# Banca Transilvania S.A.

## Consolidated Financial Statements

31 December 2014

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

Free translation

**Banca Transilvania S.A.**

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## Banca Transilvania S.A.
# Consolidated statement of profit or loss and other comprehensive income

***For the year ended 31 December***

| | Note | 2014 | 2013 | 2014 | 2013 |
|---|---|---|---|---|---|
| | | | | **Convenience Translation*** | |
| | | ***RON thousand*** | ***RON thousand*** | ***EUR thousand*** | ***EUR thousand*** |
| Interest income | | 1,797,538 | 1,879,260 | 404,432 | 425,268 |
| Interest expense | | (621,863) | (855,892) | (139,914) | (193,685) |
| **Net interest income** | 8 | **1,175,675** | **1,023,368** | **264,518** | **231,583** |
| Fee and commission income | | 514,135 | 446,857 | 115,676 | 101,122 |
| Fee and commission expense | | (88,586) | (74,561) | (19,931) | (16,873) |
| **Net fee and commission income** | 9 | **425,549** | **372,296** | **95,745** | **84,249** |
| Net trading income | 10 | 126,795 | 143,915 | 28,528 | 32,567 |
| Net gain from sale of available for sale financial instruments | 11 | 339,082 | 202,637 | 76,291 | 45,856 |
| Contribution to the Banking Deposits Guarantee Fund | | (73,152) | (64,398) | (16,459) | (14,573) |
| Other operating income | 12 | 84,081 | 75,148 | 18,918 | 17,006 |
| **Operating income** | | **2,078,030** | **1,752,966** | **467,541** | **396,688** |
| Net impairment allowance on assets, other liabilities and loan commitments | 13 | (684,440) | (414,280) | (153,994) | (93,750) |
| Personnel expenses | 14 | (474,422) | (462,214) | (106,741) | (104,597) |
| Depreciation and amortization | 23,24 | (66,148) | (65,243) | (14,883) | (14,764) |
| Other operating expenses | 15 | (337,384) | (343,771) | (75,909) | (77,793) |
| **Operating expenses** | | **(1,562,394)** | **(1,285,508)** | **(351,527)** | **(290,904)** |
| **Profit before income tax** | | **515,636** | **467,458** | **116,014** | **105,784** |
| Income tax expense | | (73,183) | (69,849) | (16,466) | (15,807) |
| **Profit for the year** | 16 | **442,453** | **397,609** | **99,548** | **89,977** |
| **Profit for the year attributable to:** | | | | | |
| Equity holders of the Bank | | **441,085** | **396,821** | **99,240** | **89,799** |
| Non controlling interests | | 1,368 | 788 | 308 | 178 |
| **Profit for the year** | | **442,453** | **397,609** | **99,548** | **89,977** |
| Basic earnings per share | 36 | **0,1843** | **0,1646** | | |
| Diluted earnings per share | 36 | **0,1840** | **0,1646** | | |

*Refer to Note 2c



The accompanying notes from pages 8 to 84 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 of profit or loss and other comprehensive income

*For the year ended 31 December*

| | Note | 2014 RON thousand | 2013 RON thousand | Convenience Translation* 2014 EUR thousand | 2013 RON thousand |
|---|---|---|---|---|---|
| **Profit for the year** | | **442,453** | **397,609** | **99,548** | **89,977** |
| **Items that will never be reclassified as profit or loss, net of tax** | | | | | |
| Increases/ decreases from revaluation of property and equipment | | (1,626) | (5,667) | (366) | (1,282) |
| Other elements of comprehensive income | | 1,372 | (2,669) | 309 | (604) |
| **Items which are or may be reclassified as profit or loss** | | | | | |
| Fair value reserve (available for sale financial assets) net of tax, out of which: | | 102,075 | 2,491 | 22,966 | 564 |
| Net gain from sale of available for sale financial instruments transferred to profit and loss account | | (311,059) | (187,576) | (69,986) | (42,448) |
| Fair value changes of available for sale financial instruments, net of tax | | 413,134 | 190,067 | 92,952 | 43,012 |
| **Total comprehensive income** | | **544,274** | **391,764** | **122,457** | **88,655** |
| **Total comprehensive income attributable to:** | | | | | |
| Equity holders of the Bank | | 542,906 | 390,976 | 122,149 | 87,837 |
| Non controlling interest | | 1,368 | 788 | 308 | 818 |
| **Total comprehensive income** | | **544,274** | **391,764** | **122,457** | **88,655** |

* Refer to Note 2c,

The consolidated financial statements were approved by the Board of Directors on 26 March 2015 and were signed on its behalf by:

Horia Ciorcila
*Chairman*

George Calinescu
*Deputy General Manager*



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

# Consolidated statement of financial position

***As at 31 December***

| | Note | 2014 | 2013 | 2014 | 2013 |
|---|---|---|---|---|---|
| | | | | **Convenience Translation*** | |
| | | *RON thousand* | *RON thousand* | *EUR thousand* | *EUR thousand* |
| **Assets** | | | | | |
| Cash and cash equivalents | 17 | 4,234,181 | 4,105,571 | 944,687 | 915,462 |
| Placements with banks | 18 | 2,387,058 | 1,760,517 | 532,575 | 392,561 |
| Financial assets at fair value through profit and loss | 19 | 143,931 | 82,282 | 32,112 | 18,347 |
| Loans and advances to customers | 20 | 17,418,689 | 16,577,839 | 3,886,279 | 3,696,532 |
| Net finance lease investments | 21 | 244,274 | 243,151 | 54,500 | 54,218 |
| Investment securities, available for sale | 22 | 10,771,835 | 8,886,331 | 2,403,301 | 1,981,477 |
| Property and equipment | 23 | 339,721 | 328,227 | 75,795 | 73,188 |
| Intangible assets | 24 | 72,240 | 84,230 | 16,117 | 18,782 |
| Goodwill | 24 | 376 | 376 | 84 | 84 |
| Other assets | 26 | 183,622 | 168,419 | 40,969 | 37,555 |
| **Total assets** | | **35,795,927** | **32,236,943** | **7,986,419** | **7,188,206** |
| **Liabilities** | | | | | |
| Deposits from banks | 27 | 133,348 | 418,755 | 29,751 | 93,374 |
| Deposits from customers | 28 | 29,994,916 | 25,741,012 | 6,692,157 | 5,739,740 |
| Loans from banks and other financial institutions | 29 | 1,052,687 | 2,146,743 | 234,865 | 478,682 |
| Other subordinated liabilities | 30 | 394,743 | 338,124 | 88,071 | 75,395 |
| Deferred tax liabilities | 25 | 41,040 | 58,125 | 9,156 | 12,961 |
| Other liabilities | 31 | 368,046 | 336,924 | 82,115 | 75,126 |
| **Total liabilities excluding financial liabilities to holders of fund units** | | **31,984,780** | **29,039,683** | **7,136,115** | **6,475,278** |
| **Financial liabilities to holders of fund units** | | **13,884** | **14,467** | **3,098** | **3,228** |
| **Total liabilities** | | **31,998,664** | **29,054,150** | **7,139,213** | **6,478,506** |
| **Equity** | | | | | |
| Share capital | 32 | 2,695,125 | 2,292,937 | 601,309 | 511,280 |
| Treasury shares | | -21,253 | -1,075 | -4,742 | -240 |
| Share premiums | | 38,873 | - | 8,673 | - |
| Retained earnings | | 597,213 | 530,372 | 133,243 | 118,262 |
| Revaluation reserve | | 27,000 | 30,218 | 6,024 | 6,738 |
| Other reserves | 33 | 456,138 | 327,692 | 101,769 | 73,069 |
| **Total equity attributable to equity holders of the Bank** | | **3,793,096** | **3,180,144** | **846,276** | **709,109** |
| **Non-controlling interest** | | 4,167 | 2,649 | 930 | 591 |
| **Total equity** | | **3,797,263** | **3,182,793** | **847,206** | **709,700** |
| **Total liabilities and equity** | | **35,795,927** | **32,236,943** | **7,986,419** | **7,188,206** |

* Refer to Note 2c.

The consolidated financial statements were approved by the Board of Directors on 26 March 2015 and were signed on its behalf by:

Horia Ciorcila
*Chairman*

George Calinescu
*Deputy General Manager*



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## Banca Transilvania S.A.

# Consolidated statement of changes in equity

***For the year ended 31 December***

| | Attributable to the equity holders of the Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *In RON thousand* | **Share capital** | **Treasury shares** | **Share premium** | **Revaluation reserves** | **Other reserves** | **Retained earnings** | **Non-controlling interest** | **Total** |
| **Balance as at 31 December 2013** | **2,292,937** | **(1,075)** | **-** | **30,218** | **327,692** | **530,372** | **2,649** | **3,182,793** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the year | - | - | - | - | - | 441,085 | 1,368 | **442,453** |
| **Other comprehensive income, net of income tax** | | | | | | | | |
| Transfer from revaluation surplus to retained earnings | - | - | - | (1,592) | - | 1,592 | - | - |
| Fair value gains from available for sale financials assets (net of deferred tax) | - | - | - | - | 102,075 | - | - | **102,075** |
| Revaluation reserve for property and equipment net of income tax | - | - | - | (1,626) | - | - | - | **(1,626)** |
| Other elements of comprehensive income | - | - | - | - | - | 1,372 | | **1,372** |
| **Total comprehensive income** | **-** | **-** | **-** | **(3,218)** | **102,075** | **444,049** | **1,368** | **544,274** |
| **Contributions of the shareholders** | | | | | | | | |
| Increase in share capital through conversion of reserves from the profit | 352,743 | - | - | - | - | (352,743) | - | - |
| Increase in share capital through conversion of liabilities | 49,445 | | 38,873 | - | - | - | - | **88,318** |
| Distribution to statutory reserves | | | - | - | 26,371 | (26,371) | - | - |
| Acquisitions of treasury shares | - | (38,345) | - | - | - | - | - | **(38,345)** |
| Non-controlling interest | - | - | - | - | - | - | 150 | **150** |
| Share-based payments | - | 18,167 | - | - | - | 1,906 | - | **20,073** |
| **Total contributions of the shareholders** | **402,188** | **(20,178)** | **38,873** | **-** | **26,371** | **(377,208)** | **150** | **70,196** |
| **Balance at 31 December 2014** | **2,695,125** | **(21,253)** | **38,873** | **27,000** | **456,138** | **597,213** | **4,167** | **3,797,263** |



The accompanying notes from pages 8 to 84 form an integral part of these consolidated financial statements.

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## Banca Transilvania S.A.

# Consolidated statement of changes in equity

***For the year ended 31 December***

| | Attributable to the equity holders of the Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *In RON thousand* | **Share capital** | **Treasury shares** | **Share premium** | **Revaluation reserves** | **Other reserves** | **Retained earnings** | **Non-controlling interest** | **Total** |
| **Balance as at 31 December 2012** | **1,989,543** | **(7,979)** | **-** | **39,496** | **302,670** | **457,544** | **1,694** | **2,782,968** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the year | - | - | - | - | - | 396,821 | 788 | **397,609** |
| **Other comprehensive income, net of income tax** | | | | | | | | |
| Transfer from revaluation surplus to retained earnings | - | - | - | (4,191) | - | 4,191 | - | - |
| Fair value gains from available for sale financials assets (net of deferred tax) | - | - | - | - | 2,491 | - | - | **2,491** |
| Revaluation reserve for property and equipment | - | - | - | (5,087) | - | (580) | - | **(5,667)** |
| Other elements of comprehensive income | - | - | - | - | - | (2,669) | | **(2,669)** |
| **Total comprehensive income** | **-** | **-** | **-** | **(9,278)** | **2,491** | **397,763** | **788** | **391,764** |
| **Contributions of the shareholders** | | | | | | | | |
| Increase in share capital through conversion of reserves from the profit | | | | | | | | |
| Increase in share capital from share premiums | 303,394 | - | - | - | - | (303,394) | - | - |
| Distribution to statutory reserves | | | - | - | 22,531 | (22,531) | - | - |
| Acquisitions of treasury shares | - | (13,233) | - | - | - | - | - | **(13,233)** |
| Non-controlling interest | - | - | - | - | - | - | 167 | **167** |
| Share-based payments | - | 20,137 | - | - | - | 990 | - | **21,127** |
| **Total contributions of the shareholders** | **303,394** | **6,904** | **-** | **-** | **22,531** | **(324,935)** | **167** | **8,061** |
| **Balance at 31 December 2013** | **2,292,937** | **(1,075)** | **-** | **30,218** | **327,692** | **530,372** | **2,649** | **3,182,793** |



The accompanying notes from pages 8 to 84 form an integral part of these consolidated financial statements.

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# Consolidated statement of cash flows

***For the year ended 31 December***

| *In RON thousand* | **Note** | **2014** | **2013** |
|---|---|---|---|
| ***Cash flow from/ (used in) operating activities*** | | | |
| Profit for the year | | **442,453** | **397,609** |
| ***Adjustments for:*** | | | |
| Depreciation and amortization | 23,24 | 66,148 | 65,243 |
| Impairments allowance and write-offs of financial assets, other liabilities and loan commitments | 13 | 684,440 | 414,280 |
| Fair value adjustment of financial assets at fair value through profit and loss | | 11,815 | (17,907) |
| Income tax expense | 16 | 73,183 | 69,849 |
| Other adjustments | | -3,638 | (70,933) |
| ***Net profit adjusted with non-monetary elements*** | | **1,274,401** | **858,141** |
| ***Changes in operating assets and liabilities*** | | | |
| Change in investment securities | | (1,792,727) | (2,378,715) |
| Change in placement with banks | | (19,571) | (40,689) |
| Change in loans and advances to customers | | (1,527,359) | (1,564,844) |
| Change in net lease investments | | (853) | (46,406) |
| Change in financial assets at fair value through profit and loss | | (73,464) | 35,947 |
| Change in other assets | | (37,168) | (5,748) |
| Change in deposits from customers | | 4,276,765 | 2,586,619 |
| Change in deposits from banks | | (285,198) | 372,626 |
| Change in other liabilities | | (34,996) | (36,752) |
| Income tax paid | | (68,826) | (17,265) |
| ***Net cash from/ (used in) operating activities*** | | **1,711,004** | **(237,086)** |
| ***Cash flow from / (used in) investment activities*** | | | |
| Net acquisitions of property and equipment and intangible assets | | (61,199) | (57,986) |
| Dividends collected | 12 | 492 | 508 |
| ***Net cash flow from/(used in) investment activities*** | | **(60,707)** | **(57,478)** |
| ***Cash flow from /(used in) financing activities*** | | | |
| Net proceeds /(payments) from loans from banks and other financial institutions subordinated liabilities and debt securities issued | | (946,387) | (844,399) |
| Payments of dividends | | - | - |
| Payments for treasury shares | | (38,345) | (15,016) |
| Proceeds from investments held to maturity | | - | - |
| ***Net cash flow from financing activities*** | | **(984,732)** | **(859,415)** |



The accompanying notes from pages 8 to 84 form an integral part of these consolidated financial statements.

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# Consolidated statement of cash flows (continued)

***For the year ended 31 December***

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Net increase/(decrease) in cash and cash equivalents | 665,565 | (1,153,979) |
| Cash and cash equivalents at 1 January | 5,732,615 | 6,886,594 |
| **Cash and cash equivalents at 31 December** | **6,398,180** | **5,732,615** |

## *Reconciliation of cash and cash equivalents with the consolidated statement of financial position*

| *In RON thousand* | **Note** | **2014** | **2013** |
|---|---|---|---|
| Cash and cash equivalents | 17 | 4,234,181 | 4,105,571 |
| Placements with banks, less than 3 months maturity | | 2,164,518 | 1,628,149 |
| Less accrued interest | | (519) | (1,105) |
| **Cash and cash equivalents in the cash flow statement** | | **6,398,180** | **5,732,615** |

## *Cash flows from operating activities include*:

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Interest collected | 1,827,890 | 1,816,377 |
| Interest paid | 646,654 | 875,480 |



The accompanying notes from pages 8 to 84 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 2014 include the financial statements of the Bank and its subsidiaries (together referred to as the “Group”) The subsidiaries include the following companies:

| **Branch** | **Field of activity** | **31 December 2014** | **31 December 2013** |
|---|---|---|---|
| BT Securities S.A. | Investments | 98.68% | 98.68% |
| 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. | Consumer loans | 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 Asiom Agent de Asigurare S.R.L | Insurance | 99.95% | 95.00% |
| BT Safe Agent de Asigurare S.R.L. | Insurance | 99.99% | 99.99% |
| BT Intermedieri Agent de Asigurare S.R.L. | Insurance | 99.99% | 99.99% |
| BT Compania de Factoring S.R.L. | Factoring | 100.00% | 100.00% |
| BT Operational Leasing S.A. | Leasing | 94.73% | 94.73% |
| BT Leasing MD SRL | Leasing | 100.00% | 100.00% |
| BT Transilvania Imagistica S.A. | Other human health activities | 88.38% | 82.31% |
| Improvement Credit Collection SRL | Activity of the collection agents and credit reporting bureaus | 100.00% | 100.00% |

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 IFN S.A., BT Operational Leasing S.A., BT Direct IFN S.A and BT Leasing MD S.R.L, asset management, which is performed by BT Asset Management S.A.I S.A. Also the Bank has a holding higher than 50% in 2 investment funds, which are consolidated (see adoption of IFRS 10 Consolidated Financial Statements Note 3a).



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 *(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 out its activity through its head office located in Cluj-Napoca and 60 branches, 438 agencies, 31 work units, 9 medical divisions and 1 regional center located in Bucharest (2013: 61 branches, 436 agencies, 33 work units, 11 medical divisions and 1 regional center located in Bucharest) throughout the country. The Bank accepts deposits and grants loans, performs fund transfers in Romania and abroad, exchanges currencies and provides banking services for its corporate and retail customers.

As at 31 December 2013, the Bank no longer operated through the branch located in Cyprus. In 2013 the Bank opened a branch in Italy, which began its operational activity in 2014.

As at 31 December 2014 the balance sheet structure of the Italy branch was: total assets RON 3,369 thousand, total liabilities RON 4,331 thousand, losses RON 962 thousand.

The Bank's number of employees as at 31 December 2014 was 6,236 (31 December 2013: 6,041).

The registered address of the Bank is 8 George Baritiu Street, Cluj-Napoca, Romania.

The ownership structure of the Bank is presented below (specific holdings over 10% are listed below):

| | **31 December 2014** | **31 December 2013** |
|---|---|---|
| European Bank for Reconstruction and Development ("EBRD") | 14.33% | 14.61% |
| Romanian individuals | 17.70% | 19.56% |
| Romanian companies | 31.30% | 24.64% |
| Foreign individuals | 2.00% | 2.33% |
| Foreign companies | 34.67% | 38.86% |
| **Total** | **100%** | **100%** |

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

***BT Leasing Transilvania IFN 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 (2013: 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 2014 was 105 (2013: 104).
The registered address of BT Leasing Transilvania IFN S.A. is: 1st Baritiu Street, Cluj-Napoca, Romania.



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 *(continued)*

***BT Asset Management SAI***

BT Asset Management SAI S.A. is a commercial company, member of Banca Transilvania Financial Group, that is operating in the management of open investment funds established in Romania or in another EU member state, as well as in the management of closed investment funds subject to prudential oversight.
BT Asset Management SAI S.A provides a full range of investment products, from fixed income funds, diversified investment funds, index funds to equity funds. The opening to the capital market is provided to customers through investments in Romania and other EU member states (especially Austria); investments are available both in lei and euro.
At the end of 2014, BT Asset Management SAI market share was 7.15%, considering the value of the assets managed, and it was ranked 5th among investment fund managers in Romania.
As at 31 December 2014, the number of employees was 23 (2013: 19 employees).
The registered address of BT Asset Management SAI S.A is: Maestro Business Center, 21 Decembrie 1989 avenue no. 104, Cluj-Napoca, Romania.

***BT Securities S.A.***

BT Securities S.A. was set up in 2003 as a result of the change of the name and of the registered address of the company Transilvania Capital Invest. The company's main operating activity is financial brokerage and fund management (financial agents), but also activities related to financial brokerage.
During 2014, BT Securities SA carried out its activity on the Romanian capital market under conditions of increased share value of the main listed companies as a result of the macroeconomic stability, but such increase was not reflected in traded volumes.
The evolution of the brokerage activity was characterized through the maintenance of a low level in transaction values and also through the continued decrease in the average commission percent received from customers, as a result of the competitors' actions.
For 2014 and 2015, a reduction of commission pressure is anticipated, given the reduction of the number of intermediation companies in Romania.
As at 31 December 2014, the number of employees was 62 (2013: 74 employees). BT Securities S.A. is operating through its head office located in Maestro Business Center, 21 Decembrie 1989 avenue no. 104 , first floor, Cluj-Napoca, Romania and also through 10 units.

***BT Direct IFN SA***

BT Direct IFN SA is a non-banking financial institution set up in 2003. The company's activity object is represented by retail financing, through consumer loans granted to individuals.
During 2014, BT Direct IFN SA increased its loan portfolio (comprising consumer loans and personal needs loans), by 24.1% compared to 2013, the balance of such loans for the end of 2014 being of RON 80 million.
As of 31 December 2014, the number of employees was 29 (2013: 25 employees).
BT Direct IFN SA operates through its head office located in: 1 George 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 as at the Group's annual reporting date, 31 December 2014.

*Differences between the IFRS financial statements and statutory financial statements*

The subsidiaries maintain their accounting records in accordance with the accounting legislation applicable in Romania and the Republic of Moldova. All these accounts of the subsidiaries are defined hereafter as 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, in order to align the consolidated financial statements with the IFRS in all material aspects.

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

- the grouping of several detailed items into broader captions;
- fair value and impairment adjustments of financial instruments 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: financial assets and liabilities at fair value through profit and loss, whereas available-for-sale instruments through reserves, except those for which a reliable measurement 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 value between the net book value and the fair value, less the cost of sale.



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

**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 RON figures from Consolidated statement of profit or loss and other comprehensive income and Consolidated statement of financial position have been presented in EUR, following the requirement of IAS 21 "The Effect of Changes in Foreign Exchange Rates". This presentation in EUR is not part of the audited financial statements.

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

- Assets, liabilities and equity items for all items presented in the consolidated statement of financial position (i.e. including comparatives) were translated at the closing rate at the date of each consolidated statement of financial position presented (31 December 2014: 4.4821 RON/EUR; 31 December 2013: 4.4847 RON/EUR);
- Income and expense items presented were translated either at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates (average exchange rate in 2014: 4.4460 RON/EUR; average exchange rate in 2013: 4.4190 RON/EUR);
- All exchange differences resulting from translation 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 estimations and judgments that affect the application of accounting policies, as well as the reported value of assets, liabilities, incomes and expenses. The estimates and associated assumptions are based on historical data and various other factors that are believed to be relevant under the given circumstances, the result of which forms 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 assumptions 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 have a significant impact on the consolidated financial statements, as well as the estimates involving a significant degree of uncertainty, are described in Notes 4 and 5.

# Notes to the consolidated financial statements

## 3. Significant accounting policies

### a) Basis of consolidation

The significant accounting policies set out below have been applied consistently by the Group entities throughout all the periods presented in these consolidated financial statements.
The Group has adopted the following amended IFRS standards as of January 1, 2014:
- IFRS 10 “Consolidated financial statements”
- IAS 27 ” Separate financial statements”
- IFRS 11 ” Joint arrangements”
- IFRS 12 “Disclosures of interests in other entities”
- IAS 28 (2011) “Investments in associates and joint ventures”

**IFRS 10 “Consolidated financial statements”**

IFRS 10 replaces the section of IAS 27 Consolidated and Separate Financial Statements which address the accounting for consolidated financial statements. It addresses also issues included in SIC-12 Consolidation - Special Purpose Entities.
IFRS 10 establishes a single control model that applies to all entities, including special purpose entities. The changes introduced by IFRS 10 require the management to exercise significant judgments to determine which entities are controlled and must therefore be consolidated by a parent entity, compared to the requirements of IAS 27. The adoption of this standard had an impact on the Consolidated Financial Statements by the inclusion in consolidation of closed funds BT Invest 1 and BT Invest and the elimination from consolidation of five funds.
The list of Group subsidiaries is presented in Note 1.

**IAS 27 ”Separate financial statements”(reviewed)**

As a result of the new standards IFRS 10 and IFRS 12, the remaining provisions of IAS 27 are limited to accounting for subsidiaries, jointly controlled entities and associates in the separate financial statements.

**IFRS 11 ” Joint arrangements”**

IFRS 11 replaces IAS 31 ”Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities - Non-Monetary Contributions by Venturers”. IFRS 11 removes the option of accounting for jointly controlled entities (ECC) by applying proportionate consolidation. Instead, the ECC meeting the definition of a joint venture shall be accounted for through the equity method. The adoption of this standard had no impact on the Group's consolidated financial statements.

**IFRS 12 “Disclosures of interests in other entities”**

IFRS 12 includes all disclosures previously provided in IAS 27 on the consolidated financial statements and all other information provided previously in IAS 28 and IAS 31. The disclosures refers to the subsidiaries, joint ventures, associates and structured entities of an entity. There are also, new information to be provided. The adoption of this standard had no impact on disclosures in the Group's consolidated financial statements.



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# Notes to the consolidated financial statements

## 3. Significant accounting policies

### a) Basis of consolidation (*continued*)

**IAS 28 “Investments in associates and joint ventures”(reviewed)**

As a result of the new standards IFRS 11 Joint Ventures and IFRS 12 Disclosure of interests in other entities, IAS 28 Investments in Associates was renamed to become IAS 28 Investments in Associates and Joint Ventures and describes the application of the equity method for investments in joint ventures in addition to investments in associates.

***i) Subsidiaries***

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities.

When assessing control, potential or convertible voting rights which can be currently exercised must be taken into consideration. The financial statements of subsidiaries are included in the consolidated financial statements from the time control starts until its termination.

The Bank consolidates the financial statements of its subsidiaries in accordance with IFRS 10. The list of Group subsidiaries is presented in Note 1.

***(ii) Management of investment funds***

The Group manages and administrates assets invested in fund units on behalf of investors. The financial statements of these entities are not included in consolidated financial statements, except when the Group controls the entity by holding authority and exposure or rights over variable incomes based on its participation in the investment fund units.

***iii) Joint arrangements***

The adoption of IFRS 11 „Joint arrangements” had no impact on the Group's consolidated financial statements both at 31 December 2014 and at 31 December 2013.

***iv) Transactions eliminated from consolidation***

Intra-group settlements and transactions as well as any unrealized gains resulted from the intra-group transactions have been fully 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 in correlation with 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 date 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



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# Notes to the consolidated financial statements

**b) Foreign currency (*continued*)**

***i)Foreign currency transactions(continued)***

rate at that date. The gains and losses related to the settlement and translations of the monetary assets and liabilities denominated in foreign currency using the exchange rate at the end of the financial year, are recognized in the income statement, except for those recorded in equity as a result of applying hedge accounting.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated in functional currency 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 from translation are recognized in profit or loss.

***ii) Translation of foreign currency operations***

The result and financial position of operations denominated in a currency different from the functional and presentation currency of the Group are translated into the presentation currency as follows:

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

The exchange rates of major foreign currencies were:

| Currency | 31 December 2014 | 31 December 2013 | Variation % |
|---|---|---|---|
| Euro (EUR) | 1: LEU 4.4821 | 1: LEU 4.4847 | (0.06%) |
| US Dollar (USD) | 1: LEU 3.6868 | 1: LEU 3.2551 | 13.26% |



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# Notes to the consolidated financial statements

**3. Significant accounting policies *(continued)***

**c) Accounting method for the effect of hyperinflation**

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

IAS 29 stipulates 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, with effect on the financial periods starting 1 January 2004. Therefore, the provisions of IAS 29 have no longer been adopted in preparing the consolidated financial statements.

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

**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 a relevant period. The effective interest rate is the exact rate which adjusts estimated future cash flows to be paid or received throughout the expected life of the financial instrument or, when appropriate, a shorter period, with the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future 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 the contract parties, which are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fair value changes of derivative instruments held for hedging 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 profit or loss.

Once a financial asset or a group of similar financial assets has recorded an impairment loss, the interest income is thereafter recognized using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss applied on the net carrying value of the asset.



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# Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**e) Fees and commissions**

Fee and commission income arises from financial services provided by the Group: upfront fees, commitment fees, card fees, cash management services, brokerage services, investment advice and financial planning, investment banking services, and asset management services.

Fee and commission income directly attributable to the financial asset or liability upon origination (both income and expense) are included in the measurement of the effective interest rate. Loan commitment fees are amortised together with the related direct costs and are recognized as an adjustment to the effective credit interest rate.

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

**f) Net trading income**

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

**g) Net gain from the sale of financial instruments available for sale**

Net gain from the sale of financial instruments available for sale includes gains and losses from trading financial instruments available for sale and gains from the disposal of own equity instruments valued at cost.

Net gain and loss from the sale of financial instruments available for sale are recognized in the profit or loss account at the moment of selling the financial instruments available for sale. They represent the difference between the sale price and the amortized cost of the financial instruments available for sale.



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# Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**h) Dividends**

Dividend income is recognized in profit or loss at the date when the right to receive such 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 a distribution of profit for the period in which they are declared and approved by the General Meeting 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 2, starting with 1 January 2012, the IFRS standards as endorsed by the European Union are applied as a legal base for financial reporting.

**i) Lease payments**

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

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

**j) Income tax expense**

Income tax for the year includes the current tax and the deferred tax. The income tax is recognized in the profit for the year or in the shareholders' equity, if the tax is related to shareholders' equity items.

Current tax is the tax payable with respect to the profit for the period, determined based on the percentages applied at the date of the consolidated statement of financial position and all the adjustments related to the previous periods. The adjustments which influence the fiscal base of the current tax are: non-deductible expenses, non-taxable income, similar expense/income items and other tax deductions.

Similar expense items include the prudential filters representing "positive differences between prudential value adjustments /expected losses determined according to the applicable methodologies starting with 2012 financial year and depreciation adjustments according to IFRS, related to the financial assets subject to such methodologies, to the extent to which they are deducted from own funds according to the applicable prudential regulations". From a tax point of view, prudential filters are deducted from the calculation of current tax and their reduction or cancellation is taxed in the order of their registration. For 2014, as a result of legislative changes, prudential filters were determined as 80% of the differences mentioned in the previous paragraph.

Deferred tax is determined based on the balance sheet liability method for the temporary differences between the fiscal base for the calculation of the tax on assets and liabilities and their accounting value used for reporting under the consolidated financial statements.



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# Notes to the consolidated financial statements

## 3. Significant accounting policies (continued)

### j) Income tax expense (continued)

Deferred tax is not recognized for the following temporary differences: initial recognition of goodwill, initial recognition of assets and liabilities resulting from transactions which are not business combinations and do not affect the accounting or tax profit and differences resulting from investments in subsidiaries, provided that they are not reversed in the near future. Deferred tax is calculated based on the estimated method of realization or settlement of assets' and liabilities' accounting value, by using the tax rates stipulated in the applicable legislation as at the date of the consolidated statement of financial position.

Deferred tax claims are recognized only to the extent to which it is probable to obtain taxable profit in the future after compensation with the tax loss from the previous years and with the recoverable tax on profit. Deferred tax claims are diminished to the extent to which the related tax benefits are unlikely to be achieved.

The additional taxes that arise from the distribution of dividends are recognized at the same date as the liability to pay the related dividend.

The tax rate used to calculate the current and deferred tax position at 31 December 2014 is 16% (31 December 2013: 16%).

### k) 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 financial instruments designated at fair value through profit or loss at initial recognition. A financial instrument is classified in this category if acquired principally for the purpose of sale or if so designated by the 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 held by the Group and derivatives instruments.

*Loans and advances and net lease investments* are financial assets with fixed or determinable payments which are not quoted on an active market, other than those that the Group intends to sell immediately or in the near future, those that the Group, upon initial recognition, designates at fair value through profit or 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, for reasons other than credit deterioration. Loans and receivables comprise loans and advances to banks and customers and lease investments.

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group 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 and shares, equity investments and other investment securities which are not held for trading or held to maturity.



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## 3. Significant accounting policies (continued)

### k) Financial assets and liabilities *(continued)*

### *(ii) Recognition*

Financial assets and financial liabilities are initially recognized at fair value plus directly attributable transaction costs, in case of financial assets and financial liabilities other than those stated at fair value through profit or loss.

The Group initially recognizes loans and advances, deposits, issued bonds and subordinated liabilities on the date of their origination. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trading date at which the Group became 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 resulting from the respective asset expire, or when the Group transfers the rights to receive the contractual cash flows related to the financial asset within a transaction in which all the risks and rewards of ownership of the financial asset are substantially transferred. Any interest in the transferred financial assets created or retained by the Group is recognized as a separate asset or liability.

Upon 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 would be recognized in other comprehensive income, is recognized in profit or loss.

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

The Group enters into transactions whereby it transfers assets recognized on its consolidated financial position, but retains either all risks or rewards of the transferred assets or a portion thereof. If all or a substantial portion of risks and rewards are retained, then the transferred assets are not derecognized from the consolidated financial position. Transfers of assets with retention of all risks and rewards or of a substantial portion thereof include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a total rate of return swap on the transferred assets, the transaction is accounted for as a secured financial transaction similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially the risks and rewards arising from the ownership of a financial asset, the asset is derecognised if control over such 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 to realise the asset and settle the liability simultaneously. Incomes and expenses are presented on a net basis only when permitted by the accounting standards, or as gains and losses arising from a group of similar transactions such as in the Group's trading activity.



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# Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**k) Financial assets and liabilities *(continued)***

***(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 upon 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 impairments on assets.

***(vi) Fair value measurement***

Fair value is the price that would be received after the sale of an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date, in principal, or, in its absence, the price on the most advantageous market to which the Group has access at the respective date. The fair value of liability reflects its non-performance risk.
When available, the Group measures the fair value of an instrument using the quoted price on an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
If there is no quoted price on an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.
The chosen valuation technique incorporates all of the factors that market participants would take into account when pricing a transaction.
The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price – the fair value of a consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price on an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life period of an instrument, but no later than when the valuation is wholly supported by observable market data or the transaction is closed.
The Group recognizes transfers between hierarchical fair value levels as at the end of the reporting period during which the change has occurred.

***(vii) Identification and measurement of impairment***

At each date of the consolidated statement of financial position, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired only if there is objective evidence regarding its impairment as a result of one or more events occurred after the initial recognition (“loss generating event”), and the loss generating event(s) has an impact on the future cash flows of the asset that can be estimated reliably.

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



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# Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**k) 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 updated 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 current variable interest rate, specified in the contract. The asset’s accounting value can be decreased directly or by using an impairment account. The expense with impairment losses is recognized in the statement of profit or loss.

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

***Loans and advances to customers and net lease investments***

The Group, based on its internal methodology for impairment assessment, included information on the following loss events, as objective evidence for the impairment of loans and advances to customers or groups of customers and net lease investments:

(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 delay in interest or principal payments (individually and in the same group of borrowers);

(c) the lender, due to economic or legal reasons relating to the borrower's or lessee’s financial difficulty, grants to the borrower certain concessions that the lender would not have otherwise considered, such as rescheduling the interest or principal payments;

(d) there are indications 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, starting from the date of initial recognition, although the decrease cannot be identified for each individual asset, including:

   *i.* unfavourable 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 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.



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# Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**k) 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, as presented above, with respect to an individually assessed financial asset, whether significant or not, it shall include the loans to customers and net lease investments into a group with similar credit risk characteristics and shall collectively assess them for impairment. The loans to customers and net lease investments individually assessed, for which an individual impairment is recognized or continues to be recognized, are no longer included in the groups with similar credit risk characteristics under collective assessment. The calculation of the present value of the future cash flows of a collateralized loan and a net lease investment reflects the cash flows that may result from foreclosure, less the 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 separate lines of business, type of loan, currency, maturity, debt service and so on).

The management considers that these selected characteristics are the best estimates of similar credit risk characteristics, being relevant for the estimation of future cash flows for groups of such loans and net lease investments, and being indicative of the debtors' ability to pay all amounts due according to the contractual terms.

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 of the group. Historical loss is adjusted on the basis of current observable data in order to reflect the effects of current conditions that did not affect the period on which the historical loss was calculated and to remove the effects of conditions in the historical period that do no longer apply.

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

***Financial assets available for sale***

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 has been recognized directly in equity shall be restated directly from equity and recognized in profit or loss even though the financial asset has not been derecognized yet.

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. Impairment losses recognized in the income statement as an investment in an instrument available for sale shall not be restated through profit or loss.

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



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# Notes to the consolidated financial statements

**3. Significant accounting policies (continued)**

**k) Financial assets and liabilities *(continued)***

***(vii) Identification and measurement of impairment (continued)***

***Financial assets carried at cost***

If there is objective evidence that an impairment loss has been incurred on an unlisted 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 or is to be settled by delivery of such an unlisted instrument, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the updated value of estimated future cash flows by using the current market rate of return for a similar financial asset. Such impairment losses are not restated in the income statement.

***(viii) Designation at fair value through profit and loss***

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

- eliminating or reducing significantly 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 profit or loss.

**l) Cash and cash equivalents**

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

**m) Assets and liabilities held for trading**

Assets and liabilities held for trading are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing them in the near term, or holds as part of a portfolio managed 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 recorded directly in the statement of profit and loss. All changes in fair value are recognized as part of net trading income in the statement of income. Trading assets and liabilities are not reclassified after their initial recognition.

**n) 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 assets or liabilities held for trading. Derivatives held for risk management purposes are measured at fair value in the consolidated statement of the financial position. When a derivate is not held for trading, and is not involved in a hedge transaction, all changes in its fair value are recognized immediately in the statement of comprehensive income as a component of net trading income.



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

## 3. Significant accounting policies *(continued)*

### n) Derivatives (continued)

#### *(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.

### o) Loans and advances and net lease investments

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted on 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 through which it transfers to the lessee all the significant risks and rewards incidental to the property of an asset, 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 direct transaction costs, and subsequently measured at their amortized cost by 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 note 3(k) (viii) above.

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

### p) Investment securities

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

#### *(i) Held to maturity*

Held to maturity investments are carried at amortized cost using the effective interest method. Any sale or significant reclassification 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 would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

However, sales and reclassifications would not trigger a reclassification in any of the following circumstances: sales or reclassifications which are so close to maturity, that changes in the market interest rate would not have a significant effect on the financial asset's fair value; sales or reclassifications after the Group has collected substantially the asset's principal; sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.



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# Notes to the consolidated financial statements

## 3. Significant accounting policies *(continued)*

### p) Investment securities (continued)

#### *(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(m).

#### *(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 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 volume of its security 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 fair values.

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.

Interest income is recognized in profit and loss by using the effective interest method. Dividends are recognized in profit and loss when the Group becomes entitled to the dividends. Foreign exchange gains or losses on available-for-sale securities are recognized in profit and loss.

Other fair value changes are recognized directly in equity until the investment is sold or impaired and the fair value balance from 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 the effective interest rate method.

### q) Tangible assets

#### *(i) Recognition and measurement*

Tangible assets are stated at their cost or revalued amount less accumulated depreciation and impairment losses. Investment expenditure on property and equipment is capitalized and depreciated once the assets enter into use.

Leasing agreements in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Tangible assets acquired by way of finance lease are stated at an amount equal to the lower between its fair value and the updated value of the minimum leasing payments from the leasing inception date, less accumulated depreciation and impairment losses.



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# Notes to the consolidated financial statements

## 3. Significant accounting policies *(continued)*

### q) Tangible assets (continued *)*

#### *(ii) Subsequent costs*

The Group recognizes in the carrying amount of tangible assets the cost of replacing such an item when that cost is incurred or if it is probable that the future economic benefits embodied with the item may be transferred 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 calculated on a straight-line basis over the estimated useful lifespan of each item of tangible assets. Assets acquired through leasing are depreciated over the shorter period between the lease term and their useful lifespan. Land is not depreciated.

The estimated useful lives are as follows:

| | |
|---|---|
| Buildings | 50 years |
| Leasehold improvements (average) | 6 years |
| Computers | 4 years |
| Furniture and equipment | 2 – 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.

### r) Intangible assets

Intangible assets are initially measured at cost.

#### *i) Goodwill and negative goodwill*

Goodwill and negative goodwill arise on the acquisition of new subsidiaries. Goodwill represents the difference between the cost of acquisition and the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. Negative goodwill is recognized immediately in profit and loss, after reanalysing the manner of identification and valuation of the assets, liabilities and identifiable contingent liabilities and measurement of the acquisition cost.

#### *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 of the identifiable assets, liabilities and contingent liabilities and the measurement of the acquisition cost.



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# Notes to the consolidated financial statements

## 3. Significant accounting policies *(continued)*

### r) Intangible assets (continued)

#### *(ii) Software*

Costs associated with the development and maintenance of 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 production costs for a period exceeding one year, are recognized as intangible assets. Subsequent expenditure on software assets is capitalized only if it increases the future performance of such assets, beyond initial specifications and lifespan. All other expenditure is reflected as an expense as incurred.

Amortization is recognized in income statement on a straight-line basis over the estimated useful life of the intangible asset. The estimated useful life of software is three years.

### s) Financial lease – lessee

Leasing contracts in which the Group assumes substantially all the risks and rewards of ownership were classified as finance leases. Upon initial recognition, leasing payments are recognised 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 investments in real estate property, the leased assets are not recognized in the Group's consolidated statement of financial position.

### t) Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less the cost of sale of such asset or unit. In assessing the 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 and the risks specific to the asset.

In respect of other assets, impairment losses are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss in other assets 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.

### u) 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.



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# Notes to the consolidated financial statements

## 3. Significant accounting policies *(continued)*

### v) 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.

Outstanding bonds can be converted into shares, at the request of the bondholder, according to the prospectus. The conversion shall be made at a price per share that is established at the price fixing date or at the liquidation date, which is equal to the average of the daily maximum and minimum share price on the regular market, weighted with the daily volume traded on the regular market throughout the 90 days when the shares were transacted on the Bucharest Stock Exchange, immediately prior to the price fixing date of the liquidation date. Share premiums result as the difference between the value of convertible bonds and the value of shares issued.

### w) 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 and the obligation can be measured reliable. Provisions value is 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.

### x) Financial guarantees

Financial guarantees are contracts that require the Group to make specific 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 lifespan 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 becomes probable).

### y) 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*

In the normal course of business, the Bank and its subsidiaries make payments to the Romanian public pension funds on behalf of its 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 public pension plan (a State defined contribution plan). All relevant contributions to the Romanian public 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.



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# Notes to the consolidated financial statements

## 3. Significant accounting policies *(continued)*

***(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 loyalty plan. The fair value upon grant-date of share-based awards - stock options – granted to employees is recognized as personnel expenses, with a corresponding increase in equity, over the period in which 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 fulfilled, so that the amount ultimately recognized as an expense is based on the effective compensation of services and performance conditions which are not related to the market at the vesting date.

**z) 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.

**aa) 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 with the weighted average number of outstanding ordinary shares, affecting all potential ordinary shares, which comprise convertible securities and share options granted to employees.

**ab) Treasury shares**

Required own equity instruments (treasury shares) are deducted from shareholders' equity. No gain or loss is recognized in the income statement from the purchase, sale, issue or cancellation of the Group's own equity instruments.

**ac) Restatements**

Starting 2014 and following the adoption of IFRS 10 "Consolidated financial statements", the Group consolidates the investments funds managed by BT Asset Management SA, respectively BT Invest and BT Invest 1, as compared to previous period when the Group has consolidated five funds (two subsidiaries and three associates). The previous policy of the Group related to control definition was in compliance with the standards applicable up to 31st of December 2013. The change was applied retrospectively in the consolidated financial statements and it was included in the computation of the initial balances as of 1 January 2013 and 1 January 2014.

Where applicable, the comparative amounts were adjusted to reflect the current period presentation changes, as well as with the analysis of prior years' adjustments.

The changes were made for the fair presentation of the financial position and financial performance of the Group. The following tables include a series of notes presenting the detailed changes and the adjusted comparative amounts.

Restatements of the consolidated statement of financial position at 31 December 2013 are as follows:



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# Notes to the consolidated financial statements

## 3. Significant accounting policies *(continued)*

### ac) Restatements (continued)

| **Assets** | 31 December 2013 before restatements | Restatements effect | 31 December 2013 after restatements |
|---|---|---|---|
| Loans and advances to customers (net) | 16,583,398 | (5,559) | 16,577,839 |
| Financial assets at fair value through profit and loss | 103,556 | (21,274) | 82,282 |
| Investment securities, available for sale | 8,817,441 | 68,890 | 8,886,331 |
| Investment in associates | 49,778 | (49,778) | - |
| Other assets | 6,689,909 | 582 | 6,690,491 |
| **Total assets** | **32,244,082** | **(7,139)** | **32,236,943** |
| **Liabilities** | | | |
| Deposits from customers | 26,154,971 | 4,796 | 26,159,767 |
| Other liabilities | 2,879,953 | (37) | 2,879,916 |
| Financial liabilities to holders of fund units | - | 14,467 | 14,467 |
| **Total liabilities** | **29,034,924** | **19,226** | **29,054,150** |
| Share capital | 2,292,937 | - | 2,292,937 |
| Treasury shares | (1,490) | 415 | (1,075) |
| Retained earnings | 539,116 | (8,744) | 530,372 |
| Other reserves | 349,452 | 8,458 | 357,910 |
| **Total equity attributable to equity holders of the Bank** | **3,180,015** | **129** | **3,180,144** |
| **Non-controlling interest** | **29,143** | **(26,494)** | **2,649** |
| **Total liabilities and equity** | **32,244,082** | **(7,139)** | **32,236,943** |

Restatements of the consolidated statement of profit or loss and other comprehensive income for the year ended 31December 2013 are:

| | 31 December 2013 before restatements | Restatements effect | 31 December 2013 after restatements |
|---|---|---|---|
| **Net interest income** | 1,026,767 | (3,399) | 1,023,368 |
| **Net fee and commission income** | 371,078 | 1,218 | 372,296 |
| Net trading income | 146,954 | (3,039) | 143,915 |
| Net gain from sale of available for sale financial instruments | 202,817 | (180) | 202,637 |
| Contribution to the Banking Deposits Guarantee Fund | (64,398) | - | (64,398) |
| Other operating income | 76,403 | (1,255) | 75,148 |
| Expenses with liabilities to holders of fund units | - | (2,033) | (2,033) |
| **Operating expenses(including impairment expenses)** | (1,286,174) | 2,699 | (1,283,475) |
| Share of profits in associates | 5,937 | (5,937) | - |
| **Profit before income tax** | **479,384** | **(11,926)** | **467,458** |
| Income tax expense | (70,827) | 978 | (69,849) |
| **Profit for the year** | **408,557** | **(10,948)** | **397,609** |
| **Total comprehensive income** | **394,893** | **(3,129)** | **(391,764)** |



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# Notes to the consolidated financial statements

## 3. Significant accounting policies *(continued)*

**ad) New standards and interpretations not yet effective as of 31 December 2014**

Certain new standards, amendments and interpretations of the standards are not yet applicable for the financial year ended 31 December 2014 and were not applied in the preparation of these consolidated financial statements:

**A. Standards endorsed by the European Union:**

**a) IFRIC 21 – Levies (effective date: annual periods starting 17 June 2014 or subsequently)**

The interpretation provides additional guidance on the date such an obligation should be accounted for as a liability. In accordance to this interpretation, the obligation should be recognized at the date the activity triggering such a payment obligation is performed. The obligation should be recognized as the respective activity is being performed.

The Group is currently assessing the potential effects that the application of IFRIC 21 may have on its financial statements.

**b) Annual improvements of IFRS (cycles 2010 – 2012 and 2011 – 2013, most of them applicable to the annual periods starting 1 February 2015)**

The amendments include 11 changes affecting 9 standards. The amendments with a potential impact on the Group's activity are presented below:

- IFRS 8 – Operating Segments: amendments include disclosure requirements related to the judgments made for the aggregate presentation of reported segments;
- IFRS 13 – Fair value measurement: amendments clarify that short-term payables and receivables with no stated interest rate can be presented in the fair value note – at invoice amount, if the discounting effect is immaterial;
- IAS 16 and IAS 38 – clarifies the treatment of cumulated depreciation at revaluation date;
- IAS 24 – extends the definition of related parties;
- IAS 40 –Investment property: amendments clarify the distinction between an investment property in accordance with IAS 40 and a business combination in accordance with IFRS 3;
- IFRS 7 – Presentation of financial instruments: amendments clarify the continuing involvement in transferred assets.

**B. Standards not yet endorsed by the European Union**

**a) IFRS 9 Financial Instruments (effective date: annual periods starting from January 1, 2018)**

This standard replaces the provisions of IAS 39 „Financial instruments: recognition and measurement" regarding the classification and measurement of financial assets, except the aspects regarding hedge where the entities may opt for the application of former IAS 39 provisions or IFRS 9 provisions.

Financial assets shall be classified by using one of two evaluation methods: at amortized cost and at fair value.



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# Notes to the consolidated financial statements

## 3. Significant accounting policies *(continued)*

### ad) New standards and interpretations not yet effective for the year ended at 31 December 2014 (continued)

A financial asset can be evaluated at amortized cost provided that the following two conditions are fulfilled: assets must be held within a business model, whose objective is the management based on contractual return and cash flows at the specified dates according to the contractual terms must be represented only by principal and interest. Subsequent profit or loss from the value adjustments of assets measured at fair value are reflected in the income statement, excepting investments in equity instruments not held for trading, for which the standard allows the fair value measurement upon initial recognition, the subsequent value modifications being recognized under the comprehensive income.

Disclosure requirements are also significant.

The Group is currently assessing the potential effects that the application of IFRS 9 may have on its consolidated financial statements.

**b) IFRS 15 – Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2017)**

Issued on May 28, 2014 the standard replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC – 31. The standard is applicable to contracts with customers, other than insurance, financial instruments, leasing.

This standard prescribes a single model for the analysis of customer contracts and two approaches for revenue recognition - at a specific moment in time or during the contract, depending on the time of fulfilling the obligation under the contract.
The Group is currently assessing the potential effects that the application of IFRS 15 may have on the consolidated financial statements.

**c) Amendments to IAS 1 (Effective for annual periods beginning on or after 1 January 2016)**

The definition of materiality was amended to clarify its applicability on the financial statements as a whole and on each presentation requirement within a standard.

Changes were also made on the financial statements and notes in order to clarify that entities have flexibility regarding disclosure of accounting policies in the notes.
The Group does not expect that the amendments to IAS 1 to have a material impact on the consolidated financial statements

**d) Amendments to IAS 16 and IAS 38- Clarification of the acceptable depreciation and amortization methods (effective for periods beginning on or after 1 January 2016)**

The amendments provides that depreciation based on income for tangible is inappropriate and place restrictions on the applicability of this method for intangible assets. The Group considers that this amendment will not have a material effect on the financial statements because it does not apply the depreciation method based on income.

**e) Amendments to IAS 27 (effective for periods beginning on or after 1 January 2016)**

The amendments allow an entity to record its subsidiaries, associates and joint ventures in the consolidated financial statements using the equity method. The Group consider that this amendment will not have a material effect on the consolidated financial statements.



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# 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 the responsibility regarding the establishment and monitoring of the general framework for the Group risk management. The Board of Directors has appointed the Leaders Committee, Executive Management Committee, Assets - Liabilities Committee (ALCO), Credit Policy and Approval Committee, Credit and Risk Committees of Bank's Head Office (loan approval), Credit and Risk Committee of branches / agencies that are responsible for the formulation and / or monitoring risk management policies in their field of expertise. The 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 Risk Management Committee advises the Board of Administration/Directors regarding the risk appetite and the global strategy regarding the management of the actual and future risks and assists the Board of Directors on the overseeing the strategy by the Leaders Committee.

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 sound continuity of the business and the protection of the shareholders and clients' interest, the Group adopts a risk profile consistent with its risk profile, strategies and policies regarding significant risks management, correlated with the general strategy of the Group, its capital and experience in risk management.

Risk management policies and systems of the Group are reviewed regularly (mainly annually) with the participation of the Leaders Committee, Executive Management 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.



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# 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 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, by obtaining collaterals.

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 35).

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 has delegated responsibility for credit risk management to the Leaders' Committee, Executive Management Committee, Credit Approval and Policy Committee, Credit and Risk committees from the head office of the Bank (credit approval) at Head Office level and to Credit and Risk Committees of branches / agencies at branch level. The Risk Management Division operates within the Bank reporting to the above Central Committees. It has responsibilities 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;
- 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 the Group to the Leaders Committee;



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# Notes to the consolidated financial statements

## 4. Financial risk management *(continued)*

### b) Credit risk (continued)

- Identifying, monitoring and controlling the credit risk at branch and subsidiary level;
- Insuring the compliance with the internal regulations, the NBR 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;
- Periodically presents reports to the Board of Directors and Leaders Committee regarding the evolution of the significant risks (the implications of risk correlation, forecasts etc);
- Analysis of loan portfolio both individually and as Group 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 Leader 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 Internal Control Department 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 customers' relationship. 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.



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# 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 2014 | 31 December 2013 |
|---|---|---|
| Individuals | 32.82% | 31.67% |
| Trading | 16.10% | 16.48% |
| Production | 15.95% | 17.04% |
| Construction | 8.65% | 8.12% |
| Services | 4.77% | 5.23% |
| Transport | 3.84% | 3.93% |
| Real estate | 2.85% | 2.74% |
| Agriculture | 4.94% | 4.34% |
| Free lancers | 2.02% | 1.79% |
| Energy industry | 2.12% | 2.49% |
| Chemical industry | 1.25% | 1.42% |
| Telecommunication | 0.49% | 0.49% |
| Mining industry | 0.92% | 0.94% |
| Governmental bodies | 0.10% | 0.12% |
| Financial Institutions | 0.46% | 0.49% |
| Fishing industry | 0.04% | 0.04% |
| Others | 2.68% | 2.67% |
| **Total** | **100%** | **100%** |

At 31 December 2014, total on and off balance sheet exposures amounted to RON 25,922,422 thousand (31 December 2013: RON 24,335,622 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 equipment and/or receivables. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and if the case, on the value obtained as a result of further analysis. Collateral generally is not held over loans and advances to banks.

The Group is using risk grades both for loans individually and collectively assessed. According to the Group's policies, a loan can be allocated to an appropriate risk grade from low risk (1) to impaired (8). Classification of risk grades is based on customers payment behavior and on impairment signs identified when performing individual assessment, risk grade (8) being composed mainly of principal exposure from non-performing loans and loans for which the legal recovery process was initiated.



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# Notes to the consolidated financial statements

## 4. Financial risk management *(continued)*

### b) Credit risk *(continued)*

The credit risk exposures for loans and advances to customers and net lease investments at 31 December 2014 and 2013 are presented below:

| **Depreciated cost** | | **2014** | **2013** |
|---|---|---|---|
| **Carrying amount** | | | |
| Grade 1 | Low Risk | 14,849,884 | 14,056,054 |
| Grade 2-3 | Moderate Risk | 979,209 | 1,119,585 |
| Grade 4-6 | Medium Risk | 846,190 | 1,003,037 |
| Grade 7 | High Risk, impaired but not default | 1,646,201 | 542,621 |
| Grade 8 | Impaired, default | 2,010,638 | 2,745,347 |
| **Gross Value** | | **20,332,122** | **19,466,644** |
| Adjustment for impairment (individual and collective) | | (2,669,159) | (2,645,654) |
| **Net book value** | | **17,662,963** | **16,820,990** |

| **Gross values neither past due nor impaired** | | | |
|---|---|---|---|
| Grade 1 | Low Risk | 14,277,860 | 13,504,217 |
| Grade 2-3 | Moderate Risk | 763,838 | 847,346 |
| Grade 4-6 | Medium Risk | 304,650 | 58,003 |
| **Total** | | **15,346,348** | **14,409,566** |

**Gross values of outstanding loans and advances to customers past due but not impaired**

| | | |
|---|---|---|
| 1-15 days | 781,729 | 608,939 |
| 15-30 days | 224,421 | 195,890 |
| 30-60 days | 167,004 | 283,362 |
| 60-90 days | 71,419 | 249,093 |
| 90-180 days | - | 112,705 |
| 180 days + | - | 20,041 |
| **Total** | **1,244,573** | **1,470,030** |

**Gross value of loans and receivables to customers with specific adjustments**

| | | | |
|---|---|---|---|
| Grade 4-6 | Medium Risk | 84,362 | 298,301 |
| Grade 7 | High Risk, impaired but not default | 1,646,201 | 542,621 |
| Grade 8 | Impaired, default | 2,010,638 | 2,746,126 |
| **Total** | | **3,741,201** | **3,587,048** |

| **Adjustments for impairment** | | |
|---|---|---|
| Individual | (1,641,806) | (1,498,113) |
| Collective | (1,027,353) | (1,147,541) |
| **Total impairment adjustments** | **(2,669,159)** | **(2,645,654)** |



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# Notes to the consolidated financial statements

## *4. Financial risk management (continued)*

**b) Credit risk *(continued)***

Exposures are considered as restructured debt contracts where concessions were granted to a debtor that is experiencing or is about to face difficulties in meeting its financial commitments; concessions which would not have been granted if the debtor would not be in financial difficulty. The Group had loans outstanding classified according to the above definition, amounting to RON 2,720,477 thousand (2013: RON 2,823,306 thousand).

In addition, the Group had entered into loan commitments as of 31 December 2014 amounting to RON 5,660,300 thousand (31 December 2013: RON 4,868,978 thousand), mainly with counterparties graded 1-3.

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

The Group holds cash and cash equivalent of RON 4,234,181 thousand as of December 31, 2014. The cash and cash equivalents are placed with the National Bank of Romania and with financial institutions having a rating in the range BB- and AAA, based on the ratings issued by Fitch, Moody's or Standard & Poor's.

On 31December 2014, investment securities available for sale include treasury bills and bonds issued by the Government of Romania, with the S & P BBB, BBB-, bonds issued by mayors, with rating BBB- bonds issued by the Montenegro, with BB- rating, and certificate of participation issued by Raiffeisen Centrobank from AG, with A- rating .

*Past due and individually impaired loans and securities*

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

*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 due to the Group.

*Allowances for impairment*

The Group establishes 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.

As of December 31st, 2014, the Group changed the calculation methodology for the collective impairment allowances, as follows:

- Default definition alignment according to the provisions of EU Regulation 575 / 2013 at 90 days for all debtors categories and consequently recalculation of the probability of default parameter;
- Reassessment of the loss given default parameter, considering the Groups historical data on recoveries, the new default definition and the professional judgment;



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# Notes to the consolidated financial statements

## *4. Financial risk management (continued)*

### b) Credit risk *(continued)*

- For loans not impaired and without impairment triggers, it a computation methodology for incurred but not reported losses based on default rates, loss given defaults and loss identification period was implemented.

The Group's management is currently implementing a methodology for retrospective validation of new parameters used in the collective provisioning methodology described above.

*Write-off policy*

Based on a specific analysis, the Group may decide to derecognize a depreciated asset either through write-off or through off-balance record. The analysis of financial assets subject to write-off is performed periodically with respect to assets which exceeded the recovery horizon and/or are fully provisioned (based on the assessment of significant changes affecting the financial performance of the borrower/issuer, changes causing the impossibility to pay the obligation or changes resulting in insufficient amounts to cover the whole exposure after guarantee enforcement).

According to the National Bank of Romania's letters no. 490/FG/28.04.2014, no. 533/FG/09.05.2014 and no. 703/FG/17.06.2014, during 2014, the Group directly reduced the loans fully covered with impairment provisions and at the same time booked the respective receivables amounting to RON 758,721 thousand in the off balance sheet accounts. During 2014, loans finance lease receivables amounting to RON 46,298 thousand (December 31st, 2013: RON 149,867 thousand) were also derecognised.

The Group holds collaterals against loans and advances to customers in the form of mortgage over land and buildings, property, inventory, insurance policies and other guarantees. The Group has the ownership right over these guarantees until the end of the contract. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and periodical updates on collaterals. Pledges, presented below, do not include guarantees leases signed by BT Leasing IFN SA.

An analysis of the collaterals values split per types of loans and advances granted to customers is presented below:

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Collaterals related to loans with a moderate, medium and high risk and impaired loans | | |
| Real estate | 3,978,817 | 4,077,198 |
| Pledges | 722,982 | 474,066 |
| Other collaterals | 202,463 | 322,768 |
| | **4,904,262** | **4,874,032** |
| Collaterals related to loans with low risk | | |
| Real estate | 12,433,279 | 11,553,414 |
| Pledgees | 2,038,509 | 1,821,476 |
| Other collaterals | 1,600,049 | 1,571,029 |
| | **16,071,837** | **14,945,919** |
| **Total** | **20,976,099** | **19,819,951** |



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# Notes to the consolidated financial statements

## 4. Financial risk management *(continued)*

### b) Credit risk *(continued)*

***Exposure to higher risk Eurozone countries***

Last year the Euro Area started to recover from the second wave of the Great Recession: the GDP rose by 0.9% YoY, after the decline in 2012 and 2013. The fixed investments presented a turning point, increasing by 1% YoY, due to the dynamics of the foreign demand and to the better perspectives for the domestic demand. The monetary policy signals (regarding the implementation of new monetary stimulus, through the acquisition of government bonds issued by the member states) resulted in the decrease of the risk perception regarding the break-up of the Euro Area (as reflected by the decline of the financing costs). However, the result of the Hellenic general elections in early 2015 determined an increase of the risk perception regarding the exit of Greece from the Monetary Union.

### c) Liquidity risk

Liquidity risk is generated by the Group's inability to meet its payment obligations outstanding at their due date. Liquidity risk has 2 components: the difficulties in procuring funds on the 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 Group 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.

The Assets and Liabilities Management Committee (ALCO) 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 Bank's assets and liabilities analysed based on the remaining period from 31 December 2014 and 31 December 2013 until the contract maturity date, including contractual undiscounted cash flows of the financial assets and financial liabilities, are the following:



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# Notes to the consolidated financial statements

## 4 . Financial risk management *(continued)*

### c) Liquidity risk *(continued)*

| *In thousand RON* | Carryng amount | Gross nominal inflow/(outflow) | Less than 3 months | 3-6 months | 6-12 months | 1-3 years | 3 – 5 years | More than 5 years | Without maturity |
|---|---|---|---|---|---|---|---|---|---|
| **31 December2014** | | | | | | | | | |
| **Financial liabilities** | | | | | | | | | |
| Deposits from banks | 133,348 | (133,512) | (133,512) | - | - | - | - | - | - |
| Deposits from customers | 29,994,916 | (30,114,863) | (20,297,654) | (4,160,831) | (2,630,301) | (1,137,007) | (1,727,961) | (161,109) | - |
| Loans from banks and other financial institutions and other subordinated liabilities | 1,447,430 | (1,659,521) | (573,848) | (57,096) | (99,111) | (270,123) | (225,032) | (434,311) | - |
| **Total Financial liabilities** | **31,575,694** | **(31,907,896)** | **(21,005,014)** | **(4,217,927)** | **(2,729,412)** | **(1,407,130)** | **(1,952,993)** | **(595,420)** | **-** |
| **Financial assets** | | | | | | | | | |
| Cash and cash equivalents | 4,234,181 | 4,234,181 | 4,234,181 | - | - | - | - | - | - |
| Placements with banks | 2,387,058 | 2,421,710 | 2,184,961 | 17,976 | 62,511 | 32,371 | 114,443 | 9,448 | - |
| Financial assets at fair value through profit and loss | 143,931 | 143,931 | 72,188 | - | - | - | - | - | 71,743 |
| Loans and advances to customers | 17,418,689 | 25,528,451 | 4,903,185 | 2,243,839 | 3,827,864 | 4,649,991 | 3,216,122 | 6,687,450 | - |
| Net finance lease investments | 244,274 | 356,257 | 104,454 | 28,261 | 32,662 | 43,095 | 109,427 | 32,412 | 5,946 |
| Investment securities, available for sale | 10,771,835 | 11,732,981 | 8,787,523 | 204,273 | 211,598 | 1,136,241 | 611,649 | 703,635 | 78,062 |
| **Total Financial assets** | **35,199,968** | **44,417,511** | **20,286,492** | **2,494,349** | **4,134,635** | **5,861,698** | **4,051,641** | **7,432,945** | **155,751** |
| **Net position** | | **12,509,615** | **(718,522)** | **(1,723,578)** | **1,405,223** | **4,454,568** | **2,098,648** | **6,837,525** | **155,751** |



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## 4. Financial risk management *(continued)*

**c) Liquidity risk (continued)**

| *In thousand RON* | Carryng amount | Gross nominal inflow/(ouflow) | Less than 3 months | 3-6 months | 6-12 months | 1-3 years | 3 – 5 years | More than 5 years | Without maturity |
|---|---|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | | | |
| **Financial liabilities** | | | | | | | | | |
| Deposits from banks | 418,755 | (418,949) | (418,640) | (309) | - | - | - | - | - |
| Deposits from customers | 25,741,012 | (25,856,652) | (17,925,609) | (3,621,272) | (1,819,435) | (824,531) | (1,577,923) | (87,882) | - |
| Loans from banks and other financial institutions and other subordinated liabilities | 2,484,867 | (2,681,917) | (1,558,134) | (163,277) | (104,753) | (342,765) | (209,418) | (303,570) | - |
| **Total Financial liabilities** | **28,644,634** | **(28,957,518)** | **(19,902,383)** | **(3,784,858)** | **(1,924,188)** | **(1,167,296)** | **(1,787,341)** | **(391,452)** | **-** |
| **Financial assets** | | | | | | | | | |
| Cash and cash equivalents | 4,105,571 | 4,105,571 | 4,105,571 | - | - | - | - | - | - |
| Placements with banks | 1,760,517 | 1,777,960 | 1,645,905 | 33,955 | 22,637 | 55,029 | 9,381 | 11,053 | - |
| Financial assets at fair value through profit and loss | 82,282 | 82,282 | 41,214 | - | - | - | - | - | 41,068 |
| Loans and advances to customers | 16,577,839 | 24,569,537 | 5,040,789 | 2,363,724 | 6,117,031 | 3,379,604 | 2,183,437 | 5,484,952 | - |
| Net finance lease investments | 243,151 | 345,491 | 91,525 | 26,897 | 50,148 | 134,872 | 35,865 | 6,184 | - |
| Investment securities, available for sale | 8,886,331 | 10,531,257 | 7,545,087 | 182,746 | 213,486 | 1,070,025 | 658,889 | 795,205 | 65,819 |
| **Total Financial assets** | **31,655,691** | **41,412,098** | **18,470,091** | **2,607,322** | **6,403,302** | **4,639,530** | **2,887,572** | **6,297,394** | **106,887** |
| **Net position** | | **12,454,580** | **(1,432,292)** | **(1,177,536)** | **4,479,114** | **3,472,234** | **1,100,231** | **5,905,942** | **106,887** |



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# Notes to the consolidated financial statements

## 4. Financial risk management *(continued)*

### d) Market risk

Market risk represents the current or prospective risk to earnings and capital arising from adverse market movements in equities prices and interest rates, as well as from movements in foreign exchange rate and commodities prices for the whole business of the credit institution. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on investments.

### d1) Interest rate Risk

Interest rate risk represents the actual or future risk of negative affecting of the profit and capital as a result of adverse changes in interest rates.

The Group undertakes the interest rate risk resulting from:
- Fixed income securities trading activities (interest rate risk from trading activities)

- Funds taken and placed in relation with the non-banking clients' activities (interest rate risk from banking activities).

- The main sources of the interest rate risk is the imperfect correlation between the maturity dates (for fixed interest rates) or pricing reset date (for variable interest rates) on interest bearing assets and liabilities , adverse changes of the yield curve (un-parallel shift of interest rates curves for interest bearing assets and liabilities). Interest bearing asset and liabilities management activities are carried out in the context of the Group's interest rate fluctuations.

- The Group uses a mix of fixed and variable interest bearing instruments to control the mismatch between the dates on which the active and passive interest rates are reset at the market rates or maturity dates between active and passive instruments.

- Interest rate risk is managed by monitoring the interest rate GAP (mismatch) and through a system of approved limits and indicators on maturity bands (time intervals) for interest reset.
- The Assets and Liabilities Management Committee is the body that monitors the compliance with these limits, being assisted in the daily monitoring by the Treasury Department.
- Interest rate risk management within the limits is supplemented by monitoring the sensitivity of the Group financial assets and liabilities to different standard interest rate scenarios.



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# Notes to the consolidated financial statements

## 4. Financial risk management *(continued)*

### d1) 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 2014** | | | | |
| Average for the period | 1,963 | (1,963) | 982 | (982) |
| Minimum for the period | (23,860) | 23,860 | (11,930) | 11,930 |
| Maximum for the period | 22,709 | (22,709) | 11,355 | (11,355) |
| **At 31 December 2013** | | | | |
| Average for the period | 5,171 | (5,171) | 2,586 | (2,586) |
| Minimum for the period | (16,642) | 16,642 | (8,321) | 8,321 |
| Maximum for the period | 45,272 | (45,272) | 22,636 | (22,636) |

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 consolidate 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 most significant impact is recorded on 3-6 months category, which gives the Group enough time to adjust to 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 Group's profit (according to the methodology presented above) and the minimum included represents the annual potential impact of the change in interest rates over the profit for the time interval 3-6 months, and the maximum represent the potential annual impact of the change in interest rates over the profit on the interval 3 – 4 years.

The interest rates related to the local currency and the major foreign currencies as at 31 December 2014 and 2013 were as follows:

| Currency | Interest rate | 31 December 2014 | 31 December 2013 |
|---|---|---|---|
| Leu (RON) | Robor 3 months | 1.70% | 2.44% |
| Euro (EUR) | Euribor 3 months | 0.0780% | 0.2870% |
| Euro (EUR) | Euribor 6 months | 0.1710% | 0.3890% |
| US Dollar (USD) | Libor 6 months | 0.3628% | 0.3480% |



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# Notes to the consolidated financial statements

## 4. Financial risk management *(continued)*

### d) Market risk (continued)

### d1) Interest rate Risk (continued)

A summary of the Group's interest rate gap position on interest bearing instruments as at 31 December 2014 is as follows:

| *In RON thousand* | 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 | 4,234,181 | - | - | - | - | - | **4,234,181** |
| Placements with banks | 2,201,017 | 57,925 | 17,495 | 101,660 | 8,961 | - | **2,387,058** |
| Financial assets at fair value through profit and loss | 143,931 | - | - | - | - | - | **143,931** |
| Loans and advances to customers | 13,161,036 | 2,469,276 | 552,962 | 641,814 | 1,926 | 591,675 | **17,418,689** |
| Net lease investments | 244,274 | - | - | - | - | - | **244,274** |
| Financial assets available for sale | 9,787,806 | 15,286 | 425,091 | 215,611 | 326,292 | 1,749 | **10,771,835** |
| | **29,772,245** | **2,542,487** | **995,548** | **959,085** | **337,179** | **593,424** | **35,199,968** |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | 133,348 | - | - | - | - | - | **133,348** |
| Deposits from customers | 25,000,340 | 4,907,598 | 35,924 | 19,725 | 31,329 | - | **29,994,916** |
| Loans from banks and other financial institutions, other subordinated loans and debt securities | 1,403,550 | - | - | - | 43,880 | - | **1,447,430** |
| | **26,537,238** | **4,907,598** | **35,924** | **19,725** | **75,209** | **-** | **31,575,694** |
| **Net position** | **3,235,007** | **(2,365,111)** | **959,624** | **939,360** | **261,970** | **593,424** | **3,624,274** |

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# Notes to the consolidated financial statements

## 4. Financial risk management *(continued)*

### d) Market risk (continued)

### d1) Interest rate Risk (continued)

A summary of the Group's interest rate gap position on interest bearing instruments as at 31 December 2013 is as follows:

| *In RON thousand* | 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 | 4,105,571 | - | - | - | - | - | **4,105,571** |
| Placements with banks | 1,679,449 | 18,042 | 46,702 | 6,330 | 9,994 | - | **1,760,517** |
| Financial assets at fair value through profit and loss | 82,282 | - | - | - | - | - | **82,282** |
| Loans and advances to customers | 10,392,746 | 4,596,667 | 427,350 | 382,197 | 62,666 | 716,213 | **16,577,839** |
| Net lease investments | 243,151 | - | - | - | - | - | **243,151** |
| Financial assets available for sale | 8,076,340 | 14,472 | 303,869 | 202,147 | 287,755 | 1,748 | **8,886,331** |
| | **24,579,539** | **4,629,181** | **777,921** | **590,674** | **360,415** | **717,961** | **31,655,691** |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | 418,755 | - | - | - | - | - | **418,755** |
| Deposits from customers | 22,030,455 | 3,662,127 | 8,991 | 15,479 | 23,960 | - | **25,741,012** |
| Loans from banks and other financial institutions, Other subordinated loans and debt securities | 2,484,867 | - | - | - | - | - | **2,484,867** |
| | **24,934,077** | **3,662,127** | **8,991** | **15,479** | **23,960** | **-** | **28,644,634** |
| **Net position** | **(354,538)** | **967,054** | **768,930** | **575,195** | **336,455** | **717,961** | **3,011,057** |

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# Notes to the consolidated financial statements

## 4. Financial risk management (continued)

### d) Market risk (continued)

### d2) Currency risk

The Group is exposed to currency risk through transactions in foreign currencies against RON. The Group manages the currency risk based on strict position limits and "stop-loss", monitored in real time. There is also a statement of financial position 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 controls its exposure to market risk through daily monitoring of the fair value of the trading portfolio in order to ensure compliance with the risk exposure limits authorized by the Assets and Liabilities Committee. The trading portfolio is composed of fixed income securities issued by local or European entities (state treasury bills, bonds issues by entities with a rating higher or equal to the sovereign rating), denominated in RON, EUR and USD, also shares issued by local entities traded at the Bucharest Stock Exchange (these are not directly exposed to the interest rate and currency risk, these being exposed to the price risk).

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2014 are presented below:

| *In RON thousand* | **RON** | **EUR** | **USD** | **Other** | **Total** |
|---|---|---|---|---|---|
| **Monetary assets** | 2,498,045 | 1,493,023 | 163,068 | 80,045 | **4,234,181** |
| Cash and cash equivalents | 833,367 | 1,214,637 | 295,349 | 43,705 | **2,387,058** |
| Placement with banks | 142,718 | 1,213 | - | - | **143,931** |
| Financial assets at fair value through profit and loss | 12,706,307 | 4,481,233 | 231,149 | - | **17,418,689** |
| Loans and advances to customers | 84,313 | 157,416 | 2,545 | - | **244,274** |
| Net lease investments | 7,480,087 | 2,665,696 | 626,052 | - | **10,771,835** |
| Financial assets available for sale | 169,054 | 11,354 | 2,322 | 892 | **183,622** |
| Other assets | | | | | |
| **Total monetary assets** | **23,913,891** | **10,024,572** | **1,320,485** | **124,642** | **35,383,590** |
| **Monetary liabilities** | | | | | |
| Deposits from banks | 877 | 34,916 | 97,332 | 223 | **133,348** |
| Deposits from customers | 19,505,627 | 9,403,531 | 937,969 | 147,789 | **29,994,916** |
| Loans from banks and other financial institutions, and other subordinated liabilities | 549,001 | 738,986 | 159,443 | - | **1,447,430** |
| Other liabilities | 328,260 | 32,871 | 5,022 | 1,893 | **368,046** |
| **Total monetary liabilities** | **20,383,765** | **10,210,304** | **1,199,766** | **149,905** | **31,943,740** |
| **Net currency position** | **3,530,126** | **(185,732)** | **120,719** | **(25,263)** | **3,439,850** |

# Notes to the consolidated financial statements

## 4. Financial risk management *(continued)*

### d) Market risk *(continued)*

### *d2) Currency risk (continued)*

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2013 are presented below:

| *RON thousand* | RON | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| **Monetary assets** | | | | | |
| Cash and cash equivalents | 1,859,380 | 2,000,648 | 205,631 | 39,912 | **4,105,571** |
| Placement with banks | 869,150 | 727,684 | 85,769 | 77,914 | **1,760,517** |
| Financial assets at fair value through profit and loss | 81,611 | 671 | - | - | **82,282** |
| Loans and advances to customers | 11,350,717 | 4,985,603 | 241,519 | - | **16,577,839** |
| Net lease investments | 67,999 | 174,144 | 1,008 | - | **243,151** |
| Financial assets available for sale | 6,127,189 | 2,359,085 | 400,057 | - | **8,886,331** |
| Other assets | 156,821 | 8,497 | 1,958 | 1,142 | **168,418** |
| **Total monetary assets** | **20,512,867** | **10,256,332** | **935,942** | **118,968** | **31,824,109** |
| **Monetary liabilities** | | | | | |
| Deposits from banks | 380,285 | 38,099 | 309 | 62 | **418,755** |
| Deposits from customers | 16,337,282 | 8,379,490 | 913,294 | 110,946 | **25,741,012** |
| Loans from banks and other financial institutions, other subordinated loans | 779,765 | 1,427,625 | 277,477 | - | **2,484,867** |
| Other liabilities | 286,853 | 42,190 | 5,665 | 2,216 | **336,924** |
| **Total monetary liabilities** | **17,784,185** | **9,887,404** | **1,196,745** | **113,224** | **28,981,558** |
| **Net currency position** | **2,728,682** | **368,928** | **(260,803)** | **5,744** | **2,842,551** |

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

## 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 Group strictly complies with the legal norms regarding taxes and duties.

The Romanian tax legislation provides for detailed and complex rules and has suffered various changes in the recent years. Interpretation of the text and practical implementation procedures of tax legislation could vary, and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Group's treatment.

Furthermore, the recent conversion to IFRS of the Romanian banks raised additional tax implications that are not yet fully clarified in the legislation and might generate potential tax risks.

The Romanian Government has a number of agencies that are authorized to conduct audits of companies operating in Romania. These audits are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. It is likely that the Group will continue to be subject to regular controls as new laws and regulations are issued.

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.

### f) Operating environment

In 2014 the Romanian GDP rose to EUR 150 billion (in nominal terms), a record high level. In real terms, the domestic GDP continued to recover, reaching the historical level of 2008. The YoY dynamics diminished to 2.9% in 2014, but there can be noticed several positive evolutions. First of all, the private consumption relaunched, supported by higher wages: the main component of the GDP rose by 4.9% YoY. At the same time, the fixed investments seem to have passed a turning point at the end of 2014 (up by 1.4% YoY in 4Q), signalling a new investment cycle. Last, but not least, the macro-financial adjustment process continued last year: the current account deficit diminished to 0.5% of GDP (a record low level for the past 25 years); the budget deficit declined to 1.9% of GDP (the lowest level of the past eight years).

As regards the financial side of the economy the inflation hit a record low level (an annual average of 1.07% YoY). This evolution was determined by the factors that impact the aggregate supply in the economy (including the decline of the international oil prices in the second half of the year). In this context, the National Bank of Romania relaxed the monetary policy, reducing the reference interest rate to 2.75% and the minimum reserve requirements ratios applicable to the RON and foreign currency liabilities to 10%, respectively to 14%. The international macro-financial climate and the domestic evolutions determined the decrease of the financing cost in the Romanian economy to historical low levels.

Within the banking sector we note the divergence between the relaunch of the loans in RON and the deleveraging process in terms of the FX loans, an evolution determined by factors with impact for both the demand and supply in the credit markets.

On the one hand, the RON non-government loans increased by 6.6% YoY (balance of RON 92.1 billion as of the year end), evolution supported by the decline of the financing cost: the household loans increased by 9.5% YoY, while the corporate loans increased 4.7% YoY. On the other hand, the FX non-government loans decreased, on average, by 8.7% YoY (year-end balance of RON 118.9 billion): the retail segment decreased by 6.6% YoY; the corporate segment recorded a decline of 10.9% YoY.

# Notes to the consolidated financial statements

## 4. Financial risk management *(continued)*

### f) Operating environment *(continued)*

On the other hand, the deposits volume continued to increase, by 6.9% YoY on average, reaching new high levels (balance of RON 232.6 billion as of the year end). As a consequence, the loans to deposits ratio diminished by 11pp, reaching a level below 91% as of the year end, an evolution that confirms the adjustment/balancing process in the banking system.

We need to mention that the Central Bank recommended to the Romanian banks to accelerate the restructuring process of the non-performing assets in the first half of 2014. As a consequence, the non-performing loans ratio diminished to 13.9% in December 2014 and the banking system had a negative aggregate result: approx. RON 4.5 billion, according to NBR data.

The management estimates that the credit allowances will have an significant level in 2015 also, with a descending trend of the credit allowance expenses compared to 2014, consequently impacting the consolidated financial statements of the Group.

Management believes it is taking all the necessary measures to support the 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;
- 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, fast solutions finding.

### 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.

# Notes to the consolidated financial statements

## 4. Financial risk management *(continued)*

### g) Operational risks *(continued)*

In order to reduce the inherent risks arising on the Group's operational activities, a general framework to manage those risks was developed. The development and update of this framework referring to politics, norms and procedures is the responsibility of the Risk Management 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;
- IT- risk in terms of operational risk;
- calculation of the capital adequacy in terms of operational risk;
- risk mitigation, including by insurance where applicable.

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

# Notes to the consolidated financial statements

## 4. Financial risk management *(continued)*

### h) Capital management

The Group'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, redeemed shares, 50% of applicable prudential filters, unrealized income for securities portfolio, taxes and penalties related to untaxed reserves, operations under preferential conditions;
- Tier II capital, which includes reserves from fixed assets revaluation and the amount of subordinated loans from which 50% of applicable prudential filters value is be deducted.

At 31 December 2014 the calculation of regulatory capital was based on the Regulation EU No 575/2013 of The European Parliament and of The Council.

The computation of own funds as at 31 December 2014 and 31 December 2013 and the legal requirements regarding capital management at 31 December 2014 and 31 December 2013 are as follows:

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Tier I | 3,351,606 | 2,863,115 |
| Tier II | 373,532 | 357,601 |
| **Total Group's capital** | **3,725,138** | **3,220,716** |
| | | |
| Credit risk exposure value | 14,740,681 | 14,842,213 |
| Market risk and commodity risk exposure value | 3,449,587 | 3,400,688 |
| Operational risk exposure value | 3,061,304 | 2,917,963 |
| **Total capital requirements** | **21,251,572** | **21,160,864** |

*Note: The Group's own funds computations include the statutory profits for the years ended 31 December 2014 and 31 December 2013. The regulatory capital at 31 December 2014 and 31 December 2013 has been calculated in accordance with IFRS as adopted by the European Union.*

## 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.

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# Notes to the consolidated financial statements

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

***Impairment losses on loans and advances (continued)***

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 to evaluate the effects of uncertainty on the local financial markets regarding the valuation of assets and the economic environment of the borrowers. 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.

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 58,903 thousand higher or RON 56,192 thousand lower (31 December 2013: RON 50,380 thousand higher or RON 46,838 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 in an arm's length transaction.

# Notes to the consolidated financial statements

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

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.

Carrying amount of assets and liabilities classified as fair value through profit and loss and of financial assets available for sale, would decrease as at 31 December 2014 with approximate RON 284,493 thousand, out of which RON 11,145 thousand through profit and loss and RON 273,348 thousand through equity, or would increase with RON 705,271 thousand, out of which RON 11,145 thousand through profit and loss and RON 694,126 thousand through equity, as compared to the fair value as at 31 December 2014, if interest rates of the financial assets available for sale would change with +/- 1.5%, and prices of the financial assets at fair value through profit and loss would change with +/- 10% as compared to the Management estimates.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by hierarchy level:

| *In RON thousand* | **Note** | **Level 1 - Quoted market prices in active markets** | **Level 2 - Valuation techniques – observable inputs** | **Level 3- Valuation techniques– unobservable inputs** | **Total** |
|---|---|---|---|---|---|
| **31 December 2014** | | | | | |
| Financial assets at fair value through profit and loss | 19 | 143,396 | 535 | - | 143,931 |
| Investments securities, available for sale | 22 | 10,709,801 | 60,285 | 1,749 | 10,771,835 |
| **31 December 2013** | | | | | |
| Financial assets at fair value through profit and loss | 19 | 81,759 | 523 | - | 82,282 |
| Investments securities, available for sale | 22 | 160,153 | 8,724,430 | 1,748 | 8,886,331 |

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# Notes to the consolidated financial statements

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

During 2014 the Bank reclassified the available for sale portfolio of debt securities and government bonds from Level 2 to Level 1, based on market analysis and increased liquidity for these types of instruments measured at fair value. This increased liquidity observed for 2014 is also confirmed by the trading activities conducted on a significant part of the securities and government bonds portfolio in early 2015 to partially finance Volksbank Romania SA acquisition, as described in Note 35 “Events subsequent to the date of the consolidate financial statements”.

***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 Group used in its estimation an average price for each series.

The Group’s accounting policies provide scope for assets and liabilities to be recognized 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(k);
- 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.

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# 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 Group 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* – is a client segment for which the Group developed and provided personalized products, easy to access and which cover their business needs: loans, saving products, current account transactions.
- *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.
- *Treasury:* The Group incorporates in this segment the services offered by the treasury and cash activity.
- *Leasing and customer finance.* Within leasing the Group includes financial products and services provided by the leasing and consumer finance entities 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.

Below is presented financial information's on segments, regarding the consolidated financial position and the operational result before net expenses with the impairment allowance for loans and advances to customers, for the financial year ended at 31 December 2014, and comparative data for 2013:

# Notes to the consolidated financial statements

## 6 . Segment reporting (continued)

### Information about reportable segments at 31 December

| *In RON thousand* | Corporate banking | | SME | | Retail Banking | | Treasury | | Leasing and consumer finance | | Others | | Eliminations & adjustments | | Un-allocated | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| **Business segment assets** | **8,720,326** | **8,727,980** | **2,265,642** | **2,104,848** | **7,016,456** | **6,325,744** | **17,605,977** | **14,898,027** | **367,589** | **382,894** | **296,962** | **243,503** | **(477,024)** | **(446,053)** | **-** | **-** | **35,795,927** | **32,236,943** |
| **Total Assets** | **8.720.326** | **8.727.980** | **2.265.642** | **2.104.848** | **7.016.456** | **6.325.744** | **17.605.977** | **14.898.027** | **367.589** | **382,894** | **296,962** | **243,503** | **(477,024)** | **(446,053)** | **-** | **-** | **35,795,927** | **32,236,943** |
| **Business segment Liabilities** | **8,102,086** | **6,049,720** | **3,916,053** | **3,181,251** | **18,768,294** | **17,298,842** | **1,120,249** | **2,446,446** | **251,774** | **272,676** | **110,391** | **59,573** | **(270,183)** | **(254,358)** | **-** | **-** | **31,998,664** | **29,054,150** |
| **Total Liabilities** | **8,102,086** | **6,049,720** | **3,916,053** | **3,181,251** | **18,768,294** | **17,298,842** | **1,120,249** | **2,446,446** | **251,774** | **272,676** | **110,391** | **59,573** | **(270,183)** | **(254,358)** | **-** | **-** | **31,998,664** | **29,054,150** |
| Equity | | | | | | | | | | | | | | | **3,797,263** | **3,182,793** | **3,797,263** | **3,182,793** |
| **Total Liabilities** | **8,102,086** | **6,049,720** | **3,916,053** | **3,181,251** | **18,768,294** | **17,298,842** | **1,120,249** | **2,446,446** | **251,774** | **272,676** | **110,391** | **59,573** | **(270,183)** | **(254,358)** | **3,797,263** | **3,182,793** | **35,795,927** | **32,236,943** |

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

## 6 . Segment reporting *(continued)*

## Information about reportable segments at 31 December (continue)

| In RON thousand | Corporate banking | | SME | | Retail banking | | Treasury | | Leasing and consumer finance | | Other | | Elimination & Adjustments | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Net interest income | 352,657 | 301,676 | 179,116 | 190,659 | 388,317 | 350,863 | 178,907 | 147,184 | 36,107 | 29,964 | 40,100 | 2,328 | 471 | 694 | 1,175,675 | 1,023,368 |
| Net commission income | 122,519 | 121,205 | 166,000 | 119,632 | 120,432 | 120,899 | (564) | - | 878 | 1,816 | 17,524 | 10,462 | (1,240) | (1,718) | 425,549 | 372,296 |
| Net trading income | 22,906 | 25,304 | 26,234 | 19,439 | 36,154 | 18,874 | 41,511 | 64,311 | 738 | 1,243 | (1,064) | 14,597 | 316 | 147 | 126,795 | 143,915 |
| Net gain from sale of available for sale financial instruments | - | - | - | - | - | - | 338,784 | 203,613 | - | (1,078) | 298 | 102 | - | - | 339,082 | 202,637 |
| Contribution to the Banking Deposits Guarantee Fund | (16,459) | (13,812) | (8,305) | (7,191) | (48,388) | (43,395) | - | - | - | - | - | - | - | - | (73,152) | (64,398) |
| Other operating income | 26,580 | - | 5,667 | - | 24,866 | 14,766 | - | - | 21,534 | 32,179 | 10,263 | 34,142 | (4,829) | (5,939) | 84,081 | 75,148 |
| **Total Income** | **508,203** | **434,373** | **368,712** | **322,539** | **521,381** | **462,007** | **558,638** | **415,108** | **59,257** | **64,124** | **67,121** | **61,631** | **(5,282)** | **(6,816)** | **2,078,030** | **1,752,966** |
| Personnel expenses | (141,722) | (137,567) | (103,904) | (102,504) | (187,518) | (185,430) | (14,636) | (12,770) | (14,656) | (15,072) | (11,986) | (8,871) | - | - | (474,422) | (462,214) |
| Operating expenses | (82,454) | (79,375) | (58,727) | (58,905) | (133,580) | (131,273) | (14,273) | (12,206) | (6,622) | (13,316) | (10,559) | (8,416) | 5,498 | 4,345 | (300,717) | (299,146) |
| Advertising and promotional expenses | (1,713) | (1,636) | (4,184) | (1,965) | (9,309) | (8,732) | (513) | (981) | (254) | (332) | (268) | (554) | - | - | (16,241) | (14,200) |
| Depreciation and amortization | (18,898) | (18,826) | (9,302) | (9,292) | (21,448) | (21,183) | (6,980) | (6,732) | (6,961) | (6,881) | (2,559) | (2,329) | - | - | (66,148) | (65,243) |
| Other expenses | (3,796) | (3,438) | (2,689) | (2,690) | (5,357) | (3,994) | (557) | (2,532) | (7,923) | (16,001) | (104) | (1,770) | - | - | (20,426) | (30,425) |
| **Total Expenses** | **(248,583)** | **(240,842)** | **(178,806)** | **(175,356)** | **(357,212)** | **(350,612)** | **(36,959)** | **(35,221)** | **(36,416)** | **(51,602)** | **(25,476)** | **(21,940)** | **5,498** | **4,345** | **(877,954)** | **(871,228)** |
| **Operational result, before net impairment charges** | **259,620** | **193,531** | **189,906** | **147,183** | **164,169** | **111,395** | **521,679** | **379,887** | **22,841** | **12,522** | **41,645** | **39,691** | **216** | **(2,471)** | **1,200,076** | **881,738** |

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

## 7. Financial assets and liabilities

***Accounting classifications and fair value***

| *In RON thousand* | Note | Financial assets at fair value through profit and loss | Loans and receivables (including net lease investments) | Available for sale | Other amortized cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents | 17 | - | - | - | 4,234,181 | 4,234,181 | 4,234,181 |
| Placements with banks | 18 | - | - | - | 2,387,058 | 2,387,058 | 2,387,058 |
| Financial assets at fair value through profit and loss | 19 | 143,931 | - | - | - | 143,931 | 143,931 |
| Loans and advances to customers | 20 | - | 17,418,689 | - | - | 17,418,689 | 17,790,541 |
| Net lease investments | 21 | - | 244,274 | - | - | 244,274 | 244,274 |
| Investment securities | 22 | - | - | 10,771,835 | - | 10,771,835 | 10,771,835 |
| **Total financial assets** | | **143,931** | **17,662,963** | **10,771,835** | **6,621,239** | **35,199,968** | **35,571,820** |
| **Financial Liabilities** | | | | | | | |
| Deposits from banks | 27 | - | - | - | 133,348 | 133,348 | 133,348 |
| Deposits from customers | 28 | - | - | - | 29,994,916 | 29,994,916 | 30,009,256 |
| Loans from banks and other financial institutions | 29 | - | - | - | 1,052,687 | 1,052,687 | 1,052,687 |
| Other subordinated loans | 30 | - | - | - | 394,743 | 394,743 | 394,743 |
| **Total financial liabilities** | | **-** | **-** | **-** | **31,575,694** | **31,575,694** | **31,590,034** |

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

## 7. Financial assets and liabilities

***Accounting classifications and fair value (continued)***

| *In RON thousand* | Note | Financial assets at fair value through profit and loss | Loans and receivables (including net lease investments) | Available for sale | Other amortized cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents | 17 | - | - | - | 4,105,571 | 4,105,571 | 4,105,571 |
| Placements with banks | 18 | - | - | - | 1,760,517 | 1,760,517 | 1,760,517 |
| Financial assets at fair value through profit and loss | 19 | 82,282 | - | - | - | 82,282 | 82,282 |
| Loans and advances to customers | 20 | - | 16,577,839 | - | - | 16,577,839 | 17,027,379 |
| Net lease investments | 21 | - | 243,151 | - | - | 243,151 | 243,151 |
| Investment securities | 22 | - | - | 8,886,331 | - | 8,886,331 | 8,886,331 |
| **Total financial assets** | | **82,282** | **16,820,990** | **8,886,331** | **5,866,088** | **31,655,691** | **32,105,231** |
| **Financial Liabilities** | | | | | | | |
| Deposits from banks | 27 | - | - | - | 418,755 | 418,755 | 418,755 |
| Deposits from customers | 29 | - | - | - | 25,741,012 | 25,741,012 | 25,766,709 |
| Loans from banks and other financial institutions | 30 | - | - | - | 2,146,743 | 2,146,743 | 2,146,743 |
| Other subordinated loans | 31 | - | - | - | 338,124 | 338,124 | 338,124 |
| **Total financial liabilities** | | **-** | **-** | **-** | **28,644,634** | **28,644,634** | **28,670,331** |

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

## 8. Net interest income

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers *(i)* | 1,417,496 | 1,442,316 |
| Current accounts held with banks | 15,959 | 28,845 |
| Available for sale securities | 314,987 | 357,917 |
| Placements with banks | 12,476 | 16,193 |
| Net lease investments | 36,620 | 33,989 |
| *Total interest income* | *1,797,538* | *1,879,260* |
| **Interest expense** | | |
| Deposits from customers | 571,251 | 794,616 |
| Loans from banks and other financial institutions | 47,221 | 56,282 |
| Deposits from banks | 3,299 | 4,886 |
| Net lease investments | 92 | 108 |
| *Total interest expense* | *621,863* | *855,892* |
| **Net interest income** | **1,175,675** | **1,023,368** |

(i) Interest income from loans and advances to customers for the year ended at 31 December 2014 includes interest income on impaired loans amounting to RON 311,562 thousand (2013: RON 213,153 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.

The impairment charge determined for the impaired loans is included in the interest income. The amount resulted from this effect is RON 139,545 thousand for the year 2014 (2013: RON 132,565 thousand) resulting in a decrease in the interest income and a decrease in the provision expense.

## 9. Net fee and commission income

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| **Fee and commission income** | | |
| Transactions | 482,360 | 415,100 |
| Loans management, factoring and guarantees issuance *(i)* | 31,475 | 31,161 |
| Finance lease management*(i)* | 266 | 547 |
| Other fee and commission income | 34 | 49 |
| *Total fee and commission income* | *514,135* | *446,857* |

## 9. Net fee and commission income (continued)

| | | |
|---|---|---|
| **Fee and commission expense** | | |
| Bank commissions | 74,196 | 61,080 |
| Transactions | 14,390 | 13,481 |
| *Total fee and commission expense* | *88,586* | *74,561* |
| **Net fee and commission income** | **425,549** | **372,296** |

## 10. Net trading income

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| Net income from foreign exchange transactions *(i)* | 120,882 | 141,255 |
| Net income/ (expense) from financial assets at fair value through profit and loss | (7,264) | 22,663 |
| Losses on equity instruments derivatives | - | (7,829) |
| Net income/(expense) from revaluation of assets and liabilities held in foreign currency | 13,177 | (12,174) |
| **Net trading income** | **126,795** | **143,915** |

*(i)* Net income from foreign exchange transactions also includes the realized and unrealized gains and losses from spot and forward contracts.

## 11. Net gain from sale of available for sale financial instruments

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| Gain from sale of available for sale financial instruments | 408,359 | 247,836 |
| Losses from sale of available for sale financial instruments | (69,277) | (45,199) |
| **Total** | **339,082** | **202,637** |

# Notes to the consolidated financial statements

## 12. Other operating income

| *In RON thousand* | 2014 | 2013 |
|---|---|---|
| Rent income | 12,158 | 12,749 |
| Dividend income | 1,912 | 508 |
| Other operating income | 70,011 | 61,891 |
| **Total** | **84,081** | **75,148** |

## 13. Net impairment losses on assets, other liabilities and loan commitments

| *In RON thousand* | 2014 | 2013 |
|---|---|---|
| Impairment losses on assets *(i)* | 679,092 | 417,491 |
| Loans and net lease investments written-off | 7,595 | 21,298 |
| Other liabilities and loan commitments | 14,382 | 208 |
| Recoveries from loans and finance lease previously written off | (16,629) | (24,717) |
| **Net impairment losses on financial assets, other liabilities and loan commitments** | **684,440** | **414,280** |

*(i)* Impairment losses on assets include the following:

| *In RON thousand* | Note | 2014 | 2013 |
|---|---|---|---|
| Loans and advances to customers | 20 | 658,268 | 407,089 |
| Net lease investments | 21 | 17,047 | 11,937 |
| Investment securities | 22 | - | (537) |
| Other assets | 26 | 3,788 | (964) |
| Property and equipment | 23 | (11) | (34) |
| **Net impairment losses** | | **679,092** | **417,491** |

## 14. Personnel expenses

| *In RON thousand* | 2014 | 2013 |
|---|---|---|
| Wages and salaries | 374,562 | 343,781 |
| Contribution to social security | 67,943 | 66,454 |
| Meal tickets and other taxes related to personnel | 20,970 | 18,605 |
| Contribution to health fund | 20,725 | 19,152 |
| Contribution to unemployment fund | 1,712 | 2,333 |
| Provisions for other employee benefits | (11,490) | 11,889 |
| **Total** | **474,422** | **462,214** |

# Notes to the consolidated financial statements

## 14. Personnel expenses (continued)

The number of Group's employees at 31 December 2014 was 6,576 (31 December 2013: 6,370).
The expenses related to the share-based payment transactions, is included in the wages and salaries and amounts to RON 20,073 thousand during 2014 (2013: RON 21,098 thousand). The Bank granted during 2014 a number of 10,553,469 shares to 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 payments, in which the employees with good performances may exercise their right and option to purchase a number of shares issued by the Bank. The granting terms and conditions are the following:

**2014**

Shares granted in 2014 10,553,469

| Granting date | Number of shares | Contractual vesting period | Vesting conditions |
|---|---|---|---|
| Shares granted to employees at 14 May 2014 | 10,553,469 | 2 years and 11 months | Achievement of performance and prudential indicators during 2014.<br>Achieving Bank objectives regarding completion of the implementation of new accounting and reporting rules. |

**2013**

Shares granted in 2013 15,446,531

| Granting date | Number of shares | Contractual vesting period | Vesting conditions |
|---|---|---|---|
| Shares granted to employees at 14 May 2013 and 17 May 2013 | 15,000,000 | 2 years and 11 months | Achievement of performance and prudential indicators during 2013.<br>Achieving Bank objectives regarding completion of the implementation of new accounting and reporting rules. |
| Shares granted to employees at 19 December 2013 | 446,531 | 3 years | Rewarding the employees with the best annual results, which have constantly performed at high standards |

# Notes to the consolidated financial statements

## 15. Other operating expenses

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| Operating lease (rent) | 82,246 | 87,277 |
| Repairs and maintenance | 60,996 | 65,775 |
| Materials and consumables | 30,703 | 27,098 |
| Postage and telecommunications | 21,894 | 21,301 |
| Advertising and promotional expenses | 19,884 | 16,680 |
| Security and protection | 22,242 | 20,284 |
| Taxes | 6,062 | 9,342 |
| Electricity and heating | 16,210 | 18,260 |
| Travel and transport | 6,978 | 6,224 |
| Legal, advisory and consulting | 8,479 | 6,193 |
| Loss on sale of property and equipment | 398 | 1,785 |
| Other operating expenses | 60,909 | 65,585 |
| Profit or loss from financial liabilities to holders of fund units | 383 | (2,033) |
| **Total** | **337,384** | **343,771** |

## 16. Income tax expense

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| Current tax expense at 16% (2013: 16%) of taxable profits determined in accordance with Romanian Law | 109,714 | 45,616 |
| Deferred tax expense | (36,531) | 24,233 |
| **Total income tax expense** | **73,183** | **69,849** |

***Tax reconciliation***

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| **Profit before tax** | **515,636** | **467,458** |
| **Taxation at statutory rate of 16% (2013: 16%)** | **82,502** | **74,793** |
| Non-deductible expenses and non-taxable revenues and other permanent differences | (6,895) | (3,020) |
| Effect of carried forward losses | (2,424) | (1,924) |
| **Income tax expense** | **73,183** | **69,849** |

During October 2013 – December 2014, the National Agency for Fiscal Administration (ANAF) carried out the fiscal inspection in Transilvania Bank on the income tax for the period 2007 – 2012. The amount determined by ANAF was RON 700 thousand and was booked in the 2014 income statement.

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.

## 17. Cash and cash equivalents

| *In RON thousand* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Minimum compulsory reserve *(i)* | 3,532,691 | 3,510,624 |
| Cash on hand | 593,960 | 539,138 |
| Current accounts held with other banks *(ii)* | 107,530 | 55,809 |
| **Total** | **4,234,181** | **4,105,571** |

*(i)* As at 31 December 2014, the minimum compulsory reserve held with the National Bank of Romania was set at 10% for RON and 14% for balances denominated in USD or EUR (31 December 2013: 15% for RON and 20% for USD and EUR). Minimum reserve balance may vary from day to day. The interest paid by the National Bank of Romania for the reserves held by the banks was 0.27% - 0.76% per year for the reserves in RON, 0.31% - 0.38% per year for reserves denominated in EUR and 0.11% - 0.19% per year for reserves denominated in USD. Minimum compulsory reserve can be used by the Bank for daily activities as long as the average monthly balance is maintained within the required limits.

*(ii)* Current accounts held with other banks are at immediate disposal of the Group and unencumbered.

## 18. Placements with banks

| *In RON thousand* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Sight and term deposits placed to other banks | 1,965,092 | 870,760 |
| Reverse repo transactions *(ii)* | 199,427 | 724,348 |
| Loans and advances to banks *(i)* | 222,539 | 165,409 |
| **Total** | **2,387,058** | **1,760,517** |

*(i)* Loans and advances to banks include investment securities reclassified by the Group during 2008 and 2010 from available for sale category to loans and receivables (see note 22 (v)).

*(ii)* As at 31 December 2014 reverse repurchase agreements amounting RON 199,427 thousand were concluded with commercial banks (31 December 2013: RON 724,348 thousand).

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.

## 19. Financial assets at fair value through profit and loss

| *In RON thousand* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| ***Trading assets*** | | |
| Listed equity investments *(i)* | 143,931 | 82,282 |
| **Total** | **143,931** | **82,282** |

*i)* As at 31 December 2014, the Group owns shares quoted on the Bucharest Stock Exchange S.A, Vienna Stock Exchange, Frankfurt Stock Exchange and Euronext Paris.

As at 31 December 2014, the Group owns significant investments amounting to RON 115,203 thousand in the following entities: SIF Moldova S.A., SIF Muntenia SA and SIF Oltenia SA. (31 December 2013: RON 70,581 thousand in the following entities: SIF Moldova S.A., SIF Oltenia S.A, SIF Muntenia S.A, Fondul Proprietatea S.A. , SNP Petrom S.A. and Nuclearelectrica).

## 20. Loans and advances to customers

The Group's commercial lending is concentrated on Romanian companies and individuals. Concentration of loans and advances to customers by industry as at 31 December 2014 and 31 December 2013, is the following:

| *In RON thousand* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Individuals | 7,558,389 | 6,874,467 |
| Manufacturing | 3,074,527 | 3,130,008 |
| Trading | 3,058,965 | 3,026,037 |
| Construction | 1,103,869 | 1,063,539 |
| Agriculture | 991,294 | 874,526 |
| Services | 976,374 | 1,054,313 |
| Transport | 663,946 | 723,518 |
| Real estate | 639,061 | 582,255 |
| Free lancers | 483,982 | 424,684 |
| Energy industry | 398,773 | 315,645 |
| Others | 389,413 | 390,009 |
| Chemical industry | 295,369 | 316,776 |
| Mining industry | 175,806 | 152,083 |
| Financial institutions | 97,573 | 106,629 |
| Telecommunication | 73,601 | 82,853 |
| Governmental bodies | 18,965 | 28,597 |
| Fishing industry | 9,242 | 8,025 |
| **Total loans and advances to customers before impairment allowance** | **20,009,149** | **19,153,964** |
| Less provisions for impairment allowance on loans | (2,590,460) | (2,576,125) |
| **Total loans and advances to customers, net of provisions** | **17,418,689** | **16,577,839** |

## 20. Loans and advances to customers *(continued)*

Movement in allowance for impairment losses on loans and advances to customers:

| *In RON thousand* | 2014 | 2013 |
|---|---|---|
| Balance at 1 January | 2,576,125 | 2,173,674 |
| Net impairment change (Note 13) | 658,268 | 407,089 |
| Impairment allowances on written off loans (Note 4b) | (797.145) | (145,772) |
| Effect of adjustments on the interest income for impaired loans (Note 8) | 139,545 | 132,565 |
| FX gain/loss | 13,667 | 8,569 |
| **Balance at 31 December** | **2,590,460** | **2,576,125** |

Movement in individual allowance for impairment losses on loans and advances to customers:

| *In RON thousand* | 2014 | 2013 |
|---|---|---|
| Balance at 1 January | 1,466,152 | 1,134,809 |
| Net impairment change | 373,120 | 266,272 |
| Impairment allowances on written off loans | (256.730) | (5,524) |
| Effect of adjustments on the interest income for impaired loans | 61,421 | 48,488 |
| Transfer of Impairment allowances from individual to collective | (61,864) | - |
| FX gain/loss | 4,635 | 22,107 |
| **Balance at 31 December** | **1,586,734** | **1,466,152** |

Movement in collective allowance for impairment losses on loans and advances to customers:

| *In RON thousand* | 2014 | 2013 |
|---|---|---|
| Balance at 1 January | 1,109,973 | 1,038,865 |
| Net impairment change | 285,148 | 140,817 |
| Impairment allowances on written off loans | (540.415) | (140.248) |
| Efect of adjustment of interest income for impaired loans | 78,124 | 84,077 |
| Transfer of Impairment allowances from individual to collective | 61,864 | - |
| FX gain/loss | 9,032 | (13,538) |
| **Balance at 31 December** | **1,003,726** | **1,109,973** |

# Notes to the consolidated financial statements

## 21. Net finance lease investments

The Group acts as a lessor under finance lease, mainly for financing motor vehicles and equipment. The lease agreements 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 lease 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:

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Investments in leases less than one year (gross) | 184,854 | 175,846 |
| Investments in leases between one and five years (gross) | 171,403 | 174,132 |
| Total investment in leases, gross | 356,257 | 349,978 |
| Unearned finance income | (33,284) | (37,298) |
| Total investments in leases, net unearned finance income | 322,973 | 312,680 |
| Impairment allowances | (78,699) | (69,529) |
| **Total net leasing investment** | **244,274** | **243,151** |

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

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

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| Balance at beginning of the year | 69,529 | 62,068 |
| Net impairment provision expense (Note 13) | 17,047 | 11,937 |
| Written – off lease investment (Note 4b) | (7,874) | (4,095) |
| Foreign exchange difference | (3) | (381) |
| **Balance at the end of the year** | **78,699** | **69,529** |

# Notes to the consolidated financial statements

## 22. Investment securities

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| **Investment securities available-for-sale** | | |
| **Unlisted debt and other fixed income instruments:** | ***10,579,324*** | ***8,724,430*** |
| Treasury securities issued by the Romanian Government, out of which: | 7,878,702 | 6,905,103 |
| *- discount certificates* | *41,898* | *34,956* |
| *- coupon certificates* | *33,694* | *32,757* |
| *- Benchmark bonds (RON)* | *7,245,046* | *5,904,251* |
| *- Treasury certificates with coupon (EUR)* | *558,064* | *933,139* |
| EURO bonds issued by Romanian Government on external markets | 2,014,285 | 1,386,564 |
| USD bonds issued by Romanian Government on external markets | 626,052 | 400,057 |
| Bonds, out of which: | 60,285 | 32,706 |
| *- issued by Bucharest Municipality* | *50,203* | *8,928* |
| *- issued by Alba Iulia Municipality* | *544* | *597* |
| *- issued by Croatian Bank of Reconstruction and Development* | *-* | *23,181* |
| *- issued by Republic of Montenegro* | *9,538* | *-* |
| ***Listed shares*** | ***84*** | ***99*** |
| ***Unit funds*** | ***151,159*** | ***122,569*** |
| ***Certificates of participation(iv)*** | ***39,520*** | ***37,485*** |
| ***Equity investments measured at cost, out of which:*** | | |
| *Gross value* | ***1,748*** | ***1,748*** |
| *Allowances for impairment* | *1,756* | *1,756* |
| **Total investment securities available-for-sale** | -8 | -8 |
| | **10,771,835** | **8,886,331** |

(i) As at 31 December 2014 treasury securities held by the Group amounting to RON 28,450 thousand (31 December 2013: RON 28,450 thousand) were pledged for current operations (RoCLEAR, SENT, MASTERCARD and VISA).

(ii) Treasury securities issued by the Romanian Government have maturities between 2015 and 2044.

As at 31 December 2014, the Group has concluded repo transactions with other financial institutions, having as supporting assets available for sale investment securities amounting to 503,215 RON thousand (31 December 2013: RON 1,615,107 thousand).

(iii) The Alba Iulia municipal bonds bear variable interest rates (Robid 6M + Robor 6M)/2 + 1.5% (31 December 2014: 3.5%; 31 December 2013: 4.5%). EUR denominated bonds issued by Bucharest Municipality bear fixed interest rates of 4.125% while the bonds issued by Republic of Montenegro have a coupon rate of 7.875%.

# Notes to the consolidated financial statements

## 22. Investment securities *(continued)*

(iv) In 2013, the Group acquired a participation certificate issued by Raiffeisen Centrobank AG, based on SIF 2 Moldova shares. It was classified as available for sale.

Realized gains on disposal of available for sale financial assets reclassified from other comprehensive income to profit or loss amounted to RON 370,260 thousand (2013: RON 223,300 thousand) with the related tax RON 59,242 thousand (2013: RON 35,724 thousand).

**(v) Reclassification out of available-for-sale investments securities into loans and advances**

Starting with 2008, the Group reclassified euro-bonds from available for sale investments to loans and receivables under the amendment to IAS 39 "Financial Instruments - Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure " (presented in accounting policies at 3p(iv)). The Group has identified the financial assets that have fulfilled the conditions imposed by this category (non-derivative financial assets with fixed or determinable payments that are not quoted on an active market) and held for the foreseeable future.

The value of securities classified as "loans and receivables" at the end of 2013 was RON 92,335 thousand.

During 2014 the Group has purchased and classified as loans and receivables, corporate bonds issued by JP Morgan, Citigroup INC and Garanti Bank amounting to RON 94,302 thousand.

The movement of investment securities classified in the category "Loans and advances" in 2014 is reflected in the table below:

| | **2014** |
|---|---|
| **Balance at 1 January 2014** | 92,335 |
| Acquisitions during 2014 | 94,302 |
| Decreases during 2014 | (25,000) |
| Coupon for bonds | 9,741 |
| Coupon cashed during the year | (8,569) |
| Amortization of the difference between fair value and acquisition value | (8) |
| **Balance at 31 December 2014** | **162,801** |

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

## 22. Investment securities *(continued)*

The impairment allowance for equity investments can be further analysed:

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| Balance at the beginning of the year | **8** | **545** |
| Net income from impairment reversal (Note 13) | **-** | (537) |
| Balance at the end of the year | **8** | **8** |

The movement in investment securities may be summarized as follows:

| *In RON thousand* | **Available for sale** |
|---|---|
| **At 1 January 2014** | **8,886,331** |
| Exchange rate differences | 51,689 |
| Additions (acquisitions and increase in value) | 29,728,660 |
| Disposals (sale, redemption and decrease in value) | 27,894,845 |
| **At 31 December 2014** | **10,771,835** |
| **At 1 January 2013** | **6,486,339** |
| Exchange rate differences | 20,530 |
| Additions (acquisitions and increase in value) | 20,733,342 |
| Disposals (sale, redemption and decrease in value) | 18,353,880 |
| **At 31 December 2013** | **8,886,331** |

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

## 23. Property and equipment

| *In thousand RON* | Land and buildings | Computers and equipment | Vehicles | Assets in progress | Total |
|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | |
| **Balance at 1 January 2013** | **316,263** | **236,788** | **73,156** | **29,977** | **656,184** |
| Additions | 342 | 7,618 | 8,709 | 33,260 | 49,929 |
| Transfers from investment in progress | 33,131 | 16,628 | 1,370 | - | 51,129 |
| Additions through merger of subsidiaries | - | 133 | - | - | 133 |
| Revaluations | (1,537) | 239 | 221 | - | (1,077) |
| Disposals | (5,405) | (16,980) | (13,642) | (52,073) | (88,100) |
| **Balance at 31 December 2013** | **342,794** | **244,426** | **69,814** | **11,164** | **668,198** |
| **Balance at 1 January 2014** | **342,794** | **244,426** | **69,814** | **11,164** | **668,198** |
| Additions | 3,105 | 9,683 | 17,124 | 31,845 | 61,757 |
| Transfers from investment in progress | 11,968 | 14,324 | 7,921 | - | 34,213 |
| Revaluations | (3,426) | 163 | 919 | - | (2,344) |
| Disposals | (2,721) | (12,039) | (13,093) | (34,213) | (62,066) |
| Reclassifications from tangible assets in tangible assets available for sale | (1,011) | - | - | - | (1,011) |
| **Balance at 31 December 2014** | **350,709** | **256,557** | **82,685** | **8,796** | **698,747** |
| **Depreciation and impairment** | | | | | |
| **Balance at 1 January 2013** | **130,122** | **152,190** | **39,285** | **-** | **321,597** |
| Charge for the year | 10,522 | 25,755 | 10,361 | - | 46,638 |
| Additions through merger of subsidiaries | - | 133 | - | - | 133 |
| Accumulated depreciation of disposals | (3,331) | (15,847) | (9,055) | - | (28,233) |
| Accumulated depreciation related to revaluation | (130) | - | - | - | (130) |
| Provision for impairment | - | - | 20 | - | 20 |
| Reversal of provision for impairment | - | - | (54) | - | (54) |
| **Balance at 31 December 2013** | **137,183** | **162,231** | **40,557** | **-** | **339,971** |
| **Balance at 1 January 2014** | **137,183** | **162,231** | **40,557** | **-** | **339,971** |
| Charge for the year | 10,619 | 23,905 | 9,364 | - | 43,888 |
| Accumulated depreciation of disposals | (1,788) | (11,397) | (10,913) | - | (24,098) |
| Accumulated depreciation related to revaluation | (747) | 23 | - | - | (724) |
| Provision for impairment | - | - | - | - | - |
| Reversal of provision for impairment | - | - | (11) | - | (11) |
| **Balance at 31 December 2014** | **145,267** | **174,762** | **38,997** | **-** | **359,026** |
| **Net carrying amount** | | | | | |
| **Balance at 1 January 2014** | **205,611** | **82,195** | **29,257** | **11,164** | **328,227** |
| **Balance at 31 December 2014** | **205,442** | **81,795** | **43,688** | **8,796** | **339,721** |

### 23. Property and equipment (continued)

At 31 December 2014 the Group included in property and equipment leased equipment with a net carrying amount of RON 5,671 thousand (31 December 2013: 6,885 RON) ) and intangibles acquired through finance lease, with a net book value of RON 76 thousand (31 December 2013:RON 134 thousand ). At 31 December 2014 the Group had pledged property, equipment or intangible assets of RON 2,720 thousand. Property and equipment at 31 December 2013 were revaluated by an independent valuer. If the assets would have been booked under the cost model, the carrying amount recognized would have been: land and buildings RON 170,787 thousand (2013: RON 167,708 thousand), computers and equipment RON 81,567 thousand (2013: RON 81,589 thousand) transportation RON 42,708 thousand (2013: RON 28,405 thousand), software 72.098 thousand (2013: 84.025 thousand).

### 24. Intangible assets (including goodwill)

| *In RON thousand* | Goodwill | Software |
|---|---|---|
| **Gross carrying amount** | | |
| **Balance at 1 January 2013** | **376** | **132,334** |
| Additions (including additions through merger) | - | 21,394 |
| Revaluation | - | 205 |
| Disposals | - | (14,575) |
| **Balance at 31 December 2013** | **376** | **139,358** |
| **Balance at 1 January 2014** | **376** | **139,358** |
| Additions | - | 10,222 |
| Revaluation | - | 56 |
| Disposals | - | (2,912) |
| **Balance at 31 December 2014** | **376** | **146,724** |
| *Accumulated amortization* | | |
| **Balance at 1 January 2013** | - | **50,901** |
| Charge for the year | - | 18,604 |
| Additions through merger | - | 163 |
| Disposals | - | (14,540) |
| **Balance at 31 December 2013** | - | **55,128** |
| **Balance at 1 January 2014** | - | **55,128** |
| Charge for the year | - | **22,260** |
| Disposals | - | **(2,904)** |
| **Balance at 31 December 2014** | - | **74,484** |
| **Net Carrying amount** | | |
| **Balance at 1 January 2014** | **376** | **84,230** |
| **Balance at 31 December 2014** | **376** | **72,240** |

# Notes to the consolidated financial statements

## 24. Intangible assets (including goodwill) *(continued)*

### Impairment testing for cash generating units containing goodwill

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

At 31 December 2014 the goodwill arising on BT Leasing Transilvania IFN S.A amounted to RON 376 thousand (31 December 2013: RON 376 thousand).

## 25. Deferred tax assets and liabilities

| *In RON thousand* | 31 December 2014 | | |
|---|---|---|---|
| | **Asset** | **Liability** | **Net** |
| Loans and advances to customers (including net lease investments) | - | 29,005 | (29,005) |
| Investment securities, available-for-sale | - | 226,181 | (226,181) |
| Financial assets at fair value through profit and loss | 481 | - | 481 |
| Tangible and intangible assets | - | 28,012 | (28,012) |
| Other assets | 515 | - | 515 |
| Provisions and other liabilities | 25,703 | - | 25,703 |
| **Total** | **26,699** | **283,198** | **(256,499)** |
| Net temporary differences | | | (256,499) |
| **Deferred tax liability at 16%** | | | **41,040** |

Movement of deferred tax assets and liabilities:

| *In RON thousand* | **31 December 2013** | **Inputs** | **Outputs** | **31 December 2014** |
|---|---|---|---|---|
| ***Deferred tax assets*** | | | | |
| Deferred tax assets on retained earnings from specific provisions | (11,082) | (6) | (11,071) | (17) |
| Deferred tax assets on financial assets at fair value through profit and loss | (76) | (7) | (6) | (77) |
| Deferred tax assets on other assets | (16) | (82) | (15) | (83) |
| Deferred tax assets on provisions and liabilities | - | (4,112) | - | (4,112) |
| **Total** | **(11,174)** | **(4,207)** | **(11,092)** | **(4,289)** |
| ***Deferred tax liabilities*** | | | | |
| Differed tax liabilities on loans and advances to customers (including net finance lease investments) | 47,878 | 617 | 43,837 | 4,658 |
| Differed tax liabilities on securities available for sale | 16,747 | 70,514 | 51,072 | 36,189 |
| Deferred tax liabilities on property and equipment and intangible assets | 4,674 | 85 | 277 | 4,482 |
| **Total** | **69,299** | **71,216** | **95,186** | **45,329** |
| **Total Deferred tax liabilities** | **58,125** | **67,009** | **84,094** | **41,040** |

# Notes to the consolidated financial statements

## 25. Deferred tax assets and liabilities *(continued)*

| *In RON thousand* | 31 December 2013 | | |
|---|---|---|---|
| | **Asset** | **Liability** | **Net** |
| Loans and advances to customers (including net lease investments) | - | 229,973 | (229,973) |
| Investment securities, available-for-sale | - | 104,668 | (104,668) |
| Financial assets at fair value through profit and loss | 475 | - | 475 |
| Tangible and intangible assets | - | 29,213 | (29,213) |
| Other assets | 99 | - | 99 |
| **Total** | **574** | **363,854** | **(363,280)** |
| Net temporary differences | | | (363,280) |
| **Deferred tax liability at 16%** | | | **58,125** |

Movement of deferred tax assets and liabilities:

| *In RON thousand* | **31 December 2012** | **Inputs** | **Outputs** | **31 December 2013** |
|---|---|---|---|---|
| ***Deferred tax assets*** | | | | |
| Deferred tax assets on retained earnings from specific impairment provisions | (21,929) | (5) | (10,852) | (11,082) |
| Deferred tax assets on financial assets at fair value through profit and loss | (98) | - | (22) | (76) |
| Deferred tax assets on other assets | (74) | (104) | (162) | (16) |
| **Total** | **(22,101)** | **(109)** | **(11,036)** | **(11,174)** |
| ***Deferred tax liabilities*** | | | | |
| Differed tax liabilities on loans and advances to customers (including net finance lease investments) | 33,990 | 14,916 | 1,028 | 47,878 |
| Differed tax liabilities on securities available for sale | 16,008 | 12,888 | 12,149 | 16,747 |
| Deferred tax liabilities on property and equipment and intangible assets | - | 5,254 | 580 | 4,674 |
| **Total** | 49,998 | 33,058 | 13,757 | 69,299 |
| **Total Deferred tax liabilities** | **27,897** | **32,949** | **2,721** | **58,125** |

## 26. Other assets

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Amounts under settlement | 22,911 | 18,107 |
| Inventories | 59,303 | 60,319 |
| Prepayments | 20,421 | 18,208 |
| Sundry debtors | 31,324 | 31,287 |
| VAT receivable | 3,778 | 5,691 |
| Other assets | 62,473 | 47,611 |
| Less impairment allowance for other assets | (16,588) | (12,804) |
| **Total** | **183,622** | **168,419** |

# Notes to the consolidated financial statements

## 26. Other assets *(continued)*

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

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| **Balance at 1 January** | 12,804 | 13,376 |
| Impairment change (Note 13) | 3,788 | (964) |
| Exchange rate differences | (4) | 392 |
| **Balance at 31 December** | **16,588** | **12,804** |

Inventories include purchased assets held for sale amounting to RON 48,302 thousand, as follows: buildings RON 27,050 thousand, land RON 9,010 thousand, equipment RON 9,043 thousand, vehicles RON 3,190 thousand and furniture RON 9 thousand (2013: RON 48,312 thousand , with the following structure: buildings RON 27,805 thousand, lands RON 8,806 thousand, equipment RON 8,236 thousand, vehicles RON 3,456 thousand and furniture RON 9 thousand).

## 27. Deposits from banks

| ***In RON thousand*** | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Sight deposits | 22,389 | 254,236 |
| Term deposits | 110,959 | 164,519 |
| **Total** | **133,348** | **418,755** |

## 28. Deposits from customers

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Current accounts | 6,988,569 | 5,039,078 |
| Sight deposits | 161,016 | 167,141 |
| Term deposits | 22,368,677 | 20,054,532 |
| Collateral deposits | 476,654 | 480,261 |
| **Total** | **29,994,916** | **25,741,012** |

Deposits from customers can be also analysed as follows:

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Retail customers | 18,612,097 | 17,090,119 |
| Corporate customers | 11,382,819 | 8,650,893 |
| **Total** | **29,994,916** | **25,741,012** |

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.

## 29. Loans from banks and other financial institutions

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Loans from commercial banks | 64,555 | 31,755 |
| *Romanian banks* | *38,128* | *29,815* |
| *Foreign banks* | *26,427* | *1,940* |
| Loans from development banks (EBRD, IFC) | 359,498 | 390,277 |
| Repurchase agreements | 503,321 | 1,615,107 |
| Other funds from financial institutions | 125,313 | 109,604 |
| **Total** | **1,052,687** | **2,146,743** |

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

| | **2014** | | **2013** | |
|---|---|---|---|---|
| | Minimum | Maximum | Minimum | Maximum |
| EUR | 1.082% | Euribor 3m+5.50% | 0.22% | Euribor 3m+5.50% |
| LEI | 0.00% | 0.50% | 1.40% | 2.00% |
| USD | 0.84% | 4.86615% | 0.80% | Libor 6m+4.50% |

## 30. Other subordinated liabilities

***In RON thousand***

| | **2014** | **2013** |
|---|---|---|
| Loans from financial institutions | 348,872 | 200,627 |
| Convertible Bonds | 45,871 | 137,497 |
| **Total** | **394,743** | **338,124** |

The subordinated debt includes the amount of EUR 45 million, 201,695 thousand in RON equivalent, (2013: EUR 45 million, 201,812 thousand in RON equivalent) split by 3 subordinated loans:
- EUR 15 million contracted in 2013, at EURIBOR 6M+6.20% and due in 2018
- EUR 25 million contracted in 2013, at EURIBOR 6M+6.20% and due in 2023
- EUR 5 million contracted in 2012, at EURIBOR 6M+6.50% and due in 2018

and the amount of USD 40 million, 147,472 thousand RON equivalent contracted in 2014, at LIBOR 6M+5.8% anddue in 2023.

The Bank has issued EUR 30 million convertible bonds (134,541 thousand RON equivalent) during 2013, bearing EURIBOR 6M+ 6.25% interest and due in 2020. Outstanding bonds include the option of the holder to be converted into shares. During 2014, the Bank converted bonds amounting to EUR 20,072,238, 88,318,847 RON equivalent; as follows: RON 49,444,546 share capital increase and RON 38,873,301 share premium. At the 31st of December 2014, the outstanding convertible bonds amounted to EUR 9,927,762. 44,497,222 RON equivalent.

Accrued interest on subordinated debt amounts to RON 995 thousand (2013: RON 1,560 thousand).

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.

## 31. Other liabilities

| *In RON thousand* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Amounts under settlement | 156,540 | 153,819 |
| Other fees payable | 86,299 | 48,135 |
| Sundry creditors | 25,766 | 53,915 |
| Lease liabilities *(i)* | 1,415 | 1,666 |
| Other liabilities | 46,014 | 30,151 |
| Provisions *(ii)* | 52,012 | 49,238 |
| **Total** | **368,046** | **336,924** |

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

| *In RON thousand* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| **Minimum lease payments** | | |
| 2013 | - | - |
| 2014 | - | 424 |
| 2015 | 454 | 424 |
| 2016 | 454 | 424 |
| 2017 | 454 | 424 |
| 2018 | 206 | 207 |
| **Total minimum lease payments** | **1,568** | **1,903** |
| Less future interest | (153) | (237) |
| **Present value of minimum lease payments** | **1,415** | **1,666** |

*(ii)* The following are included under „Provisions”:

| *In RON Thousand* | 31 December 2014 | 31 December 2013 |
|---|---|---|
| Provisions for loan commitments | 23,921 | 10,314 |
| Provisions for employee benefits as compensated absences | 1,213 | 2,927 |
| Provisions for other employee benefits | 26,149 | 35,924 |
| Other provisions | 729 | 73 |
| **Total** | **52,012** | **49,238** |

## 32. Share capital

The statutory share capital of the Bank as of 31 December 2014 was represented by 2,608,623,861 ordinary shares of RON 1 each (31 December 2013: 2,206,436,324 shares of RON 1 each). The shareholders structure of the Bank is presented in Note 1.

# Notes to the consolidated financial statements

## 32. Share capital (*continued)*

The share capital increases by incorporating statutory reserves (amounting to RON 352,742,991) and by conversion of bonds (amounting to RON 49,445,546) were registered to the Trade Register during 2014.

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Subscribed capital paid at Trade Register | 2,608,624 | 2,206,436 |
| Hyper-inflation adjustments (IAS 29) | 89,899 | 89,899 |
| Share capital adjustment with unrealized revaluation reserves of tangible assets | (3,398) | (3,398) |
| **Total** | **2,695,125** | **2,292,937** |

## 33. Other reserves

As at 31 December 2014 and 31 December 2013 the reserves include the following:

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| General banking risks *(i)* | 77,893 | 77,893 |
| Statutory reserve *(ii)* | 188,348 | 161,977 |
| Fair value gains/ (losses) ,net of tax, on available for sale instruments | 189,897 | 87,822 |
| **Total** | **456,138** | **327,692** |

***Statutory reserves***

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| At 1 January | 161,977 | 139,446 |
| Appropriations from profit | 26,371 | 22,531 |
| **Total** | **188,348** | **161,977** |

*(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. They are separately disclosed as appropriations of profit. The general banking risks reserve is appropriated from the statutory gross profit at the rate of 1% on the balance of the assets carrying specific banking risks. The general banking risks reserve was set up, starting with financial year 2004 until the end of financial year 2006.

*(ii)* Statutory reserves represent accumulated transfers from retained earnings in accordance with local banking regulations that require that 5% of the Bank and subsidiaries net profit to be transferred to a non-distributable statutory reserve until the reserve reaches 20% of the Bank and subsidiaries share capital.

The statutory reserves are not distributable.

# Notes to the consolidated financial statements

## 34. Related parties transactions

### Transactions with shareholders

During the year ended 31 December 2014, the following transactions were carried out with the shareholders:

| *In thousand RON* | **2014** | **2013** |
|---|---|---|
| **Liabilities** | | |
| Current accounts, deposits, accruals | 83,182 | 32,383 |
| Loans from financial institutions | 317,862 | 320,421 |
| Subordinated loans | 147,278 | - |
| Subordinated securities | 20,250 | 111,525 |
| **Income statement** | | |
| Interest and commission income | 52 | 68 |
| Performance fee income | - | 10 |
| Interest and commission expense | 21,382 | 24,610 |

### Transactions with key management personnel

During the year ended 31 December 2014, the following transactions were carried out with key personnel:

| *In RON thousand* | **2014** | **2013** |
|---|---|---|
| **Assets** | | |
| Loans to key personnel, accruals and provisions | 102,275 | 92,588 |
| **Liabilities** | | |
| Current accounts, deposits and accruals | 70,659 | 65,595 |
| **Commitments to key personnel** | 9,273 | 7,649 |
| **Income statement** | | |
| Interest and commission income | 7,595 | 4,894 |
| Interest and commission expense | 1,625 | 2,220 |

The total salaries paid to the Board of Director's members and executive management of the Bank and subsidiaries during 2014 amounted to RON 11,073 thousand (2011: RON 7,698 thousand).

# Notes to the consolidated financial statements

## 35. Commitments and contingencies

At any time the Group has outstanding commitments to extend credit. These commitments are in the form of approved limit loans for credit cards 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. Maturities are not concentrated in a specific period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by categories. The amounts are reflected in the table assuming that they fully granted.

The amounts reflected in the table as guarantees and letters of credit represent the maximum accounting loss that would have been recognized at the balance sheet date if counterparties failed completely on the contractual terms.

| *In RON thousand* | **31 December 2014** | **31 December 2013** |
|---|---|---|
| Guarantees issued | 2,030,581 | 1,866,259 |
| Loan commitments | 3,629,719 | 3,002,719 |
| **Total** | **5,660,300** | **4,868,978** |

Commitments to customers were provisioned in the amount of RON 23,921 thousand (2013: RON 10,313 thousand).

Expenses with future rents amount to RON 190.965 thousand (2013: RON 217.724 thousand).

Outstanding currency transaction at 31 December 2014 were:

*Forward transactions*

Transactions with corporate clients:

Purchases RON 4,582,000 equivalent of EUR 1,000,000

Purchases USD 800,000 equivalent of RON 2,914,981

Purchases EUR 1,000,000 equivalent LEI 4,653,300

Transactions with banks:

Purchases RON 15,855,326 equivalent of EUR 3,500,000

Purchases EUR 22,500,000 equivalent of RON 99,823,750

Purchases EUR 24,000,000 equivalent of USD 29,361,377

Purchases GBP 10,919,071 equivalent of USD 17,000,000

Purchases GBP 4,000,000 equivalent of EUR 5,109,387

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# Notes to the consolidated financial statements

## 36. 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 441,085 thousand (31 December 2013: RON 396,821 thousand) and the weighted average number of the ordinary shares outstanding during the year calculated as follows:

| | **2014** | **2013** |
|---|---|---|
| Ordinary shares issued at 1 January | 2,206,436,324 | 1,903,042,413 |
| Effect of shares issued during the year | 187,008,482 | 508,128,367 |
| Weighted average number of shares as at 31 December | 2,393,444,806 | 2,411,170,780 |
| Weighted average number of shares as at 31 December (updated) | n/a | n/a |

## 37. Subsequent events after the date of the consolidated statement of financial position

On December 10, 2014, Banca Transilvania has signed an agreement for the acquisition of Volksbank Romania SA.

On March 17, 2015, subsequent to the balance sheet date, Banca Transilvania received all the necessary approvals from the Competition Council and the National Bank of Romania on the closing of the transaction. Up to the date the consolidated financial statements were authorized for issue, the conditions for taking control in accordance with IFRS, were not fully met, so these consolidated financial statements were not impacted by this transaction.

The transaction is estimated to close during second quarter of 2015.

Horia Ciorcila
*Chairman*

George Calinescu
*Deputy General Manager*

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