ANNUAL REPORT 2016

Credit Europe Bank

Amsterdam Bucharest Dubai Frankfurt Geneva Istanbul Kiev Moscow Shanghai Sliema

About
Credit Europe Bank

Credit Europe Bank N.V. is headquartered in the Netherlands and operates 129 branches, 655 ATMs, around 11,000 sales points and 21,000 point of sale terminals. The Bank has 4,263 employees in 10 countries. About 6 million customers around the world entrust their financial affairs to Credit Europe Bank.
We offer to our corporate customers a wide range of banking products, including international trade and commodity finance, project finance and working capital loans. Represented in key trading hubs such as the Netherlands, Switzerland and the United Arab Emirates, as well as in raw material exporting and importing countries including, Russia, Turkey and Ukraine, we are well positioned to finance our customers' transaction flows across the globe.
To our retail and SME customers we offer non-complex and transparent products in five Western and Eastern European countries: Germany, the Netherlands, Ukraine, Romania and Russia.

Our mission is providing financial services that create value for customers.
Our vision is being the preferred bank in our core markets.

Headoffice Amsterdam, Karspeldreef 6, 1101 CJ Amsterdam.

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Strategy

We have gained thorough experience and expertise to act as a bridge for our customers in key importing and exporting countries in Western Europe, the Black Sea region, the Gulf region, China and the Americas.

Banking in its purest form is our business: easy-to-use loan and deposit products for retail customers and financing services that support our corporate clients in growing their businesses. Our strategy is to be close to our customers.

For more than two decades, we have focused on international trade and commodity finance. We have gained thorough experience and expertise to act as a bridge for our customers in key importing and exporting countries in Western Europe, the Black Sea region, the Gulf region, China and the Americas. We will continue to offer short-term, self-liquidating commodity financing, as well as balance sheet lending and project finance.

In corporate banking, as a medium-sized bank with hands-on managers and short communication lines, we are fast to spot and react to our customers' needs and to create innovative, tailor-made solutions. Our flexible approach supported our customers during turbulent times and positioned us to take advantage of improving market conditions.

In the Western European markets, we offer retail banking products via online and telephone banking. Our services are facilitated by having a centralised, cross-border contact center applying high-quality information technology.
In Russia and Romania, next to the above mentioned distribution channels, we also use our branch network to serve our retail customers and consolidate our retail position.

In all areas of the Bank, we invest in the professionalism, expertise and customer focus of our employees. In order to sustain our long-term growth ambitions, we combine prudent capital and liquidity management with sound risk management, high level of compliance and transparent corporate governance. We believe this strategy safeguards the interests of all our stakeholders.

Five-year key figures

	2016	2015	2014	2013	2012(*)
Assets					
Cash and balances at central banks	1,041	532	375	501	1,238
Financial assets at fair value through profit or loss	3	8	19	18	39
Financial investments	741	1,022	1,244	1,550	974
Loans and receivables – banks	307	451	364	693	380
Loans and receivables – customers	5,188	5,501	5,855	6,653	5,954
Other assets	834	847	857	743	652
Total assets	**8,114**	**8,361**	**8,714**	**10,158**	**9,237**
Liabilities					
Due to banks	448	469	774	1,632	1,113
Due to customers	5,532	5,467	5,788	6,002	5,932
Issued debt securities	263	441	399	862	664
Other liabilities	477	547	453	443	374
Subordinated liabilities	531	562	514	578	505
Total liabilities	**7,251**	**7,486**	**7,928**	**9,517**	**8,588**
Total equity	**863**	**875**	**786**	**641**	**649**
Total equity and liabilities	**8,114**	**8,361**	**8,714**	**10,158**	**9,237**

(*) including effects of the spin-off of Fibabanka AS

€ millions	**2016**	**2015**	**2014**	**2013**	**2012(*)**
Net interest income	**235**	**274**	**361**	**443**	**388**
Net fee and commission income	**55**	**68**	**75**	**77**	**69**
Operating income	**92**	**123**	**125**	**66**	**79**
Credit loss charges	(122)	(168)	(244)	(176)	(140)
Net operating income	**260**	**297**	**317**	**410**	**396**
Total operating expenses	**(209)**	**(241)**	**(256)**	**(301)**	**(290)**
Share of profit of associate	-	(1)	2	-	-
Operating profit before tax	**51**	**55**	**63**	**109**	**106**
Income tax expense	(6)	(16)	(5)	(15)	(27)
Profit for the year from continued operations	45	39	58	94	79
Result for the year from discontinued operations	-	-	-	-	(1)
Profit for the year	**45**	**39**	**58**	**94**	**78**

(*) including effects of the spin-off of Fibabanka AS

Report of the Managing Board

From the CEO

I am pleased to announce that Credit Europe Bank delivered a firm business performance in 2016. We have improved our business strategies to cope with the changing market conditions and were able to reach our targets.

We have witnessed that the political and economic uncertainties continued while the market pressure increased in many emerging countries. The outcome of the Brexit vote and the US election results were surprising events of the last year. It was also a year of stagnation in global trade, with limited recovery during the last quarter. On the other hand, the economies of some major developing markets have improved relative to 2015 such as in Russia.

Credit Europe Bank remained attentive to these changes, closely monitored and balanced its risks throughout the year. We remained focused on operating efficiencies and further improved our customer service in different countries mainly by investing in innovation. Using our resources more effectively, increasing synergy, and sharing the best experiences within the organisation were our priorities in 2016. Intensification of employee satisfaction was another priority of the Bank for which we have taken various initiatives.

Trade and commodity finance, project finance, credit cards and increased cross selling to our corporate customers were the main contributors to the Bank's profit for 2016. We managed to increase the Bank's net profit to EUR 45 million (2015: EUR 39 million). During 2016, total own funds of the Bank increased from EUR 1,224 million to EUR 1,239 million and our solvency ratio stood at 19.41% (2015: 17.60%). Return on assets is at 0.6% (2015: 0.5%).

In Russia, the Bank demonstrated the fundamental strengths of its retail business. Prudent lending, strict cost control and the diversified, market-proven business model allowed solid performance in challenging conditions. The Bank benefited from successful cooperation with long-established partners IKEA and Auchan Groups, and managed to leverage the new opportunities arising in the market. We were one of the first banks to join MIR – the Russian National Payment System – and its acquiring network. We have also implemented a strategic initiative in Russia to grow the retail deposit base. Using our know-how from Western European markets, we launched an internet based deposit collection channel which proved to be very successful.

Conservative approaches in asset generation have consistently been applied in Romania, and efficient collection remained in focus. The plastic cards business continued to be the engine for business development in Romania. CardAvantaj, our flagship product, further strengthened its position in the market.

In the Eurozone, we kept our retail deposit base stable at around EUR 3.3 billion. Our key objectives were successfully achieved by prioritising the execution of our customer-focused strategy, the enhancement of key technology solutions, and the optimisation of internal workflow processes.

In Corporate Banking, Credit Europe Bank continued its conservative risk policy and maintained its cash loan book at a stable level of EUR 3.5 billion during 2016. In line with our risk appetite, we have increased the ratio of Western Europe exposure in our loan book, whereas Turkish exposure was decreased.

Although the environment remains challenging, our ambitions are intact. We have a solid platform to build on, with a stable position in the marketplace, and a clear strategic direction for the years ahead. We are confident that this will enable us to seize the opportunities but mitigate the risks.

In view of the ever increasing regulations and requirements particularly in the field of risk management it was decided to further strengthen the Managing Board and reallocate the tasks amongst its members. As per October 2016, Batuhan Yalniz joined the Managing Board as Chief Risk Officer. Accordingly, Scott Cheung's focus areas have become Compliance and Corporate Communications.

To conclude, I would like to express our gratitude to our customers, business partners and employees all of whom worked together intensively last year to continue generating long-term value for all our stakeholders.

Amsterdam, March 27, 2017
E. Murat Başbay

Our Network

Western Europe
- Corporate Banking and Trade Finance services from the Netherlands, Switzerland and Malta
- Private Banking services from Switzerland
- Strong focus on Direct Banking services
- Retail Banking services to almost 250,000 customers in Germany and the Netherlands , mainly through the multilingual operations and contact center in Frankfurt

Russia
- Active in Retail, Corporate, Commercial and SME Banking
- 66 branches in 31 cities
- An important player in credit cards market with close to 1 million active cards
- Over 3,200 sales points and close to 12,000 point of sale terminals
- 534 ATMs

Romania
- Active in Retail, Commercial and SME Banking
- 59 branches in 21 cities
- Dominant market player with 250,000 active credit cards and close to 100,000 debit cards
- Strong partner merchant network with 7,800 sales points and 9,000 point of sale terminals
- 121 ATMs

Ukraine
- Active in Commercial and SME Banking

Turkey
- Representative office in Istanbul

Outside Europe
- Trade Finance services from the Dubai International Financial Centre in the United Arab Emirates
- Representative office in Shanghai, China

Core Values

Customer Focus
The success of our customers is our own success.
All of our decisions are therefore taken with the customer in focus.

Professionalism
Our professionalism embraces and stimulates the necessary skills, qualifications, knowledge and diversity. Our colleagues undertake their tasks in a competent and integer manner.
Through teamwork we achieve our goals.

Integrity
Integrity defines our obligation to generate trust and confidence through ethical behavior and by complying with laws, regulations and guidelines.

Transparency
Transparency is a key business best practice in our products and services, accounting standards or management decision-making.

Retail Banking

Retail Banking offers deposits, cash loans, car loans and credit cards as well as a number of insurance products in cooperation with external insurance providers via online banking and an extensive broker and partner network. In Russia and Romania, in addition to telephone and web-based banking, we serve our customers through a wide-spread network of branches and points of sale.

In 2016, we continued to face serious challenges associated with global uncertainty which is not only economic but also increasingly political and regulatory. Our focus on customers, as well as our diversified business model and strong risk discipline, helped us to produce another solid year of financial performance, even as we navigated the pressures of low interest rates and global economic volatility.

Throughout the year, we continued to review and fine-tune our retail banking business to increase the value we create for customers and shareholders. We continued to intensify relations with our customers and launched a number of initiatives aimed at making banking easier. Our increased focus on customer centricity has translated into positive developments and we are well on track to becoming a more customer centric, simple and efficient bank to the benefit of all our stakeholders.

The Russian market:
Through Turbulence to Stabilisation and Cautious Growth

Retail Banking performance in Russia in 2016 demonstrated the fundamental strengths of the Banks retail business. Prudent lending, strict cost control, and the diversified, market-proven business model allowed solid performance in difficult conditions.

2016 brought about spikes of uncertainty, which impacted business, market confidence and customer activity. The Retail Banking Division operated in the context of geopolitical and economic pressures. In spite of the market turbulences, the team managed to improve business performance, test new market opportunities and preserve the Bank's franchise value. The Bank remains well positioned for the major long-term trends and the achievements of the last 12 months served to strengthen that position.

The risk management and internal control framework continued to promote a strong risk culture, as the Bank maintained a conservative risk profile during 2016. In retail the focus remained on the existing customer base with a proven credit record.

Retail issuance was RUB 16 billion (2015: RUB 9 billion) as the Bank continued moderate lending activity in a select of products and merchants. Gross retail loan portfolio, including Cards, decreased to RUB 47.6 billion (2015: RUB 61.5 billion), the decrease mostly accounting to car and cash loans. Credit Europe Bank continued moderate activity in auto-credit while testing new opportunities in commercial segment: the pilot with Iveco (Italian producer of commercial transport) was successfully finalised and cooperation continues; the Bank also enhanced cooperation with GAZ (a major state- owned commercial vehicles producer) in the second half of 2016.

The auto-credit portfolio stabilised at the level of RUB 13 billion in the second half of 2016 after sales acceleration in August 2016.

Deposit base growth remained in the Bank's strategic focus. The Banks individual time deposit portfolio reached RUB 35.3 billion as of year-end 2016 (2015: RUB 7.1 billion), which brought the Bank to the 50th position in the market per retail deposits volume (2015: 127th position). The tenor of the source was medium & long-term: 88% of the retail deposits have maturity over one year, 16% over two years.

The Bank continued to benefit from the successful cooperation within the long-established partnerships with IKEA and Auchan Groups in Russia. The Bank also leveraged the new opportunities arising in the market: CEB was one of the first banks to join MIR – the Russian National Payment System – and one of the first banks to join the acquiring network of MIR.

Cost-reduction program allowed to reduce the Bank's operating expenses, resulting in the healthy C/I of 56.1%. The on-going network transformation with the focus on alternative delivery channels saw the number of branches decrease to 66, while the number of users of Internet Banking grew to 733,000 customers as of end Dec 2016 with over 2.4 million logins during the year. The Mobile Banking engine was being tested end 2016 - beginning 2017 with the plan to launch in the first half of 2017.

As of end 2016 the Bank serviced over 5 million retail customers and operated a network of 66 branches, over 3,200 points of sale and 534 ATMs.

Russia

Active in:
- Retail,
- Corporate,
- Commercial and SME Banking

- 66 branches in 31 cities
- An important player in credit cards market with close to 1 million active cards
- Over 3,200 sales points and close to 12,000 point of sale terminals
- 534 ATMs

Western Europe

- Corporate Banking and trade finance services from the Netherlands, Switzerland and Malta
- Private banking services from Switzerland
- Strong focus on direct banking services
- Retail Banking services to almost 250 000 customers in Germany and the Netherlands mainly through the multilingual operations and contact center in Frankfurt

Germany
Putting Customers First

Our Western Europe retail operations are centralised in Frankfurt, Germany, where we have our multilingual customer contact center, sales & marketing, and back offices. Our operations serve 250,000 customers in Germany and the Netherlands.

2016 was another year of significant progress for our operations. Online account initiatives have been enhanced in order to provide customers with more service features to independently manage their accounts. The initiatives are also part of a package of measures to extend the high level of security in the online banking environment. In the process of realising that the customer experience journey is essential to the continuing growth of the Bank, a cornerstone was to build scalable processes and eliminating wasteful paper-work. Towards this, improvements have been made.

We have developed technology to better understand our customers, and increasingly used customer segmentation for the identification and understanding of customer needs and their relation with the Bank.

Efforts were also undertaken to promote higher utilisation for our online account services. In 2016, the number of customers who switched from the service channel to the new product channel increased by 10%.

The Western Europe deposit volume remained stable at EUR 3.3 billion and continued to support the Group's strong funding base.

The process of the winding down of the existing loan portfolio is still carried out. The division continued to service and collect on existing loans, issued before 2016. We also continued the sale of non-performing loans.

Romania

Active in
- Retail and
- Commercial Banking

- 59 branches in 21 cities
- Dominant market player with close to 250,000 active credit cards and close to 100,000 debit cards
- Strong partner merchant network with almost 7,800 sales points and 9,000 point of sale terminals
- 121 ATMs

Romania
All Time High for Turnover of Credit Cards

In 2016 Romania had very good economic performance and registered a preliminary GDP growth of 4.8% (2015: 3.7%). Strong recovery in private investment and growth on retail consumption with the easing on VAT were the main drivers for this growth. During the year there was a more balanced growth model, where increasing disposable household income stimulated internal demand and investment.

The main news for 2016 was the launch of Ferrari Card, an exclusive payment instrument. As a result, the Bank grew its credit card sales from 31,000 in 2015, to 46,500 in 2016. Together with Card Avantaj and Optimo Card, Credit Europe Bank Romania is able to offer all segments of card customers with superior payment instruments. The total turnover of Credit Cards reached RON 1 billion which is an all-time high for the Bank in Romania.

Corporate Banking

Corporate Banking is one of the core business lines of Credit Europe Bank. The business provides an array of standard and tailor made services, coordinates the use of incremental or existing funding and builds in long-term relationships with its customers

Consistently reinforcing the profit growth of the Bank, Corporate Banking is one of the core business lines of Credit Europe Bank. The business provides an array of standard and tailor made services, coordinates the use of incremental or existing funding and builds in long-term relationships with its customers by always responding to the complex and continuously changing market conditions.

The Corporate Banking Division seizes the righteous scope in selected geographies and focuses on Western, Emerging and Developing European territories in coordination with its home markets. With its strong international presence, the Division uses expertise to ensure the best possible service and responsiveness to clients.

The strength of the Corporate Banking Division lies in its selective areas of operation such as being a niche player in structured trade and commodity finance, accumulated expertise in corporate lending, proven track record in project financing and extensive experience in structuring vessel financing.

The Corporate Banking Division operates through a team of experienced and highly qualified corporate officers, capable to provide solutions required as a result of increasing diverse demands by international clients. Through its presence in the key trading hubs Amsterdam, Geneva and Dubai, the Corporate Banking Division has long-standing relationship with clients in a range of commodities financing from oil, petrochemicals, metals, and fertilisers to soft commodities, mainly grains and cocoa.

The Corporate Banking Division is also specialised in providing financial services to the real economy, operating proactively in Corporate Lending activities. We designate our position as being one of the most promptly acting Banks by our client portfolio. Services include working capital loans, acquisition financing and structured project finance investments. The Team is strongly positioned to assist and provide clients a broad range of information and strategies to cope with the rising challenges and associated risks.

The year in review 2016:

The economic activities remained challenging due to an insufficient confidence level, heightened volatility and uncertainty mainly driven by geopolitical events. Following a weak initial period in 2016, a stronger than expected incline in advanced markets economies in the second half of the year seemed somehow to balance the negative effects worldwide. Many central banks in developed economies have maintained quantitative easing through record low interest rates and yields.

Corporate Banking in general:

Credit Europe Bank places emphasis on monitoring and analysing economic and financial environment to gear up for the complex global forces shaping our business. For this purpose, the Bank

pays close attention to collect relevant information in order to determine the right strategies, assessments and policy decisions.

2016 has been a challenging year in terms of low yields in developed economies and increasing geopolitical risks in the emerging markets. Uncertainties across the globe required us to perform a conservative approach incrementally on any risk factor which may arise. Therefore Corporate Banking continued to improve the risk management accession and propelled advanced implementations on asset quality bases and profit generation throughout the year.

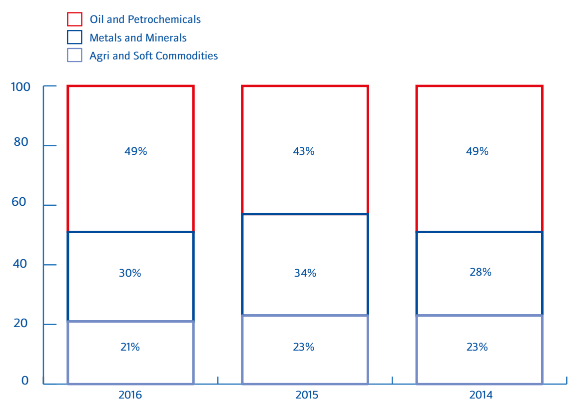
In line with this strategy, we managed to increase the share of the EU in total exposure during 2016. In Turkey, our risk appetite declined and we reduced our exposure. In Russia, we retained our business volume but moreover improved the asset quality. In Romania, in addition to retaining our core financing activities, we started to collect domestic corporate deposits and support the self- funding scheme of our Bank.

Again for a second consecutive year, global trade grew slower than the global economy. Major reasons are to be listed as China economic slowdown, the low yearly average commodity prices and increasing political and economic volatility in key trade markets. Many commodity prices started to boost towards the end of the year such as crude oil, iron ore and other basic metals. Despite this slight recovery, the weak demand and the lower yearly average price of commodities, together with our cautious approach limited our 2016 trade finance volume at Euro 7.8 billion. However, we managed to sustain our profitability at previous levels. Our trade finance units continued their efforts and took the opportunities to acquire new clients and expand the customer portfolio mostly in G-10 countries. With addition of other commodities such as cocoa and cotton, we have also strengthened our risk diversification.

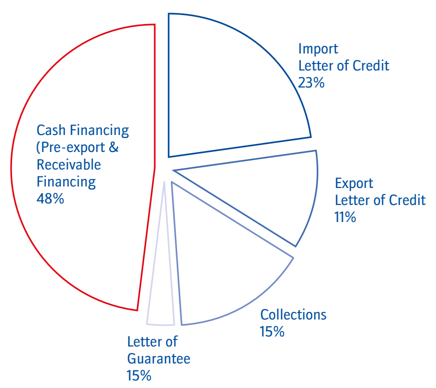
Corporate Banking embarks its cross sell service strategy. In order to meet the diversified and individual needs of our customers, we distribute the Bank's entire product and service portfolio available at all levels. This also creates synergies between the profit making business units and upgrades awareness and client satisfaction. Through this promoted strategy, we substantially increased our cross sell business and managed to achieve significant profit enhancement in 2016.

Despite aforesaid challenges, 2016 has been a successful year for the Corporate Banking Division having continued to strengthen its volumes in EU, acquired new clients, improved asset quality and country risk concentration, all while increasing its profitability.

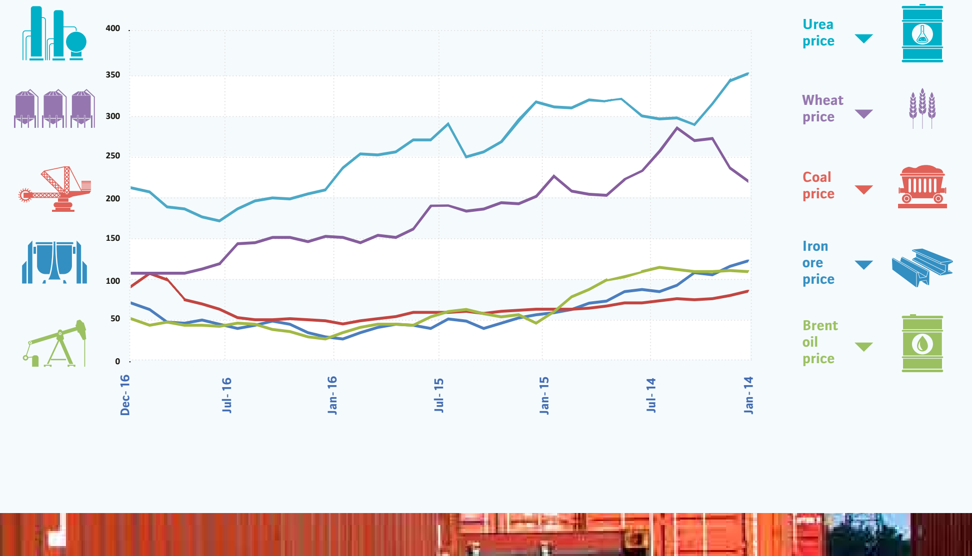
Trade Volume by Commodity Groups



Trade Finance Volume by Products as of 2016



Key Commodity Price Index



Outlook for 2017:

Economic activity is projected to pick up pace in 2017. World economic growth is still expected to exhibit a moderate improvement bolstered by the recovery in developed economies, continuing fiscal upgrades as well as stronger economic activity in most of the emerging countries. Russia is expected to recover, and therefore offer greater opportunities, provided that geopolitical factors will not deteriorate. Turkey, despite its significant potential, continues to exhibit a fragile outlook.

Our key target will be to continue to improve asset quality and risk diversification. Keeping this in mind, we will carry on our rigorous risk assessment and monitoring processes while focusing on shifting more of our business into developed economies. Low yields in the EU region diminish the feasibility of deals in the market but through dedicated efforts of our Team, we trust continuing what we already accomplished in 2016; creating more EU assets. We still have a continuous appetite on Structured Trade & Commodity Finance Business and aim to bolster through an expansion of the customer base. As demand strengthens and supply tightens, we expect a modest price recovery for most commodities in 2017. Last but not least; we will continue to pursue cross sell opportunities more eagerly than ever.

Funding

Credit Europe Bank has a stable, granular and geographically diversified deposit base, which is the core funding source of the Bank. We offer easy-to-use and transparent deposit products to our clients in all our branches and subsidiaries. The customer deposits size of the Bank remained stable around EUR 5.5 billion during 2016 while the cost of deposits have come down further in line with the general market trend.

The Bank has executed the following deals in international and local capital markets during the year:

In December 2016, Credit Europe Bank (Suisse) SA successfully raised 1 year term syndicated term loan facility amounting to EUR 66.5 million with major international banks participating.

Credit Ratings
The bank and its Russian subsidiary have the following credit ratings as of December 2016.

Credit Europe Bank N.V, the Netherlands

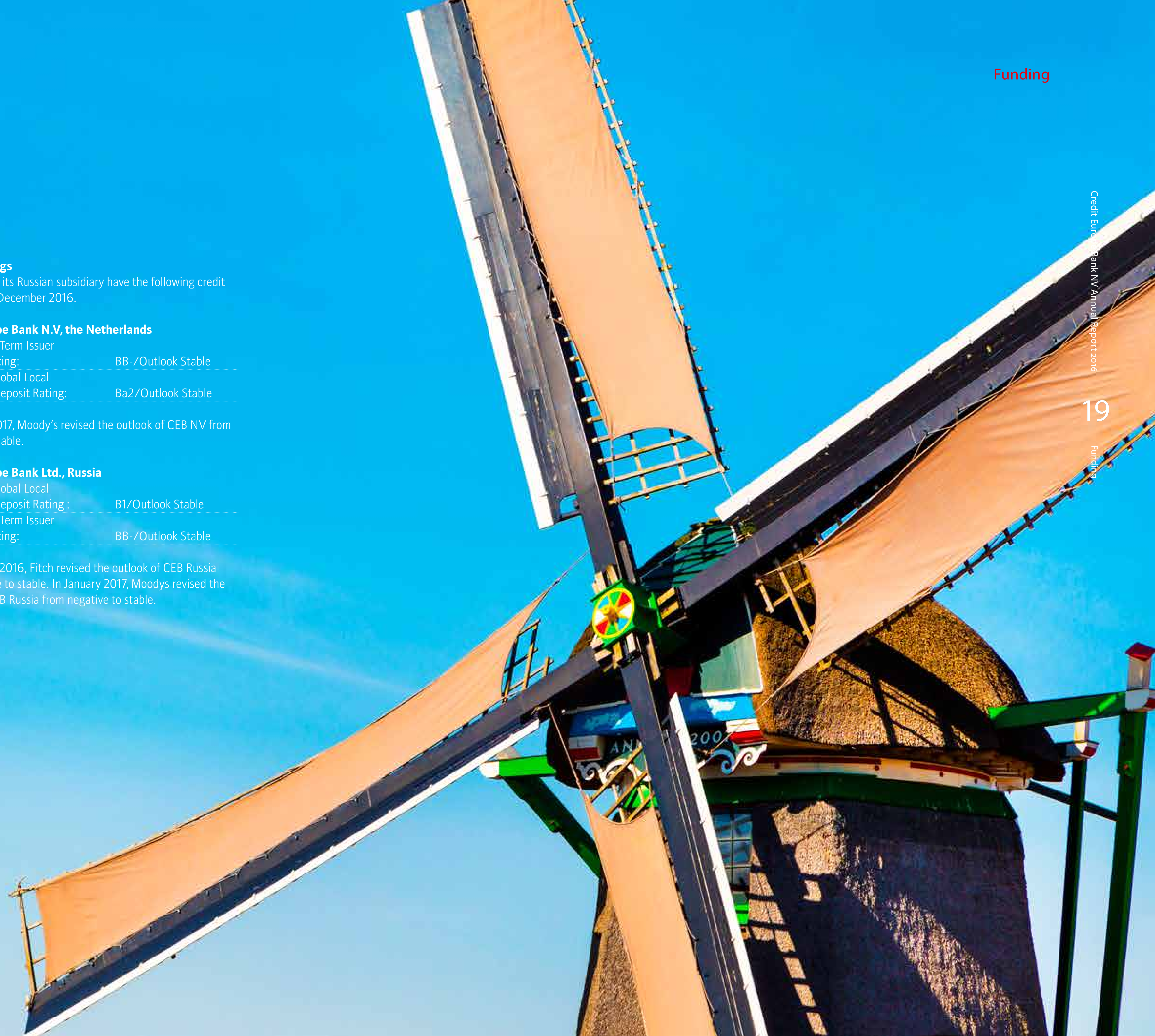
• Fitch Long Term Issuer Default Rating:	BB-/Outlook Stable
• Moody's Global Local Currency Deposit Rating:	Ba2/Outlook Stable

In January 2017, Moody's revised the outlook of CEB NV from negative to stable.

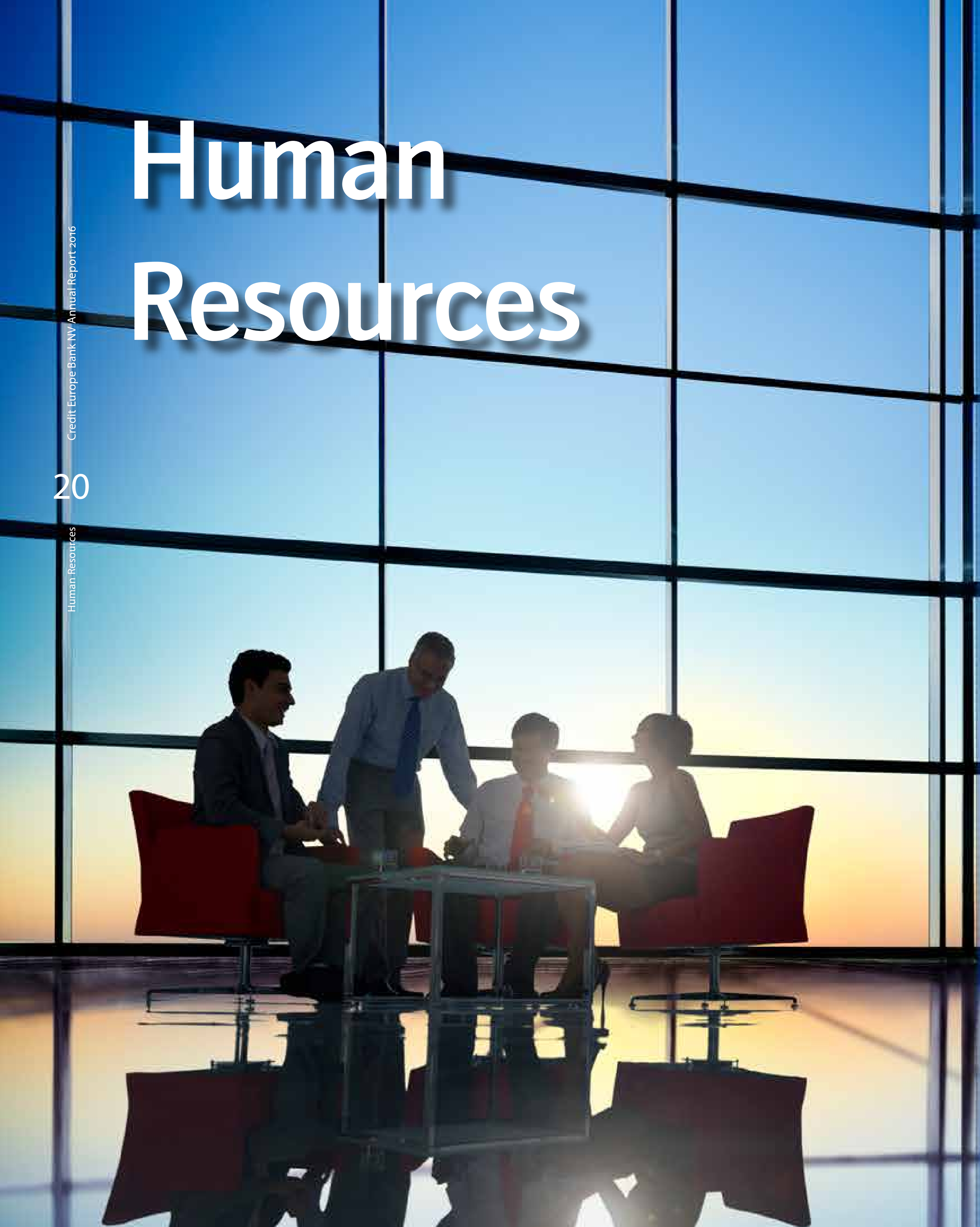
Credit Europe Bank Ltd., Russia

• Moody's Global Local Currency Deposit Rating :	B1/Outlook Stable
• Fitch Long Term Issuer Default Rating:	BB-/Outlook Stable

In December 2016, Fitch revised the outlook of CEB Russia from negative to stable. In January 2017, Moodys revised the outlook of CEB Russia from negative to stable.



Human Resources



Engaged employees are invaluable assets since they are motivated to perform highest of their abilities

Credit Europe Bank's business performance relies, first and foremost, on its employees. The Bank seeks to build the capabilities of managers and employees to help them develop both professionally and personally and to position the organization for future success.

But the success of an organization relies on more than hiring qualified candidates. Effective HR planning and management is required at all stages of an employee's corporate lifecycle to help ensure employee growth and satisfaction. Employee satisfaction is vital to the success of any organization. When employees are satisfied, they are more likely to produce high quality work, optimize performance, and exercise more critical thought and creativity. This combination amounts to increased employee engagement. Cultivating employee engagement effectively contributes to greater customer satisfaction, a cohesive corporate culture, improved performance & communication, and higher employee commitment to the core values and objectives of the organization.

This year we put our commitment to the intensification of employee motivation, satisfaction and engagement. This element has been one of the top priorities of HR and has been strongly endorsed and supported by our Managing Board.

Diversified initiatives have been taken, not only brought up by HR or implemented by the request of management. We recognize that employees are one of the best resources to collect ideas regarding new initiatives, as well as company improvements. Because they perform the majority of "hands-on" work and act as experts in their fields, the company places high value on the suggestions and recommendations of employees. To ensure these new ideas are heard, employees can share them through the Idea Box. This is to encourage creative, innovative, and resourceful thinking while providing a forum for employees to share ideas with management. Employees can share their ideas by sending an email to the Idea Box, which is tracked, monitored and followed-up.

In the year 2015 a survey was held on the subject "Internal Communication", which was identified as one of the key factors having significant impact on engagement, retention & motivation of employees. Aside from the abovementioned, further actions for minimizing the gaps and enhancement were formulated and have been implemented within the organization throughout 2016. Among other things, Quarterly Staff Events are organised. The goal of these informal gatherings is to improve organizational communication while providing a light-hearted environment for employees to build personal relationships and have the opportunity to socialize. Each Quarterly Staff Event begins with an informal introduction from the CEO, after which relevant business news, information about the company, as well as other considerable subjects or initiatives are being shared. Following these highlights all employees can enjoy refreshments and tasteful snacks.

To enhance communication and awareness about learning & development, the actual training budgets available per division are shared each quarter and published on the intranet. As mentioned before, investment in skills and accelerating employees' professional and personal development are essential and therefore important components of the Bank's people agenda. We are committed to strengthening the capability of managers and holding them accountable to enable employees to thrive and meet their full potential.

While serving our customers in different geographies as an international bank, we embrace the business challenges and opportunities arising from the diversity. Alike concerning our employees, we affirm diversity and inclusion and provide equal opportunities for all. We view staff diversity broadly to include, among other things, men and women of different ethnicity, races, cultures, religions, ages, intellectual traditions, and economic and social backgrounds.

Corporate Social Responsibility

Social and environmental performance of the bank is monitored through a system of established processes, such as the customer due diligence process, the credit application process and the transaction due diligence process.

Corporate Social Responsible Entrepreneurship plays an important role in today's society. Also in the banking industry sustainable business conduct is part of the daily business practices. In the past years different initiatives in the field of sustainability have been established through joint efforts of Dutch financial institutions.
CEB recognizes the social and environmental responsibility as an integral part of its business strategy, corporate decision-making and day-to-day practices. Our social and environmental management framework is based on Ethical Business Practice, Environmental Commitment and Transparency and Communication. The details of CEB's policy on corporate sustainability and corporate social responsibility are set out in its Social and Environmental Responsibility Policy. This policy supplements other internal policies and procedures such as the bank's Code of Conduct and its Whistle-blower system.

Ethical Business Practice

The bank is diligent in ensuring compliance with applicable laws and regulations and observing related local and international best practices. Its business activities are conducted in an ethical manner, setting priority to observation of basic ethical norms (such as values of human life, the right to work, fair working conditions and equal opportunities). To enhance a sustainable culture and ethical business practice CEB adopted 4 core values, being customer focus, integrity, professionalism and transparency. The bank's board members and employees have been (extensively) trained on the core values and these values are included in the different internal policies and guidelines of the Bank (such as the bank's Code of Conduct). All board members and employees of CEB have taken the Banker's Oath/Affirmation. Within the Bank great attention has been paid to the introduction of the Banker's Oath in 2015. The management team of the bank took the Banker's Oath during a quarterly staff event of the bank in order to further increase the awareness of the (introduction of the) Banker's Oath. CEB offers its customers non-complex, transparent and competitive bank products and services. The bank's products and services are geared to the needs and profile of the customers.

Environmental Commitment

CEB is conscious of its responsibility to conserve resources and continuously aims at more efficient use of the resources required for its business practice. Several opportunities/ideas are being explored to further contribute to a better environment.

Transparency and Communication

The social and environmental performance of the bank is monitored through a system of established processes such as the customer due diligence process, credit application process and transaction due diligence process. Any issues identified are escalated to the appropriate stakeholders and addressed through regular Management Information Systems (e.g. risk dashboards). CEB is transparent about the products and services it offers and the costs and risks involved.

The bank actively participates in Corporate Social Responsibility initiatives and encourages its employees in doing volunteer work for local community projects

Risk Management & Business Control

Risk management and business control is anchored directly to the Bank's strategy and embedded in Credit Europe Bank's organisation. A risk management and internal control framework has been implemented in line with the Bank's business activities and geographical organisation. The purpose of such framework is to set the minimum requirements for risk management and business control in respect of major risks and successful achievement of Credit Europe Bank's strategic goals.

The Managing Board sets Credit Europe Bank's risk appetite and the Supervisory Board conducts oversight on overall risk management and business control, in light of applicable local and international legal and regulatory requirements, to respond to the various financial and non-financial risks the Bank is exposed to.

The Managing Board is responsible for implementing and maintaining the risk policies within the organisation, and monitoring the risk exposure to ensure that Credit Europe Bank's activities and portfolios are not exposed to unacceptable potential losses or reputational damage. Each banking subsidiary has local risk management and compliance functions which report both to local management and head office management. Credit Europe Bank based its governance framework on a "three lines of defence" model. The business units form the first line of defence. The second line consists of the risk management, compliance and other control functions.

The Managing Board ensures that risk management, compliance and other control issues are addressed and discussed with sufficient authority. The third line of defence is the internal audit function, which assesses the functioning and effectiveness of business units, financial risk management and non-financial risk management activities.

Credit Europe Bank's risk management and internal control framework enables the Managing Board to control the financial and non-financial risks of business activities. This framework is governed by a system of policies, procedures, committees, as well as support and control functions. Limits and controls have been put in place to mitigate financial and non-financial risks to an acceptable level in line with Credit Europe Bank's risk appetite.

The risk appetite has been approved by the Supervisory Board and is designed to i) set the maximum level of risk the Bank is willing to accept in order to achieve its business objectives and ii) protect the Bank's activities, not only in terms of profitability, sound capital adequacy and liquidity ratios, but also in terms of reputation and integrity risks. To maintain the quality of financial reports and to increase the effectiveness of reporting, the Bank has implemented internal financial reporting controls.

Note 37 to the Financial Statements elaborates in more detail on the risk management and internal control framework, the risks incurred, and the main risk factors attached to the strategy of the Bank. Our corporate website also provides information on risk management and internal control.

Key developments in 2016

In 2016, the following events required specific attention of the Managing Board:

Following the automation of the Bank's asset & liability management activities - which provides real time view over the Bank's consolidated cash flow structure - Credit Europe Bank started implementing a similar module for credit risk reporting. The full integration of all banking subsidiaries will be completed in the course of 2017. Both tools are parameterised in line with Credit Risk Regulation (CRR) requirements as well as European Banking Authority (EBA) guidelines.

In 2016, Credit Europe Bank conducted two large scale risk management programs involving re- engineering of the Bank's credit risk management framework. The first initiative included the review and re-calibration of the Bank's existing credit rating models as well as introduction of new models and tools to better quantify the Bank's risk profile. The second initiative aimed to streamline Credit Europe Banks capital management and funding plan frameworks with its risk appetite statement.

Credit Europe Bank's continued strengthening of its cyber security and resilience in order to cope with the emerging and sophisticated cyber threats in the financial sector. Furthermore, enhancements have been made in the areas of operational risk management, information security, data protection and business continuity.

Areas of improvement for 2017

The Bank continues to make all necessary preparations to comply with changing regulatory requirements including new EBA technical standards and guidelines, upcoming IFRS 9 requirements and the new EU privacy regulations - General Data Protection Regulation (GDPR), among others. Further improvements on compliance matters, such as KYC and CDD are on the agenda of the Bank as well, given the regulatory environment. Credit Europe Bank conducts regulatory self-assessments and takes necessary measures by revising its internal policies and processes and updating its IT systems.

In control report

The responsibilities of the Managing Board include compliance with the principles of the Dutch Financial Supervision Act and other regulations. These responsibilities include the implementation of an effective risk management and control systems. Credit Europe Bank's internal control framework is based on the framework developed by Committee of Sponsoring Organisations of the Treadway Commission (COSO). The risk management and internal control framework aims to ensure reliable financial reporting and to control operational risks and the strategic goals of Credit Europe Bank.

Effectiveness of risk management and internal controls

The Managing Board relies on the risk management and control framework and is supported by country management. The country management provide an annual In Control Statement to the Managing Board, based on a risk control self-assessment.

The management annually reviews the effectiveness of the risk management and internal control framework. The internal audit function reviews the self-assessment of the effectiveness of the risk management and internal control framework, taking into account their knowledge on policies and procedures and related audit findings. The Audit & Risk Committee monitors the risk management and internal control framework, reviews the results of the self-assessment and findings of the internal audit function. In addition, regular reports are presented to the Audit & Risk Committee by the management, internal audit, risk management and financial control. Regular risk reports are distributed covering credit risk, market risk, liquidity risk, operational risk, etc.

Compliance reports including integrity risks (money laundering, improper conduct, conflicts of interest etc.) are reported to the Compliance Oversight Committee. The risk management and internal control processes provide reasonable assurance that the financial reporting does not contain errors of material importance. This includes its going concern basis and that the risk management and internal control framework regarding financial reporting risks worked properly in the year under review.

In view of the above, the Managing Board of Credit Europe Bank believes it is in compliance with the basic requirements 1.4.2 and 1.4.3 of the Dutch Corporate Governance Code 2016.

Responsibility Statement

Pursuant to article 5:25c section 2 part c of the Financial Supervision Act, the members of the Managing Board state that, to the best of their knowledge:

- the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Credit Europe Bank and the companies included in the consolidation;
- the annual report gives a true and fair view of the state of affairs on the balance sheet date and the course of affairs during the financial year 2016 of Credit Europe Bank and its affiliated entities whose information is included in its financial statements;
- the annual report describes the material risks which Credit Europe Bank faces.

Outlook 2017

After the surprise Brexit decision in the UK and Mr. Trump's election win in the US at the end of the last year, 2017 started with increased tail risks. The focus will be on the busy electoral agenda in the Euro area with populist voices gaining ground all over the region. The first actions of Trump presidency and rising isolationism trends will be other important topics to keep an eye on. Confidence in consumer and investment indices declined further with the rising political uncertainties which are already an early indicator that 2017 will be a volatile year for the markets. This year governments might start to take the burden of economic stimulation from central banks. There is increased accentuation of fiscal policy tools to replace monetary policy tools. Economic growth is expected to show a slight improvement in 2017 with the ongoing cyclical and structural shifts taking place. On the inflation side, markets are expecting higher commodity and energy prices due to the growth friendly policy announcements and positive base effect. The fear of deflation seems to be replaced by inflation normalisation in the advanced economies.

The Netherlands

For 2017, it is projected that economic activity continues to grow at a pace close to 2% per year. Inflation will gradually increase as economic slack diminishes and wages accelerate, but it will remain below 2% in 2017 and 2018. Because of strong domestic demand and shrinking gas exports, the current account surplus will decline further but it will remain significant (Q3 number for 2016 is EUR 11.5 billion, or 6.7% of GDP, down from 12.9 billion in the same period a year earlier).

The housing market will strengthen further on the back of low interest rates. The house price index is 5.6% above the level of a year ago.

Euro Zone & Swiss Economy Outlook

European Central Bank (ECB) announced the roadmap for 2017 in its last meeting with extending the quantitative easing (QE) programme by nine months till the end of 2017 with EUR 60 billion of monthly purchase during the extended period. Mario Draghi (President of the ECB) has insisted on the open ended nature of the QE programme and clearly communicated that if conditions warrant it, monthly purchases could be extended or increased.

In the Eurozone, inflation has moved to its highest level (1.8%) since February 2013, mainly due to higher energy prices, slightly better economic activity and increased inflation outlook in the US. Eurozone inflation is expected to range between 1.3% and 1.9% throughout 2017.

The political agenda in the Eurozone will be very busy in 2017, with major elections expected to take place in the Netherlands, France, Germany and possibly Italy. The timing and the events around the UK triggering article 50 to start the exit process from the European Union is going to be closely watched as well.
The Swiss economy is in good shape with 2016 year-on-year growth expected to finalise at 1.5%. For 2017 the growth rate is set to slow, and heightened political risks in the Eurozone are a clear cause for concern. The biggest obstacles that are weighing on economic activity are currency strength and persistent deflation. The inflation level is expected to move into positive territory in 2017 with an average forecast of 0.3% and growth rate projections are quite dependent on the developments in the Eurozone economies.

After the election result, Romania has achieved political stability with the left wing Socialist Party (PSR) led government benefiting from a solid parliamentary majority. The new government program is expected to create additional fiscal stimulus and the wage hikes policies would help the growth performance of the country to continue. The Romanian economy has been performing quite solidly with the nine month figures showing one of the highest growth rates among European economies – up 4.8% year-on-year. GDP growth is expected to accelerate in 2017 driven by the fiscal easing policies, higher disposable incomes and improved consumption demand. The government program is based on a 5.2% economic growth, while average market estimates suggest a growth in the 4.5 - 4.8% territory. Solid growth, tight labour markets and relaxed fiscal policy may lead to monetary tightening in Romania in the second part of the year. This materialised first into the normalisation of the interbank interest rates – now quoted well below the benchmark interest rate – 3M ROBOR (0.8%) vs 1.75% - monetary interest rate. Thus an actual hike in the key monetary interest rate seems highly unlikely by the end of 2017.

The United States

The US economy has a new administration as of January 20, 2017 and prospects for new policies are already being priced by the markets. The major expectations under the new administration are increases on state spending, easing on taxes and a more protective trading regime. Overall these steps together with increasing interest rates due to the firming up inflation indicators would be growth and inflation positive. The Federal Reserve (FED) target of 2% price consumption expenditure (PCE) inflation seems quite reachable and growth rate projections are upgraded to 2.3% levels.

As the US economy is expected to shift its pace upwards in 2017, the FED will be motivated to raise the funds rate more frequently during the course of the year. After the FED's recent hike in December, one more hike in 2017 is priced in with a probability of 95%, where as two hikes are priced with a 65% chance. Market expectations are ranging between one and four rate hikes for 2017. The FED's path will be totally dependent on the economic data as well as the new administration's policies.

The US growth outlook is feeding some optimism although this is quite sensitive to the economy's limited supply potential. Last seven years GDP growth was limited with 2.1% whereas the unemployment rate has fallen more than 5% implying that potential growth has declined. However so far there has been consensus that the election promises of Trump administration led the market action of a stronger USD index and higher interest rates. It will be clearer in the first quarter of 2017 if new government policies will justify the proactive move of the markets.

Emerging Markets

Emerging markets (EM) had a quite challenging start and finish last year with quite volatile FX levels and credit spreads. The major drivers of the volatility have been concerns over China's slowdown and US interest rates rising, coupled with a strong dollar index. The outlook in 2017 for the conditions in EM is similar to 2016 as political uncertainty rises and the dollar index increases.

The susceptibility to capital outflows caused a certain amount of decoupling between EM economies with different macro fundamentals, resulting in selective countries performing better than the rest. For 2017, the growth rate projections have been increased for emerging markets and commodity cycles seem to have turned which will help commodity exporting countries. On the other hand, due to more negative trade and capital balance positions, small reserves and decreased political stability, Turkey, South Africa, Indonesia and Mexico are seen as the weakest credits in EM space.

Turkey witnessed a political and economic turmoil last year and the prospects for 2017 do not look bright. The governing party is taking the changes in constitution, involving a political system change, to public referendum. After S&P's rate cut, Moody's also cut Turkey's rate from Baa3 to Ba1 which is below investment grade, which was recently followed by Fitch. Turkey is now rated as non- investment grade by three major agencies and this is expected to create an additional funding and capital burden for Turkish Banks.

TRY devaluation is expected to push inflation and interest rates higher, and forecasts for GDP growth are reduced to 2.5% in 2016, and 2.9% in 2017 (previous estimates 3.1% and 3.1% respectively).

After a challenging year, China has shown substantial efforts to prevent sharp economic slowdown in 2016. Chinese real GDP growth seems to stay within the target range of 6.5%-7%. The major downside risks are the higher inflation rates and further currency depreciation. The government is still targeting to sustain growth rates around 6.5% levels while containing the risks that are mostly inherited for 2017, such as FX outflows, shadow banking activity, and housing prices.

The Russian economy seems to leave the recession behind with an expected growth rate of around 1.1% in 2017. Russian Central Bank was very strict in inflation targeting and kept real interest rates at among the highest in the world. Inflation level is projected to slow down towards the targeted level of 4% in 2017 and a total of 150bps of easing is priced in this year, starting from June. Fiscal consolidation will be pursued by the government to reduce budget deficits to 1% of GDP as the energy prices are expected to remain stable for the short-medium term. The Russian economy has suffered a significant drag in the past two years with the impact of international sanctions, lower energy prices, interest rate increases and the general macro environment. In 2017, the negative impulses are expected to diminish quickly with positive growth prospect and central bank easing.

In Ukraine, growth rate is projected to be finally settled at 1% in 2016 and new projections are around 2% for 2017. At the end of 2016, Ukraine has achieved the necessary requirements for the release of the fourth International Monetary Fund (IMF) tranche. These were achieving budget within the IMF- prescribed deficit target of 3.0% and nationalising Privat Bank in an orderly manner. IMF is expected to release the USD 1 billion tranche, making the total facility used USD 8.7 billion. The remaining

part of the USD 17 billion IMF package is dependent on highly unpopular, large scale pension, and land reforms, which are unlikely to be achieved in the short-term. Ukraine will require significant external financing to meet repayments of external debt to banks and corporates amounting to about USD 8 billion per annum during 2017-2018. Ukraine is planning to tap the Eurobond markets in 2017 with an issue of EUR 750 million to EUR 1 billion.

The last few years have been quite difficult for the Gulf Cooperation Council (GCC) region with several macro headwinds including rising fiscal deficits, weaker energy prices, rating downgrades and tighter banking liquidity conditions. Recovering oil prices and an expanding fiscal base is set to contain the risks facing GCC countries. The supply of new bonds from the GCC region are most likely to continue in 2017 after the historical bond issue of Saudi Arabia last year and inaugural bond from Kuwait.

Profile of the Managing Board

Profile of the Managing Board as per February 2017

E. Murat Başbay (1968, male)
Chief Executive Officer

Enver Murat Başbay holds a BSc degree in business administration from Bosphorus University, Istanbul. He began his career in 1992 at Arthur Andersen Worldwide and worked in the Istanbul and Dubai offices. In 1997 he joined the founding team of Credit Europe Bank in Russia. In 1999 he joined the management team of Credit Europe Bank in the Netherlands and he played an active role in the expansion of the Bank as CFO and member of the Managing Board. Mr. Başbay returned to Russia in 2005 as CEO. Under his leadership the Russian subsidiary of Credit Europe Bank N.V. grew substantially. Since June 2010, Mr. Başbay has been CEO of Credit Europe Group, currently responsible for treasury, corporate credits and corporate governance.

Şenol Aloğlu (1965, male)
Deputy Chief Executive Officer

A graduate of Bosphorus University, Istanbul, in business administration, Şenol Aloğlu started his banking career at Interbank in 1987, joining the Fiba Group in 1991. He held various positions at Finansbank AS and Finans Leasing AS in Istanbul. In November 2000, he was appointed Executive Vice President for Financial Institutions and also Country Manager for the Netherlands. In November 2005, he was appointed Managing Board member at Credit Europe Bank. Mr. Aloğlu is responsible for retail banking, bank relations, financial institutions' credits, information technology, operations and public relations.

Umut Bayoğlu (1973, male)
Chief Financial Officer

Holds a BSc in economics from Middle East Technical University (METU) in Ankara. He began his career in 1996 as a management trainee with Finansbank AS. In 2001 he was appointed Head of Financial Control in Germany. In 2006 he became CFO of Credit Europe Bank and in 2008 he joined the Managing Board. He is responsible for financial control, human resources, accounting and central bank reporting.

Batuhan Yalniz (1973, male)
Chief Risk Officer

Batuhan Yalnız holds a Post Graduate Diploma in Trade, Transport and Finance from City University Business School (Sir John Cass Business School) in London. He joined Credit Europe Bank in January 2008 as Division Director Risk Management, and has been working in risk management related functions within the banking industry for almost 17 years. Through many projects that have been executed under his responsibility, Batuhan Yalnız has proven his in-depth knowledge of the different aspects of risk management as well as his management skills. Since October 10, 2016, Mr. Yalnız is a member of the Managing Board.

Scott Cheung (1975, male)
Member

Holds a postgraduate 'Register-accountant' qualification from the University of Amsterdam. He worked for six years at EY (named Ernst & Young Accountants at that time) in Amsterdam and Hong Kong, before joining Credit Europe Bank in 2002 as Head of the Internal Audit Department. In 2006, he was appointed Head of Group Audit, responsible for coordinating the group's Internal Audit activities. Mr. Cheung has been a member of the Managing Board since December 1, 2010. He is responsible for compliance and corporate communication.

Levent Karaca (1970, male)
Member

Holds an MBA degree in Finance and Economics from Marmara University in Istanbul. He began his career in Istanbul with Finansbank AS, worked for Banque de Bosphore in Paris, France and joined Credit Europe Bank in 2000. He worked at the Belgian branch of the Bank, and was responsible for setting up the corporate and retail divisions of this branch before moving to Russia in 2006, where he was head of the Corporate Banking division and a member of the management team. He returned to Amsterdam in 2010 to become Division Director Corporate Banking responsible for the corporate banking activities of the Bank on a consolidated level. Mr. Karaca was appointed to the Managing Board of the Bank in 2012. As a Board Member he is chiefly responsible for corporate banking and legal affairs.

Corporate Governance

A. General
Credit Europe Bank N.V. (CEB) is a public limited company (naamloze vennootschap) established in Amsterdam on February 24, 1994. The company has registered shares and is not listed on any stock exchange.

Share capital
As at December 31, 2016, the total issued and fully paid-up share capital of the Bank amounted to EUR 632.464.054. The shares of CEB are fully owned by Credit Europe Group N.V. (CEG), a holding company established in the Netherlands. CEB makes up around 99% of CEG's assets.

CEG's shares are ultimately owned, through the investment company FIBA Holding AS in Turkey, by Mr. Hüsnü M. Özyeğin.

Regulatory framework
CEB has had a full banking license in the Netherlands since 1994. The Dutch Central Bank (De Nederlandsche Bank or DNB) is the consolidated prudential supervisor: its supervision extends to CEB's banking activities in the Netherlands as well as to the banking activities of its subsidiaries.

Not only is the DNB the supervisor of CEB, it is also our regulator. The provisions of Supervisory Regulations and Policy Rules issued by DNB apply to CEB to the fullest extent. Furthermore, the international standards and guidelines from European- and other relevant authorities are used by CEB as a tool to substantiate its due compliance to these regulations.

In addition, the Bank is registered as a financial services provider with the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten or AFM).

Although CEB is not listed, it voluntarily supports and applies, to a large extent, the best practices of the Dutch Corporate Governance Code, mindful of its role as a financial institution in the Netherlands. This is also in line with Dutch Central Bank's recommendations to apply the best practices of the Dutch Corporate Governance Code. For more information on the Bank's application of the principles and best practices of the Dutch Corporate Governance Code, see page 34.

Further CEB is subject to the provisions of the Banking Code (Code Banken) – insofar its principles are not 'overruled' in the meantime by legislation or other DNB rules. The sector-wide principles in the Banking Code were announced by the Dutch Bankers' Association (Nederlandse Vereniging van Banken) with effect from January 1, 2010 and have been updated as of 1 January 2015. The new Banking Code forms part of the set of documents titled 'Future Oriented Banking'. This package comprises of a Social Charter, (an updated) Banking Code and a Bankers' Oath (with associated Rules of Conduct and a disciplinary system). All CEB's current employees working in the Netherlands have taken the Bankers' Oath/Affirmation. Each quarter a Bankers' Oath session is scheduled for new employees of CEB. As the members of the Supervisory Board and Managing Board already took their Oath/Affirmation in June 2013, in 2015 the board members signed a declaration through which they acknowledged the disciplinary regulations attached to the Bankers' Oath. For more information on our application of the principles of the Banking Code, please see a summary report in page 34, section D and a full report on http://www.crediteuropebank.com/the- bank/corporate-governance.html.

The statutory corporate rules in the Netherlands are laid down in the Bank's articles of association (statuten). The Managing Board, Supervisory Board and each subcommittee have their own charters (reglementen). The charters of the Managing Board, the Supervisory Board and its subcommittees are published on our corporate website.

For employees and others working with CEB, a Code of Conduct has been established to set standards for professional conduct. Furthermore, an extensive set of internal governance-related policies and procedures apply to our employees, ranging from 'whistleblower' procedures to policies relating to expenses.

Credit Europe Bank N.V. as a parent bank
Per the end of 2016 CEB directly owns five banking subsidiaries in Russia, Switzerland, Romania, Ukraine and the United Arab Emirates, and two leasing companies in Romania and Ukraine.

To underpin the central position of the head office in Amsterdam, the Netherlands, The Bank applies a functional reporting structure: local managers in the subsidiaries maintain a direct reporting line to the functional head of the respective department in Amsterdam. This structure applies to departments such as Internal Audit, Compliance, Treasury (asset-liability management), Credits, Risk Management, IT, Financial Control and Corporate Banking. Moreover, the general managers of all subsidiaries report directly to the CEO of CEB. During 2016, the general managers of the Bank's subsidiaries and the members of the Managing Board met on a regular basis. The main purpose of these meetings is to share knowledge and experience, to align group policies, and to consider the Bank's strategy and budgets.

Finally, in order to ensure that CEB's business policies are applied consistently and for CEB to exercise control over its subsidiaries, the CEO of CEB and (in most entities) one other Managing Board member sit on the Supervisory Board or Board of Directors of subsidiaries of CEB. In addition to each of these local boards, one or two independent CEB Supervisory Board members have been appointed as board member.

B. Boards

CEB has a two-tier board structure, with a Managing Board and a Supervisory Board.

Managing Board

Composition

The Managing Board consists of 6 board members (in October 2016 Mr. Batuhan Yalniz has been appointed as an additional member to the Managing Board). It is composed in such a way that it is able to perform its tasks properly. The individual resumes of each of the members of the Managing Board can be found on page 28.

Tasks

The Managing Board is responsible for the management of CEB, which includes realising the Bank's goals and strategy, setting policies and achieving results. The Managing Board is also responsible for compliance with all relevant laws and regulations, management of the risks attached to our banking activities and the Bank's funding. The members of the Managing Board take the social role of the Bank and the interests of the Bank's various stakeholders into account in the performance of their management function.

Without affecting this collective and joint responsibility, the members of the Managing Board have agreed to allocate their tasks as follows:

Murat Başbay,	CEO	Treasury, credits and corporate governance
Şenol Aloğlu,	Deputy CEO	Retail banking, bank relations, financial instrument risk, information technology and operations
Umut Bayoğlu,	CFO	Financial control, human resources, accounting, central bank reporting
Batuhan Yalniz,	CRO	Financial and non-financial risk management
Scott Cheung,	Member	Compliance and corporate communication
Levent Karaca,	Member	Corporate banking and legal

Supervisory Board

For a full description of the Supervisory Board: its composition, tasks, subcommittees and 2016 report, see page 43.

C. Dutch Corporate Governance Code

This section contains a brief overview of CEB's compliance with the best practice rules of the Dutch Corporate Governance Code (in this section known as the Code). It should be noted that due to our private ownership structure, the Code's provisions on shareholders (rights, meetings, obligations, protective measures – see Chapter IV of the Code) are not applicable to CEB. On December 8, 2016 the Corporate Governance Code Monitoring Committee has published the revised Dutch Corporate Governance Code. In 2018 reporting on compliance with the revised Corporate Governance Code will take place for the first time.

Based on a gap analysis of the provisions in the Code and CEB's current practice and structure, CEB's main deviations from the relevant best practices of the Code are:

Transparency on remuneration of Managing Board (best practice provisions II.2)

At present, information is given on the remuneration of the Managing Board as part of the remuneration paid to Identified Staff. No information is given at an individual level. This also applies to (individual) pension rights, peer group information and performance assessment criteria. It is the view of the Managing Board that the aggregate quantitative and qualitative information provided in the Remuneration Report in paragraph F below is sufficiently transparent for stakeholders. Information in paragraph F below is in line with the disclosure requirements set out by DNB/the relevant EU regulations/directives.

Independence of Supervisory Board members (best practice provision III.2)

Under best practice provision III.2, the requirement is set for Supervisory Board members that 'all members but one are independent'. Since January 1, 2013, the following statement applies to the Supervisory Board of CEB: that 'half of the members are independent'. This ratio is in line with DNB's requirements in that respect.

Diversity (best practice provision III.3)

Although the composition of the Supervisory Board is diversified in terms of background, expertise and age, the gender diversity within the Supervisory Board requires improvement. This is acknowledged by all members of the Supervisory Board. For 2017 the item of gender diversity is put on the priority list of the Supervisory Board and it will be investigated how and within which time- frame the gender diversity within the Supervisory Board can be improved.

D. Banking Code

This section summarises how CEB applies the principles of the Banking Code and where we deviate from these. A full report on implementation of the Banking Code can be found on our website, http://www.crediteuropebank.com/the-bank/corporate-governance.html

Please find below a summary of our application of the principles of the Banking Code in 2016. The overview follows the sequence of the chapters of the Banking Code.

1. Sound and ethical operation

The Bank's strategy for the period 2016-2019 is set out in a strategy document. This document has been approved by the Supervisory Board. The Bank's strategy is based on and reflects its vision, mission, core values and strategic objectives. It outlines the defined business strategy and the set of key objectives appropriate for the current landscape for the period until 2019. The strategy includes both financial and non-financial measures, it defines the implementation process and timeline. Among others the following topics are included in the Strategy Document: guiding principles (including the Bank's vision, mission and its core values), strategic objectives, HR, IT, risk management and internal control, financial targets, corporate social responsibility etc. The Bank's strategy is embedded in the daily business of the different departments of the Bank.

CEB recognises the social and environmental responsibility as an integral part of its business strategy, corporate decision-making and day-to-day practice and gives high importance to the impact of its activities on its stakeholders as well as on society and the environment at large. In this respect the Bank has established a social and environmental management framework, which is built on the basis of the Bank's core values and underlying commitment to respect ethical norms, such as values of human life, the right to work, fair working conditions, civil responsibility, equal opportunities and occupational health and safety. CEB is currently preparing a plan of action in order to bring its social and environmental entrepreneurship to a higher level.

When setting its strategy CEB has carefully considered its role in society. This appears amongst others from CEB's mission (i.e. providing financial services that create value for its customers) and its core values ('customer focus', 'integrity', 'professionalism' and 'transparency').

In order to ensure a proper governance structure CEB has instituted several committees in addition to the Supervisory Board and the Managing Board, such as the Asset & Liability committee, IT Steering committee, Risk committees and Credit committees. These committees meet on a regular basis. Further weekly management meetings are organised and each quarter a General Managers' meeting is held (see paragraph 3 herein below for more information). The committees/meetings support the Managing Board in its daily management of the Bank. The Supervisory Board monitors whether the Bank's governance structure functions properly. This is mainly done through the quarterly Supervisory Board meetings and the meetings of the sub-committees of the Supervisory Board (such as the Corporate Governance & Nomination committee).

To enable the members of the Supervisory Board and the Managing Board to be a role model for the Bank's employees an introduction program for new board members has been developed. As a part of this program the members are trained on the Bank's core values, its main policies (e.g. code of conduct) and the Bank's culture. For the current Supervisory and Managing Board members regular awareness sessions are held during the board meetings and also trainings on this topic are organised. In connection with the annual evaluation of the members of the Managing Board the way in which they fulfil their exemplary role is assessed. The fulfilment of the exemplary role by the Supervisory board is reviewed in connection with their annual self-evaluation/suitability matrix and the external assessment.

The standards on integrity, morals and leadership are included in the Bank's core values, different internal policies/guidelines and in the Charters of the Supervisory Board and the Managing Board. Further these standards are communicated through intranet, internal trainings (/e-learnings), staff mailings and staff events. The monitoring of the application of these standards is embedded in the daily practice of the Bank's departments. In addition monitoring takes place by the HR and Compliance department, Managing Board, Supervisory Board (and its sub-committees including the Compliance Oversight committee) and the Internal Audit department. To further embed the core values in the Bank's culture in 2017 a senior management training programme is being organised.

The Supervisory Board and Managing Board ensure proper checks & balances. Within the Bank the Division Director Compliance is a member of the management team. The Division Director Compliance has a direct reporting line to a Managing Board member and the (chairman of the) Compliance Oversight Committee of the Supervisory Board. CEB acknowledges that a solid IT- infrastructure is vital for the functioning of the Bank. Its system architecture is composed of industry proven technologies and payment systems supporting automated workflows. Transactions are secured with the latest encryption standards, while at the same time software vulnerabilities are continuously monitored, investigated and mitigated. This all enables CEB to process transactions and orders of customers quickly, safely and accurately. Due to the use of technologies that are widely adopted within the financial industry and the service oriented basis of the application structure, CEB can quickly adapt to changing demands of its customers. The IT Steering Committee and the Supervisory Board supervise, discuss and decide on IT related matters. Within the Supervisory Board 'IT Management' is a recurring agenda-item. In the last years there is an increasing focus on security related activities (such as vulnerability management, data leakage prevention etc.). Additionally, modernisation of infrastructure components and mobile device management are continuous focus areas. Regular IT related trainings are organised in connection with the continuing education program.

Within CEB a healthy culture of responsible behaviour is promoted through different means. Upon employment the Bank's employees participate in an introduction program during which they are trained on the Bank's core values, its main policies/regulations (including the code of conduct and the staff handbook) and the Bank's culture. The new employees will also attend a Bankers' Oath session and take the Oath/Affirmation. For all employees CEB organises regular thematic awareness trainings and during the quarterly staff events the (desired) culture within the Bank is highlighted/discussed. To further promote a healthy culture within the Bank CEB has adopted four core values. These values are: customer focus, integrity, professionalism and transparency. The Bank's employees have been thoroughly educated on these values and posters of the core values are placed throughout the buildings of the Bank. Another way to promote a healthy culture is CEB's remuneration policy. Please refer to paragraph F herein below.

The guidelines of the social charter are covered by CEB's core values and its strategy and as such embedded in the Bank's culture.

2. Supervisory Board

Since the beginning of January 2013, CEB's Supervisory Board has consisted of six members. Taking into account the Bank's size and nature, but also the composition of the Supervisory Board, such a number is deemed sufficient to perform its tasks properly. The members of the Supervisory Board are prepared and able to make sufficient time available for their duties and exhibit effort and commitment. It is standard practice within the Supervisory Board that each member is physically present at all board- and subcommittee meetings. Only in exceptional circumstances may a member of the Supervisory Board be absent during a meeting. The number of independent members and dependent members is equal at three.

All members of the Supervisory Board have a banking, investment or legal background and the majority of them are still active in the financial and/or legal services business on a day-to-day basis. As such they are duly aware of the social role of a bank and of the interests of the various stakeholders of a bank.

The Supervisory Board is supported by four committees: Audit & Risk, Corporate Governance & Nomination, HR & Remuneration and Compliance Oversight.

Each committee is composed as follows:

Commitee	Members
Audit & Risk	Frits Deiters (Chaiman) Mehmet Guleşci (Vice Chairman) Korkmaz Ilkorur
Corporate Governance & Nomination	Hector de Beaufort (Chairman), Mehmet Guleşci, Murat Özyeğin
HR & Remuneration	Onur Umut (Chairman), Hector de Beaufort, Murat Özyeğin
Compliance Oversight	Korkmaz Ilkorur (Chairman), Frits Deiters, Onur Umut

The members of the Audit & Risk committee meet the specific competence and experience requirements as set out in the Banking Code.

CEB has a continuing education program in place with the aim to maintain (and to the extent necessary expand) the expertise of the members of the Supervisory Board at the required level. As part of this program in 2016 e.g. trainings were organised on fintech, cultural awareness and credit risk management, credit rating models in particular such as the internal rating based approach. All members of the Supervisory Board participate in the continuing education program and attended the required number of trainings. The trainings for 2017 are currently being organised.

Also in 2016 the Supervisory Board performed an annual self-evaluation. The latest external assessment took place in 2015. In 2018 the Supervisory Board will again be evaluated under independent supervision (i.e. by an external assessor). The self-evaluations and the external evaluations focus on topics like the cooperation amongst board members, the culture within the Supervisory Board, the internal and external functioning of the Supervisory Board and the cooperation with the Managing Board. The assessment of the effectiveness of the education program is part of the annual self-evaluation of the Supervisory Board.

In terms of compensation, each Supervisory Board member receives an appropriate amount of compensation (fixed; no variable pay) taking into account the amount of time that is spent on the Supervisory Board tasks. The compensation does not depend on the results of the Bank.

Date of appointment (& re-appointment) of the Supervisory Board Members

Name	Title	(Re-)appointment date	Up for re-appointment
Hector de Beaufort	Chairman	15 February 2015	15 February 2019
Murat Özyeğin	Vice-chairman	1 January 2014	1 January 2018
Onur Umut	Member	1 January 2015	1 January 2019
Mehmet Guleşci	Member	1 January 2014	1 January 2018
Frits Deiters	Member	1 May 2016	1 May 2020
Korkmaz Ilkorur	Member	1 August 2016	1 August 2020

3. Managing Board

Since October 10, 2016, the Managing Board of CEB consists of six members. All members have gained thorough expertise and knowledge of banking, of our company, and of the locations in the various countries where the Bank is active.

In order to ensure due balancing of the interests of the Bank's stakeholders several subcommittees and weekly (management) meetings have been formed (such as the Asset & Liability Committee, IT Steering Committee, and Risk Committee). These committees meet on a weekly/monthly basis. Additionally the Managing Board organises regular General Managers meetings for which the General Managers of CEB's banking subsidiaries are invited. In these General Managers meetings group updates/topics are discussed in areas of risk management, compliance, IT etc. The contributions of these meetings add to the Managing Board's due balancing of the interests of its clients, business partners, employees, supervisors and shareholders.

Without detriment to the collective responsibility of the Managing Board as a whole, the CRO, Mr. Yalniz, is responsible for financial and non-financial risk matters within the Bank and for preparing the decision-making with regard to risk management. The CRO does not bear any individual commercial responsibility for and operates independently from commercial areas. CEB's risk management also includes a focus on the impact that systematic risk might have on the Bank's risk profile.

The CEO ensures that a continuing education program is in place with the aim to maintain (and to the extent necessary expand) the expertise of the members of the Managing Board at the required level. All members of the Managing Board participate in the continuing education program and attended the required number of trainings. The trainings for 2017 are currently being organised.

4. Risk Management

Risk management plays a central role in CEB's management decision making process, and is strongly supported at both the Managing Board and Supervisory Board level. The Supervisory Board oversees through its Audit & Risk committee) the risk policy pursued by the Managing Board, while the Audit & Risk committee reviews and discusses the Bank's risk profile, capital management and funding policies as well as country risks, credit risks, market risks and operational risks in view of the pre-defined risk appetite. The CRO and the Risk Management division are the main sponsors of the Bank's consolidated-level Risk Appetite, ICAAP, ILAAP, Recovery Plan and other internal guidance documents. CEB's risk appetite statement is discussed and reviewed/approved annually in the relevant Supervisory Board meeting (and also any material interim changes to the risk appetite are subject to the approval of the Supervisory Board). More information on CEB's Risk Management can be found in note 37 of the Consolidated Financial Statements.

5. Audit

The Internal Audit Department (IAD) within CEB plays an important role in ensuring ever better governance. It represents an independent and objective assurance and consulting function as a third line of defence. Through the application of a risk-based methodology, IAD evaluates and examines

whether proper measures are taken to ensure 'control' in the organisation and its activities.
The Chief Audit Executive has a direct reporting line to the Chairman of the Audit & Risk committee (and administratively reports to the Managing Board).
Exchange of information between IAD, the Audit & Risk committee and the external auditor takes place in the meetings of the Audit & Risk committee during which e.g. the risk analysis, audit plan and findings are presented and discussed. Also outside these meetings IAD, the members of the Audit & Risk committee and the external auditor have regular contact to share information and discuss and consult on specific topics. At least once a year a so-called tripartite meeting between representatives of DNB, CEB's external auditor and IAD is organised in which the risk analysis, findings and each other's audit plan are discussed. The last tripartite meeting was held in November 2016.

External Auditor
CEB safeguards independency of the external auditor by monitoring and overseeing the external auditor activities. The Audit & Risk Committee half-yearly reviews the reports, audit fees and independence statements of the external auditor. The external auditor, KPMG Accountants N.V., has been appointed as from financial year 2007 until the financial year 2016. As of January 2017 CEB engaged Ernst & Young Accountants LLP as its external auditor due to mandatory legislation. The financial statements 2016 are audited by KPMG Accountants N.V.

6. Remuneration
CEB's Group Remuneration Policy has been updated/revised to comply with national and international regulations (such as the Banking Code, DNB's regulation on sound remuneration, the Financial Supervision Act and the relevant provisions included in CRDIV). The total income of a member of the Managing Board is -at the time it is set- below the median for comparable positions within and outside the financial industry. Any variable remuneration paid to the Managing Board members is set in accordance with the applicable national and international regulations. For a summary of the remuneration policy in CEB, please revert to paragraph F below.

E. Handling potential conflicts of interests
Credit Europe Bank has effected a group of procedures suitable for managing potential conflicts of interests. Such arrangements have to be complied with for professional integrity - and transparency reasons. The generic arrangements aim at setting criteria and controls that identify and govern potential conflicts of interest arising from normal personal banking transactions by employees, senior management or members of the Managing and Supervisory Board.

In 2016 no direct, indirect or formal conflicts of interest were identified.

A special category of potentially conflicting situations forms the Bank entering into a transaction with a related party. Parties related to Credit Europe Bank include all Fiba and Fina Group associated

companies, any member of the Managing- or Supervisory Board as well as their close family members and any entities controlled by them.

Related party transactions are settled in the normal course of business and on an arm's length basis, i.e. under the same commercial and market terms that apply to non-related parties. The kind of transactions that fall under related party transactions are various: loans, deposits or foreign exchange transactions.

The Bank has specific arrangements in place to ensure a proper management of potential conflicts of interests in related party transactions. These arrangements include procedures to identify, authorise and report related party transactions to the Managing Board and the Compliance Oversight Committee. In every Compliance Oversight Committee meeting, an overview with the exposures outstanding to related parties and information on whether The Bank acted in conformity with its established procedures and with the required approval process is presented.

On an annual basis, the Bank's IAD carries out audit procedures to provide reasonable assurance that the Bank's policies and procedures for related party transactions are properly and effectively executed.

F. Remuneration Report

(i) Decision- making process to determine the remuneration
By virtue of CEB's Group Remuneration Policy, the key elements of the governance structure for the fixing, execution and evaluation of the remuneration management are as follows: CEB's Supervisory Board is responsible for the establishment, execution and evaluation of the Group Remuneration Policy and the Supervisory Board monitors the proper implementation of this by the Managing Board. The HR & Remuneration Committee (a subcommittee of the Supervisory Board – described in more detail below) meets at least each quarter and prepares the decision-making process for the Supervisory Board, taking into account the long-term interests of all stakeholders of CEB.

Remuneration of Identified Staff (defined in the Group Remuneration Policy and determined as described in the Assessment of Identified Staff procedure) is determined by the Supervisory Board. The remuneration of the other employees is determined and implemented by the Managing Board and supervised by the HR & Remuneration Committee. For senior managers in control functions, remuneration is directly supervised by the HR & Remuneration Committee.

As a general principle, CEB's Group Remuneration Policy authorizes the Supervisory Board to adjust the variable remuneration of (a group of) Employees – as defined in such Policy, if continuation on the same level would have an unfair and unintended effect. Moreover, the Supervisory Board has the right to reclaim the variable component of remuneration granted to Employees, if it turns out that such a variable was based on inaccurate data. Such reclaim is allowed until two years after the award of the variable pay.

(ii) Link between performance and pay
One of the key elements of CEB's Group Remuneration Policy is the description of the appraisal process. In this paragraph, a summary is given of this process:
On the basis of pre-determined and assessable objectives, comprising financial and non-financial elements, and also on the basis of competences and general indicators, an Employee's overall performance assessment is determined, at least once per year. The non-financial objectives form a substantial portion (with a minimum of 50%) of the total set of objectives for an employee

Objective-setting
Each year, the Managing Board formulates its own objectives (financial and non-financial) and presents them for approval to the Supervisory Board. The approved objectives are then assigned (partially) to the relevant Identified Staff and Employees. Pursuant to the Group Remuneration Policy, financial objective-setting for Employees in control functions may not be based on the commercial objectives of CEB, i.e. the objectives of these Employees are set independent from the financial targets and/or results of the business they control.

Performance assessment
Financial performance of an employee is assessed in the context of CEB's financial stability and own funds requirements as well as the long-term interests of the shareholders and other stakeholders.

Financial performance shall be evaluated on the basis of (a) divisional/ departmental profitability, calculated on financial criteria such as Net Income and (b) the department's attribution/ claim to the risk profile of CEB.

Via a web-based performance management system, an overall 'performance score' is generated. The three performance categories are competences, general indicators and objectives. For the overall score, the following weighted percentages apply per category: competences 30%, general indicators 20% and objectives 50%. The end score is a figure between 1 and 5 – whereby 5 is excellent.

Performance evaluation of Identified Staff takes into account performance over several years and appraisals for Employees in control functions take into account the 'countervailing function' of these staff members.

(iii) Most important characteristics of remuneration system
Apart from the governance structure and appraisal process, the CEB Group Remuneration Policy also incorporates rules and guidelines for the setting and determination of fixed and variable remuneration for Employees.

As a rule in CEB, fixed salary levels are conservatively aligned in comparison to similar functions in banking and the industry, nationally and internationally

One of the basic principles for granting variable pay (if any at all) is that variable pay may never exceed 100% of the fixed salary, and that guaranteed variable remuneration to Identified Staff is not allowed

Phantom Share plan
In CEB's Phantom Share Plan the terms and conditions for the granting of Phantom Shares to Identified Staff are laid down. The Plan entails that variable remuneration awarded to an Identified Staff will be for 60% unconditional and for 40% deferred. If an Identified Staff member is awarded a total of more than € 300.000 gross (or equivalent), 40% will be unconditional and for 60% deferred. At least 50% of the variable remuneration (deferred or unconditional) is in the form of financial instruments whose value is determined by/ derived from the value of CEB shares: Phantom Shares. These financial instruments are rights – not shares.

The deferred part of the variable remuneration vests over a period of 3 years. Furthermore, vested Phantom Shares (whether deferred or unconditional) are subject to a retention period of 1 year. Vesting and exercise of the Phantom Shares is subject to the fulfilment of certain conditions. For example, the holder's performance score (see paragraph (ii) above) must exceed a certain limit.

(iv) Most important parameters & motivation for variable remuneration

Pursuant to the Group Remuneration Policy, the granting of variable remuneration 'at all' depends on CEB's performance in a year. Additionally, the requirement applies that the granting of variable remuneration may not restrict CEB's possibilities to reinforce its regulatory capital, its solvency ratio or its own funds.

CEB has no other non-cash benefits/non-cash variable remuneration elements.

(v) Aggregate quantitative information on remuneration per business segment

In 2016, CEB paid out €57'762'545 to employees working in the Wholesale Banking business segment and €45'334'417 to employees in the Retail Banking segment.

(vi) Aggregate quantitative information on remuneration for Identified Staff and senior managers

CEB has identified 81 Identified Staff members and 103 senior managers.

In 2016, the total amount of remuneration paid out to the Identified Staff and senior managers amounted to €20'326'907, split into €13'453'604 for Identified Staff and €6'873'303 for senior managers. Such total remuneration was split into €19'261'013 fixed salary (for Identified Staff € 12'656'161 and senior managers €6'604'852) and €1'065'894 variable remuneration (for Identified Staff €797'443 and senior managers €268'450). Please note that the variable remuneration for Identified Staff was split in a deferred and unconditional part (respectively 40% and 60%, or respectively 60% and 40% if awarded a total of more than €300'000 gross) and awarded in cash or Phantom Shares (50/50). A retention period of 1 year applies to the vested Phantom Shares.

The total amount of awarded & outstanding (vested and unvested) deferred remuneration in 2016 (for the Phantom Shares granted as per 2015) amounts to €1'974'490.

As part of CEB's Group Remuneration Policy, variable remuneration packages of all employees are granted based on the (financial and non-financial) performance over the respective reporting year and paid out in the form of cash and/or Phantom Share (both unconditional and conditional) in the preceding years.
This Remuneration Report refers to the performance year of 2015, with the related bonus payment executed in 2016.

By virtue of the rules in the Group Remuneration Policy, in 2016 there will be no 'less than awarded' deferred pay-out due to unsatisfactory performance adjustment.

(vii) Severance payment

In the reporting year 2016, CEB on a consolidated basis paid severance payments to a total of 23 employees – of which 1 was an Identified Staff member. For none of them did the severance payment exceed one year's fixed salary – a requirement explicitly included in CEB's Group Remuneration Policy. In total, CEB paid €985'224 in severance in 2016, of which €30'320 to the Identified Staff member, being the highest amount granted.

CEB did not pay sign-on or entry awards to any Identified Staff member in 2016.

Profile of the Supervisory Board

Profile of the Supervisory Board as per February 2017

Hector de Beaufort (1956, male)
Chairman

Holds a Master's degree in Law from Utrecht University, the Netherlands and from the University of Pennsylvania. He has been senior corporate partner at the leading international law firm Clifford Chance in the Netherlands since 2000. Prior to this, he was partner at Stibbe in the Netherlands and worked as a lawyer at Hughes Hubbard Reed in the USA. He has broad international experience in business law and corporate governance and has specific knowledge of corporate finance and capital market transactions. In addition Mr. De Beaufort holds several board memberships in various companies. Mr. De Beaufort, who is a Dutch national, has been an independent member of the Supervisory Board since February 2011 and Chairman since January 2012 (current term expires in 2019).

Murat Özyeğin (1976, male)
Vice Chairman

Holds a BS in Industrial Management and Economics from Carnegie Mellon University and completed his MBA at Harvard Business School. Currently he is the Head of Strategic Planning and Business Development of Fiba Group, Executive Board Member of Fina and Fiba Holding and Chairman of all of Fiba Group's non-banking businesses. Mr. Özyeğin began his career in 1998 at Bear Stearns & Co. Inc. in New York City as a Financial Analyst within the Mergers & Acquisition Group. In 2000, he was appointed a Senior Analyst position at the London office of the same company. After his return to Turkey in 2003, he established the Strategy and Business Development Departments of Finansbank and Fiba Holding. Next to his Fiba and Fina positions, Mr. Ozyegin is member of the Board of Endeavor, Executive Board Member of Hüsnü M. Özyeğin Foundation, Vice President and Treasurer of the Turkish Industry and Business Association (TÜSİAD), Member of the Board of Trustees of Ozyegin University and World Wildlife Fund, Board Member of Global Relations Forum, Member of Global Advisory Council of Harvard University and Honorary Consul-General of the Republic of Singapore. Mr. Özyeğin, who has Turkish nationality, was appointed to the Supervisory Board of Credit Europe Bank in 2006 (current term expires in 2018).

Frits Deiters (1940, male)

Holds a graduate degree in Economics from the University of Amsterdam. He has had a successful 35 year career with ABN Amro Bank (and its predecessors) in corporate- and private banking, and lastly as Country Manager for Luxembourg. Until late 2012, he was non-executive board member and chairman of the Audit, Risk and Compliance Committee of Lombard International Assurance, Luxembourg - a subsidiary of Friends Life in London. At present he is Treasurer of the 'Stichting Vrienden van het Singer Museum'. Mr. Deiters is a Dutch national and was appointed to the Supervisory Board as independent member in May 2012 (current term expires in 2020).

Mehmet Güleşci (1962, male)

Holds a BA and an MBA from Bosphorus University in Istanbul. He is CFO of the Fiba Group and serves as a Board Member of a number of Credit Europe Bank subsidiaries and Fiba Group companies. Before joining Fiba Group in 1997, he was an Audit Partner at EY in Turkey, responsible for the financial sector. He was CFO, and subsequently Board Member, of Finansbank AS until 2009. Mr. Güleşci, who is a Turkish national, was appointed to the Supervisory Board in 2006 (current term expires in 2018).

Korkmaz Ilkorur (1944, male)

Has an MA in Economics from the University of Pittsburgh, USA. He built up managerial experience as a professional in the financial world with several banks and insurance companies like The Industrial Development Bank of Turkey, Chemical Mitsui Bank AS, Yapi Kredi Bankasi AS and SBN Insurance. He has also served on the Board of Directors of several non-financial companies. Mr. Ilkorur was a member of the Board of Directors of The Turkish Industrialists and Businessmen Association in 1999-2001 and acted as the Chairman of its Governance Committee between 2001- 2010. He also served as the Chairman of the Regulatory Governance Committee of the Business and Industry Advisory Committee (BIAC) to the OECD in the same period. Further Mr. Ilkorur was Senior Advisor of Oliver Wyman in Turkey between 1998-2014 and a member of its Senior Advisory Board for EMEA since 2004. Presently, Mr. Ilkorur serves as the Vice Chairman of the Finance Task Force of BIAC and is a Senior Advisor at Official Monetary and Financial Institutions Forum (OMFIF). He is also (emeritus) trustee of the Robert College in Istanbul. Mr. Ilkorur is a Turkish national and was appointed to the Supervisory Board in August 2012 (current term expires in 2020). He qualifies as independent board member according to Dutch regulatory standards.

F. Onur Umut (1962, male)

Holds a BSc from Bosphorus University in Istanbul and completed the Wharton Executive MBA (1998). He joined the Fiba Group in 1988 and is now a member of the Board. From 1996 to 1999, he served as CEO of Credit Europe Bank, after which he was appointed CEO of Finansbank AS, Turkey. Mr. Umut, who has Turkish nationality, was appointed to the Supervisory Board in 2003 (current term expires in 2019).

Report of the Supervisory Board

The Supervisory Board is pleased to report that CEB, despite another year of continuation of weak economic growth and difficult markets conditions, has realised a net profit of EUR 45 million in 2016. The business climate in which the financial sector operates remains volatile. However, due to its ability to rapidly adapt to changing market conditions, CEB managed to maintain its profitability.

In 2016 amongst others the following political and economic developments determined the business climate of the financial sector in general and CEB's business in particular: global insecurity, low oil/commodity prices, Brexit vote, the failed coup attempt in Turkey and US presidential elections. In addition to the political and economic developments, changes in the regulatory environment have also been affecting CEB's business plans. This all led to continuous focus on risk monitoring, further improvement of CEB's risk management function and preservation of asset quality.

The Supervisory Board observes that the constant changes in the regulatory environment, be it in the field of risk management, compliance, liquidity/capital management or corporate governance, require substantial time and energy from the Managing Board and its staff in order to keep up with the highest level of compliance to the new rules and regulations. The Supervisory Board is satisfied to see that this responsibility is taken with due care and commitment from all persons involved within CEB.

Overall we can look back at 2016 as a satisfactory year during which CEB again proved its ability to rapidly adjust its strategy to changing market conditions. The Supervisory Board wishes to extend its gratitude to all employees working in the CEB group of companies for their continuous loyalty and energy expended in supporting the strength of the group. We believe CEB is well positioned to face forthcoming challenges and opportunities for 2017. Given the incessant efforts and support of all CEB employees – managed and guided by the Managing Board – the Supervisory Board is convinced that this forms a solid basis to face the year ahead, with all its challenges and opportunities.

Net income allocation

The Supervisory Board has reviewed the Report of the Managing Board and the Financial Statements for 2016, comprising the balance sheet and profit and loss accounts. The financial statements further include explanatory notes and other information, including the report of the external auditors, KPMG Accountants N.V., for the year ending December 31, 2016.

We propose and advise that the General Meeting of Shareholders adopts these financial statements. Furthermore, we propose to add the full amount of net income to the retained earnings (i.e. to pay no dividend to shareholders), thereby discharging the members of the Managing Board from their liability with respect to their management responsibilities and the members of the Supervisory Board with respect to their supervisory responsibilities.

Supervisory Board structure and composition

As at March 2017, the Supervisory Board of CEB consists of six members: Hector de Beaufort (Chairman), Murat Özyeğin (Vice Chairman), Onur Umut, Mehmet Güleşci, Frits Deiters and Korkmaz Ilkorur. All members of the Supervisory Board have a background and experience in banking, legal or investment. For more detailed information on the members of the Supervisory Board reference is made to the Profile of the Supervisory Board included in page 37. The current term for which each Supervisory Board member has been appointed can be found in chapter D under 2 of the Corporate Governance chapter.

Mehmet Güleşci qualifies as financial expert in the meaning of III.3.2 of the Dutch Corporate Governance Code. Hector de Beaufort, chairman of the Supervisory Board, is senior partner with Clifford Chance in Amsterdam, specialised in boardroom counselling and strategic advice and furthermore he focuses on (the legal side of) merger & acquisition transactions and corporate finance.

Under best practice provision III.2 of the Corporate Governance Code, the requirement is set for Supervisory Board members that 'all members but one are independent'. Since January 1, 2013, the following statement applies to the Supervisory Board of CEB: that 'half of the members are independent'. This ratio is in line with DNB's requirements in that respect.

In line with corporate rules in the Netherlands, and as set out in CEB's Articles of Association and in the Charter of the Supervisory Board, the Supervisory Board's task is to supervise the policy of the Managing Board and the general affairs of the Bank, and to support the Managing Board with advice. Overall the Supervisory Board is very much involved in the general affairs of the Bank and its strategy.

The Remuneration Report can be found on page 34.

Committees

The Supervisory Board is supported by four committees: Audit & Risk, Corporate Governance & Nomination, HR & Remuneration and Compliance Oversight. All Supervisory Board members have a standing invitation to attend the sub-committee meetings of which they are not a member.

The main objective of each committee is as follows:

Audit & Risk: advises the Supervisory Board on, and supervises the status of and developments in the Bank's risk management system, internal control systems, including the internal audit function and compliance-related issues. The committee monitors the financial reporting process, oversees the accounting policies and practices and ensures that CEB maintains an adequate internal control system and processes. This includes the activities of the risk management function and internal audit function. The Committee also performs a review of CEB's financial statements and the reports of the external auditor. Moreover, it discusses the relationship with the external auditor, including his independence, remuneration and other permitted services executed for the Bank.

In 2016 the following Supervisory Board members were members of this subcommittee: Frits Deiters (Chairman), Mehmet Güleşci (Vice Chairman) and Korkmaz Ilkorur.

Corporate Governance & Nomination: advises the Supervisory Board on corporate governance developments, reviews the implementation of corporate governance principles and practices within CEB and advises on adjustments. It is also responsible for nominations, which involves establishing and advising on the selection criteria, profile and nomination process for new Supervisory and Managing Board members.

In 2016 the following Supervisory Board members formed the Corporate Governance & Nomination Committee: Hector de Beaufort (Chairman), Murat Özyeğin (Vice Chairman) and Mehmet Güleşci.

HR & Remuneration: acts as advisor of the Supervisory Board in all areas of HR and Remuneration in general and pertaining to the Managing Board/Identified Staff. Further it proposes a policy and a structure relating to performance evaluation and target-setting for a certain level of senior employees of CEB and its subsidiaries, and oversees the implementation of relevant policies for the Supervisory Board. Also the committee is engaged in succession planning.

In 2016 the Supervisory Board members of the HR & Remuneration Committee were: Onur Umut (Chairman), Murat Özyeğin and Hector de Beaufort.

Compliance Oversight: assists the Supervisory Board in overseeing the Bank's overall compliance framework that is designed, in light of applicable local and international legal and regulatory requirements, to respond to the various compliance and regulatory risks the Bank is exposed to. It keeps the Supervisory Board informed and updated on developments and/or best practices in compliance and reviews these developments and/or best practices for applicability to CEB. It further reviews the implementation and maintenance of CEB's compliance principles and Compliance Program and advises on adjustments.

In 2016, the Supervisory Board members of the Compliance Oversight committee were: Korkmaz Ilkorur (Chairman), Frits Deiters and Onur Umut.

Supervisory Board meetings

In 2016 the Supervisory Board had four meetings in accordance with pre-determined schedules. In addition several other meetings were held on specific times when certain matters were to be discussed. The latter meetings were mostly held in the form of a video conference meeting. The meeting in December 2016 coincided with a global budget meeting.

The majority of the meetings were attended by all Supervisory Board members. As a rule, the Managing Board is always present at Supervisory Board meetings, with the exception of the 'executive session', in which the Supervisory Board discusses its own functioning as a whole, its culture and its relationship with the Managing Board.

Recurring topics in all Supervisory Board meetings are risk management and risk monitoring, capital adequacy, IT management, developments in the retail and corporate banking business, in treasury and in liquidity management and updates on (regulatory) corporate governance guidelines. Not only in collective meetings are these topics (and other relevant topics) discussed; also in various informal contacts between and with Supervisory Board members and (individual) members of the Managing Board and/or their direct reports, the developments in these areas are discussed or further explored. These contacts contribute to the Supervisory Board's engaging role and to the enhancing of the quality of the Board's supervisory responsibility.

Also in 2016 the Supervisory Board performed an annual self-evaluation. In this regard the functioning of the Supervisory Board, its committees, the cooperation amongst the board members and the cooperation with the Managing Board has been evaluated.

Audit & Risk Committee
This committee met four times in 2016. Representatives of the Bank's external auditor, the Managing Board and the Internal Audit Department joined the quarterly meetings. In addition the meetings were also regularly attended by other Supervisory Board members who have a standing invitation to join the meeting. Key topics were financial performance, risk management developments and the risk profile of the Bank, global internal audit activities and reports of the external auditor. This includes the review of the Bank's (interim) financial statements, Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), CEB's risk appetite policy and periodical reporting on Information Security and Operational Risks. Specific topics discussed were the self-evaluation of the functioning of the Audit & Risk committee, performance of the internal and external audit function and selection of a new external auditor. Each meeting the risk management function and internal audit function reported about the functioning of the internal control system and processes. The internal audit plan has been discussed and approved and related charters, policies and procedures are being reviewed on a cycle basis. The committee took notice of the key audit reports, findings and recommendations of the internal audit function and related follow-up activities. The committee made sure that there is an open communication between the internal audit function and the Board and its committees, management, external auditor and supervisor. Furthermore, a closed meeting has been held with the external auditor.

Corporate Governance & Nomination Committee
This committee met four times in 2016. In addition to the recurring agenda-items (such as a review of the key decisions of CEB's subsidiaries and the key correspondence between CEB's subsidiaries and their local supervisors) several (other) key topics have been dealt with. These include amongst others reporting on compliance to the new Banking Code, consultation document Corporate Governance Code, reappointment of two Supervisory Board members, update Corporate Governance Charter, Dutch Banking Sector Agreement on international business conduct regarding human rights, gender diversity within the boards of CEB and the DNB's examination on governance, behaviour and culture within CEB. The CEO and CRO were present at all committee meetings.

HR & Remuneration Committee
In 2016, this committee met four times. Focus during the meetings was on the Group's HR reports, the revised Group Remuneration Policy and related policies and procedures (such as the control functions remuneration monitoring procedure). The committee also focussed on implementation of the updated Group Remuneration Policy within CEB's subsidiaries, arranging a training program for CEB's management team on culture and behaviour and (initiatives to further increase) employee satisfaction. The CEO and CFO participated in all meetings.

Compliance Oversight Committee
This committee met four times in 2016 and was joined during these meetings by members of the Managing Board, including the Chief Executive Officer, and the Division Director Compliance. During the meetings, the key focus was on the activities as outlined in the Bank's compliance program, the status of compliance topics at group level – in particular, the areas of anti-money laundering and sanctions compliance – presented through the Compliance Dashboard, regulatory issues affecting the Bank, the reporting on related party transactions, the further implementation of FATCA rules and the implementation of CRS rules. In addition, the committee members received trainings on specific compliance topics.

As a final note the Supervisory Board wishes to emphasise the high priority that is given by the Bank to promotion of a healthy culture. The Bank's core values (being customer focus, integrity, professionalism and transparency) are the guiding principles in the daily business of the Bank. The Supervisory Board appreciates the professional culture within the Bank and will guide and support the Managing Board in maintaining the standards on integrity, morals and leadership in the Bank.

* The Corporate Governance chapter (pages 29 et sqq.) and the Remuneration Report (pages 34 et sqq.) are deemed to be incorporated herein by reference.

Amsterdam, March 27, 2017

Hector de Beaufort, Chairman
Murat Özyeğin, Vice Chairman
Frits Deiters
Mehmet Güleşci
Korkmaz Ilkorur
F. Onur Umut

Consolidated Statement of Financial Position

As of December 31, 2016

In thousands of EURO unless otherwise indicated

	Notes	December 31, 2016	December 31, 2015
Assets			restated
Cash and balances at central banks	5	1,041,371	532,139
Financial assets at fair value through profit or loss	6	2,712	7,578
Financial investments	7	741,009	1,022,454
Loans and receivables - banks	8	306,666	450,562
Loans and receivables - customers	9	5,188,004	5,500,742
Derivative financial instruments	11	344,393	450,758
Equity accounted investments	12	5,803	5,049
Property and equipment	13	252,333	194,131
Intangible assets	14	13,014	20,007
Deferred tax assets	31	23,738	21,972
Current tax assets		8,690	7,049
Other assets	15	186,672	148,537
Total assets		**8,114,405**	**8,360,978**
Liabilities			
Due to banks	16	448,317	469,054
Due to customers	17	5,531,531	5,467,021
Derivative financial instruments	11	374,706	453,313
Issued debt securities	18	262,977	440,540
Deferred tax liabilities	31	36,881	37,929
Current tax liabilities		7,541	6,902
Other liabilities	19	57,368	49,595
Total liabilities (excluding subordinated liabilities)		**6,719,321**	6,924,354
Subordinated liabilities	20	531,326	561,747
Total liabilities		**7,250,647**	**7,486,101**
Equity			
Equity attributable to owners of the Company		861,892	873,043
Equity attributable to non-controlling interests		1,866	1,834
Total equity	**21**	**863,758**	**874,877**
Total equity and liabilities		**8,114,405**	**8,368,462**
Commitment and contingencies	34	1,193,939	1,090,461

	Notes	January 1- December 31, 2016	January 1- December 31, 2015
			restated
Interest and similar income		534,244	613,637
Interest expense and similar charges		(231,322)	(286,404)
Results on risk management derivatives, not designated in hedge accounting relationship		(67,977)	(53,342)
Net interest income	**22**	**234,945**	**273,891**
Fees and commissions income		110,821	119,493
Fees and commissions expense		(55,058)	(51,777)
Net fee and commission income	**23**	**55,763**	**67,716**
Net trading income	24	29,413	9,161
Results from financial transactions	25	25,799	68,203
Other operating income	26	36,816	46,057
Operating income		**92,028**	**123,421**
Net impairment loss on financial assets	10	(122,251)	(167,555)
Net operating income		**260,485**	**297,473**
Personnel expenses	27	(103,097)	(104,653)
General and administrative expenses	28	(64,227)	(65,902)
Depreciation and amortization	13,14	(16,883)	(17,806)
Other operating expenses	29	(15,283)	(20,567)
Other impairment losses	30	(9,699)	(32,992)
Total operating expenses		**(209,189)**	**(241,920)**
Share of profit of associate	12	130	(697)
Operating profit before tax		**51,426**	**54,856**
Income tax expense	31	(6,218)	(15,621)
Profit for the year		**45,208**	**39,235**
Profit for the year attributable to:			
Equity holders of the Parent Company		45,116	39,200

	January 1- December 31, 2016	January 1- December 31, 2015
		restated
Profit for the year	**45,208**	**39,235**
Items that are or may be reclassified to the statement of income:		
Change in translation reserve	62,924	(11,569)
Change in fair value reserve	(20,577)	12,905
Change in net investment hedge reserve	(86,587)	(43,466)
Change in cash flow hedge reserve	(1,876)	819
Items that will never be reclassified to the statement of income:		
Change in tangible assets revaluation reserve	(351)	(23)
Other comprehensive income for the year	**(46,467)**	**(41,334)**
Total comprehensive income for the year	**(1,259)**	**(2,099)**

	January 1- December 31, 2016	January 1- December 31, 2015
Total comprehensive income attributable to:		
Equity holders of the Parent Company	(1,291)	(2,104)
Non-controlling interests	32	5
Total comprehensive income	**(1,259)**	**(2,099)**

	Attributable to equity owners of the Company									
	Issued capital	Share premium	Retained earnings	Fair value reserve	Net investment hedge reserve	Cash flow hedge reserve	Translation reserve	Total	Non-controlling interest	Total equity
At January 1, 2016	**632,464**	**163,748**	**436,830**	**201**	**(31,994)**	**646**	**(328,852)**	**873,043**	**1,834**	**874,877**
Total comprehensive income										
Change in fair value reserve	-	-	-	(20,546)	-	-	-	(20,546)	(31)	(20,577)
Change in translation reserve	-	-	-	-	-	-	62,953	62,953	(29)	62,924
Change in net investment hedge reserve	-	-	-	-	(86,587)	-	-	(86,587)	-	(86,587)
Change in cash flow hedge reserve	-	-	-	-	-	(1,876)	-	(1,876)	-	(1,876)
Change in tangible assets revaluation reserve	-	-	(351)	-	-	-	-	(351)	-	(352)
Profit for the year	-	-	45,116	-	-	-	-	45,116	92	45,208
Total comprehensive income	**-**	**-**	**44,765**	**(20,546)**	**(86,587)**	**(1,876)**	**62,953**	**(1,291)**	**32**	**(1,259)**
Acquisition of the non-controlling interest without change in control										
			(9,860)	-	-	-	-	-	-	(9,860)
At December 31, 2016	**632,464**	**163,748**	**471,735**	**(20,345)**	**(118,581)**	**(1,230)**	**(265,899)**	**861,892**	**1,866**	**863,758**

	Attributable to equity holders of the Company									
	Issued capital	Share premium	Retained earnings	Fair value reserve	Net investment hedge reserve	Cash flow hedge reserve	Translation reserve	Total	Non-controlling interest	Total equity
At January 1, 2015	**429,500**	**266,712**	**406,757**	**(12,716)**	**11,472**	**(173)**	**(317,301)**	**784,251**	**1,829**	**786,080**
Total comprehensive income										
Change in fair value reserve	-	-	-	12,917	-	-	-	12,917	(12)	12,905
Change in translation reserve	-	-	-	-	-	-	(11,551)	(11,551)	(18)	(11,569)
Change in net investment hedge reserve	-	-	-	-	(43,466)	-	-	(43,466)	-	(43,466)
Change in cash flow hedge reserve	-	-	-	-	-	819	-	819	-	819
Change in tangible assets revaluation reserve	-	-	(23)	-	-	-	-	(23)	-	(23)
Profit for the year	-	-	39,200	-	-	-	-	39,200	35	39,235
Total comprehensive income	**-**	**-**	**39,177**	**12,917**	**(43,466)**	**819**	**(11,551)**	**(2,104)**	**5**	**(2,099)**
Transactions with owners of the Bank										
Increase in share capital	100,000	-	-	-	-	-	-	100,000	-	100,000
Transfer from share premium	102,964	(102,964)	-	-	-	-	-	-	-	-
Equity decrease resulting from business combinations	-	-	(9,104)	-	-	-	-	(9,104)	-	(9,104)
At December 31, 2015	**632,464**	**163,748**	**436,830**	**201**	**(31,994)**	**646**	**(328,852)**	**873,043**	**1,834**	**874,877**

	Notes	January 1- December 31, 2016	January 1- December 31, 2015
Cash flows from operating activities			
Profit for the year		45,208	39,235
Adjustments for:			
Net impairment loss on financial assets	10	122,251	167,555
Depreciation and amortization	13, 14	16,883	17,806
Other impairment losses	30	9,699	32,992
Income tax expense	31	6,218	15,621
Net interest income	22	(234,945)	(273,891)
		(34,686)	**(682)**
Changes in:			
Financial assets at fair value through profit or loss		124	(1,084)
Financial investments		(38,302)	(9,160)
Loans and receivables - banks		211,774	(86,338)
Loans and receivables - customers		238,711	248,447
Other assets		(11,420)	13,192
Due to banks		(20,737)	(356,229)
Due to customers		64,510)	(321,157)
Other liabilities		(105,171)	40,041
Interest received		624,295	718,672
Interest paid		(381,636)	(457,349)
Taxes paid		(7,458)	(1,844)
Net cash used in operating activities		**540,004**	**(213,491)**
Cash flows from investing activities			
Acquisition of financial investments and financial assets at fair value through profit or loss	6, 7	(3,688,278)	(5,444,318)
Proceeds from sales of financial investments and financial assets at fair value through profit or loss	6, 7	3,992,220	5,699,769
Acquisition of property and equipment	13	(75,646)	(8,657)
Proceeds from sale of property and equipment	13	584	6,675
Acquisition of intangibles	14	(6,269)	(6,282)
Acquisition of subsidiaries		-	(27,320)
Net cash used in investing activities		**222,611**	**219,867**
Cash flows from financing activities			
Proceeds from the issue of debt securities		130,325	316,371
Repayment of long-term funding		(394,247)	(258,006)
Proceeds from the issue of ordinary shares		-	100,000
Net cash from financing activities		**(263,922)**	**158,365**
Net decrease in cash and cash equivalents			
Cash and cash equivalents at January 1		532,139	375,330
Effect of exchange rate fluctuations on cash and cash equivalents held		10,539	(7,932)
Cash and cash equivalents at December 31	**5**	**1,041,371**	**532,139**

1. Corporate information

General

Credit Europe Bank N.V., herein after 'the Bank', is domiciled in Amsterdam, the Netherlands. Credit Europe Bank N.V. comprises four branches in the Netherlands, Germany, Belgium and Malta. The Consolidated Financial Statements of the Bank as of December 31, 2016, comprise the figures of the Bank, its subsidiaries and other controlled entities. Together they are referred to as the 'Bank'.

The Bank was founded as a specialized trade-finance bank, which aimed to actively participate in the wholesale financing of international trade. In later years, the Bank started retail-banking activities, including savings accounts, mortgage loans, consumer loans and credit cards.

The Bank's registered office is Karspeldreef 6A, 1101 CJ Amsterdam, Netherlands.

Changes to the Group

There is no significant change to the Group within 2016.

2. Basis of preparation

a) Statement of compliance

The Consolidated Financial Statements of Credit Europe Bank N.V. and all its subsidiaries are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and have been approved by the Managing Board and the Supervisory Board on March 21, 2017.

b) Basis of measurement

The Consolidated Financial Statements have been prepared on the historical-cost basis, except for 'financial investments', 'derivative financial instruments', 'assets held for sale', 'investment properties' and 'financial assets (and liabilities) designated at fair value through profit or loss', which are measured at fair value. The amortized costs of financial assets and liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

c) Functional and presentation currency

These Consolidated Financial Statements are presented in Euros, which is the Bank's functional currency. Financial information presented in Euros has been rounded to the nearest thousands, except where indicated.

d) Use of estimates and judgments

The preparation of Consolidated Financial Statements in conformity with IFRS requires the Bank's management to make judgments, estimates and assumptions that affect the application of policies, and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The most significant use of judgments and estimates are as follows:

(a) Judgments

i. Determination of control over investee
Management applies its judgment to determine whether the control indicators set out in 'Significant Accounting Policies' indicate that the Bank controls an entity.

ii. Fair value of financial instruments
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The chosen valuation technique makes maximum use of market input and relies as little as possible on estimates specific to the Bank.

iii. Impairment losses on loans and receivables
The Bank evaluates the assets, which are accounted for at amortized cost, for impairment. The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a debtor's financial institution and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Corporate Credit Committee.

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.iv.

Deferred tax assets
Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax-planning strategies.

(b) Assumptions and estimation uncertainties

Impairment of loans and receivables
The collective allowance for groups of homogenous loans is established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgment to ensure that the estimate of loss arrived on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates are regularly benchmarked against actual loss experience.

e) Correction of Error
In the second quarter of 2016, Credit Europe Leasing (Romania) SA, the Bank's direct subsidiary, has undergone statutory audit of its 2015 records. As part of the audit, it was determined that the measurement of assets held for sale was incorrect due to the overvalued market quotes. As a consequence, other assets were overstated. The error has been corrected by restating the affected financial statement line items for the prior period, as follows:

Impact on equity	December 31, 2015
Other assets	(7,484)
Total assets	(7,484)
Profit for the year	(7,614)
Translation reserve	130
Net impact on equity	(7,484)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently throughout the Bank.

a) Basis of consolidation
Business combinations
Business combinations are accounted for using the acquisition method when control is transferred to the Bank. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.
Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree`s employees (acquiree`s awards) and relate to past services, then all or a portion of the amount of the acquirer`s replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree`s awards and the extent to which the replacement awards relate to pre-combination service.

Non-controlling interests
NCI are measured at their proportionate share of the acquiree`s identifiable net assets at the date of acquisition.

Changes in the Bank`s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries
Subsidiaries are investees controlled by the Bank. The Bank controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Bank reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Bank having power over an investee.

The financial statements of subsidiaries are included into the consolidated financial statements from the date on which control commences until the date when control ceases.

Loss of control
When the Bank loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Investments in associates and jointly controlled entities (equity-accounted investments)
Associates are those entities in which the Bank has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Bank has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operational decisions. Investments in associates and jointly controlled entities are accounted for using the equity method (equity-accounted investments) and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Bank's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Bank's share of losses exceeds its interest in an equity-accounted investment, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency translation
Transaction and balances
Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at average exchange rates of the year.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the income statement as part of the gain or loss on disposal.

When the Bank disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Bank disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the income statement.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency differences arising from such item are considered to form part of the net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

Hedge of a net investment in a foreign operation
Refer to note j.

c) Financial assets and liabilities

Recognition
The Bank initially recognizes financial assets and liabilities on the date that they are originated. All other financial instruments (including regular way purchases and sales of financial assets) are recognized on the trade date, which is the Bank becomes a party to the contractual provisions of the instrument. Forward purchases and sales other than those requiring delivery within the timeframe established by regulation or market convention are recognized as forward transactions until settlement.

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

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

- Loans and receivables
- Held to maturity
- Available for sale
- At fair value through profit or loss and within the category as:
  - Held for trading
  - Designated at fair value through profit and loss.

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

Derecognition

Financial assets
The Bank derecognizes a financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) when:

- the contractual rights to the cash flows from the financial asset expire;
- the Bank retains the contractual rights to receive cash flows of the financial asset, but assumes a contractual obligation ('pass-through' arrangement) to pay the cash flows in full without material delay to a third party; or
- it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the income statement.

The Bank enters into transactions whereby it transfers assets recognized on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred asset, or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the balance sheet. Transfers of assets with retention of all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Bank could be required to repay.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing servicing.

The Bank securitizes various loans and advances to

customers, which generally result in the sale of these assets to securitization vehicles, which in turn issue securities to investors. Interests in the securitized financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are primarily recorded in available-for-sale investment securities and carried at fair value. Gains or losses on securitization depend in part on the carrying amount of the transferred financial asset, allocated between the financial assets derecognized and the retained interests based on their relative fair value at the date of the transfer. Gains or losses on securitization are recorded in results from financial transactions.between the financial assets derecognized and the retained interests based on their relative fair value at the date of the transfer. Gains or losses on securitization are recorded in results from financial transactions.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Offsetting and collateral
The Bank enters into master netting arrangements with counterparties wherever possible, and when appropriate, obtains collateral. The Bank receives and gives collateral in the form of cash and marketable securities in respect of derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities lending and securities borrowing transactions.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank

- currently has a legally enforceable right to set off the recognized amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Due to differences in the timing of actual cash flows, derivatives with positive and negative fair values are not netted, even if they are held with the same counterparty. Also current accounts with positive and negative balances held with the same counterparties are not netted.

Amortised cost measurement
The 'amortised cost' of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principle repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. The amortization is recognized in the income statement under interest income.

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

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

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

Assets and long positions are measured at a bid price, liabilities and short positions are measured at an ask price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables only include data from observable markets, then the difference is recognized in the income statement (net trading income) on initial recognition of the instrument. In other cases the difference is not recognized in the income statement immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

The principal methods and assumptions used by the Bank in determining the fair value of financial instruments are:

- Fair values for trading and financial investments are determined using market prices from active markets. If no quoted prices are available from an active market, the fair value is determined using discounted cash-flow models. Discount factors are based on the swap curve (observable in the market), plus a spread reflecting the characteristics of the instrument.
- Fair values for derivative financial instruments are obtained from active markets or determined using, as appropriate, discounted cash-flow models. Discount factors are based on the swap curve (observable in the market), plus a spread reflecting the characteristics of the instrument.
- Fair values for loans and deposits are determined using discounted cash-flow models based on the Bank's current incremental lending rates for similar types of loans. For variable-rate loans that re-price frequently and have no significant change in credit risk, fair values are approximated by the carrying amount.
- The fair value of loans that are quoted in active markets is determined using the quoted prices. The Bank uses valuation method to establish the fair value of instruments where prices quoted in active markets are not available. Parameter inputs to the valuation method are based on observable data derived from prices of relevant instruments traded in an active market. These valuation methods involve discounting future cash flows of loan with related yield curve plus spread on similar transactions and using recent offers if available.
- The carrying amounts are considered to approximate fair values for other financial assets and liabilities.

Identification and measurement of impairment

At each balance sheet date, the Bank assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, restructuring of loans or advances by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

i. Loans and receivables from customer and banks

For loans and receivables from customers and banks carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for significant financial assets or collectively for non-significant financial assets. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit-risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through an allowance account and the loss is recognized in the income statement. The Bank suspends the accrual of interest on loans when it is determined to be a loss. Previously accrued but uncollected interest is not reversed at the time the loan ceases to accrue interest. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank.

If, in a subsequent year, the estimated impairment loss increases or decreases due to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. When any part of a claim is deemed uncollectible or forgiven, a write-off is charged to the allowance account. If a future write-off is later recovered, the recovery is credited to the 'other operating income'.

The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure, less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

A collective component of the total allowance is established for groups of homogenous loans that are not considered individually significant.

The collective allowance for groups of homogenous loans is established using statistical methods such as roll rate methodology. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss.

The IBNR allowance covers credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

By definition, these are losses that cannot yet be attributed to particular transactions. Therefore, this provision is derived from the portfolio analysis, which is based on the homogenous exposure structures of the financial assets being analyzed. Financial assets are grouped on the basis of their credit-risk characteristics, such as type, geographical location, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experiences for assets with credit-risk characteristics similar to those in the group. Historical loss experiences are adjusted on the basis of current and observable data to reflect the effects of current conditions that did not affect the year on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimate future cash flows are reviewed periodically by means of back testing to reduce any differences between loss estimates and actual loss experience.

Where possible, the Bank seeks to restructure loans rather than take possession of collateral. If the terms of a financial asset are renegotiated or modified or an existing financial asset is replace with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. A substantial difference is defined, if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounting using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the financial asset. In this case the original financial asset is derecognized and the new financial asset is recognized at fair value. The impairment loss is measured as follows:

- If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial assets are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

Impairment losses are recognized in the income statement (under net impairment loss on financial assets) and reflected in an allowance account against loans and advances. Contractual interest receipts are taken into account when the entity estimates the future cash flows of the instrument and are thus recognized upon receipt. If no contractual interest payments will be collected, the only interest income recognized is the unwinding of the discount on those cash flows expected to be received. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

ii. Held-to-maturity financial investments
For held-to-maturity investments, the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the assets original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement.

If, in a subsequent year, the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are reversed through 'net impairment loss on financial assets'.

iii. Available-for-sale financial assets
For available-for-sale financial assets, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired at each balance sheet date.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below cost. 'Significant' or 'prolonged' are interpreted on a case-by-case. Generally the Bank considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'.

Where there is evidence of impairment, impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss directly in equity to income statement. The cumulative loss that is removed from equity and recognized in income statement is the difference between the acquisition costs, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in the income statement.

In the case of unquoted debt instruments classified as available-for-sale, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets. Whether an impairment event has occurred is assessed for each debt instrument individually based on the impairment indicators relevant for that instrument.

Interest based on market rates is accrued at the effective interest rate on the reduced carrying amount of the asset, and is recorded as part of 'interest and similar income'.

If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized directly in equity.

d) Cash and cash equivalents
'Cash and cash equivalents', as referred to in the cash flows statement, comprises cash on hand and balances with central banks with an insignificant risk of a change in value. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

The cash flows statement, based on the indirect method of calculation, gives details of the source of cash and cash equivalents that became available during the year, and the application of these cash and cash equivalents over the course of the year. The cash flows are analyzed into cash flows from operations, including banking, investment and financing activities. Movements in loans and receivables and inter-bank deposits are included in cash flows from operating activities. Investment activities comprise sales and redemptions in respect of financial investments, and property and equipment.

The issuing of shares, and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences and the effects of the consolidation of business acquisitions, where of material significance, are eliminated from the cash flows figures.

e) Trading assets and liabilities (excluding derivatives held for trading)
Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near future, or holds as part of portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to income statement. Interest income or expense is recorded in 'net interest income' according to the terms of the contract.

All changes in fair value, except for the interest accruals, are recognized as part of 'results from financial transactions' in the income statement. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

f) Available-for-sale financial assets
'Available-for-sale financial assets' are instruments that are designated as such or do not qualify to be classified as 'fair value through profit or loss' or 'held-to-maturity'. They may be sold in response to liquidity needs or changes in market conditions. After initial measurement, available-for-sale financial assets are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity in the 'fair value reserve'. When the asset is disposed of, or is determined to be impaired, the cumulative gain or loss previously recognized in equity is recognized in the income statement in 'results from financial transactions'. Interest earned while holding available-for-sale investmentsis reported as interest income using the effective interest rate. The losses arising from impairment of such investments are recognized in the income statement as 'net impairment loss on financial assets'.

g) Held-to-maturity investments
'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the intention and ability to hold to maturity, and which are not designated as at 'fair value through profit or loss' or as 'available-for-sale'. After initial measurement, held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method, less any provision for impairment.

h) Loans and receivables
'Loans and receivables' (excluding forfeiting loans) are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. Loans and receivables are initially measured at fair value plus incremental direct costs and subsequently measured at amortised cost using the effective interest method. When the Bank chooses to designate the loans and receivables as measured at fair value through profit or loss, they are measured at fair value with face value changes recognized immediately in the income statement.

Loans and receivables also include finance lease receivables in which the Bank is the lessor.

i) Derivatives held for trading
A derivative financial instrument is a financial contract between two parties where payments are dependent on movements in price of one or more underlying financial instruments, references, rates or indices. Derivatives include currency and cross-currency swaps, forward foreign-exchange contracts, interest-rate swaps, currency options, equity options, bonds options, futures and credit-default swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative financial instruments are subsequently re-measured at fair value. Changes in the fair value of derivatives are included in 'net trading income'.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognized in the income statement under 'net trading income'.

j) Derivatives held for risk management purposes and hedge accounting
Derivatives held for risk management purposes (i.e. asset-liability management) include all derivative assets and liabilities that are not classified as 'trading assets and liabilities'. Derivatives held for risk-management purposes are measured at fair value in the statement of financial position. All gains and losses arising on derivatives held for risk management purpose but not designated in a hedge accounting relationship are presented under net interest income.

The Bank designates certain derivatives held for risk management purposes and certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk-management objective and strategy in undertaking the hedge transaction, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedge relationship as well as an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

These hedging relationships are discussed below.

Fair value hedges
When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in the statement of income together with changes in the fair value of the hedged item that are attributable to the hedged risk.

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

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to the statement of income as part of the recalculated effective interest rate of the item over its remaining life.

Net investment hedges
When a derivative or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized directly in equity, in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in income statement. The amount recognized in equity is removed and included in income statement on disposal of the foreign operations.

Cash-flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods in which the hedged cash flows affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in the other comprehensive income and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the statement of income. The amount recognised in the other comprehensive income is reclassified to the statement of income as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of income and other comprehensive income.

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

k) Repurchase transactions and reverse repo transactions
Transactions where financial instruments, such as loans and securities, are sold under a commitment to repurchase (repos) at a predetermined price or are purchased under a commitment to resell (reverse repo) are treated as collateralized borrowing and lending transactions. The legal title of the financial instrument subject to resale or repurchase commitments is transferred to the lender. Financial instruments transferred under a repurchase commitment are henceforth included in the relevant items of the Bank's statement of financial position, such as 'loans and receivables - customers' and financial investments, while the borrowing is recorded in 'due to banks'. Financial instruments received under a resale commitment are recorded in the off-balance sheet accounts, unless sold.

Income and expenses arising from repurchase and resale commitments, being the difference between the selling and the purchase price, are accrued over the period of the transaction and recorded in the income statement as 'interest and similar income' or 'interest expense and similar charges'.

l) Leasing
Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement depends on using a specific asset or assets and the arrangement conveys a right to use the asset.

i. Bank as a lessee
Finance leases, which substantially transfer all the risks and benefits incidental to ownership of the leased item to the Bank, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, and are included in 'property and equipment' with the corresponding liability to the lessor included in 'other liabilities'. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement as 'interest and similar expenses'.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term.
Operating lease payments are not recognized on the statement of financial position. Any rentals payable are accounted for on a straight-line basis over the lease term and included in 'general and administrative expenses'.

ii. Bank as a lessor
Finance leases, where the Bank substantially transfers all the risks and benefits incidental to ownership of the leased item to the lessee, are included on the statement of financial position as 'loans and receivables - customers'. A receivable is recognized over the leasing period at an amount equal to the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included under 'interest and similar income' in the income statement.

m) Property and equipment
Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment. Borrowing costs, if any, are included in the cost of property and equipment in case they are directly attributable to the acquisition, construction or production of the asset. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated on property and equipment using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	30-60 years
Furniture and fixtures	3-20 years
IT equipment	3-10 years
Vehicles	2-10 years
Vessels	15-30 years
Leasehold improvements	Over the term of respective leases or 3-5 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'other operating income' in the income statement.

n) Investment Property
Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within either "other operating income" or "other impairment losses".

o) Intangible assets
i. Software
Intangible assets mainly include the value of computer software. Software acquired by the Bank is measured on initial recognition at cost. Following initial recognition, software is carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized over the useful economic life and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method are reviewed at least at each financial year-end. The amortization expense on intangible assets is recognized in the income statement in 'depreciation and amortization'.

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

Amortization is calculated using the straight-line method over their estimated useful life of software, from the date it is available to use. The estimated useful life of software is three to ten years.

ii. Goodwill
Goodwill arises on the acquisition of subsidiaries. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

p) Assets held for sale
The Bank takes possession of collateral it holds as security. The Bank books these assets as 'held for sale'. These assets are not used for the daily banking transactions and the management intends to sell these assets in the future in their present conditions. They are initially measured at fair value less costs at acquisition. After initial measurement, non-current assets held for sale are subsequently measured at fair value. Changes in the fair value of the assets are recognized under the income statement in 'other impairment losses. These assets have not been disclosed separately in the statement of financial position, but are presented as component of 'other assets'.

q) Impairment of non-financial assets
At each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, the Bank assesses whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The 'recoverable amount' of an asset is the greater of its value in use and its fair value, less cost to sell. In assessing 'value in use', the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses for goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

r) Deposits, issued debt securities and subordinated liabilities
Deposits, issued debt securities and subordinated liabilities are the Bank's sources of debt funding.

Issued financial instruments or their components that are not designated at 'fair value through profit or loss', are classified as liabilities under 'issued debt securities' where the substance of the contractual arrangement results in the Bank having an obligation to either deliver cash or another financial asset to the holder, or to satisfy the obligation other than by exchange of a fixed amount of cash.

Deposits, issued debt securities and subordinated liabilities are initially measured at fair value, plus directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that is an integral part of the effective interest rate.

s) Financial guarantees and loan commitments
In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in 'other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement as 'other impairment losses'. The premium received is recognized in the income statement under 'fees and commission income' on a straight-line basis over the life of the guarantee.
Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

t) Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Bank levies
A provision for bank levies is recognized when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligation event is reaching a minimum activity, then a provision is recognized when that minimum activity threshold is reached.

u) Employee benefits
Defined contribution plan
Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognized as 'personnel expenses' in the statement of income

v) Income taxes
i. Current tax
Current tax assets and liabilities for current and prior years are measured at the amount expected to be recovered from, or paid to, the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the balance sheet date.

ii. Deferred income tax
Deferred corporate income tax is recorded, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences not deductible for tax purposes and initial recognition of assets and liabilities that affect neither accounting nor taxable profit.

Deferred tax liabilities and assets are recognized when it is probable that the future economic benefits resulting from the reversal of taxable temporary differences will flow to or from the Bank. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities, and the deferred taxes relate to the same taxable entity and the same taxation authority.

w) Recognition of income and expenses
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

i. Interest income and expenses
Interest income and expenses are recognized in the statement of income using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

All gains and losses arising on derivatives held for risk management purpose but not designated in a hedge accounting relationship are presented under net interest income.

ii. Fees and commissions income
The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and commissions for the provision of services over a period of time are generally recognized on an accrual basis. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any

incremental costs), and are recognized as an adjustment to the effective interest rate of the loan.

Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Management and service fees are recognized based on the applicable service contracts. Fees for bank transfers and other banking transaction services are recorded as income when collected.

iii. Net trading income
'Net trading income' comprises gains and losses arising from changes in the fair value and disposal of financial assets and liabilities held for trading, and includes dividends received from trading instruments. Realized and unrealized gains and losses on derivative financial instruments held for trading are recognized under net trading income.

iv. Results from financial transactions
Results from financial transactions include gains and losses on the sale of financial instruments not classified as held for trading. Dividend income from financial investments is recognized when entitlement is established.

x) Fiduciary activities

Assets held in fiduciary capacity, if any, are not reported in the financial statements, as they are not the assets of the Bank.

y) Dividends on ordinary shares

Dividends on ordinary shares of the Bank are recognized as a liability and they are deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the balance sheet date are dealt with in the 'subsequent events' note.

z) Equity components

Translation reserve
The currency translation account comprises all currency differences arising from translating the financial statements of foreign operations, net of the translation impact on foreign currency liabilities. These currency differences are included in the income statement on disposal or partial disposal of the operation.

Net investment hedge reserve
The Bank uses mixture of forward foreign-exchange contracts to hedge the foreign currency translation risk on its net investments in foreign subsidiaries.

When a financial instrument is designated as the hedging instrument to hedge a carrying value of net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized directly in equity, in the `net investment hedge reserve'. The hedge reserve includes interest elements of the forward contract, which for hedge effectiveness is excluded from the hedge effectiveness test. Any ineffective portion of changes in the fair value of the derivative as determined by hedge effectiveness testing is recognized immediately in income statement. The amount recognized in equity is removed and included in the income statement on disposal of the foreign operation.

Cash flow hedge reserve
The Bank uses derivative financial instruments such as interest rate swaps to hedge the exposure to variability in the future cash flows. The cumulative effective gain or loss recognized in equity of the derivative used in a cash flow hedge is transferred to income statement in the same period that the hedge cash flows affect income statement.

Fair value reserve
In this component, gains and losses arising from a change in the fair value of available-for-sale assets are recognized, net of taxes. When the relevant assets are sold, impaired or disposed of the related cumulative gain or loss recognized in equity is transferred to the income statement.

aa) Segment reporting

Segment information is presented in respect of the Bank's operating segments, where the Bank assesses performance and accordingly makes resource allocations.

bb) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016; however, the Bank has not applied the following standards in preparing these consolidated financial statements.

IFRS 9: Financial Instruments
IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classifications and measurement of the financial instruments, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9. Given the nature of Bank`s operations, this standard is expected to have a significant impact on the Bank`s financial statements.

IFRS 15: Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRIC 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

IFRS 16: Leases
IIn January 2016, the IASB issued IFRS 16 'Leases' the new accounting standard for leases. The new standard is effective for annual periods beginning on or after 1 January 2019 and will replace IAS 17 'Leases' and IFRC 4 'Determining whether an Arrangement contains a Lease'. Early adoption is permitted for companies that also apply IFRS 15 'Revenue from Contracts with Customers'. IFRS 16 is not yet endorsed by the EU. The new standard removes the classification of leases as either operating leases or finance leases, resulting in all leases for lessees being treated comparable to finance leases. All leases will be recognised on the balance sheet with the exception of short-term leases with a lease term of less than 12 months and leases of low-value assets (for example tablets or personal computers. The main reason for this change is to increase comparability between companies and increase the visibility of these types of assets and liabilities. Lessor accounting remains largely unchanged. The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach as well as some practical transitional relieves. The Bank is yet to assess the impact of this standard.

The following new or amended standards are not expected to have significant impact on the Bank's consolidated financial statements

- IFRS 14 Regulatory Deferral Accounts.
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Investment entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).
- Disclosure Initiative (Amendments to IAS 1).

4. Segment information

Segment information is presented in respect of the Bank's operating segments, for which the Bank assesses performance and accordingly makes resource allocations.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Bank has seven (2014: seven) reportable segments (described below), which are the Bank's strategic areas of operation. The strategic areas offer banking and banking related products, and are managed separately to take account of local economic environments, which require different risk management and pricing strategies. For each of the strategic areas, the CFO reviews internal management reports on at least a monthly basis. The following summary describes the operation of each of the Bank's reportable segments:

- Western Europe retail: includes retail loans and funds entrusted by retail customers in Western Europe, including Germany, the Netherlands and Belgium.
- Western Europe wholesale: includes loans to non-retail customers and funds entrusted by non-retail customers in the Netherlands, Germany, Belgium, Malta and Switzerland.
- Russia retail: includes retail loans and funds entrusted from retail customers in Russia.
- Russia wholesale: includes loans to non-retail customers, funds entrusted from non-retail customers and vehicle operating lease services in Russia.
- Romania retail: includes retail loans and funds entrusted from retail customers in Romania.
- Romania wholesale: includes loans to non-retail customers and funds entrusted from non-retail customers in Romania.
- Other: includes Bank's operations in Dubai and Ukraine.

Measurement of segment assets and liabilities, and segment income and results is based on the Bank's accounting policies. Inter-segment pricing is determined on an arm's length basis.

	West Europe Retail	West Europe Wholesale	Russia Retail	Russia Wholesale	Romania Retail	Romania Wholesale	Other	Total
December 31, 2016								
Interest income – external	8,828	259,695	135,793	60,684	29,749	21,817	17,678	534,244
Interest income – other segments	-	24,962	-	18,410	-	7,602	8,434	59,408
Interest revenue	**8,828**	**284,657**	**135,793**	**79,094**	**29,749**	**29,419**	**26,112**	**593,652**
Interest expenses – external	-	(117,839)	(69,421)	(30,473)	(9,614)	(1,599)	(2,376)	(231,322)
Interest expense – other segments	-	(37,952)	-	(10,222)	-	(6,805)	(4,429)	(59,408)
	-	**(155,791)**	**(69,421)**	**(40,695)**	**(9,614)**	**(8,404)**	**(6,805)**	**(290,730)**
Results on risk management derivatives, not designated in hedge accounting relationship	-	(58,195)	-	(2,271)	-	(2,586)	(4,925)	(67,977)
Net interest income	**8,828**	**70,671**	**66,372**	**36,128**	**20,135**	**18,429**	**14,382**	**234,945**
Net commission income – external	(12)	24,291	17,001	4,519	7,419	1,425	1,120	55,763
Net commission income – other segments	-	(4,297)	-	-	4,299	(2)	-	-
Trading and other income	663	60,063	9,942	7,994	9,747	1,681	1,938	92,028
Trading and other income– other segments	-	-	-	-	-	-	-	-
Net impairment loss on financial assets	(2,577)	(36,847)	(44,789)	(7,370)	(18,741)	(5,546)	(6,381)	(122,251)
Depreciation and amortization expense	(392)	(4,949)	(5,246)	(1,099)	(1,642)	(1,106)	(2,449)	(16,883)
Other operating expenses	(3,841)	(65,476)	(59,001)	(15,288)	(25,029)	(17,618)	(6,053)	(192,306)
Equity accounted earnings	-	130	-	-	-	-	-	130
	2,669	**43,586**	**(15,721)**	**24,884**	**(3,812)**	**(2,737)**	**2,557**	**51,426**
Income tax expense	174	1,080	3,608	(6,595)	(2,769)	(1,191)	(525)	(6,218)
Profit for the year	**2,843**	**44,666**	**(12,113)**	**18,289**	**(6,581)**	**(3,928)**	**2,032**	**45,208**
Other information at 31 December 2016 - Financial position								
Total assets	2,752,297	2,462,573	836,979	669,175	410,619	742,699	240,063	8,114,405
Total liabilities	3,339,934	1,831,346	777,149	428,269	313,048	438,670	122,231	7,250,647
Equity accounted investments	-	-	-	-	-	-	5,803	5,803
Other information at 31 December 2016 - Income statement								
Reversal of impairment allowances no longer required	64	37	3,833	9,184	2,240	538	-	15,896

	West Europe Retail	West Europe Wholesale	Russia Retail	Russia Wholesale	Romania Retail	Romania Wholesale	Other	Total
December 31, 2015								
Interest income – external	14,144	238,486	172,040	115,120	33,771	22,051	18,025	613,637
Interest income – other segments	-	37,281	-	16,414	-	3,375	1,359	58,429
Interest revenue	**14,144**	**275,767**	**172,040**	**131,534**	**33,771**	**25,426**	**19,384**	**672,066**
Interest expenses – external	(1,590)	(114,409)	(76,783)	(76,791)	(16,646)	2,165	(2,350)	(286,404)
Interest expense – other segments	-	(29,329)	-	(13,740)	-	(12,583)	(2,777)	(58,429)
	(1,590)	**(143,738)**	**(76,783)**	**(90,531)**	**(16,646)**	**(10,418)**	**(5,127)**	**(344,833)**
Results on risk management derivatives, not designated in hedge accounting relationship	-	(47,855)	-	278	-	(7,071)	1,306	(53,342)
Net interest income	**12,554**	**84,174**	**95,257**	**41,281**	**17,125**	**7,937**	**15,563**	**273,891**
Net commission income – external	427	24,137	24,832	6,740	7,859	1,593	2,128	67,716
Net commission income – other segments	-	(4,255)	-	-	4,260	(5)	-	-
Trading and other income	7,922	62,901	15,123	5,975	5,050	25,715	735	123,421
Trading and other income– other segments	-	(299)	-	122	-	177	-	-
Net impairment loss on financial assets	(7,086)	(27,530)	(86,397)	(14,715)	(15,302)	(12,655)	(3,870)	(167,555)
Depreciation and amortization expense	(546)	(4,326)	(6,290)	(3,739)	(1,692)	(1,087)	(126)	(17,806)
Other operating expenses	(7,612)	(73,464)	(60,037)	(16,357)	(26,324)	(34,791)	(5,529)	(224,114)
Equity accounted earnings	-	(520)	-	-	-	-	(177)	(697)
	5,659	**60,818**	**(17,512)**	**19,307**	**(9,024)**	**(13,116)**	**8,724**	**54,856**
Income tax expense	(1,318)	(15,108)	2,361	(3,663)	3,083	(360)	(616)	(15,621)
Profit for the year	**4,341**	**45,710**	**(15,151)**	**15,644**	**(5,941)**	**(13,476)**	**8,108**	**39,235**
Other information at 31 December 2015 - Financial position								
Total assets	217,826	5,193,993	799,110	739,460	467,545	766,241	176,803	8,360,978
Total liabilities	3,506,949	2,090,599	757,239	394,898	298,014	357,552	80,850	7,486,101
Equity accounted investments	-	-	-	-	-	-	5,049	5,049
Other information at 31 December 2015 - Income statement								
Reversal of impairment allowances no longer required	193	787	13,894	3,880	894	641	192	20,481

5. Cash and balances at central banks

This item includes cash on hand and deposits with central banks in countries in which the Bank has a presence.

	December 31, 2016	December 31, 2015
Balances with central banks	978,059	488,048
Cash on hand	63,312	44,091
Total	**1,041,371**	**532,139**

Deposits at central banks include reserve deposits amounting to EUR 96,903 (2015: EUR 106,437), which represents the mandatory deposit and is not available in the Bank's day-to-day operations.

6. Financial assets at fair value through profit or loss

	December 31, 2016	December 31, 2015
Financial assets held for trading		
Bank bonds	1,630	1,434
Equity instruments	1,082	1,832
Government bonds	-	4,312
Total	**2,712**	**7,578**

As of December 31, 2016, EUR 2,712 (2015: EUR 6,616) of the total is listed securities.
As of December 31, 2016, there is no financial asset that may be sold or re-pledged under repurchase agreements (2015: none).
Gains and losses on changes in fair value of trading instruments are recognized in 'net trading income'.

7. Financial investments

	December 31, 2016	December 31, 2015
Available-for-sale financial investments	741,009	1,022,454
Total	**741,009**	**1,022,454**

As of December 31, 2016, the fair value of financial assets that may be sold or re-pledged under repurchase agreements is EUR 6,301 (2015: EUR 106,767). These transactions are conducted under terms that are normal and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as an intermediary.

	December 31, 2016	December 31, 2015
Available-for-sale portfolio		
Government bonds	437,249	480,144
Bank bonds	267,036	336,955
Forfeiting loans	20,819	152,846
Corporate bonds	13,921	23,102
Equities	1,984	29,407
Total	**741,009**	**1,022,454**

As of December 31, 2016, EUR 688,613 (2015: EUR 844,226) of the total is listed securities and EUR 52,396 (2015: EUR 178,228) is non-listed financial instruments.

The movement in investment securities may be summarized as follows:

	December 31, 2016	December 31, 2015
Balance at the beginning of the year	**1,022,454**	**1,243,658**
Additions	3,049,325	4,365,415
Disposals (sale and redemption)	(3,348,526)	(4,607,694)
Net changes in fair value	(13,172)	8,702
Amounts written off	-	(483)
Exchange differences	30,928	12,856
Balance at the end of the year	**741,009**	**1,022,454**

8. Loans and receivables - banks

	December 31, 2016	December 31, 2015
Placements with other banks	297,463	442,554
Loans and advances	10,128	8,933
Subtotal	**307,591**	**451,487**
Allowance for impairment	(925)	(925)
Total	**306,666**	**450,562**

Placements with other banks that are not available in the Bank's day-to-day operations amount to EUR 184,688 (2015: EUR 162,201).

9. Loans and receivables - customers

	December 31, 2016	December 31, 2015
Commercial loans	3,575,342	3,648,349
Consumer loans	959,110	1,148,993
Public sector loans	397,964	495,451
Credit card loans	364,898	317,510
Finance lease receivables, net	47,950	44,887
Private banking loans	29,134	42,192
Subtotal	**5,374,398**	**5,697,382**
Individually assessed allowances for impairment	(23,314)	(21,934)
Collectively assessed allowances for impairment	(163,080)	(174,706)
Total	**5,188,004**	**5,500,742**

No individual loan or receivable has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the Bank.

Details of finance lease receivables are summarized below:

	December 31, 2016	December 31, 2015
Not later than 1 year	28,057	24,388
Later than 1 year and not later than 5 years	28,437	27,996
Later than 5 years	793	631
Gross lease receivables	**57,287**	**53,015**
Not later than 1 year	(5,011)	(3,822)
Later than 1 year and not later than 5 years	(4,246)	(4,242)
Later than 5 years	**(80)**	**(64)**
Unearned interest income	**(9,337)**	**(8,128)**
Finance lease receivables, net	**47,950**	**44,887**

10. Loan impairment charges and allowances

	December 31, 2016	December 31, 2015
Balance at the beginning of the year	197,565	209,809
New impairment allowances	138,147	187,515
Currency translation differences	32,459	(30,287)
Reversal of impairment allowances no longer required	(15,896)	(20,481)
Amounts written off	(164,956)	(149,476)
Reclassifications	-	485
Balance at the end of the year	**187,319**	**197,565**
Breakdown of balance at the end of the year		
Consumer loans	103,384	119,920
Commercial loans	56,894	46,039
Credit card loans	18,394	25,343
Finance lease receivables	7,722	5,338
Loans to banks	925	925
Total	**187,319**	**197,565**

Net impairment loss on financial assets in income statement	December 31, 2016	December 31, 2015
New impairment allowances	138,147	187,515
Reversal of impairment allowances no longer required	(15,896)	(20,481)
Net impairment loss on financial assets	**122,251**	**167,034**

In 2016, there is no (2015: EUR 521) credit losses charge recognized in income statement is related to financial investment held as available-for-sale.

Individually assessed allowances for impairment	December 31, 2016	December 31, 2015
New impairment allowances	43,260	56,286
Balance at the beginning of the year	22,859	13,294
Currency translation differences	1,465	(9,101)
Reversal of impairment allowances no longer required	(1,076)	(507)
Amounts written off	(42,269)	(37,113)
Balance at the end of the year	**24,239**	**22,859**

Collectively assessed allowances for impairment	December 31, 2016	December 31, 2015
Balance at the beginning of the year	174,706	196,515
New impairment allowances	94,887	131,229
Currency translation differences	30,994	(21,186)
Reversal of impairment allowances no longer required	(14,820)	(19,974)
Amounts written off	(122,687)	(112,363)
Reclassifications	-	485
Balance at the end of the year	**163,080**	**174,706**

The Mortgage Payment Law (“Dare in Plata” or “DIP”), which came into force in Romania on in May 2016, entitled borrowers to request and to compel the lenders to accept a full discharge of mortgage-backed loans against the transfer of title of the mortgaged immoveable property to the lender. On the other hand, The Romanian Constitutional Court declared DIP law as a “hardship” law and reduced its scope to exceptional cases. While the Constitutional Court’s decision brought clarity to which extent DIP law is applicable for CEB; the local courts’ individual decisions in the future might have some financial impact on the Bank.

11. Derivative financial instruments

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments depend on movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps, futures, credit default swaps and options.

The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative’s underlying asset, reference rate or index, and is the basis on which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market nor the credit risk.

	December 31, 2016			December 31, 2015		
	Nominal Amounts	Fair values -assets	Fair values -liabilities	Nominal Amounts	Fair values -assets	Fair values -liabilities
Derivatives held for trading						
Interest rate derivatives						
Swaps	35,651	43	502	-	-	-
Futures	19,987	16	10	-	-	-
Options (purchased)	23,140	-	-	24,320	-	-
Options (sold)	(28,140)	-	-	(24,320)	-	-
Subtotal	**50,638**	**59**	**512**	-	-	-
Currency derivatives						
Swaps	5,231,378	154,386	178,535	5,508,508	137,325	153,358
Forwards	903,660	11,360	12,466	964,715	45,692	47,738
Options (purchased)	1,964,794	108,361	19	2,663,600	84,989	-
Options (sold)	(1,955,155)	19	115,722	(2,670,382)	-	85,226
Subtotal	**6,144,677**	**274,126**	**306,742**	**6,466,441**	**268,006**	**286,322**
Other derivatives						
Commodity swaps	10,389	1,157	915	158,797	41,285	40,095
Equity options (purchased)	118,583	4,833	-	201,633	6,385	-
Equity options (sold)	(118,583)	-	4,833	(201,633)	-	6,385
Subtotal	**10,389**	**5,990**	**5,748**	**158,797**	**47,670**	**46,480**
Total derivatives	**6,205,704**	**280,175**	**313,002**	**6,625,238**	**315,676**	**332,802**

Derivative financial instruments held or issued for trading purposes: Most of the Bank's derivative trading activities relate to asset and liability management of the Bank and deals with customers who are normally laid off with counterparties. The Bank may also take positions with the expectation of profiting from favourable movements in prices, rates on indices.
Forwards and futures: Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps: Swaps are contractual agreements between two parties to exchange movements in interest or foreign-currency rates, commodities or equity indices based on specified notional amounts.

Options: Options are contractual agreements that convey the right, but not the obligation for the purchaser, either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Fair value hedges

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of its fixed rate EUR customer deposits and cross-currency swaps to hedge its exposure to market interest rates on certain loans and advances.

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

	December 31, 2016			December 31, 2015		
	Nominal Amounts	Fair values -assets	Fair values -liabilities	Nominal Amounts	Fair values -assets	Fair values -liabilities
Instrument type:						
Interest rate swaps	-	-	-	136,738	6,215	-
Currency swaps	(209,609)	846	68	(134,247)	-	2,287
Total	**(209,609)**	**846**	**68**	**2,491**	**6,215**	**2,287**

During 2016, there is no losses relating to the ineffective portion of fair value hedges was recognized in the income statement (2015: EUR 95 loss).

Net investment hedges

The Bank uses a mixture of foreign exchange contracts to hedge the foreign currency translation risk on its net investment in foreign subsidiaries.

The fair value of derivatives designated as net investment hedges is as follows:

	December 31, 2016			December 31, 2015		
	Nominal Amounts	Fair values -assets	Fair values -liabilities	Nominal Amounts	Fair values -assets	Fair values -liabilities
Instrument type:						
Currency swaps	937,504	29,188	35,045	1,061,944	106,379	43,021
Total	**937,504**	**29,188**	**35,045**	**1,061,944**	**106,379**	**43,021**

During 2016, there is no losses relating to the ineffective portion of fair value hedges was recognized in the income statement (2015: EUR 95 loss).

Cash flow hedges

The Bank uses cross-currency swaps to hedge part of its foreign currency risk related with USD denominated assets.
The fair value of derivatives designated as cash flow hedge is as follows:

	December 31, 2016			December 31, 2015		
	Nominal Amounts	Fair values -assets	Fair values -liabilities	Nominal Amounts	Fair values -assets	Fair values -liabilities
Instrument type:						
Currency swaps	293,402	34,184	26,591	190,489	22,488	75,203
Total	**293,402**	**34,184**	**26,591**	**190,489**	**22,488**	**75,203**

During 2016 no losses relating to the ineffective portion of cash flow hedges was recognized in the income statement (2015: none).

The table below shows the fair value of derivative financial instruments recorded as assets and liabilities.

	December 31, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Derivatives designated as				
Held for trading	280,175	313,002	315,676	332,802
Cash flow hedge	34,184	26,591	22,488	75,203
Net investment hedge	29,188	35,045	106,379	43,021
Fair value hedge	846	68	6,215	2,287
Total	**344,393**	**374,706**	**450,758**	**453,313**

12. Equity-accounted investments

For 2016 and 2015, the movements of participating interests of the Bank companies are as follows:

	Balance at January 01, 2016	Result for the year	Foreign currency translation reserve	Dividend paid	Change in consolidation method	Balance at December 31, 2016
Cirus Holding B.V.	2,749	136	590	-	-	3,475
Ikano Finance Holding B.V.	2,175	(6)	34	-		
Stichting Credit Europe Custodian Service	125	-	-	-	2,203	
	5,049	**130**	**624**	**-**	**125**	**5,803**

	Balance at January 01, 2015	Result for the year	Foreign currency translation reserve	Dividend paid	Change in consolidation method	Balance at December 31, 2015
Cirus Holding B.V.	3,172	(259)	(164)	-	-	2,749
Ikano Finance Holding B.V.	3,402	82	(41)	(1,268)	-	2,175
Stichting Credit Europe Custodian Service	125					
Armada Gemi Insaa Teknoljisi ve San. Tic. AS	15,392	(520)	-	-	(14,872)	-
	22,091	**(697)**	**(205)**	**(1,268)**	**(14,872)**	**5,049**

Cirus Holding B.V. is a joint venture entity, in which both the Bank and Ikano SA holds 50% of the shares. The company is established as parent company of a new bank in Russia.

Ikano Finance Holding B.V. is a holding company which through its wholly owned Russian based subsidiary cooperates with Credit Europe Bank (Russia) Ltd in providing financial services and co-branded cards to the retail customers of IKEA and MEGA in Russia.

Stichting Credit Europe Custodian Services is an entity that holds securities with custodian companies on behalf of clients of the Bank. The Bank owns a participation of 100%. From a legal point of view, 'control' of a Stichting is exercised by its sole organ, being the board of directors. Control is not in the hand of shareholders because there are no shares or similar instruments.

In December 2015, Yenikoy Enterprises B.V., the Bank's direct subsidiary, entered into the share purchase agreement with the third party for acquisition of remaining 50% of the share capital of Armada Gemi Insaa Teknolojisi Sanayi ve Ticaret A.S., a joint venture entity in which it previously held 50% ownership. The company constructs and provides rent services for ships, yachts, bulk carriers and containerships.

13. Property and equipment

A. Tangible assets

The movement of property and equipment summarized as follows:

	Land and Buildings	Furniture and fixtures	Vehicles and Vessels	Leasehold improvements	Plant and Machinery	Total
Balance at January 1, 2016	72,312	21,492	72,425	2,833	10,793	179,855
Additions	161	3,015	72,219	251	-	75,646
Disposals	(442)	(566)	(7,072)	(93)	-	(8,173)
Depreciation	(2,286)	(5,052)	(2,910)	(805)	(1,692)	(12,745)
Impairment	-	(248)	(5,294)	-	-	(5,542)
Currency translation differences	1,021	1,424	6,762	341	271	9,819
Balance at December 31, 2016	**70,766**	**20,065**	**136,130**	**2,527**	**9,372**	**238,860**
Cost	98,882	88,142	148,279	14,367	15,409	365,079
Cumulative depreciation and impairment	(28,116)	(68,077)	(12,149)	(11,840)	(6,037)	(126,219)
Balance at December 31, 2016	**70,766**	**20,065**	**136,130**	**2,527**	**9,372**	**238,860**

	Land and Buildings	Furniture and fixtures	Vehicles and Vessels	Leasehold improvements	Plant and Machinery	Total
Balance at January 1, 2015	45,761	26,164	51,631	4,624	-	128,180
Additions	388	1,678	6,658	199	-	8,923
Disposals	(189)	(107)	(2,504)	(34)	-	(2,834)
Depreciation	(1,239)	(5,758)	(5,025)	(1,825)	-	(13,847)
Business combinations	27,768	53	19,422	-	10,793	58,036
Impairment	-	-	(4,662)	-	-	(4,662)
Currency translation differences	(177)	(538)	6,905	(131)	-	6,059
Balance at December 31, 2015	**72,312**	**21,492**	**72,425**	**2,833**	**10,793**	**179,855**
Cost	98,052	87,462	83,933	13,358	14,919	297,724
Cumulative depreciation and impairment	(25,740)	(65,970)	(11,508)	(10,525)	(4,126)	(117,869)
Balance at December 31, 2015	**72,312**	**21,492**	**72,425**	**2,833**	**10,793**	**179,855**

The Bank does not have any restrictions on title, and property, plant and equipment pledged as security for liabilities (2015: None). The Bank does not have any contractual commitments for the acquisition of property, plant and equipment.

B. Investment Property

Reconciliation of carrying amount

	December 31, 2016	December 31, 2015
Balance at 1 January	14,276	11,659
Additions	-	19
Disposals	-	(190)
Changes in unrealized fair value	(800)	2,799
Currency translation differences	(3)	(11)
Balance at 31 December	**13,473**	**14,276**

14. Intangible assets

The movement of intangibles summarized as follows:

	Goodwill	Patents and licenses	Other Intangibles	Total
Balance at January 1, 2016	12,410	3,695	3,902	20,007
Additions	-	2,932	3,337	6,269
Correction(**)	(9,860)	(6)	-	(9,866)
Amortization	-	(1,962)	(2,176)	(4,138)
Currency translation differences	74	12	656	742
Balance at December 31, 2016	**2,624**	**4,671**	**5,719**	**13,014**
Cost	2,624	29,267	17,140	49,031
Cumulative amortization	-	(24,596)	(11,421)	(36,017)
Balance at December 31, 2016	**2,624**	**4,671**	**5,719**	**13,014**

	Goodwill	Patents and licenses	Other Intangibles	Total
Balance at January 1, 2015	22,678	2,002	3,505	28,185
Additions	2,539	3,698	2,584	8,821
Disposal	-	(259)	-	(259)
Impairment(*)	(9,671)	-	-	(9,671)
Business combinations	-	-	34	34
Amortization	-	(1,754)	(2,205)	(3,959)
Currency translation differences	(3,136)	8	(16)	(3,144)
Balance at December 31, 2015	**12,410**	**3,695**	**3,902**	**20,007**
Cost	12,410	26,365	10,992	49,767
Cumulative amortization	-	(22,670)	(7,090)	(29,760)
Balance at December 31, 2015	**12,410**	**3,695**	**3,902**	**20,007**

((*) As result of impairment analysis, goodwill arising from Russian operations was fully provided for in 2015 due to adverse economic developments in Russia.

(**) Due to new insights on the goodwill treatment, it was decided to correct goodwill paid for shares in CEB Romania.

The Bank does not have any intangible assets whose title is restricted (2015: None). There are no intangible assets pledged as security for liabilities (2015: None). During 2016 and 2015, there were no contractual commitments for the acquisition of intangible assets.

15. Other assets

	December 31, 2016	December 31, 2015
Assets held for sale	60,845	63,049
Accounts receivable	37,344	3,751
POS, plastic cards and ATM related receivables	24,696	18,460
Items in the course of settlement	17,318	17,700
Receivables from DNB	15,970	15,978
Prepayments to suppliers	9,062	11,094
Amounts held as guarantee	8,443	1,542
Tax related receivables	3,666	6,685
Materials and supplies	2,986	4,584
Deferred acquisition costs	2,738	2,280
Other assets	3,604	3,414
Total	**186,672**	**148,537**

‘Assets held for sale’ represents collaterals repossessed after clients were not able to meet their payment obligations

16. Due to banks

	December 31, 2016	December 31, 2015
Time deposits	353,453	347,427
Syndication loan	66,462	70,053
Current accounts	28,402	51,574
Total	**448,317**	**469,054**

The amount of repo transactions in time deposits is EUR 10,690 (2015: EUR 46,529).

17. Due to customers

	December 31, 2016	December 31, 2015
Retail time deposits	2,642,213	2,339,862
Retail saving and demand deposits	1,687,955	1,656,820
Corporate time deposits	562,353	865,093
Corporate demand deposits	639,010	605,246
Total	**5,531,531**	**5,467,021**

As of December 31, 2016, the Bank maintained customer deposit balances of EUR 66,138 (2015: EUR 360,870), which were pledged to the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

As of December 31, 2016, EUR 2,259,407 (2015: EUR 2,670,154) of deposits from customers are expected to be settled more than 12 months after the balance sheet date

18. Issued debt securities

Fixed rate debt securities	December 31, 2016	December 31, 2015
Within 1 year	13,654	133,291
More than 1 year but less than 5 years	159,309	234,471
More than 5 years	90,014	72,778
Total	**262,977**	**440,540**

19. Other liabilities

	December 31, 2016	December 31, 2015
Accrued expenses	8,119	8,872
Litigation provision (*)	7,553	7,592
Staff related liabilities	7,472	5,787
Unearned premiums reserve	5,542	6,044
Provisions	4,656	205
Non-current tax related payable	4,098	3,863
Items in the course of settlement	4,036	3,663
Payables to suppliers	3,884	4,347
Credit card payables	2,529	2,011
Payables regarding insurance agreements	513	769
Deferred income	459	554
Other liabilities	8,507	5,888
Total	**57,368**	**49,595**

(*) Provision set for litigations regarding abusive clauses in consumer contracts, in which the Bank's subsidiary, Credit Europe Bank (Romania) S.A., is involved as of December 31, 2016. Further details are provided in Note 34: Commitments and Contingencies.

20. Subordinated liabilities

Issued liabilities qualify as subordinated debt if claims by the holders are subordinated to all other current and future liabilities of, respectively, the Bank and other Group companies. These liabilities, except for the subordinated bonds issued by Credit Europe Bank Ltd. on November 12, 2012 for an amount of USD 250 million, qualify as capital, taking into account remaining maturities, for the purpose of determining the consolidated capital adequacy ratio for DNB.

	Year of maturity	December 31, 2016	December 31, 2015
USD 250 million subordinated notes with a fixed interest rate of 8.50 % p.a.	2019	92,799	137,406
USD 50 million Tier II loan with a fixed interest rate of 10 % p.a.	2022	47,844	46,327
USD 400 million Tier II loan with a fixed interest rate of 8 % p.a.	2023	390,683	378,014
Total		**531,326**	**561,747**

21. Capital and reserves

	December 31, 2016	December 31, 2015
Share capital	632,464	632,464
Share premium	163,748	163,748
Retained earnings	471,735	436,830
Fair value reserve	(20,345)	201
Translation reserve	(265,899)	(328,852)
Hedging reserve	(119,811)	(31,348)
Equity attributable to owners of the Parent Company	861,892	873,043
Equity attributable to non-controlling interests	1,866	1,834
Total equity	**863,758**	**874,877**

As of December 31, 2016, the authorized share capital is EUR 1,000 million (2015: EUR 1,000 million) and consists of EUR 1,000 million (2015: EUR 1,000 million) ordinary shares with a face value of EUR 1. The called-up and paid-in capital consists of 632.5 million (2015: 632.5 million) ordinary shares with a face value of EUR 1.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in hedges of net investment in foreign operations and in cash flow hedges.

Fair value reserves

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognized or impaired.

22. Net interest income

	January 1- December 31, 2016	January 1- December 31, 2015
Interest income from:		
Loans and receivables – customers valued at amortized cost	478,877	539,654
Financial investments	28,601	49,036
Derivative financial instruments - hedge accounting	12,965	10,869
Loans and receivables – banks valued at amortized cost	7,610	6,493
Interest on financial lease	5,985	6,035
Financial assets held for trading	146	1,409
Cash and balances at central banks valued at amortized cost	60	141
Subtotal	**534,244**	**613,637**
Interest expense from:		
Due to customers valued at amortized cost	100,257	129,994
Issued debt securities valued at amortized cost	47,187	56,787
Subordinated liabilities valued at amortized cost	44,237	51,413
Due to banks valued at amortized cost	17,105	33,834
Derivative financial instruments - hedge accounting	22,178	14,168
Cash and balances at central banks valued at amortized cost	358	208
Subtotal	**231,322**	**286,404**
Results on risk management derivatives, not designated in hedge accounting relationship	(67,977)	(53,342)
Total	**234,945**	**273,891**

23. Net fee and commission income

	January 1- December 31, 2016	January 1- December 31, 2015
Fee and commission income		
Credit card fees	58,583	59,171
Cash loan fees	10,074	11,443
Insurance related fees	7,358	9,154
Payment and transaction services fees	6,205	6,681
Letters of credit commissions	5,232	7,005
Cash withdrawal fees	4,091	5,594
Portfolio and other management fees	3,777	4,356
Commission on account maintenance	3,600	3,548
Letters of guarantee commissions	2,586	2,195
Commissions on fund transfers	1,578	1,543
Foreign exchange transaction fees	1,357	2,361
Commissions on fiduciary transactions	1,237	1,189
Other fees and commissions	5,143	5,253
Subtotal	**110,821**	**119,493**
Fee and commission expense		
Credit card fees	39,070	34,856
Commission paid to intermediaries/retailers	4,099	4,115
Payment and transaction services expense	3,814	2,860
Insurance related fees	3,191	4,593
Collection operation fees	1,915	1,815
Account maintenance fees	728	708
Other fee and commission expenses	2,241	2,830
Subtotal	**55,058**	**51,777**
Total	**55,763**	**67,716**

24. Net trading income

	January 1 - December 31, 2016	January 1 - December 31, 2015
Foreign exchange	22,643	5,846
Derivatives	5,267	2,451
Fixed income	1,503	864
Total	**29,413**	**9,161**

25. Results from financial transactions

	January 1- December 31, 2016	January 1- December 31, 2015
Net gain from the disposal of available-for-sale investments	24,024	64,611
Forfeiting loans	1,775	3,592
Total	**25,799**	**68,203**

Results from financial transactions include amounts transferred from equity to the income statement on derecognition of available-for-sale asset and gains and losses recognized from the difference between the carrying amount and the consideration received upon derecognition.

26. Other operating income

	January 1- December 31, 2016	January 1- December 31, 2015
Income from loan sales	7,533	18,800
Sale of assets held for resale	5,843	4,436
Income from operational leasing activities	5,571	7,972
Vessels charter income	5,176	1,110
Collection from written off loans	4,062	4,917
Dividend received	1,835	2,773
Rent income	1,738	1,404
Changes in fair value of investment property	-	3,700
Income related to previous year	-	920
Other income	5,058	25
Total	**36,816**	**46,057**

27. Personnel expenses

	January 1- December 31, 2016	January 1- December 31, 2015
Wages and salaries	80,497	82,352
Social security payments	8,843	8,151
Retirement benefit costs	7,109	7,536
Health insurance costs	1,072	1,023
Other employee costs	5,576	5,591
Total	**103,097**	**104,653**

Average number of employees	**4,202**	**4,334**
Banking activities – Netherlands	216	212
Banking activities - foreign countries	3,986	4,122

The retirement benefit costs of EUR 1,219 (2015: EUR 1,139) relates to a defined contribution plan. The Bank has no defined benefit program. The assets of the schemes are held separately from those of the Bank in funds under the control of insurance companies.

28. General and administrative expenses

	January 1- December 31, 2016	January 1- December 31, 2015
Rent and maintenance expenses	22,697	24,812
Communication and information expenses	7,683	8,211
Professional fees and consultancy	5,817	5,380
Taxes other than income	5,801	7,305
Information technology expenses	4,489	3,753
Stationary, office supplies and printing expense	3,286	3,257
Membership fees	2,469	2,342
Travel and transport expenses	1,948	2,030
Advertising and marketing expenses	1,556	1,644
Security expenses	1,472	1,368
Legal services expenses	1,269	1,033
Cleaning expenses	892	908
Insurance premiums	865	719
Representative expenses	822	588
Other expenses	3,161	2,552
Total	**64,227**	**65,902**

29. Other operating expenses

	January 1- December 31, 2016	January 1- December 31, 2015
Vessels maintenance expense	6,570	3,436
Losses from asset held for sale	4,195	4,295
Provision expenses	1,040	7,637
Fines and penalties	922	531
Claims service expenses	878	1,156
Other	1,678	3,512
Total	**15,283**	**20,567**

30. Other impairment losses

	January 1- December 31, 2016	January 1- December 31, 2015
Property and equipment	5,542	4,662
Assets held for sale	2,926	17,076
Investment property	800	901
Provision for financial guarantee contracts	419	-
Goodwill	-	9,671
Other	12	682
Total	**9,699**	**32,992**

31. Taxation

The Netherlands

Corporate income tax is levied at the rate of 25% on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2016. A tax rate of 20% applies to the first EUR 200,000 of taxable income. An effective tax rate of 5% is available for income related to certain intellectual property (Innovation Box). A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. Under the Dutch taxation system, tax losses can be carried forward to be offset against future taxable income for nine years. Tax losses can be carried back to offset profits for up to one year. Companies must file their tax returns within six months following the close of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. Beginning from January 1, 2007, the Bank formed a 'fiscal unity' with its Parent company. As a result of the fiscal unity, all profits and losses of the fiscal unity members are 'consolidated' for tax purposes. The main advantages of a fiscal unity are that tax losses of one company can be offset against profits of another company and assets can be transferred to another company without recognizing income at the moment of transfer.

Russian Federation

The taxation system in the Russian Federation is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open for a longer period. Recent events in the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. These provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply five market price determination methods prescribed by the Tax Code.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Since the current Russian transfer pricing rules became effective relatively recently, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Group, if the authorities were successful in enforcing their interpretations, could be significant.

The applicable tax rate for current tax and deferred tax is 20% (2015: 20%).

Romania

The applicable tax rate for current and deferred tax is 16% (2015: 16%). The Romanian Government has a number of agencies that are authorized to conduct audits (controls) of Romanian companies, as well as foreign companies doing business in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters, but to other legal and regulatory matters in which the applicable agency may be interested. The statute of limitations period in Romania is of 5 years (extended to 10 years in case tax evasion is suspected by the tax authorities). When management is aware of specific circumstances where there is the probability of fine, appropriate reserves are established for such contingencies. It is likely that the Bank's consolidated subsidiaries in Romania will continue to be subject to controls from time to time for violations and alleged violations of existing and new laws and regulations. Although, the Bank's consolidated subsidiaries in Romania can contest the allegations of violations and resulting penalties when management believe there is cause to do so, the adoption or implementation of laws or regulations in Romania could have a material effect on the Bank's consolidated subsidiaries in Romania. The effective tax rate as per 31 December 2016 amounts to 16%.

Switzerland

Corporate tax in Switzerland is a combination of Canton and Federal tax. Cantonal tax is levied at the effective rate of 23.36% on the net profit of the related period and at the effective rate of 0.401% on the shareholders' equity of the related period. Federal tax is levied at the rate of 8.50% on the net profit of the related period. Since the tax expenses are tax deductible, the effective net tax rate is around 24%.
In addition to the cantonal and federal taxes, another 'professional' tax is levied at various effective rates on the average of the last two years' gross revenue figures, rent expenses and number of employees.
Under the Swiss taxation system, tax losses can be carried forward to be offset against future taxable income for seven years. Companies must file their tax returns within four months following the close of the tax year to which they relate, unless the company applies for an extension. Tax returns are open for five years from the date of final assessment of the tax return, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Ukraine

The applicable tax rate for corporate profit is 18% (2015: 18%). The tax amount defined by the Bank could be re-assessed by the tax authorities during the three subsequent calendar years after the date of submitting the respective tax return; however, under certain circumstances this period could be longer. Therefore, the Bank should keep its primary documents related to tax returns until the beginning of the tax audit, but for no less than three years.

Tax losses can be carried forward to be offset against future taxable income for the next taxable years after the year when this loss appeared. In case the tax losses are declared to the Tax Authority for the period of four consecutive tax years, Tax Authority gains the right to perform unscheduled audit.

	January 1- December 31, 2016	January 1- December 31, 2015
Effective tax rate	12.09%	28.48%
Income tax expense recognized in the income statement		
Current income tax	(3,951)	(10,221)
Current income tax charge	(6,366)	(9,749)
Adjustment in respect of current income tax of previous year	2,415	(472)
Deferred income tax	(2,267)	(5,400)
Relating to origination and reversal of temporary differences	(2,267)	(5,400)
Income tax reported in income statement	**(6,218)**	**(15,621)**

	December 31, 2016	December 31, 2015
Income tax expense recognized in equity		
Deferred income tax	3,449	3,306
Fair value reserve	2,871	3,559
Cash flow hedge	406	(241)
Revaluation surplus	172	(12)
Income tax reported in equity	**3,449**	**3,306**

Reconciliation of income tax	January 1- December 31, 2016	January 1- December 31, 2015
Operating profit before tax	51,426	54,856
Statutory tax rate	25%	25%
At statutory income tax	**(12,857)**	**(13,714)**
Utilization of previously unrecognized tax losses	6,727	(303)
Effect of different income tax rates in other countries	1,426	(3,338)
Equity allocation to branches	780	537
Income not subject to tax	689	1,485
Adjustment to prior years	(163)	(472)
Expenditure not allowable for income tax purposes	(2,973)	(3,935)
Utilization of previously unrecognized deferred tax assets	-	8,155
Other	153	(4,036)
Income tax	**(6,218)**	**(15,621)**

	December 31, 2016			December 31, 2015		
Deferred Tax Assets and Liabilities	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Tax losses carried forward	5,001	-	5,001	4,502	-	4,502
Loans and receivables	9,424	(1,301)	8,123	10,774	(4,330)	6,444
Cash flow hedge	-	(2,024)	(2,024)	-	(173)	(173)
Property, plant and equipment	218	(3,433)	(3,215)	160	(3,061)	(2,901)
General risk provision	-	(26,711)	(26,711)	-	(25,617)	(25,617)
Due to banks	-	(151)	(151)	-	(133)	(133)
Available for sale securities	3,781	-	3,781	348	(2,600)	(2,252)
Assets held for sale	128	-	128	3,177	-	3,177
Other	5,186	(3,261)	1,925	3,011	(2,015)	996
	23,738	**(36,881)**	**(13,143)**	**21,972**	**(37,929)**	**(15,957)**

Deferred tax changes recorded in the income tax expense	January 1- December 31, 2016	January 1- December 31, 2015
Deferred tax of fiscal loss	511	(9,266)
Loan impairment provision	4,056	1,832
Revaluations of foreign exchange contracts to fair value	32	21
Revaluations of financial assets to fair value	3,550	(3,319)
Difference in changes in depreciation rates	124	26
Commissions to be amortized	170	(34)
Transaction cost to be amortized	(6,472)	4,424
Cash flow hedge	(2,275)	-
Other	(1,963)	916
	(2,267)	**(5,400)**

32. Fair value information

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted market price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Classification of financial assets and liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

	December 31, 2016					
	Trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised costs	Total carrying amount
Cash and balances at central banks	-	-	1,041,371	-	-	1,041,371
Financial assets at fair value through profit or loss	-	2,712	-	-	-	2,712
Financial investments	-	-	-	741,009	-	741,009
Loans and receivables - banks	-	-	306,666	-	-	306,666
Loans and receivables - customers	-	-	5,188,004	-	-	5,188,004
Derivative financial instruments	344,393	-	-	-	-	344,393
Total assets	**344,393**	**2,712**	**6,536,041**	**741,009**	**-**	**7,624,155**
Due to banks	-	-	-	-	448,317	448,317
Due to customers	-	-	-	-	5,531,531	5,531,531
Derivative financial instruments	374,706	-	-	-	-	374,706
Issued debt securities	-	-	-	-	262,977	262,977
Subordinated liabilities	-	-	-	-	531,326	531,326
Total liabilities	**374,706**	**-**	**-**	**-**	**6,774,151**	**7,148,857**

	December 31, 2015					
	Trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised costs	Total carrying amount
Cash and balances at central banks	-	-	532,139	-	-	532,139
Financial assets at fair value through profit or loss	-	7,578	-	-	-	7,578
Financial investments	-	-	-	1,022,454	-	1,022,454
Loans and receivables - banks	-	-	450,562	-	-	450,562
Loans and receivables - customers	-	-	5,500,742	-	-	5,500,742
Derivative financial instruments	450,758	-	-	-	-	450,758
Total assets	**450,758**	**7,578**	**6,483,443**	**1,022,454**	**-**	**7,964,233**
Due to banks	-	-	-	-	469,054	469,054
Due to customers	-	-	-	-	5,467,021	5,467,021
Derivative financial instruments	453,313	-	-	-	-	453,313
Issued debt securities	-	-	-	-	440,540	440,540
Subordinated liabilities	-	-	-	-	561,747	561,747
Total liabilities	**453,313**	**-**	**-**	**-**	**6,938,362**	**7,391,675**

Fair value hierarchy

The fair value hierarchy consists of three levels, depending upon whether fair values are determined based on quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have significant impact on the fair value of the instrument (Level 3):

Valuation Models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1**: This category includes inputs that are quoted market prices (unadjusted) in active markets for identical instruments. These are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets and where the instrument observed in the market is representative of that being priced in the Bank's portfolio.
- **Level 2**: This category includes inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3**: This category includes all instruments where the valuation technique uses inputs based on unobservable data, which could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant, unobservable adjustments or assumptions are required to reflect differences between instruments. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived.

The Bank uses following assumptions to estimate the fair value of financial instruments:

Equity securities: Fair values of publicly traded equity securities are based on quoted market prices where available. In the case of where no quoted market is available, fair value is determined based on quoted prices for similar securities or other valuation techniques. Valuation techniques include discounted cash flow models and transaction multiple methods.

Debt securities: Fair values are based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, pricing service or regulatory service. If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include values obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using a market interest rate curves, referenced credit spreads and maturity of the investment.

Derivative assets and liabilities: Derivatives are valued using valuation techniques. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. Observable prices or model inputs are usually available in the market for exchange-traded derivatives and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The principal techniques used to value these instruments are based on discounted cash flows, Black-Scholes option models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows. Inputs to valuation models are determined from observable market data where possible. The inputs used include prices available from exchanges, dealers, brokers or providers of consensus pricing, yield curves, credit spreads, default rates, recovery rates, volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes, where available.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. For measuring derivatives, fair values take into account both credit valuation adjustments (CVA) and debit valuation adjustments (DVA). In assessing the counterparty risk the Bank accounts for the following aspects: the default probability of the counterparty, the default probability of the Bank itself, the nature of transactions and the impact of risk mitigants such as netting and collateralisation for each counterparty individually.

Valuation framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- analysis and investigation of significant daily valuation movements

When third party confirmation, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to the measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using these quotes.

Significant valuation issues are reported to the Asset Liability Committee (ALCO).

Level 3 Financial assets and liabilities

Security fair value measurements using significant inputs that are unobservable in the market due to limited activity or a less liquid market are classified as Level 3 in the fair value hierarchy. Such measurements include securities valued using internal models or a combination of multiple valuation techniques, such as weighting of internal models and vendor or broker pricing, where the unobservable inputs are significant to the overall fair value measurement. As of 31 December 2016, securities classified as Level 3 include certain diversified payment rights securities.
During 2016, there were no securities transferred out of Level 3 to Level 2 due to change in inputs used in measuring the fair value of the assets.
Loans and receivable classified under Level 3 consist of trading loans valued using discounted cash flow technique that incorporate brokers' quotes as indicative value with no attached commitment to transact at that price.
Changes in the unobservable inputs used in the valuation of Level 3 financial assets would not have a significant impact on equity and net income.

Reconciliation

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in the Level 3 of the fair value hierarchy

	December 31, 2016			December 31, 2015		
	Financial Investments - AFS	Financial Investments - Loans and receivable	Total	Financial Investments - AFS	Financial Investments - Loans and receivable	Total
Balance at January 1	**30,520**	**152,845**	**183,365**	**14,929**	**187,022**	**201,951**
Total gains and losses						
- in net trading income	1,055	1,775	2,830	-	3,592	3,592
- in OCI	4	(230)	(226)	-	(97)	(97)
Purchases	-	776,302	776,302	30,397	1,015,319	1,045,716
Settlements	-	(909,875)	(909,875)	-	(1,052,991)	(1,052,991)
Transfers	-	-	-	(14,806)	-	(14,806)
Balance at year end	**31,579**	**20,817**	**52,396**	**30,520**	**152,845**	**183,365**

Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

December 31, 2016	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Trading assets	6	2,712	-	-	2,712
Derivative assets held for risk management and trading	11	-	344,393	-	344,393
Financial investments	7	688,613	-	52,396	741,009
Total		**691,325**	**344,393**	**52,396**	**1,088,114**
Financial liabilities					
Derivative assets held for risk management	11	-	374,706	-	374,706
Total		-	**374,706**	-	**374,706**

December 31, 2015	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Trading assets	6	6,617	961	-	7,578
Derivative assets held for risk management and trading	11	-	450,758	-	450,758
Financial investments	7	763,048	76,041	183,365	1,022,454
Total		**769,665**	**527,760**	**183,365**	**1,480,790**
Financial liabilities					
Derivative assets held for risk management	11	-	453,313	-	453,313
Total		-	**453,313**	-	**453,313**

No securities were transferred from Level 1 to Level 2 of the fair value hierarchy in 2016.

Financial instruments not measured at fair value

The following table compares the carrying amount of financial assets and liabilities not measured at fair value and analyses them by the level in the fair value hierarchy.

December 31, 2016	Note	Level 1	Level 2	Level 3	Total fair Values	Total carrying amount
Financial assets						
Cash and balances at central banks	5	-	1,041,371	-	1,041,371	1,041,371
Loans and receivables - banks	8	-	306,621	-	306,621	306,666
Loans and receivables - customers	9	-	-	5,149,694	5,149,694	5,188,004
Total		**-**	**1,347,992**	**5,149,694**	**6,497,686**	**6,536,041**
Financial liabilities						
Due to banks	16	-	447,762	-	447,762	448,317
Due to customers	17	-	5,630,032	-	5,630,032	5,531,531
Issued debt securities	18	253,687	10,895	-	264,582	262,977
Subordinated liabilities	20	94,171	443,802	-	537,973	531,326
Total		**347,858**	**6,532,491**	**-**	**6,880,349**	**6,774,151**

December 31, 2015	Note	Level 1	Level 2	Level 3	Total fair Values	Total carrying amount
Financial assets	0	0	0	0	0	0
Cash and balances at central banks	5	-	532,139	-	532,139	532,139
Loans and receivables - banks	8	-	447,718	-	447,718	450,562
Loans and receivables - customers	9	-	-	5,471,262	5,471,262	5,500,742
Total		**-**	**979,857**	**5,471,262**	**6,451,119**	**6,483,443**
Financial liabilities						
Due to banks	16	-	470,645	-	470,645	469,054
Due to customers	17	-	5,542,714	-	5,542,714	5,467,021
Issued debt securities	18	437,182	1,223	-	438,405	440,540
Subordinated liabilities	20	137,406	430,092	-	567,498	561,747
Total		**574,588**	**6,444,674**	**-**	**7,019,262**	**6,938,362**

33. Offsetting financial assets and financial liabilities

The following table includes financial assets and liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position. The table shows the potential effect on the Bank's statement of financial position on financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the statement of financial position.

Similar agreements include derivative clearing agreements, master repurchase agreements and master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements and securities borrowing and lending agreements. Loans and deposits are not disclosed in the below table, unless they are offset in the statement of financial position.

The Bank uses the ISDA (International Swaps and Derivatives Association) master netting arrangements for derivatives to mitigate the credit risk. The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties of the agreement a right of set-off recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties.

The Bank receives and gives collateral in the form of cash and marketable securities in respect of derivatives, reverse repo agreements, repo agreements and securities lending and borrowing transactions.

							December 31, 2016
				Related Amounts Not Offset in the Statement of Financial Position			
	Gross Amounts	Offsetting Counterparty Position in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments	Cash Collaterals Received/ Pledged	Financial Instrument Collaterals Recognized in the Off Balance Sheet	Net Amount
Assets							
Derivative assets	344,393	-	344,393	(169,369)	(59,919)	-	115,105
Reverse repo agreements	5,541	-	5,541	-	-	(5,541)	-
Total	**349,934**	**-**	**349,934**	**(169,369)**	**(59,919)**	**(5,541)**	**115,105**
Liabilities							
Derivative liabilities	374,706	-	374,706	(169,369)	(170,467)	-	34,870
Repo agreements	10,690	-	10,690	(10,690)	-	-	-
Total	**385,396**	**-**	**385,396**	**(180,059)**	**(170,467)**	**-**	**34,870**

							December 31, 2015
				Related Amounts Not Offset in the Statement of Financial Position			
	Gross Amounts	Offsetting Counterparty Position in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments	Cash Collaterals Received/ Pledged	Financial Instrument Collaterals Recognized in the Off Balance Sheet	Net Amount
Assets							
Derivative assets	450,758	-	450,758	(266,979)	(122,053)	-	61,726
Reverse repo agreements	60,178	-	60,178	-	-	(59,325)	853
Total	**510,936**	**-**	**510,936**	**(266,979)**	**(122,053)**	**(59,325)**	**62,579**
Liabilities							
Derivative liabilities	453,313	-	453,313	(266,979)	(139,246)	-	47,088
Repo agreements	46,529	-	46,529	(46,529)	-	-	-
Total	**499,842**	**-**	**499,842**	**(313,508)**	**(139,246)**	**-**	**47,088**

34. Commitments and contingencies

To meet the financial needs of customers, the Bank issues various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are, therefore, part of the overall risk of the Bank. In many instances, the amount recognized on the statement of financial position for incurred obligations does not represent the loss potential of the arrangement in full.
Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers, contingent on the failure of the customer to perform under the terms of the contract. Guarantees carry the same credit risk as loans. Credit guarantees can be in the form of bills of exchange, irrevocable letters of credit, advance payment guarantees, or endorsement liabilities from bills rediscounted.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. With respect to credit risk on commitments to extend the credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

	January 1- December 31, 2016	January 1- December 31, 2015
Contingent liabilities with respect to irrevocable letters of credit - import	251,255	244,506
Contingent liabilities with respect to letters of guarantee granted - corporates	121,667	68,712
Contingent liabilities with respect to irrevocable letters of credit - export	23,189	53,988
Contingent liabilities with respect to letters of guarantee granted - banks	25,554	33,159
Contingent liabilities with respect other guarantees	1,488	671
Contingent liabilities with respect to acceptance credits	44	-
Total non-cash loans	**423,197**	**401,036**
Revocable credit-line commitments	370,569	381,441
Credit-card limits	387,199	307,984
Other commitments	12,974	-
Total	**1,193,939**	**1,090,461**

Litigation claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects the claims might have on its financial standing.

As at 31 December 2016, the Bank's subsidiary, Credit Europe Bank (Romania) S.A., is involved in number of litigations regarding abusive clauses in consumer contracts., for which provision at amount of EUR 5,689 is already provided for in the consolidated statement of financial position. Additionally, Credit Europe Bank (Romania) S.A. performed a comprehensive assessment for the entire retail loan portfolio in order to determine the maximum exposure to risk in respect of potential litigations to be initiated by customers. As result, as at 31 December 2016, the Bank recognized a contingent liability at amount of EUR 10,935.

Lease commitments

The Bank leases a number of buildings and cars under operating leases. Non-cancellable operating lease rentals are payable as follows:

Operating lease commitment - bank as lessee and rent commitments	December 31, 2016	December 31, 2015
Not later than 1 year	11,825	8,578
Later than 1 year and not later than 5 years	26,129	12,417
Total	**37,954**	**20,995**

Operating lease commitment - bank as lessor	December 31, 2016	December 31, 2015
Not later than 1 year	7,098	7,568
Later than 1 year and not later than 5 years	6,337	8,467
Total	**13,435**	**16,035**

The Bank leases a number of premises and equipment under operating lease. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually changed annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year EUR 23,135 was recognized as an expense in the statement of income in respect of operating leases (2015: EUR 20,431).

35. Related parties

The Bank's Parent Company is Credit Europe Group N.V., The Netherlands, and the Ultimate Parent Company is FİBA Holding A.Ş., Turkey, both ultimately controlled by a single individual, Mr. Hüsnü Özyeğin.

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in financial and operating decisions. The Bank enters into transactions with its Parent company, ultimate parent company and other related parties controlled by Mr. Hüsnü Özyeğin in the ordinary course of business at commercial interest and commission rates. The Bank provides general banking services to related parties including current accounts, time deposits, fx transactions, fiduciary transactions, brokerage activities and custodian services. All loans and advances to related parties are performing advances, and are free of any provision for possible credit losses.

All amounts included in the financial statements stated in the table below relate to Group companies controlled by Mr. Hüsnü Özyeğin:

	December 31, 2016				December 31, 2015			
	Parent Company	Ultimate Parent Company	Associates and joint ventures	Other Related Parties	Parent Company	Ultimate Parent Company	Associates and joint ventures	Other Related Parties
Assets								
Loans and receivables – banks	-	-	-	1,496	-	-	-	8,496
Loans and receivables – customers	2,586	-	213	158,038	9,616	47	-	162,488
Derivative financial instruments	1,774	8,877	-	80,177	637	4,860	-	106,106
Liabilities								
Due to banks	-	-	4,577	472	-	-	3,155	2,002
Due to customers	1,971	3,536	107	273,726	396	18,015	3	388,760
Derivative financial instruments	1,337	5,360	-	10,883	868	2,330	-	16,948
Commitment and contingencies	-	-	-	10,623	-	-	-	15,724

All credit risk exposures related to derivate financial instruments are fully collateralized through pledge agreements. As of December 31, 2016, the Bank does not have any provisions regarding related party balances (2015: None).
The income and expenses in respect of related parties included in the financial statements are as follows:

	January 1- December 31, 2016				January 1- December 31, 2015			
	Parent Company	Ultimate Parent Company	Associates and joint ventures	Other Related Parties	Parent Company	Ultimate Parent Company	Associates and joint ventures	Other Related Parties
Interest income	203	1	-	3,203	542	9	-	3,295
Interest expense	-	(22)	(271)	(457)	-	(102)	(303)	(1,626)
Commission income	3	85	-	1,613	20	137	-	5,824
Commission expense	(150)	-	-	(675)	-	-	-	(783)
Net trading income	(9)	-	-	824	(6)	34	-	(173)
Other operating income	-	-	605	194	-	-	174	382
Operating expenses	-	-	-	(1,469)	-	-	-	(1,641)

Key management is defined as those persons in the Bank's Supervisory and Managing Board. The number of key management personnel is 12 (2015: 11). Key management personnel and their immediate relatives have transactions in the ordinary course of business at commercial interest and commission rates with the Bank. Loans granted to key management are as follows:

	December 31, 2016	December 31, 2015
Loans and receivables - customers	235	327

As of December 31, 2016, the Bank does not have any provisions regarding the balances with key management personnel (2015: None).
Key management costs, including remuneration and fees for the year ended December 31, 2016 amounted to EUR 4,162 (2015: EUR 4,213). Pension plan contribution amounted to EUR 126 (2015: EUR 163).

36. Intra-Group balances

Intra-group balances that are eliminated during consolidation process:

	December 31, 2016	December 31, 2015
Assets		
Financial investments	34,376	56,157
Loans and receivables - banks(*)	241,333	412,255
Loans and receivables – customers	258,970	171,455
Derivative financial instruments	50,157	84,815
Other assets	122	62
Liabilities		
Due to banks	492,596	579,101
Due to customers	7,707	4,609
Derivative financial instruments	50,157	84,815
Issued debt securities	33,431	34,949
Subordinated liabilities	945	21,208
Other liabilities	122	62
Commitments and contingencies	38,335	40,156

	January 1- December 31, 2016	January 1- December 31, 2015
Interest income	59,408	58,429
Interest expense	(59,408)	(58,429)
Commission income	4,299	4,260
Commission expense	(4,299)	(4,260)

(*) There is not any intragroup exposure fully collateralized by securities (2015: EUR 2,794).

37. Risk management

Credit Europe Bank has set policy-level standards in accordance with the regulations of the Dutch Central Bank (De Nederlandsche Bank – DNB) and the guidelines published by the Basel Committee and the European Banking Authority (EBA).

The core elements of the bank's risk management and control framework are:

- Adhering to the risk appetite and strategy set
- Periodically assessing the risk governance structure
- Maintaining capital management in line with the capital strategy
- Managing financial and operational risk in line with the risk appetite and strategy

Risk Appetite and Risk Governance

The risk management philosophy requires direct reporting lines and a clear division of tasks and responsibilities. At the same time, it ensures that bank-wide criteria for acceptance, monitoring, control and management of risks are deeply rooted. We clearly separate risk ownership from business activities.

Main pillars of the risk appetite are illustrated below:

QUALITATIVE

Governance

- Standardized policies, guidelines and limits
- Risk tolerance is proposed and executed by the Managing Board upon the approval of the Supervisory Board
- Risk appetite in certain geographies and segments is determined in accordance with local presence and expertise
- Risk management is centralized and functions independently from the business lines

Reputation

- Ensure high financial reporting transparency and efficient external communications

QUANTITATIVE

Credit risk concentration

- Diversified exposure within different geographies through retail, SME and corporate clients.
- Low sovereign exposure

Liquidity

- No risk tolerance for liquidity risk, restrictions on short-term funding and credit-sensitive liabilities
- Insignificant liability concentration

Trading and ALM

- Minor sensitivity to trading risk and limited interest rate mismatches in the banking book
- No exposure to securitized/re-securitized assets or CDOs

CEB exercises full control over its subsidiaries' business performance and steers their risk appetite. In addition, we employ the following risk management governance structure:

- Effective Audit & Risk Committees at subsidiary as well as consolidated level;
- Direct reporting of general managers of the banks' subsidiaries to the CEO of CEB;
- Presence of a global CRO function on the Managing Board;
- A uniform credit committee structure at both local and the consolidated level.

The Audit and Risk Committee (ARC) at the consolidated level plays a pivotal role in CEB's risk governance framework. ARC meets 4 times a year and receives regular reports and updates on the Bank's actual risk appetite with respect to the approved risk appetite statement. The Committee reviews and monitors the limits for individual types of risks and takes decisions whether principal risks have been properly identified and are being appropriately managed. ARC also makes assessments on the existing risk management capacity / know-how of the Bank and raises action items / investment plans –where necessary- to reach the desired level.

In line with the ARC recommendations we continued to invest in the Bank's risk management systems in 2014, including but not limited to the streamlining of the credit process, particularly with regard to capital planning, and implementing integrated stress testing tools.

Capital Management

A capital level commensurate with the Bank's risk profile is the key to financial resilience. CEB operates with an optimum level and mix of capital resources. A centralized regulatory/internal capital management model plays a major role in this process. The internal capital model incorporates detailed scenario analyses of key risk factors and their potential effects on income statement and the Bank's capital base under different assumptions. This framework is designed to ensure CEB has sufficient capital resources to meet the capital requirements of DNB, as well as those of local regulators in our operating countries. It further ensures that we have capital available to meet our own risk appetite and internal guidelines. We place great emphasis on the strength of our capital base as a way to maintain investor, creditor and market confidence, and to sustain future business development.

CEB allocates assets in accordance with the risk-return thresholds defined in our risk appetite statement. Business units are required to fully understand the inherent risk-reward profile of their business and to generate a specific level of return on regulatory/internal capital requirements. The CEB risk strategy has proved its value, not only by providing consistently strong financial results, but also by yielding consistently robust returns on equity.

The Bank's capital-management objectives are to:

- Maintain sufficient capital resources to meet the DNB's minimum regulatory capital requirements.
- Ensure that locally regulated subsidiaries can meet their minimum capital requirements.
- Achieve adequate capital levels to support the bank's risk appetite and internal capital requirements.
- Maintain a strong capital base to reassure investors, creditors and markets, and to sustain future business development.

To support its capital-management objectives, the Bank takes into account:

- Possible volatility in anticipated demand for capital caused by new business opportunities, including acquisitions, or by deterioration in the credit quality of the Bank's assets
- Possible volatility of reported profits and other capital resources compared with forecast.
- Capital ratio sensitivity to foreign-exchange-rate movements.

Regulatory Capital

Starting from January 1, 2015, CEB and all its subsidiaries are subject to CRD IV (Capital Requirement Derivative) rules:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC
- Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

The Bank applies the standardized approach for credit risk, market risks and operational risk. Banks are expected to meet the capital-requirements constraints imposed by the Basel III accord.

The Bank's total own funds consist of Core Tier I capital (also named as common Equity Tier I, CET 1), Additional Tier I capital (AT 1) and Tier II capital. The various elements making up both components are presented in the table below:

	December 31, 2016	December 31, 2015
Total Equity	882,361	786,081
• Current year profit (1)	(45,116)	(39,200)
• Eligible 1st half year profit after approval	-	-
• Non-eligible minority interest (2)	(1,214)	(1,111)
• Deductions from revaluation Reserve - AFS	20,345	(201)
Prudential filters		
• Cash flow hedge reserve	1,256	(644)
• Prudent valuation	(972)	(1,598)
• Intangible asset (2)	(12,687)	(19,725)
• Deferred tax assets that rely on future profitability and do not arise from temporary differences (2)	(795)	(1,801)
• transitional adjustments to CET1 Capital (3)	(12,207)	80
Core Tier I	**812,368**	**810,677**
Perpetual Tier I capital	-	-
Additional Tier I	-	-
Total Tier I capital	**812,368**	**810,677**
Tier II capital		
Subordinated capital	426,904	413,337
Total Tier II capital	**426,904**	**413,337**
Total own funds	**1,239,272**	**1,224,014**

(1) Current year profit is excluded from total own funds based on article 26, point 2 of CRR IV

(2) Under CRD IV frame, additional items listed below shall be deducted fully by 31 December 2018 to enhance own funds quality:

- Non-eligible minority interest
- Deferred tax assets that rely on future profitability and do not arise from temporary differences

(3) Transitional adjustment is permitted to apply the calculation referred in article 473 (2) and (3) of CRD IV by deducting fully under prudential filter and adding 40% back to total own funds

The Bank and its individually supervised subsidiaries have complied with all externally imposed capital requirements throughout the reporting period and maintained their capital ratios above the regulatory minimum ratios.

Solvency ratio	December 31, 2016	December 31, 2015
• Capital ratio	19.41%	17.60%
• Tier I ratio	12.73%	11.66%
• Core Tier I	12.73%	11.66%
RWA	**6,383,167**	**6,955,508**

Credit risk

Credit risk is defined as the current or prospective threat to the bank's earnings and capital as a result of counterparty's failure to comply with financial or other contractual obligations.

Credit risk constitutes the most significant risk of the bank and arises mainly from its trade-finance, lending, treasury, mortgage and leasing businesses

Concentration limits

The bank has established maximum concentration limits –in terms of both nominal and capital consumption- over country, industry and single-name concentrations to manage concentration risk in its loan portfolio.

Credit risk is managed by following tools and principles:

Risk mitigation

CEB actively uses collateral management as the major risk mitigation mechanism. Collaterals are managed and followed-up in processes fully supported by the bank's banking system by means of collateral-transaction linkages, blocked accounts and system checking of collateralization.

In particular, specialized lending is run through on collaterals and documentation. Valuation reports, survey report updates, insurance policies management are followed up systematically. Outsourcing is also utilized by Collateral Management Agreements and Collateral Monitoring Agreements with expert collateral management agents who have the management and reporting capabilities on the site of the collateral.

CEB follows legal certainty and operational requirements as a pre-requisite for consideration risk mitigation effects of the collaterals. Legal department conducts in-depth legal review confirming the enforceability of the collateral arrangements under the law applicable to these arrangements in all relevant jurisdictions.

Collateral value should not have a material positive correlation with the credit quality of the provider. The market value of the collateral should be appraised at least annually or more often whenever there is a reason to believe that a significant decrease in its market value has occurred.

Internal Rating Models and Scorecards

IN 2016, CEB is in the process of migrating from the existing 11-grade rating scale to a new 21-grade master scale -which covers both corporate and retail lending . CEB borrower rating systems require fundamental credit analysis (corporate) and behavioural inputs (retail) and supplemented by statistical models.

The obligor rating framework has several building blocks to ensure that qualitative and quantitative risk drivers of corporate default are inherent in the rating process.

Since 2011, Internal Rating System model coverage has been extended with new specialized lending models, which ensure more robust estimation of initial risk parameters for transactional lending portfolios. In line with the CEB NV lending practices, seven sub-classes of specialized lending, namely structured trade finance, marine object finance, marine project (shipbuilding) finance, income producing real estate finance, real estate development finance, object finance and other project finance, are separately identified within the corporate asset class regarding the applied rating criteria.

CEB has established a centre of excellence for retail risk management responsible for scoring, risk based pricing, algorithm development, stress testing, monitoring and reporting. The centre is composed of highly skilled statisticians, bankers, econometrists, database programmers and risk managers. The team has worked in projects in several countries including Russia, Romania, Germany, Turkey and Belgium. Now through their efforts, all banking entities are taking the right risk with the right interest margin

Stress testing

The Bank puts stress-testing and capital planning at the centre of its internal capital assessment process. The factual starting point of the capital planning process is the three year business plan which reflects the baseline assumptions on the global economy. Macroeconomic assumptions are mainly based on a survey of multiple sources to ensure objectivity and consistency. Then, the Bank identifies the potential threats to its business plan and capital adequacy based on a set of adverse scenarios.

Having a hypothetical stress testing framework, the bank's stress-testing methodology discourages both under-and over-reliance on internal data. The magnitude of the shocks varied across different portfolios based on their expected default correlation with the systematic risks which materialize under the adverse scenario.

The bank's credit-risk stress tests shock both default- and recovery-related risk parameters. In particular, risk concentrations in the portfolio are penalized with harsher shocks. The bank's stress-testing methodology does not aim to make accurate forecasts of the downturns, but instead aims to capture the tail loss by simulating the unexpected and the undesirable

37. a. Credit exposure

Maximum credit-risk exposure

The Bank identifies its maximum credit exposure as the sum of all transactions that may potentially expose the Bank to credit losses, should the counterparty not fulfil its contractual obligations. The maximum credit exposure presented in the table below comprises on- and off-balance sheet items. Credit exposure is measured without taking account of any collateral held or other credit enhancements.

Maximum credit-risk exposure, net of impairment allowances

On-balance sheet items are presented at their gross carrying amount, gross of impairment allowances. Derivative financial instruments are assessed at fair value of future cash flows.
The off-balance credit risk exposure comprises:

- Letters of guarantee granted and letters of credit issued or confirmed, shown at the maximum amount that the Bank would have to pay if the guarantees or letters of credit are called upon; and,
- Undrawn credit-card limits
- Revocable credit line commitments are excluded as they do not create credit risk.

	December 31, 2016	December 31, 2015
Balance sheet items		
Balances with central banks	978,059	488,048
Financial assets designated at fair value through profit or loss	2,712	7,578
Financial investments	741,009	1,022,454
Loans and receivables - banks	307,591	451,487
Loans and receivables - customers	5,374,398	5,697,382
Derivative financial instruments	344,393	450,758
Subtotal	**7,748,162**	**8,117,707**
Off- balance sheet items		
Issued letters of guarantee	148,709	102,542
Issued irrevocable letters of credit	274,444	298,494
Undrawn credit-card limits	387,199	307,984
Other commitments and contingent liabilities	44	-
Total off-balance sheet*	**810,396**	**709,020**
Maximum credit risk exposure	**8,558,558**	**8,826,727**

*Excluding revocable credit line commitments.

The Bank considers items such as 'other credit commitments and contingent liabilities' as a part of its maximum credit risk exposure. However, these are not included in tables below since they are composed of credit facilities that are either revocable or can be cancelled unconditionally by the Bank, and therefore bear insignificant credit risk.

Concentration of credit exposure

Concentration risk normally arises when number of counterparties operates in the same geographical region or within the same economic sector, and thus is affected to the same extent as economic, political and other conditions.

37.b. Sector concentration

The Bank monitors its credit exposure within the following counterparty groups: corporate customers, banks and central governments, retail customers, SME customers, and residential mortgage loans. Exposure to corporate customers is presented, broken down by industry, according to the internal sector definitions.

	On-balance sheet	Off-balance sheet	December 31, 2016 Total exposure(*)	% of total exposure	December 31, 2015 Total exposure(*)	% of total exposure
Exposure to central governments and financial institutions						
Exposure to central governments and central banks	978,059	-	978,059	73.38%	488,048	47.75%
Exposure to financial institutions	307,591	47,271	354,862	26.62%	534,012	52.25%
Total exposure to central governments and financial institutions	**1,285,650**	**47,271**	**1,332,921**	**100.00%**	**1,022,060**	**100.00%**
Corporate exposure						
Real estate	544,251	31,306	575,557	13.32%	616,602	13.88%
Construction & installation	534,459	31,289	565,748	13.08%	456,353	10.25%
Leisure & tourism	516,644	4,817	521,461	12.06%	423,554	9.51%
Shipping & shipyards	252,726	400	253,126	5.85%	322,044	7.23%
Financial services & investments	206,636	25	206,661	4.78%	245,454	5.51%
Transportation, logistics & warehousing	154,568	3,693	158,261	3.66%	153,198	3.44%
Oil & derivatives	154,357	136,370	290,727	6.72%	224,001	5.03%
Food, beverage & tobacco	141,668	223	141,891	3.28%	59,119	1.33%
Textile, clothing, ready-made wearing & leather	134,213	13,219	147,432	3.41%	147,830	3.32%
Iron & steel	123,891	31,658	155,549	3.60%	273,227	6.14%
Energy & coal	117,195	34,148	151,343	3.50%	245,642	5.52%
Retail	103,343	3,129	106,472	2.46%	85,796	1.93%
Petrochemical, plasticizers & derivatives	70,224	29,664	99,888	2.31%	111,493	2.50%
Soft commodities & agricultural products	54,225	1,336	55,561	1.28%	67,178	1.51%
Telecommunications	33,485	-	33,485	0.77%	42,960	0.96%
Fertilizers	26,955	-	26,955	0.62%	73,092	1.64%
Building materials	11,702	-	11,702	0.27%	52,237	1.17%
Media & publishing	1,131	5	1,136	0.03%	35,055	0.79%
Public loans	397,964	-	397,964	9.20%	495,451	11.13%
Other	371,096	52,658	423,754	9.80%	322,933	7.25%
Total exposure to corporate clients and private banking	**3,950,733**	**373,940**	**4,324,673**	**100.00%**	**4,453,219**	**100.00%**
Exposure to retail customers and SMEs						
Exposure to retail customers	897,388	387,199	1,284,587	70.86%	1,302,224	69.61%
Exposure secured by residential real estate	426,778	-	426,778	23.55%	472,465	25.26%
Exposure to SME	99,499	1,986	101,485	5.60%	95,970	5.13%
Total exposure to retail customers and SMEs	**1,423,665**	**389,185**	**1,812,850**	**100.00%**	**1,870,659**	**100.00%**
Total credit risk exposure*	**6,660,048**	**810,396**	**7,470,444**	**100.00%**	**7,345,938**	**100.00%**

*Excluding financial assets and derivatives.

The top five industries account for 51.02% (2015: 46.97%) of the total corporate portfolio, reflecting the traditional business areas of the Bank where it possesses strong expertise and profound industry practice.

37.c. Geographical concentration

The following table provides the distribution of the Bank's credit exposure by risk country as of December 31, 2016:

December 31, 2016	Russia	Turkey	Romania	Ukraine	Other emerging markets	Developed markets	Total exposure
Balance sheet items							
Demand deposits with central banks	10,899	-	124,191	897	-	842,072	978,059
Financial assets designated at fair value through profit or loss	-	-	1,082	-	-	1,630	2,712
Financial investments	12,073	144,107	188,361	9,104	12,787	374,577	741,009
Loans and receivables - banks	29,150	16,813	12,780	5,359	6,830	236,659	307,591
Loans and receivables - customers	1,577,216	1,112,904	866,983	52,830	151,384	1,613,081	5,374,398
Derivative financial instruments	90	152,898	959	-	-	190,446	344,393
Total balance sheet	**1,629,428**	**1,426,722**	**1,194,356**	**68,190**	**171,001**	**3,258,465**	**7,748,162**
Off-balance sheet items	258,891	98,092	151,593	2,760	51,834	247,226	810,396
Total credit-risk exposure	**1,888,319**	**1,524,814**	**1,345,949**	**70,950**	**222,835**	**3,505,691**	**8,558,558**

The following table provides the distribution of the Bank's credit exposure by risk country as of December 31, 2015:

December 31, 2015	Russia	Turkey	Romania	Ukraine	Other emerging markets	Developed markets	Total exposure
Balance sheet items							
Demand deposits with central banks	15,353	-	101,647	1,504	-	369,544	488,048
Financial assets designated at fair value through profit or loss	-	472	1,372	-	-	5,734	7,578
Financial investments	121,470	267,681	205,724	8,052	66,648	352,879	1,022,454
Loans and receivables - banks	77,655	46,409	19,777	473	2,272	304,901	451,487
Loans and receivables - customers	1,560,257	1,329,594	938,204	58,142	106,206	1,704,979	5,697,382
Derivative financial instruments	1,558	138,060	12	-	-	311,128	450,758
Total balance sheet	**1,776,293**	**1,782,216**	**1,266,736**	**68,171**	**175,126**	**3,049,165**	**8,117,707**
Off-balance sheet items	225,542	135,361	124,354	261	71,162	152,340	709,020
Total credit-risk exposure	**2,001,835**	**1,917,577**	**1,391,090**	**68,432**	**246,288**	**3,201,505**	**8,826,727**

37.d. Collaterals and other credit enhancements obtained

The Bank's credit policy requires that the loan extension process is conducted with strong evidence of the customer's ability to repay the loan. Collaterals are also actively used for the purposes of credit risk mitigation.
In the tables below, collaterals are aggregated into two groups:

- Financial collaterals, which includes any kind of documentary collateral, such as bills of exchange or trade-related promissory notes. Cash collaterals, credit derivatives and other guarantees are also part of this group.
- Physical collaterals comprise other collaterals not mentioned under 'financial collaterals'.

Although the Bank accepts personal and corporate guarantees as collateral, they are not included in the tables below, due to their limited credit risk mitigation ability.

Breakdown of collateralized exposure by collateral type					December 31, 2016
	Total exposure, net	Fair value of financial collaterals	Fair value of physical collaterals	Total collaterals obtained	Collaterals to total net exposure
Balance sheet					
Demand deposits with central banks	978,059	-	-	-	-
Financial assets designated at fair value through profit or loss	2,712	-	-	-	-
Financial investments	741,009	-	-	-	-
Loans and receivables - banks	307,591	48	-	48	0%
Loans and receivables - customers	5,374,398	310,177	2,084,763	2,394,940	45%
Derivative financial instruments	344,393	41,604	-	41,604	12%
Total balance sheet	**7,748,162**	**351,829**	**2,084,763**	**2,436,592**	**31%**
Off-balance sheet	810,396	51,075	15,079	66,154	8%
Total credit risk exposure	**8,558,558**	**402,904**	**2,099,842**	**2,502,746**	**29%**

Breakdown of collateralized exposure by collateral type					December 31, 2015
	Total exposure, net	Fair value of financial collaterals	Fair value of physical collaterals	Total collaterals obtained	Collaterals to total net exposure
Balance sheet					
Demand deposits with central banks	488,048	-	-	-	-
Financial assets designated at fair value through profit or loss	7,578	-	-	-	-
Financial investments	1,022,454	-	-	-	-
Loans and receivables - banks	451,487	60,174	-	60,174	13%
Loans and receivables - customers	5,697,382	483,636	2,271,096	2,754,732	48%
Derivative financial instruments	450,758	153,346	-	153,346	34%
Total balance sheet	**8,117,707**	**697,156**	**2,271,096**	**2,968,252**	**37%**
Off-balance sheet	709,020	22,090	14,743	36,833	5%
Total credit risk exposure	**8,826,727**	**719,246**	**2,285,839**	**3,005,085**	**34%**

Collaterals for derivative financial instruments consist mostly of the margins called by the Bank for its OTC derivative assets.

37.e. Credit quality of financial assets

The following table presents the credit quality of the Bank's financial assets, as of December 31, 2016 and 2015. In assessing the credit quality of its financial assets, the Bank obtains ratings from eligible credit assessment institutions, namely Fitch, Standard & Poor's (S&P) and Moody's. In order to compare assets, the ratings below were mapped to Fitch's rating scale.

							December 31, 2016
	External rating class						
	AAA / AA-	A+ / A-	BBB+ / BBB-	BB+ / B-	Below B-	No rating	Total
Demand deposits with central banks	726,817	263	124,191	10,899	897	114,992	978,059
Financial assets designated at fair value through profit or loss	1,631	-	-	-	-	1,081	2,712
Financial investments	41,847	108,249	341,112	231,456	9,104	9,241	741,009
Loans and receivables - banks	38,728	180,919	37,211	22,075	1	28,657	307,591
Loans and receivables - customers	397,964	-	-	42,743	6,799	4,926,892	5,374,398
Derivative financial instruments	3,366	137,492	22,152	1,300	-	180,083	344,393
Off-balance sheet	-	6,366	5,604	30,842	7,442	760,142	810,396
Total	**1,210,353**	**433,289**	**530,270**	**339,315**	**24,243**	**6,021,088**	**8,558,558**

							December 31, 2015
	External rating class						
	AAA / AA-	A+ / A-	BBB+ / BBB-	BB+ / B-	Below B-	No rating	Total
Demand deposits with central banks	369,368	176	101,647	15,353	1,504	-	488,048
Financial assets designated at fair value through profit or loss	-	-	472	4,312	-	2,794	7,578
Financial investments	31,945	73,827	280,920	319,340	8,052	308,370	1,022,454
Loans and receivables - banks	92,540	123,443	75,050	66,675	100	93,679	451,487
Loans and receivables - customers	495,451	-	-	107,950	6,564	5,087,417	5,697,382
Derivative financial instruments	67,272	200,718	2,272	2,380	-	178,116	450,758
Off-balance sheet	1,573	1,932	30,597	10,797	8,758	655,363	709,020
Total	**1,058,149**	**400,096**	**490,958**	**526,807**	**24,978**	**6,325,739**	**8,826,727**

The assets in the tables above are allocated through the rating bucket following the principles imposed by the Basel II accord. Where multiple credit assessments are available, a 'second worst' is taken into account.

The total amount of impaired assets included in the tables above is EUR 378,386 (2015: EUR 352,949). The total amount of provisions allocated for these assets is EUR 125,203 (2015: EUR 148,388), while EUR 925 is allocated for loans to banks.

Loans and receivables - customers

The next section provides a detailed overview of the credit quality of the Bank's loans and advances portfolio. CEB's current Loan Assessment and Impairment Policy is aligned with the industry practices and regulatory requirements. Our loan classification approach is based on the respective recovery capabilities and debtors' creditworthiness levels, providing the management and the external stakeholders a detailed and a transparent overview of the portfolio's credit quality. At the beginning of 2015 the Bank revised its Loan Assessment and Impairment Policy according to the EBA's technical standards on non-performing and forbearance exposures. The major change in the policy is the replacement of "Watch-list" definition with the term "Sub-standard", which is a more objective and extensive monitoring group.

CEB differentiates between the following categories of assets in the loan portfolio:

- "Performing loans" cover corporate, retail, SME loans on which payments are made according to the contractual terms, repayment problems are not expected in the future and which are totally recoverable (collectable).
- "Sub-standard" term has different implications for corporate and retail & SME clients. From corporate banking perspective it includes performing forborne loans and loans of customers who are rated between 9 and 11 according to the internal rating master scale. For retail & SME customers the term means loans with a delay in contractual payment of no more than 90 days.
- Non-Performing Loans (NPL) includes loans and receivables with limited (doubtful) recovery prospects. These clients:
  - have limited means for total recovery because their repayment capacity is inadequate to cover payments on respective terms; they are likely to lead to losses if these problems are not solved; or,
  - are in a situation where full or partial recovery prospects are fully dependent on the outcome of the liquidation of the underlying assets or recourse to the guarantor; or,
  - have suffered significant credit quality deterioration; or,
  - have delayed the capital and/or interest payments for more than 90 days as of the day of their payment date.

To be able to monitor delinquent corporate loans in a more structured way the Bank developed NPL & forbearance screens on solo level and strive to spread the system across subsidiaries.

Impairment allowances

The Bank aims to maintain sufficient reserves to cover its incurred losses. According to its policy, the Bank differentiates between:

- Provisions for individually assessed assets
- Provisions for collectively assessed assets

Individual Assessment

All Sub-standard and NPL customers are analysed individually, regardless of size. Performing loans are subject to individual assessment only if they are deemed 'significant'. The 'significance criterion' is established at global level, and amounts to EUR 1 million. In terms of individual assessment, the trigger point for impairment is formal classification of an account as exhibiting serious financial problems and where any further deterioration is likely to lead to failure. Two key inputs to the cash flow calculation are the valuation of all security and collateral and the timing of all asset realizations.

Collective Assessment

The Bank identifies loans to be evaluated for impairment on an individual basis and segments the remainder of the portfolio into groups of loans with similar credit characteristics. CEB classifies its corporate portfolio either on an obligor or a transactional rating scale, where corresponding probability of default "PD" or expected loss "EL" figures are readily available.

The Bank calculates collective impairment allowances for retail portfolios using the dynamic statistical model, based on analysis of the portfolio's default and recovery rates according to historical data. The same approach is implemented across the Bank's entities, with adjustment for specific local conditions. The methodology remained unchanged in 2016.

37.f. Credit quality of loans and advances to customers

The following tables provide a breakdown of the Bank's loans and advances to customers per credit-quality group, defined above. It also shows the allocation of provisions and collaterals obtained per group.

December 31, 2016	Gross loans	Provisions for individually assessed assets (-)	Provisions for collectively assessed assets (-)	Net loans	Financial collateral	Physical collateral	Total collateral	Collateral to net loans
Corporate loans	**3,950,733**	**(22,563)**	**(30,296)**	**3,897,874**	**291,057**	**1,568,422**	**1,859,479**	**48%**
Performing loans	3,634,516	-	(27,104)	3,607,412	287,163	1,347,056	1,634,219	45%
Sub-Standard Loans	157,022	-	(3,174)	153,848	3,714	127,449	131,163	85%
NPL	159,195	(22,563)	(18)	136,614	180	93,917	94,097	69%
Retail loans (incl. mortgages)	**1,324,166**	**-**	**(121,934)**	**1,202,232**	**17,129**	**431,217**	**448,346**	**37%**
Performing loans	1,069,169	-	(20,230)	1,048,939	9,589	334,038	343,627	33%
Sub-Standard Loans	60,136	-	(6,827)	53,309	-	30,238	30,238	57%
NPL	194,861	-	(94,877)	99,984	7,540	66,941	74,481	74%
SME loans	**99,499**	**(751)**	**(10,850)**	**87,898**	**1,991**	**85,124**	**87,115**	**99%**
Performing loans	72,945	-	(3,809)	69,136	1,991	64,878	66,869	97%
Sub-Standard Loans	2,224	-	(47)	2,177	-	2,173	2,173	100%
NPL	24,330	(751)	(6,994)	16,585	-	18,073	18,073	109%
Total exposure	**5,374,398**	**(23,314)**	**(163,080)**	**5,188,004**	**310,177**	**2,084,763**	**2,394,940**	**46%**
Total NPL	**378,386**	**(23,314)**	**(101,889)**	**253,183**	**7,720**	**178,931**	**186,651**	**74%**

December 31, 2015	Gross loans	Provisions for individually assessed assets (-)	Provisions for collectively assessed assets (-)	Net loans	Financial collateral	Physical collateral	Total collateral	Collateral to net loans
Corporate loans	**4,137,267**	**(20,968)**	**(18,794)**	**4,097,505**	**449,457**	**1,673,583**	**2,123,040**	**52%**
Performing loans	3,765,467	-	(17,198)	3,748,269	449,281	1,423,473	1,872,754	50%
Sub-Standard Loans	239,646	-	(1,568)	238,078	176	166,130	166,306	70%
NPL	132,154	(20,968)	(28)	111,158	-	83,980	83,980	76%
Retail loans (incl. mortgages)	**1,466,705**	**-**	**(145,465)**	**1,321,240**	**30,524**	**517,729**	**548,253**	**41%**
Performing loans	1,155,933	-	(18,800)	1,137,133	17,053	394,383	411,436	36%
Sub-Standard Loans	110,482	-	(7,990)	102,492	5,338	51,242	56,580	55%
NPL	200,290	-	(118,675)	81,615	8,133	72,104	80,237	98%
SME loans	**93,410**	**(966)**	**(10,447)**	**81,997**	**3,655**	**79,784**	**83,439**	**102%**
Performing loans	68,396	-	(2,140)	66,256	3,655	62,665	66,320	100%
Sub-Standard Loans	4,509	-	(556)	3,953	-	4,353	4,353	110%
NPL	20,505	(966)	(7,751)	11,788	-	12,766	12,766	108%
Total exposure	**5,697,382**	**(21,934)**	**(174,706)**	**5,500,742**	**483,636**	**2,271,096**	**2,754,732**	**50%**
Total NPL	**352,949**	**(21,934)**	**(126,454)**	**204,561**	**8,133**	**168,850**	**176,983**	**87%**

Further credit quality breakdown of retail loans are as below:

					December 31, 2016
	Gross loans	Provisions (-)	Net loans	Total collateral	Collateral to net loans
Credit cards	**364,897**	**(18,394)**	**346,503**	**-**	**-**
Performing loans	348,800	(5,811)	342,989	-	-
Sub-Standard Loans	-	-	-	-	-
NPL	16,097	(12,583)	3,514	-	-
Car loans	**201,898**	**(18,017)**	**183,881**	**201,755**	**110%**
Performing loans	177,393	(3,317)	174,076	177,393	102%
Sub-Standard Loans	4,290	(2,028)	2,262	4,290	190%
NPL	20,215	(12,672)	7,543	20,072	266%
Mortgage	**426,779**	**(54,445)**	**372,334**	**229,124**	**62%**
Performing loans	249,250	(5,791)	243,459	156,375	64%
Sub-Standard Loans	46,227	(1,555)	44,672	25,948	58%
NPL	131,302	(47,099)	84,203	46,801	56%
Other retail	**330,592**	**(31,078)**	**299,514**	**17,467**	**6%**
Performing loans	293,726	(5,467)	288,259	9,859	3%
Sub-Standard Loans	9,619	(3,088)	6,531	-	-
NPL	27,247	(22,523)	4,724	7,608	161%
Total retail exposure	**1,324,166**	**(121,934)**	**1,202,232**	**448,346**	**37%**
Total NPL	**194,861**	**(94,877)**	**99,984**	**74,481**	**74%**

					December 31, 2015
	Gross loans	Provisions (-)	Net loans	Total collateral	Collateral to net loans
Credit cards	**317,510**	**(25,343)**	**292,167**	**-**	**-**
Performing loans	293,336	(6,040)	287,296	-	-
Sub-Standard Loans	-	-	-	-	-
NPL	24,174	(19,303)	4,871	-	-
Car loans	**244,611**	**(24,335)**	**220,276**	**244,468**	**111%**
Performing loans	208,297	(3,107)	205,190	208,300	102%
Sub-Standard Loans	4,115	(1,626)	2,489	4,114	165%
NPL	32,199	(19,602)	12,597	32,054	254%
Mortgage	**472,465**	**(55,695)**	**416,770**	**272,870**	**65%**
Performing loans	281,352	(4,540)	276,812	186,050	67%
Sub-Standard Loans	89,615	(3,227)	86,388	47,126	55%
NPL	101,498	(47,928)	53,570	39,694	74%
Other retail	**432,119**	**(40,092)**	**392,027**	**30,915**	**8%**
Performing loans	372,948	(5,113)	367,835	17,087	5%
Sub-Standard Loans	16,752	(3,137)	13,615	5,339	39%
NPL	42,419	(31,842)	10,577	8,489	80%
Total retail exposure	**1,466,705**	**(145,465)**	**1,321,240**	**548,253**	**41%**
Total NPL	**200,290**	**(118,675)**	**81,615**	**80,237**	**98%**

Strong collateralization forms a major component of CEB's risk appetite lending criteria and we believe this substantially mitigates the losses CEB might incur otherwise. The table above shows the collaterals held by the Bank against credit exposures. These valuations are renewed at least annually and conducted mostly by third party appraisers. In certain cases, particularly residential mortgage loans, CEB could employ internal appraisers but ensure that all internal valuations are benchmarked against market prices.

The total amount of NPL as of December 31, 2016 is EUR 378,386 (2015: EUR 352,949). The total NPL ratio as of December 31, 2016, is 7.04% (2015: 6.19%). The Bank ensures that it allocates sufficient reserves to maintain a high level of provisioning coverage for its non-performing loans (NPL) after taking into account the fair value of collaterals obtained. Thus the total coverage for Bank's NPL as of December 31, 2016 is 99% (2015: 106%).
The evolution of the net NPL ratio after deduction of the provisions can be seen in the below table.

	December 31, 2016	December 31, 2015
Loans to Customers (Gross)	5,374,398	5,697,382
NPLs (Gross)	378,386	352,949
Provisions	(186,394)	(196,640)
NPLs (Net)	**191,992**	**156,309**
Net NPL ratio	**3.7%**	**2.8%**

In case CEB considers a loan as uncollectible partially or in full, the associated principal and interest are written-off. Once the exposure is derecognized, both the gross carrying amount of the loan and the corresponding impairment for credit losses are reduced accordingly. In this respect, the exposure amounts disclosed above are gross of any impairment, but net of write-offs.
As of December 31, 2016, the performing forbearance measure of the total loan portfolio is EUR 214,424 (December 31, 2015: 301,777).

37.g. Aging of loans and advances to customers

The tables below present the Bank's portfolio of loans and advances to customers, broken down by delinquency bucket:

						December 31, 2016
Gross exposure	Loans that are not past due	Loans less than 30 days past due	Loans 30 or more but less than 60 days past due	Loans 60 or more but less than 90 days past due	Loans 90 days or more past due	Total loans to customers
Corporate loans	3,795,035	14,466	3,957	24,509	112,766	3,950,733
Retail loans and residential mortgage loans	997,949	73,321	29,090	29,492	194,314	1,324,166
SME loans	66,786	5,147	2,336	901	24,329	99,499
Total loans and advances to customers	**4,859,770**	**92,934**	**35,383**	**54,902**	**331,409**	**5,374,398**

						December 31, 2015
Gross exposure	Loans that are not past due	Loans less than 30 days past due	Loans 30 or more but less than 60 days past due	Loans 60 or more but less than 90 days past due	Loans 90 days or more past due	Total loans to customers
Corporate loans	3,946,120	53,600	4,012	10,588	122,948	4,137,268
Retail loans and residential mortgage loans	1,097,759	98,471	46,288	24,208	199,979	1,466,705
SME loans	66,384	3,688	1,857	975	20,505	93,409
Total loans and advances to customers	**5,110,263**	**155,759**	**52,157**	**35,771**	**343,432**	**5,697,382**

37.h. Geographical concentration of loans advanced to customers, broken down by counterparty type

The following tables breaks down customers' loans and receivables by risk country:

							December 31, 2016
Gross exposure	**Russia**	**Romania**	**Turkey**	**Ukraine**	**Other emerging markets**	**Developed markets**	**Total exposure**
Corporate loans	**776,896**	**336,468**	**1,112,904**	**50,777**	**151,384**	**1,522,304**	**3,950,733**
Performing loans	710,838	269,401	1,073,279	11,632	136,017	1,433,349	3,634,516
Sub-Standard Loans	20,531	20,929	4,991	31,066	-	79,505	157,022
NPL	45,527	46,138	34,634	8,079	15,367	9,450	159,195
Retail loans (incl. mortgages)	**740,649**	**490,687**	**-**	**2,053**	**-**	**90,777**	**1,324,166**
Performing loans	678,990	304,470	-	712	-	84,997	1,069,169
Sub-Standard Loans	10,397	45,931	-	3	-	3,805	60,136
NPL	51,262	140,286	-	1,338	-	1,975	194,861
SME loans	**59,671**	**39,828**	**-**	**-**	**-**	**-**	**99,499**
Performing loans	46,850	26,095	-	-	-	-	72,945
Sub-Standard Loans	-	2,224	-	-	-	-	2,224
NPL	12,821	11,509	-	-	-	-	24,330
Total exposure	**1,577,216**	**866,983**	**1,112,904**	**52,830**	**151,384**	**1,613,081**	**5,374,398**

							December 31, 2015
Gross exposure	**Russia**	**Romania**	**Turkey**	**Ukraine**	**Other emerging markets**	**Developed markets**	**Total exposure**
Corporate loans	**755,745**	**346,470**	**1,329,594**	**55,874**	**106,206**	**1,543,379**	**4,137,268**
Performing loans	681,569	242,238	1,276,074	32,772	106,206	1,426,609	3,765,468
Sub-Standard Loans	30,453	63,623	16,793	13,969	-	114,808	239,646
NPL	43,723	40,609	36,727	9,133	-	1,962	132,154
Retail loans (incl. mortgages)	**761,685**	**541,152**	**-**	**2,268**	**-**	**161,600**	**1,466,705**
Performing loans	668,585	337,190	-	778	-	149,380	1,155,933
Sub-Standard Loans	9,110	92,987	-	252	-	8,133	110,482
NPL	83,990	110,975	-	1,238	-	4,087	200,290
SME loans	**42,827**	**50,582**	**-**	**-**	**-**	**-**	**93,409**
Performing loans	37,369	31,026	-	-	-	-	68,395
Sub-Standard Loans	418	4,091	-	-	-	-	4,509
NPL	5,040	15,465	-	-	-	-	20,505
Total exposure	**1,560,257**	**938,204**	**1,329,594**	**58,142**	**106,206**	**1,704,979**	**5,697,382**

37.i. Liquidity risk

The Bank defines liquidity risk as the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they come due. CEB considers funding and liquidity as a major source of risk. CEB's minor and very limited tolerance towards liquidity risk is explicitly reflected its stress-testing and funding plan framework.

Stress-Test Scenarios
The Bank uses stress testing to verify that its liquidity buffer is adequate to withstand severe but plausible funding conditions. The outcome the stress testing shows the Bank the level of required liquidity across different time horizons. In this respect, the design and frequency of the stress test scenarios reveal the Bank's risk appetite and preparedness to withstand a liquidity crisis. The main components of the required liquidity are as follows:

• The duration of the stress-tests.
• Run-off rates on retail and wholesale funding.
• Erosion in the value of liquid assets.
• The liquidity-related consequences of market risks.
• Additional margin calls / collaterals required.
• Restrictions in respect of the availability of assets.

The Bank maintains a buffer of 'readily available liquid assets' to prevent mismatches between the inflow and outflow of the Bank as a consequence of both foreseen and unforeseen circumstances. The definition of this liquidity cushion and the principles regarding its size and composition are directly linked to CEB's 'minor risk appetite':

• The list of eligible liquid assets.
• Liquidity value of liquid assets (i.e. haircuts) and the time-to-liquidity period.
• The treatment of non-marketable assets.
• The assumptions made in respect of the possibilities for rolling over the various funding lines such as wholesale and retail funding.
• The assumptions made in respect of the possibilities for rolling over the maturing assets.
• The use of secured / unsecured central bank facilities.

The Bank ensures that its available liquidity is larger than the required amount implied by its stress scenarios at all times.

Funding Plan & Strategy
The Bank's key funding principles also form an essential part of its liquidity risk appetite:

(1) Alignment with the asset profile and asset strategy
(2) Alignment with the liquidity risk appetite
(3) Minimizing any funding deficit risk by ensuring granular and stable funding
(4) Support the Bank's overall objective of achieving an investment grade rating
(5) Satisfy any minimum requirements from regulatory authorities
(6) Management of asset encumbrance

Based on remaining maturity							December 31, 2016
	Up to 1 month	1–3 months	3–12 months	1-5 Year	Over 5 years	Maturity not applicable	Total
Assets							
Cash and balances at central banks	1,041,371	-	-	-	-	-	1,041,371
Financial assets designated at FVPL	1,630	-	-	-	-	1,082	2,712
Financial investments	39,329	20,952	82,600	281,071	315,073	1,984	741,009
Loans and receivables – banks	294,141	10,179	2,346	-	-	-	306,666
Loans and receivables – customers	727,207	546,926	821,577	1,912,460	926,651	253,183	5,188,004
Tangible and intangible assets	-	-	-	-	-	265,347	265,347
Other assets	86,171	43,305	194,974	122,457	-	122,389	569,296
Total assets	**2,189,849**	**621,362**	**1,101,497**	**2,315,988**	**1,241,724**	**643,985**	**8,114,405**
Liabilities							
Due to banks	151,897	25,302	92,590	178,528	-	-	448,317
Due to customers	1,368,509	456,573	1,447,042	1,555,848	703,559	-	5,531,531
Issued debt securities	9,217	48,480	205,121	159	-	-	262,977
Other liabilities	106,227	47,748	173,532	117,289	473	31,227	476,496
Subordinated liabilities	-	-	-	92,798	438,528	-	531,326
Total liabilities	**1,635,850**	**578,103**	**1,918,285**	**1,944,622**	**1,142,560**	**31,227**	**7,250,647**
Cumulative liquidity gap	**553,999**	**597,258**	**(219,530)**	**151,836**	**251,000**	**863,758**	**863,758**

Based on remaining maturity							December 31, 2015
	Up to 1 month	1–3 months	3–12 months	1-5 Year	Over 5 years	Maturity not applicable	Total
Assets							
Cash and balances at central banks	532,139	-	-	-	-	-	532,139
Financial assets designated at FVPL	961	-	-	472	4,313	1,832	7,578
Financial investments	6,119	61,183	278,473	264,963	382,309	29,407	1,022,454
Loans and receivables – banks	406,109	17,385	17,059	10,009	-	-	450,562
Loans and receivables – customers	1,119,233	427,140	683,217	2,113,666	952,925	204,561	5,500,742
Tangible and intangible assets	-	-	-	-	-	214,138	214,138
Other assets	67,853	84,287	220,662	120,111	27,305	113,147	633,365
Total assets	**2,132,414**	**589,995**	**1,199,411**	**2,509,221**	**1,366,852**	**563,085**	**8,360,978**
Liabilities							
Due to banks	186,210	157,716	99,891	25,237	-	-	469,054
Due to customers	1,397,857	308,181	1,090,829	1,828,945	841,209	-	5,467,021
Issued debt securities	805	77,110	228,065	134,560	-	-	440,540
Other liabilities	102,323	78,933	207,478	98,596	27,892	32,517	547,739
Subordinated liabilities	-	-	-	137,406	424,341	-	561,747
Total liabilities	**1,687,195**	**621,940**	**1,626,263**	**2,224,744**	**1,293,442**	**32,517**	**7,486,101**
Cumulative liquidity gap	**445,219**	**413,274**	**(13,578)**	**270,899**	**344,309**	**874,877**	**874,877**

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

Current accounts and demand deposits from customers are distributed in accordance with the average monthly withdrawal behaviour of customers over the last 7 years on the basis of management`s belief that despite of these funds from customers being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group, indicates that these deposits provide a stable source of funding.

As at December 31, 2016 and 2015, the contractual maturities of customer deposits are as follows:

	December 31, 2016	December 31, 2015
Up to 1 month	2,611,600	2,934,749
1-3 months	404,541	320,095
3-12 months	1,307,770	896,098
1-5 years	1,028,512	1,136,064
Over 5 year	179,108	180,015
Total	**5,531,531**	**5,467,021**

37.j. Market risks

Market risk is defined as the current or prospective threat to the Bank's earnings and capital as a result of adverse market movements in market prices (security and derivative prices, as well as interest rates and foreign exchange rates) or in parameters such as volatility and correlations. The trading portfolio includes financial instruments, such as securities, derivatives and loans to financial institutions, which are exposed to short-term price/interest-rate fluctuations. Eligible positions should be in line with the guidelines and principles set out in the market-risk policy. No eligible positions and financial instruments approved by ALCO are monitored within the scope of the banking book. In line with its business plan, the Bank has a 'minor' risk appetite in market risk. The Bank aims to regularly measure and monitor its market risk associated with adverse market movements affecting the trading components of its Treasury and FI portfolio. It measures its market risk using different approaches - standard and internal models.
Bank risk tolerance in the form of limits is determined to manage market risk efficiently and keep it within these limits. Risk limits, such as the Value-at-Risk (VaR) limit, notional limits and sensitivity limits, are set by considering the primary risk factors. In case of a limit breach, ALCO is convened to determine strategy and take necessary actions to restore the outstanding exposure within limits in a certain period of time.
The Bank measures the market risk of its trading book and the foreign-exchange risk of its banking book by using an internal historical simulation method, based on VaR methodology. VaR defines the maximum loss not exceeded with a given probability over a given period of time under normal market conditions. However, this approach fails to capture exceptional losses under extreme market conditions; that is why market risk measurement is complemented by periodic stress-testing analysis.
The internal historical simulation method of VaR model is used for risk-monitoring purposes and whereas regulatory capital for market risk is calculated and reported quarterly according to the Standard Approach, as specified in the DNB's market-risk regulations.
The internal historical simulation method is used starting from January 2013. The last 250 historical daily returns of market risk factors are used to stress the current trading positions to estimate possible fluctuations caused by market movements while keeping the portfolio fixed.
The internal limit for the 10-day trading portfolio, with VaR at 99% - confidence interval, is EUR 8 million (2015: EUR 8 million). This implies that diversified VaR from foreign-exchange risk and interest-rate risk in the trading book should not exceed this level.

Other market risks, such as liquidity, re-pricing and interest-rate risk, on the banking book are measured and monitored through sensitivity and gap analyses, detailed in subsequent sections.

Value-at-risk figures - Trading Book (2016)	Total	Diversification effect	Interest-rate risk	Foreign-exchange risk
Average	**461**	**89%**	**353**	**144**
Maximum	1,831	100%	1,829	792
Minimum	12	35%	-	6
Period-end	211	94%	207	17

Value-at-risk figures - Trading Book (2015)	Total	Diversification effect	Interest-rate risk	Foreign-exchange risk
Average	**293**	**88%**	**264**	**62**
Maximum	601	103%	602	233
Minimum	14	21%	-	8
Period-end	202	98%	192	15

37.k. Interest-rate risk in the banking book

One of the Bank's major risks under Pillar II is the interest-rate risk on the banking book. The Bank defines interest-rate risk as the current or prospective risk to earnings and capital arising from adverse movements in interest rates. The trading book is also subject to interest-rate risk, but this type of risk is dealt with under the Market Risk: Value-at-Risk section. The Bank has a 'minor' risk tolerance towards interest-rate risk in its banking book.
The Bank's interest-rate risk is monitored for the banking book by means of static re-pricing gap and interest rate sensitivity analyses once a month at all levels and for each major currency in use. Interest-rate sensitivity in the banking book is calculated according to the economic-value approach. All future cash flows, arising solely from on- and off- balance sheet assets and liabilities are discounted back to their present values with zero-coupon yield curves to see the impact of interest-rate changes on the economic value of the Bank. The impact of the curve with the maximum net gain or loss compared to a benchmark curve is analyzed.

Interest-rate sensitivity in the banking book is measured by means of PV01 method. The PV01 method is based on flat upward shifts of each currency's yield curve in magnitudes of one basis point. The economic value impact of these shifts on the banking book is then analyzed. PV01 analysis is complemented with 200 basis-points (bps) scenarios, which consist of the parallel shifts of the yield curves by shifting short-term rates and long-term rates for each individual currency. The interest rate risk on the banking book, excluding the trading book has been calculated as EUR 38.7 million for 2016 with 200 basis point upward parallel rate shock (2015: EUR 67.7 million).
The impact of the curve with the maximal net gain or loss compared to a benchmark curve is then analyzed.
Determination of economic internal capital to be set aside to cover potential interest-rate risk in the banking book is based on a Historical Simulation method. Historical economic values of the current banking book are calculated by discounting the re-pricing gaps in each of the major currencies with historical month-end zero-coupon swap curves in pre-defined maturity buckets. Once historical economic values are obtained, an economic value change distribution is created using a rolling window of one year.

The interest rate repricing gap table below is prepared to determine the Bank's exposure to interest rate risk as a result of maturity mismatches in its balance sheet. Repricing is based on remaining days to maturity for fixed rate instruments and next repricing date for floating rate instruments.

							December 31, 2016
	Up to 1 month	1–3 months	3–12 months	1-5 Year	Over 5 years	Non-interest-bearing items(*)	Total
Assets							
Cash and balances at central banks	923,629	-	-	-	-	117,742	1,041,371
Financial assets designated at FVPL	-	-	-	-	-	2,712	2,712
Financial investments	114,463	46,204	90,760	207,021	271,567	10,994	741,009
Loans and receivables - banks	167,804	19,630	2,271	-	-	116,961	306,666
Loans and receivables - customers	1,438,955	1,018,539	1,149,021	1,149,029	175,809	256,651	5,188,004
Tangible and intangible assets	-	-	-	-	-	265,347	265,347
Other assets	-	-	-	-	-	569,296	569,296
Total assets	**2,644,851**	**1,084,373**	**1,242,052**	**1,356,050**	**447,376**	**1,339,703**	**8,114,405**
Liabilities							
Due to banks	119,995	68,102	88,906	169,451	-	1,863	448,317
Due to customers	2,195,111	373,186	1,120,349	992,708	174,458	675,719	5,531,531
Issued debt securities	9,218	48,479	205,121	159	-	-	262,977
Other liabilities	-	-	-	-	-	476,496	476,496
Subordinated liabilities	-	47,434	1,132	482,760	-	-	531,326
Total liabilities	**2,324,324**	**537,201**	**1,415,508**	**1,645,078**	**174,458**	**1,154,078**	**7,250,647**
Off-balance interest-sensitivity gap	203,323	107,815	(160,745)	(184,620)	(18,000)	-	(52,227)
Net gap	**523,850**	**654,987**	**(334,201)**	**(473,648)**	**254,918**	**185,625**	**625,906**

(*) Non-interest-bearing items are not taken into account in the net gap.

	Up to 1 month	1–3 months	3–12 months	1-5 Year	Over 5 years	Non-interest-bearing items(*)	Total
							December 31, 2015
Assets							
Cash and balances at central banks	475,910	-	-	-	-	56,229	532,139
Financial assets designated at FVPL	-	-	-	459	4,000	3,119	7,578
Financial investments	21,734	199,369	157,868	281,334	321,241	40,908	1,022,454
Loans and receivables - banks	237,936	7,376	26,227	-	-	179,023	450,562
Loans and receivables - customers	1,689,950	791,370	1,245,135	1,398,910	158,222	217,155	5,500,742
Tangible and intangible assets	-	-	-	-	-	214,138	214,138
Other assets	-	-	-	-	-	633,365	633,365
Total assets	**2,425,530**	**998,115**	**1,429,230**	**1,680,703**	**483,463**	**1,343,937**	**8,360,978**
Liabilities							
Due to banks	162,519	204,692	94,306	5,001	-	2,536	469,054
Due to customers	2,284,450	374,993	847,779	1,203,633	176,426	579,740	5,467,021
Issued debt securities	805	77,110	228,065	134,560	-	-	440,540
Other liabilities	-	-	-	-	-	547,739	547,739
Subordinated liabilities	-	-	-	561,747	-	-	561,747
Total liabilities	**2,447,774**	**656,795**	**1,170,150**	**1,904,941**	**176,426**	**1,130,015**	**7,486,101**
Off-balance interest-sensitivity gap	32,295	118,696	(137,402)	(38,369)	(15,979)	-	(40,759)
Net gap	**10,051**	**460,016**	**121,678**	**(262,607)**	**291,058**	**213,922**	**620,196**

(*) Non-interest-bearing items are not taken into account in the net gap.

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37.l. Currency risk

The Bank has limits and controls on its open currency positions determined by the Bank's internal risk appetite statement as well as any regulatory restrictions. CEB uses derivative contracts, such as forward transactions or options, to hedge its on-balance sheet currency positions. The credit risk arising from these instruments is managed together with the risks resulting from market fluctuations. The Bank monitors the risks of forward transactions, options and other similar agreements, reviews open positions with the ALCO and takes appropriate action where deemed necessary.

The Bank also differentiates between its trading and structural currency positions. The result of structural currency positions –which arises due to CEB's net investments in foreign subsidiaries and branches, together with any related net investment hedges (see note 10), is recognized in equity.

Trading-related currency positions are quantified with VaR methodology and reported daily for the Bank level and monthly on a consolidated level. The VaR limits and other market risks related issues are monitored by the Risk Management Department and discussed in ALCO meetings on a regular basis.

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Currency analysis for the year ended December 31, 2016:

	EUR(*)	USD	CHF	RON	RUB	UAH	TRY	Others	Total
Cash and balances with central banks	794,659	7,693	56,258	127,812	53,789	914	-	246	1,041,371
Financial assets designated at FVPL	-	1,630	-	1,082	-	-	-	-	2,712
Financial investments	392,467	133,924	10,225	186,217	9,072	9,104	-	-	741,009
Loans and receivables – banks	142,562	128,227	1,358	499	28,043	-	949	5,028	306,666
Loans and receivables – customers	2,210,993	1,566,629	149,449	201,984	841,061	13,428	201,370	3,090	5,188,004
Derivative financial instruments	269,162	49,271	1,289	14	490	-	12,562	11,605	344,393
Equity-accounted investments	5,803	-	-	-	-	-	-	-	5,803
Property and equipment	53,506	149,489	628	15,669	32,984	57	-	-	252,333
Goodwill and other intangible assets	3,196	2,625	-	1,469	5,717	4	3	-	13,014
Other assets	69,764	13,830	460	66,993	65,232	1,727	639	455	219,100
Total assets	**3,942,112**	**2,053,318**	**219,667**	**601,739**	**1,036,388**	**25,234**	**215,523**	**20,424**	**8,114,405**
Due to banks	276,517	105,944	127	37,640	10,168	-	245	17,676	448,317
Due to customers	3,704,843	667,331	5,422	455,845	640,269	9,337	30,666	17,818	5,531,531
Derivative financial instruments	284,788	53,065	1,327	1,512	2,653	36	19,729	11,596	374,706
Issued debt securities	-	9,058	-	-	253,919	-	-	-	262,977
Other liabilities	31,592	8,520	32,145	8,592	19,214	1,344	376	7	101,790
Subordinated liabilities	-	531,326	-	-	-	-	-	-	531,326
Total liabilities	**4,297,740**	**1,375,244**	**39,021**	**503,589**	**926,223**	**10,717**	**51,016**	**47,097**	**7,250,647**
Net on-balance sheet position	-	**678,074**	**180,646**	**98,150**	**110,165**	**14,517**	**164,507**	**(26,673)**	**1,219,386**
Off-balance sheet net position	-	**(693,938)**	**(182,480)**	**(107,132)**	**(7,177)**	**(13,008)**	**(159,380)**	**27,588**	**(1,135,527)**
Net open position	-	**(15,864)**	**(1,834)**	**(8,982)**	**102,988**	**1,509**	**5,127**	**915**	**83,859**

(*) Euros are not included in the total net position, since it is the Bank's functional currency.

Currency analysis for the year ended December 31, 2015:

	EUR(*)	USD	CHF	RON	RUB	UAH	TRY	Others	Total
Cash and balances with central banks	402,028	4,047	9,508	72,579	41,985	1,625	11	356	532,139
Financial assets designated at FVPL	4,312	1,894	-	1,372	-	-	-	-	7,578
Financial investments	403,948	354,422	10,318	151,457	94,257	8,052	-	-	1,022,454
Loans and receivables – banks	228,131	152,604	1,437	6,781	54,818	-	2,067	4,724	450,562
Loans and receivables – customers	2,100,865	1,963,672	168,925	194,723	758,395	3,967	301,238	8,957	5,500,742
Derivative financial instruments	410,919	18,319	831	4	87	-	7,927	12,671	450,758
Equity-accounted investments	5,049	-	-	-	-	-	-	-	5,049
Property and equipment	55,603	89,330	1,047	16,738	31,075	338	-	-	194,131
Goodwill and other intangible assets	12,398	2,545	-	1,160	3,892	7	5	-	20,007
Other assets	26,537	12,826	668	78,202	56,325	2,757	76	167	177,558
Total assets	**3,649,790**	**2,599,659**	**192,734**	**523,016**	**1,040,834**	**16,746**	**311,324**	**26,875**	**8,360,978**
Due to banks	189,847	141,986	250	457	129,237	-	319	6,958	469,054
Due to customers	4,018,538	823,189	4,636	370,853	221,294	7,256	7,390	13,865	5,467,021
Derivative financial instruments	407,099	19,587	875	818	2,826	74	9,252	12,782	453,313
Issued debt securities	-	145	-	-	440,395	-	-	-	440,540
Other liabilities	25,584	7,717	30,133	11,068	17,047	2,773	78	26	94,426
Subordinated liabilities	-	561,747	-	-	-	-	-	-	561,747
Total liabilities	**4,641,068**	**1,554,371**	**35,894**	**383,196**	**810,799**	**10,103**	**17,039**	**33,631**	**7,486,101**
Net on-balance sheet position	-	**1,045,288**	**156,840**	**139,820**	**230,035**	**6,643**	**294,285**	**(6,756)**	**1,866,155**
Off-balance sheet net position	-	**(1,041,254)**	**(160,604)**	**(173,688)**	**(192,475)**	**(132)**	**(295,070)**	**9,514**	**(1,853,709)**
Net open position	-	**4,034**	**(3,764)**	**(33,868)**	**37,560**	**6,511**	**(785)**	**2,758**	**12,446**

(*) Euros are not included in the total net position, since it is the Bank's functional currency.

37.m Operational risk

The Bank has an Operational Risk Management (ORM) function, the goal of which is to enhance the operational risk culture of the Bank by promoting awareness of the Bank's operational risk management framework and providing oversight of the execution of its numerous components.
ORM act as the second line of defense, providing the business line, and other functions across the Bank, with support related to the implementation of the identification, assessment, measurement, mitigation, monitoring and reporting of operational risks, which together form a framework for managing the Bank's exposure to operational risk losses.
Operational risk events and significant control incidents are reported and analysed through the Operational Risk Incident Management framework. The effectiveness of the Bank's controls are assessed through the annual Internal Control Framework evaluations and the execution of Risk Control Self-Assessments. New products, or changes to existing products, are subject to the Product Approval and Review. Key Risk Indicators are established and regularly monitored.
The Bank also has an established operational risk appetite, broken down by both business- and subsidiary-specific thresholds, which is monitored in the quarterly Non-Financial Risk Committee meetings.

Regular training and awareness sessions are provided to employees to ensure that operational risk management continues to be embedded in the Bank's day-to-day operations.

38. Subseqent events

There has been no significant subsequent event between the balance sheet date and the date of approval of these accounts which would be reported by the Bank.

39. List of subsidiaries

There are no significant restrictions on the ability of subsidiaries to transfer funds to the Parent Company in the form of cash dividends or to repay loans or advances.

Name	Place	Country	Interest	Interest
			December 31, 2016	December 31, 2015
Credit Europe Bank (Dubai) Ltd	Dubai	United Arab Emirates	100.00%	100.00%
Credit Europe Bank (Suisse) SA	Geneva	Switzerland	100.00%	100.00%
Credit Europe Leasing (Ukraine) LLC	Kiev	Ukraine	100.00%	100.00%
Stichting Credit Europe Custodian Services	Amsterdam	The Netherlands	100.00%	100.00%
Hunter Navigation Ltd.	Msida	Malta	100.00%	100.00%
Maritime Enterprises B.V.	Amsterdam	The Netherlands	100.00%	100.00%
Credit Europe Bank (Russia) Ltd	Moscow	Russia	100.00%	100.00%
PJSC Credit Europe Bank (Ukraine)	Kiev	Ukraine	99.99%	99.99%
Credit Europe Leasing (Romania)	Bucharest	Romania	100.00%	99.99%
Credit Europe Bank (Romania) SA	Bucharest	Romania	98.94%	98.93%
Cirus Holding B.V.	Amsterdam	The Netherlands	50.00%	50.00%
Ikano Finance Holding B.V.	Amsterdam	The Netherlands	50.00%	50.00%
Yenikoy Enterprises B.V.	Amsterdam	The Netherlands	100.00%	100.00%
Nomadmed XXI S.L.	Barcelona	Spain	100.00%	100.00%
Mediqueen Maritime Ltd	Msida	Malta	100.00%	100.00%
Medipride Maritime Ltd	Msida	Malta	100.00%	100.00%
Lodestar Maritime Ltd	Msida	Malta	100.00%	100.00%
Medibeauty Maritime Ltd	Msida	Malta	100.00%	100.00%
Lycia Shipping Ltd	Msida	Malta	100.00%	-
Cilicia Shipping Ltd	Msida	Malta	100.00%	-
Phrygia Shipping Ltd	Msida	Malta	100.00%	-
Thrace Shipping Ltd	Msida	Malta	100.00%	-

Amsterdam, March 27, 2017

Parent Company Financial Statements

As of and for the year ended
December 31, 2016

	Notes	December 31, 2016	December 31, 2015
Assets			
Cash and balances with central banks	b	786,226	360,578
Amount due from banks	c	240,939	679,834
Loans and advances to customers	d	3,189,429	3,484,955
Debt securities	e	436,001	433,892
• Trading		-	4,784
• Available-for-sale		436,001	429,108
Derivatives	f	297,054	457,778
Investments in Group companies	g	726,092	687,431
Intangible assets	h	3,196	12,399
Property and equipment	i	49,506	50,804
Other assets	j	40,749	24,070
Total assets		**5,769,192**	**6,191,741**
Liabilities			
Amounts due to banks	k	309,273	230,933
Customer deposits	l	3,766,717	4,215,999
Derivatives	f	333,199	399,487
Other liabilities	m	34,563	29,948
Provision	g	25,021	17,990
Subordinated loans	n	438,527	424,341
Total liabilities		**4,907,300**	**5,318,698**
Equity			
Share capital	o	632,464	632,464
Share premium		163,748	163,748
Legal reserves		(77,273)	(55,884)
• -Fair value reserve		(20,345)	201
• -Affiliated companies		323,581	298,563
• -Currency translation differences		(265,899)	(328,852)
• -Net investment hedge		(118,581)	(31,994)
• -Cash flow hedge		(1,230)	646
• -Tangibles		5,201	5,552
Other reserves		122,855	89,925
Unappropriated result		20,098	42,790
Total equity		**861,892**	**873,043**
Total equity and liabilities		**5,769,192**	**6,191,741**
Commitment and contingencies	q	426,082	386,322

	Notes	December 31, 2016	December 31, 2015
Interest and similar income		254,516	264,542
Interest expense and similar charges		(118,613)	(144,168)
Results on risk management derivatives, not designated in hedge accounting relationship		(77,467)	(39,390)
Net interest income		**58,436**	**80,984**
Fees and commissions income		21,814	23,049
Fees and commissions expense		(5,079)	(5,816)
Net fee and commission income		**16,735**	**17,233**
Net trading income		31,042	713
Results from financial transactions		5,845	51,962
Other operating income		2,503	14,208
Operating income		**39,390**	**66,883**
Net impairment loss on financial assets		(53,881)	(50,759)
Net operating income		**60,680**	**114,341**
Personnel expenses		(28,594)	(29,451)
General and administrative expenses		(12,682)	(12,257)
Depreciation and amortization		(2,558)	(2,304)
Other operating expenses		(974)	(5,946)
Other impairment losses		1,239	(10,232)
Total operating expenses		**(43,569)**	**(60,190)**
Operating profit before tax		**17,111**	**54,151**
Income tax expense		2,812	(11,361)
Profit for the year of the parent company after taxes		**19,923**	**42,790**
Profit for the year participating interests after taxes		**25,193**	**(3,590)**
Profit for the year		**45,116**	**39,200**

	Issued capital	Share premium	Legal reserves	Other reserves	Unappropriated results	Total
At January 1, 2016	**632,464**	**163,748**	**(55,884)**	**89,925**	**42,790**	**873,043**
Change in fair value reserve	-	-	(20,546)	-	-	(20,546)
Change in currency translation reserve	-	-	62,953	-	-	62,953
Change in tangible assets revaluation reserve	-	-	(351)	-	-	(351)
Change in hedging reserve	-	-	(88,463)	-	-	(88,463)
Total income and expense for the year recognized directly in equity	**-**	**-**	**(46,407)**	**-**	**-**	**(46,407)**
Acquisition of the non-controlling interest without change in control	-	-	-	(9,860)	-	(9,860)
Profit for the year	-	-	25,018	-	20,098	45,116
Transfer from retained earnings	-	-	-	42,790	(42,790)	-
At December 31, 2016	**632,464**	**163,748**	**(77,273)**	**122,855**	**20,098**	**861,892**

	Issued capital	Share premium	Legal reserves	Other reserves	Unappropriated results	Total
At January 1, 2015	**429,500**	**266,712**	**(1,885)**	**60,695**	**29,230**	**784,252**
Change in fair value reserve	-	-	12,917	-	-	12,917
Change in currency translation reserve	-	-	(11,552)	-	-	(11,552)
Change in tangible assets revaluation reserve	-	-	(23)	-	-	(23)
Change in hedging reserve	-	-	(42,647)	-	-	(42,647)
Total income and expense for the year recognized directly in equity	**-**	**-**	**(41,305)**	**-**	**-**	**(41,305)**
Increase in share capital	100,000	-	-	-	-	100,000
Transfer from share premium	102,964	(102,964)	-	-	-	-
Equity decrease resulting from business combinations	-	-	(9,104)	-	-	(9,104)
Profit for the year	-	-	(3,590)	-	42,790	39,200
Transfer from retained earnings	-	-	-	29,230	(29,230)	-
At December 31, 2015	**632,464**	**163,748**	**(55,884)**	**89,925**	**42,790**	**873,043**

Basis of preparation

The Parent Company financial statements of Credit Europe Bank N.V. (CEB, the Bank) have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code. Based on article 2:362.8 of the Netherlands Civil Code, the valuation principles applied in the Parent Company financial statements are based on International Financial Reporting Standards (IFRS), as used for the preparation of the Consolidated Financial Statements of the Bank.
The accounting policies that are used in the preparation of these parent financial statements are consistent with the accounting policies used in preparation of the Consolidated Financial Statements of the Bank, as set out in those financial statements.
The additional accounting policies that are specific to the Parent Company Financial Statements of CEB are set out below.
The profit and loss account is drawn up in accordance with article 402 of Book 2 of the Dutch Civil Code.

Investment in subsidiaries

The Group companies are stated at their net asset value, determined on the basis of IFRS, as applied in the Consolidated Financial Statements of the Bank. For details on the accounting policies applied for the Group companies, refer to the notes to the Consolidated Financial Statements as shown earlier in this document.

Dividend income

Dividend income from investments in subsidiaries is recognized when the right to receive payment is established.

Going concern

Having made appropriate enquiries, the Board is satisfied that the Company as a whole have adequate resources to continue operational businesses for the foreseeable future and therefore continued to adopt the going concern basis in preparing the financial statements.

A. Corporate Information

Credit Europe Bank N.V., herein after ‘the Bank’, is domiciled in Amsterdam, the Netherlands. Credit Europe Bank N.V. comprises four branches in the Netherlands, Germany, Belgium and Malta.
The Bank was founded as a specialized trade-finance bank, which aimed to actively participate in the wholesale financing of international trade. In later years, the Bank started retail-banking activities, including savings accounts, mortgage loans and consumer loans.

The Bank’s registered office is Karspeldreef 6A, 1101 CJ Amsterdam, Netherlands and the registration number Chamber of Commerce is 33256675.

B. Cash and balances at central banks

This item includes cash on hand and deposits with central banks in countries in which CEB has a presence.

	December 31, 2016	December 31, 2015
Balances at central bank	786,161	360,529
Cash on hand	65	49
Total	**786,226**	**360,578**

Deposits at central banks include reserve deposits amounting to EUR 25,997 (2015: EUR 27,517), that represent the mandatory deposits that are not available in the CEB's day-to-day operations.

C. Amounts due from banks

	December 31, 2016	December 31, 2015
Loans and advances	49,937	282,241
Placement with other banks	171,108	245,672
Trading loans	20,819	152,846
Subtotal	**241,864**	**680,759**
Allowance for impairment	(925)	(925)
Total	**240,939**	**679,834**

Loans and receivables from intra group companies amount to EUR 79,605 (2015: EUR 291,657). The amount that will not mature within one year is EUR 96,523 (2015: EUR 347,964).

D. Loans and advances to customers

	December 31, 2016	December 31, 2015
Commercial loans	2,570,795	2,660,589
Public loans	397,964	495,451
Consumer loans	289,792	378,313
Subtotal	**3,258,551**	**3,534,353**
Allowance for impairment	(69,122)	(49,398)
Total (*)	**3,189,429**	**3,484,955**

(*) None of these loans is subordinated.

Loans and receivables from intra group companies amount to EUR 257,310 (2015: EUR 162,021).
No individual loan or receivable has terms and conditions that materially affect the amount, timing or certainty of the cash flows of CEB.

Loans and advances to customers do not include any amount related to receivables regarding securities that have been acquired in reverse repo transactions.

As of December 31, 2016, EUR 1,499,042 (2015: EUR 1,922,824) of loans and advances to customers are not expected to mature within one year.

E. Debt securities

December 31, 2016	Financial asset held for trading (*)	Available-for- sale (**)	Total
Bank bonds	-	218,982	218,982
Government bonds	-	183,588	183,588
Corporate bonds	-	33,431	33,431
Total	-	**436,001**	**436,001**

December 31, 2015	Financial asset held for trading (*)	Available-for- sale (**)	Total
Bank bonds	472	225,767	226,239
Government bonds	4,312	202,429	206,741
Corporate bonds	-	912	912
Total	**4,784**	**429,108**	**433,892**

(*) As of December 31, 2015, EUR 4,784 of the total is listed for trading portfolio. Gains and losses on changes in the fair value of trading instruments are recognized in 'net trading income'.

(**) EUR 370,170 of the total is listed securities (2015: EUR 372,951). Bonds issued by intra group companies amount to EUR 34,376 (2015: EUR 56,157). The amount that will not mature within one year is EUR 402,601 (2015: EUR 354,149).

F. Derivative financial instruments

In the ordinary course of business, CEB enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index, and is the basis on which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

Derivatives held for trading	December 31, 2016			December 31, 2015		
	Nominal Amounts	Fair values -assets	Fair values -liabilities	Nominal Amounts	Fair values -assets	Fair values -liabilities
Interest rate derivatives						
Swaps	28,660	43	6	-	-	-
Futures	19,987	16	10	-	-	-
Options (purchased)	23,140	-	-	24,320	-	-
Options (sold)	(28,140)	-	-	(24,320)	-	-
Subtotal	**43,647**	**59**	**16**	-	-	-
Currency derivatives						
Swaps	3,619,191	208,931	232,740	4,637,985	237,101	244,993
Forwards	649,238	9,195	9,333	652,641	33,577	35,688
Options (purchased)	499,286	43,834	-	845,128	27,649	-
Options (sold)	(489,647)	-	51,238	(845,128)	-	27,831
Subtotal	**4,278,068**	**261,960**	**293,311**	**5,290,626**	**298,327**	**308,512**
Other derivatives						
Commodity swaps	10,389	1,157	915	158,797	41,285	40,095
Equity options (purchased)	116,667	3,844	-	199,712	5,572	-
Equity options (sold)	(116,667)	-	3,844	(199,712)	-	5,572
Subtotal	**10,389**	**5,001**	**4,759**	**158,797**	**46,857**	**45,667**
Total derivatives	**4,332,104**	**267,020**	**298,086**	**5,449,423**	**345,184**	**354,179**

Derivative financial instruments held or issued for trading purposes: Most of the Bank's derivatives-trading activities relate to asset and liability management for the Bank and deals with customers who are normally laid off with counterparties. The Bank may also take positions with the expectation of profiting from favourable movements in prices or rates on indices. No hedge accounting has been applied.

Forwards and futures: Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Future contracts are transacted in standardized amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps: Swaps are contractual agreements between two parties to exchange movements in interest or foreign-currency rates, commodities or equity indices based on specified notional amounts.

Options: Options are contractual agreements that convey the right, but not the obligation for the purchaser, either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held for risk management

Fair value hedges

The Bank uses interest rates swaps to hedge its exposure to changes in fair values of its fixed rate EUR customer deposits and cross currency swaps to hedge its exposure to market interest rates on certain loans and advances.

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

	December 31, 2016			December 31, 2015		
	Nominal Amounts	Fair values -assets	Fair values -liabilities	Nominal Amounts	Fair values -assets	Fair values -liabilities
Instrument type:						
Interest rate forwards and swaps	-	-	-	136,738	6,215	-
Currency swaps	(209,609)	846	68	(134,247)	-	2,287
Total	**(209,609)**	**846**	**68**	**2,491**	**6,215**	**2,287**

Net investment hedges

The Bank uses a mixture of foreign exchange contracts to hedge the foreign currency translation risk on its net investment in foreign subsidiaries.
The fair value of derivatives designated as net investment hedges are as follows:

	December 31, 2016			December 31, 2015		
	Nominal Amounts	Fair values -assets	Fair values -liabilities	Nominal Amounts	Fair values -assets	Fair values -liabilities
Instrument type:						
Currency swaps	937,504	29,188	35,045	1,061,944	106,379	43,021
Total	**937,504**	**29,188**	**35,045**	**1,061,944**	**106,379**	**43,021**

The table below shows the fair value of derivative financial instruments recorded as assets and liabilities.

	December 31, 2016		December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Derivatives for				
Held for trading	267,020	298,086	345,184	354,179
Fair value hedges	29,188	35,045	106,379	43,021
Net investment hedges	846	68	6,215	2,287
Total	**297,054**	**333,199**	**457,778**	**399,487**

G. Investments in Group companies

For 2016, the movement of participating interests in Group companies is as follows:

	Balance at 1 January	Business Combination	Additions/ (Disposals)	Change in reserves	Result for the year	Dividend paid	Translation difference	Balance at 31-Dec-2016	Provision for period losses	Net carrying amount at 31-Dec-2016
Credit Europe Bank (Russia) Ltd	242,923	-	-	876	6,237	-	62,815	312,851	-	312,851
Credit Europe (Romania) Bank SA	169,313	-	21	(3,323)	8,585	-	(649)	173,947	-	173,947
Credit Europe (Suisse) Bank SA	134,148	-	-	(811)	7,275	(9,226)	1,222	132,608	-	132,608
Credit Europe (Dubai) Ltd	80,844	-	-	(1,177)	2,314	(35,840)	662	46,803	-	46,803
PJSC Credit Europe Bank	23,539	-	-	22	2,393	-	(1,893)	24,061	-	24,061
Yenikoy Enterprises B.V.	16,635	-	-	-	(1,610)	-	520	15,545	-	15,545
Credit Europe Leasing (Romania) SA	2,980	-	-	-	(1,201)	-	3	1,782	-	1,782
Cirus Holding B.V.	2,749	-	-	-	136	-	590	3,475	-	3,475
Nomadmed XXI S.L.	806	-	-	-	(955)	-	-	(149)	149	-
Ikano Finance Holding B.V.	2,175	-	-	-	(6)	-	34	2,203	-	2,203
Stichting Credit Europe Custodian Services	125	-	-	-	-	-	-	125	-	125
Hunter Navigation Inc.	1,006	-	-	-	224	-	(16)	1,214	-	1,214
Credit Europe Leasing (Ukraine) LLC	-	-	-	-	(1,134)	-	493	(641)	641	-
Maritime Enterprises B.V.	10,188	-	-	(10,434)	11,724	-	-	11,478	-	11,478
Mediqueen Maritime Ltd	-	-	629	-	(1,657)	-	(147)	(1,175)	1,175	-
Medipride Maritime Ltd	-	-	-	-	(1,064)	-	(122)	(1,186)	1,186	-
Lodestar Maritime Ltd	-	-	3,317	-	(4,836)	-	(291)	(1,810)	1,810	-
Medibeauty Maritime Ltd	-	-	1,609	-	(2,787)	-	(218)	(1,396)	1,396	-
Thrace Shipping Ltd.	-	-	-	-	(452)	-	(21)	(473)	473	-
Phrygia Shipping Ltd.	-	-	-	-	(293)	-	(13)	(306)	306	-
Lycia Shipping Ltd.	-	-	-	-	(42)	-	(1)	(43)	43	-
Cilicia Shipping Ltd.	-	-	-	-	(334)	-	(15)	(349)	349	-
Total	**687,431**	**-**	**5,576**	**(14,847)**	**22,517**	**(45,066)**	**62,953**	**718,564**	**7,528**	**726,092**

For 2015, the movement of participating interests in Group companies is as follows:

	Balance at 1 January	Business Combination	Additions/ (Disposals)	Change in reserves	Result for the year	Dividend paid	Translation difference	Balance at 31-Dec-2015	Provision for period losses	Net carrying amount at 31-Dec-2015
Credit Europe Bank (Russia) Ltd	269,526	(12,465)	-	8,701	1,961	-	(24,800)	242,923	-	242,923
Credit Europe (Romania) Bank SA	168,747	-	-	(1,058)	3,215	-	(1,591)	169,313	-	169,313
Credit Europe (Suisse) Bank SA	129,806	-	-	(335)	4,339	(14,481)	14,819	134,148	-	134,148
Credit Europe (Dubai) Ltd	65,348	-	-	(354)	8,166	-	7,684	80,844	-	80,844
PJSC Credit Europe Bank	28,281	-	-	160	2,807	-	(7,709)	23,539	-	23,539
Yenikoy Enterprises B.V.	15,392	-	-	-	(520)	-	1,763	16,635	-	16,635
Credit Europe Leasing (Romania) SA	10,683	-	-	-	(7,739)	-	36	2,980	-	2,980
Cirus Holding B.V.	3,172	-	-	-	(259)	-	(164)	2,749	-	2,749
Ikano Finance Holding B.V.	3,402	-	-	-	82	(1,268)	(41)	2,175	-	2,175
Nomadmed XXI S.L.	1,741	-	-	-	(935)	-	-	806	-	806
Stichting Credit Europe Custodian Services	125	-	-	-	-	-	-	125	-	125
Credit Europe Leasing (Russia) LLC	87	-	(87)	-	-	-	-	-	-	-
Hunter Navigation Inc.	23	-	-	-	504	-	479	1,006	-	1,006
Walton Maritime SA	-	-	-	-	-	-	-	-	-	-
Credit Europe Leasing (Ukraine) LLC	-	-	-	-	(2,849)	-	1,455	(1,394)	1,394	-
Maritime Enterprises B.V.	-	-	-	10,434	(246)	-	-	10,188	-	10,188
Mediqueen Maritime Ltd	-	-	722	-	(1,814)	-	(122)	(1,214)	1,214	-
Medipride Maritime Ltd	-	-	516	-	(2,207)	-	(82)	(1,773)	1,773	-
Lodestar Maritime Ltd	-	-	1,361	-	(2,797)	-	(70)	(1,506)	1,506	-
Medibeauty Maritime Ltd	-	-	2,062	-	(4,373)	-	(96)	(2,407)	2,407	-
Diamond Marine Ltd	-	-	1	-	(489)	-	(9)	(497)	497	-
Total	**696,333**	**(12,465)**	**4,575**	**17,548**	**(3,154)**	**(15,749)**	**(8,448)**	**678,640**	**8,791**	**687,431**

H. Intangible assets

The book value of intangibles is as follows

	Goodwill	Patents and licenses	Total
Balance at January 1, 2016	**9,871**	**2,528**	**12,399**
Addition	-	1,565	1,565
Correction(**)	(9,871)	-	(9,871)
Amortization	-	(897)	(897)
Currency translation difference	-	-	-
Balance at December 31, 2016	**-**	**3,196**	**3,196**
Balance at January 1, 2015	**22,678**	**1,465**	**24,143**
Addition	-	2,150	2,150
Disposal	-	-	-
Impairment(*)	(9,671)	-	(9,671)
Amortization	-	(839)	(839)
Currency translation difference	(3,136)	(248)	(3,384)
Balance at December 31, 2015	**9,871**	**2,528**	**12,399**

(*) As result of impairment analysis, goodwill arising from Russian operations was fully provided for in 2015 due to adverse economic developments in Russia.
(**) Due to new insights on the goodwill treatment, it was decided to correct goodwill paid for shares in CEB Romania.

I. Property and equipment

A. Tangible Assets

The book value of property and equipment is as follows:

	Buildings	Furniture and fixtures	Leasehold improvements	Total
Balance at January 1, 2016	**40,844**	**1,658**	**2**	**42,504**
Additions	57	306	-	363
Depreciation	(1,212)	(448)	(1)	(1,661)
Balance at December 31, 2016	**39,689**	**1,516**	**1**	**41,206**

	Buildings	Furniture and fixtures	Leasehold improvements	Total
Balance at January 1, 2015	**41,921**	**1,787**	**3**	**43,711**
Additions	79	311	-	390
Disposals	(132)	-	-	(132)
Depreciation	(1,024)	(440)	(1)	(1,465)
Balance at December 31, 2015	**40,844**	**1,658**	**2**	**42,504**

B. Investment Property

Reconciliation of carrying amount

	December 31, 2016	December 31, 2015
Balance at January 1	**8,300**	**4,600**
Additions	-	3,700
Changes in unrealised fair value	8,300	8,300
Balance at 31 December	**8,300**	**4,600**

The Bank holds investment property as a consequence of acquisitions through enforcement of security over loans and advances. The fair values of investment properties were determined by external, independent property valuers, having appropriate experience in the location and category of property being valued. The independent valuers provide the fair values of the investment property portfolio on annual basis.

J. Other assets

	December 31, 2016	December 31, 2015
Receivables from DNB	15,970	15,970
Deferred tax assets	8,986	1,195
Amounts held as guarantee	6,282	-
Current tax assets	3,264	494
Prepayments and advance payments to suppliers	1,483	1,907
Assets held for sale	527	2,288
Other assets and receivables	4,237	2,216
Total	**40,749**	**24,070**

‘Assets held for sale’ represents collateral repossessed when clients were not able to meet their payment obligations.

As of December 31, 2016, EUR 24,956 (2015: EUR 17,165) of other assets are not expected to mature within one year.

K. Amounts due to banks

This item comprises amounts due to banking institutions.

	December 31, 2016	December 31, 2015
Current accounts	141,157	130,245
Time deposits	168,116	100,688
Total	**309,273**	**230,933**

Deposits and current accounts of intra group companies amount to EUR 124,323 (2015: EUR 59,102). Amount of due to banks which is on demand is EUR 122,222 (2015: EUR 70,066).

There were no repo transactions in time deposits (2015: EUR 6,073).

L. Customer deposits

This item comprises amounts due to customers other than banking institutions.

	December 31, 2016	December 31, 2015
Retail time deposits	1,798,238	1,949,710
Retail saving and demand deposits	1,541,697	1,557,239
Corporate time deposits	117,367	438,953
Corporate demand deposits	309,415	270,097
Total	**3,766,717**	**4,215,999**

As of December 31, 2016, EUR 2,147,654 (2015: EUR 2,658,151) of deposits from customers are expected to be settled more than 12 months after the balance sheet date.

As of December 31, 2016, the Bank maintained customer deposit balances of EUR 56,215 (2015: EUR 311,752), which were pledged to the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

Deposits and current accounts of intra group companies amount to EUR 2,797 (2015: EUR 2,788).

M. Other liabilities

	December 31, 2016	December 31, 2015
Accrued expenses	6,162	6,419
Current tax liabilities	6,131	5,856
Litigation provision	4,225	4,343
Taxes other than income	3,785	3,552
Deferred tax liabilities	3,528	1,596
Unfinished settlements	1,997	1,496
Other payables	8,735	6,686
Total	**34,563**	**29,948**

The amount that will not mature within one year is EUR 3,528 (2015: EUR 1,596).

Notes to Financial Statements

Credit Europe Bank NV Annual Report 2016

Notes to Financial Statements

N. Subordinated liabilities

Issued liabilities qualify as subordinated debt if claims by the holders are subordinated to all other current and future liabilities of CEB. This liability qualifies as capital, taking into account remaining maturities, for the purpose of determining the consolidated capital adequacy ratio for the Dutch Central Bank (De Nederlandsche Bank - DNB).

	Year of maturity	December 31, 2016	December 31, 2015
USD 400 million Tier II loan with a fixed interest rate of 8% per annum	2023	390,683	378,014
USD 50 million Tier II loan with a fixed interest rate of 10% per annum	2022	47,844	46,327
Total		**438,527**	**424,341**

The Bank had not any defaults on principal, interest or other breaches with respect to its subordinated liabilities during the years ended 2016 and 2015.

O. Share capital

The authorized share capital is EUR 1,000 million (2015: EUR 1,000 million) and comprises 1,000 million (2015: 1,000 million) ordinary shares with a face value of EUR 1.

The called-up and paid-in capital consists of 632.5 million (2015: 632.5 million) ordinary shares with a face value of EUR 1.

P. Legal reserves

Under Dutch GAAP, legal reserves are required in certain circumstance. The objective of these legal reserves is to protect the creditors (i.e. the bank is only allowed to pay out profits to its shareholders that it has realized or can realize when the bank wants to). Legal reserves only relate to the Bank Financial Statements and are not applicable to the Consolidated Financial Statements. Profits of participations cannot be paid out to the Bank due to local legal requirements.

For CEB, the following legal reserves are important:
- Participations reserve
- Currency translation differences reserve
- Revaluation for AFS instruments reserve
- Hedge accounting reserve

In determining legal reserves deferred taxes on AFS instruments and revaluation reserves of buildings are taken into account. Deferred taxes attributable to equity are calculated on the difference between IFRS and tax values of AFS instruments and buildings. Hedge accounting reserves are subject to the participation exemption regime according to Dutch tax laws. Accordingly, profits and losses from participations are not taxable in The Netherlands. Due to the participation exemption regime, in practice, the participation hedge results are carried into statement of income for tax purposes and then exempted from taxable profit.

Q. Commitments and contingencies

To meet the financial needs of customers, the Bank issues various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the balance sheet, they do contain credit risk and are, therefore, part of the overall risk of the Bank. In many instances, the amount recognized on the balance sheet for incurred obligations does not represent the loss potential of the arrangement in full.
Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers, contingent

on the failure of the customer to perform under the terms of the contract. Guarantees carry the same credit risk as loans. Credit guarantees can be in the form of bills of exchange, irrevocable letters of credit, advance payment guarantees and endorsement liabilities from bills rediscounted.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term-to-maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

	December 31, 2016	December 31, 2015
Contingent liabilities with respect to irrevocable letters of credit - import	210,687	221,857
Contingent liabilities with respect to irrevocable letters of credit - export	10,895	43,344
Contingent liabilities with respect to letters of guarantee granted - corporates	100,448	36,945
Contingent liabilities with respect to letters of guarantee granted - banks	35,729	32,543
Total non-cash loans	**357,759**	**334,689**
Revocable credit-line commitments	54,941	51,633
Other commitments	13,382	-
Total	**426,082**	**386,322**

R. Litigation claims

Litigation is a common occurrence in the Banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects the claims may have on its financial standing.

S. Rental and lease contracts

The Bank leases a number of property and equipment under operating lease. The amounts can be specified as follows: Operating lease commitment - Bank as lessee and rent commitments;

	December 31, 2016	December 31, 2015
Not later than 1 year	221	220
Later than 1 year and not later than 5 years	251	295
Total	**472**	**515**

T. Remuneration

Key management costs including remuneration and fees;

	December 31, 2016	December 31, 2015
Total remuneration to supervisory board members	982	1,158
Total remuneration to managing board members	3,180	3,055
Total	**4,162**	**4,213**

Pension plan contribution amount is EUR 126 (2015: EUR 163).

Managing Board	December 31, 2016	December 31, 2015
Loans and advances		
Outstanding at 1 January	327	367
Granted during the year	-	33
Repaid during the year	(92)	(73)
Outstanding at 31 December	**235**	**327**

These transactions were concluded at staff terms and market rates. The average interest rate on fixed-interest EUR loans provided to the Managing Board members was 6.00% in 2016 (2015: 6.05%). There is no guarantee provided to Managing and Supervisory Board members.

Amsterdam, March 27, 2017

Supervisory Board:
Hector De Beaufort
Murat Özyeğin
Frits Deiters
Mehmet Güleşci
Korkmaz Ilkorur
Onur Umut

Managing Board:
Murat Basbay
Şenol Aloğlu
Umut Bayoğlu
Batuhan Yalniz
Levent Karaca
Scott Cheung

U. Subsequent events

There has been no significant subsequent event between the balance sheet date and the date of approval of these accounts

which would be reported by the Bank.

Proposed profit appropriation

The profit is appropriated pursuant to Article 31 of the Articles of Association of CEB; the relevant stipulations are as follows:

- The profits shall be at the disposal of the General Meeting of Shareholders.
- Dividends may be paid only up to an amount that does not exceed the distributable part of net assets.
- Dividends shall be paid after adoption of the annual accounts from which it appears that payment of dividends is permissible.

It is proposed to appropriate net profit pursuant to the Articles of Association, as follows:

Proposed profit appropriation	
Net profit	45,116
Addition to retained earnings pursuant to Article 31 of the Articles of Association	45,116

To: the General Meeting and the Supervisory Board of Credit Europe Bank N.V.

Report on the audit of the annual financial statements 2016

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of Credit Europe Bank N.V. as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code;
- the company financial statements give a true and fair view of the financial position of Credit Europe Bank N.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the 2016 financial statements of Credit Europe Bank N.V., based in the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

1. the consolidated statement of financial position as at 31 December 2016;
2. the following consolidated statements for 2016: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company balance sheet as at 31 December 2016;
2. the company statement of income for 2016; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Credit Europe Bank N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO")" and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants (VGBA)".

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Unqualified audit opinion

Materiality
• Overall materiality of EUR 11 million • 3% of Net Interest Income

Audit scope
• Coverage of 96% of Total Assets • Coverage of 92% of Profit Before Tax

Key Audit Matters
• Estimation uncertainty with respect to impairment losses on loans and receivables to customers • Reliability and continuity of the electronic data processing

Materiality
Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 11 million (2015: EUR 11 million). The materiality is determined with reference to net interest income which represents 3% (2015: 3%). We consider net interest income as a key consideration for stakeholders in assessing the financial performance of Credit Europe Bank N.V. We find the gross profit less appropriate as a benchmark for materiality given the inherent volatility of the income items "result from financial transactions" and "net impairment loss on financial assets". We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of EUR 0.5 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds

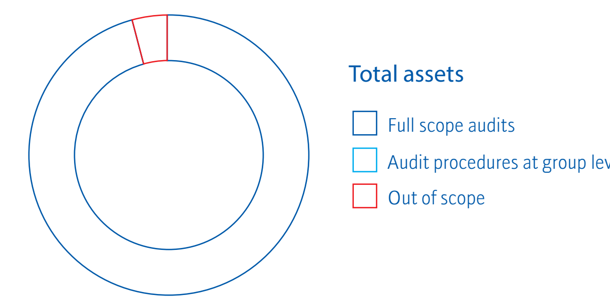
Scope of the group audit
Credit Europe Bank N.V. is head of a group of entities. The financial information of this group is included in the financial statements of Credit Europe Bank N.V.

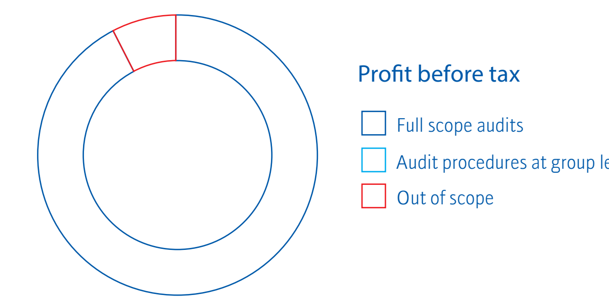
Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. These procedures are laid down in the Group Audit Instructions which were sent to the group entities, all audited by KPMG member firms. These instructions covered the significant audit areas, including the relevant risks of material misstatement, and set out the information required to be reported back to the group audit team. Key considerations were the size and / or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items. We visited component locations in Romania and Dubai, and we performed detailed file reviews on the component files of the Russian – and Romanian auditors Furthermore, we performed analytical procedures and held telephone conferences with the auditors of Credit Europe Bank (Suisse) S.A. and PJSC Credit Europe Bank (Ukraine) to discuss findings and observations as reported by the group entities

Independent Auditor's Report

in order to corroborate our assessment that there are no significant risks of material misstatement within these remaining components.

By performing the procedures mentioned above, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.





Our key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty with respect to impairment losses on loans and receivables to customers

Loans and receivables are measured at amortized cost less impairments. Certain aspects of the accounting for loan loss impairments require significant judgment, such as the identification of loans that are deteriorating, the assessment of objective evidence for impairment, the value of collateral and the assessment of the recoverable amount. Credit Europe Bank N.V. determines impairments through an individual impairment assessment of (individually significant) loans, and in addition to that, for loans not individually tested, through a collective impairment.The accounting policy on recognition and measurement of impairment on loans and receivables is included in note 3.c.i in the financial statements.
Credit Europe Bank N.V. provides loans and receivables to corporate and retail customers, that account for 65% of total assets. The loans are provided to customers from various countries, with a concentration of customers from developed markets consisting of 30% share of total loans and receivables (2015: 30%), Russia as 27% (2015: 27%), Turkey as 23% (2015: 23%) and Romania as 16% (2015: 16%).
Due to size of the loans and receivables, the concentration risks, and the inherent complexity and subjectivity of the estimation of the impairment losses, we treat impairment of loans and receivables as a key audit matter.

Our response
We have performed audit procedures aimed at the design, implementation and operating effectiveness of internal controls within the approval, recording and monitoring of loans and receivables. We assessed the controls regarding the identification of impairment triggers and the calculation of individual impairments. For the collective impairments we assessed the controls related to the use of methodologies, inputs and assumptions in calculating the collectively assessed impairments for loan losses.
In addition to the testing of internal controls, we also performed detailed audit procedures on a sample basis on individual credit files. These procedures were to assess the correct identification of impairment triggers and, when impairment triggers exist, the plausibility of managements' judgments and assumptions by comparing these judgments and assumptions to available financial and other internal and external information.
With respect to the collective provisions, we have, among others compared the assumptions used to historical and recent loan loss statistics for essential parameters.
In our audit work we took into account the fact that the macro-economic conditions continued to be in downward trend, in particular in Russia and Ukraine following the Ukraine crisis, the lower oil prices and decreased trading volumes.

Our observation
Based on our audit procedures we assessed that the impairment of loans and receivables are balanced and in accordance with the accounting policies on page 56.

Reliability and continuity of the electronic data processing
Description Credit Europe Bank is highly dependent on its IT systems for the continuity of its operations and reliable financial reporting. Credit Europe Bank it is continuously improving the efficiency and effectiveness of the IT-infrastructure and the reliability and continuity of the electronic data processing. We have therefore identified this as a key audit matter.
Our response We have assessed the implementation and execution of the controls, such as access management, change management, computer operations and business continuity policies & procedures, to ensure reliability and continuity of the IT systems, to the extent necessary within the scope of our audit and ensure compliance. For that purpose we included IT-auditors and IT infrastructure specialists in our audit team, both at the level of the parent company as well as at the level of the local group entities. Our procedures included the assessment of the implemented controls, technical audits, internal controls testing and review of IAD reports.
Our observation As a result of our procedures, we did not identify any material shortcomings regarding the reliability and continuity of the electronic data processing. .

Responsibilities of the Managing Board and the Supervisory Board for the financial statements
The managing board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Netherlands Civil Code and for the preparation of the report by the managing board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the managing board is responsible for such internal control as the managing board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the managing board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the managing board should prepare the financial statements using the going concern basis of accounting unless the managing board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The managing board report should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.
The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of financial statements
Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all errors and fraud. For a further description of our responsibilities in respect of an audit of financial statements we refer to the website of the professional body for accountants in the Netherlands (NBA) www.nba.nl/standardtexts-auditorsreport.

Report on other legal and regulatory requirements
Report on the report by the managing board report and the other information
Pursuant to legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the managing board report and other information):

- We have no deficiencies to report as a result of our examination whether the managing board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and whether the information as required by Part 9 of Book 2 of the Netherlands Civil Code has been annexed.
- We report that the report by the managing board, to the extent we can assess, is consistent with the financial statements.

Engagement
We were appointed by the Supervisory Board as auditor of Credit Europe Bank N.V. as of the audit for year 2007 and have operated as statutory auditor ever since then. Due to rotation requirements, the audit for the year 2016 will be our last year of audit of the financial statements.

Amstelveen, 27 March 2017
KPMG Accountants N.V.

M. Frikkee RA

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