Banca Transilvania S.A.

Consolidated Financial Statements

31 December 2011

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

Free translation

Banca Transilvania S.A.

Contents

Consolidated income statement

For the year ended 31 December

				Convenience Translation*	
	Note	**2011**	**2010**	**2011**	**2010**
		RON thousand	***RON thousand***	***EUR thousand***	***EUR thousand***
Interest income		1,856,372	1,894,260	438,041	449,954
Interest expense		(921,954)	(897,963)	(217,550)	(213,298)
Net interest income	8	**934,418**	**996,297**	**220,491**	**236,656**
Fee and commission income		436,026	421,645	102,887	100,156
Fee and commission expense		(53,868)	(46,735)	(12,711)	(11,101)
Net fee and commission income	9	**382,158**	**374,910**	**90,176**	**89,055**
Net trading income	10	111,613	118,969	26,337	28,259
Other operating income	11	61,524	51,719	14,518	12,285
Operating income		**1,489,713**	**1,541,895**	**351,522**	**366,255**
Net impairment losses on assets, other liabilities and credit committments	12	(315,849)	(646,965)	(74,530)	(153,677)
Personnel expenses	13	(390,262)	(373,371)	(92,089)	(88,689)
Depreciation and amortization	22,23	(63,787)	(60,897)	(15,052)	(14,465)
Other operating expenses	14	(364,386)	(306,888)	(85,983)	(72,897)
Operating expenses		**(1,134,284)**	**(1,388,121)**	**(267,652)**	**(329,728)**
Share of profits/(losses) in associates	22	-	4,741	-	1,126
Profit before income tax	15	**355,429**	**158,515**	**83,869**	**37,653**
Income tax expense		(58,181)	(24,531)	(13,729)	(5,827)
Profit for the year		**297,248**	**133,984**	**70,140**	**31,826**
Profit for the year attributable to:					
Equity holders of the Bank		297,019	133,794	70,086	31,781
Non controlling interests		229	190	54	45
Profit for the year		**297,248**	**133,984**	**70,140**	**31,826**
Basic earnings per share		**0.1840**	**0.0801**		
Diluted earnings per share		**0.1840**	**0.0801**		

* Refer to Note 2c

The accompanyng notes from pages 8 to 79 form an integral part of these consolidated financial statements.
TRANSLATOR'S EXPLANATORY NOTE: The above is provided as a free translation from Romanian which is the official and binding version.

Consolidated statement of comprehensive income

As at 31 December

	Note	2011 *RON thousand*	2010 *RON thousand*	Convenience Translation* 2011 *EUR thousand*	Convenience Translation* 2010 *EUR thousand*
Profit for the year		**297,248**	**133,984**	**70,140**	**31,826**
Other comprehensive income, net of income tax					
Fair values gains/(losses) from available for sale investments (net of deferred tax)		(15,820)	7,263	(3,733)	1,725
Other comprehensive income, net of income tax		20,906	5,494	4,933	1,305
Revaluation reserve for fixed assets		-	6,116	-	1,453
Total comprehensive income for the period		**302,334**	**152,857**	**71,341**	**36,309**
Total comprehensive income attributable to:					
Equity holders of the Bank		302,127	153,024	71,292	36,349
Non controlling interest		207	(167)	49	(40)
Total comprehensive income for the period		**302,334**	**152,857**	**71,341**	**36,309**

* Refer to Note 2c,

The consolidated financial statements were approved by the Board of Directors on 28 March 2012 and were signed on its behalf by:

Horia Ciorcila
Chairman

Maria Moldovan
Chief Financial Officer

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Consolidated statement of financial position

As at 31 December

	Note	2011 RON thousand	2010 RON thousand	Convenience Translation* 2011 EUR thousand	Convenience Translation* 2010 EUR thousand
Assets					
Cash and cash equivalents	16	4,550,256	3,701,125	1,053,373	863,780
Placements with banks	17	778,977	1,237,155	180,331	288,731
Financial assets at fair value through profit and loss	18	140,551	111,977	32,537	26,134
Loans and advances to customers	19	13,977,655	12,215,792	3,235,793	2,850,960
Net lease investments	20	207,388	223,617	48,010	52,188
Investment securities, available for sale	21	5,816,778	3,780,997	1,346,570	882,421
Investment securities, held to maturity	21	819	820	190	191
Property and equipment	22	297,531	287,570	68,878	67,114
Intangible assets	23	70,555	48,875	16,333	11,407
Goodwill	23	376	8,369	87	1,953
Deferred tax asset	24	28,163	30,454	6,520	7,107
Other assets	25	139,764	83,501	32,355	19,488
Total assets		**26,008,813**	**21,730,252**	**6,020,977**	**5,071,474**
Liabilities					
Deposits from banks	26	251,181	333,194	58,148	77,762
Deposits from customers	27	20,257,251	17,279,132	4,689,504	4,032,658
Loans from banks and other financial institutions	28	2,592,982	1,593,295	600,269	371,848
Other subordinated liabilities	29	260,148	257,553	60,224	60,109
Other liabilities	30	255,384	177,114	59,120	41,333
Total liabilities		**23,616,946**	**19,640,288**	**5,467,265**	**4,583,710**
Equity					
Share capital	31	1,860,159	1,560,500	430,622	364,194
Own shares		(2,118)	(256)	(490)	(60)
Share premiums		732	0	169	0
Retained earnings		303,268	301,088	70,206	70,269
Reevaluation reserve		35,544	28,291	8,228	6,603
Other reserves	32	192,248	198,230	44,506	46,265
Total equity attributable to equity holders of the		**2,389,833**	**2,087,853**	**553,241**	**487,271**
Non-controlling interest		**2,034**	**2,111**	**471**	**493**
Total equity		**2,391,867**	**2,089,964**	**553,712**	**487,764**
Total liabilities and equity		**26,008,813**	**21,730,252**	**6,020,977**	**5,071,474**

* Refer to Note 2c.

The consolidated financial statements were approved by the Board of Directors on 28 March 2012 and were signed on its behalf by:

Horia Ciorcila
Chairman

Maria Moldovan
Chief Financial Officer

The accompanyng notes from pages 8 to 79 form an integral part of these consolidated financial statements.

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Banca Transilvania S.A.

Consolidated statement of changes in equity

For the year ended 31 December 2011

In RON thousand	Share capital	Own shares	Share premiums	Reevaluation reserves	Other reserves	Retained earnings	Non-controlling interest	Total
	Attributable to the equity holders of the Bank							
Balance as at 31 December 2010	**1,560,500**	**(256)**	**-**	**28,291**	**198,230**	**301,088**	**2,111**	**2,089,964**
Total comprehensive income for the period								
Profit for the year	-	-	-	-	-	297,019	229	**297,248**
Other comprehensive income, net of income tax								
Transfer from revaluation surplus to retained earnings	-	-	-	(1,080)	-	1,080	-	-
Fair values losses from available for sale investments (net of deferred tax)	-	-	-	-	(15,820)	-	-	**(15,820)**
Revaluation reserve for fixed assets	-	-	-		-	-	-	
Other changes	(3,398)	-	-	8,333		15,971	(22)	**20,884**
Total comprehensive income for the period	**(3,398)**	**-**	**-**	**7,253**	**(15,820)**	**314,070**	**207**	**302,312**
Increase in share capital through conversion of reserves from the statutory profit	302,336	-	-	-	-	(302,336)	-	-
Increase in share premium		-	732	-	-	-	-	**732**
Increase in share capital through cash contribution	721	-	-	-	-	-	-	**721**
Distribution to statutory reserves		-	-	-	9,838	(9,838)	-	-
Acquisitions of own shares	-	(1,862)	-	-	-	-	-	**(1,862)**
Acquisition of non-controlling interest		-	-	-	-	284	(284)	-
Contributions by and distributions to owners	**303,057**	**(1,862)**	**732**	**-**	**9,838**	**(311,890)**	**(284)**	**(409)**
Balance at 31 December 2011	**1,860,159**	**(2,118)**	**732**	**35,544**	**192,248**	**303,268**	**2,034**	**2,391,867**

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Banca Transilvania S.A.

Consolidated statement of changes in equity

For the year ended 31 December 2010

In RON thousand	Share capital	Own shares	Share premiums	Reevaluation reserves	Other reserves	Retained earnings	Non-controlling interest	Total
	Attributable to the equity holders of the Bank							
Balance as at 31 December 2009	**1,176,237**	**(333)**	**97,684**	**22,543**	**179,948**	**354,157**	**7,798**	**1,838,034**
Total comprehensive income for the period								
Profit for the year	-	-	-	-	-	133,794	190	**133,984**
Other comprehensive income, net of income tax								
Transfer from revaluation surplus to retained earnings	-	-	-	(368)	-	368	-	-
Fair values gains from available for sale investments (net of deferred tax)	-	-	-	-	7,263	-	-	**7,263**
Revaluation reserve for fixed assets	-	-	-	6,116	-	-	-	**6,116**
Other changes	-	-	-	-	3,748	1,746	(357)	**5,137**
Total comprehensive income for the period	**-**	**-**	**-**	**5,748**	**11,011**	**135,908**	**(167)**	**152,500**
Increase in share capital through conversion of reserves from the profit	173,901	-	-	-	-	(173,901)	-	-
Increase in share capital through incorporation of share premium	97,684	-	(97,684)	-	-	-	-	-
Increase in share capital through cash contribution	112,678	-	-	-	-	-	-	**112,678**
Distribution to statutory reserves	-	-	-	-	7,271	(7,271)	-	-
Acquisition of own shares		77						**77**
Acquisition of interest without control	-	-	-	-	-	(7,805)	(5,520)	**(13,325)**
Contributions by and distributions to owners	**384,263**	**77**	**(97,684)**	**-**	**7,271**	**(188,977)**	**(5,520)**	**99,430**
Balance at 31 December 2010	**1,560,500**	**(256)**	**-**	**28,291**	**198,230**	**301,088**	**2,111**	**2,089,964**

The accompanyng notes from pages 8 to 79 form an integral part of these consolidated financial statements.

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Consolidated cash flow statement

For the year ended 31 December

In RON thousand	**Note**	**2011**	**2010**
Cash flow from/ (used in) operating activities			
Profit for the year		**297,248**	**133,984**
Adjustments for:			
Depreciation and amortization	23,24	63,787	60,897
Impairments and write-offs of financial assets		349,593	647,505
Share of profit in associate, net of dividends		-	1,805
Fair value adjustment of financial assets at fair value through profit and loss		(9,247)	(2,420)
Income tax expense	15	56,190	40,361
Other adjustment		(46,366)	(143,655)
Net profit adjusted with non-monetary elements		**711,205**	**738,477**
Changes in operating assets and liabilities			
Change in investment securities		(1,993,463)	(1,238,340)
Change in placement with banks		18,935	(4,717)
Change in loans and advances to customers		(2,017,414)	(1,234,489)
Change in net lease investments		32,596	22,817
Change in financial assets at fair value through profit and loss		(35,810)	(64,692)
Change in other assets		(80,743)	(17,647)
Change in deposits from clients		2,950,057	2,302,439
Change in deposits from banks		(81,493)	74,167
Change in other liabilities		61,601	23,277
Income tax paid		(51,009)	13,057
Net cash from/ (used in) operating activities		**(485,538)**	**614,349**
Cash flow from / (used in) investing activities			
Net acquisitions of property and equipment and intangible assets		(82,339)	(52,879)
Acquisition of subsidiaries (net of cash acquired) and investments in associates		-	(13,325)
Dividends collected		817	932
Net cash flow from/(used in) investing activities		**(81,522)**	**(65,272)**
Cash flow from /(used in) financing activities			
Proceeds from increase of share capital		1,453	112,678
Net proceeds/(payments) from loans from banks and other financial institutions, subordinated liabilities and debt securities issued		986,945	(590,975)
Payments for dividends		(1,862)	76
Payments/ proceeds for own shares		1	10,300
Net cash flow from/ (used in) financing activities		**986,537**	**(467,921)**

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Consolidated cash flow statement (continued)

For the year ended 31 December

In RON thousand	**2011**	**2010**
Net increase in cash and cash equivalents	419,477	81,156
Cash and cash equivalents at 1 January	4,613,120	4,531,964
Cash and cash equivalents at 31 December	**5,032,597**	**4,613,120**

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

In RON thousand	**Note**	**31 December 2011**	**31 December 2010**
Cash and cash equivalents	16	4,550,256	3,701,125
Placements with banks, less than 3 months maturity		484,360	915,583
Less accrued interest		(2,019)	(3,588)
Cash and cash equivalents in the cash flow statement		**5,032,597**	**4,613,120**

Cash flows from operating activities include:

In RON thousand	**2011**	**2010**
Interest collected	1,852,095	1,916,725
Interest paid	880,055	912,102

The accompanyng notes from pages 8 to 79 form an integral part of these consolidated financial statements.

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

Notes to the consolidated financial statements

1. Reporting entity

Banca Transilvania Group (the “Group”) includes the parent bank, Banca Transilvania S,A, (the “Bank”) and it’s subsidiaries domiciled in Romania and Moldova. The consolidated financial statements of the Group for the year ended 31 December 2011 include the Bank’s and its subsidiaries’ (together referred to as the “Group”) financial statements. The subsidiaries include the following companies:

Branch	**Field of activity**	**31 decembrie 2011**	**31 December 2010**
BT Securities S.R.L.	Investments	95.50%	95.50%
BT Leasing Transilvania IFN S.A.	Leasing	100.00%	100.00%
BT Investments S.R.L.	Investments	100.00%	100.00%
BT Direct IFN S.A.	Leasing	100.00%	100.00%
BT Building S.R.L.	Investments	100.00%	100.00%
BT Asset Management S.A.I S.A.	Asset management	80.00%	80.00%
BT Solution Agent de Asigurare S.R.L.	Insurance	95.00%	95.00%
BT Safe Agent de Asigurare S.R.L.	Insurance	99.98%	99.98%
BT Intermedieri Agent de Asigurare S.R.L.	Insurance	99.99%	99.99%
BT Account Agent de Asigurare S.R.L.	Investments	100.00%	100.00%
BT Compania de Factoring S.R.L	Factoring	100.00%	100.00%
BT Finop Leasing S.A.	Leasing	51.00%	51.00%
BT Asiom S.R.L	Insurance	95.00%	95.00%
BT Consultant S.R.L.	Financial brokering	100.00%	100.00%
BT Evaluator S.R.L.	Financial brokering	100.00%	100.00%
Medical Leasing IFN S.A.	Leasing	100.00%	100.00%
Rent-a-Med S.R.L.	Rental of medical equipments	100.00%	100.00%
BT Leasing MD SRL	Leasing	100.00%	100.00%
BT Transilvania Imagistica S.A.	Other human health activities	91.43%	0.00%

The Group has the following principal lines of business: banking. which is performed by Banca Transilvania S.A. (“the Bank”), leasing and consumer finance, which is performed mainly by BT Leasing Transilvania S.A., BT Finop Leasing S.A., Medical Leasing IFN S.A. and BT Direct IFN S.A, advisory services provided by Rent-a Med S.R.L. asset management which is performed by BT Asset Management S.A. (in which the Bank holds between 91.43% and 100.00%) and investments on capital markets which are performed by the other subsidiaries presented above.

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Notes to the consolidated financial statements

1. Reporting entity *(continued)*

Banca Transilvania S.A.

Banca Transilvania S.A. was incorporated in Romania in 1993 and is licensed by the National Bank of Romania to conduct banking activities. The Bank started its activity in 1994 and its main operations involve banking services for corporate and individuals. The Bank carries its activity through its business place in Cluj-Napoca and 63 branches, 447 agencies, 32 bank units, 10 medical divisions and 1 regional centre located in Bucharest (2010: 63 branches, 435 agencies, 26 bank units, 10 medical divisions and 1 regional centre located in Bucharest) throughout the country and in Cyprus (a branch opened in 2007). The Bank accepts deposits and grants loans, carries out funds transfers in Romania and abroad, exchanges currencies and provides banking services for its corporate and retail customers.

The patrimony structure of the Cyprus branch as at 31 December 2011 was the following: total assets – RON 326,169 thousand (31 December 2010: RON 162,624 thousand), total liabilities – RON 326,115 thousand (31 December 2010: RON 164,589 thousand), profit – RON 54 thousand (2010: loss – RON 696 thousand).

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

The Bank's number of employees as at 31 December 2011 was 6,788 (31 December 2010: 6,575). 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 2011	**31 December 2010**
European Bank for Reconstruction and Development ("EBRD")	14.61%	14.68%
Romanian individuals	25.98%	28.46%
Romanian companies	26.35%	22.57%
Foreign individuals	2.21%	2.60%
Foreign companies	30.85%	31.69%
Total	**100%**	**100%**

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

BT Leasing Transilvania S.A.

BT Leasing Transilvania IFN S.A. was incorporated in 1995 as a privately owned joint-stock company, established under Romanian laws. It was initially incorporated under the name of LT Leasing Transilvania S.A., which was changed to the current name in February 2003. The company operates through its Head Office located in Cluj-Napoca, 1 branch and 23 working points (201: 1 branch and 24 working points) throughout the country. The company leases various types of vehicles and technical equipment.

The number of employees as at 31 December 2011 was 109 (2010: 108).

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

Notes to the consolidated financial statements

2. Basis of presentation

a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union, effective at the Group's annual reporting date, 31 December 2011.

In estimating impairment losses for loans and receivables and net lease investments, the Group has applied the internal methodology described in Note 3 (j) (vii) in order to assess impairment for loans and advances to customers and net lease investments.

Differences between IFRS and statutory financial statements

The accounting records of the Bank are maintained in RON in accordance with Romanian accounting law and National Bank of Romania and National Bank of Cyprus's banking regulations.

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

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

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

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

b) Basis of measurement

The consolidated financial statements of the Group are prepared on a fair value basis, for financial assets and liabilities held at fair value through profit and loss and available-for-sale instruments, except from those for which a reliable measure of fair value is not available.

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

Notes to the consolidated financial statements

2. Basis of presentation *(continued)*

c) Functional and presentation currency

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

Convenience translation

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

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

- Assets, liabilities and equity items for all balance sheet items presented (i.e. including comparatives) were translated at the closing rate existing at the date of each balance sheet presented (31 December 2011: 4.3197 RON/EUR; 31 December 2011: 4.2848 RON/EUR);
- Income and expenses items for current period presented were translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates (average exchange rate in 2011 4,2379 RON/EUR; average exchange rate in 2010: 4.2099 RON/EUR);
- All exchange differences resulting from translation in the current period are recognized directly in equity.

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

d) Use of estimates and judgments

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

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

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

Notes to the consolidated financial statements

3. Significant accounting policies

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

a) Basis of consolidation

i) Subsidiaries

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

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

(ii) Investment funds management

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

iii) Associates

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

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

a) Basis of consolidation *(continued)*

iv) Jointly controlled entities

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

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

v) Transactions eliminated on consolidation

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

b) Foreign currency

i) Foreign currency transactions

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale financial assets which are included in the fair value reserve in equity.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

b) Foreign currency *(continued)*

ii) Translation of foreign currency operations

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

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

The exchange rates of major foreign currencies were:

Currency	31 December 2011	31 December 2010	Variation %
Euro (EUR)	1: LEU 4.3197	1: LEU 4.2848	1.01%
US Dollar (USD)	1: LEU 3.3393	1: LEU 3.2045	1.04%

c) Accounting method for the effect of hyperinflation

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

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

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

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

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

d) Interest income and expenses

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

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

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 trading income.

The Bank has considered the "unwinding" effect (discounting the cash flows related to impaired loans) which represents the modification in the net present value of future cash flows from one reporting period to another, when it is anticipated that the amount of reimbursements will not change. The amount resulted from this effect is 71,188 thousand lei decrease in the interest income and a decrease in the provision expenses.

e) Fees and commissions

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

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

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

f) Net trading income

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

g) Dividends

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

Notes to the consolidated financial statements

3. Significant accounting policies (continued)

g) Dividends *(continued)*

Dividends are treated as an appropriation of profit in the period they are declared and approved by the General Assembly of Shareholders. The only profit available for distribution is the profit for the year recorded in the Romanian statutory accounts, which differs from the profit in these financial statements, prepared in accordance with IFRS, due to the differences between the applicable Romanian Accounting Regulations and IFRS as endorsed by the European Union.

h) Lease payments

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

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

i) Income tax expense

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

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

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

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

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

The tax rate used to calculate the current and deferred tax position at 31 December 2010 is 16% (31 December 2010: 16%).

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

j) Financial assets and *liabilities*

(i) Classifications

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

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

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. As at 31 December 2010 and 31 December 2011 the Group included in this category certain treasury bills issued by the Ministry of Public Finance.

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

(ii) Recognition

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

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

j) Financial assets and liabilities *(continued)*

(iii) Derecognition

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

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

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

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

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

(iv) Offsetting

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

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

(v) Amortized cost measurement

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

j) Financial assets and liabilities *(continued)*

(vi) Fair value measurement

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

(vii) Identification and measurement of impairment

Assets held at amortized cost

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

j) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

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

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

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

Loans and advances to customers and net lease investments

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

(a) significant financial difficulty of the borrower (lessee) determined in accordance with the Group’s internal rating system;

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

(c) the lender, for economic or legal reasons relating to the borrower's or lessee’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider such as the rescheduling of the interest or principal payments;

(d) is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

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

   i. unfavorable change in the payment behavior of the Group’s debtors, or

   ii. national or local economic circumstances that can be correlated to the loss / depreciation of the Group’s assets.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

j) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

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

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

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

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

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

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

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

j) Financial assets and liabilities *(continued)*

(vii) Identification and measurement of impairment (continued)

Available for sale financial assets

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

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

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

Financial assets carried at cost

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

(viii) Designation at fair value through profit and loss

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

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

k) Cash and cash equivalents

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

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

n) Trading assets and liabilities

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

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

m) Derivatives

(i) Derivatives held for risk management purposes

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

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

(ii) Embedded derivatives

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

n) Loans and advances and net lease investments

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

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

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

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

o) Investment securities

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

(i) Held to maturity

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

(ii) Fair value through profit and loss

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

(iii) Available for sale

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

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

o) Investment securities *(continued)*

(iii) Available for sale (continued)

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

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

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

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

Change in accounting policy

In October 2008 the International Accounting Standards Board ("IASB") issued Reclassification of Financial Assets (Amendments to IAS 39 *"Financial instruments: Recognition and Measurement" and IFRS 7 "Financial instruments: Disclosures"*). The amendment to IAS 39 permits an entity to transfer from the available-for-sale category to the loans and receivables category a non-derivative financial asset that otherwise would have met the definition of loans and receivables if the entity has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

Pursuant to these amendments, the Group reclassified certain non-derivatives financial assets out of available-for-sale investment securities into placement with banks. For details on the impact of this reclassification, see note 21.

p) Property and equipment

(i) Recognition and measurement

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

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

p) Property and equipment *(continued)*

(ii) Subsequent costs

The Group 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 Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

(iii) Depreciation

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

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

Buildings	50 years
Leasehold improvements (average)	7 years
Computers	3 years
Furniture and equipments	3 – 20 years
Vehicles	4 - 5 years

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

q) Intangible assets

i) Goodwill and negative goodwill

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

Acquisition of non-controlling interests

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

Subsequent measurement

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

q) Intangible assets

(ii) Software

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

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

r) Financial lease – lessee

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

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

s) Impairment of non-financial assets

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

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

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

Notes to the consolidated financial statements

3. 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 method.

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

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

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

v) Provisions

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

w) Financial guarantees

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

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

x) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

x) Employee benefits *(continued)*

(ii) Defined contribution plans

The Bank and its subsidiaries do not operate any independent pension scheme and, consequently, have no obligation in respect of pensions. The Bank and its subsidiaries do not operate any other post retirement benefit plan. The Bank and its subsidiaries have no obligation to provide further services to current or former employees.

(iii) Other benefits

Based on the decision of the shareholders, the Board of Directors of the Bank decides in respect of the number of shares included in the program of employee fidelity.

y) Segment reporting

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

z) Earnings per share

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

aa) Own shares

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

ab) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these financial statements:

- Amendments to IFRS 7, "Disclosures - Transfers of Financial Assets" (effective for annual periods beginning on or after 1 July 2011; to be applied prospectively. Earlier application is permitted). The Amendments require disclosure of information that enables users of financial statements: to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets. The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements. When applied, it is expected that the amendments to IFRS 7 will increase the level of disclosure relating to certain derecognised or partial derecognised financial assets.

Notes to the consolidated financial statements

3. Significant accounting policies *(continued)*

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

- IFRS 13 "Fair value measurement '(effective for annual period beginning on or after January 1, 2013). IFRS 13 establishes a single framework for all measurements of fair value when fair value is required or permitted by IFRS. IFRS 13 describes the measurement of fair value under IFRS when it is required or permitted by IFRS. The Standard contains an extended framework that provides additional information for the existing requirements, providing information to enable users of financial statements to evaluate the methods used for fair value measurements. The Bank does not expect that IFRS 13 to have a significant impact on the financial statements, because they believe that the methods and assumptions currently used to measure the fair value of assets are in accordance with IFRS 13.

- IFRS 9, "Financial Instruments" ” (effective for annual periods beginning on or after January 1, 2015, early adoption is permitted). This Standard replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement, about classification and measurement of financial assets and liabilities, and derecognition of financial assets and liabilities. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost; or financial assets measured at fair value. A financial asset is measured at amortized cost if the following two conditions are met: the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9, “Reassessment of Embedded Derivatives”. This standard has not been endorsed by the European Union

- *Amendments to IAS 1 "Presentation of Financial Statements: Presentation of other comprehensive income related elements"* (effective for annual periods beginning on or after July 1, 2012). The standard requires that an entity should separately disclose other comprehensive income that may be reclassified into profit or loss in the future from those that will not be reclassified into profit or loss. In case the comprehensive income elements are presented before related tax effects, the aggregate amount of the tax should be allocated between these sections. The impact of initial application of these amendments will depend of the specific elements of comprehensive income on the initial application. Bank is currently in the process of evaluating the potential effects of the amendments to IAS 1 on the financial statements.

Notes to the consolidated financial statements

4 Financial risk management

a) Introduction

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

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

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

Risk management framework

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

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

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

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

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

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

Notes to the consolidated financial statements

4 Financial risk management *(continued)*

a) Introduction

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

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

b) Credit risk

(i) Credit risk management

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

The Group's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Group is exposed to credit risk on various other financial assets, including derivative instruments and debt investments, the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the Consolidated statement of financial situation. In addition, the Group is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued (see Note 36).

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

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

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

Notes to the consolidated financial statements

4 Financial risk management *(continued)*

b) Credit risk *(continued)*

(i) Credit risk management

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

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

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

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

Credit risk exposure

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

Notes to the consolidated financial statements

4 Financial risk management *(continued)*

b) Credit risk *(continued)*

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

	31 December 2011	**31 December 2010**
Individuals	35.11%	38.11%
Trading	16.60%	16.61%
Production	14.75%	15.50%
Construction	7.71%	6.93%
Services	4.96%	4.81%
Transport	4.41%	4.44%
Real estate	2.49%	2.70%
Agriculture	3.66%	2.25%
Free lancers	1.80%	1.99%
Energy industry	1.98%	1.39%
Chemical industry	1.56%	1.23%
Telecommunication	0.69%	0.88%
Mining industry	1.12%	0.63%
Governmental bodies	0.15%	0.17%
Fishing industry	0.03%	0.06%
Others	2.98%	2.30%
Total	**100%**	**100%**

At 31 December 2011, total on and off balance sheet exposures was RON 17,883,355 thousand (31 December 2010: RON 15,358,107 thousand).

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

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

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

Notes to the consolidated financial statements

4 Financial risk management *(continued)*

b) Credit risk *(continued)*

The Group uses ratings associated with financial performance for the individually tested loans as well as for the collective assessed ones, According to Group policies, each credit risk grade can be associated with a certain rating, starting with the lowest risk rating (1) to the category of loans for which legal procedures of debt recovery were initiated (6),

The credit risk exposures for loans and advances to customers and net lease investments at 31 December 2011 and 2010 are presented below:

In thousand RON	Note	**Loans and advances granted to customers and net lease investment 31 December 2011**
Past due and specifically impaired		
Grade 4		838,786
Grade 5		325,598
Grade 6		1,634,905
Gross amount		**2,799,289**
Allowance for impairment	19,20	(1,600,384)
Net carrying amount		**1,198,905**
Neither past due nor impaired		
Grade 1-2		9,705,995
Grade 3		604,346
Gross amount		**10,310,341**
Allowance for impairment	19,20	-46,385
Net carrying amount		**10,263,956**
Total net carrying amount		**14,185,043**

In thousand RON	Nota	**Loans and advances granted to customers and net lease investment 31 December 2011**
Past due but not individually impaired		
Grade 1-2		1,734,334
Grade 3		688,715
Grade 4		368,209
Grade 5		68,153
Gross amount		**2,859,411**
Allowance for impairment	19,20	(137,229)
Net carrying amount		**2,722,182**
Past due comprises		
15-30 zile		2,057,433
30-60 zile		406,668
60-90 zile		334,666
90-180 zile		58,245
180 zile +		2,399
Gross amount		**2,859,411**

4 Financial risk management *(continued)*

b) Credit risk *(continued)*

In thousand RON	Note	**Loans and advances granted to customers and net lease investment 31 December 2010**
Past due and specifically impaired		
Grade 4		2,492,849
Grade 5		722,244
Grade 6		1,358,788
Gross amount		4,573,881
Allowance for impairment	19,20	(1,203,531)
Net carrying amount		**3,370,350**
Neither past due nor impaired		
Grade 1-2		7,551,183
Grade 3		463,890
Gross amount		**8,015,073**
Allowance for impairment	19,20	(189,888)
Net carrying amount		**7,825,185**
Total net carrying amount		**12,439,409**

In thousand RON	Nota	**Loans and advances granted to customers and net lease investment 31 December 2010**
Past due but not individually impaired		
Grade 1-2		809,759
Grade 3		480,378
Grade 4		-
Grade 5		-
Gross amount		**1,290,137**
Allowance for impairment	19,20	(46,263)
Net carrying amount		**1,243,874**
Past due comprises		
15-30 zile		1,073,335
30-60 zile		102,192
60-90 zile		114,610
90-180 zile		-
180 zile +		-
Gross amount		**1,290,137**

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

Notes to the consolidated financial statements

4 . Financial risk management *(continued)*

b) Credit risk (continued)

In addition, the Group had entered into lending commitments of RON 3,698,313 thousand (31 December 2010: RON 2,918,698 thousand), mainly with counterparties graded 1-3.

No outstanding or impaired investments securities and bank placements.

Past due and individually impaired loans

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

Past due but not individually impaired loans

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

Allowances for impairment

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

Write-off policy

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

Notes to the consolidated financial statements

4 . Financial risk management *(continued)*

b) Credit risk (continued)

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

An estimate of the value of collateral and other security enhancements held against financial assets is shown below:

In thousand RON	**31 December 2011**	**31 December 2010**
Against past due and individually impaired		
Property	1,707,007	4,204,122
Debt securities	379,491	677,242
Other	65,243	158,000
	2,151,741	**5,039,364**

In thousand RON	**31 December 2011**	**31 December 2010**
Against past due but not individually impaired		
Property	2,603,650	1,128,030
Debt securities	342,365	197,908
Other	178,752	79,299
	3,124,767	**1,405,237**
Against neither past due nor impaired		
Property	9,719,172	8,869,531
Debt securities	1,533,858	1,517,087
Other	545,408	598,210
	11,798,438	**10,984,828**
Total	**17,074,946**	**17,429,429**

Notes to the consolidated financial statements

4 . Financial risk management *(continued)*

c) Liquidity risk

Liquidity risk is generated by the institution's inability policy to honor their debts outstanding at their maturity date. Liquidity risk has in the 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. Bank is concerned to counteract this type of risk .

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

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

The Group performs monthly crisis simulations for liquidity risk.

The financial assets and liabilities of the Group analyzed over the remaining period from the balance sheet date to contractual maturity are as at 31 December 2011 and 31 December 2010 as follows:

Notes to the consolidated financial statements

4 . Financial risk management *(continued)*

b) Liquidity risk *(continued)*

In mii LEI	Up to 3 months	3 – 6 months	6 – 12 months	1 – 3 years	3 – 5 years	Over 5 years	Without maturity	Total
31 December 2011								
Financial assets								
Cash and cash equivalents	4,550,256	-	-	-	-	-	-	**4,550,256**
Placements with banks	630,751	98,819	169	14,988	24,258	9,992	-	**778,977**
Financial assets at fair value through profit and loss	-	-	-	-	-	-	140,551	**140,551**
Loans and advances to customers	2,301,783	1,721,216	2,513,245	2,236,234	1,405,157	3,800,020	-	**13,977,655**
Net lease investments	57,703	18,947	34,997	71,481	24,250	10	-	**207,388**
Financial assets available for sale	5,377,395	20,503	86,526	207,730	86,216	26,305	12,103	**5,816,778**
Held-to-maturity investments	39	780	-	-	-	-	-	**819**
Investment in associates entities	-	-	-	-	-	-	-	**-**
Other assets	130,984	3,365	3,862	1,106	433	14	-	**139,764**
Total financial assets	**13,048,911**	**1,863,630**	**2,638,799**	**2,531,539**	**1,540,314**	**3,836,341**	**152,654**	**25,612,188**
Financial liabilities								
Deposits from banks	251,181	-	-	-	-	-	-	**251,181**
Deposits from customers	14,493,451	2,792,203	675,616	1,174,223	1,050,196	71,562	-	**20,257,251**
Loans from banks and other financial institutions, other subordinated loans and debt securities issued	1,457,146	70,888	152,801	757,375	388,920	26,000	-	**2,853,130**
Other liabilities	225,701	12,231	14,100	1,792	1,272	288	-	**255,384**
Total financial liabilities	**16,427,479**	**2,875,322**	**842,517**	**1,933,390**	**1,440,388**	**97,850**	**-**	**23,616,946**
Maturity surplus / (shortfall)	**(3,378,568)**	**(1,011,692)**	**1,796,282**	**598,149**	**99,926**	**3,738,491**	**152,654**	**1,995,242**

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

Notes to the consolidated financial statements

4 . Financial risk management *(continued)*

b.) Liquidity risk *(continued)*

In mii LEI	Up to 3 months	3 – 6 months	6 – 12 months	1 – 3 years	3 – 5 years	Over 5 years	Without maturity	Total
31 December 2010								
Financial assets								
Cash and cash equivalents	3,701,125	-	-	-	-	-	-	**3,701,125**
Placements with banks	915,583	3,000	191,157	117,246	-	10,169	-	**1,237,155**
Financial assets at fair value through profit and loss	-	-	-	-	-	-	111,977	**111,977**
Loans and advances to customers	1,793,403	1,356,569	2,247,169	1,996,013	1,105,190	3,717,448	-	**12,215,792**
Net lease investments	50,463	24,314	42,416	86,962	19,462	-	-	**223,617**
Financial assets available for sale	3,525,199	44,683	24,370	130,744	26,146	5,779	24,076	**3,780,997**
Held-to-maturity investments	-	-	-	820	-	-	-	**820**
Investment in associates entities	-	-	-	-	-	-	-	**-**
Other assets	70,992	4,435	3,073	4,711	215	75	-	**83,501**
Total financial assets	**10,056,765**	**1,433,001**	**2,508,185**	**2,336,496**	**1,151,013**	**3,733,471**	**136,053**	**21,354,984**
Financial liabilities								
Deposits from banks	332,954	240	-	-	-	-	-	**333,194**
Deposits from customers	12,611,309	1,669,132	673,171	1,019,128	1,270,428	35,964	-	**17,279,132**
Loans from banks and other financial institutions, other subordinated loans and debt securities issued	194,208	246,194	276,233	561,886	480,369	91,958	-	**1,850,848**
Other liabilities	176,704	125	180	105	-	-	-	**177,114**
Total financial liabilities	**13,315,175**	**1,915,691**	**949,584**	**1,581,119**	**1,750,797**	**127,922**	**-**	**19,640,288**
Maturity surplus / (shortfall)	**(3,258,410)**	**(482,690)**	**1,558,601**	**755,377**	**(599,784)**	**3,605,549**	**136,053**	**1,714,696**

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

Notes to the consolidated financial statements

4. Financial risk management *(continued)*

d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Exposure to market risk – trading portfolio

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

Exposure to interest rate risk –non-trading portfolio

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring GAP's interest rates and by having pre-approved limits (intervals) for re-pricing bands. Technical Committee for the Management of Assets and Liabilities is the monitoring body for compliance with these limits and is assisted by Treasury Department in its day-to-day monitoring activities

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

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

	200 basis points Increase RON thousand	200 basis points Decrease RON thousand	100 basis points Increase RON thousand	100 basis points Decrease RON thousand
At 31 December 2011				
Average for the period	(4,711)	4,711	(2,355)	2,355
Minimum for the period	(31,455)	31,455	(15,728)	15,728
Maximum for the period	5,514	(5,514)	2,757	(2,757)
At 31 December 2010				
Average for the period	(845)	845	(423)	423
Minimum for the period	(27,881)	27,881	(13,940)	13,940
Maximum for the period	16,818	(16,818)	8,409	(8,409)

Notes to the consolidated financial statements

4. Financial risk management (continued)

d) Market risk (continued)

Interest rate risk (continued)

In the sensitivity analysis regarding interest rate variation the Bank has computed the impact over the interest margin over the future financial exercise by taking into consideration the interest rate resetting date for assets and liabilities recorded in the balance sheet 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 made: less than 1 month, 1 – 3 months, 3 – 6 months, 6 – 12 months, 1 – 2 years, 2 - 3 years, 3 – 4 years, 4 - 5 years, 5 – 7 years, 7 - 10 years, 10 – 15 years, 15 – 20 years and over 20 years; for the assets and liabilities with variable interest rate the future interest cash flows were recomputed by modifying the interest rate by +/- 100 and 200 basis points.

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

The Group is exposed to interest rate risk mainly from exposures to adverse changes in the market interest rates to the extent that interest-earning assets and interest-earning liabilities mature or re-price at different times or in differing amounts. The main sources of interest rate risk are imperfect correlation between the maturity (for fixed interest rates) or re-pricing date (for floating interest rates) of the interest-bearing assets and liabilities, adverse evolution of the slope and shape of the yield curve (the unparallel evolution of the interest rate yields of the interest-earning assets and interest-earning liabilities), imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics and the options embedded in the Group's products.

Interest bearing asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. In general, the Group is more sensitive on foreign currency instruments because its foreign currency interest-earning assets have a longer duration and re-price less frequently than foreign currency interest-bearing liabilities.

The Group is less sensitive to local currency instruments as most of the assets and liabilities bear floating rates.

The Group attempts to maintain a net positive position for interest-bearing financial instruments. To achieve this, the Group uses a mix of fixed and floating rate interest instruments on which it attempts to control the mismatching of the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates or, if earlier, the dates on which the instruments mature.

Notes to the consolidated financial statements

4 . Financial risk management *(continued)*

d) Market risk *(continued)*

Interest rate risk (continued)

The interest rates related to the local currency and the major foreign currencies as at 31 December 2011 and 2010 were as follows:

Currency	**Interest rate**	**31 December 2011**	**31 December 2010**
Leu (RON)	Robor 3 months	6.05%	6.17%
Euro (EUR)	Euribor 3 months	1.356%	1.006%
Euro (EUR)	Euribor 6 months	1.617%	1.227%
US Dollar (USD)	Libor 6 months	0.8085%	0.45594%

Notes to the consolidated financial statements

4 . Financial risk management *(continued)*

d) Market risk (continued)

Interest rate risk (continued)

A summary of the Group's interest rate gap position on interest bearing instruments as at 31 December 2010 is as follows:

In RON thousands	Less than 6 months	6 – 12 months	1 – 3 years	3 – 5 years	More than 5 years	Non sensitive	Total
31 December 2010							
Financial assets							
Cash and cash equivalents	4,550,256	-	-	-	-	-	**4,550,256**
Placements with banks	729,570	169	14,988	24,258	9,992	-	**778,977**
Financial assets at fair value through profit and loss	140,551	-	-	-	-	-	**140,551**
Loans and advances to customers	12,773,772	488,977	322,281	1,066	937	390,622	**13,977,655**
Net lease investments	188,706	12,725	5,767	190	-	-	**207,388**
Financial assets available for sale	5,408,016	86,513	207,679	86,164	26,087	2,319	**5,816,778**
Held to maturity investments	819	-	-	-	-	-	**819**
	23,791,690	**588,384**	**550,715**	**111,678**	**37,016**	**392,941**	**25,472,424**
Financial liabilities							
Deposits from banks	251,181	-	-	-	-	-	**251,181**
Deposits from customers	17,140,449	2,908,968	139,718	13,068	55,048	-	**20,257,251**
Loans from banks and other financial institutions, other subordinated loans and debt securities	2,693,261	-	-	159,869	-	-	**2,853,130**
	20,084,891	**2,908,968**	**139,718**	**172,937**	**55,048**	**-**	**23,361,562**
Net position							
	3,706,799	**(2,320,584)**	**410,997**	**(61,259)**	**(18,032)**	**392,941**	**2,110,862**

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

Notes to the consolidated financial statements

d) Market risk (continued)

Interest rate risk (continued)

A summary of the Group's interest rate gap position on interest bearing instruments as at 31 December 2010 is as follows:

In RON thousands	Less than 6 months	6 – 12 months	1 – 3 years	3 – 5 years	More than 5 years	Non sensitive	Total
31 December 2010							
Financial assets							
Cash and cash equivalents	3,701,125	-	-	-	-	-	**3,701,125**
Placements with banks	918,583	191,157	117,246	-	10,169	-	**1,237,155**
Financial assets at fair value through profit and loss	111,977	-	-	-	-	-	**111,977**
Loans and advances to customers	10,768,028	689,397	560,985	387	-	196,995	**12,215,792**
Net lease investments	109,007	105,694	8,064	852	-	-	**223,617**
Financial assets available for sale	3,513,564	57,327	172,524	25,915	9,501	2,166	**3,780,997**
Held to maturity investments	-	40	780	-	-	-	**820**
	19,122,284	**1,043,615**	**859,599**	**27,154**	**19,670**	**199,161**	**21,271,483**
Financial liabilities							
Deposits from banks	333,194	-	-	-	-	-	**333,194**
Deposits from customers	14,112,880	3,010,114	120,834	8,335	26,969	-	**17,279,132**
Loans from banks and other financial institutions, other subordinated loans and debt securities	1,839,484	-	11,364	-	-	-	**1,850,848**
	16,285,558	**3,010,114**	**132,198**	**8,335**	**26,969**	**-**	**19,463,174**
Net position	**2,836,726**	**(1,966,499)**	**727,401**	**18,819**	**(7,299)**	**199,161**	**1,808,309**

Notes to the consolidated financial statements

4. Financial risk management (continued)

d) Market risk (continued)

Currency risk

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

The Bank performs monthly crisis simulations for the currency risk.

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

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

Notes to the consolidated financial statements

4 . Financial risk management *(continued)*

d) Market risk (continued)

Currency risk (continued)

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2010 are presented below:

RON thousands	RON	EUR	USD	Other	Total
Monetary assets					
Cash and cash equivalents	1,783,626	1,715,545	155,151	46,803	**3,701,125**
Placement with banks	834,841	252,469	124,662	25,183	**1,237,155**
Financial assets at fair value through profit and loss	105,248	6,729	-	-	**111,977**
Loans and advances to customers	7,528,483	4,391,410	257,008	38,891	**12,215,792**
Net lease investments	28,255	195,362	-	-	**223,617**
Financial assets available for sale	2,876,512	904,485	-	-	**3,780,997**
Held-to-maturity investments	820	-	-	-	**820**
Investments in associates	-	-	-	-	**-**
Other assets	69,174	10,171	1,452	2,704	**83,501**
Total monetary assets	**13,226,959**	**7,476,171**	**538,273**	**113,581**	**21,354,984**
Monetary liabilities					
Deposits from banks	313,372	19,350	468	4	**333,194**
Deposits from customers	11,069,977	5,659,339	504,818	44,998	**17,279,132**
Loans from banks and other financial institutions, other subordinated loans and debt securities issued	-	1,818,084	32,764	-	**1,850,848**
Other debts	109,465	32,917	3,401	31,331	**177,114**
Total monetary liabilities	**11,492,814**	**7,529,690**	**541,451**	**76,333**	**19,640,288**
Net currency position	**1,734,145**	**(53,519)**	**(3,178)**	**37,248**	**1,714,696**

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

Notes to the consolidated financial statements

4 Financial risk management *(continued)*

e) Taxation risk

Starting 1 January 2007, as a result of Romania's adherence to the European Union, the Bank had to adopt the regulations of the European Union, and as a result has prepared for the appliance of the changes in the European legislation.

The Romania Government owns a number of agencies authorized to carry on the audit (control) of the companies operating in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested.

f) Operating environment

On 1 January 2007 Romania became a full member state of the European Union. The process of risk re-pricing during 2007 in the international financial markets severely affected the performance of those markets, including the Romanian financial and banking market, and fostered heightened uncertainty with regard to economic developments going forward.

The ongoing global credit and liquidity crisis which commenced in the middle of 2008 has resulted in, among other things, lower level and difficult access to the capital market funding.

Identification and valuation of investments influenced by a lending market with low liquidities, the determination of compliance with debt agreement and other contract covenants, and the evaluation of significant uncertainties, bring their own challenges.

Such ongoing concerns that the deteriorating financial conditions could contribute, at a later stage to a further retrenchment in confidence, prompted a coordinated effort of governments and central banks to adopt special measures aimed at countering a vicious circle of growing risk aversion and to helping minimizing the effects of the financial crisis and finally restoring normal market functioning.

The Group follows closely its exposures to the sovereign debt of the European countries. As at 31 December 2011, the Group does not estimate that amounts will remain without any chance of collection from the government bonds.

Under the conditions of a year of crisis, when the banking system registered a negative profit margins, the Group managed to obtain favorable results in 2011.

Although 2011 brought a slight recovery in GDP, the consumer decision continued to be affected by limited income and pessimistic expectations regarding future financial situation and job security. Because of this, there were increases of overdue loans and, consequently, the provisions made in the entire banking system.

Group management anticipates that the difficulties that have marked the Romanian economy during the previous years will not manifest with the same intensity during 2012, so the net cost of credit risk / financing will have a lower marked influence in 2012 on the financial results of banking sector in Romania.

Group management estimates for 2012 a high level of provisions on loans, level maintained compared to 2011 with corresponding effects on the Group's financial statements. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances by:

Notes to the consolidated financial statements

4 Financial risk management *(continued)*

f) Operating environment *(continued)*

- continuous improvement of risk management framework;
- constant monitoring of relevant indicators for the Bank's financial stability an strength;
- better control of costs, increase of work efficiency;
- granting a maximum attention to portfolio of loans / financing quality, an adequate provisioning policy;
- continuing increase of the portfolio of corporate clients by identifying and lending of the mature, healthy businesses which survived to the crisis and defending the existing customers;
- re-launch of the SME credit on an improved platform of quick credit in RON and EUR and easy access on the structural funds;
- maintaining competitive advantage and increase of loans for the Healthcare Division;
- increasing the number of retail customers through the development of banking products and services packages on classes / categories of customers;
- improving customer service concept, based on cross-selling, finding fast solutions.

The national economy is constantly presenting the characteristic of an emergent market. Among these characteristics we mention a significant current account deficit, the difference in competiveness between Romania and the other states member UE, a market relatively undeveloped, low infrastructure and fluctuations in the currency exchange rate.

g) Operational risks

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

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

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

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for implementing the principle of dual control in the transactions and any other activity associated with a significant level of risk;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- 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;

Notes to the consolidated financial statements

4 Financial risk management *(continued)*

g) Operational risks *(continued)*

- a formalized approach over the continuity of the business with a 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 al the Group employees; development of ethical and business standards;
- monitoring transactions in the employees' accounts;
- implementing an internal alert mechanism for employees, through which, they can draw attention to legitimate and substantial concerns about the bank's activity;
- risk mitigation, including insurance where applicable.

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

h) Capital management

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

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

On December 31, 2011 the calculation of regulatory capital was based on the NBR Regulation nr.18/2006 amended by Regulation no. 6 / 2009.

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

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

Notes to the consolidated financial statements

4 Financial risk management *(continued)*

h) Capital management

The Bank's regulatory capital as at 31 December 2011 and 31 December 2010 and the legal requirements regarding capital management at 31 December 2011 and 31 December 2010 were as follows:

In RON thousand	**31 December 2011**	**31 December 2010**
Tier I	1,893,114	1,780,667
Tier II	46,261	106,691
Total Bank's capital	**1,939,375**	**1,887,358**
Risk weighted assets		
Capital requirement for credit risk, counterparty risk, decrease in receivables and for incomplete transactions	984,757	876,838
Capital requirements for foreign exchange position and commodities	132,328	71,004
Capital requirements for operational risk	190,020	157,448
Total capital requirements	**1,307,105**	**1,105,290**

Note: In the computation of Bank's own funds are included the statutory profits of the years ended 31 December 2011 and 31 December 2010

5 Use of estimates and judgments

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

Impairment losses on loans and advances

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

Notes to the consolidated financial statements

5 Use of estimates and judgments *(continued)*

To the extent that the net present value of estimated cash flows differs by +/-5 percent, the impairment provision for loans and advances to customers would be estimated RON 32,142 thousand higher or RON 32,142 thousand lower (31 December 2010: RON 19,377 thousand higher or RON 19,377 thousand lower).

Fair value of financial instruments

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

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

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

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

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

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

Notes to the consolidated financial statements

5 Use of estimates and judgments *(continued)*

The carrying amount of financial assets at fair value through profit and loss and of available-for-sale investment securities would be estimated with RON 174,302 thousand lower than the fair value as at 31 December 2011 or with RON 203,159 thousand higher than the fair value as 31 December 2011 were interest rates on financial assets available for sale would differ by + / - 2% and prices of financial assets at fair value through profit and loss would differ by + / - 10% from management's estimates.

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

In RON thousand	**Note**	**Quoted market prices in active markets**	**Valuation techniques – observable inputs**	**Valuation techniques – unobservable inputs**	**Total**
31 Decembrie 2011					
Financial assets at fair value through profit and loss	18	140,551	-	-	140,551
Investments securities, available for sale	21	20,193	5,796,585	-	5,816,778
31 Decembrie 2010					
Financial assets at fair value through profit and loss	18	111,977	-	-	111,977
Investments securities, available for sale	21	45,917	3,735,080	-	3,780,997

Financial assets and liabilities

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

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

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

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

Notes to the consolidated financial statements

6. Segment reporting

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

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

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

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

The allocation method of the Group income and expenses on segments was improved during 2010 and 2011 in order to eliminate the limitation imposed by the IT system in the previous period.

Notes to the consolidated financial statements

6 . Operating segments

Information about reportable segments

In RON thousand	Corporate banking		SME		Retail banking		Health Care Division		Treasury		Leasing and consumer finance		Others		Elimination		Unallocated		Grup	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Assets upon activity sectors	6,951,138	5,606,945	1,390,069	1,200,789	5,398,166	5,025,018	707,180	617,813	11,593,283	8,935,780	319,795	348,469	313,332	201,260	(664,150)	(205,822)	-	-	26,008,813	21,730,252
Total Assets	**6,951,138**	**5,606,945**	**1,390,069**	**1,200,789**	**5,398,166**	**5,025,018**	**707,180**	**617,813**	**11,593,283**	**8,935,780**	**319,795**	**348,469**	**313,332**	**201,260**	**(664,150)**	**(205,822)**	**-**	**-**	**26,008,813**	**21,730,252**
Liabilities upon activity sectors	4,720,041	4,371,571	2,536,609	2,209,402	3,478,374	1,247,122	637,208	524,926	2,447,800	1,119,163	231,224	271,543	59,530	44,553	(493,840)	(147,992)	-	-	23,616,946	19,640,288
Total liabilities	**4,720,041**	**4,371,571**	**2,536,609**	**2,209,402**	**3,478,374**	**1,247,122**	**637,208**	**524,926**	**2,447,800**	**1,119,163**	**231,224**	**271,543**	**59,530**	**44,553**	**(493,840)**	**(147,992)**	**-**	**-**	**23,616,946**	**19,640,288**
Equity																	2,391,867	2,089,964	2,391,867	2,089,964
Total liabilities and equity	**4,720,041**	**4,371,571**	**2,536,609**	**2,209,402**	**3,478,374**	**1,247,122**	**637,208**	**524,926**	**2,447,800**	**1,119,163**	**231,224**	**271,543**	**59,530**	**44,553**	**(493,840)**	**(147,992)**	**2,391,867**	**2,089,964**	**26,008,813**	**21,730,252**

6 . Operating segments *(continued)*

In mii RON	Corporate banking		SME		Retail banking		Health Care Division		Treasury		Leasing and consumer finance		Others		Elimination		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Net interest income	241,803	267,117	138,127	146,327	309,960	339,565	32,206	30,777	89,085	100,507	22,283	26,717	83,592	114,073	17,362	(28,786)	934,418	996,297
Net fee and commission income	105,802	106,443	113,458	108,138	132,250	126,883	17,184	15,489	-	(33)	6,211	10,403	7,726	15,865	(473)	(8,278)	382,158	374,910
Net trading income	30,833	26,093	23,408	21,417	25,105	20,409	1,173	1,039	70,062	45,736	780	231	(34,316)	(4,975)	(5,432)	9,019	111,613	118,969
Other operating income	-	-	-	-	4,516	4,550	(79)	(677)	-	1,528	38,500	39,365	42,284	33,441	(23,697)	(26,488)	61,524	51,719
Total income	**378,438**	**399,653**	**274,993**	**275,882**	**471,831**	**491,407**	**50,484**	**46,628**	**159,147**	**147,738**	**67,774**	**76,716**	**99,286**	**158,404**	**(12,240)**	**(54,533)**	**1,489,713**	**1,541,895**
Personal expense	84,666	82,820	64,190	61,881	132,492	118,703	13,667	13,248	31,463	31,533	14,403	13,170	49,313	48,463	68	3,553	390,262	373,371
Other operating expense	55,529	52,727	42,109	39,495	86,944	75,825	8,968	8,418	25,266	23,171	20,354	15,663	33,303	38,851	(7,215)	(35,774)	265,258	218,376
Publicity expense	3,421	2,848	2,580	2,134	5,296	4,136	548	460	1,253	1,369	634	386	1,927	1,696	-	-	15,659	13,029
Depreciation and amortization	11,309	12,771	8,577	9,566	17,696	18,292	1,825	2,120	4,183	4,845	5,810	5,759	6,393	7,544	7,994	-	63,787	60,897
Other expense	14,639	9,570	11,096	6,736	23,013	13,918	2,378	2,146	5,398	3,386	20,231	20,400	24,932	39,336	(18,218)	(20,009)	83,469	75,483
Total Expense	**169,564**	**160,736**	**128,552**	**119,812**	**265,441**	**230,874**	**27,386**	**26,392**	**67,563**	**64,304**	**61,432**	**55,378**	**115,868**	**135,890**	**(17,371)**	**(52,230)**	**818,435**	**741,156**
Operational result, before net impairment charges	**208,874**	**238,917**	**146,441**	**156,070**	**206,390**	**260,533**	**23,098**	**20,236**	**91,584**	**83,434**	**6,342**	**21,338**	**(16,582)**	**22,514**	**5,131**	**(2,303)**	**671,278**	**800,739**

Notes to the consolidated financial statements

7 Financial assets and liabilities

Accounting classifications and fair values

In RON thousand	Note	Financial assets at fair value through profit and loss	Held to maturity	Loans and receivables (including net lease investments)	Available for sale	Other amortized cost	Total carrying amount	Fair value
31 December 2011								
Financial Assets								
Cash and cash equivalents	16	-	-	-	-	4,550,256	4,550,256	4,550,256
Placements with banks	17	-	-	-	-	778,977	778,977	778,977
Financial assets at fair value through profit and loss	18	140,551	-	-	-	-	140,551	140,551
Loans and advances to customers	19	-	-	13,977,655	-	-	13,977,655	13,977,655
Net lease investments[1]	20	-	-	207,388	-	-	207,388	207,388
Investments securities	21	-	819	-	5,816,778	-	5,817,597	5,817,597
Total financial assets		**140,551**	**819**	**14,185,043**	**5,816,778**	**5,329,233**	**25,472,424**	**25,472,424**
Financial Liabilities								
Deposits from banks	27	-	-	-	-	251,181	251,181	251,181
Deposits from customers	28	-	-	-	-	20,257,251	20,257,251	20,259,236
Loans from banks and other financial institutions	29	-	-	-	-	2,592,982	2,592,982	2,592,982
Other subordinated loans	30	-	-	-	-	260,148	260,148	260,148
Total financial liabilities		**-**	**-**	**-**	**-**	**23,361,562**	**23,361,562**	**23,363,547**

Notes to the consolidated financial statements

7 *Financial assets and liabilities*

Accounting classifications and fair values

In RON thousand	Note	Financial assets at fair value through profit and loss	Held to maturity	Loans and receivables (including net lease investments)	Available for sale	Other amortized cost	Total carrying amount	Fair value
31 December 2010								
Financial Assets								
Cash and cash equivalents	16	-	-	-	-	3,701,125	3,701,125	3,701,125
Placements with banks	17	-	-	-	-	1,237,155	1,237,155	1,237,155
Financial assets at fair value through profit and loss	18	111,977	-	-	-	-	111,977	111,977
Loans and advances to customers	19	-	-	12,215,792	-	-	12,215,792	12,215,792
Net lease investments[1]	20	-	-	223,617	-	-	223,617	223,617
Investments securities	21	-	820	-	3,780,997	-	3,781,817	3,781,817
Total financial assets		**111,977**	**820**	**12,439,409**	**3,780,997**	**4,938,280**	**21,271,483**	**21,271,483**
Financial Liabilities								
Deposits from banks	27	-	-	-	-	333,194	333,194	333,194
Deposits from customers	28	-	-	-	-	17,279,132	17,279,132	17,285,120
Loans from banks and other financial institutions	29	-	-	-	-	1,593,295	1,593,295	1,593,295
Other subordinated loans	30	-	-	-	-	257,553	257,553	257,553
Total financial liabilities		-	-	-	-	**19,463,174**	**19,463,174**	**19,469,162**

Notes to the consolidated financial statements

8. Net interest income

In RON thousand	**2011**	**2010**
Interest income		
Loans and advances to customers	1.458.085	1,538,117
Current accounts held with banks	39.390	44,411
Held for trading securities	300.712	256,450
Placements with banks	28.413	19,586
Net lease investments	29.772	35,696
	1.856.372	*1,894,260*
Total interest income		
Interest expense	832.651	812,658
Deposits from customers	84.050	81,517
Loans from banks and other financial institutions	5.253	3,788
Deposits from banks	*921,954*	*897,963*
Total interest expense		
Net interest income	**934.418**	**996,297**

9. Net fee and commission income

	2011	**2010**
Fee and commission income		
Transactions		
Loans management and guarantees issuance	341,688	313,002
Financial lease management	86,991	96,990
Other fee and commission income	7,304	11,601
	43	52
Total fee and commission income		
	436,026	*421,645*
Fee and commission expense		
Bank commissions		
Transactions	41,929	37,168
	11,939	9,567
Total fee and commission expense	*53,868*	*46,735*
Net fee and commission income	**382,158**	**374,910**

Notes to the consolidated financial statements

10. Net trading income

In RON thousand	2011	2010
Net income from foreign exchange transactions *(i)*	110,605	110,121
Net income/ (expenses) from financial assets through profit and loss	(8,362)	1,690
Net expense from revaluation of assets and liabilities held in foreign currency	9,370	7,158
Net trading income	**111,613**	**118,969**

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

11. Other operating income

In RON thousand	2011	2010
Rent income	12,301	10,544
Dividend income	5,000	4,551
Other operating income	44,223	36,624
Total	**61,524**	**51,719**

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

In RON thousand	2011	2010
Net charge of impairment losses on financial assets *(i)*	271,946	619,367
Loans and net lease investments written-off	74,174	5,039
Other liabilities – taxes and credit comittments	3,473	23,098
Recoveries from loans previously written off	(33,744)	(539)
Net impairment losses on assets	**315,849**	**646,965**

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

In RON thousand	Note	2011	2010
Loans and advances to customers	19	292,802	585,641
Net lease investments	20	(19,939)	25,678
Investment securities	21	-	489
Other assets	26	(892)	7,739
Property and equipment	23	(25)	(180)
Net charge with impairment losses		**271,946**	**619,367**

Notes to the consolidated financial statements

13. Personnel expenses

In RON thousand	**2011**	**2010**
	289,554	277,130
Wages and salaries	60,424	57,733
Contribution to social security	20,253	19,402
Meal tickets and other taxes related to personnel	18,584	17,728
Contribution to health fund	1,447	1,378
Contribution to unemployment fund		
Total	**390,262**	**373,371**

The Group's number of employees at 31 December 2011 was 7,151 persons (31 December 2010: 6,914).

14. Other operating expenses

In RON thousand	**2011**	**2010**
Operating lease	86,723	84,992
Repairs and maintenance	48,262	39,457
Materials and consumables	27,317	23,926
Postage and telecommunications	30,068	30,568
Advertising and promotional expenses	18,064	14,844
Security and protectaion	21,449	20,161
Taxes	55,321	29,354
Electricity and heating	14,244	13,295
Travel and transport	5,581	4,029
Legal, advisory and consulting	3,239	3,308
Loss on sale of property and equipment	(1,828)	1,933
Other operating expense	55,946	41,021
Total	**364,386**	**306,888**

15. Income tax expense

In RON thousand	**Note**	**2011**	**2010**
Current tax expense at 16% (2007: 16%) of taxable profits determined in accordance with Romanian Law		56,190	40,361
Adjustments from prior periods		1,991	(15,830)
Total income tax expense		**58,181**	**24,531**

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

Notes to the consolidated financial statements

15. Income tax expense

Tax reconciliation

In RON thousand	**2011**	**2010**
Profit before tax	**355,429**	**158,515**
Taxation at statutory rate of 16% (2010: 16%)	**56,869**	**25,362**
Non-deductible expenses and non-taxable revenues and other permanent differences	12,966	(3,801)
Effect of carried forward losses	(11,654)	2,969
Taxation in the income statement	**58,181**	**24,531**

16. Cash and cash equivalents

In RON thousand	**31 December 2011**	**31 December 2010**
Minimum compulsory reserve *(i)*	4,178,416	3,371,294
Cash on hand	334,290	270,481
Current accounts held with other banks *(ii)*	37,550	59,350
Total	**4,550,256**	**3,701,125**

(i) At 31 December 2011 the minimum compulsory reserve, held with the Central Bank, was established at 15% for RON and 20% for USD or EUR (31 December 2010: 15% for RON and 25% for USD or EUR) denominated funds, The balance of mandatory reserve can vary on a daily basis, The interest paid by the Central Bank for the reserve held by banks was 1.29% – 1.86% p,a, for RON denominated reserves, 0.33% - 0.65% p.a. for EUR and 0.46% - 1.19% p.a. for USD denominated reserves. The mandatory reserve can be used by the Bank's day to day activities providing the average balance for the month is maintained within required formula,

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

17. Placements with banks

In RON thousand	**31 December 2011**	**31 December 2010**
Sight and term deposits placed at other banks	508,014	620,258
Loans and advances to banks *(i)*	270,963	616,897
Total	**778,977**	**1,237,155**

(i) Investment securities reclassified by the Group during 2010 and 2011 from assets available for sale into loans and advances (see note 21 *(ii)*).

Notes to the consolidated financial statements

18. Financial assets at fair value through profit and loss

In RON thousand	**31 December 2011**	**31 December 2010**
Trading assets		
Listed equity investments *(i)*	140,551	111,977
Total	**140,551**	**111,977**

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

As at 31 December 2011, the Group owns significant investments in amount of RON 114,675 at the following companies: SIF Banat-Crisana S.A., SIF Moldova S.A., SIF Oltenia S.A. si fondurile BT Clasic, BT Obligatiuni, BT Maxim, Fondul Privat Comercial si FDI Transilvania (31 Decembrie 2011: RON 86.879 thousand).

19. Loans and advances to customers

The Group's commercial lending is concentrated on companies and individuals domiciled in Romania and Cyprus. Economic sector risk concentrations within the customer's loan portfolio as at 31 December 2011 were and 31 December 2010, was as follows:

In RON thousand	**31 December 2011**	**31 December 2010**
Individuals	5,874,290	5,391,852
Trading	2,719,970	2,277,206
Manufacturing	2,228,701	1,893,978
Construction	838,050	681,367
Services	832,827	711,958
Transport	669,203	635,449
Real estate	472,764	407,537
Agriculture	560,453	297,303
Free lancers	340,535	311,873
Chemical industry	322,707	243,181
Mining industry	142,517	87,280
Telecommunication	65,535	54,176
Financial institutions	108,681	119,119
Energy industry	249,034	144,366
Fishing industry	4,607	8,973
Governmental bodies	27,650	23,591
Others	242,022	284,394
Total loans and advances to customers before provisions	**15,699,456**	**13,573,603**
Less provisions for impairment losses on loans	(1,721,801)	(1,357,811)
Total loans and advances to customers, net of provisions	**13,977,655**	**12,215,792**

Notes to the consolidated financial statements

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

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

In RON thousand	**2011**	**2010**
Balance at 1 January	1,357,811	771,628
Net impairment provision expense	292,802	585,641
Impairment assumed after the integral acquisition of the Factoring Company	71,188	-
Exchange differences	-	542
Balance at 31 December	**1,721,801**	**1,357,811**

20 Net lease investments

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

In RON thousand	**31 December 2011**	**31 December 2010**
Investments in leases less than one year	169,148	169,046
Investments in leases between one and five years	137,965	183,551
Total investment in leases, gross	307,113	352,597
Unearned finance income	(37,528)	(47,109)
Total investments in leases, net	269,585	305,488
Impairment provisions	(62,197)	(81,871)
Total	**207,388**	**223,617**

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

Notes to the consolidated financial statements

20. Net lease investments *(continued)*

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

In RON thousand	**2011**	**2010**
Balance at beginning of the year	81,871	55,284
Net impairment provision expense	(19,939)	25,678
Foreign exchange difference	265	909
Balance at the end of the year	**62,197**	**81,871**

21. Investment securities

In RON thousand	**31 December 2011**	**31 December 2010**
Investment securities available-for-sale		
Unlisted debt and other fixed income instruments:		
Treasury securities issued by the Government of Romania *(i)*	5.395.348	3,550,848
Eurobond issed by the Romanian Government	359.532	172,848
Bonds and Eurobonds *(ii)*	39.386	8,865
Unit funds *(iii)*	3.129	26,121
Listed equity securities (i*v*)	17.064	19,796
Equity investment *(v)*	2.319	2,519
Equity investment, gross	2.808	3,008
Impairment provision on equity investment	-489	(489)
Total investment securities available-for-sale	**5.816.778**	**3,780,997**
Investment securities held-to-maturity		
Treasury securities issued by the Government of Romania	819	820
Total investment securities held-to-maturity	**819**	**820**
Total investment securities	**5.817.597**	**3,781,817**

i. Treasury bills issued by the Romanian Government include discount certificates and certificates benchmark coupon bonds issued in RON, and Treasury coupon securities issued by the Romanian Government in EUR.

As at 31 December 2011 treasury securities were in amount of RON 3,070,359 thousand (31 December 2010: RON 2,752,734 thousand) out of which RON 28,450 thousand (31 December 2010: RON 28,450 thousand) were pledged for other current operations (RoCLEAR, SENT, MASTERCARD and VISA)..

As at 31 December 2011 benchmark bonds issued by the Ministry of Finance in amount of RON 2,324,989 thousand (31 December 2010: RON 798,114 thousand) mature between 2011 and 2020.

Notes to the consolidated financial statements

21. Investment securities *(continued)*

ii. The Group held on 31 December 2011 bond amount: RON 39,386 thousand (8,865 on December 31, 2010) issued by Alba Iulia municipality and the municipality of Bucharest and Black Sea Trade and Development Bank.

Bonds issued by Alba Iulia municipality carries a variable interest (Robid 6M + Robor 6M)/2 + 1,5% (31 December 2011: 7,5%; 31 December 20110: 7,5%). Bonds issued in EUR by Bucharest Municipality at fixed interest rate of 4.125%.

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

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

The value of securities classified as "loans and advances" at the end of 2011 was 211,151 thousand.

During 2011 the Group has purchased and classified as loans and receivables, Euro-bonds in the amount of RON 68,904 thousand and Euro-bonds sold securities amounting to RON 85,275 thousand that arrived to maturity during the year 2011.

Movement titles in the category "loans and advances to customers" in 2011 is reflected in the table below:

	Year 2011
Balance at 31 December 2010	
Acquisitions 2011	**211,151**
Decreases 2011	68,904
Cupon for bonds	(85,275)
Increase in market value	3,894
Amortization of the difference between fair value and acquisition value (Interest income)	4,145
Balance at 31 December 2011	**202,819**

Notes to the consolidated financial statements

21. Investment securities *(continued)*

Movement of the gross reserve regarding this financial assets is presents in the following table:

	Year 2011	Year 2010
Balance at the beginning of the year	**1,120**	**(3,342)**
Additions	**-**	1,469
Transferred amounts from reserves to income statement	(1,120)	2,993
Balance at the end of the year	**-**	**1,120**

The provision for equity investments can be further analyzed as follows:

In RON thousand	2011	2010
Balance at the beginning of the year	**489**	**-**
Net impairment provision expense	**-**	489
Balance at the end of the year	**489**	**489**

The movement in investment securities may be summarized as follows:

In RON thousand	Available for sale	Held to maturity
At 1 January 2011	**3,780,997**	**820**
Additions (acquisitions and increase in value)	5,900,151	195
Disposals (sale, redemption and decrease in value)	3,864,370	196
At 31 December 2011	**5,816,778**	**819**
At 1 January 2010	**2,573,466**	**11,654**
Additions (acquisitions and increase in value)	7,034,667	1,042
Disposals (sale, redemption and decrease in value)	5,827,136	11,876
At 31 December 2010	**3,780,997**	**820**

Notes to the consolidated financial statements

22. Property and equipment

In mii RON	**Land and buildings**	**Computers and equipments**	**Vehicles**	**Assets in progress**	**Total**
Gross currying amount					
Balance at 1 January 2010	**278,856**	**180,064**	**53,085**	**4,011**	**516,016**
Additions	1,135	6,666	8,413	21,029	37,243
Transfers from investment in progress	11,583	4,828	815	-	17,226
Reevaluation	4,657	705	657	-	6,019
Disposals	(1,482)	(5,173)	(6,711)	(18,478)	(31,844)
Balance at 31 December 2010	**294,749**	**187,090**	**56,259**	**6,562**	**544,660**
Balance at 1 January 2011	**294,749**	**187,090**	**56,259**	**6,562**	**544,660**
Additions	61	10,261	15,238	42,864	68,424
Transfers from investment in progress	6,703	8,816	1,072	-	16,591
Reclassification investment assets	630	-	-	-	630
Disposals	(990)	(9,874)	(8,927)	(17,107)	(36,898)
Reclassification assets	(816)	-	-	(4,602)	(5,418)
Balance at 31 December 2011	**300,337**	**196,293**	**63,642**	**27,717**	**587,989**
Amortization and depreciation					
Balance at 1 January 2010	**81,304**	**103,354**	**26,358**	**0**	**211,016**
Charge for the year	21,967	22,878	9,335	-	54,180
Reevaluation expense	97	-	-	-	97
Accumulated depreciation of disposals	(1,269)	(2,660)	(4,433)	-	(8,362)
Accumulated depreciation related to reevaluation	(353)	-	353	-	-
Cancelation provision for impairment	-	-	159	-	159
Sold la 31 December 2010	**101,746**	**123,572**	**31,772**	**-**	**257,090**
Balance at 1 January 2011	**101,746**	**123,572**	**31,772**	**-**	**257,090**
Charge for the year	18,011	20,963	9,504	-	48,478
Accumulated depreciation of disposals	(926)	(8,966)	(5,007)	-	(14,899)
Accumulated depreciation related to reevaluation	(186)	-	-	-	(186)
Cancelation provision for impairment	-	-	(25)	-	(25)
Sold la 31 decembrie 2011	**118,645**	**135,569**	**36,244**	**-**	**290,458**
Net currying amount					
Balance at 1 January 2011	**193,003**	**63,518**	**24,487**	**6,562**	**287,570**
Balance at 31 December 2011	**181,692**	**60,724**	**27,398**	**27,717**	**297,531**

At 31 December 2011 the Group does not leased property and equipment. At 31 December 2011 the Group had no pledged property, equipment or intangible assets.

Notes to the consolidated financial statements

23. Intangible assets (including goodwill)

In RON thousand	Goodwill	Software
Gross carrying amount		
Balance at 1 January 2010	**8,369**	**48,124**
Additions	-	48,438
Disposals	-	(6,004)
Balance at 31 December 2010	**8,369**	**90,558**
Balance at 1 January 2010	**8,369**	**90,558**
Additions	-	36,659
Input by takeover of Transilvania Imagistica	-	5
Disposals	-	(13,116)
Balance at 31 December 2010	**8,369**	**114,106**
Accumulated amortization		
Balance at 1 January 2010	**-**	**35,735**
Expenses of the year	-	6,620
Disposals	-	672
Balance at 31 December 2010	**-**	**41,683**
Balance at 1 January 2011	**-**	**41,683**
Expenses of the year	-	7,315
Input by takeover of Transilvania Imagistica	-	1
Depreciation goodwill Medical Leasing	7,993	-
Disposals	-	(5,448)
Balance at 31 December 2011	**7,993**	**43,551**
Carrying amount		
Balance at 1 January 2011	**8,369**	**48,875**
Balance at 31 December 2011	**376**	**70,555**

25. Intangible assets (including goodwill) *(continued)*

Impairment testing for cash generating units containing goodwill

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

During the year 2011 the goodwill at Medical Leasing IFN SA in amount of RON 7,993 thousand have been depreciated, at 31 December 2011 the balance containing only the goodwill allocated BT Leasing Transilvania IFN in amount of RON 376 thousand.

24. Deferred tax assets and liabilities

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

		31 December 2010	
In RON thousand	**Asset**	**Liability**	**Net**
Loans and advances to customers (including net lease investments)	187,604	-	187,607
Investment securities, available-for-sale	7,075	-	7,075
Other assets	(4,339)	-	(4,339)
Total	**190,340**	-	**190,340**
Net temporary differences			190,340
Deferred tax asset at 16%			**30,454**

Notes to the consolidated financial statements

25. Other assets

In RON thousand	31 December 2010	31 December 2010
Amounts under settlement	21,874	13,150
Assets repossessed	82,425	47,596
Prepayments	20,361	14,695
Sundry debtors	21,000	17,747
VAT receivable	4,819	696
Other assets	4,071	4,021
Less provision for other assets	(15,507)	(16,399)
Subsidies	721	1,995
Total	**139,764**	**83,501**

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

In RON thousand	2011	2010
Balance at 1 January	16,399	8,486
Net provision expense (Note 12)	(892)	7,739
Balance provision of acquired subsidiaries	-	174
Balance at 31 December	**15,507**	**16,399**

26. Deposits from banks

In RON thousand	31 December 2011	31 December 2010
Sight deposits	135,767	169,419
Term deposits	115,414	163,775
Total	**251,181**	**333,194**

27. Deposits from customers

In RON thousand	31 December 2011	31 December 2010
Current accounts	3,127,812	2,781,740
Sight deposits	142,205	174,257
Term deposits	16,508,155	13,951,285
Collateral deposits	479,079	371,850
Total	**20,257,251**	**17,279,132**

Notes to the consolidated financial statements

27. Deposits from customers *(continued)*

Deposits from customers can be also analyzed as follows:

In RON thousand	**31 December 2011**	**31 December 2010**
Retail customers	13,406,396	11,163,545
Corporate customers	6,850,855	6,115,587
Total	**20,257,251**	**17,279,132**

28. Loans from banks and other financial institutions

In RON thousand	**31 December 2011**	**31 December 2010**
Loans from commercial banks	64,235	128,446
Romanian banks	53,533	110,603
Foreign banks	10,702	17,843
Loans from development banks (BERD, IFC)	798,764	1,127,686
Titluri date in pensiune (BNR)	1,276,023	-
Other funds from financial institutions	453,960	337,163
Total	**2,592,982**	**1,593,295**

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

	2011		**2010**	
	minimum	maximum	minimum	maximum
EUR	1%	9.65%	1%	9.65 %
LEI	6%	6%	N/A	N/A
USD	Libor 6M+0.38%	Libor 6M + 3%	Libor 6M+0.38%	Libor 6M + 3%

29. Other subordinated liabilities

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

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

Notes to the consolidated financial statements

30. Other liabilities

In RON thousand	31 December 2011	31 December 2010
Amounts under settlement	126,835	53,801
Other fees payable	46,432	41,185
Sundry creditors	37,223	42,217
Leasing liabilities *(i)*	70	550
Other liabilities	18,249	16,263
Provisions	26,575	23.098
Total	**255,384**	**177,114**

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

In RON thousand	31 December 2011	31 December 2010
Minimum lease payments		
2011	-	473
2012	74	111
Total minimum lease payments	**74**	**584**
Less future interest	(4)	(34)
Present value of minimum lease payments	**70**	**550**

31. Share capital

The statutory share capital of the Bank as of 31 December 2011 was represented by 1,773,658,066 ordinary shares of RON 1 each (31 December 2010: 1,470,600,998 shares of RON 0.1 each). The shareholders structure of the Bank is presented in Note 1.

The capital increased by incorporating the reserves in the statutory profit and cash contribution amounting to RON 303,057,068 was registered at the Trade Register in 2011.

Notes to the consolidated financial statements

32. Other reserves

As at 31 December 2011 and 31 December 2010 the reserves include the following:

In RON thousand	**31 December 2011**	**31 December 2010**
General banking risks *(i)*	77,893	77,893
Statutory reserve *(ii)*	121,437	111,600
Fair value gains/ (losses) taken to equity (net of tax) on available for sale investments	(7,082)	8,737
Total	**192,248**	**198,230**

Statutory reserves

In RON thousand	**2010**	**2010**
At 1 January	111,600	104,329
Appropriations from profit	9,837	7,271
Total	**121,437**	**111,600**

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

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

The statutory reserves are not distributable.

Notes to the consolidated financial statements

33. Related parties transactions

Transactions with shareholders

During the year ended 31 December 2011, the following banking transactions were carried out with the shareholders:

In RON thousand	**2011**	**2010**
Assets		
Loans to shareholders granted by Banca Transilvania SA, related interest and provisions	53	10
Liabilities		
Current accounts, deposits, related	155,323	87,643
Loans from financial institutions	296,891	386,570
Subordinated loans	52,030	51,511
Income statement		
Interest income	42	48
Performance commission income	521	865
Interest, commission expense	24,681	26,432

Transactions with key management personnel

During the year ended 31 December 2011, the following banking transactions were carried out with key personnel:

In RON thousand	**2011**	**2010**
Assets		
Loans to key personnel granted by Banca Transilvania SA, related interest and provisions	111,236	93,524
Liabilities		
Current accounts at Banca Transilvania SA, deposits and accrued	54,914	37,631
Commitments to key personnel	5,266	1,826
Income statement		
Interest income	7,958	7,197
Commission expense	5,648	4,446

During 2011 the total salaries paid to the Board of Director's members and executive management of the Bank and subsidiaries amounting to RON 3,744 thousand (2010: RON 3,750 thousand).

34. Commitments and contingencies

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

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

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

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

In RON thousand	**31 December 2011**	**31 December 2010**
Guarantees issued	945,948	826,849
Loan commitments	2,233,821	1,857,151
Total	**3,179,769**	**2,684,000**

At 31 December 2011 currency transactions were:

a. Forward transactions

a.1. Transactions with banks

- Purchases: RON 65,242,000 – EUR 15,000,000

a.2. Transactions with clients

- Purchases: EUR 6,000,000 equivalent RON 25,918,200

b. Swap transactions

b.1. Transactions with banks

- Purchases: RON 20,254,800 – EUR 4,700,000
- Purchases: EUR 18,200,000 equivalent RON 78,618,54

At 31 December 2010 foreign currency transactions were nil.

Notes to the consolidated financial statements

35. Earnings per share

Basic earnings per share

The calculation of basic earnings per share (basic and diluted) was based on net profit attributable to ordinary shareholders of RON 297,019 thousand (31 December 2010: RON 133,794 thousand) and the weighted average number of the ordinary shares outstanding during the year calculated as follows:

	2011	**2010**
Ordinary shares issued at 1 January	1,470,600,998	1,086,337,883
Effect of shares issued during the year	143,558,781	281,154,437
Weighted average number of shares as at 31 December	1,614,159,779	1,367,492,320
Weighted average number of shares as at 31 December 2007 retreated	n/a	n/a

36. Changes in Group's structure

Acquisitions

During December 2011 the Group acquired 91.43% of the share capital of Transilvania Imagistica SA

37. Reconciliation of profit under IFRS and Romanian Accounting Standards

In RON thousand	**2011**	**2010**
Net profit under Romanian Accounting Standards	**170,472**	**113,294**
Fair value adjustment for investment securities	29,190	(1,205)
Reversal of dividends from subsidiaries	(2,649)	(5,491)
Adjustment to amortised cost and impairment of loans to customers	102,868	10,746
Net income related to subsidiaries sold/ acquired	924	-
Deferred tax income	(1,991)	15,830
Investment in associates(loss)	-	1,838
Other items	(1,566)	(1,028)
Net profit under IFRS	**297,248**	**133,984**

Notes to the consolidated financial statements

38. Reconciliation of equity under IFRS and Romanian Accounting Standards

In RON thousand	**31 December 2011**	**31 December 2010**
Equity under Romanian Accounting Standards	**2,145,640**	**1.976.098**
Loans related adjustments	182,821	55.177
Revaluation of available-for-sale securities	38,173	29.665
Deferred tax	28,163	30.454
Other items	(2,930)	(1.430)
Equity under IFRS	**2,391,867**	**2.089.964**

39. Subsequent events

During the month February 2011 have been completed the increase of share capital and assignment of shares to shareholders at BT Securities SA, operation followed by the increase of Group's percentage of ownership from 95.50% to 98.61%.

Horia Ciorcila	Maria Moldovan
Chairman	Financial Director

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