management being structured on identification, assessment, control and mitigation stages. In conclusion, each transaction is subject to special procedures by which the Bank tries to ensure its position created as a result of the assumed exposure. The identification procedures mainly refer to the use of the sources of information to detect the risk factors that have an overwhelming significance on the quality of exposure to be assumed.

The evaluation procedures aim to establish the degree of risk for the transaction under review. Risk assessment for each transaction under review is carried out independently by the Divisions for Credit Risk Assessment and materialized in the risk opinion.

In order to control the risk, the main measure is represented by the limitation of individual exposures both as absolute size and also regarding the personal funds, and also the limitation of the exposure on industries and geographic areas. The monitoring of these limits is assured within the Risk Management Division. Also within the control procedures the Bank also develops the following exposure quality monitoring procedures, represented by the customer analysis, revision of value and inspection of guarantees and also of the manner in which the customer fulfilled its contractual obligations. The Bank has defined a system of warning indicators/ signals regarding the depreciation of the quality of the loans, as well as restructuring procedures of deteriorated customers.

The liquidity and funding risk

The liquidity risk is the current or future risk which negatively affects the profit and capital, determined by the credit institution's incapacity to fulfil its obligations at their due term.

The Bank monitors its liquidity risk both through GAP analyses - comparing funds inputs and outputs on maturity buckets of assets, liabilities and items off-balance sheet depending on the residual maturity - and by conducting liquidity crisis scenarios (regulated - such as LCR indicator or with hypotheses specific to the bank, including severe market crisis simulations).

The bank ensures a liquid assets buffer that can be used as financial collateral in order to finance liabilities with immediate enforceability or to cover unexpected/unanticipated cash demands.

As a financing solution for emergency situations, the Bank holds a portfolio of government bods classified as held to *maturity*, unencumbered, separated from the current liquidity reserves and government bonds available for sale, a portfolio for which the financing mechanisms are annually tested (via repo).

The operational risk

The operational risk is the risk of loss determined either by the use of certain inappropriate processes, systems and human resources, which had not fulfilled their function accordingly, or by external events and actions.

The operational risk also includes the legal risk occurred following fines, penalties and sanctions to which the Bank may be subject in case of non-enforcement or faulty enforcement of the legal or contractual provisions, as well as due to the fact that the contractual rights and obligations of the bank and/ or of its counterparty are not established accordingly.

The operational risk also includes the risk related to information technology (IT) that relates to current or prospective risk of adverse outcome on profits and capital, caused by the inadequate IT strategy and policy, information technology and information processing, with reference to the management capacity, its integrity, level of control and continuity, or misuse of information technology.

The Bank cannot entirely remove the effects caused by the operational risk manifestation, but it has measures of control and mitigation of this type of risk and monitors permanently all the events that generate operational risk, applying additional internal capital requirements on a quarterly basis, depending on the incidence of such operational risk events.

The reputational risk

The reputational risk is the current or future risk that the profit and capital are adversely influenced following an unfavourable perception of the Group's image by the customers, counterparties, shareholders, investors or the supervisory authority.

Given the merger process in which the credit institution is involved, the Bank appreciated that the reputational risk to which the bank is exposed is average and proceeded to grant additional internal capital within ICAAP process, which shall be preserved up to the successful completion of the merger.

The strategic risk

The strategic risk is the current or future risk of negatively affecting the profit and capital due to changes in the business environment or adverse business decisions, to the improper implementation of decisions or lack of reaction to changes in the business environment. In order to control the strategic risk, the Bank is constantly working to raise

the efficiency of planning and monitoring market evolution, so that it can adapt to the new trends properly and in due time.

The compliance risk

The compliance risk is the current or future risk of impairment of profits and capital, which can result in fines, damages and/or the termination of contracts or that may affect the bank' reputation as a result of violations or non-compliance with the legal and regulation framework, with the recommended practices or ethical standards.

The excessive leverage effect using risk

The risk associated with excessive leverage effect use is the risk resulting from the Bank vulnerability to leverage or leverage quota which may require unplanned measures to adjust the business plan, including emergency asset sale, which could lead to losses or re-evaluation of remaining assets.

This risk is quantified by mainly calculating one indicator called leverage ratio, which is determined by dividing the capital measuring indicator to the measuring indicator of the total exposure of the institution and it is expressed as a percentage. On 31.12.2016, this indicator was 5.42%.

Chairman	**Deputy General Manager**
of the Management Board	**of the Risk and Finance Division**
Horia Dragos Manda	**Diana Maria Kallos**

Appendix 1

List of affiliates as of 31.12.2016
(according to IAS 24)

Entitity name
PATRIA BANK SA
SAI CARPATICA ASSET MANAGEMENT SA
FDI CARPATICA GLOBAL-SAI CARPATICA ASSET MANAG. SA
FDI CARPATICA OBLIGATIUNI-SAI CARPATICA ASSET MAN.
FDI CARPATICA STOCK - SAI CARPATICA ASSET MANAG.SA
INTERCAPITAL INVEST SA
DELTA ASIGURARI SA
PATRIA CREDIT IFN SA
S.A.I. PATRIA ASSET MANAGEMENT SA (ex S.A.I. INTERCAPITAL INVESTMENT MANAGEMENT SA)
S.A.I. GLOBINVEST SA
Emerging Europe Accession Fund Cooperatief U.A
EEAF Financial Services B.V. (Olanda)
Deutek SA (Romania)
STAR Storage SA (Romania)
Elefant Online SA (Romania)
FrontEx International Services Ltd. (Bulgaria)
SSIF CARPATICA INVEST S.A. SIBIU – currently subject to dissolution
IMOBILIAR INVEST SRL – currently subject to voluntary winding-up
AXXESS CAPITAL PARTNERS
DADA INNOVATION SRL
GASOIL SERVICE SRL
GASOIL EXPLORATION & PRODUCTION SRL
AGRI MERFEA SRL
DIAMANDOPOL GABRIEL
MERFEA BOGDAN
OLARU AURELIAN LIVIU
CARAGEA CATALINA
KALLOS DIANA-MARIA
VANCEA GRIGORE VALENTIN
NICOLAU CODRUT STEFAN
*PRODEA RAZVAN VASILE
TEPELUS ELENA-COSMINA
ILIESCU DANIELA
MANDA HORIA
*SURDU NICOLAE
*TINTA MANUEL CONSTANTIN
MARINESCU OANA
SIMION GEORGE
*PRODEA CORALIA IUNIA
VANCEA GRIGORE-VALENTIN PERSOANĂ FIZICĂ AUTORIZATĂ
KALLOS G. DIANA-MARIA PERSOANA FIZICA AUTORIZATA
MERFEA BOGDAN PERSOANA FIZICA AUTORIZATA
NICOAU CODRUT-SETEFAN PERSOANA FIZICA AUTORIZATA

Appendix 2

Statement of compliance with the principles
of the Corporate Governance Code of the Bucharest Stock Exchange on 31.12.2016

Provision to comply with		Complies	Does not comply or complies partially	Explanations
A.1	All companies should have internal regulation of the Board which includes terms of reference/responsibilities for Board and key management functions of the company, applying, among others, the General Principles of Section A	**x**		
A.2	Provisions for the management of conflict of interest should be included in Board regulation. In any event, members of the Board should notify the Board of any conflicts of interest which have arisen or may arise, and should refrain from taking part in the discussion (including by not being present where this does not render the meeting non-quorate) and from voting on the adoption of a resolution on the issue which gives rise to such conflict of interest.	**x**		
A.3	The Board of Directors or the Supervisory Board should have at least five members.		**Complies partially**	The GSM dated 2 April 2016 decided the transition to the one tier management system, being elected 5 members in the Management Board. Subsequently, an elected member withdrew as member of the Management Board and another resigned. At December 31, 2016 were vacant two positions of member in the Management Board. In the General Meeting of Shareholders dated 27.04.2017 a completion of the Management Board's membership is proposed, from 3 to 5 members.
A.4	The majority of the members of the Board of Directors should be non-executive. At least one member of the Board of Directors or Supervisory Board should be independent, in the case of Standard Tier companies. Not less than two non-executive members of the Board of Directors or Supervisory Board should be independent, in the case of Premium Tier Companies. Each member of the Board of Directors or Supervisory Board, as the case may be, should submit a declaration that he/she is independent at the		**x**	The Management Board's members don't have executive function. There aren't any independent members of the Management Board. In the General Meeting of Shareholders on 27.04.2017 a completion of the Management Board's membership with independent members is proposed.

	moment of his/her nomination for election or re-election as well as when any change in his/her status arises, by demonstrating the ground on which he/she is considered independent in character and judgement in practice and according to the following criteria:			
A.4.1.	Not to be the CEO/executive officer of the company or of a company controlled by it and not have been in such position for the previous five years;		**x**	There aren't any independent members of the Management Board. In the General Meeting of Shareholders on 27.04.2017 a completion of the Management Board's membership with independent members is proposed.
A.4.2.	Not to be an employee of the company or of a company controlled by it and not have been in such position for the previous five (5) years;		**x**	There aren't any independent members of the Management Board. In the General Meeting of Shareholders on 27.04.2017 a completion of the Management Board's membership with independent members is proposed.
A.4.3.	Not to receive and not have received additional remuneration or other advantages from the company or from a company controlled by it, apart from those corresponding to the quality of non-executive director;		**x**	There aren't any independent members of the Management Board. In the General Meeting of Shareholders on 27.04.2017 a completion of the Management Board's membership with independent members is proposed.
A.4.4.	Is not or has not been an employee of, or has not or had not any contractual relationship, during the previous year, with a significant shareholder of the company, controlling more than 10% of voting rights or with a company controlled by it;		**x**	There aren't any independent members of the Management Board. In the General Meeting of Shareholders on 27.04.2017 a completion of the Management Board's membership with independent members is proposed.
A.4.5.	Not to have and not have had during the previous year a business or professional relationship with the company or with a company controlled by it, either directly or as a customer, partner, shareholder, member of the Board/ Director, CEO/executive officer or employee of a company having such a relationship if, by its substantial character, this relationship could affect his/her objectivity;		**x**	There aren't any independent members of the Management Board. In the General Meeting of Shareholders on 27.04.2017 a completion of the Management Board's membership with independent members is proposed.
A.4.6.	Not to be and not have been in the last three years the external or internal auditor or a partner or salaried associate of the current external financial or internal auditor of the company or a company controlled by it;		**x**	There aren't any independent members of the Management Board. In the General Meeting of Shareholders on 27.04.2017 a completion of the Management Board's membership with independent members is proposed.

A.4.7.	Not to be a CEO/executive officer in another company where another CEO/executive officer of the company is a non-executive director;		**x**	There aren't any independent members of the Management Board. In the General Meeting of Shareholders on 27.04.2017 a completion of the Management Board's membership with independent members is proposed.
A.4.8.	Not to have been a non-executive director of the company for more than twelve years;		**x**	There aren't any independent members of the Management Board. In the General Meeting of Shareholders on 27.04.2017 a completion of the Management Board's membership with independent members is proposed.
A.4.9	Not to have family ties with a person in the situations referred to at points A.4.1. and A.4.4.		**x**	There aren't any independent members of the Management Board. In the General Meeting of Shareholders on 27.04.2017 a completion of the Management Board's membership with independent members is proposed.
A.5.	A Board member's other relatively permanent professional commitments and engagements, including executive and non-executive Board positions in companies and not-for-profit institutions, should be disclosed to shareholders and to potential investors before appointment and during his/her mandate.	**x**		
A.6.	Any member of the Board should submit to the Board, information on any relationship with a shareholder who holds directly or indirectly, shares representing more than 5% of all voting rights. This obligation concerns any kind of relationship which may affect the position of the member on issues decided by the Board.	**x**		
A.7	The company should appoint a Board secretary responsible for supporting the work of the Board.	**x**		
A.8	The corporate governance statement should inform on whether an evaluation of the Board has taken place under the leadership of the chairman or the nomination committee and, if it has, summarize key action points and changes resulting from it. The company should have a policy/guidance regarding the evaluation of the Board containing the purpose, criteria and frequency of the evaluation process.	**x**		

A. 9	The corporate governance statement should contain information on the number of meetings of the Board and the committees during the past year, attendance by directors (in person and in absentia) and a report of the Board and committees on their activities.	**x**		
A. 10	The corporate governance statement should contain information on the precise number of the independent members of the Board of Directors or of the Supervisory Board.	**x**		
A.11	The Board of Premium Tier companies should set up a nomination committee formed of non-executives, which will lead the process for Board appointments and make recommendations to the Board. The majority of the members of the nomination committee should be independent.		**x**	According to the art. Art. 24 - (1) of NBR Regulation no. 5/2013 "The credit institutions which are significant in terms of size, internal organization and nature, extent and complexity of their activities, should establish a nomination committee composed of members of the management body who do not exercise any executive function in the respective credit institution". In this context, given the size, the scale and the complexity of the Bank's activity, there isn't any nomination committee in its structure.
B.1	The Board should set up an audit committee, and at least one member should be an independent non-executive. The majority of members, including the chairman, should have proven an adequate qualification relevant to the functions and responsibilities of the committee. At least one member of the audit committee should have proven and adequate auditing or accounting experience. In the case of Premium Tier companies, the audit committee should be composed of at least three members and the majority of the audit committee should be independent.		**Complies partially**	In the GSM dated 27.04.2017 a completion of the Management Board's membership with independent members is proposed and thus a completion of the Audit Committee's structure with independent members will take place. Most of the members, including the chairman, have appropriate qualifications, relevant to the committee's functions and responsibilities. A member of the Audit Committee has proven and appropriate accounting or auditing experience. The Audit Committee consists of three non-independent members.
B.2	The audit committee should be chaired by an independent non-executive member.		**x**	In the GSM dated 27.04.2017 a completion of the Management Board's membership with independent members is proposed and thus a completion of the Audit Committee's structure with independent members will take place.
B.3	Among its responsibilities, the audit committee should undertake an annual assessment of the system of internal control.	**x**		

B.4	The assessment should consider the effectiveness and scope of the internal audit function, the adequacy of risk management and internal control reports to the audit committee of the Board, management's responsiveness and effectiveness in dealing with identified internal control failings or weaknesses and their submission of relevant reports to the Board.	**x**		
B.5	The audit committee should review conflicts of interests in transactions of the company and its subsidiaries with related parties.	**x**		
B.6	The audit committee should evaluate the efficiency of the internal control system and risk management system.	**x**		
B. 7	The audit committee should monitor the application of statutory and generally accepted standards of internal auditing. The audit committee should receive and evaluate the reports of the internal audit team.	**x**		
B. 8	Whenever the Code mentions reviews or analysis to be exercised by the Audit Committee, these should be followed by cyclical (at least annual), or ad-hoc reports to be submitted to the Board afterwards.		**x**	The duties of the Audit Committee will be adjusted accordingly.
B. 9	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related parties.	**x**		
B.10	The Board should adopt a policy ensuring that any transaction of the company with any of the companies with which it has close relations, that is equal to or more than 5% of the net assets of the company (as stated in the latest financial report), should be approved by the Board following an obligatory opinion of the Board's audit committee, and fairly disclosed to the shareholders and potential investors, to the extent that such transactions fall under the category of events subject to disclosure requirements.		**x**	Bank didn't define such a policy, but the principle is stipulated in the rules regarding the organization and functioning of the Management Board and in the operating regulations of the Credit Committee and the Committee of restructuring and recovery. The principle will be reflected in the specific policies risk as well.
B. 11	The internal audits should be carried out by a separate structural division (internal audit department) within the company or by retaining an independent third-party entity.	**x**		
B.12	To ensure the fulfilment of the core functions of the internal audit department, it should report functionally to the Board via the audit committee. For administrative purposes and in the scope	**x**		

	related to the obligations of the management to monitor and mitigate risks, it should report directly to the chief executive officer.			
C.1	The company should publish a remuneration policy on its website and include in its annual report a remuneration statement on the implementation of this policy during the annual period under review. The remuneration policy should be formulated in such a way that allows stakeholders to understand the principles and rationale behind the remuneration of the members of the Board and the CEO, as well as of the members of the Management Board in two-tier board systems. It should describe the remuneration governance and decision-making process, detail the components of executive remuneration (i.e. salaries, annual bonus, long term stock-linked incentives, benefits in kind, pensions, and others) and describe each component's purpose, principles and assumptions (including the general performance criteria related to any form of variable remuneration). In addition, the remuneration policy should disclose the duration of the executive's contract and their notice period and eventual compensation for revocation without cause. The remuneration report should present the implementation of the remuneration policy vis-à-vis the persons identified in the remuneration policy during the annual period under review. Any essential change of the remuneration policy should be published on the corporate website in a timely fashion.		**x**	The Bank has a remuneration policy, approved and periodically reviewed by the Management Board. This was not published on the bank's website, but the principles regarding the remuneration and the remuneration's level are contained in the Bank's Corporate Governance Code and in the Annual Management Board's Report. The bank will take the necessary measures to publish them on the website as well.
D. 1	The company should have an Investor Relations function - indicated, by person (s) responsible or an organizational unit, to the general public. In addition to information required by legal provisions, the company should include on its corporate website a dedicated Investor Relations section, both in Romanian and English, with all relevant information of interest for investors, including:	**x**		
D.1.1	Principal corporate regulations: the articles of association, general shareholders' meeting procedures;	**x**		
D.1.2	Professional CVs of the members of its governing bodies, a Board member's other professional commitments, including executive	**x**		

	and non-executive Board positions in companies and not-for-profit institutions;			
D.1.3	Current reports and periodic reports (quarterly, semi-annual and annual reports) – at least as provided at item D.8 – including current reports with detailed information related to non-compliance with the present Code;	**x**		
D.1.4	Information related to general meetings of shareholders: the agenda and supporting materials; the procedure approved for the election of Board members; the rationale for the proposal of candidates for the election to the Board, together with their professional CVs; shareholders' questions related to the agenda and the company's answers, including the decisions taken;	**x**		
D.1.5	Information on corporate events, such as payment of dividends and other distributions to shareholders, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles applied to such operations. Such information should be published within a timeframe that enables investors to make investment decisions;	**x**		
D.1.6	The name and contact data of a person who should be able to provide knowledgeable information on request;	**x**		
D.1.7	Corporate presentations (e.g. IR presentations, quarterly results presentations, etc.), financial statements (quarterly, semi-annual, annual), auditor reports and annual reports.	**x**		
D.2	A company should have an annual cash distribution or dividend policy, proposed by the CEO or the Management Board and adopted by the Board, as a set of directions the company intends to follow regarding the distribution of net profit. The annual cash distribution or dividend policy principles should be published on the corporate website.		**x**	Since its establishment, the Bank used its profit to strengthen the financial position of the institution. In this regard, the Bank's policy was to increase the share capital by incorporating profits obtained and issuing free-shares. The profit earned in 2012 and 2013 was used to cover losses from previous years. During the period 2014-2016 the Bank didn't make profit.

D.3	A company should have adopted a policy with respect to forecasts, whether they are distributed or not. Forecasts means the quantified conclusions of studies aimed at determining the total impact of a list of factors related to a future period (so called assumptions): by nature such a task is based upon a high level of uncertainty, with results sometimes significantly differing from forecasts initially presented. The policy should provide for the frequency, period envisaged, and content of forecasts. Forecasts, if published, may only be part of annual, semi-annual or quarterly reports. The forecast policy should be published on the corporate website.		**x**	Until now, the Bank didn't adopt a policy regarding the forecasts.
D. 4	The rules of general meetings of shareholders should not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules should take effect, at the earliest, as of the next general meeting of shareholders.	**x**		
D. 5	The external auditors should attend the shareholders' meetings when their reports are presented there.		**x**	On 27.04.2016 when GSM took place, the financial external auditor didn't participate.
D.6	The Board should present to the annual general meeting of shareholders a brief assessment of the internal controls and significant risk management system, as well as opinions on issues subject to resolution at the general meeting.	**x**		
D.7	Any professional, consultant, expert or financial analyst may participate in the shareholders' meeting upon prior invitation from the Chairman of the Board. Accredited journalists may also participate in the general meeting of shareholders, unless the Chairman of the Board decides otherwise.		**x**	At the GMS are entitled to attend only the shareholders registered in the Shareholders Register at the reference date, the Bank's management body's members, the bank's employees involved in the meeting process organization and the consultants/external auditors invited by management.
D.8	The quarterly and semi-annual financial reports should include information in both Romanian and English regarding the key drivers influencing the change in sales, operating profit, net profit and other relevant financial indicators, both on quarter-on-quarter and year-on-year terms.		**Complies partially**	This information is included in the semi-annual and annual reports. The Bank is currently analysing the possibility of presenting such information in its quarterly reports.
D.9	A company should organize at least two meetings/conference calls with analysts and investors each year. The information presented on these occasions should be published in the IR		**Complies partially**	In 2016 the Bank organised a conference with analysts and investors. The Bank will take the necessary measures in order to organize at least two such events during 2017.

	section of the company website at the time of the meetings/ conference calls.			
D.10	If a company supports various forms of artistic and cultural expression, sport activities, educational or scientific activities, and considers the resulting impact on the innovativeness and competitiveness of the company part of its business mission and development strategy, it should publish the policy guiding its activity in this area.		**Complies partially**	Currently the Bank didn't defined such a specific policy. However, all social responsibility events where the Bank was involved are listed within the Annual Corporate Governance Report.

Chairman

of the Management Board

Horia Dragos Manda

Deputy General Manager

of the Risk and Finance Division

Diana Maria Kallos