

Banca Transilvania S.A.

Consolidated Financial
Statements

31 December 2012

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

Free translation

Banca Transilvania S.A.

Contents

Independent auditors' report	
Consolidated income statement	1
Consolidated statement of comprehensive income	2
Consolidated statement of financial position	3
Consolidated statement of changes in equity	4 - 5
Consolidated statement of cash flows	6 - 7
Notes to the consolidated financial statements	8 - 80

Consolidated income statement

For the year ended 31 December

	Note	Convenience Translation*			
		2012 RON thousand	2011 RON thousand	2012 EUR thousand	2011 EUR thousand
Interest income		2,054,585	1,835,792	461,083	433,184
Interest expense		(1,085,870)	(921,954)	(243,687)	(217,550)
Net interest income	8	968,715	913,838	217,396	215,634
Fee and commission income		502,361	456,606	112,738	107,744
Fee and commission expense		(64,963)	(53,868)	(14,579)	(12,711)
Net fee and commission income	9	437,398	402,738	98,159	95,033
Net trading income	10	147,666	111,613	33,139	26,337
Other operating income	11	86,192	61,524	19,343	14,518
Operating income		1,639,971	1,489,713	368,037	351,522
Net impairment allowance on financial assets, other liabilities and loan commitments	12	(384,450)	(315,849)	(86,277)	(74,530)
Personnel expenses	13	(430,539)	(390,262)	(96,620)	(92,089)
Depreciation and amortization	22,23	(54,710)	(63,787)	(12,278)	(15,052)
Other operating expenses	14	(400,439)	(364,386)	(89,864)	(85,983)
Operating expenses		(1,270,138)	(1,134,284)	(285,039)	(267,652)
Share of profits in associates		1,169	-	262	-
Profit before income tax		371,002	355,429	83,260	83,870
Income tax expense	15	(24,546)	(58,181)	(5,509)	(13,730)
Profit for the year		346,456	297,248	77,751	70,140
Profit for the year attributable to:		341,529	297,019	76,645	70,086
Equity holders of the Bank		4,927	229	1,106	54
Non controlling interests		346,456	297,248	77,751	70,140
Profit for the year					
Basic earnings per share	35	0.1850	0.1704		
Diluted earnings per share	35	0.1850	0.1704		

* Refer to Note 2c

The accompanying notes from pages 8 to 80 form an integral part of these consolidated financial statements.

TRANSLATOR'S EXPLANATORY NOTE: The above is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Consolidated statement of comprehensive income

For the year ended 31 December

Note	Convenience Translation*			
	2012 RON thousand	2011 RON thousand	2012 EUR thousand	2011 EUR thousand
Profit for the year	346,456	297,248	77,751	70,140
Other comprehensive income, net of income tax				
Fair values gains/(losses) from available for sale investments (net of deferred tax)	89,607	(15,820)	20,108	(3,733)
Other comprehensive income, net of income tax	(37,873)	20,884	(8,499)	4,928
Revaluation reserve for tangible assets	4,699	-	1,055	-
Total comprehensive income for the period	402,889	302,312	90,415	71,335
Total comprehensive income attributable to:				
Equity holders of the Bank	397,962	302,105	89,309	71,292
Non controlling interest	4,927	207	1,106	49
Total comprehensive income for the period	402,889	302,312	90,415	71,335

* Refer to Note 2c,

The consolidated financial statements were approved by the Board of Directors on 27 March 2013 and were signed on its behalf by:

Horia Ciorcila
Chairman

Mariana Ilea
Deputy Manager D.C.G

The accompanying notes from pages 8 to 80 form an integral part of these consolidated financial statements. 2

TRANSLATOR'S EXPLANATORY NOTE: The above is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Consolidated statement of financial position

As at 31 December

	Note	Convenience Translation*			
		2012 RON thousand	2011 RON thousand	2012 EUR thousand	2011 EUR thousand
Assets					
Cash and cash equivalents	16	5,579,088	4,550,256	1,259,757	1,053,373
Placements with banks	17	1,405,173	778,977	317,288	180,331
Financial assets at fair value through profit and loss	18	125,851	140,551	28,417	32,537
Loans and advances to customers	19	15,361,263	13,977,707	3,468,572	3,235,805
Net finance lease investments	20	202,686	207,388	45,766	48,010
Investment securities, available for sale	21	6,420,054	5,816,778	1,449,648	1,346,570
Investment securities, held to maturity	21	-	819	-	190
Investment in associates		25,858	-	5,839	-
Property and equipment	22	334,587	297,531	75,550	68,878
Intangible assets	23	81,433	70,555	18,388	16,333
Goodwill	23	376	376	85	87
Deferred tax assets	24	-	28,163	0	6,520
Other assets	25	174,827	139,694	39,475	32,339
Total assets		29,711,196	26,008,795	6,708,785	6,020,973
Liabilities					
Deposits from banks	26	45,953	251,181	10,376	58,148
Deposits from customers	27	23,167,128	20,257,251	5,231,135	4,689,504
Loans from banks and other financial institutions	28	3,035,944	2,592,982	685,516	600,269
Other subordinated liabilities	29	288,810	260,148	65,213	60,224
Deferred tax liabilities	24	27,527	-	6,216	-
Other liabilities	30	330,823	255,366	74,700	59,116
Total liabilities		26,896,185	23,616,928	6,073,156	5,467,261
Equity					
Share capital	31	1,989,543	1,860,159	449,239	430,622
Own shares		(9,853)	(2,118)	(2,225)	(490)
Share premium		-	732	-	169
Retained earnings		460,334	303,268	103,943	70,206
Revaluation reserve		39,496	35,544	8,918	8,228
Other reserves	32	299,864	192,248	67,709	44,506
Total equity attributable to equity holders of the Bank		2,779,384	2,389,833	627,584	553,241
Non-controlling interest		35,627	2,034	8,045	471
Total equity		2,815,011	2,391,867	635,629	553,712
Total liabilities and equity		29,711,196	26,008,795	6,708,785	6,020,973

* Refer to Note 2c.

The consolidated financial statements were approved by the Board of Directors on 27 March 2013 and were signed on its behalf by:

Horia Ciorcila
Chairman

Mariana Ilea
Deputy Manager D.C.G

The accompanying notes from pages 8 to 80 form an integral part of these consolidated financial statements. 3

TRANSLATOR'S EXPLANATORY NOTE: The above is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Consolidated statement of changes in equity

For the year ended 31 December

<i>In RON thousand</i>	Attributable to the equity holders of the Bank							Total
	Share capital	Own shares	Share premium	Reevaluation reserves	Other reserves	Retained earnings	Non-controlling interest	
Balance as at 31 December 2011	1,860,159	(2,118)	732	35,544	192,248	303,268	2,034	2,391,867
Total comprehensive income for the period								
Profit for the year	-	-	-	-	-	341,529	4,927	346,456
Other comprehensive income, net of income tax								
Transfer from revaluation surplus to retained earnings	-	-	-	(747)	-	747	-	-
Fair values gains from available for sale investments (net of deferred tax)	-	-	-	-	89,607	-	-	89,607
Revaluation reserve for tangible assets	-	-	-	4,699	-	-	-	4,699
Other elements of comprehensive income	-	-	-	-	-	(37,873)	-	(37,873)
Total comprehensive income for the period	-	-	-	3,952	89,607	304,404	4,927	402,889
Increase in share capital through conversion of reserves from the profit	128,652	-	-	-	-	(128,652)	-	-
Increase in share capital from share premiums	732	-	(732)	-	-	-	-	-
Distribution to statutory reserves	-	-	-	-	18,009	(18,009)	-	-
Acquisitions of own shares	-	(22,832)	-	-	-	-	-	(22,832)
Non-controlling interest	-	-	-	-	-	-	28,666	28,666
Shared based payments	-	15,097	-	-	-	(676)	-	14,421
Total contributions of the shareholders	129,384	(7,735)	(732)	-	18,009	(147,337)	28,666	20,255
Balance at 31 December 2012	1,989,543	(9,853)	-	39,496	299,864	460,335	35,627	2,815,011

The accompanying notes from pages 8 to 80 form an integral part of these consolidated financial statements.

TRANSLATOR'S EXPLANATORY NOTE: The above is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Consolidated statement of changes in equity

For the year ended 31 December

<i>In RON thousand</i>	Attributable to the equity holders of the Bank							Total
	Share capital	Own shares	Share premiums	Reevaluation reserves	Other reserves	Retained earnings	Non-controlling interest	
Balance as at 31 December 2010	1,560,500	(256)	-	28,291	198,230	301,088	2,111	2,089,964
Total comprehensive income for the period								
Profit for the year	-	-	-	-	-	297,019	229	297,248
Other comprehensive income, net of income tax								
Transfer from revaluation surplus to retained earnings	-	-	-	(1,080)	-	1,080	-	-
Fair values losses from available for sale investments (net of deferred tax)	-	-	-	-	(15,820)	-	-	(15,820)
Revaluation reserve for tangible assets	-	-	-	-	-	-	-	-
Other elements of comprehensive income	(3,398)	-	-	8,333	-	15,971	(22)	20,884
Total comprehensive income for the period	(3,398)	-	-	7,253	(15,820)	314,070	207	302,312
Increase in share capital through conversion of reserves from the profit	302,336	-	-	-	-	(302,336)	-	-
Increase in share premium	-	-	732	-	-	-	-	732
Increase in share capital through cash contribution	721	-	-	-	-	-	-	721
Distribution to statutory reserves	-	-	-	-	9,838	(9,838)	-	-
Acquisition of own shares	-	(1,862)	-	-	-	-	-	(1,862)
Acquisition of interest without control	-	-	-	-	-	284	(284)	-
Total contributions made by the shareholders	303,057	(1,862)	732	-	9,838	(311,890)	(284)	(409)
Balance at 31 December 2011	1,860,159	(2,118)	732	35,544	192,248	303,268	2,034	2,391,867

The accompanying notes from pages 8 to 80 form an integral part of these consolidated financial statements.

TRANSLATOR'S EXPLANATORY NOTE: The above is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Consolidated statement of cash flows

For the year ended 31 December

<i>In RON thousand</i>	Note	2012	2011
<i>Cash flow from/ (used in) operating activities</i>			
Profit for the year		346,456	297,248
<i>Adjustments for:</i>			
Depreciation and amortization	22,23	54,710	63,787
Impairments allowance and write-offs of financial assets, other liabilities and loan commitments		400,048	349,593
Share of profit in associate, net of dividends		(1,169)	-
Fair value adjustment of financial assets at fair value through profit and loss		(30,487)	(9,247)
Income tax expense	15	24,546	56,190
Other adjustments		(33,704)	(46,366)
<i>Net profit adjusted with non-monetary elements</i>		760,400	711,205
<i>Changes in operating assets and liabilities</i>			
Change in investment securities		(360,364)	(1,993,463)
Change in placement with banks		91,797	18,935
Change in loans and advances to customers		(1,736,447)	(2,017,414)
Change in net lease investments		3,524	32,596
Change in financial assets at fair value through profit and loss		151,615	(35,810)
Change in other assets		(48,365)	(80,743)
Change in deposits from customers		2,871,122	2,950,057
Change in deposits from banks		(205,132)	(81,493)
Change in other liabilities		122,452	61,601
Income tax paid		(70,696)	(51,009)
<i>Net cash from/ (used in) operating activities</i>		1,579,906	(485,538)
<i>Cash flow from / (used in) investing activities</i>			
Net acquisitions of property and equipment and intangible assets		(92,963)	(82,339)
Acquisition of subsidiaries (net of cash acquired) and investments in associates		(24,689)	-
Dividends collected		697	817
<i>Net cash flow from/(used in) investing activities</i>		(116,955)	(81,522)
<i>Cash flow from /(used in) financing activities</i>			
Proceeds from increase of share capital		-	1,453
Net proceeds/(payments) from loans from banks and other financial institutions subordinated liabilities and debt securities issued		430,321	986,945
Payments of dividends		-	-
Payments for own shares		(22,832)	(1,862)
Proceeds from investments hold to maturity		819	1
<i>Net cash flow from financing activities</i>		408,308	986,537

6

The accompanying notes from pages 8 to 80 form an integral part of these consolidated financial statements.

TRANSLATOR'S EXPLANATORY NOTE: The above is provided as a free translation from Romanian which is the official and binding version.

Consolidated statement cash flows (continued)

For the year ended 31 December

<i>In RON thousand</i>	2012	2011
Net increase in cash and cash equivalents	1,871,259	419,477
Cash and cash equivalents at 1 January	5,032,597	4,613,120
Cash and cash equivalents at 31 December	6,903,856	5,032,597

Reconciliation of cash and cash equivalents to consolidated statement of financial position

<i>In RON thousand</i>	Note	2012	2011
Cash and cash equivalents	16	5,579,088	4,550,256
Placements with banks, less than 3 months maturity		1,326,846	484,360
Less accrued interest		(2,078)	(2,019)
Cash and cash equivalents in the cash flow statement		6,903,856	5,032,597

Cash flows from operating activities include:

<i>In RON thousand</i>	31 December 2012	31 December 2011
Interest collected	2,039,455	1,731,702
Interest paid	1,046,870	896,025

The accompanying notes from pages 8 to 80 form an integral part of these consolidated financial statements.

TRANSLATOR'S EXPLANATORY NOTE: The above is provided as a free translation from Romanian which is the official and binding version.

Notes to the consolidated financial statements

1. Reporting entity

Banca Transilvania Group (the “Group”) includes the parent bank, Banca Transilvania S.A, (the “Bank”) and its subsidiaries domiciled in Romania and Moldova. The consolidated financial statements of the Group for the year ended 31 December 2012 include the Bank’s and its subsidiaries’ (together referred to as the “Group”) financial statements. The subsidiaries include the following companies:

Branch	Field of activity	31 December 2012	31 December 2011
BT Securities S.R.L.	Investments	98.68%	95.50%
BT Leasing Transilvania IFN S.A.	Leasing	100.00%	100.00%
BT Investments S.R.L.	Investments	100.00%	100.00%
BT Direct IFN S.A.	Leasing	100.00%	100.00%
BT Building S.R.L.	Investments	100.00%	100.00%
BT Asset Management S.A.I S.A.	Asset management	80.00%	80.00%
BT Solution Agent de Asigurare S.R.L.	Insurance	95.00%	95.00%
BT Safe Agent de Asigurare S.R.L.	Insurance	99.98%	99.98%
BT Intermedieri Agent de Asigurare S.R.L.	Insurance	99.99%	99.99%
BT Account Agent de Asigurare S.R.L.	Investments	-	100.00%
BT Compania de Factoring S.R.L	Factoring	100.00%	100.00%
BT Finop Leasing S.A.	Leasing	91.98%	51.00%
BT Asiom S.R.L	Insurance	95.00%	95.00%
BT Consultant S.R.L.	Financial brokering	-	100.00%
BT Evaluator S.R.L.	Financial brokering	-	100.00%
Medical Leasing IFN S.A.	Leasing	100.00%	100.00%
Rent-a-Med S.R.L.	Rental of medical equipments	100.00%	100.00%
BT Leasing MD SRL	Leasing	100.00%	100.00%
BT Transilvania Imagistica S.A.	Other human health activities	81.18%	91.43%

The Group has the following lines of business: banking, which is performed by Banca Transilvania S.A. (“the Bank”), leasing and consumer finance, which is performed mainly by BT Leasing Transilvania S.A., BT Finop Leasing S.A., Medical Leasing IFN S.A., BT Direct IFN S.A and BT Leasing MD S.R.L, advisory services provided by Rent-a Med S.R.L. asset management which is performed by BT Asset Management S.A.I S.A. Also the Bank has more than 50% holding in five investment funds, which are consolidated and a significant influence in 3 investment funds. During the year 2012, 3 subsidiaries were closed namely, BT Account Agent de Asigurare S.R.L, BT Consultant S.R.L., and BT Evaluator S.R.L.

Notes to the consolidated financial statements

1. Reporting entity (continued)

Banca Transilvania S.A.

Banca Transilvania S.A. was incorporated in Romania in 1993 and is licensed by the National Bank of Romania to conduct banking activities. The Bank started its activity in 1994 and its main operations involve banking services for corporate and individuals. The Bank carries its activity through its business place in Cluj-Napoca and 63 branches, 445 agencies, 31 bank units, 10 medical divisions and 1 regional centre located in Bucharest (2011: 63 branches, 447 agencies, 32 bank units, 10 medical divisions and 1 regional centre located in Bucharest) throughout the country and in Cyprus (a branch opened in 2007). The Bank accepts deposits and grants loans, carries out funds transfers in Romania and abroad, exchanges currencies and provides banking services for its corporate and retail customers.

The patrimony structure of the Cyprus branch as at 31 December 2012 was the following: total assets RON 618,475 thousand (31 December 2011: RON 326,169 thousand), total liabilities RON 618,946 thousand (31 December 2011: RON 326,115 thousand), loss RON 471 thousand (2011: profit RON 54 thousand).

The principal activity of the Bank is to provide day-to-day banking and other financial services to corporate and individual clients. These include: customer deposits, domestic and international payments, foreign exchange transactions, working capital finance, medium term facilities, bank guarantees, letter of credits and also financial consultancy for micro and small enterprises operating in Romania.

The Bank's number of employees as at 31 December 2012 was 6,780 (31 December 2011: 6,788). The registered address of the Bank is 8 George Baritiu Street, Cluj-Napoca, Romania.

The structure of the equity holders of the Bank is presented below:

	31 December 2012	31 December 2011
European Bank for Reconstruction and Development ("EBRD")	14.61%	14.68%
Romanian individuals	23.06%	25.98%
Romanian companies	26.32%	26.35%
Foreign individuals	2.84%	2.21%
Foreign companies	33.17%	30.85%
Total	100%	100%

The Bank's shares are listed on the Bucharest Stock Exchange and are traded under the symbol TLV.

BT Leasing Transilvania S.A.

BT Leasing Transilvania IFN S.A. was incorporated in 1995 as a privately owned joint-stock company, established under Romanian laws. It was initially incorporated under the name of BT Leasing Transilvania S.A., which was changed to the current name in February 2003. The company operates through its Head Office located in Cluj-Napoca, 1 agency and 23 working points (2011: 1 agency and 23 working points) throughout the country. The company leases various types of vehicles and technical equipment.

The number of employees as at 31 December 2012 was 104 (2011: 109).

The registered address of BT Leasing Transilvania IFN S.A. is: 1st Baritiu Street, Cluj-Napoca, Romania.

Notes to the consolidated financial statements

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as endorsed by the European Union, effective at the Group’s annual reporting date, 31 December 2012.

The accounting records of the Bank are held in RON, according to the accounting law in force from Romania as well with the bank accounting regulations in force issued by the National Bank of Romania and the Central Bank of Cyprus. According with provisions of Order 27/2010 issued by National Bank of Romania, starting with 1 January 2012 the Bank applies IFRS as endorsed by European Union as statutory financial reporting framework. Transition from financial statements prepared based on Romanian Accounting standards in place until 31 December 2011 to IFRS was based on the information from financial statements as at 31 December 2011 prepared by the Bank in accordance with IFRS as endorsed by the European Union. The IFRSs relevant for the Bank were the same as those endorsed by the European Union for both years, therefore there is no effect on the Bank’s accounting policies from the change of financial reporting framework applied.

Differences between the IFRS financial statements and statutory financial statements

The subsidiaries maintain their accounting records in accordance with Romanian and Moldavian accounting law. All these accounts of the subsidiaries are defined hereafter as the statutory accounts.

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

The major changes applied to the statutory financial statements of the subsidiaries in order to bring them into line with the International Financial Reporting Standards as endorsed by the European Union are:

- grouping of numerous detailed items into broader captions;
- restatement adjustments required in accordance with IAS 29 (“Financial Reporting in Hyperinflationary Economies”) due to the fact that Romanian economy has been hyperinflationary until 31 December 2003 (refer to Note 3c);
- fair value and impairment adjustments required in accordance with IAS 39 (“Financial Instruments – Recognition and Measurement”);
- deferred taxes, and
- presenting the necessary information in accordance with the IFRS.

b) Basis of measurement

The consolidated financial statements of the Group are prepared on a fair value basis, for financial assets and liabilities at fair value through profit and loss and available-for-sale instruments, except from those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost, revaluated amount or historical cost. Non-current assets held for sale are stated at the lower of net carrying amount and fair value, less cost to sale.

Notes to the consolidated financial statements

2. Basis of presentation (continued)

c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Romanian lei "RON", which is the Group's functional and presentation currency, rounded to the nearest thousand.

Convenience translation

For the user's information, the restated RON figures have been presented in EUR, following the requirement of IAS 21 "The Effect of Changes in Foreign Exchange Rates". This presentation is not part of the audited financial statements.

According to IAS 21, since the functional currency is RON for translation from RON to EUR the following procedures were followed:

- Assets, liabilities and equity items for all balance sheet items presented (i.e. including comparatives) were translated at the closing rate existing at the date of each balance sheet presented (31 December 2012: 4.4287 RON/EUR; 31 December 2011: 4.3197 RON/EUR);
- Income and expenses items for current period presented were translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates (average exchange rate in 2012: 4.4560 RON/EUR; average exchange rate in 2011: 4.2379 RON/EUR);
- All exchange differences resulting from translation in the current period are recognized directly in equity.

The restatement and presentation procedures used according to IAS 21, "The Effects of Changes in Foreign Exchange Rates", could result in differences between the amounts presented in EUR and the real values.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS as endorsed by the European Union implies that the management uses estimation and judgments that affect the application of accounting policies, as well as the reported value of assets, 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 result of which form the basis of the judgments used in assessing the carrying value of the assets and liabilities for which no other evaluation sources are available. Actual results may differ from these estimates.

The estimates and judgments are reviewed on an ongoing basis. The review of the accounting estimates are recognized in the period in which the estimate is reviewed if the review affects only that period or in the period of the review and future periods if the review affects both current and future periods.

Information about estimates used in the application of the accounting policies which carry a significant impact on the consolidated financial statements, as well as the estimates which involve a significant degree of uncertainty, are described in Notes 4 and 5.

Notes to the consolidated financial statements

3. Significant accounting policies

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

a) Basis of consolidation

i) Subsidiaries

Subsidiaries are those companies controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. When assessing control, potential voting rights that presently are exercisable or convertible must be taken into consideration. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control starts until the date that control ceases.

The Bank consolidates the financial statements of its subsidiaries in accordance with IAS 27 "Consolidated and separate financial statements". The list of the Group's subsidiaries is presented in Note 1.

ii) Investment funds management

The Group manages and administrates assets invested in unit funds on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity by holding an interest higher than 50% in the respective unit fund.

iii) Associates

Associates are those companies on which the Group may exercise a significant influence, but not control over the financial and operational policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates using the equity method, from the date that significant influence commences until the date that significant influence ceases. If the Group's share of losses from associates exceeds the carrying amount of the investment, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

At 31 December 2012, the Group has significant influence in 3 investment funds, the ownership percentage is between 26.31% and 43.68%.

At 31 December 2011, the Group does not have investments in associates.

iv) Jointly controlled entities

Jointly controlled entities are those enterprises where there is a contractually agreed sharing of control over the economic activities of the respective entities, and exist only when the strategic financial and operating decisions relating to the activities require the unanimous consent of the parties sharing control. The consolidated financial statements include the Group's share of interest in a jointly controlled entity using proportionate consolidation in accordance with the provisions of IAS 31 „Interests in joined ventures”.

At 31 December 2012 and 31 December 2011, the Group does not own jointly controlled entities.

Notes to the consolidated financial statements

3. Significant accounting policies (*continued*)

a) Basis of consolidation (*continued*)

v) *Transactions eliminated on consolidation*

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

b) Foreign currency

i) *Foreign currency transactions*

Transactions in foreign currencies are recorded in RON at the official exchange rate at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of the consolidated statement of financial position are translated to the functional currency at the exchange rate at that date. The gains and losses related to the settlement and translations of these balances using the exchange rate at the end of the financial year are recognized in the income statement, except for the ones recorded in equity as a result of applying hedge accounting.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the exchange rate valid at the date when the fair value is determined.

Foreign currency differences arising on translation are recognized in profit or loss.

ii) *Translation of foreign currency operations*

The result and financial position of foreign operations, which have a functional currency different from the functional and presentation currency of the Group, are translated into the presentation currency as follows:

- assets and liabilities, both monetary and non-monetary, of this entity have been translated at the closing rate of the consolidated statement of financial position date;
- income and expenses items of these operations have been translated at the average exchange rate of the period, as an estimate for the exchange rates from the dates of the transactions; and
- all resulting exchange difference have been classified as equity until the disposal of the investment.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

b) Foreign currency (continued)

The exchange rates of major foreign currencies were:

Currency	31 December 2012	31 December 2011	Variation
			%
Euro (EUR)	1: LEU 4.4287	1: LEU 4.3197	2.52%
US Dollar (USD)	1: LEU 3.3575	1: LEU 3.3393	0.55%

For the Cyprus branch, the Bank measures in RON the debit and credit movement and balances denominated in foreign currency from the trial balance at the exchange rate of the last day of the reporting period, and aggregates them with trial balance prepared for the economic and financial operations carried out in the country.

c) Accounting method for the effect of hyperinflation

According to IAS 29 and IAS 21, the financial statements of an entity whose functional currency of a hyperinflationary economy should be stated in terms of measuring unit current at the date of consolidated statement of financial position i.e. non monetary items are restated using a general price index from the date of acquisition or contribution.

IAS 29 suggests that economies should be regarded as hyperinflationary if, among other factors, the cumulative inflation rate over a period of three years exceeds 100%.

The continuously decreasing inflation rates and other factors related to the characteristics of the economic environment in Romania indicate that the economy whose functional currency was adopted by the Group ceased to be hyperinflationary, effective for financial periods starting at 1 January 2004. Therefore, the provisions of IAS 29 have no longer been adopted in preparing these consolidated financial statements.

Accordingly, the amounts expressed in measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these consolidated financial statements and do not represent appraised value, replacement cost, or any other measure of the current value of assets or the prices at which transactions would take place currently.

d) Interest income and expenses

Interest income and expenses related to financial investments are recognized in the income statement at amortized cost using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

d) Interest income and expenses (continued)

Fair value changes of derivative instruments held for risk management and other financial assets and liabilities at fair value are presented in the net trading income resulted from other financial instruments at fair value through the income statement.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, the interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss applied at the net carrying value of the asset. The amount resulted from this effect is RON 137,632 thousand for the year 2012 (2011: RON 71,188 thousand) consisting in a decrease in the interest income and a decrease in the provision expense.

e) Fees and commissions

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

Fee and commission directly attributable to the financial asset or liability origination (both income and expense) are included in the measurement of the effective interest rate. Loan commitments fees that are likely to be drawn down, are deferred, together with the related direct costs, and are recognized as an adjustment to the effective interest rate of the loan.

Other fee and commission income arising on the financial services provided by the Group including investment management services, brokerage services, and account services fees are recognized as the related service is provided in the income statement. Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

f) Net trading income

Net trading income represents the difference between the gain and loss related to the trading assets and liabilities and included all fair value changes realized and unrealized and net foreign exchange differences.

g) Dividends

Dividend income is recognized in the income when the right to receive income is established. Income from equity investments and other non-fixed income investments is recognized as dividend income when it accrues. Dividends are reflected as a component of other operating income.

Dividends are treated as an appropriation of profit in the period they are declared and approved by the General Assembly of Shareholders. For the Bank's subsidiaries, the only profit available for distribution is the profit for the year recorded in the Romanian statutory accounts, which differs from the profit in these consolidated financial statements prepared in accordance with IFRS as endorsed by European Union, due to the differences between the applicable Romanian Accounting Regulations and IFRS as endorsed by the European Union. In case of the Bank, as presented in Note 1, starting with 1 January 2012, the IFRS standards as endorsed by the European Union are applied as a legal base for financial reporting.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

h) Lease payments

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

Minimum lease payments made under finance leases are apportioned between the interest expense and the reduction of the outstanding liability. The interest expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

i) Income tax expense

Income tax for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it relates to equity elements.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of the goodwill, the initial recognition of the assets and liabilities that come from transactions other than business mergers and which have no impact on the accounting profit nor on the fiscal one and differences related to investments in subsidiaries, as long as they are not considered to be reversed in the near future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the consolidated statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

The tax rate used to calculate the current and deferred tax position at 31 December 2012 is 16% (31 December 2011: 16%).

The tax rate used for the Cyprus branch, a country with which there is a treaty to avoid the double taxation is 10%.

j) Financial assets and liabilities

(i) Classifications

The Group classifies its financial assets and liabilities in the following categories:

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

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

j) Financial assets and liabilities (continued)

(i) Classifications (continued)

through profit or loss at inception. A financial instrument is classified in this category if acquired principally for the purpose of short term profit-taking or if so designated by management. Derivatives are also categorized as held for trading unless the derivative is a designated and effective hedging instrument. The financial instruments at fair value through profit or loss comprise listed equity securities and derivatives instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, those that the Group, upon initial recognition, designates as at fair value through profit and loss, those that the Group, upon initial recognition, designates as available for sale or those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans and receivables comprise loans and advances to banks and customers and net lease investments.

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

Available-for-sale financial assets are those financial assets that are designated as available for sale or are not classified as loans and advances, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale instruments include treasury bonds and other bonds eligible for discounting with central banks, investments in unit funds, equity investments and other investment securities that are not at fair value through profit and loss or held-to-maturity.

(ii) Recognition

Financial assets and financial liabilities are initially recognized at fair value plus, in case of financial assets and financial liabilities not carried at fair value through profit or loss, directly attributable transaction costs.

The Group initially recognizes: loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the financial instrument.

(iii) Derecognition

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

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

j) Financial assets and liabilities (continued)

iii) Derecognition (continued)

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

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

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

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

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when and only when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(v) Amortized cost measurement

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

(vi) Fair value measurement

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.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

j) Financial assets and liabilities (continued)

(vi) Fair value measurement (continued)

Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instruments. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, unless the fair value of that instrument 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 include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the date of consolidated statement of financial position. Where a fair value cannot be reliably be estimated, equity instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

(vii) Identification and measurement of impairment

Assets held at amortized cost

At each consolidated statement of financial position date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset ("loss generating event"), and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

It is probable that the identification of a single event responsible for the impairment is difficult. Impairment may have been caused by the combined effect of multiple events. The losses expected as a result of the future events, regardless of their probability, are not recognized.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

j) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the variable interest rate at current rate, specified in the contract. The asset's accounting value can be decreased directly or by using an impairment account. The expense with the impairment loss is recognized in the income statement.

If during a future period, an event that took place after the date of the impairment recognition generates decrease in the impairment expense, the formerly recognized impairment loss is reversed either directly or through the adjustment of an impairment account. The impairment decrease is recognized through profit and loss.

Loans and advances to customers and net lease investments

The Group, based on its internal impairment assessment methodology included observable data on the following loss events that comes to its attention as objective evidence that loans and advances to customers and net lease investments or groups of assets are impaired:

- (a) significant financial difficulty of the borrower (lessee) determined in accordance with the Group's internal rating system;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments of the borrowers (individually and in the same group of borrowers);
- (c) the lender, for economic or legal reasons relating to the borrower's or lessee's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider such as the rescheduling of the interest or principal payments;
- (d) is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) credible information indicating a measurable decrease in the estimated future cash flows of a group of financial assets from the date of the initial recognition, regardless of the fact that the decrease cannot be identified for each asset, including:
 - i.* unfavorable change in the payment behavior of the Group's debtors, or
 - ii.* national or local economic circumstances that can be correlated to the loss / depreciation of the Group's assets.

The Group first assesses whether objective evidence of impairment exists as described above, individually for loans to customers and net lease investments that are individually significant, and individually or collectively for loans to customers and net lease investments that are not individually significant.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

j) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

Loans and advances to customers and net lease investments (continued)

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the loans to customers and net lease investments in groups with similar credit risk characteristics and collectively assesses them for impairment. Loans and advances to customers and net lease investments that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralized loan and net lease investments reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, loans and advances to customers and net lease investments are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, grouping based on separated lines of business, type of loan, currency, maturity, debt service and so on).

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

Future cash flows in a group of loans and advances to customers and net lease investments that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans and net lease investments with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The Group regularly reviews the methodology and assumptions used to estimate future cash flows to reduce differences between estimated and actual losses.

Available for sale financial assets

For financial assets classified as available-for-sale, when a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity shall be released directly from equity and recognized in profit or loss even though the financial asset has not been derecognized.

The amount of the cumulative loss that is released from equity and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in income statement.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

j) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

Available for sale financial assets (continued)

Impairment losses recognized in income statement for an investment in an equity instrument classified as available for sale shall not be released through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed through income statement

(viii) Designation at fair value through profit and loss

The Group has designated financial assets and liabilities at fair value through profit and loss when:

- eliminates or significantly reduces an evaluation or recognition mismatch (“accounting error”) which might have arisen from the measurement of the assets and liabilities or from the recognition of their gain or loss based on different principles;
- they are part of a group of financial assets or liabilities managed, evaluated and reported to the management on a fair value basis according to the risk management documentation / investment strategy; or
- they are hybrid contracts through which an entity can reflect the entire contract at fair value through in profit and loss.

k) Cash and cash equivalents

Cash and cash equivalents comprise: cash on hand, unrestricted balances held at National Bank of Romania and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value.

Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

Notes to the consolidated financial statements

3. Significant accounting policies (*continued*)

l) Trading assets and liabilities

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

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the consolidated statement of the financial position and the transaction costs are taken directly to comprehensive income. All changes in fair value are recognized as part of net trading income in comprehensive income. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

m) Derivatives

(i) Derivatives held for risk management purposes

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

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in statement of comprehensive income as a component of net trading income.

(ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Group accounts for embedded derivatives separately from the host contract when the host contract is not itself carried through profit and loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separate embedded derivatives are accounted for depending on their classification, and are presented in consolidated statement of the financial position together with the host contract.

n) Loans and advances and net lease investments

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

When the Group is the lessor in a lease agreement that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances. Consumer loans granted by the Bank’s subsidiaries to customers are also included in net lease investments.

Loans and advances and net lease investments are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method as described in the accounting policy 3(d) above, except when the Group chooses to carry the loans and advances and net lease investments at fair value through profit or loss as described in accounting policy 3(j) (viii) above.

Notes to the consolidated financial statements

3. Significant accounting policies (*continued*)

n) Loans and advances and net lease investments (*continued*)

Loans and advances are stated at net value after the deducting of the provision for impairment. The provision is recorded for the loans and advances and net lease investments, identified as impaired based on continual assessment, to bring these assets to their recoverable amount.

o) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit and loss, available-for-sale or loans and receivables.

(i) Held to maturity

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Fair value through profit and loss

The Group carries some investment securities at fair value, with fair value changes recognized immediately in profit or loss as described in accounting policy 3(1).

(iii) Available for sale

Debt securities such as treasury bills issued by the Government of Romania are classified as available-for-sale assets.

The Group considered that the effective transaction prices would be between the informative BID-ASK quotations obtained, which are rather an interval within which the Group could have realistically negotiated the quotations for each series and taking into account the volume of its portfolio, and thus, the Group used in its estimation an average price for each series.

Other securities such as investments in unit funds are classified as available-for-sale assets and are carried at their market prices.

Other equity investments in listed or unlisted companies are classified as available-for-sale assets and are carried at the fair value. Where no reliable estimate of fair value is available, equity investments are stated at restated cost less impairment.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

o) Investment securities (continued)

(iii) Available for sale (continued)

Interest income is recognized in profit and loss using effective interest method. Dividend income is recognized in profit and loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit and loss.

Other fair value changes are recognized directly in equity until the investment is sold or impaired and the balance in equity is recognized in profit or loss.

(iv) Loans and advances

Investments in securities such as corporate bonds are classified as loans and advances and are held at amortized cost using effective interest rate method.

p) Property and equipment

(i) Recognition and measurement

Items of property and equipment are stated at their cost or revalued amount less accumulated depreciation value and impairment losses. Capital expenditure on property and equipment in the course of construction is capitalized and depreciated once the assets enter into use.

Leases in term of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(ii) Subsequent costs

The Group recognizes in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

(iii) Depreciation

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

Notes to the consolidated financial statements

p) Property and equipment (continued)

(iii) Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years
Leasehold improvements (average)	7 years
Computers	4 years
Furniture and equipments	3 – 24 years
Vehicles	4 - 5 years

The leasehold improvements are depreciated over the rental contract period, which varies between 1 and 52 years. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

q) Intangible assets

i) Goodwill and negative goodwill

Goodwill / (negative goodwill) arise on the acquisition of subsidiaries. Goodwill represents the difference between the cost of the acquisition and the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. When the difference is negative (negative goodwill), it is recognized immediately in profit and loss, after reanalyzing the manner of identification and valuation of the assets, liabilities and identifiable contingent liabilities and measurement of the acquisition cost.

Acquisition of non-controlling interests

Goodwill arising on the acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of buy.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Negative goodwill is recognized immediately in the income statement, after reassessment of the identification and measurement of the identifiable assets, liabilities and contingent liabilities and the measurement of the acquisition cost.

(ii) Software

Costs associated with developing or maintaining software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is three years.

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

r) Financial lease – lessee

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognized on the Group's consolidated statement of financial situation.

s) Impairment of non-financial assets

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss in other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

t) Deposits from customers

Deposits from customers are initially measured at fair value plus transaction costs, and subsequently measured at amortized cost using the effective interest method.

u) Debt securities issued and loans from banks and other financial institutions

Borrowings such as loans from banks and other financial institutions and debt securities issued are recognized initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs occurred. Debt securities and loans from banks and other financial institutions are subsequently stated at amortized cost.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

v) Provisions

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

Notes to the consolidated financial statements

3. Significant accounting policies (*continued*)

w) Financial guarantees

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

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

x) Employee benefits

(i) Short term benefits

Short-term employee benefits include wages, salaries, bonuses and social security contributions. Short-term employee benefits are recognized as expense when services are rendered.

(ii) Defined contribution plans

The Bank and its subsidiaries, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension, health care and unemployment benefit. All employees of the Bank and its subsidiaries are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognized as an expense in the income statement as incurred. The Bank and its subsidiaries do not have any further obligations. The Bank and its subsidiaries do not operate any independent pension scheme and, consequently, have no obligation in respect of pensions. The Bank and its subsidiaries do not operate any other post retirement benefit plan. The Bank and its subsidiaries have no obligation to provide further services to current or former employees

(iii) Other benefits

Based on the decision of the shareholders, the Board of Directors of the Bank decides in respect of the number of shares included in the employee fidelity plan. The grant-date fair value of share-based payment awards - stock options – granted to employees is recognized as personnel expenses, with a corresponding increase in equity, over the period in which actual reward of the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the value of awards for which the related service and non-market related performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market related performance conditions at the vesting date.

y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

Notes to the consolidated financial statements

3. Significant accounting policies (*continued*)

z) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

aa) Own shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group’s own equity instruments.

ab) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these consolidated financial statements:

- IFRS 11, “Joint Arrangements” (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early). IFRS 11, “Joint Arrangements”, supersedes and replaces IAS 31, “Interest in Joint Ventures”. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows: a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement and a joint venture is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement. IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation. The Bank does not expect IFRS 11 to have material impact on the consolidated financial statements since it is not a party to any joint arrangements.
- IFRS 12, “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively; earlier application is permitted). IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities. The Bank does not expect the new standard will have a material impact on the consolidated financial statements.

Notes to the consolidated financial statements

3. Significant accounting policies (*continued*)

ab) New standards and interpretations not yet adopted (*continued*)

- Amendments to IAS 1, “Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income” (effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively; earlier application is permitted). The amendments: a) require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections; b) change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used. The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application.
- IFRS 13, “Fair Value Measurement” (effective prospectively for annual periods beginning on or after 1 January 2013; earlier application are permitted. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Bank is currently assessing the possible implications of the IFRS 13 on the separate financial statements.
- Amendments to IAS 12, “Deferred Tax: Recovery of Underlying Assets” (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Earlier application is permitted). The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management’s intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset’s economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted. The amendments are not relevant to the Bank’s consolidated financial statements, since the Bank does not have any investment properties measured using the fair value model in IAS 40.
- IAS 19, “Employee Benefits” (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively; transitional provisions apply; earlier application is permitted). The amendment requires actuarial gains and losses to be recognized immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognizing actuarial gains and losses, and eliminates the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognized in profit or loss to be calculated based on rate used to discount the defined benefit obligation. The amendments are not relevant to the Bank’s consolidated financial statements, since the Bank does not have any defined benefit plans.

Notes to the consolidated financial statements

3. Significant accounting policies (*continued*)

ab) New standards and interpretations not yet adopted (*continued*)

- IAS 28, “Investments in Associates and Joint Ventures” (amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively; earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 are also applied early.) There are limited amendments made to IAS 28: a) associates and joint ventures held for sale. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture; b) changes in interests held in associates and joint ventures. Previously, IAS 28 and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 now requires that in such scenarios the retained interest in the investment is not remeasured. The Bank does not expect the amendments to standard to have material impact on the consolidated financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.
- Amendments to IAS 32, “Offsetting Financial Assets and Financial Liabilities” (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively; earlier application is permitted, however the additional disclosures required by amendments to IFRS 7, “Disclosures - Offsetting Financial Assets and Financial Liabilities” must also be made). The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments clarify that an entity currently has a legally enforceable right to set-off if that right is: not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Bank does not expect the amendments to have any impact on the consolidated financial statements since it has not entered into master netting arrangements.
- IFRS 9 Financial Instruments – Effective for annual periods beginning on or after 1 January 2015; to be applied prospectively; earlier application is permitted. This Standard replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost or financial assets measured at fair value. A financial asset is measured at amortized cost if the following two conditions are met: the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Gains and losses on re-measurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date.

Notes to the consolidated financial statements

3. Significant accounting policies (*continued*)

ab) New standards and interpretations not yet adopted (*continued*)

However, the Bank is not able to prepare an analysis of the impact this will have on the consolidated financial statements until the date of initial application. The Bank has not yet decided on the date that it will initially apply the new Standard. This standard had not yet been adopted by the European Union.

- IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2014). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:
 - it is exposed or has rights to variable returns from its involvements with the investee;
 - it has the ability to affect those returns through its power over that investee; and
 - there is a link between power and returns.

The Bank is currently in the process of evaluating the potential effect of IFRS 10 on the consolidated financial statements.

Notes to the consolidated financial statements

4 Financial risk management

a) Introduction

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

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

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

Risk management framework

The risk management is an important part of all the decisional and business processes within the Group.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Executive Management Committee, the Banking Risk Management Technical Committee, Technical Committee for the Management of Assets and Liabilities (CTALCO), Technical Committee on Operations Risk, Technical Committee of Audit, Compliance and Internal Control, Technical Committee of Analysis of the Internal Regulations, Politics and Credit Approval Technical Committee, Credit and Risk Committees from the Banks' s headquarter (credit approval), Credit and Risk Committee from the branches / agencies that are responsible for formulating and / or monitoring of risk management policies in their area of expertise. Board of Directors periodically reviews the activity of these committees.

The Board of Directors monitors the compliance with Group risk policies and the improvement of the general risk management frame in connection with risks at which the Group is exposed to.

The Group's strategy regarding significant risk management focuses over the realization of the budgeted ratios in a controlled risk environment which ensures both the normal continuity of the business and the protection of the shareholders and clients' interest. The Group ensures that its risk management strategy is adequate in terms of undertaken risk profile, nature, size and business complexity and also in correlation with its business plan.

Risk management policies and systems are reviewed regularly (mainly annually) with the participation of the Executive Management Committee, Risk Management Technical Committee and persons responsible from different Departments involved in order to reflect the changes in the market conditions, products and services provided.

The process of crisis simulation is an integral part of risk management process.

Notes to the consolidated financial statements

4 Financial risk management (*continued*)

a) Introduction

The Group's Audit Committee reports to Board of Directors and is responsible for monitoring compliance with the Bank's risk management procedures. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Board of Directors and management committees of the subsidiaries which constitute the Group have responsibilities regarding significant risk management in correlation with their business characteristic and the legislation in force.

b) Credit risk

(i) Credit risk management

The Group is exposed to credit risk through its trading, lending, leasing and investing activities and in cases where it issues guarantees. Credit risk associated with trading and investing activities is managed through the Group's market risk management process. The risk is mitigated through selecting counterparties of good credit standings and monitoring their activities and ratings and through the use of exposure limits and when appropriate, obtains collateral.

The Group's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Group is exposed to credit risk on various other financial assets, including derivative instruments and debt investments, the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the Consolidated statement of financial situation. In addition, the Group is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued (see Note 34).

In order to minimize the risk, the Group has certain procedures meant to assess the clients before granting the loans, to observe their capacity of reimbursing the principal and related interests during the entire period of the loans and to establish exposure limits. In addition, the Group has procedures for monitoring the risk in the loan portfolio and has established exposure limits on the types of loans, the economic sectors, the types of collateral, the maturity of loans and so on.

The Board of Directors delegated the responsibility for credit risk management to the Executive Management Committee, Banking Risk Management Technical Committee ("BRMTC"), Technical Committee of Politics and Credit Approval, Credit and Risk Committees from the Bank's headquarters (credit approval), Credit and Risk Committee from the branches / agencies at local level. Furthermore, inside the Group operates the Risk Management Direction, which reports to the Central Committee previously presented and has attributions regarding:

- Identification and assessment of specific risks within the loan activity;
- Following the internal regulations specific for the loan activity;
- Elaborating proposals for reducing specific risks, in order to maintain healthy standards for the loan activity;
- Monitoring the granted loans, in accordance with the client's financial performance, the type of the credit, the nature of the collateral and debt service, according to the internal norms of the loan activity;

Notes to the consolidated financial statements

4 Financial risk management (continued)

b) Credit risk (continued)

(i) Credit risk management (continued)

- Approval and application of ratios computation in respect of granting / modifying the competencies of granting loans for the branches, according to specific internal policies;
- Periodic review and recommendation of the risk levels accepted by Banca Transilvania to the Technical Committee of Banking Risk Management;
- Identifying, monitoring and controlling the credit risk at branch level;
- Insuring the compliance with the internal regulations, the BNR norms and the active legislation for the loan activity carried out by the local units;
- Elaboration of proposal for reducing specific risks, in order to maintain certain loan granting standards at each branch level;
- Risk analysis for new credit products / changes of credit products, including recommendations to the involved directions;
- Approval of the computation for the exposure limits per counterparties;
- Receives proposals from the specialty directions and collaborates with them to the actualization;
- Periodically presents reports to the Board of Directors and BRMTC regarding the evolution of the significant risks (the implications of risk correlation, forecasts etc);
- Analysis of loan portfolio both individually and as Bank of financial assets with similar characteristics to determine if there is any objective evidence of impairment, and assessment of impairment losses, related provisioning in accordance with IFRS.

Each Branch / Agency implements at local level the Group policies and regulations regarding the credit risk, having loan approval competencies established by the Executive Management Committee. Each Branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

The Internal Audit Department and the Risk Inspection Department inside the Risk Management Direction carries out periodical verifications of the branches and agencies.

The Group classified the exposures according to the risk level of the potential financial losses. The risk classification system is used for assessing the risk monitoring activities and the rapport with the customers. The scoring system reflects different levels of the non-payment risk and is reviewed periodically.

Credit risk exposure

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

Notes to the consolidated financial statements

4 Financial risk management (*continued*)

b) Credit risk (*continued*)

Total on and off balance sheet economic sector risk concentrations are presented in the table below:

	31 December 2012	31 December 2011
Individuals	32.67%	33.76%
Trading	16.70%	17.47%
Production	15.21%	14.87%
Construction	7.54%	7.67%
Services	5.36%	5.17%
Transport	4.47%	4.60%
Real estate	2.54%	2.74%
Agriculture	4.51%	3.45%
Free lancers	1.70%	1.77%
Energy industry	2.44%	1.82%
Chemical industry	1.00%	1.86%
Telecommunication	0.66%	0.65%
Mining industry	0.67%	1.10%
Governmental bodies	0.14%	0.15%
Financial Institutions	1.78%	0.61%
Fishing industry	0.06%	0.03%
Others	2.55%	2.28%
Total	100%	100%

At 31 December 2012, total on and off balance sheet exposures was RON 21,971,832 thousand (31 December 2011: RON 19,666,290 thousand).

The amounts reflected in the previous paragraph reflect the maximum accounting loss that would be recognized at reporting date if the customers failed completely to perform as contracted and any collateral or security proved to be of no value.

The Group holds collateral against loans and advances to customers in the form of pledge over cash deposits, mortgage over property, guarantees and other pledge over equipments and/or receivables. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks.

The Group writes off a loan / security balance (and any related allowances for impairment losses) when it determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Notes to the consolidated financial statements

4 Financial risk management (continued)

b) Credit risk (continued)

The Group uses ratings associated with financial performance for the individually tested loans as well as for the collective assessed ones, According to Group policies, each credit risk grade can be associated with a certain rating, starting with the lowest risk rating (1) to (6), highest risk rating. The risk rating classification of the loans and advances to customers is determined based on the Group's customers payment behaviour and potential losses indicators identified in the individual analysis, risk rating (6) being associated with the overdue loan more than 90 days and the exposures for which the legal procedures of debt recovery were initiated.

The credit risk exposures for loans and advances to customers and net lease investments at 31 December 2012 and 2011 are presented below:

The classification of the loans is based on the payment behavior of the customers of the Group and potential evidence of impairment allowances identified in the individual analysis, the last category generally consist of past due loans and exposures for which legal actions were taken.

<i>In thousand RON</i>	Loans and advances granted to customers and net lease investment		<i>In thousand RON</i>	Loans and advances granted to customers and net lease investment	
	Note	31 December 2012		Nota	31 December 2012
			<i>Past due but not individually impaired</i>		
<i>Past due and individually impaired</i>			Grade 1-2		2,044,004
Grade 3		716,302	Grade 3		1,108,972
Grade 4		251,297	Grade 4		121,421
Grade 5		134,589	Grade 5		99,523
Grade 6		<u>2,240,359</u>	Gross amount		<u>3,373,920</u>
Gross amount		<u>3,342,547</u>	Allowance for impairment	19,20	<u>(147,805)</u>
Allowance for impairment	19,20	<u>(2,059,598)</u>	Net carrying amount		<u>3,226,115</u>
Net carrying amount		<u>1,282,949</u>			
			<i>Past due comprises</i>		
<i>Neither past due nor impaired</i>			1-15 days		2,597,667
Grade 1-2		10,295,962	15 - 30 days		165,313
Grade 3		632,174	30 - 60 days		289,596
Grade 4		<u>155,088</u>	60 - 90 days		226,869
Gross amount		<u>11,083,224</u>	90 - 120 days		63,952
Allowance for impairment	19,20	<u>(28,339)</u>	120+ days		<u>30,523</u>
Net carrying amount		<u>11,054,885</u>	Total		<u>3,373,920</u>
Total net carrying amount		<u>15,563,949</u>			

Notes to the consolidated financial statements

4 Financial risk management (*continued*)

b) Credit risk (*continued*)

<i>In thousand RON</i>		Loans and advances granted to customers and net lease investment 31 December 2011	<i>In thousand RON</i>		Loans and advances granted to customers and net lease investment 31 December 2011
	Note			Nota	
<i>Past due and individually impaired</i>			<i>Past due but not individually impaired</i>		
Grade 4		838,786	Grade 1-2		1,734,334
Grade 5		325,598	Grade 3		688,715
Grade 6		1,634,905	Grade 4		368,209
Gross amount		2,799,289	Grade 5		68,153
Allowance for impairment	19,20	(1,600,384)	Gross amount		2,859,411
Net carrying amount		1,198,905	Allowance for impairment	19,20	(137,229)
<i>Neither past due nor impaired</i>			Net carrying amount		2,722,182
Grade 1-2		9,706,047	<i>Past due comprises</i>		
Grade 3		604,346	1-15 days		2,057,433
Gross amount		10,310,393	15-30 days		406,668
Allowance for impairment	19,20	(46,385)	30 - 60 days		334,666
Net carrying amount		10,264,008	90-120 days		58,245
Total net carrying amount		14,185,095	120 days +		2,399
			Total		2,859,411

In addition, the Group has lending commitments at 31 December 2012 of RON 4,172,141 thousand (31 December 2011: RON 3,697,250 thousand), mainly with counterparties graded 1-3.

Placements with banks and investments securities are neither past due nor impaired.

Past due and individually impaired loans

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

Notes to the consolidated financial statements

4 Financial risk management (continued)

b) Credit risk (continued)

Past due but not individually impaired loans

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

Allowances for impairment

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

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group's Risk Committee/ Board of Directors determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over land and buildings, property, inventory, insurance policies, financed assets that represent objects of the lease agreements, on which the Group has the ownership right until the end of the contracts, and other guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and periodical updates on collaterals.

An estimate of the value of collateral and other security enhancements held against loans to customers is shown below:

Notes to the consolidated financial statements

4 Financial risk management (*continued*)

b) Credit risk (*continued*)

<i>In thousand RON</i>	31 December 2012	31 December 2011
<i>Against past due and individually impaired</i>		
Property	1,888,145	1,707,007
Debt securities	323,170	379,491
Other (*)	680	65,243
	2,211,995	2,151,741
<i>In thousand RON</i>	31 December 2012	31 December 2011
<i>Against past due but not individually impaired</i>		
Property	2,952,004	2,603,650
Debt securities	440,665	342,365
Other	95,621	178,752
	3,488,290	3,124,767
<i>Against neither past due nor impaired</i>		
Property	10,423,197	9,719,172
Debt securities	1,899,068	1,533,858
Other	193,840	545,408
	12,516,105	11,798,438
Total	18,216,390	17,074,946

(*) In 2011 in other guarantees there were included the individual credit risk insurance policies.

At 31 December 2012, the Group recorded loans and leases affected by restructuring operations, net impairment adjustment in amount of RON 401,475 thousand (31 December 2011: RON 312,242 thousand).

Exposure to higher risk Eurozone countries

Significant concerns about the creditworthiness of certain Eurozone countries persisted during 2012 leading to speculation as to the long-term sustainability of the Eurozone. The deepening recession in a number of countries, the wider political and economic consequences of fiscal austerity programs and other government actions, and concerns about the viability of some countries' financial institutions have led to increased volatility of spreads on sovereign bonds that have peaked at times during the past year at worrying levels. Most recently, certain actions undertaken by the European Central Bank and European Commission have led to positive results in terms of improving market confidence. However, the situation remains fragile.

Notes to the consolidated financial statements

4 Financial risk management (*continued*)

b) Credit risk (*continued*)

The Bank has a reduced exposure towards Cyprus, as at 31 December 2012 the loans and advances to customers being in a total amount of RON 4,133 thousand - 0.02% from the total portfolio of the Bank (provision made in amount of RON 23 thousands), as at 31 December 2011 of RON 4,735 thousand – 0.03% from the total portfolio (provision made in amount of RON 6 thousand) and customers' deposits amounting to RON 21,483 thousand (31 December 2011: RON 16,448 thousand), the reason for which the Bank considers the risk regarding the exposure as low.

c) Liquidity risk

Liquidity risk is generated by the Bank's inability to meet its payment obligations outstanding at their due date. Liquidity risk has 2 components: the difficulties in procuring funds on the relative maturity date, necessary to refinance current assets or the inability to convert an asset into cash at a value near its fair value, in a reasonable period of time. The Bank is concerned to counteract this type of risk.

The Group has access to diverse funding base. Funds are raised using a broad range of instruments including bank deposits from customers or banks, loans from development institutions and financial institutions and share capital. Access to diverse funding sources improves flexibility to attract funds, limiting dependence on one type of financing and on one type of partner and lead to an overall decrease of costs of fundraising. The group tries to maintain a balance between continuity and flexibility of attracting funds, through contracting debts with different maturities and different currencies. The Group continually assesses liquidity risk by identifying and monitoring changes in funding, and diversifying the funding sources.

Technical Committee for the Management of Assets and Liabilities (CTALCO) is responsible for the periodical review of the liquidity indicators and for the establishment of corrective actions on the balance structures in order to eliminate unacceptable deviations in terms of liquidity risk management.

The Group performs monthly crisis simulations for liquidity risk.

The financial assets and liabilities of the Group analyzed over the remaining period from the balance sheet date to contractual maturity are as at 31 December 2012 and 31 December 2011 as follows:

Notes to the consolidated financial statements

4. Financial risk management (continued)

b) Liquidity risk (continued)

<i>In RON thousand</i>	Up to 3 months	3 – 6 months	6 – 12 months	1 – 3 years	3 – 5 years	Over 5 years	Without maturity	Total
31 December 2012								
Financial assets								
Cash and cash equivalents	5,579,088	-	-	-	-	-	-	5,579,088
Placements with banks	1,330,969	-	-	54,211	9,999	9,994	-	1,405,173
Financial assets at fair value through profit and loss	64,228	53	1,084	316	905	1,478	57,787	125,851
Loans and advances to customers	2,501,558	2,114,383	2,911,197	2,564,878	1,549,732	3,719,515	-	15,361,263
Net lease investments	47,732	18,694	30,237	76,549	25,103	4,371	-	202,686
Financial assets available for sale	5,825,774	10	46,707	249,371	206,663	71,988	19,541	6,420,054
Held-to-maturity investments	-	-	-	-	-	-	-	-
Investment in associates entities	-	-	-	-	-	-	25,858	25,858
Other assets	163,826	4,524	4,521	1,648	304	4	-	174,827
Total financial assets	15,513,175	2,137,664	2,993,746	2,946,973	1,792,706	3,807,350	103,186	29,294,800
Financial liabilities								
Deposits from banks	45,651	302	-	-	-	-	-	45,953
Deposits from customers	15,848,077	3,451,093	1,502,474	890,138	1,383,904	91,442	-	23,167,128
Loans from banks and other financial institutions, other subordinated loans	1,775,641	97,918	406,189	896,360	117,047	31,599	-	3,324,754
Other liabilities	322,297	3,293	3,828	1,115	126	164	-	330,823
Total financial liabilities	17,991,666	3,552,606	1,912,491	1,787,613	1,501,077	123,205	-	26,868,658
Maturity surplus / (shortfall)	(2,478,491)	(1,414,942)	1,081,255	1,159,360	291,629	3,684,145	103,186	2,426,142

Notes to the consolidated financial statements

4. Financial risk management (continued)

b) Liquidity risk (continued)

<i>In thousand RON</i>	Up to 3 months	3 – 6 months	6 – 12 months	1 – 3 years	3 – 5 years	Over 5 years	Without maturity	Total
31 December 2011								
Financial assets								
Cash and cash equivalents	4,550,256	-	-	-	-	-	-	4,550,256
Placements with banks	630,751	98,819	169	14,988	24,258	9,992	-	778,977
Financial assets at fair value through profit and loss	79,695	-	-	-	-	-	60,856	140,551
Loans and advances to customers	2,301,783	1,721,216	2,513,245	2,236,234	1,405,157	3,800,020	-	13,977,655
Net lease investments	57,703	18,947	34,997	71,481	24,250	10	-	207,388
Financial assets available for sale	5,377,395	20,503	86,526	207,730	86,216	26,305	12,103	5,816,778
Held-to-maturity investments	39	780	-	-	-	-	-	819
Investment in associates entities	-	-	-	-	-	-	-	-
Other assets	130,984	3,365	3,862	1,106	433	14	-	139,764
Total financial assets	13,128,606	1,863,630	2,638,799	2,531,539	1,540,314	3,836,341	72,959	25,612,188
Financial liabilities								
Deposits from banks	251,181	-	-	-	-	-	-	251,181
Deposits from customers	14,493,451	2,792,203	675,616	1,174,223	1,050,196	71,562	-	20,257,251
Loans from banks and other financial institutions, other subordinated loans	1,457,146	70,888	152,801	757,375	388,920	26,000	-	2,853,130
Other liabilities	225,701	12,231	14,100	1,792	1,272	288	-	255,384
Total financial liabilities	16,427,479	2,875,322	842,517	1,933,390	1,440,388	97,850	-	23,616,946
Maturity surplus / (shortfall)	(3,298,873)	(1,011,692)	1,796,282	598,149	99,926	3,738,491	72,959	1,995,242

Notes to the consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk

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

Exposure to market risk – trading portfolio

The Group controls its exposure to market risk by daily monitoring the market value of the trading portfolio relating to a system of limits of "stop loss" type approved by the Technical Committee for the Management of Assets and Liabilities. The trading portfolio comprises: fixed-income securities issued in Romania or on the European markets (government bonds, bonds whose issuer is rated not less than the sovereign rating) denominated in RON, EUR, USD and shares issued by Romanian entities traded on the Bucharest Stock Exchange (that are not directly exposed to interest and foreign exchange risk, being exposed to price risk).

Exposure to interest rate risk –non-trading portfolio

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates or related indices.

The main sources for interest risk are the imperfect correlations between the maturity date (for fixed interest rates) or the date of price actualization (for variable interest rate) for assets and liabilities that carry interest, the adverse evolution of the yield curve (the unparallel evolution of interest yield for interest bearing assets and liabilities), the imperfect correlation in the adjustment of interest gained and paid for different financial instruments with repricing characteristics that are similar and the options incorporated in the Group's products.

The management of interest bearing assets and liabilities is performed similar in the context of Group's exposure to the fluctuations of interest rates. Generally, the Group is more sensitive to instruments denominated in foreign currency due to the fact that the assets registered in the foreign exchange (that carry interest) have a bigger lifespan even though the adjustment of interest is correlated with the liabilities that carry interest, registered in foreign currency.

The Group is less affected by the interest risk that comes from instruments denominated in local currency, due to the fact that the majority of the assets and liabilities carry variable interest rates or are carrying interest that can be assimilated to variable interest rate.

The Group uses a mix of instruments that carry interest, fixed and variable, to administrate the non-correlation between the dates on which the active and passive interest are set to the market interest or between the maturity dates of those instruments.

The interest rate risk is managed mainly by monitoring the GAP regarding the interest rate and through a system of limits and indicators approved by time intervals on which the prices are realign. The Technique Committee for Risk Management of Assets and Liabilities is the management authority that monitors the fulfillment of these limits, being assisted in the daily tasks by the Treasury Department.

Managing interest rate risk within the variation limits of the interest rate is supplemented by monitoring the sensitivity of the Group financial assets and liabilities in different standard scenarios of interest rate. The monthly standard scenarios include the parallel decrease or increase of the interest curve with 100 and 200 basis points.

Notes to the consolidated financial statements

4. Financial risk management (*continued*)

d) Market risk (*continued*)

Interest rate risk (continued)

An analysis of the Group's interest carrying assets and liabilities sensitivity to the increase or decrease in the market interest rates is set out below:

	200 basis points Increase RON thousand	200 basis points Decrease RON thousand	100 basis points Increase RON thousand	100 basis points Decrease RON thousand
At 31 December 2012				
Average for the period	(4,984)	4,984	(2,492)	2,492
Minimum for the period	(44,260)	44,260	(22,130)	22,130
Maximum for the period	14,704	(14,704)	7,352	(7,352)
At 31 December 2011				
Average for the period	(4,711)	4,711	(2,355)	2,355
Minimum for the period	(31,455)	31,455	(15,728)	15,728
Maximum for the period	5,514	(5,514)	2,757	(2,757)

In the sensitivity analysis regarding interest rate variation the Group has computed the impact over the interest margin over the future financial year by taking into consideration the interest rate resetting date for assets and liabilities recorded in the separate statement of the financial position as follows: the Group divided the assets and liabilities bearing fixed interest rate from the ones bearing variable interest rate and for each category the following split was made: less than 1 month, 1 – 3 months, 3 – 6 months, 6 – 12 months, 1 – 2 years, 2 - 3 years, 3 – 4 years, 4 - 5 years, 5 – 7 years, 7 - 10 years, 10 – 15 years, 15 – 20 years and over 20 years; for the assets and liabilities with variable interest rate the future interest cash flows were recomputed by modifying the interest rate by +/- 100 and 200 basis points.

Based on the Group's sensitivity analysis according to the methodology presented above it can be observed that the impact over the Group's profit is limited. The highest impact is recorded for the interval 6-12 months, fact that gives the Group sufficient time to adjust to the financial market conditions. The average for the period included in the table above represents the average monthly impact of the change in interest rates over the Bank's profit (according to the methodology presented above) and the minimum and maximum included represents the annual potential impact of the change in interest rates over the profit for the time interval 6-12 months, and the maximum represent the potential annual impact of the change in interest rates over the profit on the interval over 1 year up to 2 years.

The interest rates related to the local currency and the major foreign currencies as at 31 December 2012 and 2011 were as follows:

Currency	Interest rate	31 December 2012	31 December 2011
Leu (RON)	Robor 3 months	6.05%	6.05%
Euro (EUR)	Euribor 3 months	0.187%	1.356%
Euro (EUR)	Euribor 6 months	0.320%	1.617%
US Dollar (USD)	Libor 6 months	0.40890%	0.8085%

Notes to the consolidated financial statements

4. Financial risk management (continued)

d) Market risk (continued)

Interest rate risk (continued)

A summary of the Group's interest rate gap position on interest bearing instruments as at 31 December 2012 is as follows:

<i>In RON thousand</i>	Less than 6 months	6 – 12 months	1 – 3 years	3 – 5 years	More than 5 years	Non sensitive	Total
Financial assets							
Cash and cash equivalents	5,579,088	-	-	-	-	-	5,579,088
Placements with banks	1,330,969	-	54,211	9,999	9,994	-	1,405,173
Financial assets at fair value through profit and loss	122,068	1,084	316	905	1,478	-	125,851
Loans and advances to customers	13,556,852	619,103	422,766	343	792	761,407	15,361,263
Net lease investments	193,678	3,321	5,525	90	-	72	202,686
Financial assets available for sale	5,843,307	46,697	249,330	206,622	71,834	2,264	6,420,054
Held to maturity investments	-	-	-	-	-	-	-
	26,625,962	670,205	732,148	217,959	84,098	763,743	29,094,115
Financial liabilities							
Deposits from banks	45,953	-	-	-	-	-	45,953
Deposits from customers	19,292,781	3,809,961	11,907	10,503	41,976	-	23,167,128
Loans from banks and other financial institutions, other subordinated loans and debt securities	2,717,806	4	600,616	6,328	-	-	3,324,754
	22,056,540	3,809,965	612,523	16,831	41,976	-	26,537,835
Net position	4,569,422	(3,139,760)	119,625	201,128	42,122	763,743	2,556,280

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

d) Market risk (continued)

Interest rate risk (continued)

A summary of the Group's interest rate gap position on interest bearing instruments as at 31 December 2011 is as follows:

<i>In RON thousands</i>	Less than 6 months	6 – 12 months	1 – 3 years	3 – 5 years	More than 5 years	Non sensitive	Total
Financial assets							
Cash and cash equivalents	4,550,256	-	-	-	-	-	4,550,256
Placements with banks	729,570	169	14,988	24,258	9,992	-	778,977
Financial assets at fair value through profit and loss	140,551	-	-	-	-	-	140,551
Loans and advances to customers	12,773,772	488,977	322,281	1,066	937	390,622	13,977,655
Net lease investments	188,706	12,725	5,767	190	-	-	207,388
Financial assets available for sale	5,408,016	86,513	207,679	86,164	26,087	2,319	5,816,778
Held to maturity investments	819	-	-	-	-	-	819
	23,791,690	588,384	550,715	111,678	37,016	392,941	25,472,424
Financial liabilities							
Deposits from banks	251,181	-	-	-	-	-	251,181
Deposits from customers	17,140,449	2,908,968	139,718	13,068	55,048	-	20,257,251
Loans from banks and other financial institutions, other subordinated loans and debt securities	2,693,261	-	-	159,869	-	-	2,853,130
	20,084,891	2,908,968	139,718	172,937	55,048	-	23,361,562
Net position	3,706,799	(2,320,584)	410,997	(61,259)	(18,032)	392,941	2,110,862

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

4. Financial risk management (continued)

d) Market risk (continued)

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies against RON. Currency Risk Management Group is based on strict position limits and "stop-loss", monitored in real time. There is also a balance sheet risk that the net monetary assets and liabilities in foreign currencies will take a different value when translated into RON as a result of currency movements.

The Group performs monthly crisis simulations for the currency risk.

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2012 are presented below:

<i>In RON thousands</i>	RON	EUR	USD	Other	Total
Monetary assets					
Cash and cash equivalents	3,412,795	1,954,623	174,317	37,353	5,579,088
Placement with banks	117,863	961,433	261,594	64,283	1,405,173
Financial assets at fair value through profit and loss	117,306	8,545	-	-	125,851
Loans and advances to customers	10,203,969	4,876,004	281,290	-	15,361,263
Net lease investments	46,386	156,300	-	-	202,686
Financial assets available for sale	4,395,445	1,905,315	119,294	-	6,420,054
Held-to-maturity investments	-	-	-	-	-
Investments in associates	25,858	-	-	-	25,858
Other assets	155,418	16,262	1,710	1,437	174,827
Total monetary assets	18,475,040	9,878,482	838,205	103,073	29,294,800
Monetary liabilities					
Deposits from banks	45,253	388	304	8	45,953
Deposits from customers	13,961,498	8,308,006	805,020	92,604	23,167,128
Loans from banks and other financial institutions, and other subordinated loans	1,700,845	1,602,658	21,251	-	3,324,754
Other liabilities	279,676	44,014	5,029	2,104	330,823
Total monetary liabilities	15,987,272	9,955,066	831,604	94,716	26,868,658
Net currency position	2,487,768	(76,584)	6,601	8,357	2,426,142

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

4. Financial risk management (continued)

d) Market risk (continued)

Currency risk (continued)

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2011 are presented below:

<i>RON thousands</i>	RON	EUR	USD	Other	Total
Monetary assets					
Cash and cash equivalents	2,720,527	1,659,170	148,762	21,797	4,550,256
Placement with banks	414,907	118,697	173,664	71,709	778,977
Financial assets at fair value through profit and loss	135,834	4,717	-	-	140,551
Loans and advances to customers	8,843,765	4,827,950	305,940	-	13,977,655
Net lease investments	46,075	161,313	-	-	207,388
Financial assets available for sale	4,344,866	1,441,232	30,680	-	5,816,778
Held-to-maturity investments	819	-	-	-	819
Investments in associates	-	-	-	-	-
Other assets	128,771	8,625	1,196	1,172	139,764
Total monetary assets	16,635,564	8,221,704	660,242	94,678	25,612,188
Monetary liabilities					
Deposits from banks	250,621	264	284	12	251,181
Deposits from customers	12,977,681	6,556,319	656,434	66,817	20,257,251
Loans from banks and other financial institutions, other subordinated loans	1,276,023	1,550,392	26,715	-	2,853,130
Other liabilities	202,632	41,773	8,417	2,562	255,384
Total monetary liabilities	14,706,957	8,148,748	691,850	69,391	23,616,946
Net currency position	1,928,607	72,956	(31,608)	25,287	1,995,242

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Notes to the consolidated financial statements

4. Financial risk management (*continued*)

e) Taxation risk

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

Effective from 1 January 2012, IFRS implementation has been consideration for the revision of tax legislation in order to introduce particular rules for the treatment of adjustments resulted at the implementation stage and afterwards. The fiscal authorities regulated in time the tax implications on both tax neutrality of IFRS implementation and on budgetary sources, by often amending related legislation.

In this context, careful analysis was performed in identification of differences in accounting treatment, having tax impact, both in terms of current tax and deferred tax.

It is expected that also in the future the tax framework will be subject to frequent amendments as a consequence of the state budgetary needs or as a result of the Romania's obligations as an EU Member State. Given the precedents, they may have retroactive application.

f) Operating environment

After 3 years of fiscal adjustment, the economic growth is still the main challenge of Romania. The GDP rose by 0.2 % in 2012, registering a downfall from 2.2 % in 2011. The slowing of the economic growth rhythm was generated mainly by a poor year in the agricultural sector correlated with a negative base effect on this sector (2011 being a good year of agriculture). The two factors lead to a negative contribution to the GDP growth, approximately 1 percent. Also, the economy was affected by the recession in the Euro Zone, with a negative effect on exports and industrial production. The construction sector has maintained on growth, but the dynamics has slowed down due to budgetary restrictions and the presuspension of financing obtained from EU Structural Found (which affected the public sector investments in the second half of the year). The services sector had the biggest contributions to the economic growth in 2012, mainly by sub-components of IT and communications, internal commerce and real estate transactions. The process of adjustments of macroeconomic imbalances continued in 2012.

Even though the current account deficit of Romania decreased to 3.8% of the GDP in 2012 (from 4.5% in 2011), the adjustment of commercial deficit was very slow. The growth of competitiveness based on prices for exports, due to the depreciation of the local currency, turn out to be insufficient in the context of recession in the Euro Zone and base on the context of a decreasing external demand. In the same time, the low elasticity to price of imports regarding food and energy and the increasing of prices lead to a slow adjustment of Romania's imports.

The Group's management estimates for 2013 a high level of impairment provisions on loans, level maintained compared to 2012 with corresponding effects on the Group's consolidated financial statements. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances by:

- continuous improvement of risk management framework;
- constant monitoring of relevant indicators for the Group's financial stability an strength;
- better control of costs, increase of work efficiency
- maintain the quality of the Group's assets; a proper provisioning policy.

Notes to the consolidated financial statements

4. Financial risk management (continued)

f) Operating environment (continued)

- continuing increase of the portfolio of corporate clients by identifying and lending of the mature, healthy businesses which survived to the crisis and defending the existing customers;
- maintaining competitive advantage and increase of loans for the agricultural sector.
- increasing the number of retail customers through the development of banking products and services packages on classes/categories of customers;
- improving customer service concept, based on cross-selling, finding fast solutions.

g) Operational risks

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

The Group's objective is to manage operational risk in order to fulfill its objectives to ensure reasonable performance (efficiency and effectiveness), information (credibility, integrity, continuity) and to mitigate damage resulting from the materialization of this risk category.

In order to reduce the inherent risks due to bank's operational activities it was developed a general framework to manage those risks. The development and update of this framework referring to politics, norms and procedures is the responsibility of the Directorate of Operational Risk Department and comprises policies, procedures and regulations regarding the operational risk management as part of corporate governance.

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

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for implementing the principle of dual control in the transactions and any other activity associated with a significant level of risk;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- relevant indicators and acceptability limits regarding the operational risks;
- requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- a formalized approach over the continuity of the business with a focus on IT infrastructure (public services, hardware, software, human resources) due to its high degree of support during the activity;
- training and professional development for all business line and for all the Bank employees; development of ethical and business standards;

Notes to the consolidated financial statements

4. Financial risk management (continued)

g) Operational risks (continued)

- monitoring transactions in the employees' accounts;
- IT- risk in terms of operational risk;
- calculation of the capital adequacy in terms of operational risk;
- implementing an internal alert mechanism for employees, through which, they can draw attention to legitimate and substantial concerns about the bank's activity;
- risk mitigation, including insurance where applicable.

Department of Internal Audit, Operational Risk Management Department and Executive Management of the Bank monitors compliance with the Group through regular inspections. The results of internal audit, operational risk monitoring and control are discussed with management of the audited entities, and the summary is submitted to the Technical Committee Compliance Audit and Internal Control and management of the Group.

h) Capital management

The Bank's regulatory capital based on the legal requirements in force regarding capital management includes

- Tier 1 capital, which includes ordinary share capital, share premium eligible reserves after deductions of intangible assets, 50% of shares' value and other investments in financial and credit institutions that exceed 10% of their share capital and 50% of the investments held in insurance companies;
- Tier II capital, which includes reserves from revaluation and subordinated loans after 50% deductions of shares' value and other investments in financial and credit institutions that exceed 10% of their share capital and 50% of the investments held in insurance companies.

For 31 December 2012 the calculation of regulatory capital was based on the NBR Regulation nr.18/2006 amended by Regulation no. 6 / 2009.

Starting 2008 the Bank applied NBR Regulation 13/2006 regarding the computation of the minimal capital requirements and adopted:

- the standard approach regarding credit risk based on Regulation 14/2006;
- the standard approach based on appendix I, II and IV of the NBR Regulation 22/2006 for the computation of the minimal capital requirements for the position risk, foreign exchange risk and merchandise risk;
- the standards approach for the minimal capital requirements regarding operational risk based on NBR Regulation 24/2006,.

Banca Transilvania S.A.

Notes to the consolidated financial statements

4. Financial risk management (*continued*)

h) Capital management

The Group's regulatory capital as at 31 December 2012 and 31 December 2011 and the legal requirements regarding capital management at 31 December 2012 and 31 December 2011 were as follows:

<i>In RON thousand</i>	31 December 2012	31 December 2011
Tier I	2,470,461	2,169,355
Tier II	88,212	113,297
Total Group's capital	2,558,673	2,282,652
Capital requirement for credit risk, counterparty risk, decrease in receivables and for incomplete transactions	1,134,995	1,014,742
Capital requirements for foreign exchange position and commodities	160,953	136,761
Capital requirements for operational risk	219,881	202,561
Total capital requirements	1,515,829	1,354,064

Note: In the computation of Group's own funds are included the statutory profits of the years ended 31 December 2012 and 31 December 2011

5. Use of estimates and judgments

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

Impairment losses on loans and advances

The Group reviews its loan and net lease investments portfolios to assess impairment at least on an half year basis (monthly by the Bank). In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and net lease investments before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (lessees) in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience, including assessing the effects of uncertainty on the local financial markets related to valuation of assets and operating environment of debtors. The loan impairment assessment considers the visible effects of current market conditions on the individual / collective assessment of loans and advances to customers' impairment. Hence, the Group has estimated the impairment loss provision for loans and advances to customers based on the internal methodology harmonized with Group policies and assessed that no further provision for impairment losses is required except as already provided for in the financial statements.

Notes to the consolidated financial statements

5. Use of estimates and judgments (*continued*)

To the extent that the net present value of estimated cash flows differs by +/-5 percent, the impairment provision for loans and advances to customers would be estimated RON 36,083 thousand higher or RON 31,334 thousand lower (31 December 2011: RON 32,134 thousand higher or RON 32,134 thousand lower).

Fair value of financial instruments

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

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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

Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates. The Group's percentage of this type of portfolio instruments is not significant.

Notes to the consolidated financial statements

5. Use of estimates and judgments (*continued*)

The carrying amount of financial assets at fair value through profit and loss and of available-for-sale investment securities would be estimated with RON 197,590 thousand lower than the fair value as at 31 December 2012 or with RON 415,050 thousand higher than the fair value as 31 December 2012 were interest rates on financial assets available for sale would differ by + / - 2% and prices of financial assets at fair value through profit and loss would differ by + / - 10% from management's estimates.

The table below analyzes financial instruments measured at fair value at the end of the reporting period, the hierarchical levels::

<i>In RON thousand</i>	Note	Level 1 - Quoted market prices in active markets	Level 2- Valuation techniques – observable inputs	Level 3- Valuation techniques – unobservable inputs	Total
31 December 2012					
Financial assets at fair value through profit and loss	18	125,851	-	-	125,851
Investments securities, available for sale	21	43,177	6,374,614	2,263	6,420,054
31 December 2010					
Financial assets at fair value through profit and loss	18	140,551	-	-	140,551
Investments securities, available for sale	21	20,193	5,794,266	2,319	5,816,778

Financial assets and liabilities

The Group considered that the effective transaction prices would be situated between the informative BID-ASK quotations obtained, which are rather an interval within which the Group could have realistically negotiated the quotations for each series and taking into account the volume of its portfolio, and thus, the bank used in its estimation an average price for each series.

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as “trading”, the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy 3(j);
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by its accounting policy.

If the Group fails to keep these investments to maturity other than for the specific circumstances mentioned in IAS 39, it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortized cost. If the entire class of held-to-maturity investments is tainted, the fair value would not be significantly different from the carrying amount.

Banca Transilvania S.A.

Notes to the consolidated financial statements

6 . Segment reporting

The business segment reporting format is the Group's primary basis of segment reporting. Transactions between business segments are conducted at arm's length.

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

The Group's segment reporting comprises the following main business segments:

- *Corporate customers.* Within corporate banking the Bank provides corporations with a range of banking products and services, including lending and deposit taking, providing cash management, foreign commercial business, investment advices, financial planning, securities business, project and structured finance transactions, syndicated loans and asset backed transactions.
- *SME.* The Bank developed and put at the disposition of customers personalized products to fit the business needs of the customers.
- *Individuals.* The Group provides individuals with a range of banking products and services, including lending (consumer loans, vehicles purchase, personal needs, and mortgages), savings and deposit taking business, payment services and securities business.
- *Health Care Division:* the Bank has a wide variety of financial products and services, advisory and support for the establishment of medical offices, and for obtaining the statute of authorized legal individual, accounting and economic and fiscal assistance
- *Treasury:* incorporating of work services for cash.
- *Leasing and customer finance.* Within leasing the Group includes financial products and services provided by the leasing and consumer finance arm of the Group.
- *Other.* Within other the Group incorporates financial products and services provided to or by financial institutions including: management of securities, brokerage, factoring, logistic, real estate.

The allocation method of the Group income and expenses on segments was improved during 2011 and 2012 in order to eliminate the limitation imposed by the IT system in the previous period.

Banca Transilvania S.A.

Notes to the consolidated financial statements

6. Segment reporting

Information about reportable segments at 31 December

<i>In RON thousand</i>	Corporate banking		SME		Retail banking		Health Care Division		Treasury		Leasing and consumer finance		Others		Eliminations & adjustments		Unallocated		Group	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Business segment assets	7,607,430	6,951,138	1,455,293	1,390,069	5,911,352	5,398,166	796,056	707,180	13,801,913	11,593,283	312,310	319,795	286,633	313,314	(459,791)	(664,150)	-	-	29,711,196	26,008,795
Un-allocated assets																			-	-
Total Assets	7,607,430	6,951,138	1,455,293	1,390,069	5,911,352	5,398,166	796,056	707,180	13,801,913	11,593,283	312,310	319,795	286,633	313,314	(459,791)	(664,150)	-	-	29,711,196	26,008,795
Business segment Liabilities	5,217,868	4,720,041	2,604,300	2,536,609	15,688,561	13,478,374	679,920	637,208	2,686,459	2,447,800	217,234	231,224	84,067	59,512	(282,224)	(493,840)	-	-	26,896,185	23,616,928
Total Liabilities	5,217,868	4,720,041	2,604,300	2,536,609	15,688,561	13,478,374	679,920	637,208	2,686,459	2,447,800	217,234	231,224	84,067	59,512	(282,224)	(493,840)	-	-	26,896,185	23,616,928
Equity																	2,815,011	2,391,867	2,815,011	2,391,867
Total Liabilities and Equity	5,217,868	4,720,041	2,604,300	2,536,609	15,688,561	13,478,374	679,920	637,208	2,686,459	2,447,800	217,234	231,224	84,067	59,512	(282,224)	(493,840)	2,815,011	2,391,867	29,711,196	26,008,795

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

6. Segment reporting (continued)

<i>In RON thousands</i>	Corporate banking		SME		Retail banking		Health Care Division		Treasury		Leasing and consumer finance		Others		Eliminations & adjustments		Group	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Net interest income	240,668	251,807	122,813	140,728	350,923	357,326	31,576	32,933	191,889	89,085	25,036	22,283	5,718	2,313	92	17,363	968,715	913,838
Net fee and commission	140,695	124,499	127,930	115,261	136,669	132,258	19,406	17,257	-	-	8,386	6,211	5,451	7,726	(1,139)	(474)	437,398	402,738
Net trading income	24,088	30,833	18,168	23,408	18,057	25,105	692	1,173	53,527	70,062	(282)	780	33,220	(34,316)	196	(5,432)	147,666	111,613
Other operating income	-	-	-	-	10,363	4,516	102	-79	-	-	32,299	38,500	46,174	42,284	(2,746)	(23,697)	86,192	61,524
Total Income	405,451	407,139	268,911	279,397	516,012	519,205	51,776	51,284	245,416	159,147	65,439	67,774	90,563	18,007	(3,597)	(12,240)	1,639,971	1,489,713
Personnel expenses	101,854	84,666	59,650	64,190	152,392	132,492	14,919	13,667	65,372	31,463	15,306	14,403	21,046	49,313	-	68	430,539	390,262
Other operating expenses	74,023	55,529	53,511	42,109	115,995	86,944	12,851	8,968	32,062	25,266	23,360	20,354	41,452	33,303	(3,001)	(7,215)	350,253	265,258
Advertising expenses	2,323	3,421	4,297	2,580	5,349	5,296	463	548	720	1,253	341	634	1,139	1,927	-	-	14,632	15,659
Depreciation and amortization	10,803	11,309	7,818	8,577	16,948	17,696	1,873	1,825	3,870	4,183	6,764	5,810	6,634	6,393	-	7,994	54,710	63,787
Other expenses	5,227	14,639	3,793	11,096	8,283	23,013	898	2,378	1,835	5,398	4,005	20,231	10,255	24,932	1,258	(18,218)	35,554	83,469
Total expenses	194,230	169,564	129,069	128,552	298,967	265,441	31,004	27,386	103,859	67,563	49,776	61,432	80,526	115,868	(1,743)	(17,371)	885,688	818,435
Operational result, before net impairment charges	211,221	237,575	139,842	150,845	217,045	253,764	20,772	23,898	141,557	91,584	15,663	6,342	10,037	(97,861)	(1,854)	5,131	754,283	671,278

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

7. Financial assets and liabilities

Accounting classifications and fair values

<i>In RON thousand</i>	Note	Financial assets at fair value through profit and loss	Held to maturity	Loans and receivables (including net lease investments)	Available for sale	Other amortized cost	Total carrying amount	Fair value
31 December 2012								
Financial Assets								
Cash and cash equivalents	16	-	-	-	-	5,579,088	5,579,088	5,579,088
Placements with banks	17	-	-	-	-	1,405,173	1,405,173	1,405,173
Financial assets at fair value through profit and loss	18	125,851	-	-	-	-	125,851	125,851
Loans and advances to customers	19	-	-	15,361,263	-	-	15,361,263	15,361,263
Net lease investments	20	-	-	202,686	-	-	202,686	202,686
Investment securities	21	-	-	-	6,420,054	-	6,420,054	6,420,054
Total financial assets		125,851	-	15,563,949	6,420,054	6,984,261	29,094,115	29,094,115
Financial Liabilities								
Deposits from banks	26	-	-	-	-	45,953	45,953	45,953
Deposits from customers	28	-	-	-	-	23,167,128	23,167,128	23,172,382
Loans from banks and other financial institutions	29	-	-	-	-	3,035,944	3,035,944	3,035,944
Other subordinated loans	30	-	-	-	-	228,810	228,810	228,810
Total financial liabilities		-	-	-	-	26,477,835	26,477,835	26,483,089

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

7. Financial assets and liabilities

Accounting classifications and fair values (continued)

<i>In RON thousand</i>	Note	Financial assets at fair value through profit and loss	Held to maturity	Loans and receivables (including net lease investments)	Available for sale	Other amortized cost	Total carrying amount	Fair value
31 December 2011								
Financial Assets								
Cash and cash equivalents	16	-	-	-	-	4,550,256	4,550,256	4,550,256
Placements with banks	17	-	-	-	-	778,977	778,977	778,977
Financial assets at fair value through profit and loss	18	140,551	-	-	-	-	140,551	140,551
Loans and advances to customers	19	-	-	13,977,655	-	-	13,977,655	13,977,655
Net lease investments	20	-	-	207,388	-	-	207,388	207,388
Investment securities	21	-	819	-	5,816,778	-	5,817,597	5,817,597
Total financial assets		140,551	819	14,185,043	5,816,778	5,329,233	25,472,424	25,472,424
Financial Liabilities								
Deposits from banks	26	-	-	-	-	251,181	251,181	251,181
Deposits from customers	28	-	-	-	-	20,257,251	20,257,251	20,259,236
Loans from banks and other financial institutions	29	-	-	-	-	2,592,982	2,592,982	2,592,982
Other subordinated loans	30	-	-	-	-	260,148	260,148	260,148
Total financial liabilities		-	-	-	-	23,361,562	23,361,562	23,363,547

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

8. Net interest income

<i>In RON thousand</i>	2012	2011
Interest income		
Loans and advances to customers (i)	1,425,845	1,437,505
Current accounts held with banks	36,859	39,390
Available for sale securities	530,264	300,712
Placements with banks	31,294	28,413
Net lease investments	30,323	29,772
<i>Total interest income</i>	<u>2,054,585</u>	<u>1,835,792</u>
Interest expense		
Deposits from customers	913,474	832,651
Loans from banks and other financial institutions	161,412	84,050
Deposits from banks	10,984	5,253
<i>Total interest expense</i>	<u>1,085,870</u>	<u>921,954</u>
Net interest income	<u>968,715</u>	<u>913,838</u>

(i) Interest income from loans and advances to customers for the year ended at 31 December 2012 includes interest income related to impaired loans amounting to RON 147,960 thousand (2011: RON 86,086 thousand). The interest income and expense related to the financial assets and liabilities, others than those held at fair value through profit and loss, are determined using the effective interest rate method.

9. Net fee and commission income

	2012	2011
Fee and commission income		
Transactions		
Loans management and guarantees issuance	379,371	341,688
Financial lease management	115,875	107,571
Other fee and commission income	7,077	7,304
	38	43
<i>Total fee and commission income</i>	<u>502,361</u>	<u>456,606</u>
Fee and commission expense		
Bank commissions	51,339	41,929
Transactions	13,624	11,939
<i>Total fee and commission expense</i>	<u>64,963</u>	<u>53,868</u>
Net fee and commission income	<u>437,398</u>	<u>402,738</u>

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

10. Net trading income

<i>In RON thousand</i>	2012	2011
Net income from foreign exchange transactions (i)	117,937	110,605
Net income/ (expenses) from financial assets at fair value through profit and loss	34,267	(8,362)
Net expense from revaluation of assets and liabilities held in foreign currency	(4,538)	9,370
Net trading income	147,666	111,613

(i) Net income from foreign exchange transactions also include the realized and unrealized gain and loss from spot and forward contracts.

11. Other operating income

<i>In RON thousand</i>	2012	2011
Rent income	14,911	12,301
Dividend income	6,979	5,000
Other operating income	64,302	44,223
Total	86,192	61,524

12. Net impairment losses on financial assets, other liabilities and credit commitments

<i>In RON thousand</i>	2012	2011
Net charge of impairment losses on financial assets (i)	385,060	271,946
Loans and net lease investments written-off	4,653	74,174
Other liabilities – employees' benefits and credit commitments	10,335	3,473
Recoveries from loans previously written off	(15,598)	(33,744)
Net impairment losses on financial assets, other liabilities and credit commitments	384,450	315,849

(i) Net charge with impairment losses contains the following:

<i>In RON thousand</i>	Note	2012	2011
Loans and advances to customers	19	369,867	292,802
Net lease investments	20	16,754	(19,939)
Investment securities	21	56	0
Other assets	26	(1,744)	(892)
Property and equipment	23	127	(25)
Net charge with impairment losses		385,060	271,946

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Notes to the consolidated financial statements

13. Personnel expenses

<i>In RON thousand</i>	2012	2011
Wages and salaries	327,232	289,554
Contribution to social security	65,080	60,424
Meal tickets and other taxes related to personnel	17,920	20,253
Contribution to health fund	18,753	18,584
Contribution to unemployment fund	1,554	1,447
Total	430,539	390,262

The Group's number of employees at 31 December 2012 was 7,086 persons (31 December 2011: 7,151).

The expenses related to share-based payments transactions with employees, is included in the wages and salaries line amounting to RON 14,420 thousand in 2012 (2011: RON 2,200 thousand). In 2012 the Bank granted a number of 14 million shares to the employees and administrators of the Bank and its subsidiaries, with a vesting period of less than 3 years.

The Bank established a program of share-based payment, in which the employees with performances may exercise their right and option to purchase a number of shares issued by the Bank. Terms and conditions of granting are the following:

Granting date	Shares number	Contractual vesting period	Conditions to enter into force
Shares granted to employees at 18 May 2012	9,362,130	2 years and 11 months	Achievement of performance and prudential indicators during 2012. Achieving Bank objectives regarding the completion of implementation for new accounting and reporting rules.
Shares granted to employees at 16 August 2012	4,637,870	1 year and 5 months	Achieving Bank objectives regarding the completion of implementation for new core banking Achievement of performance and prudential indicators during 2012.

Banca Transilvania S.A.

Notes to the consolidated financial statements

14. Other operating expenses

<i>In RON thousand</i>	2012	2011
Operating lease (rent)	91,044	86,723
Repairs and maintenance	54,345	48,262
Materials and consumables	28,737	27,317
Postage and telecommunications	27,351	30,068
Advertising and promotional expenses	16,703	18,064
Security and protection	20,325	21,449
Taxes	56,891	55,321
Electricity and heating	16,162	14,244
Travel and transport	10,284	5,581
Legal, advisory and consulting	3,866	3,239
Gain on sale of property and equipment	-	(1,828)
Other operating expense	74,731	55,946
Total	400,439	364,386

15. Income tax expense

<i>In RON thousand</i>	2012	2011
Current tax expense at 16% (2011: 16%) of taxable profits determined in accordance with Romanian Law	19,165	56,190
Deferred tax expense	5,381	1,991
Total income tax expense	24,546	58,181

Tax reconciliation

<i>In RON thousand</i>	2012	2011
Profit before tax	371,002	355,429
Taxation at statutory rate of 16% (2011: 16%)	59,360	56,869
Non-deductible expenses and non-taxable revenues and other permanent differences	(21,709)	12,966
Effect of carried forward losses	(13,105)	(11,654)
Taxation in the income statement	24,546	58,181

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Notes to the consolidated financial statements

16. Cash and cash equivalents

<i>In RON thousand</i>	31 December 2012	31 December 2011
Minimum compulsory reserve (i)	4,974,894	4,178,416
Cash on hand	519,613	334,290
Current accounts held with other banks (ii)	84,581	37,550
Total	5,579,088	4,550,256

- (i) At 31 December 2012 the minimum compulsory reserve, held with the National Bank of Romania, was established at 15% for RON and 20% for USD or EUR (31 December 2011: 15% for RON and 25% for USD or EUR) denominated funds. The balance of mandatory reserve can vary on a daily basis. The interest paid by the Central Bank for the reserve held by banks was 0.93% – 1.43% p.a, for RON denominated reserves, 0.56% - 0.79% p.a. for EUR and 0.24% - 0.50% p.a. for USD denominated reserves. The mandatory reserve can be used by the Bank's and Group's day to day activities providing the average balance for the month is maintained within required formula.
- (ii) Current accounts held with other banks are at immediate disposal of the Group and are unencumbered.

17. Placements with banks

<i>In RON thousand</i>	31 December 2012	31 December 2011
Sight and term deposits placed at other banks	1,259,285	508,014
Loans and advances to banks (i)	145,888	270,963
Total	1,405,173	778,977

- (i) Investment securities reclassified by the Group during 2008 and 2010 from assets available for sale into loans and advances (see note 21 (ii)).

18. Financial assets at fair value through profit and loss

<i>In RON thousand</i>	31 December 2012	31 December 2011
Trading assets		
Listed equity investments (i)	125,851	140,551
Total	125,851	140,551

- i) All shares in listed companies are quoted on the Bucharest Stock Exchange and Vienna Stock Exchange.

Banca Transilvania S.A.

Notes to the consolidated financial statements

18. Financial assets at fair value through profit and loss (*continued*)

As at 31 December 2012, the Group owns significant investments in amount of RON 93,608 thousand at the following companies: SIF Moldova S.A., SIF Oltenia S.A., SIF Transilvania, Fondul Proprietatea S.A. and SNP Petrom S.A. (31 December 2011: RON 114,675 thousand)

19. Loans and advances to customers

The Group's commercial lending is concentrated on companies and individuals domiciled in Romania and Cyprus. Economic sector risk concentrations within the customer's loan portfolio as at 31 December 2012 were and 31 December 2011, was as follows:

<i>In RON thousand</i>	31 December 2012	31 December 2011
Individuals	6,391,713	5,874,411
Trading	2,945,755	2,719,970
Manufacturing	2,525,429	2,228,701
Construction	990,837	838,050
Services	946,453	832,827
Transport	702,460	669,203
Real estate	526,949	472,764
Agriculture	730,764	560,453
Free lancers	382,202	340,535
Chemical industry	315,305	322,707
Mining industry	170,697	142,517
Financial institutions	124,341	65,466
Telecommunication	125,484	108,681
Energy industry	322,277	249,034
Fishing industry	7,255	4,607
Governmental bodies	31,030	27,650
Others	295,986	242,023
Total loans and advances to customers before impairment allowance	17,534,937	15,699,508
Less provisions for impairment allowance on loans	(2,173,674)	(1,721,801)
Total loans and advances to customers, net of provisions	15,361,263	13,977,707

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

19. Loans and advances to customers *(continued)*

Movement in provision for impairment loss on loans and advances to customers granted was as follows:

<i>In RON thousand</i>	2012	2011
Balance at 1 January	1,721,801	1,357,811
Net impairment provision expense	369,867	292,802
Allowances on written off loans	(63,431)	-
Adjustment effect on the interest income for impaired loans	137,632	71,188
Exchange rate differences	7,805	-
Balance at 31 December	2,173,674	1,721,801

20. Net finance lease investments

The Group acts as a lessor under finance lease, mainly of motor vehicles and equipments. The leases are denominated in EUR, RON and MDL and typically run for a period between two and five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the leased based on fixed interest rates. The lease receivables are secured by the underlying assets and by other collateral. The breakdown of investments in leases according to their maturity is presented below:

<i>In RON thousand</i>	31 December 2012	31 December 2011
Investments in leases less than one year (gross)	189,819	169,148
Investments in leases between one and five years (gross)	111,078	137,965
Total investment in leases, gross	300,897	307,113
Unearned finance income	(36,143)	(37,528)
Total investments in leases, net	264,754	269,585
Impairment allowances	(62,068)	(62,197)
Total net leasing Investment	202,686	207,388

The lease contracts are generated and managed through BT Leasing Transilvania IFN S.A., BT Leasing Moldova S.R.L., Medical Leasing IFN S.A and BT Finop Leasing S.A. Net lease investments include also consumer finance facilities granted to the Group's customers by BT Direct IFN S.A.

Banca Transilvania S.A.

Notes to the consolidated financial statements

20. Net lease investments (continued)

The provision for net lease investments can be further analyzed as follows:

<i>In RON thousand</i>	2012	2011
Balance at beginning of the year	62,197	81,871
Net impairment provision expense	16,754	(19,939)
Written – off lease investment	(17,836)	-
Foreign exchange difference	953	265
Balance at the end of the year	62,068	62,197

21. Investment securities

<i>In RON thousand</i>	31 December 2012	31 December 2011
Investment securities available-for-sale		
Unlisted debt and other fixed income instruments:	6,374,614	5,794,266
Treasury securities issued by the Government of Romania, from which:	5,540,477	5,395,348
- discount certificates	13,405	1,967,099
- coupon certificates	30,635	30,107
- Benchmark bonds (RON)	4,305,860	2,324,989
- Treasury certificates with coupon (EUR)	1,190,577	1,073,153
EURO bonds issued by Romania's Government on external markets	705,063	359,532
USD bonds issued by Romania's Government on external markets	119,294	-
Bonds, from which:	9,780	39,386
- issued by Bucharest Municipality	9,128	8,000
- issued by Municipality Alba Iulia	652	706
- Black Sea Trade and Development Bank	-	30,680
Listed shares	70	17,064
Unit funds	43,107	3,129
Equity securities measured at acquisition price, from which:	2,263	2,319
Gross value	2,808	2,808
Allowances for impairment	(545)	(489)
Total investment securities available-for-sale	6,420,054	5,816,778
Investment securities held-to-maturity		
Treasury securities issued by the Government of Romania	-	819
Total investment securities held-to-maturity	-	819
Total investment securities	6,420,054	5,817,597

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

21. Investment securities (continued)

As at 31 December 2012 treasury securities were in amount of RON 28,450 thousand (31 December 2011: RON 28,450 thousand) were pledged for other current operations (RoCLEAR, SENT, MASTERCARD and VISA).

Treasury securities issued by Romania's Government have maturities between 2013 and 2022.

As of 31 December 2012, the Bank has concluded repo transactions having as supporting assets investment securities available for sale amounting to RON 1,721,650 thousand (31 December 2011: RON 1,276,023 thousand). Also, the Bank had pledges on the investment securities available for sale amounting to RON 466,819 thousand (31 December 2011: RON 346,518 thousand).

The municipal bonds of Alba Iulia have variable interest $(\text{Robid } 6M + \text{Robor } 6M)/2 + 1.5\%$ (31 December 2012: 6.5%; 31 December 2011: 7.5%). EURO bonds issued by Bucharest Municipality have a fixed interest of 4.125%.

Reclassification out of available-for-sale investments securities into loans and advances

Starting 2008, under the amendment to IAS 39 "Financial Instruments - Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure" the Group has identified financial assets that have fulfilled the conditions imposed by this category (the non-derivative financial assets fixed and determinable payments that are not quoted on an active market) and held in the foreseeable future.

The value of securities classified as "loans and advances" at the end of 2012 was RON 202,819 thousand.

During 2012 the Group has purchased and classified as loans and receivables, Euro-bonds in the amount of RON 25,000 thousand and Euro-bonds securities amounting to RON 143,190 thousand arrived at maturity during the year 2012.

Movement titles in the category "loans and advances to customers" in 2012 is reflected in the table below:

	Year 2012
Balance at 31 December 2011	202,819
Acquisitions 2012	25,000
Decreases 2012	(143,190)
Cupon for bonds	8,022
Increase in market value	(15,051)
Amortization of the difference between fair value and acquisition value (Interest income)	724
Balance at 31 December 2012	78,324

Banca Transilvania S.A.

Notes to the consolidated financial statements

21. Investment securities (continued)

The impairment allowance for equity investments can be further analyzed as follows:

<i>In RON thousand</i>	2012	2011
Balance at the beginning of the year	489	489
Net impairment loss	56	-
Balance at the end of the year	<u>545</u>	<u>489</u>

The movement in investment securities may be summarized as follows:

<i>In RON thousand</i>	Available for sale	Held to maturity
At 1 January 2012	5,816,778	819
Additions (acquisitions and increase in value)	19,482,327	70
Disposals (sale, redemption and decrease in value)	18,879,051	889
At 31 December 2012	<u>6,420,054</u>	<u>-</u>
At 1 January 2011	3,780,997	820
Additions (acquisitions and increase in value)	5,900,151	195
Disposals (sale, redemption and decrease in value)	3,864,370	196
At 31 December 2011	<u>5,816,778</u>	<u>819</u>

Banca Transilvania S.A.

Notes to the consolidated financial statements

22. Property and equipment

	Land and buildings	Computers and equipments	Vehicles	Assets in progress	Total
<i>In thousand RON</i>					
Gross carrying amount					
Balance at 1 January 2011	294,749	187,090	56,259	6,562	544,660
Additions	61	10,261	15,238	42,864	68,424
Transfers from investment in progress	6,703	8,816	1,072	-	16,591
Reclassification investment property	630	-	-	-	630
Disposals	(990)	(9,874)	(8,927)	(17,107)	(36,898)
Reclassification assets	(816)	-	-	(4,602)	(5,418)
Balance at 31 December 2011	300,337	196,293	63,642	27,717	587,989
Balance at 1 January 2012	300,337	196,293	63,642	27,717	587,989
Additions	661	22,504	13,934	44,819	81,918
Transfers from investment in progress	17,903	30,904	1,221	-	50,028
Reclassification investment property	364	1,804	2,506	-	4,674
Disposals	(2,927)	(14,717)	(8,147)	(42,559)	(68,350)
Reclassification assets	(75)	-	-	-	(75)
Balance at 31 December 2012	316,263	236,788	73,156	29,977	656,184
Depreciation and impairment					
Balance at 1 January 2011	101,746	123,572	31,772	-	257,090
Charge for the year	18,011	20,963	9,504	-	48,478
Accumulated depreciation of disposals	(926)	(8,966)	(5,007)	-	(14,899)
Accumulated depreciation related to reevaluation	(186)	-	-	-	(186)
Provision for impairment	-	-	(25)	-	(25)
Sold la 31 December 2011	118,645	135,569	36,244	-	290,458
Balance at 1 January 2012	118,645	135,569	36,244	-	290,458
Charge for the year	14,090	23,465	9,626	-	47,181
Accumulated depreciation of disposals	(2,821)	(6,844)	(6,712)	-	(16,377)
Accumulated depreciation related to reevaluation	208	-	-	-	208
Provision for impairment	-	-	127	-	127
Sold la 31 December 2012	130,122	152,190	39,285	-	321,597
Net carrying amount					
Balance at 1 January 2012	181,692	60,724	27,398	27,717	297,531
Balance at 31 December 2012	186,141	84,598	33,871	29,977	334,587

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

22. Property and equipment (continued)

At 31 December 2012 the Group leased property and equipment on a carrying amount of RON 8,105 thousand (31 December 2011: 0 RON). At 31 December 2012 the Group had no pledged property, equipment or intangible assets.

23. Intangible assets (including goodwill)

<i>In RON thousand</i>	Goodwill	Software
Gross carrying amount		
Balance at 1 January 2011	8,369	90,558
Additions	-	36,659
Additions by takeover from Transilvania Imagistica	-	5
Disposals	-	(13,116)
Balance at 31 December 2011	8,369	114,106
Balance at 1 January 2012	8,369	114,106
Additions	-	20,331
Disposals	-	(2,103)
Balance at 31 December 2012	8,369	132,334
Accumulated amortization		
Balance at 1 January 2011	-	41,683
Charge for the year	-	7,315
Addition by takeover from Transilvania Imagistica	-	1
Depreciation goodwill Medical Leasing IFN S.A.	7,993	-
Disposals	-	(5,448)
Balance at 31 December 2011	376	43,551
Balance at 1 January 2012	376	43,551
Charge for the year	-	7,529
Disposals	-	(179)
Balance at 31 December 2012	376	50,901
Carrying amount		
Balance at 1 January 2012	376	70,555
Balance at 31 December 2012	376	81,433

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

25. Intangible assets (including goodwill) (continued)

Impairment testing for cash generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management.

At 31 December 2012 the goodwill at BT Leasing Transilvania IFN S.A was in amount of RON 376 thousand (31 December 2011: RON 376 thousand).

24. Deferred tax assets and liabilities

In RON thousand

	31 December 2012		
	Asset	Liability	Net
Loans and advances to customers (including net lease investments)	-	75,376	(75,376)
Investment securities, available-for-sale	-	96,714	(96,714)
Financial assets at fair value by income statement	612	-	612
Investment in associates	-	1,028	(1,028)
Other assets	460	-	460
Total	1,072	173,118	(172,046)
Net temporary differences			(172,046)
Deferred tax asset at 16%			27,527

In RON thousand

	31 December 2011		
	Asset	Liability	Net
Loans and advances to customers (including net lease investments)	170,993	-	170,993
Investment securities, available-for-sale	4,293	-	4,293
Other assets	731	-	731
Total	176,017		176,017
Net temporary differences			176,017
Deferred tax liability at 16%			28,163

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

25. Other assets

<i>In RON thousand</i>	31 December 2012	31 December 2011
Amounts under settlement	30,091	21,874
Inventories and consumables	61,095	82,425
Prepayments	20,445	20,343
Sundry debtors	35,361	21,000
VAT receivable	29,453	4,819
Other assets	11,758	4,019
Less impairment allowance for other assets	(13,376)	(15,507)
Subsidies	-	721
Total	174,827	136,694

Movement in provision for impairment loss on other assets for the year was as follows:

<i>In RON thousand</i>	2012	2011
Balance at 1 January	15,507	16,399
Net provision expense (Note 12)	(1,744)	(892)
Exchange rate differences	(387)	-
Balance at 31 December	13,376	15,507

26. Deposits from banks

<i>In RON thousand</i>	31 December 2012	31 December 2011
Sight deposits	1,617	135,767
Term deposits	44,336	115,414
Total	45,953	251,181

27. Deposits from customers

<i>In RON thousand</i>	31 December 2012	31 December 2011
Current accounts	3,638,485	3,127,812
Sight deposits	156,541	142,205
Term deposits	18,882,728	16,508,155
Collateral deposits	489,374	479,079
Total	23,167,128	20,257,251

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

27. Deposits from customers (continued)

Deposits from customers can be also analyzed as follows:

<i>In RON thousand</i>	31 December 2012	31 December 2011
Retail customers	15,669,535	13,406,396
Corporate customers	7,497,593	6,850,855
Total	23,167,128	20,257,251

28. Loans from banks and other financial institutions

<i>In RON thousand</i>	2012	2011
Loans from commercial banks	30,125	64,235
<i>Romanian banks</i>	26,802	53,533
<i>Foreign banks</i>	3,323	10,702
Loans from development banks (EBRD, IFC)	557,860	798,764
Repurchase agreements	1,721,650	1,276,023
Other funds from financial institutions	726,309	453,960
Total	3,035,944	2,592,982

The interest rates range for loans from banks and financial institutions was as follows:

	2012		2011	
	Minimum	Maximum	Minimum	Maximum
EUR	0.75%	Euribor 3m+5.5%	1.00%	9.65%
LEI	5.25%	5.25%	6.00%	6.00%
USD	Libor 6m+0.51%	Libor 6m+4.50%	Libor 6m+0.38%	Libor 6m+3.00%

29. Other subordinated liabilities

In 2006, the Group contracted a subordinated loan agreement with five credit institutions for EUR 60,000 thousand bearing an inter-banking interest rate available during the respective period + 3,4%. The inter-banking rate is, for each period, the annual interest rate offered for deposits in the respective currency, which is published on the reference page at 11:00 am, Bruxelles time. The loan shall be repaid by one installment at the seventh anniversary from the contract date.

Banca Transilvania S.A.

Notes to the consolidated financial statements

29. Other subordinated liabilities (continued)

The payments of any amounts payable under this contract are subordinated to the payment of all Senior Indebtedness, so that no amount shall be paid in respect of the loan in such bankruptcy, insolvency, winding-up or liquidation of the borrower or in any other similar event affecting the borrower, until all claims in respect of Senior Indebtedness admitted in such cases.

During 2012 the Group contracted a subordinated loan amounting EUR 5 million from European Fund for South - East Europe with a variable interest of EURIBOR 3M+ 6.5%.

30. Other liabilities

<i>In RON thousand</i>	31 December 2012	31 December 2011
Amounts under settlement	218,813	126,835
Other fees payable	22,884	46,432
Sundry creditors	27,524	37,223
Leasing liabilities (i)	1,796	51
Other liabilities	22,738	18,250
Provisions	37,068	26,575
Total	330,823	255,366

(i) Future minimum lease payments under finance leases and the present value of the net minimum lease payments are as follows:

<i>In RON thousand</i>	31 December 2012	31 December 2011
Minimum lease payments		
2012	114	55
2013	382	-
2014	432	-
2015	417	-
2016	432	-
2017	432	-
2018	72	-
Total minimum lease payments	2,281	55
Less future interest	(485)	(4)
Present value of minimum lease payments	1,796	51

31. Share capital

The statutory share capital of the Bank as of 31 December 2012 was represented by 1,903,042,413 ordinary shares of RON 1 each (31 December 2011: 1,773,658,066 shares of RON 0.1 each). The shareholders structure of the Bank is presented in Note 1.

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the consolidated financial statements is provided as a free translation from Romanian which is the official and binding version.

Banca Transilvania S.A.

Notes to the consolidated financial statements

31. Share capital (continued)

<i>In RON thousand</i>	31 December 2012	31 December 2011
Subscribed capital paid at Trade Register	1,903,042	1,773,658
Capital adjustment at inflation	89,899	89,899
Share capital adjustment with revaluation reserve of tangible assets	(3,398)	(3,398)
Total	1,989,543	1,860,159

The capital increased by incorporating the reserves in the statutory profit and cash contribution amounting to RON 129,384,347 was registered at the Trade Register in 2012.

32. Other reserves

As at 31 December 2012 and 31 December 2011 the reserves include the following:

<i>In RON thousand</i>	31 December 2012	31 December 2011
General banking risks (i)	77,893	77,893
Statutory reserve (ii)	139,446	121,437
Fair value gains/ (losses) taken to equity (net of tax) on available for sale investments	82,525	(7,082)
Total	299,864	192,248

Statutory reserves

<i>In RON thousand</i>	2012	2011
At 1 January	121,437	111,600
Appropriations from profit	18,009	9,837
Total	139,446	121,437

- (i) The general banking risks reserve include amounts set aside in accordance with local banking regulations for future losses and other unforeseen risks or contingencies, are separately disclosed as appropriations of profit. The general banking risks reserve is appropriated from the statutory gross profit at the rate of 1% of the balance of the assets carrying specific banking risks. The general banking risks reserve was set up, starting financial year 2004 up to the end of financial year 2006.
- (ii) Statutory reserves represent accumulated transfers from retained earnings in accordance with local banking regulations that require 5% of the Bank's net profit and its subsidiaries to be transferred to a non-distributable statutory reserve until such time this reserve represents 20% of the Bank's share capital.

The statutory reserves are not distributable.

Banca Transilvania S.A.

Notes to the consolidated financial statements

33. Related parties transactions

Transactions with shareholders

During the year ended 31 December 2012, the following banking transactions were carried out with the shareholders:

<i>In thousand RON</i>	2012	2011
Assets		
Loans to shareholders granted by Banca Transilvania SA, related interest and provisions	763	53
Liabilities		
Current accounts, deposits, related	114,422	155,323
Loans from financial institutions	167,759	296,891
Subordinated loans	53,331	52,030
Income statement		
Interest income	156	42
Commission income of performance	294	521
Commission expense	20,094	24,681

Transactions with key management personnel

During the year ended 31 December 2012, the following banking transactions were carried out with key personnel:

<i>In RON thousand</i>	2012	2011
Assets		
Loans to key personnel granted by Banca Transilvania SA, related interest and provisions	100,635	111,236
Liabilities		
Current accounts at Banca Transilvania SA, deposits and accrued	53,074	54,914
Commitments to key personnel	557	5,266
Income statement		
Interest income	4,891	7,958
Commission expense	1,999	5,648

During 2012 the total salaries paid to the Board of Director's members and executive management of the Bank and subsidiaries amounting to RON 6,730 thousand (2011: RON 5,985 thousand).

Banca Transilvania S.A.

Notes to the consolidated financial statements

34. Commitments and contingencies

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

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

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table as commitments assume that amounts are fully advanced.

The amounts reflected in the table as guarantees and letters of credit represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted.

<i>In RON thousand</i>	31 December 2012	31 December 2011
Guarantees issued	1,753,730	1,460,923
Loan commitments	2,418,410	2,236,326
Total	4,172,140	3,697,249

At 31 December 2012 currency transactions were:

a. Forward transactions

Transactions with clients (individuals)

Purchases RON 19,126,830 equivalent of EUR 4,300,000

Purchases RON 289,164 equivalent of USD 85,000

b. Swap transactions

Transactions with banks

Purchases RON 46,355,000 equivalent of EUR 10,000,000

Purchases EUR 17,000,000 equivalent of RON 77,391,810

Banca Transilvania S.A.

Notes to the consolidated financial statements

35. Earnings per share

Basic earnings per share

The calculation of basic earnings per share (basic and diluted) was based on net profit attributable to ordinary shareholders of RON 341,529 thousand (31 December 2011: RON 297,019 thousand) and the weighted average number of the ordinary shares outstanding during the year calculated as follows:

	2012	2011
Ordinary shares issued at 1 January	1,773,658,066	1,470,600,998
Effect of shares issued during the year	72,408,476	272,943,128
Weighted average number of shares as at 31 December	1,846,066,542	1,743,544,126
Weighted average number of shares as at 31 December 2007 retreated (updated)	n/a	n/a

36. Subsequent events after the date of the consolidated financial statements

There were no subsequent events after the date of the consolidated financial statements that could have significant impact on the Bank for the 2012 financial year.

Horia Ciorcila
President

Mariana Ilea
Deputy Manager D.C.G