Banca Transilvania S.A.

Separate 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.

Contents

Separate statement of profit or loss and other comprehensive income

For the year ended 31 December

	Note	2014 *RON thousand*	2013 *RON thousand*
Interest income		1,756,615	1,846,013
Interest expense		(619,013)	(855,631)
Net interest income	7	**1,137,602**	**990,382**
Fee and commission income		498,843	435,175
Fee and commission expense		(90,456)	(73,439)
Net fee and commission income	8	**408,387**	**361,736**
Net trading income	9	126,805	128,832
Net gain from sale of available for sale financial instruments	10	338,784	203,613
Contribution to the Banking Deposits Guarantee Fund		(73,152)	(64,398)
Other operating income	11	62,053	39,172
Operating income		**2,000,479**	**1,659,337**
Net impairment allowance on assets, other contingencies and loan commitments	12	(667,062)	(407,384)
Personnel expenses	13	(451,575)	(441,242)
Depreciation and amortization	22,23	(57,385)	(56,780)
Other operating expenses	14	(319,410)	(310,829)
Operating expenses		**(1,495,432)**	**(1,216,235)**
Profit before income tax		**505,047**	**443,102**
Income tax expense	15	(70,717)	(68,204)
Profit for the year		**434,330**	**374,898**

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

Separate statement of profit or loss and other comprehensive income

For the year ended 31 December

	Note	2014 *RON thousand*	2013 *RON thousand*
Profit for the year		**434,330**	**374,898**
Items that will never be reclassified to profit or loss		**751**	**(5,568)**
Increases/ decreases from revaluation of property and equipment, net of tax		447	(5,517)
Other elements of comprehensive income		304	(51)
Items that are or may be reclassified to profit or loss, net of tax, out of which:		**103,832**	**10,303**
Net gain from sale of available for sale financial instruments transferred to profit and loss account		(310,804)	(187,552)
Fair value changes of available for sale financial instruments		414,636	197,855
Total comprehensive income		**538,913**	**379,633**

The separate financial statements were authorized for issue by the Board of Directors on March 26, 2015 and were signed on its behalf by:

Horia Ciorcila
Chairman

George Calinescu
Deputy CEO

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Separate statement of financial position

As at 31 December

	Note	2014	2013
		RON thousand	*RON thousand*
Assets			
Cash and cash equivalents	16	4,225,966	4,101,913
Placements with banks	17	2,378,906	1,758,512
Financial assets at fair value through profit and loss	18	52,311	11,122
Loans and advances to customers	19	17,517,192	16,667,200
Investment securities, available for sale	20	10,852,865	8,936,455
Property and equipment	22	289,662	289,046
Intangible assets	23	70,466	82,908
Equity investments	21	74,856	73,956
Other assets	25	157,288	144,753
Total assets		**35,619,512**	**32,065,865**
Liabilities			
Deposits from banks	26	133,348	418,755
Deposits from customers	27	30,045,502	25,803,860
Loans from banks and other financial institutions	28	949,053	2,067,261
Subordinated liabilities	29	394,658	337,913
Deferred tax liabilities	24	43,716	59,985
Other liabilities	30	351,274	295,597
Total liabilities		**31,917,551**	**28,983,371**
Equity			
Share capital	31	2,695,125	2,292,937
Share premium	29	38,873	-
Retained earnings		490,160	430,043
Treasury shares		(10,468)	(818)
Revaluation reserve		27,852	28,997
Other reserves	32	460,419	331,335
Total equity		**3,701,961**	**3,082,494**
Total liabilities and equity		**35,619,512**	**32,065,865**

The separate financial statements were authorized for issue by the Board of Directors on March 26, 2015 and were signed on its behalf by:

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Chairman

George Calinescu
Deputy CEO

The accompanying notes from pages 8 to 73 form an integral part of these separate financial statements.

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Banca Transilvania S.A.

Separate statement of changes in equity

For the year ended 31 December 2014

In RON thousand	**Share capital**	**Share premium**	**Treasury Shares**	**Revaluation reserves**	**Other reserves**	**Retained earnings**	**Total**
Balance as at 31 December 2013	**2,292,937**	**-**	**(818)**	**28,997**	**331,335**	**430,043**	**3,082,494**
Total comprehensive income							
Profit for the year	-	-	-	-	-	434,330	**434,330**
Other comprehensive income, net of income tax							
Transfer from revaluation surplus to retained earnings	-	-	-	(1,592)	-	1,592	**-**
Revaluation reserve for property and equipment, net of income tax	-	-	-	447	-	-	**447**
Fair values gains / (losses) from available for sale financial assets (net of deferred tax)	-	-	-	-	103,832	-	**103,832**
Other comprehensive income	-	-	-	-	-	304	**304**
Total comprehensive income	**-**	**-**	**-**	**(1,145)**	**103,832**	**436,226**	**538,913**
Contributions by shareholders							
Increase in share capital through conversion of reserves from the statutory profit	352,743	-	-	-	-	(352,743)	**-**
Capital increase through the conversion of subordinated debt into shares	49,445	38,873	-	-	-	-	**88,318**
Acquisition of treasury shares	-	-	(27,817)	-	-	-	**(27,817)**
Distribution to statutory reserves	-	-	-	-	25,252	(25,252)	**-**
Share-based payments	-	-	18,167	-	-	1,886	**20,053**
Total contributions by shareholders	**402,188**	**38,873**	**(9,650)**	**-**	**25,252**	**(376,109)**	**80,554**
Balance at 31 December 2014	**2,695,125**	**38,873**	**(10,468)**	**27,852**	**460,419**	**490,160**	**3,701,961**

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Banca Transilvania S.A.

Separate statement of changes in equity

For the year ended 31 December 2013

In RON thousand	Share capital	Share premium	Treasury shares	Revaluation reserves	Other reserves	Retained earnings	Total
Balance as at 31 December 2012	**1,989,543**	**-**	**(7,752)**	**38,125**	**298,877**	**376,144**	**2,694,937**
Total comprehensive income							
Profit for the year	-	-	-	-	-	374,898	374,898
Other comprehensive income, net of income tax							
Transfer from revaluation surplus to retained earnings	-	-	-	(4,191)	-	4,191	-
Revaluation reserve	-	-	-	(4,937)	-	(580)	**(5,517)**
Fair values gains / (losses) from available for sale financial assets (net of deferred tax)	-	-	-	-	10,303	-	**10,303**
Other comprehensive income	-	-	-	-	-	(51)	**(51)**
Total comprehensive income	**-**	**-**	**-**	**(9,128)**	**10,303**	**378,458**	**379,633**
Contributions by shareholders							
Increase in share capital through conversion of reserves from the statutory profit	303,394	-	-	-	-	(303,394)	-
Acquisition of treasury shares	-	-	(13,233)	-	-	-	**(13,233)**
Distribution to statutory reserves	-	-	-	-	22,155	(22,155)	-
Share-based payments	-	-	20,167	-	-	990	**21,157**
Total contributions by shareholders	**303,394**	**-**	**6,934**	**-**	**22,155**	**(324,559)**	**7,924**
Balance at 31 December 2013	**2,292,937**	**-**	**(818)**	**28,997**	**331,335**	**430,043**	**3,082,494**

The accompanying notes from pages 8 to 73 form an integral part of these separate financial statements.

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Banca Transilvania S.A.

Separate statement of cash flows

For the year ended 31 December

In RON thousand	**Note**	**2014**	**2013**
Cash flow from operating activities			
Profit for the year		**434,330**	**374,898**
Adjustments for:			
Depreciation and amortization	22,23	57,407	56,780
Provisions and write-offs of financial assets, other contingencies and loan commitments	12	667,062	407,384
Fair value adjustment of financial assets at fair value through profit and loss		9,867	1,080
Income tax expense	15	70,717	68,204
Other adjustments		(18,437)	(88,292)
Net profit adjusted with non-monetary items		**1,220,946**	**820,054**
Changes in operating assets and liabilities			
Change in investment securities		(1,752,249)	(2,363,317)
Change in deposits and placements with banks		(88,853)	(50,371)
Change in loans and advances to customers		(1,531,093)	(1,531,044)
Change in financial assets at fair value through profit and loss		(51,056)	26,977
Change in other assets		(30,637)	(17,458)
Change in deposits from banks		(285,198)	372,626
Change in deposits from customers		4,264,530	2,589,848
Change in other liabilities		9,585	(62,386)
Income tax paid/collected		(67,341)	(15,451)
Net cash from / (used in) operating activities		**1,688,634**	**(230,522)**
Cash flow from (used in) investment activities			
Net acquisitions of tangible and intangible assets		(38,709)	(52,857)
Acquisition of equity investments		(900)	-
Dividends collected	11	3,956	508
Net cash flow proceeds / (used in) investment activities		**(35,653)**	**(52,349)**
Cash flow from / (used in) financing activities			
Net collections / (payments) from loans from banks and other financial institutions, subordinated debts and debt securities issued		(970,305)	(856,417)
Payments for treasury shares		(27,817)	(13,233)
Net cash from / (used in) financing activities		**(998,122)**	**(869,650)**

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Separate statement of cash flows *(continued)*

For the year ended 31 December

In RON thousand	**2014**	**2013**
Net increase / (decrease) in cash and cash equivalents	654,859	(1,152,521)
Cash and cash equivalents at 1 January	5,726,957	6,879,478
Cash and cash equivalents at 31 December	**6,381,816**	**5,726,957**

Reconciliation of cash and cash equivalents with the separate statement of financial position

In RON thousand	**Note**	**2014**	**2013**
Cash and cash equivalents	16	4,225,966	4,101,913
Placements with banks, less than 3 months maturity		2,156,367	1,626,144
Less accrued interest		(517)	(1,100)
Cash and cash equivalents in the separate cash flow statement		**6,381,816**	**5,726,957**

Cash flows from operating activities include:

In RON thousand	**2014**	**2013**
Interest collected	1,786,856	1,784,938
Interest paid	643,890	875,487

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Notes to the separate financial statements

1. Reporting entity and basis of preparation

a) Reporting entity

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 legal entities and individuals.

The Bank carries its banking activity through its head office located in Cluj-Napoca and 60 branches, 438 agencies, 31 bank units, 9 healthcare division units throughout the country and 1 regional center located in Bucharest (2013: 61 branches, 436 agencies, 33 bank units, 11 healthcare division units and 1 regional center located in Bucharest).

The Bank accepts deposits and grants loans, carries out funds transfers in Romania and abroad, exchanges currencies and provides banking services for its corporate and retail customers.

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. The asset structure of the Italy branch as at 31 December 2014 was the following: total assets RON 3,369 thousand, total liabilities RON 4,331 thousand, losses RON 962 thousand.

The Bank's number of active 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 structure of the equity holders of the Bank is presented 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.

b) Statement of compliance

The separate financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union, effective at the Bank's annual reporting date, 31 December 2014.

The Bank also prepares a set of consolidated financial statements of the Group in accordance with the International Financial Reporting Standards as endorsed by the European Union ("IFRS"), effective at the Group's annual reporting date, 31 December 2014.

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1. Reporting entity and basis of preparation *(continued)*

c) Basis of measurement

The separate financial statements of the Bank are prepared on a fair value basis for the financial assets and liabilities at fair value through profit or loss and for the available for sale financial instruments, excepting those for which the fair value could not be determined reliably.

Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost, revaluated amount or historical cost. Non-current assets held for sale are stated at the lower of net carrying amount and fair value, less the cost of sale.

The Bank's investments in subsidiaries and associates are accounted at cost according to IAS 27 „Consolidated and Separate Financial Statements" in these separate financial statements.

d) Functional and presentation currency

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

e) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS as endorsed by the European Union implies the use by management of estimates and judgments affecting the application of accounting policies as well as the reported value of assets, liabilities, income and expenses. Such estimates and judgments are based on historical experience and various other factors that are believed to be reasonable under the given circumstances, the result of which form the basis of judgments used in assessing the carrying value of assets and liabilities for which no other evaluation sources are available. Actual results may differ from estimated values.

The estimates and judgments are reviewed periodically. The reviews of the accounting estimates are recognized in the review period if such review affects only that period, or in the period when the estimate is reviewed and the future periods, if it affects both current and future periods.

The information related to the estimates used in the application of the accounting policies having a significant impact on the separate financial statements as well as the estimates involving a significant degree of uncertainty are described in Notes 3 and 4.

The significant accounting policies and methods were consistently applied by the Bank throughout the financial years presented in these separate financial statements.

Notes to the separate financial statements

2. Significant accounting policies

a) Foreign currency operations

i) Foreign currency operations

Foreign currency operations are booked in RON at the official exchange rate outstanding on the transaction settlement date. Monetary assets and liabilities denominated in foreign currencies at the date when the separate statement of the financial position is prepared are translated into the functional currency at the exchange rate of the respective date. The gains and losses from their settlement and the translations of balances using the exchange rate at the end of the financial year are recognized in the income statement, except for those booked in equity as a result of applying the hedge accounting.

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

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

ii) Conversion of foreign currency operations

The results and financial position of foreign currency operations are converted into the functional currency of the Bank as follows:

- the assets and liabilities of this entity, both monetary and non-monetary, have been translated at the exchange rate at the date of the separate statement of financial position;
- income and expense items of these operations have been translated at the average exchange rate of the period, as an estimation of exchange rates at the transaction dates; and
- all resulting 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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2. Significant accounting policies *(continued)*

b) Accounting method for the effect of hyperinflation

According to IAS 29 and IAS 21, the financial statements of an entity which has the functional currency of a hyperinflationary economy must be presented in terms of current purchase power of the respective currency at the date of the preparation of the separate statement of financial position, meaning that the non-monetary elements are restated using a general price index from the date of acquisition or contribution.

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

The continuously decreasing inflation rates and other factors related to the characteristics of the economic environment in Romania indicate that the economy using the operational currency adopted by the Bank ceased to be hyperinflationary, with effects over financial periods starting from 1 January 2004. Therefore, the provisions of IAS 29 were no longer adopted in preparing these separate financial statements.

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

c) 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 the interest income or interest expense over the relevant period. The effective interest rate is the exact rate that adjusts estimated future cash payments or receipts over the life period of the financial instrument or, where appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument (for example, prepayments, call options and other similar options) but does not consider future credit losses. The calculation method includes all fees and commissions paid or received between contractual parties that 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 risk management and other financial assets and liabilities held at fair value are presented in the net income from other financial instruments held at fair value through profit or loss.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, the interest income is thereafter recognized based on the interest rate used to adjust future cash flows for the purpose of measuring the impairment loss applied to the net carrying value of the asset.

d) Fees and commissions

The commissions for the financial services provided by the Bank include upfront fees, commitment fees, card fees, fees for cash management services, brokerage services, investment advice and financial planning, investment banking services and asset management services.

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

2. Significant accounting policies *(continued)*

d) Fees and commissions *(continued)*

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

e) Net trading income

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

f) Gains and losses from the sale of financial instruments available for sale

Gains and losses from the sale of financial instruments available for sale are recognized in the statement of profit or loss at the time 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.

g) Dividends

The income from dividends is recognized in the income statement 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 committed. Dividends are reflected as a component of other operating income. Dividends are treated as profit distribution for the period when they are declared and approved by the General Meeting of Shareholders.

h) 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 lease expense is recognized as a component of operating expenses.

i) Tax on profit

Tax on profit for the year includes the current tax and the deferred tax. The tax on profit 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 separate statement of financial position and all the adjustments linked 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.

2. Significant accounting policies *(continued)*

i) Tax on profit *(continued)*

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 separate financial statements. 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 and settlement of the accounting value of assets and liabilities, by using the tax rates stipulated in the applicable legislation as at the date of the separate 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 tax rate used to calculate the current and deferred tax position as at 31 December 2014 was 16% (31 December 2013: 16%).

j) Financial assets and liabilities

(i) Classifications

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

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

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

Available-for-sale financial assets are those financial assets which 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 fund units, equity investments and other investment securities that are not held for trading or held to maturity.

2. Significant accounting policies *(continued)*

j) 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 not carried at fair value through profit or loss.

The Bank initially recognizes loans and advances, deposits, issued bonds and subordinated liabilities on the date of 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 when the Bank becomes a party to the contractual provisions of the financial instrument.

(iii) Derecognition

The Bank derecognizes a financial asset when the contractual rights to receive cash flows from the asset expire or when the Bank transfers the rights to receive the contractual cash flows on the respective financial asset within a transaction in which all the risks and rewards of ownership of the financial asset are substantially transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

Upon the derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the transferred asset), 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 recognized in other comprehensive income, is recognized in profit or loss.

The Bank derecognizes a financial liability when its contractual obligations are discharged or expired.

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

When assets are sold to a third party at 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 case of transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the respective asset is derecognized if control over the asset is lost.

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

2. Significant accounting policies (*continued*)

j) Financial assets and liabilities *(continued)*

(iv) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the 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 them on a net basis, or enforce the asset and settle the liability simultaneously.

Income 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 Bank's trading activity.

(v) Amortized cost measurement

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

(vi) Fair value measurement

Fair value is the price that would be received after selling 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, on the most advantageous market to which the Bank has access at such date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the price listed on an active market for that instrument. A market is considered as active if transactions for a certain asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
If there is no listed price on an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.
The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument upon initial recognition is normally the transaction price – the fair value of a consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is not evidenced either by a listed price on an active market for an identical asset or liability or 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 upon 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 the time when the valuation is wholly supported by observable market data or the transaction closing date.

The Bank recognizes transfers between hierarchical levels of fair value at the end of the reporting period during which the change has occurred.

2. Significant accounting policies *(continued)*

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

(vii) Identification and measurement of impairment

At the date of each separate statement of financial position, the Bank assesses whether there is objective evidence according to which the financial assets which are not held at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired and losses from impairment occur, only if objective evidence exists related to their impairment as a result of one or several events occurring after the initial recognition of the asset ("loss generating event"), and the loss-generating event or events have an impact upon the future cash flows of the financial asset or group of financial assets, which can be estimated reliably.

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

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows adjusted with the financial asset's effective interest rate at the initial time (i.e. the effective interest rate calculated upon 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 impairment loss expense 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 income statement.

Loans and advances to customers

Based on its internal methodology for impairment assessment, the Bank included observable data on the following loss-generating events, as objective evidence that loans and advances to customers or group of customers are impaired:

(a) significant financial difficulty of the borrower determined in accordance with the Bank's internal client rating system;

(b) a breach of contract, such as a default or delay in interest or principal payments (individually or in the same group of debtors);

(c) the lender, due to economic or legal reasons relating to the borrower's financial difficulty, granted to the borrower a concession that the lender would not have otherwise considered, such as rescheduling the interest or principal payments;

(d) there is indicative data that the borrower will enter bankruptcy or other form of financial reorganization;

2. Significant accounting policies *(continued)*

j) Financial assets and liabilities (continued)

(vii) Identification and measurement of impairment (continued)

Loans and advances to customers (continued)

(e) credible information indicating a measurable decrease in the estimated future cash flows of a group of financial assets starting from the date of the initial recognition, although the decrease cannot be identified for each individual asset, including:

i) unfavourable change in the payment behavior of the Bank's debtors, or

ii) national or local economic circumstances that can be correlated to the loss / depreciation of the Bank's assets.

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

If the Bank determines that there is no objective evidence of impairment for an individually assessed financial asset, whether significant or not, the Bank shall include the loans to customers into a group with similar credit risk characteristics and shall collectively assess them for impairment. The loans to customers 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 submitted to collective assessment. The calculation of the updated value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from guarantee foreclosure less the costs for obtaining and selling the guarantees, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, loans and advances to customers are classified 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).

Management considers that these chosen characteristics are the best estimate of similar credit risk features relevant to the estimation of future cash flows for such loans, as being indicative of the debtors' ability to pay all amounts due according to the contractual terms.

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

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

Available-for-sale financial assets

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

2. Significant accounting policies *(continued)*

j) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

Available-for-sale financial assets (continued)

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 the current fair value, less any impairment loss on that financial asset previously recognized in the statement of profit and loss.

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

Financial assets carried at cost

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

(viii) Designation at fair value through profit or loss

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

- it eliminates or significantly reduces an evaluation or recognition mismatch ("accounting error") which might have arisen from the measurement of the assets and liabilities or from the recognition of their gain or loss based on different principles;
- they are part of a group of financial assets or liabilities managed, evaluated and reported to the management on 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 and loss.

k) Cash and cash equivalents

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

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

l) Trading assets and liabilities

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

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

Notes to the separate financial statements

2. Significant accounting policies *(continued)*

m) Derivatives

(i) Derivatives held for risk management purposes

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

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

(ii) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank 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 depending on their classification, and are presented in the separate statement of the financial position together with the host contract.

n) Loans and advances

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method as described in the accounting policy 2(c) above, except when the Bank chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy 2(j) (viii) above.

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

o) Investment securities

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

(i) Held-to-maturity

Held-to-maturity investments are carried at amortized cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.
However, sales and reclassifications in any of the following circumstances would not trigger a reclassification: sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; sales or reclassifications after the Bank has collected substantially all of the asset's original principal; sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

Notes to the separate financial statements

2. Significant accounting policies *(continued)*

o) Investment securities *(continued)*

(ii) Fair value through profit and loss

The Bank carries investment securities at fair value, with fair value changes recognized immediately in profit or loss as described in accounting policy note 2(l).

(iii) Available-for-sale

Securities such as Treasury bills issued by the Romanian Government are classified as available-for-sale.

The Bank considered that the effective transaction prices would be between the informative BID-ASK quotations obtained, which are rather an interval within which the Bank could have realistically negotiated the quotations for each series and volume of its portfolio, and thus, the Bank 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 fair value. Other equity investments in listed or unlisted companies are classified as available-for-sale assets and are carried at 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 using the effective interest rate method. Dividend income is recognized in profit and loss when the Bank becomes entitled to receive dividends. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit and loss.

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

(iv) Loans and advances

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

p) Property and equipment

(i) Recognition and measurement

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

(ii) Subsequent costs

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

2. Significant accounting policies (*continued)*

p) Property and equipment *(continued)*

(iii) Depreciation

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

The estimated useful lives for the current and comparative periods 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 recognized at cost.

Software

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

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

s) Impairment of non-financial assets

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

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

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

2. Significant accounting policies *(continued)*

t) Deposits from customers

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

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

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

The Bank classifies these 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.

v) Provisions

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

x) Financial guarantees

Financial guarantees are contracts that engage the Bank to perform specific payments to reimburse the holder for a loss it incurred to the holder because a specific debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee.

The guarantee liability is subsequently carried at the greater of its amortized amount and the present value of any expected payment (when a payment of the guarantee has become 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

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

2. Significant accounting policies *(continued)*

y) Employee benefits *(continued)*

(ii) Defined contribution plans (continued)

The Bank does not operate any independent pension scheme and, consequently, has no obligation in respect of pensions. The Bank does not operate any other postretirement benefit plan. The Bank has no obligation to provide further services to current or former employees.

(iii) Other benefits

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

w) Segment reporting

A segment is a distinguishable component of the Bank 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 Bank's primary format for segment reporting is based on business segments.

z) Treasury shares

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

2. Significant accounting policies *(continued)*

aa) New standards and interpretations not yet adopted

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 separate 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 Bank is currently assessing the potential effects that the application of IFRIC 21 may have on financial statements.

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

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

- IFRS 8 – Segment Reporting: 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 liabilities and claims without related interest can be presented in the fair value note – at invoiced amount, if the discounting effect is not significant;
- IAS 16 and IAS 38 – clarifies the treatment of accrued depreciation at revaluation date;
- IAS 24 – extends the definition of related parties;
- IAS 40 – Real estate investments: amendments clarify the distinction between real estate investments 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 evaluation" regarding the classification and assessment of financial assets, excepting the aspects regarding hedge accounting based on which 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. A financial asset can be evaluated at amortized cost provided that the 2 following conditions are observed: assets must be held within the business model of the company, the objective being the management based on contractual return; and cash flows at the dates specified 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 capital 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.

2. Significant accounting policies *(continued)*

The incurred loss model from IAS 39 is replaced with the expected loss model. Moreover, significant disclosure requirements have been introduced.

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

b) IFRS 15 – Income from client contracts (applicable for the period starting from or after 1 January 2017)

The standard issued on May 28, 2014 replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC – 31. The standard is applicable to customer contracts, other than insurance, financial instrument and leasing contracts. The standard prescribes a unique model for customer contract analysis and two income recognition approaches – at a certain moment in time or during the contract period, depending on the date of obligation fulfillment according to the contract.

The Bank estimates that such amendments will not have a significant impact on the separate financial statements, because most contracts signed with clients are subject to other standards.

c) Amendments to IAS 1 (applicable for the period starting from or after 1 January 2016)

The definition of materiality was changed in order to clarify the applicability of this concept to the overall financial statements and to each presentation requirement within a standard. Moreover, amendments were made with respect to the order of notes within the financial statements and in order to clarify the fact that entities enjoy flexibility as concerns the presentation of accounting policies within the explanatory notes.

The Bank estimates that such amendments will not have a significant impact on the separate financial statements.

d) Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization (applicable for the period starting from or after 1 January 2016)

The amendments forbid the income-based amortization for tangible fixed assets and impose new restrictions as concerns the applicability of this method to intangible fixed assets. The Bank estimates that such amendments will not have a significant impact on the separate financial statements, because the bank does not apply the amortization based on income.

e) Amendments to IAS 27 (applicable for the period starting from or after 1 January 2016)

The amendments allow an entity to record the subsidiary companies, associated companies or joint ventures in the separate financial statements by using the equity method. The Bank estimates that such amendments will not have a significant impact on the separate financial statements.

Notes to the separate financial statements

3. Financial risk management

a) Introduction

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

Risk management is an integral part of all decision making and business processes within the Bank.

The Board of Directors is responsible for defining and monitoring of the general risk management framework of the Bank. The Board of Directors has appointed the Leaders Committee, the Assets and Liabilities Committee (ALCO), the Credit Policy and Approval Committee, the Credit and Risk Committees in head office (loan approval), the Credit and Risk Committee of branches / agencies that are responsible for implementing and/ or monitoring risk management policies in their area of expertise. The Board of Directors periodically reviews the activity of these committees.

Risk management framework

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

The Risk Management Committee advises the Board of 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 Bank'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. Banca Transilvania S.A. adopts a risk profile consistent with its risk profile, strategies and policies regarding significant risks management, correlated with the general strategy of the Bank, its capital and experience in risk management.

The significant components of the risk management framework are reviewed regularly (generally on an annual basis), in cooperation with the Leaders Committee and relevant employees from the Bank's Divisions, in order to reflect the changes in market conditions, products and services offered.

The crisis simulation process is an integral part of the Bank's risk management framework.

The Bank's Audit Committee reports to Board of Directors and is responsible for monitoring compliance with the Bank's risk management procedures. The Audit Committee is assisted in these functions by the 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.

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

Notes to the separate financial statements

3. Financial risk management *(continued)*

b) Credit Risk

(i) Credit Risk Management

The Bank is exposed to credit risk through its trading, lending and investing activities and in cases where it issues guarantees. The risk is mitigated by selecting counterparties of good credit standings and monitoring their activities and ratings and through the use of exposure limits and when appropriate, obtaining collateral.

The Bank'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 separate financial statements position. The Bank 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 separate statement of financial position. In addition, the Bank is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued (see Note 34).

In order to minimize the risk, the Bank has certain procedures meant to assess customers 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 Bank 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 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. Within the Bank operates the Risk Management Division that reports to the above Central Committees and 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 use of the ratios calculated in respect of granting / modifying the branches' competencies of granting loans, according to specific internal policies;
- Periodic review and recommendation to the Leaders Committee of the risk levels accepted by Banca Transilvania;
- Identifying, monitoring and controlling the credit risk at branch 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;

3. Financial risk management *(continued)*

b) Credit Risk *(continued)*

(i) Credit Risk Management (continued)

- 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 the loan portfolio both individually and as a group of financial assets with similar characteristics in order to determine if there is any objective evidence of impairment, and assessment of impairment losses and related provision in accordance with IFRS.

Each Branch/Agency implements at local level the Bank policies and regulations regarding the credit risk, having loan approval competencies established by the Leaders 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 carry out periodical verifications of the branches and agencies.

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

Credit risk exposure

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

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

3. Financial risk management *(continued)*

b) Credit Risk *(continued)*

(i) Credit Risk Management (continued)

The table from below contains the Bank's on and off balance sheet exposure split on economic sector concentration:

	2014	**2013**
Individuals	32.70%	31.63%
Trading	15.83%	16.26%
Production	15.70%	16.80%
Constructions	8.63%	8.12%
Agriculture	4.89%	4.33%
Services	4.60%	5.04%
Transport	3.65%	3.78%
Real estate	2.85%	2.73%
Others	2.69%	2.68%
Energy industry	2.09%	2.41%
Authorized individuals	2.02%	1.80%
Financial institutions	1.61%	1.46%
Chemical industry	1.26%	1.43%
Mining industry	0.86%	0.89%
Telecommunication	0.48%	0.47%
Governmental bodies	0.10%	0.13%
Fishing industry	0.04%	0.04%
	100%	**100%**

At 31 December 2014, the amount of balance sheet and off-balance sheet total exposure amounted to RON 25,794,196 thousand (31 December 2013: RON 24,091,737 thousand).
The amounts reflected in the previous paragraph reflect the maximum accounting loss that would be recognized at reporting date if the customers fail completely to perform as contractually agreed and any collateral or security proved to be of no value.

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

The Bank is using risk grades both for loans individually and collectively assessed. According to the Bank'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 exposure from non-performing loans and loans for which the legal recovery process was initiated.

3. Financial risk management *(continued)*

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

The exposures to credit risk for loans and advances to customers as of 31 December 2014 and 31 December 2013 are presented below:

In RON thousand		**2014**	**2013**
Depreciated cost			
Grade 1	Low Risk	14,935,708	14,084,308
Grade 2-3	Moderate Risk	790,922	987,247
Grade 4-6	Medium Risk	842,412	988,322
Grade 7	High Risk, impaired, not default	1,636,676	490,543
Grade 8	Impaired, default	1,814,272	2,609,839
Gross Value		**20,019,990**	**19,160,259**
Adjustment for impairment (individual and collective)		(2,502,798)	(2,493,059)
Net book value		**17,517,192**	**16,667,200**
Gross values neither past due nor impaired			
Grade 1	Low Risk	14,363,685	13,372,633
Grade 2-3	Moderate Risk	634,707	755,027
Grade 4-6	Medium Risk	304,650	58,003
Total		**15,303,042**	**14,185,663**
Gross values of outstanding loans and advances to customers past due but not impaired			
1-15 days		754,115	752,390
15-30 days		202,677	183,552
30-60 days		161,479	275,097
60-90 days		67,146	247,163
90-180 days		-	112,340
180 days +		-	20,041
Total		**1,185,417**	**1,590,583**
Gross value of loans and receivables to customers with specific adjustments			
Grade 4-6	Medium Risk	80,583	283,631
Grade 7	High Risk, impaired, not default	1,636,676	490,543
Grade 8	Impaired, default	1,814,272	2,609,839
Total		**3,531,531**	**3,384,013**
Adjustments for impairment			
Individual		(1,506,984)	(1,385,998)
Collective		(995,814)	(1,107,061)
Total Adjustments for impairment		**(2,502,798)**	**(2,493,059)**

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

3. Financial risk management *(continued)*

b) Credit risk management *(continued)*

Exposures are considered as restructured in case of debt agreements for which concessions were granted to a debtor who is already experiencing or is on the verge of facing difficulties in meeting financial commitments, concessions that would not have been granted if the debtor had not been in financial difficulty.
As at 31 December 2014 the Bank had outstanding loans, in the category complying with the above definition, amounting to RON 2,720,477 thousand (31 December 2013: RON 2,823,306 thousand).
In addition, the Bank had entered into loan commitments as of 31 December 2014 amounting to RON 5,774,541 thousand (31 December 2013: RON 4,931,541 thousand), mainly with counterparties graded 1-3.

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

The Bank holds cash and cash equivalents amounting to RON 4,225,966 thousand as at 31 December 2014. Cash and cash equivalents are held with the Central Bank/central banks and financial institutions with ratings between BB- and AAA, as issued by one of the agencies Fitch, Moody's or Standard&Poor's.
As at 31 December 2014, the available-for-sale securities include: treasury certificates and bonds issued by the Romanian Government, with BBB, BBB- rating from S&P, municipal bonds (issued by towns/cities), with BBB- rating, bonds issued by the Republic of Montenegro, with BB- rating, and certificates of participation issued by Raiffeisen Centrobank AG, with A- rating.

Past due and individually impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank assessed that it might encounter difficulties in collecting the principal and interest due according to the contractual terms of the loan / securities agreement.
Past due but not individually impaired loans and securities
Loans and securities where contractual interest or principal payments are past due but the Bank assessed that an individual impairment is not necessary on the basis of the level of security/collateral available and/or the stage of collection of amounts due to the Bank.

Allowances for impairment
The Bank sets an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are an individual loan loss component that relates to individually significant exposures, and a collective loan loss allowance established for a group 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 Bank has 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;
- 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 Bank's management is currently implementing a methodology for retrospective validation testing of new parameters used in the collective provisioning methodology described above.

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

3. Financial risk management *(continued)*

b) Credit risk management *(continued)*

Write-off policy

Based on a specific analysis, the Bank 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.
Moreover, loans amounting to RON 38,334 thousand (31 December 2013: RON 145,625 thousand) were also derecognized during 2014.

The Bank holds guarantees for loans and advances to customers, in the form of mortgages on land and buildings and mortgages on movable property such as machinery, equipment, inventories, insurance policies and other guarantees. The Bank has rights over such guarantees until the termination of the agreement. Fair value estimations are based on the value of guarantees assessed at the date of loan granting and updated periodically.

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

In RON thousand	**2014**	**2013**
Collaterals related to loans with a moderate, medium and high risk and impaired loans		
Real estate	3,956,129	4,060,292
Pledges	723,721	474,805
Other collaterals	150,112	198,788
	4,829,962	**4,733,885**
Collaterals related to loans with low risk		
Real estate	12,432,435	11,540,642
Pledgees	2,077,432	1,842,409
Other collaterals	1,601,237	1,570,695
	16,111,104	**14,953,746**
Total	**20,941,066**	**19,687,631**

Exposures 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.

3. Financial risk management *(continued)*

c) Liquidity risk

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

The Bank has access to diverse sources of funding. Funds are raised using a broad range of instruments including bank deposits from customers or partners, 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 Bank tries to maintain a balance between continuity and flexibility of attracting funds, through contracting debts with different maturities and different currencies. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding, and diversifying the sources of funding.

The Assets and Liabilities 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 performs monthly crisis simulations for liquidity risk.

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 future payment obligations and benefits to be collected, are the following:

Notes to the separate financial statements

3. Financial risk management *(continued)*

c) Liquidity risk *(continued)*

In RON thousand	Book Value	Gross Value (inputs/ outputs)	Up to 3 months	3-6 months	6-12 months	1-3 years	3 – 5 years	Over 5 years	Without maturity
31 December 2014									
Financial liabilities									
Deposits from banks	133,348	(133,512)	(133,512)	-	-	-	-	-	-
Deposits from customers	30,045,502	(30,165,468)	(20,340,938)	(4,160,831)	(2,630,220)	(1,144,409)	(1,727,961)	(161,109)	-
Loans from banks and other financial institutions, other subordinated loans and debt securities issued	1,343,711	(1,547,525)	(570,217)	(44,707)	(94,547)	(254,595)	(169,353)	(414,106)	-
Total financial liabilities	**31,522,561**	**(31,846,505)**	**(21,044,667)**	**(4,205,538)**	**(2,724,767)**	**(1,399,004)**	**(1,897,314)**	**(575,215)**	**-**
Financial assets									
Cash and cash equivalents	4,225,966	4,225,966	4,225,966	-	-	-	-	-	-
Placements with banks	2,378,906	2,413,545	2,176,796	17,976	62,511	32,371	114,443	9,448	-
Financial assets at fair value through profit and loss	52,311	52,311	26,155	-	-	-	-	-	26,156
Loans and advances to customers	17,517,192	25,538,122	4,830,061	2,246,327	3,847,519	4,692,214	3,228,300	6,693,701	-
Investment securities available for sale	10,852,865	11,814,012	8,836,176	204,273	211,598	1,136,241	611,649	703,635	110,440
Equity investments	74,856	74,856	-	-	-	-	-	-	74,856
Total financial assets	**35,102,096**	**44,118,812**	**20,095,154**	**2,468,576**	**4,121,628**	**5,860,826**	**3,954,392**	**7,406,784**	**211,452**
Maturity surplus / (shortfall)		**12,272,307**	**(949,513)**	**(1,736,962)**	**1,396,861**	**4,461,822**	**2,057,078**	**6,831,569**	**211,452**

3. Financial risk management *(continued)*

c) Liquidity risk *(continued)*

In RON thousand	**Book Value**	**Gross Value (inputs/ outputs)**	**Up to 3 months**	**3-6 months**	**6-12 months**	**1-3 years**	**3 – 5 years**	**Over 5 years**	**Without maturity**
31 December 2013									
Financial liabilities									
Deposits from banks	418,755	(418,949)	(418,640)	(309)	-	-	-	-	-
Deposits from customers	25,803,860	(25,929,137)	(17,980,079)	(3,621,263)	(1,823,338)	(824,491)	(1,577,923)	(102,043)	-
Loans from banks and other financial institutions, other subordinated loans and debt securities issued	2,405,174	(2,594,477)	(1,554,119)	(153,453)	(93,838)	(303,836)	(186,995)	(302,236)	-
Total financial liabilities	**28,627,789**	**(28,942,563)**	**(19,952,838)**	**(3,775,025)**	**(1,917,176)**	**(1,128,327)**	**(1,764,918)**	**(404,279)**	**-**
Financial assets									
Cash and cash equivalents	4,101,913	4,101,913	4,101,913	-	-	-	-	-	
Placements with banks	1,758,512	1,775,951	1,643,896	33,955	22,637	55,029	9,381	11,053	-
Financial assets at fair value through profit and loss	11,122	11,122	5,561	-	-	-	-	-	5,561
Loans and advances to customers	16,667,200	24,577,829	4,965,378	2,366,374	6,183,408	3,395,898	2,179,820	5,486,951	-
Investment securities available for sale	8,936,455	10,581,380	7,575,196	182,746	213,486	1,070,025	658,889	795,205	85,833
Equity investments	73,956	73,956	-	-	-	-	-	-	73,956
Total financial assets	**31,549,158**	**41,122,151**	**18,291,944**	**2,583,075**	**6,419,531**	**4,520,952**	**2,848,090**	**6,293,209**	**165,350**
Maturity surplus / (shortfall)		**12,179,588**	**(1,660,894)**	**(1,191,950)**	**4,502,355**	**3,392,625**	**1,083,172**	**5,888,930**	**165,350**

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

3. 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 risk.

d1) *Interest rate risk related to the banking book*

The interest rate risk represents the current or future risk for profit and capital to be negatively affected by interest rate adverse changes.

The interest rate risk undertaken by the Bank results from:
Trading activities involving fixed income monetary financial instruments (interest rate risk resulting from trading activities).

Fund raising/ placing activities for non-banking customers (interest rate risk resulting from banking activities).

The main sources of interest risk are the imperfect correlations between maturities (in case of fixed interest rates) or pricing reset date (in case of variable interest rates) on interest-bearing assets and liabilities, adverse changes of the yield curve (unsymmetrical evolution of interest rate return related to interest-bearing assets and liabilities). The management of interest-bearing assets and liabilities is performed in the context of the Bank's exposure to interest rate fluctuations. The Bank uses a mix of fixed and variable interest instruments, in order to control the lack of correlation between the dates at which passive and active interest is aligned with the market rates or between the maturity dates of active and passive instruments.

Interest rate risk is managed mainly through interest rate GAP monitoring (mismatches) and through a system of limits and ratios approved on interest bands (intervals).

The Assets and Liabilities Committee is the body which monitors such limits, being assisted on a daily basis by the Treasury Department.

The management of interest rate risk within the interest rate gap is corroborated with the monitoring of the financial assets and liabilities' sensitivity to standard interest rate scenarios.

In RON thousand	**Increase +200 bps**	**Decrease -200 bps**	**Increase +100 bps**	**Decrease -100 bps**
At 31 December 2014				
Average for the period	1,553	(1,553)	776	(776)
Minimum for the period	(26,305)	26,305	(13,153)	13,153
Maximum for the period	21,667	(21,667)	10,834	(10,834)
At 31 December 2013				
Average for the period	4,890	(4,890)	2,445	(2,445)
Minimum for the period	(17,513)	17,513	(8,757)	8,757
Maximum for the period	45,531	(45,531)	22,765	(22,765)

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

3. Financial risk management *(continued)*

d) Market risk *(continued)*

d1) Interest rate risk *(continued)*

For the sensitivity analysis of the interest rate variation, the Bank has computed the impact over the interest margin over the future financial year by taking into consideration the interest rate resetting date for assets and liabilities recorded in the separate statement of the financial position as follows: the Bank divided the assets and liabilities bearing fixed interest rate from the ones bearing variable interest rate and for each category the following split was done: 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.

From the sensitivity analysis performed by the Bank, according to the methodology described above, it can be seen that in the next years the interest rate changes impact on profit is limited. The most significant impact is recorded on 3-6 months category, which gives the Bank enough time to adjust to financial market conditions. The average for the period, shown in the table above, represents the average changing interest impact on Bank’s profits (according to the presented methodology in the previous paragraph), the minimal value shown, represents the potential impact on profit for the period / category interest change that arises on range 3-6 months, and the maximum value presented indicates the potential impact on profit linked to the interest interval/band on which it arises – interval 4–5 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**
Romanian 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%

Notes to the separate financial statements

3. Financial risk management *(continued)*

d) Market risk *(continued)*

d1) Interest rate risk (continued)

The table from below presents the interest rate margin for the portfolios of instruments bearing interest as at 31 December 2014:

In RON thousand	Up to 6 months	6 – 12 months	1-3 years	3 – 5 years	Over 5 years	Unaffected	Total
Assets							
Cash and cash equivalents	4,225,966	-	-	-	-	-	**4,225,966**
Placements with banks	2,192,865	57,925	17,495	101,660	8,961	-	**2,378,906**
Financial assets at fair value through profit and loss	52,311	-	-	-	-	-	**52,311**
Loans and advances to customers	13,319,686	2,457,886	519,696	626,323	1,926	591,675	**17,517,192**
Investment securities, available for sale	9,868,880	15,286	425,091	215,611	326,292	1,705	**10,852,865**
	29,659,708	**2,531,097**	**962,282**	**943,594**	**337,179**	**593,380**	**35,027,240**
Liabilities							
Deposits from banks	133,348	-	-	-	-	-	**133,348**
Deposits from customers	25,050,926	4,907,598	35,924	19,725	31,329		**30,045,502**
Loans from banks and other financial institutions, subordinated liabilities	1,299,831	-	-	-	43,880	-	**1,343,711**
	26,484,105	**4,907,598**	**35,924**	**19,725**	**75,209**	**-**	**31,522,561**
Net position	**3,175,603**	**-2,376,501**	**926,358**	**923,869**	**261,970**	**593,380**	**3,504,679**

3. Financial risk management *(continued)*

d) Market risk *(continued)*

d1) Interest rate risk (continued)

The table from below presents the interest rate margin for the portfolios of instruments bearing interest as at 31 December 2013:

In RON thousand	Up to 6 months	6 – 12 months	1-3 years	3 – 5 years	Over 5 years	Unaffected	Total
Assets							
Cash and cash equivalents	4,101,913	-	-	-	-	-	**4,101,913**
Placements with banks	1,677,444	18,042	46,702	6,330	9,994	-	**1,758,512**
Financial assets at fair value through profit and loss	11,122	-	-	-	-	-	**11,122**
Loans and advances to customers	10,536,598	4,586,792	398,622	370,963	62,666	711,559	**16,667,200**
Investment securities, available for sale	8,126,507	14,472	303,869	202,147	287,755	1,705	**8,936,455**
	24,453,584	**4,619,306**	**749,193**	**579,440**	**360,415**	**713,264**	**31,475,202**
Liabilities							
Deposits from banks	418,755	-	-	-	-	-	**418,755**
Deposits from customers	22,093,303	3,662,127	8,991	15,479	23,960		**25,803,860**
Loans from banks and other financial institutions, subordinated liabilities	2,405,174	-	-	-	-	-	**2,405,174**
	24,917,232	**3,662,127**	**8,991**	**15,479**	**23,960**	**-**	**28,627,789**
Net position	**(463,648)**	**957,179**	**740,202**	**563,961**	**336,455**	**713,264**	**2,847,413**

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

3. Financial risk management *(continued)*

d) Market Risk *(continued)*

d2) Currency Risk

The Bank is exposed to currency risk through transactions in foreign currencies against RON. The Bank 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 Bank controls its exposure to market risk by daily monitoring the market value of the held-for-trading portfolio in relation to a system of risk limits approved by the Asset-Liability Committee (ALCO). The held-for-trading portfolio includes fixed-income securities issued in Romania or on European markets (treasury securities, bonds whose issuers have ratings higher than the sovereign rating), denominated in RON, EUR and USD, as well as shares issued by entities from Romania traded on the Bucharest Stock Exchange (which are not directly exposed to interest rate risk and currency risk, but are exposed to price risk).

The Bank performs monthly crisis simulations for the currency 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					
Cash and cash equivalents	2,496,759	1,486,246	163,038	79,923	**4,225,966**
Placement with banks	828,407	1,211,973	295,349	43,177	**2,378,906**
Financial assets at fair value through profit and loss	52,311	-	-	-	**52,311**
Loans and advances to customers	12,713,975	4,570,748	232,469	-	**17,517,192**
Investment securities available for sale	7,565,952	2,660,861	626,052	-	**10,852,865**
Equity investments	69,520	5,336	-	-	**74,856**
Other assets	145,213	9,755	2,307	13	**157,288**
Total monetary assets	**23,872,137**	**9,944,919**	**1,319,215**	**123,113**	**35,259,384**
Monetary liabilities					
Deposits from banks	877	34,916	97,332	223	**133,348**
Deposits from customers	19,556,213	9,403,531	937,969	147,789	**30,045,502**
Loans from banks and other financial institutions, other subordinated debts and bonds issued	547,202	637,066	159,443	-	**1,343,711**
Other liabilities	315,934	28,656	4,992	1,692	**351,274**
Total monetary liabilities	**20,420,226**	**10,104,169**	**1,199,736**	**149,704**	**31,873,835**
Net currency position	**3,451,911**	**(159,250)**	**119,479**	**(26,591)**	**3,385,549**

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3. 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:

In RON thousand	**RON**	**EUR**	**USD**	**Other**	**Total**
Monetary assets					
Cash and cash equivalents	1,857,961	1,998,823	205,631	39,498	4,101,913
Placement with banks	867,145	727,684	85,769	77,914	1,758,512
Financial assets at fair value through profit and loss	11,122	-	-	-	11,122
Loans and advances to customers	11,342,002	5,083,679	241,519	-	16,667,200
Financial assets available for sale	6,177,646	2,358,752	400,057	-	8,936,455
Equity investments	68,620	5,336	-	-	73,956
Other assets	135,606	7,189	1,958	-	144,753
Total monetary assets	**20,460,102**	**10,181,463**	**934,934**	**117,412**	**31,693,911**
Monetary liabilities					
Deposits from banks	380,285	38,099	309	62	**418,755**
Deposits from customers	16,392,325	8,387,295	913,294	110,946	**25,803,860**
Loans from banks and other financial institutions and subordinated liabilities	779,765	1,347,932	277,477	-	**2,405,174**
Other liabilities	253,982	33,739	5,665	2,211	**295,597**
Total monetary liabilities	**17,806,357**	**9,807,065**	**1,196,745**	**113,219**	**28,923,386**
Net currency position	**2,653,745**	**374,398**	**(261,811)**	**4,193**	**2,770,525**

e) Taxation risk

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

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 Bank'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.

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

3. Financial risk management *(continued)*

e) Taxation risk *(continued)*

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 Bank 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 Q4), 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.

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.

3. Financial risk management *(continued)*

f) Operating environment *(continued)*

The management estimates that 2015 will also have a significant level of impairment adjustments related to loans, with a decreasing trend as compared to the impairment expense recorded in 2014, with corresponding effects on the individual Bank's financial statements.
The Bank shall take all measures considered necessary to support the growth of the Bank's activity in the current market conditions through:

- continuous improvement of the risk management framework;
- constant monitoring of ratios which are relevant for the Bank's financial stability and soundness;
- a rigorous control of costs, increasing the work efficiency;
- maintaining the quality of the Bank's assets; a proper provisioning policy;
- the continued growth in the corporate clients portfolio by identifying and crediting of mature, healthy businesses, which have withstood the crisis and the protection of existing clients;
- maintaining the competitive advantage and increasing levels of loans granted by the Department for agriculture;
- increasing the number of retail clients through the development of packages of products and banking services according to classes/types of clients;
- improvement of the customer service concept, based on cross-selling, finding rapid solutions.

g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of factors associated with the Bank's processes, personnel, technology and infrastructure, or from external factors such as those arising from national legal and regulatory requirements, generally accepted corporate behavior standards or natural disasters that lead to the unavailability of some of the Bank's core business activities.

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

In order to reduce the inherent risk arising on the Bank's operational activities, a general framework to manage those risks was developed. The Operational Risk Management Department is responsible for the oversight and the update of this framework, comprising policies, norms and procedures regarding risk management, that are part of the 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. These responsibilities are consistent with the general operational risk management standards of the Bank.
The main areas of the operational risk to which particular consideration is given by the Bank are:

- 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 associates acceptability limits regarding the operational risk;

3. Financial risk management *(continued)*

g) Operational risk *(continued)*

- 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 insurance where applicable.

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

h) Capital management

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

- Tier I, which includes subscribed and paid capital, premium shares, eligible reserves from which the following are deducted: the value of intangible assets, bought-back shares, 50% of applicable prudential filter value, unrealized income related to securities portfolios, taxes and penalties related to untaxed reserves, operations under preferential conditions;
- Tier II, which includes reserves from fixed assets revaluation and the amount of subordinated loans from which 50% of applicable prudential filters value is deducted.

The computation of own funds as at 31 December 2014 was made on the basis of Regulation (EU) No. 575/2013 of the European Parliament and of the Council.

The own funds of the Bank at 31 December 2014 and 31 December 2013, based on the rules in force, as well as the capital requirements at 31 December 2014 and 31 December 2013 are as follows:

In RON thousand

	2014	**2013**
Tier I	3,243,828	2,606,495
Tier II	373,036	194,064
Total Bank's capital	**3,616,864**	**2,800,559**
Value of credit risk exposures	14,566,082	14,194,088
Value of market risk exposures and commodity risk exposures	3,399,351	3,375,725
Value of operational risk exposures	2,913,934	2,754,075
Total capital requirements	**20,879,367**	**20,323,888**

Note: The computation of the Bank's Own Funds contains the profit of the Bank for financial years ended 31 December 2014 and 31 December 2013. The regulatory capital computation as at 31 December 2014 and 31 December 2013 was done in accordance with International Financial Reporting Standards as adopted by the European Union.

Notes to the separate financial statements

4. Use of estimates and judgments

The Bank 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 Bank reviews its loan portfolio to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the separate income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified for an individual loan in that portfolio. For example, the observable data might be the unfavourable changes in the customers' payment behavior from within a group or due to economic circumstances, national or local which correlates with default incidents of a debtors' group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience, including assessing the effects of uncertainty on the local financial markets related to valuation of assets and operating environment of debtors. The loan impairment assessment considers the visible effects of current market conditions on the individual/collective assessment of loans and advances to customers' impairment. Hence, the Bank has estimated the impairment loss provision for loans and advances to customers based on the internal methodology and assessed that no further provision for impairment losses is required except as already provided for in the separate financial statements.

To the extent that the net present value of estimated cash flows differs by +/-5 %, the impairment allowance for loans and advances to customers would be estimated to RON 56,932 thousand higher or RON 54,616 thousand lower (31 December 2013: RON 48,607 thousand higher or RON 45,417 thousand lower).

Fair value of financial instruments

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

(i) Level 1: Quoted market price in an active market for an identical instrument.

(ii) 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.

(iii) Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

Fair value of financial instruments (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 bonds) 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 separate 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 Bank's percentage of this type of portfolio instruments is not significant.

In case that interest rates on financial assets available for sale would differ by + / - 1.5% and the prices of financial assets at fair value through profit and loss would differ by + / - 10% from management's estimates, the carrying amount of financial assets at fair value in profit or loss account and financial assets available for sale would have an estimated value of RON 282,478 thousand lower than the fair value at 31 December 2014 of which RON 9,130 thousand in profit and loss account and RON 273,348 thousand in reserve account, or RON 703,256 thousand higher than fair value at 31 December 2014 of which RON 9,130 thousand in profit and loss account and RON 694,126 thousand in reserve account.

The table below analyzes 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 2013					
Financial assets at fair value through profit and loss	18	51,776	535	-	52,311
Investments securities, available for sale	20	10,790,875	60,285	1,705	10,852,865
31 December 2012					
Financial assets at fair value through profit and loss	18	10,599	523	-	11,122
Investments securities, available for sale	20	210,320	8,724,430	1,705	8,936,455

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

Fair value of financial instruments (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 separate financial statements”.

Financial assets and liabilities

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

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

- In classifying financial assets or liabilities as “trading”, the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy 2(j)(viii);
- In classifying financial assets as “held-to-maturity”, the Bank 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 Bank 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.

5. Segment reporting

The business segment reporting format is the Bank'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 Bank's segment reporting comprises the following main business segments:

- *Corporate customers* - within corporate banking the Bank provides corporations with a range of banking products and services, including lending and deposit taking, providing cash management, foreign commercial business, investment advices, financial planning, securities business, project and structured finance transactions, syndicated loans and asset backed transactions.
- *SME* -is a client segment for which the Bank developed and provided personalized products, easy to access and which cover their business needs: loans, saving products, current account transactions.
- *Individuals* - the Bank 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* - incorporating of work services for cash.
- *Other* - the Bank incorporates in this category the services offered to the entities in which the Bank has participations.

Below are presented financial information's on segments, regarding the separate 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.

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5. Segment reporting *(continued)*

Operating segments as at 31 December

In RON thousand	**Corporate**		**SME**		**Individuals**		**Treasury**		**Other**		**TOTAL**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Gross loans	10,033,087	9,881,663	2,520,173	2,482,018	7,466,730	6,796,578	-	-	-	-	**20,019,990**	**19,160,259**
Provisions	(1,530,337)	(1,376,524)	(334,079)	(457,725)	(638,382)	(658,810)	-	-	-	-	**(2,502,798)**	**(2,493,059)**
Loans net of provisions	8,502,750	8,505,139	2,186,094	2,024,293	6,828,348	6,137,768	-	-	-	-	**17,517,192**	**16,667,200**
Securities and other treasury operations	-	-	-	-	-	-	11,067,977	9,039,912	-	-	**11,067,977**	**9,039,912**
Treasury and inter-bank operations	-	-	-	-	-	-	6,442,071	5,768,090	-	-	**6,442,071**	**5,768,090**
Tangible and intangible assets	118,600	123,328	58,376	60,871	134,602	138,766	43,808	44,096	4,742	4,893	**360,128**	**371,954**
Other assets	98,975	99,513	21,172	19,684	53,506	49,210	52,121	45,929	6,370	4,373	**232,144**	**218,709**
Total Assets	**8,720,325**	**8,727,980**	**2,265,642**	**2,104,848**	**7,016,456**	**6,325,744**	**17,605,977**	**14,898,027**	**11,112**	**9,266**	**35,619,512**	**32,065,865**
Deposits from customers	7,833,095	5,806,968	3,616,805	2,919,090	18,595,602	17,077,803	133,348	418,754	-	-	**30,178,850**	**26,222,615**
Loans from banks and other financial institutions	101,197	80,962	263,128	230,159	81,407	141,033	503,321	1,615,107	-	-	**949,053**	**2,067,261**
Subordinated liabilities	-	-	-	-	-	-	394,658	337,913	-	-	**394,658**	**337,913**
Other liabilities	167,794	161,790	36,120	32,002	91,285	80,006	88,922	74,672	10,869	7,112	**394,990**	**355,582**
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**	**10,869**	**7,112**	**31,917,551**	**28,983,371**
Equity	-	-	-	-	-	-	-	-	3,701,961	3,082,494	**3,701,961**	**3,082,494**
Total Liabilities and Equity	**8,102,086**	**6,049,720**	**3,916,053**	**3,181,251**	**18,768,294**	**17,298,842**	**1,120,249**	**2,446,446**	**3,712,830**	**3,089,606**	**35,619,512**	**32,065,865**

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

Notes to the separate financial statements

5. Segment reporting *(continued)*

Operating segments as at 31 December

In RON thousand	**Corporate**		**SME**		**Individuals**		**Treasury**		**Other**		**TOTAL**	
	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	38,605	-	**1,137,602**	**990,382**
Net commission income	122,519	121,205	166,000	119,632	120,432	120,899	(564)	-	-	-	**408,387**	**361,736**
Net trading income	22,906	25,304	26,234	19,439	36,154	18,874	41,511	64,311	-	904	**126,805**	**128,832**
Net gain from sale of available for sale financial instruments	-	-	-	-	-	-	338,784	203,613	-	-	**338,784**	**203,613**
Contribution to the Banking Deposits Guarantee Fund	(16,459)	(13,812)	(8,305)	(7,191)	(48,388)	(43,395)	-	-	-	-	**(73,152)**	**(64,398)**
Other operational income	26,580	-	5,667	-	24,866	14,766	-	-	4,940	24,406	**62,053**	**39,172**
Total Income	**508,203**	**434,373**	**368,712**	**322,539**	**521,381**	**462,007**	**558,638**	**415,108**	**43,545**	**25,310**	**2,000,479**	**1,659,337**
Salaries and other assimilated expenses	(141,722)	(137,567)	(103,904)	(102,504)	(187,518)	(185,430)	(14,636)	(12,770)	(3,795)	(2,971)	**(451,575)**	**(441,242)**
Operational expenses	(82,454)	(79,375)	(58,727)	(58,905)	(133,580)	(131,273)	(14,273)	(12,206)	(2,117)	(1,694)	**(291,151)**	**(283,453)**
Publicity expenses	(1,713)	(1,636)	(4,184)	(1,965)	(9,309)	(8,732)	(513)	(981)	(37)	(402)	**(15,756)**	**(13,716)**
Depreciation	(18,898)	(18,826)	(9,302)	(9,292)	(21,448)	(21,183)	(6,981)	(6,732)	(756)	(747)	**(57,385)**	**(56,780)**
Other expenses	(3,796)	(3,438)	(2,689)	(2,690)	(5,357)	(3,994)	(557)	(2,532)	(104)	(1,006)	**(12,503)**	**(13,660)**
Total Expenses	**(248,583)**	**(240,842)**	**(178,806)**	**(175,356)**	**(357,212)**	**(350,612)**	**(36,960)**	**(35,221)**	**(6,809)**	**(6,820)**	**(828,370)**	**(808,851)**
Operational result before net impairment losses for assets, other contingencies and loan commitments	**259,620**	**193,531**	**189,906**	**147,183**	**164,169**	**111,395**	**521,678**	**379,887**	**36,736**	**18,490**	**1,172,109**	**850,486**

Over the year 2014, the Bank optimized the method of assigning revenues and expenses according to business line. As a result, in order to ensure the comparability of the presented information, the new method of assignment was retroactively applied for the year 2013, impacting the distribution of operational expenses on business lines.

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6. Financial assets and liabilities

Accounting classifications and fair value

In RON thousand	Note	Financial assets at fair value through profit and loss	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
31 December 2014								
Financial Assets								
Cash and cash equivalents	16	-	-	-	-	4,225,966	4,225,966	4,225,966
Placements with banks	17	-	-	-	-	2,378,906	2,378,906	2,378,906
Financial assets at fair value through profit and loss	18	52,311	-	-	-	-	52,311	52,311
Loans and advances to customers	19	-	-	17,517,192	-	-	17,517,192	17,882,269
Investments securities, available for sale	20	-	-	-	10,852,865	-	10,852,865	10,852,865
Total financial assets		**52,311**	**-**	**17,517,192**	**10,852,865**	**6,604,872**	**35,027,240**	**35,392,317**
Financial Liabilities								
Deposits from banks	26	-	-	-	-	133,348	133,348	133,348
Deposits from customers	27	-	-	-	-	30,045,502	30,045,502	30,059,842
Loans from banks and other financial institutions	28	-	-	-	-	949,053	949,053	949,053
Subordinated liabilities	29	-	-	-	-	394,658	394,658	394,658
Total financial liabilities		**-**	**-**	**-**	**-**	**31,522,561**	**31,522,561**	**31,536,901**

6. Financial assets and liabilities *(continued)*

Accounting classifications and fair value

In RON thousand	Note	Financial assets at fair value through profit and loss	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
31 December 2013								
Financial Assets								
Cash and cash equivalents	16	-	-	-	-	4,101,913	4,101,913	4,101,913
Placements with banks	17	-	-	-	-	1,758,512	1,758,512	1,758,512
Financial assets at fair value through profit and loss	18	11,122	-	-	-	-	11,122	11,122
Loans and advances to customers	19	-	-	16,667,200	-	-	16,667,200	17,116,740
Investments securities	20	-	-	-	8,936,455	-	8,936,455	8,936,455
Total financial assets		**11,122**	**-**	**16,667,200**	**8,936,455**	**5,860,425**	**31,475,202**	**31,924,742**
Financial Liabilities								
Deposits from banks	26	-	-	-	-	418,755	418,755	418,755
Deposits from customers	27	-	-	-	-	25,803,860	25,803,860	25,829,557
Loans from banks and other financial institutions	28	-	-	-	-	2,067,261	2,067,261	2,067,261
Subordinated liabilities	29	-	-	-	-	337,913	337,913	337,913
Total financial liabilities		**-**	**-**	**-**	**-**	**28,627,789**	**28,627,789**	**28,653,486**

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Notes to the separate financial statements

7. Net interest income

In RON thousand	2014	2013
Interest income		
Loans and advances to customers *(i)*	1,413,270	1,443,201
Current accounts held with banks	15,948	28,816
Available for sale securities	314,988	357,918
Placements with banks	12,409	16,078
Total interest income	*1,756,615*	*1,846,013*
Interest expense		
Deposits from customers	572,477	797,422
Loans from banks and other financial institutions	43,237	53,323
Deposits from banks	3,299	4,886
Total interest expense	*619,013*	*855,631*
Net interest income	**1,137,602**	**990,382**

(i) Interest income from loans and advances to customers for the year ended 31 December 2014 includes interest income on impaired loans amounting to RON 303,180 thousand (2013: RON 206,234 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.

8. Net fee and commission income

In RON thousand	2014	2013
Fee and commission income		
Transactions	457,930	396,589
Loans management and guarantees issuance	40,879	38,537
Other fee and commission income	34	49
Total fee and commission income	498,843	435,175
Fee and commission expense		
Bank commissions	74,061	60,888
Transactions	15,830	11,853
Other fee and commission	565	698
Total fee and commission expense	*90,456*	*73,439*
Net fee and commission income	**408,387**	**361,736**

Notes to the separate financial statements

9. Net trading income

In RON thousand	2014	2013
Net income from foreign exchange transactions *(i)*	120,888	141,123
Net income/ (expenses) from financial assets at fair value through profit and loss	(6,561)	8,733
Losses on equity instruments derivatives	-	(7,829)
Net income/ (expenses) from revaluation of assets and liabilities held in foreign currency	12,478	(13,195)
Net trading income	**126,805**	**128,832**

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

10. Net gain from sale of available for sale financial instruments

In RON thousand	2014	2013
Gain from sale of available for sale financial instruments	408,061	247,721
Losses from sale of available for sale financial instruments	(69,277)	(44,108)
Total	**338,784**	**203,613**

11. Other operating income

In RON thousand	2014	2013
Dividend income	3,956	508
Income from received claims	21,417	4,340
Other operating income	36,680	34,324
Total	**62,053**	**39,172**

12. Net impairment loss on assets, other liabilities and loan commitments

In RON thousand	2014	2013
Net impairment losses charge for assets *(i)*	653,199	406,452
Loans written-off	136	711
Other liabilities – loan commitments	13,727	221
Net impairment losses for other assets, other liabilities and loan commitments	**667,062**	**407,384**

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

Notes to the separate financial statements

12. Net impairment loss on assets, other liabilities and loan commitments *(continued)*

(*i*) Net impairment losses charge on assets includes the following:

In RON thousand	**Note**	**2014**	**2013**
Loans and advances to customers	19	653,190	386,511
Equity investments	21	-	19,098
Other assets	25	9	843
Net charge with impairment losses on assets		**653,199**	**406,452**

13. Personnel expenses

In RON thousand	**2014**	**2013**
Wages and salaries	336,768	306,050
Contribution to social security	64,419	62,973
Other personal expenses	41,578	40,214
Contribution to health fund	19,784	18,275
Contribution to unemployment fund	1,623	2,251
Provisions for other employee benefits	(12,597)	11,479
Total	**451,575**	**441,242**

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

The Bank`s average number of employees for 2014 was 6,161. (2013: 6,107).

The average number of employees hired during 2014 and 2013 was as follows:

Category	**Average number of employees hired in 2014**	**Average number of employees hired in 2013**
Management	6	2
Operational	76	53
Total	**82**	**55**

The expenses related to the share-based payment transactions are included in wages and salaries line and amount to RON 20,073 thousand (2013: RON 21,098 thousand). The Bank has granted 10,553,469 shares to the employees and administrators, with a vesting period of up to 3 years.

The Bank has established a share-based program, in which the Bank's employees with high performances can exercise their right to buy a certain amount of shares issued by the Bank. The terms and conditions are as follows:

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Notes to the separate financial statements

13. Personnel expenses *(continued)*

2014

Shares granted in 2014: 10,553,469

Date	Number of shares	Vesting period	Vesting conditions
Shares granted to the employees at 14 May 2014	10,553,469	2 years and 11 months	Achievement of performance targets and prudential indicators for 2014. Achieving Bank's objectives regarding the implementation of the new accounting and reporting standards.

2013

Shares granted in 2013: 15,446,531

Date	Number of shares	Vesting period	Vesting conditions
Shares granted to the employees at 14 May 2013 and 17 May 2013	15,000,000	2 years and 11 months	Achievement of performance targets and prudential indicators for 2013. Achieving Bank's objectives regarding the implementation of the new accounting and reporting standards.
Shares granted to the employees at 19 December 2013	446,531	3 years	Rewarding the employees with the best annual results, which consistently performed at high standards

14. Other operating expenses

In RON thousand	**2014**	**2013**
Operating lease (rent)	83,825	87,206
Repairs and maintenance	59,931	64,294
Materials and consumables	27,915	25,033
Postage and telecommunications	21,071	20,540
Advertising, promotional and protocol expenses	19,186	16,044
Security and protection	22,242	20,283
Taxes	7,443	6,729
Electricity and heating	15,580	17,653
Travel and transport	6,979	6,224
Legal, advisory and consulting	8,303	6,028
Other operational expenses	46,935	40,795
Total	**319,410**	**310,829**

Notes to the separate financial statements

15. Income tax expense

In RON thousand	2014	2013
Current tax expense at 16% (2013: 16%) of taxable profits determined in accordance with Romanian Law	106,848	43,876
Deferred tax expense/(income)	(36,131)	24,328
Total income tax expense	**70,717**	**68,204**

Tax reconciliation

In RON thousand	2014	2013
Profit Before tax	**505,047**	**443,102**
Taxation at statutory rate of 16% (2013: 16%)	80,807	70,896
Non-deductible expenses and non-taxable revenues and other permanent differences	(10,090)	(2,692)
Taxation in the income statement	**70,717**	**68,204**

During the period from October 2013 to December 2014, the National Agency for Fiscal Administration performed a fiscal inspection regarding Banca Transilvania's tax on profit, targeting the period 2007-2012. The amount determined by ANAF was RON 700 thousand, which was booked in the 2014 income statement.

Profit distribution for 2014 is as follows:

In RON thousand	
Profit Before tax	**505,047**
Income tax expense	70,717
Net Profit	**434,330**
Legal reserve (5% of gross profit)	25,252
Net profit to be allocated to reserves	**409,078**

16. Cash and cash equivalents

In RON thousand	2014	2013
Minimum compulsory reserve *(i)*	3,532,691	3,510,624
Cash on hand	594,692	540,462
Current accounts held with other banks *(ii)*	98,583	50,827
Total	**4,225,966**	**4,101,913**

(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 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% -

Notes to the separate financial statements

16. Cash and cash equivalents *(continued)*

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 Bank and unencumbered.

17. Placements with banks

In RON thousand	**2014**	**2013**
Sight and term deposits placed at other banks	1,956,940	868,755
Reverse repo type transactions *(ii)*	199,427	724,348
Loans and advances to banks *(i)*	222,539	165,409
Total	**2,378,906**	**1,758,512**

(i) Loans and advances to banks include investment securities reclassified by the Bank during 2008 and 2010 from available for sale into loans and receivables category, amounting to RON 162,801 thousand (see note 20).

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

18. Financial assets at fair value through profit and loss

In RON thousand	**2014**	**2013**
Trading assets (quoted shares)	52,311	11,122
Total	**52,311**	**11,122**

All shares in listed companies are quoted on the Bucharest Stock Exchange.

19. Loans and advances to customers

The Bank's commercial lending is concentrated on Romanian companies and individuals. Risk concentrations within the customer's loan portfolio by industry, as at 31 December 2014 and 31 December 2013, were as follows:

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

Notes to the separate financial statements

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

In RON thousand	**31 December 2014**	**31 December 2013**
Individuals	7,466,730	6,796,766
Manufacturing	3,055,764	3,073,408
Trading	3,000,739	3,007,278
Construction	1,103,769	1,063,539
Agriculture	990,603	874,323
Services	975,249	1,050,276
Transport	663,740	723,518
Real estate	638,891	581,566
Free lancers	483,982	424,684
Energy industry	398,773	315,645
Others	389,445	389,996
Chemical industry	295,369	316,776
Financial institutions	279,322	270,926
Mining industry	175,806	152,083
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	**20,019,990**	**19,160,259**
Less allowances for impairment losses on loans	(2,502,798)	(2,493,059)
Total loans and advances to customers, net of impairment allowance	**17,517,192**	**16,667,200**

Notes to the separate financial statements

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

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

In RON thousand	**2014**	**2013**
Balance at 1 January	2,493,059	2,111,004
Net impairment charge (Note 12)	653,190	386,511
Impairment allowance for written off loans	(796,663)	(145,625)
Effect of adjustment of interest income for impaired loans (Note 7)	139,545	132,565
FX gain/loss	13,667	8,604
Balance at 31 December	**2,502,798**	**2,493,059**

Movement in individual impairment allowance:

In RON thousand	**2014**	**2013**
Balance at 1 January	1,385,997	1,073,671
Net impairment charge	373,042	247,074
Impairment allowance for written off loans	(256,248)	(5,377)
Effect of adjustment of interest income for impaired loans	61,421	48,488
Transfer of impairment from individual in collective	(61,864)	-
FX gain/loss	4,635	22,141
Balance at 31 December	**1,506,983**	**1,385,997**

Movement in collective impairment allowance:

In RON thousand	**2014**	**2013**
Balance at 1 January	1,107,062	1,037,333
Net impairment charge	280,148	139,437
Impairment allowance for written off loans	(540,415)	(140,248)
Effect of adjustment of interest income for impaired loans	78,124	84,077
Transfer of impairment from individual in collective	61,864	-
FX gain/loss	9,032	(13,537)
Balance at 31 December	**995,815**	**1,107,062**

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Notes to the separate financial statements

20. Investment securities

In RON thousand	**2014**	**2013**
Investment securities available-for-sale		
Unlisted debt and other fixed income instruments:	***10,579,324***	***8,724,430***
Treasury securities issued by the Government of Romania (*i*)	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 bills with coupon (EUR)	*558,064*	*933,139*
Bonds in Euro issued by the Romanian Government on foreign markets	2,014,285	1,386,564
Bonds in USD issued by the Romanian Government on foreign markets	626,052	400,057
Bonds of which: *(ii)*	60,285	32,706
- *Bucharest municipality bonds*	*50,203*	*8,928*
- *Alba Iulia municipality bonds*	*544*	*597*
- *The Croatian Bank for Reconstruction and Development*	-	*23,181*
- *Issued by the Republic of Montenegro*	*9,538*	-
Unit funds	***232,316***	***172,835***
Certificates of participation (iii)	***39,520***	***37,485***
Equity investment valued at cost	***1,705***	***1,705***
Total investment securities available-for-sale	**10,852,865**	**8,936,455**

(i) At 31 December 2014, an amount of RON 28,450 thousand (December 2013: RON 28,450 thousand) of treasury certificates held by the Bank were pledged for current operations (RoClear, SENT, MasterCard and Visa).

Treasury certificates issued by the Government of Romania have maturities between 2015 and 2044.

At 31 December 2014, the Bank entered into repo transactions with other financial institutions, having as support available for sale securities amounting to RON 503,215 thousand (31 December 2013: RON 1,615,107 thousand).

(ii) Alba Iulia municipal bonds carry 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 have a fixed interest rate of 4.125% and those issued by the Republic of Montenegro have a coupon of 7.8750%.

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

Realized gains on disposal of available for sale financial assets reclassified from other comprehensive income to profit or loss amounted to RON 370,005 thousand (2013: RON 223,276 thousand) with the related tax RON 59,201 thousand (2013: RON 35,724 thousand).

Notes to the separate financial statements

20. Investment securities *(continued)*

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

Starting with the year 2008, the Bank classified the Euro-bonds from available for sale investments to loans and receivables category under the amendment to IAS 39 "Financial Instruments - Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosure". The Bank has identified the financial assets that have fulfilled the conditions imposed by this category (the non-derivative financial assets with fixed and determinable payments that are not quoted on an active market) and the condition of holding them 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 Bank acquired and classified as loans and receivables, corporate bound issued by JP Morgan, CitiGroup INC and Garanti Bank amounting to RON 94,302 thousand. The movement of investment securities classified as "Loans and receivables" during 2014 is presented in the table below:

In RON thousand	**For the year 2014**
Balance at 31 December 2013	**92,335**
Acquisitions 2014	94,302
Decreases 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 31 December 2014	**162,801**

The movement in investment securities may be summarized as follows:

In RON thousand	**Available for sale**
At 1 January 2014	**8,936,455**
Exchange rate differences – opening balances	51,689
Additions (acquisitions and increase in value)	29,759,137
Disposals (sale, redemption and decrease in value)	27,894,416
At 31 December 2014	**10,852,865**
At 1 January 2013	**6,529,701**
Exchange rate differences – opening balances	20,530
Additions (acquisitions and increase in value)	20,722,902
Disposals (sale, redemption and decrease in value)	18,336,678
At 31 December 2013	**8,936,455**

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Notes to the separate financial statements

21. Equity investments

In RON thousand	2014	2013
Participations of which:		
- Gross book value of participations	116,856	115,956
- Less impairment allowance	(42,000)	(42,000)
Total net participations	**74,856**	**73,956**

The movement in the impairment allowance for participation is presented below:

In RON thousand	2014	2013
Balance as at 1 January	**42,000**	97,200
Derecognition of stake in BT Medical Leasing IFN SA	-	(74,298)
Impairment charge (Note 12)	-	19,098
Balance as at 31 December	**42,000**	**42,000**

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Notes to the separate financial statements

21. Equity investments *(continued)*

In RON thousand

Related party	Head Office	% of shares owned	Capital	Reserves	Profit/(loss) 2014
BT Leasing Transilvania IFN SA	Cluj-Napoca, str. G. Baritiu nr.1	100.00%	45,001	19,931	8,488
BT Securities SA	Cluj-Napoca, Bd. 21 Decembrie 1989 nr.104	98.68%	12,470	213	(6,939)
BT Direct IFN SA	Cluj-Napoca, str. G. Baritiu nr.1	100.00%	26,880	6,045	3,226
BT Building SRL	Cluj-Napoca, str. G. Baritiu nr.8	100.00%	448	6,382	953
BT Investments SRL	Cluj-Napoca, Bd. Eroilor nr.36	100.00%	50,940	7,922	428
BT Asset Management SAI SA	Cluj-Napoca, Bd. 21 Decembrie 1989 nr.104	80.00%	7,166	6,581	6,954
Compania de Factoring SRL	Bucuresti, Sos. Bucuresti-Ploiesti nr.43	100.00%	55,600	(55,606)	736
BT Solution Agent de Asigurare SRL	Cluj-Napoca, str. G. Baritiu nr.1	95.00%	0.20	0.04	77
BT Safe Agent de Asigurare	Cluj-Napoca, str. G. Baritiu nr.1	99.99%	77	15	310
BT Intermedieri Agent de Asigurare SRL	Cluj-Napoca, str. G. Baritiu nr.1	99.99%	507	101	552
BT Operational Leasing SA	Bucuresti, Sos. Bucuresti-Ploiesti nr.43	94.73%	3,494	(2,098)	1,340
BT Leasing Moldova SRL	Republica Moldova, Chisinau, str. A.Puskin nr.60	100.00%	4,803	(867)	1,259
BT Asiom Agent de Asigurare SRL	Cluj-Napoca, str. G. Baritiu nr.1	99.95%	20	0.04	89
Transilvania Imagistica SA	Bucuresti, Sos. Bucuresti-Ploiesti nr.43	88.38%	1,000	(1,708)	(10)
Improvement Credit Collection SRL	Bucuresti, Sos. Bucuresti-Ploiesti nr.43	100.00%	901	20	1,676

The financial information currently audited, which regards the Bank's subsidiaries, is in accordance with the statutory regulations in force applicable to each entity.

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Notes to the separate financial statements

22. Property and equipment

In RON thousand	Land and buildings	Computers and equipment	Vehicles	Assets in progress	Total
Gross carrying amount					
Balance at 1 January 2013	**306,656**	**224,708**	**28,808**	**29,977**	**590,149**
Additions	-	7,141	2,536	32,029	41,706
Transfers from investment in progress	33,131	16,610	1,223	-	50,964
Revaluations	(1,384)	239	221	-	(924)
Disposals	(5,394)	(16,176)	(1,662)	(51,635)	(74,867)
Balance at 31 December 2013	**333,009**	**232,522**	**31,126**	**10,371**	**607,028**
Balance at 1 January 2014	**333,009**	**232,522**	**31,126**	**10,371**	**607,028**
Additions	1,902	9,292	952	24,264	36,410
Transfers from investment in progress	11,968	14,060	-	-	26,028
Revaluations	(744)	163	919	-	338
Disposals	(2,178)	(11,426)	(3,561)	(26,028)	(43,193)
Balance at 31 December 2014	**343,957**	**244,611**	**29,436**	**8,607**	**626,611**
Depreciation and impairment loss					
Balance at 1 January 2013	**128,777**	**149,446**	**21,920**	**-**	**300,143**
Charge for the year	10,391	24,347	3,708	-	38,446
Accumulated depreciation of disposals	(3,320)	(15,569)	(1,593)	-	(20,482)
Accumulated depreciation for revaluations	(125)	-	-	-	(125)
Balance at 31 December 2013	**135,723**	**158,224**	**24,035**	**-**	**317,982**
Balance at 1 January 2014	**135,723**	**158,224**	**24,035**	**-**	**317,982**
Charge for the year	10,486	22,441	2,553	-	35,480
Accumulated depreciation of disposals	(1,777)	(11,173)	(3,446)	-	(16,396)
Accumulated depreciation for revaluations	(140)	23	-	-	(117)
Balance at 31 December 2014	**144,292**	**169,515**	**23,142**	**-**	**336,949**
Carrying amount					
Balance at 1 January 2014	**197,286**	**74,298**	**7,091**	**10,371**	**289,046**
Balance at 31 December 2014	**199,665**	**75,096**	**6,294**	**8,607**	**289,662**

At 31 December 2014 the Bank had not included in property and equipment the cars acquired through financial leasing. At 31 December 2014, the Bank had no pledged property and equipment or intangible assets.

Property and equipment at 31 December 2014 were revalued by an independent appraiser. If the assets would had been booked under the cost model, the carrying amount would have been: land and buildings RON 169,387 thousand (2013: RON 165,977 thousand), computers and equipment RON 74,868 thousand (2013: RON 73,693 thousand), transportation RON 5,314 thousand (2013: RON 6,238 thousand).

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Notes to the separate financial statements

23. Intangible assets

In RON thousand	Software	
	2014	**2013**
Gross carrying amount		
Balance at 1 January	**135,285**	**128,495**
Additions	9,414	20,947
Revaluation	56	205
Disposals	(2,727)	(14,362)
Balance at 31 December	**142,028**	**135,285**
Accumulated amortization		
Balance at 1 January	**52,377**	**48,405**
Charge for the year	21,905	18,334
Disposals	(2,720)	(14,362)
Balance at 31 December	**71,562**	**52,377**
Carrying amount		
Balance at 1 January	**82,908**	**80,090**
Balance at 31 December	**70,466**	**82,908**

If the assets had been booked under to the cost based model, the carrying amount would have been: computer applications RON 55,068 thousand (2013: RON 65,672 thousand), fixed intangible assets in progress RON 15,256 thousand (2013: RON 17,032 thousand).

24. Deferred tax assets and liabilities

In RON thousand			**31 December 2014**
	Assets	**Liabilities**	**Net**
Loans and advances to customers	-	(31,460)	(31,460)
Investment securities, available-for-sale	-	(239,455)	(239,455)
Provisions and other debts	25,703	-	25,703
Other assets	-	(28,012)	(28,012)
Total	**25,703**	**(298,927)**	**(273,224)**
Net temporary differences			(273,224)
Deferred tax liability at 16%			**43,716**

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Notes to the separate financial statements

24. Deferred tax assets and liabilities *(continued)*

In RON thousand		31 December 2013	
	Assets	Liabilities	Net
Loans and advances to customers	67,800	(297,648)	(229,848)
Investment securities, available-for-sale	-	(115,846)	(115,846)
Other assets	-	(29,213)	(29,213)
Total	**67,800**	**(442,707)**	**(374,907)**
Net temporary differences			(374,907)
Deferred tax liability at 16%			**59,985**

Movement of assets and liabilities from deferred tax

In RON thousand	31 December 2013	Inputs	Outputs	31 December 2014
Deferred tax assets				
Deferred tax assets for retained earnings from specific impairment provisions	(10,848)	-	10,848	-
Deferred tax assets provisions	-	(4,112)	-	(4,112)
Total	**(10,848)**	**(4,112)**	**10,848**	**(4,112)**
Deferred tax liabilities				
Differed tax liabilities for securities available for sale	18,535	73,515	(53,738)	38,312
Deferred tax liabilities for prudential filters	47,624	-	(42,590)	5,034
Deferred tax liabilities for intangible assets	33	9	(19)	23
Deferred tax liabilities for property and equipment	4,641	76	(258)	4,459
Total	**70,833**	**73,600**	**(96,605)**	**47,828**
Total deferred tax liabilities	**59,985**	**69,488**	**(85,757)**	**43,716**

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Notes to the separate financial statements

25. Other assets

In RON thousand	2014	2013
Amounts under settlement	22,897	18,098
Repossessed assets	39,489	41,423
Prepayments	19,783	17,769
Sundry debtors	28,843	30,931
Values received from collection	44,626	38,749
Other assets	4,784	906
Less impairment losses for other assets	(3,134)	(3,123)
Total	**157,288**	**144,753**

Movement in impairment allowance for losses on other assets for the year was as follows:

In RON thousand	2014	2013
Balance at 1 January	3,123	2,280
Net impairment allowance expense (Note 12)	9	843
Exchange rate differences	2	-
Balance at 31 December	**3,134**	**3,123**

Repossessed assets include purchased assets held for resale amounting to RON 34,377 thousand with the following structure: buildings - RON 25,426 thousand, land - RON 8,091 thousand, equipment - RON 851 thousand and furniture – RON 9 thousand (2013: RON 35,204 thousand with the following structure: buildings – RON 26,028 thousand, land - RON 8,271 thousand, equipment – RON 896 thousand and furniture - RON 9 thousand).

26. Deposits from banks

In RON thousand	2014	2013
Sight deposits	22,389	254,249
Term deposits	110,959	164,506
Total	**133,348**	**418,755**

27. Deposits from customers

In RON thousand	2014	2013
Current accounts	7,007,704	5,048,554
Sight deposits	161,017	167,141
Term deposits	22,405,425	20,104,686
Collateral deposits	471,356	483,479
Total	**30,045,502**	**25,803,860**

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Notes to the separate financial statements

27. Deposits from customers *(continued)*

Deposits from customers can be also analysed as follows:

In RON thousand	2014	2013
Retail customers	18,595,406	17,077,672
Corporate customers	11,450,096	8,726,188
Total	**30,045,502**	**25,803,860**

28. Loans from banks and other financial institutions

In RON thousand	2014	2013
Loans from development banks	320,419	342,550
Other funds from financial institutions	628,634	1,724,711
Out of which: Repurchase agreements	503,321	1,615,107
Total	**949,053**	**2,067,261**

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

	2014		2013	
	minimum	**maximum**	**minimum**	**maximum**
EUR	1.082%	4.926%	0.22%	Euribor 6M+4.50 %
LEI	-	-	1.40%	2.00%
USD	0.84%	4.86615%	0.80%	Libor 6M + 4.50%

29. Subordinated liabilities

In RON thousand	2014	2013
Loans from financial institutions	348,871	200,627
Convertible Bonds	45,787	137,286
Total	**394,658**	**337,913**

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% and due in 2023.

The Bank has issued EUR 30 million convertible bonds (RON 134,541 thousand 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, RON 88,318,847 equivalent, as follows: RON 49,444,546 share capital increase and RON

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Notes to the separate financial statements

29. Subordinated liabilities *(continued)*

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).

30. Other liabilities

In RON thousand	**2014**	**2013**
Amounts under settlement	155,060	152,113
Other fees payable	84,837	46,879
Sundry creditors	16,711	18,380
Other liabilities	45,210	29,611
Provisions for risks and charges	49,624	48,614
Total	**351,442**	**295,597**

In RON thousand	**2014**	**2013**
Provisions for credit commitments	23,921	10,314
Provisions for employee benefits as compensated absences	500	2,500
Provisions for other employee benefits	25,203	35,800
Total	**49,624**	**48,614**

31. 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 shareholding structure of the Bank is presented in Note 1.

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	**2014**	**2013**
Share capital registered at Trade Register	2,608,624	2,206,436
Hyperinflation adjustment	89,899	89,899
Adjustment of the share capital related to the not realized revaluation reserves from property and equipment	(3,398)	(3,398)
Total	**2,695,125**	**2,292,937**

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32. Other reserves

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

In RON thousand	2014	2013
Revaluation reserves	27,852	28,997
Total	**27,852**	**28,997**
General banking risks *(i)*	77,893	77,893
Statutory reserve *(ii)*	181,384	156,132
Fair value gains (net of tax) on available for sale instruments	201,142	97,310
Total	**460,419**	**331,335**

Statutory reserves

In RON thousand	2014	2013
At 1 January	156,132	133,977
Appropriations from profit	25,252	22,155
Total	**181,384**	**156,132**

(i) The general banking risks reserve include amounts set aside in accordance with local banking regulations for future losses and other unforeseen risks or contingencies, are separately disclosed as appropriations of profit. The general banking risks reserve is appropriated from the statutory gross profit at the rate of 1% of the balance of the assets carrying specific banking risks. The general banking risks reserve was set up, starting financial year 2004 up to the end of financial year 2006.

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

The statutory reserves are not distributable.

33. Related parties transactions

Transactions with shareholders

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

In RON thousand	2014	2013
Liabilities		
Current accounts and deposits	83,182	32,383
Loans from financial institutions	278,654	274,945
Subordinated loans	147,278	-
Subordinate securities	20,167	111,314
Income statement		
Interest income and fees	52	68
Performance commission income	-	10
Interest, commission expense	19,786	23,287

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33. Related parties transactions *(continued)*

Transactions with personnel

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

In RON thousand	**2014**	**2013**
Assets		
Loans to key personnel granted by the Bank, accruals and provisions	98,324	89,473
Liabilities		
Current accounts at the Bank, deposits and accrued	61,702	57,777
Commitments to key personnel	8,680	7,157
Income statement		
Interest income and fees	7,442	4,751
Interest, commission expense	1,378	1,929

The total salaries paid by the Bank to the members of the Board of Directors and Executive Management during 2014 amounted to RON 7,367 thousand (2013: RON 4,863 thousand).

34. Commitments and contingencies

At any time the Bank 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 Bank 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	**2014**	**2013**
Guarantees issued	2,035,632	1,868,658
Loan commitments	3,738,607	3,062,883
Total	**5,774,239**	**4,931,541**

Commitments to customers were provisioned in the amount of RON 23,921 thousand (2013: RON 10,314 thousand).

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34. Commitments and contingencies *(continued)*

Expenses with future rents amount to RON 190,965 thousand (2013: RON 217,724 thousand).

Outstanding currency transaction at 31 December 2014 currency transactions were:

Forward transactions

Transactions with corporate clients:

Purchases	RON	4,582,000	equivalent	EUR	1,000,000
Purchases	USD	800,000	equivalent	RON	2,914,981
Purchases	EUR	1,000,000	equivalent	RON	4,653,300

Transactions with banks:

Purchases	RON	15,855,326	equivalent	EUR	3,500,000
Purchases	EUR	22,500,000	equivalent	RON	99,823,750
Purchases	EUR	24,000,000	equivalent	USD	29,361,377
Purchases	GBP	10,919,071	equivalent	USD	17,000,000
Purchases	GBP	4,000,000	equivalent	EUR	5,109,387

35. Events subsequent to the date of the separate financial statements

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

On 17 March 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 the second quarter of 2015.

Horia Ciorcila
Chairman

George Calinescu
Deputy CEO

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