# Banca Transilvania S.A.

## Consolidated Financial Statements

31 December 2013

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

Free translation

# Contents

# Banca Transilvania S.A.

# Consolidated statement of profit or loss and other comprehensive income

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

| | Note | 2013 | 2012 | 2013 | 2012 |
|---|---|---|---|---|---|
| | | | | **Convenience Translation*** | |
| | | ***RON thousand*** | ***RON thousand*** | ***EUR thousand*** | ***EUR thousand*** |
| Interest income | | 1,882,489 | 2,010,114 | 425,999 | 451,103 |
| Interest expense | | (855,722) | (1,042,382) | (193,646) | (233,928) |
| **Net interest income** | 8 | **1,026,767** | **967,732** | **232,353** | **217,175** |
| Fee and commission income | | 446,116 | 428,439 | 100,954 | 96,149 |
| Fee and commission expense | | (75,038) | (64,963) | (16,981) | (14,579) |
| **Net fee and commission income** | 9 | **371,078** | **363,476** | **83,973** | **81,570** |
| Net trading income | 10 | 146,954 | 147,666 | 33,255 | 33,139 |
| Net gain from sale of available for sale financial instruments | 11 | 202,817 | 74,687 | 45,897 | 16,761 |
| Contribution to the Banking Deposits Guarantee Fund | | (64,398) | (54,045) | (14,573) | (12,129) |
| Other operating income | 12 | 76,403 | 87,820 | 17,290 | 19,708 |
| **Operating income** | | **1,759,621** | **1,587,336** | **398,195** | **356,224** |
| Net impairment allowance on assets, other liabilities and loan commitments | 13 | (414,280) | (379,536) | (93,750) | (85,174) |
| Personnel expenses | 14 | (462,214) | (436,980) | (104,597) | (98,066) |
| Depreciation and amortization | 23,24 | (65,243) | (54,710) | (14,764) | (12,278) |
| Other operating expenses | 15 | (344,437) | (346,277) | (77,945) | (77,708) |
| **Operating expenses** | | **(1,286,174)** | **(1,217,503)** | **(291,056)** | **(273,226)** |
| Share of profits in associates | | 5,937 | 1,169 | 1,344 | 262 |
| **Profit before income tax** | | **479,384** | **371,002** | **108,483** | **83,260** |
| Income tax expense | 16 | (70,827) | (24,546) | (16,028) | (5,509) |
| **Profit for the year** | | **408,557** | **346,456** | **92,455** | **77,751** |
| **Profit for the year attributable to:** | | | | | |
| Equity holders of the Bank | | 404,942 | 341,529 | 91,637 | 76,645 |
| Non controlling interests | | 3,615 | 4,927 | 818 | 1,106 |
| **Profit for the year** | | **408,557** | **346,456** | **92,455** | **77,751** |
| Basic earnings per share | 36 | **0.1967** | **0.1589** | | |
| Diluted earnings per share | 36 | **0.1967** | **0.1589** | | |

*Refer to Note 2c



The accompanying notes from pages 8 to 82 form an integral part of these consolidated financial statements.

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

# Consolidated statement of profit or loss and other comprehensive income

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

| | Note | 2013 *RON thousand* | 2012 *RON thousand* | 2013 *EUR thousand* | Convenience Translation* 2013 *RON thousand* |
|---|---|---|---|---|---|
| **Profit for the year** | | **408,557** | **346,456** | **92,455** | **77,750** |
| **Items that will never be reclassified as profit or loss, net of tax** | | | | | |
| Increases/ decreases from revaluation of property and equipment | | (5,667) | 4,699 | (1,282) | 1,055 |
| Other elements of comprehensive income | | (4,836) | (37,873) | (1,095) | (8,499) |
| **Items that or may be reclassified as profit or loss** | | | | | |
| Fair value reserve (available for sale financial assets) net of tax, out of which: | | (3,161) | 89,607 | (716) | 20,109 |
| Net gain from sale of available for sale financial instruments transferred to profit and loss account | | (187,576) | (75,104) | (42,448) | (16,855) |
| Fair value changes of available for sale financial instruments, net of tax | | 184,415 | 164,711 | 41,732 | 36,964 |
| **Total comprehensive income** | | **394,893** | **402,889** | **89,362** | **90,415** |
| **Total comprehensive income attributable to:** | | | | | |
| Equity holders of the Bank | | 391,278 | 397,962 | 88,544 | 89,309 |
| Non controlling interest | | 3,615 | 4,927 | 818 | 1,106 |
| **Total comprehensive income** | | **394,893** | **402,889** | **89,362** | **90,415** |

* Refer to Note 2c,

The consolidated financial statements were approved by the Board of Directors on 27 March 2014 and were signed on its behalf by:

Horia Ciorcila
*Chairman*

George Calinescu
*Deputy CEO*



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# Consolidated statement of financial position

***As at 31 December***

| | Note | 2013 RON thousand | 2012 RON thousand | Convenience Translation* 2013 EUR thousand | Convenience Translation* 2012 EUR thousand |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 17 | 4,105,584 | 5,579,088 | 915,465 | 1,259,757 |
| Placements with banks | 18 | 1,760,517 | 1,405,173 | 392,561 | 317,288 |
| Financial assets at fair value through profit and loss | 19 | 103,556 | 125,851 | 23,091 | 28,417 |
| Loans and advances to customers | 20 | 16,583,398 | 15,361,263 | 3,697,772 | 3,468,572 |
| Net finance lease investments | 21 | 243,151 | 202,686 | 54,218 | 45,766 |
| Investment securities, available for sale | 22 | 8,817,441 | 6,420,054 | 1,966,116 | 1,449,648 |
| Investment in associates | | 49,778 | 25,858 | 11,100 | 5,839 |
| Property and equipment | 23 | 328,227 | 334,587 | 73,188 | 75,550 |
| Intangible assets | 24 | 84,230 | 81,433 | 18,782 | 18,388 |
| Goodwill | 24 | 376 | 376 | 84 | 85 |
| Other assets | 26 | 167,824 | 174,827 | 37,421 | 39,475 |
| **Total assets** | | **32,244,082** | **29,711,196** | **7,189,798** | **6,708,785** |
| **Liabilities** | | | | | |
| Deposits from banks | 27 | 418,755 | 45,953 | 93,374 | 10,376 |
| Deposits from customers | 28 | 25,736,216 | 23,167,128 | 5,738,671 | 5,231,135 |
| Loans from banks and other financial institutions | 29 | 2,146,743 | 3,035,944 | 478,682 | 685,516 |
| Other subordinated liabilities | 30 | 338,124 | 288,810 | 75,395 | 65,213 |
| Deferred tax liabilities | 25 | 57,723 | 27,527 | 12,871 | 6,216 |
| Other liabilities | 31 | 337,363 | 330,823 | 75,226 | 74,700 |
| **Total liabilities** | | **29,034,924** | **26,896,185** | **6,474,219** | **6,073,156** |
| **Equity** | | | | | |
| Share capital | 32 | 2,292,937 | 1,989,543 | 511,280 | 449,239 |
| Treasury shares | | (1,490) | (9,853) | (332) | (2,225) |
| Retained earnings | | 539,116 | 460,334 | 120,212 | 103,943 |
| Revaluation reserve | | 30,218 | 39,496 | 6,738 | 8,918 |
| Other reserves | 33 | 319,234 | 299,864 | 71,183 | 67,709 |
| **Total equity attributable to equity holders of the Bank** | | **3,180,015** | **2,779,384** | **709,081** | **627,584** |
| **Non-controlling interest** | | 29,143 | 35,627 | 6,498 | 8,045 |
| **Total equity** | | **3,209,158** | **2,815,011** | **715,579** | **635,629** |
| **Total liabilities and equity** | | **32,244,082** | **29,711,196** | **7,189,798** | **6,708,785** |

* Refer to Note 2c.

The consolidated financial statements were approved by the Board of Directors on 27 March 2014 and were signed on its behalf by:

Horia Ciorcila
*Chairman*

George Calinescu
*Deputy CEO*



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# Consolidated statement of changes in equity

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

| *In RON thousand* | Attributable to the equity holders of the Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Treasury shares** | **Share premium** | **Reevaluation reserves** | **Other reserves** | **Retained earnings** | **Non-controlling interest** | **Total** |
| **Balance as at 31 December 2012** | **1,989,543** | **(9,853)** | **-** | **39,496** | **299,864** | **460,334** | **35,627** | **2,815,011** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the year | - | - | - | - | - | 404,942 | 3,615 | **408,557** |
| **Other comprehensive income, net of income tax** | | | | | | | | |
| Transfer from revaluation surplus to retained earnings | - | - | - | (4,191) | - | 4,191 | - | - |
| Fair value gains from available for sale financials assets (net of deferred tax) | - | - | - | - | (3,161) | - | - | **(3,161)** |
| Revaluation reserve for property and equipment net of income tax | - | - | - | (5.087) | - | (580) | - | **(5,667)** |
| Other elements of comprehensive income | - | - | - | - | - | (4,836) | | **(4,836)** |
| **Total comprehensive income** | **-** | **-** | **-** | **(9,278)** | **(3,161)** | **403,717** | **3,615** | **394,893** |
| **Contributions of the shareholders** | | | | | | | | |
| Increase in share capital through conversion of reserves from the profit | 303,394 | - | - | -- | - | (303,394) | - | - |
| Distribution to statutory reserves | | | - | - | 22,531 | (22,531) | - | - |
| Acquisitions of treasury shares | - | (13,557) | - | - | - | - | - | **(13,557)** |
| Non-controlling interest | - | 1,753 | - | - | - | - | (10,099) | **(8,346)** |
| Shared based payments | - | 20,167 | - | - | - | 990 | - | **21,157** |
| **Total contributions of the shareholders** | **303,394** | **8,363** | **-** | **-** | **22,531** | **(324,935)** | **(10,099)** | **(746)** |
| **Balance at 31 December 2013** | **2,292,937** | **(1,490)** | **-** | **30,218** | **319,234** | **539,116** | **29,143** | **3,209,158** |



The accompanying notes from pages 8 to 82 form an integral part of these consolidated financial statements.

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

## Banca Transilvania S.A.

# Consolidated statement of changes in equity

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

| | Attributable to the equity holders of the Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *In RON thousand* | **Share capital** | **Treasury shares** | **Share premium** | **Reevaluation reserves** | **Other reserves** | **Retained earnings** | **Non-controlling interest** | **Total** |
| **Balance as at 31 December 2011** | **1,860,159** | **(2,118)** | **732** | **35,544** | **192,248** | **303,268** | **2,034** | **2,391,867** |
| **Total comprehensive income for the period** | | | | | | | | |
| Profit for the year | - | - | - | - | - | 341,529 | 4,927 | **346,456** |
| **Other comprehensive income, net of income tax** | | | | | | | | |
| Transfer from revaluation surplus to retained earnings | - | - | - | (747) | - | 747 | - | - |
| Fair value gains from available for sale financials assets (net of deferred tax) | - | - | - | - | 89,607 | - | - | **89,607** |
| Revaluation reserve for property and equipment | - | - | - | 4,699 | - | - | - | **4,699** |
| Other elements of comprehensive income | - | - | - | - | - | (37,873) | - | **(37,873)** |
| **Total comprehensive income** | **-** | **-** | **-** | **3,952** | **89,607** | **304,403** | **4,927** | **402,889** |
| **Contributions of the shareholders** | | | | | | | | |
| Increase in share capital through conversion of reserves from the profit | 128,652 | - | - | - | - | (128,652) | - | - |
| Increase in share capital from share premiums | 732 | - | (732) | - | - | - | - | - |
| Distribution to statutory reserves | - | - | - | - | 18,009 | (18,009) | - | - |
| Acquisitions of treasury shares | - | (22,832) | - | - | - | - | - | **(22,832)** |
| Non-controlling interest | - | - | - | - | - | - | 28,666 | **28,666** |
| Shared based payments | - | 15,097 | - | - | - | (676) | - | **14,421** |
| **Total contributions of the shareholders** | **129,384** | **(7,735)** | **(732)** | **-** | **18,009** | **(147,337)** | **28,666** | **20,255** |
| **Balance at 31 December 2012** | **1,989,543** | **(9,853)** | **-** | **39,496** | **299,864** | **460,334** | **35,627** | **2,815,011** |



The accompanying notes from pages 8 to 82 form an integral part of these consolidated financial statements.

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# Consolidated statement of cash flows

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

| *In RON thousand* | **Note** | **2013** | **2012** |
|---|---|---|---|
| ***Cash flow from/ (used in) operating activities*** | | | |
| Profit for the year | | **408,557** | **346,456** |
| ***Adjustments for:*** | | | |
| Depreciation and amortization | 23,24 | 65,243 | 54,710 |
| Impairments allowance and write-offs of financial assets, other liabilities and loan commitments | | 414,280 | 379,536 |
| Share of profit in associate, net of dividends | | (5,937) | (1,169) |
| Fair value adjustment of financial assets at fair value through profit and loss | | (17,907) | (30,487) |
| Income tax expense | 16 | 70,827 | 24,546 |
| Other adjustments | | (69,871) | (13,192) |
| ***Net profit adjusted with non-monetary elements*** | | **865,192** | **760,400** |
| ***Changes in operating assets and liabilities*** | | | |
| Change in investment securities | | (2,389,078) | (360,364) |
| Change in placement with banks | | (40,689) | 91,797 |
| Change in loans and advances to customers | | (1,563,280) | (1,736,447) |
| Change in net lease investments | | (46,406) | 3,524 |
| Change in financial assets at fair value through profit and loss | | 36,686 | 151,615 |
| Change in other assets | | (4,245) | (48,365) |
| Change in deposits from customers | | 2,587,941 | 2,871,122 |
| Change in deposits from banks | | 372,626 | (205,132) |
| Change in other liabilities | | (39,293) | 122,452 |
| Income tax paid | | (17,265) | (70,696) |
| ***Net cash from/ (used in) operating activities*** | | **(237,811)** | **1,579,906** |
| ***Cash flow from / (used in) investing activities*** | | | |
| Net acquisitions of property and equipment and intangible assets | | (57,986) | (92,963) |
| Acquisition of subsidiaries (net of cash acquired) and investments in associates | | (17,983) | (24,689) |
| Dividends collected | | 508 | 697 |
| ***Net cash flow from/(used in) investing activities*** | | **(75,461)** | **(116,955)** |
| ***Cash flow from /(used in) financing activities*** | | | |
| Net proceeds/(payments) from loans from banks and other financial institutions subordinated liabilities and debt securities issued | | (844,399) | 430,321 |
| Payments of dividends | | - | - |
| Payments for treasury shares | | (13,557) | (22,832) |
| Proceeds from investments held to maturity | | - | 819 |
| ***Net cash flow from financing activities*** | | **(857,956)** | **408,308** |



The accompanying notes from pages 8 to 82 form an integral part of these consolidated financial statements.

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# Consolidated statement of cash flows (continued)

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

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| Net increase/(decrease) in cash and cash equivalents | (1,171,228) | 1,871,259 |
| Cash and cash equivalents at 1 January | 6,903,856 | 5,032,597 |
| **Cash and cash equivalents at 31 December** | **5,732,628** | **6,903,856** |

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

| *In RON thousand* | **Note** | **2013** | **2012** |
|---|---|---|---|
| Cash and cash equivalents | 17 | 4,105,584 | 5,579,088 |
| Placements with banks, less than 3 months maturity | | 1,628,149 | 1,326,846 |
| Less accrued interest | | (1,105) | (2,078) |
| **Cash and cash equivalents in the cash flow statement** | | **5,732,628** | **6,903,856** |

## *Cash flows from operating activities include*:

| *In RON thousand* | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Interest collected | 1,816,377 | 1,764,923 |
| Interest paid | 875,480 | 1,003,357 |



The accompanying notes from pages 8 to 82 form an integral part of these consolidated financial statements.

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

# Notes to the consolidated financial statements

## 1. Reporting entity

Banca Transilvania Group (the "Group") includes the parent bank, Banca Transilvania S.A, (the "Bank") and its subsidiaries headquartered in Romania and Moldova. The consolidated financial statements of the Group for the year ended 31 December 2013 include the financial statements of the Bank and its subsidiaries (together referred to as the "Group"). The subsidiaries include the following companies:

| **Branch** | **Field of activity** | **31 December 2013** | **31 December 2012** |
|---|---|---|---|
| BT Securities S.A. | Investments | 98.68% | 98.68% |
| BT Leasing Transilvania IFN S.A. | Leasing | 100.00% | 100.00% |
| BT Investments S.R.L. | Investments | 100.00% | 100.00% |
| BT Direct IFN S.A. | Consumer loans | 100.00% | 100.00% |
| BT Building S.R.L. | Investments | 100.00% | 100.00% |
| BT Asset Management S.A.I S.A. | Asset management | 80.00% | 80.00% |
| BT Solution Agent de Asigurare S.R.L. | Insurance | 95.00% | 95.00% |
| BT Asiom Agent de Asigurare S.R.L | Insurance | 95.00% | 95.00% |
| BT Safe Agent de Asigurare S.R.L. | Insurance | 99.99% | 99.99% |
| BT Intermedieri Agent de Asigurare S.R.L. | Insurance | 99.99% | 99.99% |
| BT Compania de Factoring S.R.L. | Factoring | 100.00% | 100.00% |
| BT Operational Leasing S.A. | Leasing | 94.73% | 91.98% |
| BT Medical Leasing IFN S.A. | Leasing | - | 100.00% |
| Rent-a-Med S.R.L. | Rental of medical equipment | - | 100.00% |
| BT Leasing MD SRL | Leasing | 100.00% | 100.00% |
| BT Transilvania Imagistica S.A. | Other human health activities | 82.31% | 81.18% |
| Improvement Credit Collection SRL | Activity of the collection agents and credit reporting bureaus | 100.00% | - |

The Group has the following lines of business: banking, which is performed by Banca Transilvania S.A. ("the Bank"), leasing and consumer finance, which is performed mainly by BT Leasing Transilvania IFN S.A., BT Operational Leasing S.A., BT Direct IFN S.A and BT Leasing MD S.R.L, asset management which is performed by BT Asset Management S.A.I S.A. Also the Bank has more than 50% holding in 4 investment funds, which are consolidated and a significant influence in 3 investment funds. During 2013, one subsidiary was closed, Rent a Med S.R.L. another subsidiary, BT Medical Leasing IFN SA, was taken over through absorption by BT Leasing Transilvania IFN SA. Also, in 2013 a new subsidiary was set up, Improvement Credit Collection SRL. This subsidiary is fully owned by the Bank through Compania de Factoring S.R.L.



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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 retail clients.

The Bank carries its activity through its business place in Cluj-Napoca and 61 branches, 436 agencies, 33 bank units, 11 healthcare division units and 1 regional center located in Bucharest (2012: 63 branches, 445 agencies, 31 bank units, 11 healthcare division units and 1 regional center located in Bucharest) throughout the country. The Bank accepts deposits and grants loans, carries out funds transfers in Romania and abroad, exchanges currencies and provides banking services for its corporate and retail customers.

As at 31 December 2013, the Bank no longer operated through its branch located in Cyprus. As at 31 December 2012 the structure of the branch asset structure was: total assets RON 618,475 thousand, total liabilities RON 618,946 thousand, losses RON 471 thousand. During 2013 the Bank opened a branch located in Italy, which started the operational activity in 2014.

The Bank's number of employees as at 31 December 2013 was 6,041 (31 December 2012: 6,160). 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 2013** | **31 December 2012** |
|---|---|---|
| European Bank for Reconstruction and Development ("EBRD") | 14.61% | 14.61% |
| Romanian individuals | 19.56% | 23.06% |
| Romanian companies | 24.64% | 26.32% |
| Foreign individuals | 2.33% | 2.84% |
| Foreign companies | 38.86% | 33.17% |
| **Total** | **100%** | **100%** |

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

***BT Leasing Transilvania IFN S.A.***

BT Leasing Transilvania IFN S.A. was incorporated in 1995 as a privately owned joint-stock company, established under Romanian laws. It was initially incorporated under the name of BT Leasing Transilvania S.A., which was changed to the current name in February 2003. The company operates through its Head Office located in Cluj-Napoca, 1 agency and 19 working points (2012: 1 agency and 23 working points) throughout the country. The company leases various types of vehicles and technical equipment.

During 2013 BT Leasing Transilvania IFN SA merged with BT Medical Leasing IFN SA. As a result of the merger, BT Leasing Transilvania IFN SA, as the absorbing entity, took over as at 30 June 2013 all assets and liabilities of the absorbed company, BT Medical Leasing IFN SA, acquiring its rights and obligations.

BT Medical Leasing IFN SA was dissolved without liquidation.

The number of employees as at 31 December 2013 was 101 (2012: 104).

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

# Notes to the consolidated financial statements

## 1. Reporting entity *(continued)*

***BT Asset Management SAI***

BT Asset Management SAI S.A. is a commercial company, member of the Banca Transilvania Financial Group, which is operating in the management of opened and closed investment funds domain.
It can also perform investment portfolio management activities, including management of pension funds and also related advisory services regarding financial instruments.
BT Asset Management SAI S.A provides a full range of investment products, from fixed income funds to equity funds. The opening to the capital market is provided to customers through investments in Romania and Austria, while investments can be performed in both lei and euro.
At the end of 2013, BT Asset Management SAI market share is 4.81%, considering the value of the assets managed, and it ranks 5th among investment fund managers in Romania.
As at 31 December 2013, the number of employees was 19 (2012: 18 employees).
The registered address of BT Asset Management SAI S.A is: Maestro Business Center, 104, 21 Decembrie 1989 Blvd, Cluj-Napoca, Romania.

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

BT Securities S.A. was set up in 2003 as a result of the change of the name and of the registered address of the commercial company Transilvania Capital Invest. The Company main operating activity is brokerage of financial transactions and management of funds (financial agents), and also activities related activities financial brokerage.
During 2013, BT Securities SA activity was developed in the Romanian capital market characterized through increased of the main quoted companies' shares values, as a result of the macroeconomic stability, but the increase were not noted in the trade volumes. The development of the brokerage activity was characterized through the maintenance of a low level of the transaction volumes and also through the continue decrease in the average commission percent received from customers, as a result of the competitors actions.
Among BT Securities S.A. achievements in 2013 the followings can be mentioned: successful brokering of the public offers of SNTGN Transgaz S.A. and SN Nuclearelectrica S.A., and also the increase in turnover with more than 42% as compared to 2012.
As at 31 December 2013, the number of employees was 77 (2012: 83 employees).
BT Securities S.A. is operating through its head office located in Maestro Business Center, 104, 21 Decembrie 1989 Blvd, first floor, Cluj-Napoca, Romania and also through 17 units.

***BT Direct IFN SA***

BT Direct IFN SA is a non-banking financial institution set up in 2003 that is granting personal needs loans to individuals.
During 2013 BT Direct IFN SA increased its loans portfolio, composed of consumer loans and personal needs loans, with 6.73% as compared to 2012.
As at 31 December 2013, the number of employees was 33 (2012: 28 employees).
BT Direct IFN SA is operating through its head office located in: 47 Taietura Turcului, Tetarom I Business Park, Cluj-Napoca, Romania.



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

# Notes to the consolidated financial statements

## 2. Basis of preparation

### a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union, effective at the Group's annual reporting date, 31 December 2013.

According with provisions of Order 27/2010 issued by National Bank of Romania, starting with 1 January 2012 the Bank applies as endorsed by European Union ("IFRS"), as statutory financial reporting framework.

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

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

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

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

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

### b) Basis of measurement

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

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



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# Notes to the consolidated financial statements

**2. Basis of presentation *(continued)***

**c) Functional and presentation currency**

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

***Convenience translation***

For the user's information, the restated RON figures from the Consolidated statement of profit or loss and other comprehensive income and the Consolidated statement of financial position have been presented in EUR, following the requirement of IAS 21 "The Effect of Changes in Foreign Exchange Rates". This presentation 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 2013: 4.4847 RON/EUR; 31 December 2012: 4.4287 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 2013: 4.4190 RON/EUR; average exchange rate in 2012: 4.4560 RON/EUR);
- All exchange differences resulting from translation in the current period are recognized directly in equity.

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

**d) Use of estimates and judgments**

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

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

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

# Notes to the consolidated financial statements

## 3. Significant accounting policies

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

### a) Basis of consolidation

***i) Subsidiaries***

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

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

***ii) Investment funds management***

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

***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 2013, the Group has significant influence in 3 investment funds, the ownership percentage is between 20.00% and 42.81% (31 December 2012 26.31% - 43.68%).

***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 2013 and 31 December 2012, the Group does not own jointly controlled entities.



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# Notes to the consolidated financial statements

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

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

***v) Transactions eliminated on consolidation***

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

**b) Foreign currency**

***i) Foreign currency transactions***

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

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

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

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

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

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

# Notes to the consolidated financial statements

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

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

The exchange rates of major foreign currencies were:

| Currency | 31 December 2013 | 31 December 2012 | Variation % |
|---|---|---|---|
| Euro (EUR) | 1: LEU 4.4847 | 1: LEU 4.4287 | 1.01% |
| US Dollar (USD) | 1: LEU 3.2551 | 1: LEU 3.3575 | 0.97% |

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

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

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

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

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

**d) Interest income and expenses**

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

# Notes to the consolidated financial statements

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

**d) Interest income and expenses *(continued)***

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

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

**e) Fees and commissions**

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

Fee and commission 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) Net gain and loses from sale of financial instruments available for sale**

Net gain from sale of financial instruments available for sale include gains and losses from trading financials instruments available for sales and gains from disposal of equity investments valued at cost.

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



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

### h) Dividends

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

Dividends are treated as an appropriation of profit in the period they are declared and approved by the General Assembly of Shareholders. For the Bank’s subsidiaries, the only profit available for distribution is the profit for the year recorded in the Romanian statutory accounts, which differs from the profit in these consolidated financial statements prepared in accordance with IFRS as endorsed by European Union, due to the differences between the applicable Romanian Accounting Regulations and IFRS as endorsed by the European Union. In case of the Bank, as presented in Note 2, starting with 1 January 2012, the IFRS standards as endorsed by the European Union are applied as a legal base for financial reporting.

### i) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the 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.

### j) 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.

The adjustments that influence the fiscal base of current tax are: non-deductible expenses, non-taxable income, elements similar to expenses, or to income and other tax deductions.

Items assimilated to expenses includes: prudential filters that are "positive differences between prudential value adjustments / expected losses determined on the basis of methodologies applicable staring with financial year of 2012 and impairment adjustments determined under IFRS, related to financial assets covered by these methodologies". In terms of tax, prudential filters are deducted from current tax calculation and the reduction or cancellation is taxed in order of their registration

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.

### 3. Significant accounting policies (continued)

### j) Income tax expense (continued)

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 are likely to be obtained after compensation with fiscal losses in the previous years and the tax on profit to be recovered. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit to 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 2013 is 16% (31 December 2012: 16%).

### k) Financial assets and *liabilities*

#### *(i) Classifications*

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

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

*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.

## 3. Significant accounting policies (continued)

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

***(ii) Recognition***

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

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

***(iii) Derecognition***

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

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

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 recognized 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 derecognized from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

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

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

***(iv) Offsetting***

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when and only when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

# Notes to the consolidated financial statements

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

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

***(v) Amortized cost measurement***

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

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

*a. Policy applicable after 1 January 2013*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at the date. The fair value of a liability reflects its nonperformance risk.
When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.
The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.
The best evidence of a fair value of a financial instrument at initial recognition is normally the transaction price – the fair value of a consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at the fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of an instrument but not later than when the valuation is wholly supported by observable market data or the transaction is closed out.
The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

*b. Policy applicable before 1 January 2013*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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.

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

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

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

*b. Policy applicable before 1 January 2013(continued)*

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

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate for an instrument with similar terms and conditions.

Where pricing models are used, inputs are based on market related measures at the date of consolidated statement of financial position. Where a fair value cannot be reliably be estimated, equity instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

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

***Assets held at amortized cost***

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

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

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 statement of profit or loss.

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

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

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

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 statement of profit or loss.

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

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

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

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

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

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

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

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

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

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

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 into a group with similar credit risk characteristics and collectively assesses them for impairment. The loans to customers and net lease investments individually assessed, for which an individual impairment is recognized or continue to be recognized are not included in the groups with similar characteristics of impairment under collective assessment. The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

# Notes to the consolidated financial statements

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

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

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

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

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

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

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

***Available for sale financial assets***

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

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

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.



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# Notes to the consolidated financial statements

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

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

***(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.

### l) 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.

### m) 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 consolidated statement of profit and loss. All changes in fair value are recognized as part of net trading income in comprehensive income. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

### n) Derivatives

***(i) Derivatives held for risk management purposes***

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as 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.

# Notes to the consolidated financial statements

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

### n) Derivatives (continued)

#### *(ii) Embedded derivatives*

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

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

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

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

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

### p) Investment securities

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

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

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

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

#### *(ii) Fair value through profit and loss*

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

# Notes to the consolidated financial statements

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

### p) Investment securities (continued)

***(iii) Available for sale***

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

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

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

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

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

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

***(iv) Loans and advances***

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

### q) Property and equipment

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

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

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

***(ii) Subsequent costs***

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

***(iii) Depreciation***

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

# Notes to the consolidated financial statements

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

### q) Property and equipment (continued)

#### *(iii) Depreciation (continued)*

The estimated useful lives are as follows:

| | |
|---|---|
| Buildings | 50 years |
| Leasehold improvements (average) | 6 years |
| Computers | 4 years |
| Furniture and equipment | 2 – 24 years |
| Vehicles | 4 - 5 years |

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

### r) Intangible assets

#### *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.

***Subsequent measurement***

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

#### *(ii) Software*

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

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



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# Notes to the consolidated financial statements

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

### s) 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.

### t) Impairment of non-financial assets

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset generating cash flows that 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.

### u) Deposits from customers

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

### v) Debt securities issued and loans from banks and other financial institutions

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

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

### w) Provisions

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

# Notes to the consolidated financial statements

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

### x) 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).

### y) Employee benefits

***(i) Short term benefits***

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

***(ii) Defined contribution plans***

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

***(iii) Other benefits***

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

### z) Segment reporting

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



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# Notes to the consolidated financial statements

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

### aa) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders 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.

### ab) Treasury 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.

### ac) Reclassification

In 2013, the Bank reclassified from interest income the net gains from sale of financial instruments available for sale at a distinct position in the statement of profit or loss and statement of comprehensive income and loan management fees have been reclassified from fee income to interest income. These reclassifications affected the statement of profit or loss and statement of comprehensive income for comparative figures as follows:

| | 2012 | | |
|---|---|---|---|
| *In RON thousand* | Before reclassification | Reclassification effect | After reclassification |
| Interest income | 2,054,585 | (44,471) | 2,010,114 |
| Interest expense | (1,085,870) | 43,488 | (1,042,382) |
| **Net interest income** | **968,715** | **(983)** | **967,732** |
| Loan management fees | 73,922 | | |
| **Net fee and commission income** | **437,398** | **(73,922)** | **363,476** |
| Net gain from sale of available for sale financial instruments | **-** | **74,687** | **74,687** |



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# Notes to the consolidated financial statements

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

### ad) 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 at 31 December 2013, and have not been applied in preparing these separate financial statements:

- IFRS 9 Financial Instruments – adoption date not yet decided. This Standard replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost or financial assets measured at fair value. A financial asset is measured at amortized cost if the following two conditions are met: the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Gains and losses on re-measurement of financial assets measured at fair value are recognized 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 recognized in OCI is ever reclassified to profit or loss at a later date. It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Bank's financial assets are expected to change. This standard had not yet been adopted by the European Union.

- Amendments to IFRS 10 - Consolidated Financial Statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 27 (2011) Separate Financial Statements – Investment Entities (effective for annual periods beginning on or after 1 January 2014). According to these amendments, an investment entity does not have to prepare consolidated financial statements and has the obligation to assess all its subsidiaries at fair value through profit or loss. An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. According to these essential elements an investment entity obtains funds from investors to provide those investors with investment management services;
    - commits to its investors that its business purpose is to invest for returns solely from appreciation and/or investment income; and
    - measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

- IFRS 11 "Joint Arrangements" (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.) IFRS 11 "Joint Arrangements" eliminates and replaces IAS 31 "Interests in Joint Ventures". IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows: a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement an a joint venture is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement.



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# Notes to the consolidated financial statements

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

### ad) New standards and interpretations not yet adopted (continued)

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in its consolidated financial statements. The Group does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

- IFRS 12, "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively; earlier application is permitted). IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities. The Group does not expect the new standard will have a material impact on the financial statements.

- IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early.). IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, Consolidated Financial Statements. The Group does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the entity‘s accounting policy.

- IAS 28, "Investments in Associates and Joint Ventures" (amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively; earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 are also applied early.) There are limited amendments made to IAS 28: a) associates and joint ventures held for sale. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture; b) changes in interests held in associates and joint ventures. Previously, IAS 28 and IAS 31 specified that the cessation of significant influence or joint control triggered re-measurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 now requires that in such scenarios the retained interest in the investment is not re-measured.

The Group does not expect the amendments to standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.

# Notes to the consolidated financial statements

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

### ad) New standards and interpretations not yet adopted (continued)

- Amendments to IAS 32, "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively; earlier application is permitted, however the additional disclosures required by amendments to IFRS 7, "Disclosures - Offsetting Financial Assets and Financial Liabilities" must also be made). The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments clarify that an entity currently has a legally enforceable right to set-off if that right is: not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Bank does not expect the amendments to have any impact on the financial statements since it has not entered into master netting arrangements.

- Amendments to IAS 36 –"Recoverable Amount Disclosures for Non-Financial Assets" (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however an entity shall not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13). The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognized or reversed during the period. The Amendments also require the following additional disclosures when an impairment for individual assets (including goodwill) or cash-generated units has been recognized or reversed in the period and recoverable amount is based on fair value less costs to disposal: the level of IFRS 13 'Fair value hierarchy' within which the fair value measurement of the asset or cash-generating unit is categorized; for fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making it; for fair value measurements categorized within Level 2 and Level 3, each key assumption (i.e. assumptions to which recoverable amount is most sensitive) used in determining fair value less costs of disposal. If fair value less costs of disposal is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed. The Group does not expect the new Standard will have a material impact on the financial statements.

- Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however an entity shall not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13). The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met: the novation is made as a consequence of laws or regulations; a clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument; changes to the terms of the derivative are limited to those necessary to replace. The Group does not expect the new standard to have any impact on the financial statements, since the entity does not apply hedge accounting.



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# Notes to the consolidated financial statements

## 4 Financial risk management

### a) Introduction

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

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

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

***Risk management framework***

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

The Board of Directors has the responsibility regarding the establishment and monitoring of the general framework for the Group risk management. The Board of Directors has appointed Leaders Committee, Executive Management Committee, Assets - Liabilities Committee (ALCO), Credit Policy and Approval Committee, Credit and Risk Committees of Bank's Head Office (loan approval), Credit and Risk Committee of branches / agencies that are responsible for the formulation and / or monitoring risk management policies in their field of expertise. The Board of Directors periodically reviews the activity of these committees.

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

The Group's strategy regarding significant risk management focuses over the realization of the budgeted ratios in a controlled risk environment which ensures both the sound continuity of the business and the protection of the shareholders and clients' interest, the Group adopts a risk profile consistent with its risk profile, strategies and policies regarding significant risks management, correlated with the general strategy of the Group, its capital and experience in risk management.

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

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



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# Notes to the consolidated financial statements

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

### a) Introduction

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

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

### b) Credit risk

#### *(i) Credit risk management*

The Group is exposed to credit risk through its trading, lending, leasing and investing activities and in cases where it issues guarantees. Credit risk associated with trading and investing activities is managed through the Group's market risk management process. The risk is mitigated through selecting counterparties of good credit standings and monitoring their activities and ratings and through the use of exposure limits and when appropriate, 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 35).

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

The Board of Directors has delegated responsibility for credit risk management to Leaders Committee, Executive Management Committee, Credit approval and Policy Committee, Credit and Risk committees from the head office of the Bank (credit approval) at Head Office level and to Credit and Risk Committees of branches / agencies at branch level. Within the Bank operates the Risk Management Division that reports to the above Central Committees and has responsibilities regarding:

- Identification and assessment of specific risks within the loan activity;
- Following the internal regulations specific for the loan activity;
- Elaborating proposals for reducing specific risks, in order to maintain healthy standards for the loan activity;
- Monitoring the granted loans, in accordance with the client's financial performance, the type of the credit, the nature of the collateral and debt service, according to the internal norms of the loan activity;
- Approval and application of ratios computation in respect of granting / modifying the competencies of granting loans for the branches, according to specific internal policies;
- Periodic review and recommendation of the risk levels accepted by the Group to the Leaders Committee;
- Identifying, monitoring and controlling the credit risk at branch and subsidiary level;



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# Notes to the consolidated financial statements

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

### b) Credit risk (continued)

- 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;
- Periodically presents reports to the Board of Directors and Leaders Committee regarding the evolution of the significant risks (the implications of risk correlation, forecasts etc.);
- Analysis of loan portfolio both individually and as Group of financial assets with similar characteristics to determine if there is any objective evidence of impairment, and assessment of impairment losses, related provisioning in accordance with IFRS.

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

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

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

***Credit risk exposure***

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

# Notes to the consolidated financial statements

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

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

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

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Individuals | 31.67% | 32.67% |
| Trading | 16.49% | 16.70% |
| Production | 17.04% | 15.21% |
| Construction | 8.11% | 7.54% |
| Services | 5.23% | 5.36% |
| Transport | 3.92% | 4.47% |
| Real estate | 2.74% | 2.54% |
| Agriculture | 4.34% | 4.51% |
| Free lancers | 1.79% | 1.70% |
| Energy industry | 1.42% | 2.44% |
| Chemical industry | 0.94% | 1.00% |
| Telecommunication | 0.49% | 0.66% |
| Mining industry | 0.49% | 0.67% |
| Governmental bodies | 2.49% | 0.14% |
| Financial Institutions | 0.04% | 1.78% |
| Fishing industry | 0.12% | 0.06% |
| Others | 2.68% | 2.55% |
| **Total** | **100%** | **100%** |

At 31 December 2013, total on and off balance sheet exposures was RON 24,341,181 thousand (31 December 2012: RON 21,971,832 thousand).

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

The Group holds collateral against loans and advances to customers in the form of pledge over cash deposits, mortgage over property, guarantees and other pledge over equipment and/or receivables. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and if necessary estimates on further analysis. Collateral generally is not held over loans and advances to banks.

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



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)*

The credit risk exposures for loans and advances to customers and net lease investments at 31 December 2013 and 2012 are presented below:

| **Depreciated cost** | | **2013** | **2012** |
|---|---|---|---|
| **Carrying amount** | | | |
| Grade 1 | Low Risk | 14,061,613 | 13,128,642 |
| Grade 2-3 | Moderate Risk | 1,119,585 | 1,260,771 |
| Grade 4-6 | Medium Risk | 1,003,037 | 972,330 |
| Grade 7 | High Risk | 542,621 | 219,104 |
| Grade 8 | Impaired | 2,745,347 | 2,218,844 |
| **Gross Value** | | **19.472.203** | **17,799,691** |
| Adjustment for impairment (individual and collective) | | (2,645,654) | (2,235,742) |
| **Net book value** | | **16,826,549** | **15,563,949** |

| **Gross values neither past due nor impaired** | | | |
|---|---|---|---|
| Grade 1 | Low Risk | 13,509,776 | 12,345,952 |
| Grade 2-3 | Moderate Risk | 847,346 | 809,334 |
| Grade 4-6 | Medium Risk | 58,003 | 71,811 |
| **Total** | | **14,415,125** | **13,227,097** |

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

| | | |
|---|---|---|
| 1-15 days | 608,939 | 922,735 |
| 15-30 days | 195,890 | 274,661 |
| 30-60 days | 283,362 | 357,851 |
| 60-90 days | 249,093 | 266,132 |
| 90-180 days | 112,705 | 128,382 |
| 180 days + | 20,041 | 16,960 |
| **Total** | **1,470,030** | **1,966,721** |

**Gross value of loans and receivables offered to customers with specific (individual) adjustments**

| | | | |
|---|---|---|---|
| Grade 4-6 | Medium Risk | 298,301 | 167,925 |
| Grade 7 | High Risk | 542,621 | 219,104 |
| Grade 8 | Impaired | 2,746,126 | 2,218,844 |
| **Total** | | **3,587,048** | **2,605,873** |

| **Adjustments for impairment** | | |
|---|---|---|
| Individual | (1,498,113) | (1,184,798) |
| Collective | (1,147,541) | (1,050,944) |
| **Total Adjustments for impairment** | **(2,645,654)** | **(2,235,742)** |



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)***

The outstanding balance of the Group as at 31 December amounted to RON 3,223,773 thousand, representing renegotiated loan agreements within the past five years. According to the internal procedure regarding exposure reporting and monitoring, the high risk category as at 31 December 2013 included the amount of RON 542,621 thousand, representing mainly loans with final maturities amended within the past 12 months.

In addition, the Group had entered into lending commitments as of 31 December 2013 amounting to RON 4,868,978 thousand (31 December 2012: RON 4,172,141 thousand), mainly with counterparties graded 1-3.

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

*Past due and individually impaired loans*

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

*Past due but not individually impaired loans*

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

*Allowances for impairment*

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

*Write-off policy*

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

The value of the write-offs in the year 2013 is RON 149.867 thousand (31 December 2012: RON 81.267 thousand).

The Group holds collateral against loans and advances to customers in the form of mortgage over land and buildings, property, inventory, insurance policies and other guarantees. The Group has the ownership right over these guarantees until the end of the contract. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and periodical updates on collaterals.

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



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# Notes to the consolidated financial statements

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

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

| *In RON thousand* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Collaterals related to loans with a moderate, medium and high risk and impaired loans | | |
| Real estate | 4,077,198 | 4,840,149 |
| Pledges | 474,066 | 763,835 |
| Other collaterals | 322,768 | 96,301 |
| | **4,874,032** | **5,700,285** |
| Collaterals related to loans with low risk | | |
| Real estate | 11,553,414 | 10,423,197 |
| Pledgees | 1,821,476 | 1.899.068 |
| Other collaterals | 1,571,029 | 193.840 |
| | **14,945,919** | **12.516.105** |
| **Total** | **19,819,951** | **18.216.390** |

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

Significant concerns about the creditworthiness of certain Eurozone countries persisted during 2013 leading to speculation as to the long-term sustainability of the Eurozone. The deepening recession in a number of countries, the wider political and economic consequences of fiscal austerity programs and other government actions, and concerns about the viability of some countries' financial institutions have led to increased volatility of spreads on sovereign bonds that have peaked at times during the past year at worrying levels. Most recently, certain actions undertaken by the European Central Bank and European Commission have led to positive results in terms of improving market confidence. However, the situation remains fragile.

### c) Liquidity risk

Liquidity risk is generated by the Group's inability to meet its payment obligations outstanding at their due date. Liquidity risk has 2 components: the difficulties in procuring funds on the relative maturity date, necessary to refinance current assets or the inability to convert an asset into cash at a value near its fair value, in a reasonable period of time. The Group is concerned to counteract this type of risk.
The Group has access to diverse funding base. Funds are raised using a broad range of instruments including bank deposits from customers or banks, loans from development institutions and financial institutions and share capital. Access to diverse funding sources improves flexibility to attract funds, limiting dependence on one type of financing and on one type of partner and lead to an overall decrease of costs of fundraising. The Group tries to maintain a balance between continuity and flexibility of attracting funds, through contracting debts with different maturities and different currencies. The Group continually assesses liquidity risk by identifying and monitoring changes in funding, and diversifying the funding sources.

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

The 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 2013 and 31 December 2012 as follows:



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

# Notes to the consolidated financial statements

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

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

| *In thousand RON* | Carrying amount | Gross nominal inflow/(outflow) | Less than 3 months | 3-6 months | 6-12 months | 1-3 years | 3 – 5 years | More than 5 years | Without maturity |
|---|---|---|---|---|---|---|---|---|---|
| **31 December2013** | | | | | | | | | |
| **Financial liabilities** | | | | | | | | | |
| Deposits from banks | 418,755 | (418,949) | (418,640) | (309) | - | - | - | - | - |
| Deposits from customers | 25,736,216 | (25,861,448) | (17,930,405) | (3,621,272) | (1,819,435) | (824,531) | (1,577,923) | (87,882) | - |
| Loans from banks and other financial institutions and other subordinates liabilities | 2,484,867 | (2,681,917) | (1,558,134) | (163,277) | (104,753) | (342,765) | (209,418) | (303,570) | - |
| **Total Financial liabilities** | **28,639,838** | **(28,962,314)** | **(19,907,179)** | **(3,784,858)** | **(1,924,188)** | **(1,167,296)** | **(1,787,341)** | **(391,452)** | **-** |
| **Financial assets** | | | | | | | | | |
| Cash and cash equivalents | 4,105,584 | 4,105,584 | 4,105,584 | - | - | - | - | - | - |
| Placements with banks | 1,760,517 | 1,777,960 | 1,645,905 | 33,955 | 22,637 | 55,029 | 9,381 | 11,053 | - |
| Financial assets at fair value through profit and loss | 103,556 | 103,556 | 52,205 | - | - | - | - | - | 51,351 |
| Loans and advances to customers | 16,583,398 | 24,575,267 | 5,040,789 | 2,369,454 | 6,117,031 | 3,379,604 | 2,183,437 | 5,484,952 | - |
| Net finance lease investments | 243,151 | 345,491 | 91,525 | 26,897 | 50,148 | 134,872 | 35,865 | 6,184 | - |
| Investment securities, available for sale | 8,817,441 | 10,462,367 | 7,503,753 | 182,746 | 213,486 | 1,070,025 | 658,889 | 795,205 | 38,263 |
| Investment in associates | 49,778 | 49,778 | - | - | - | - | - | - | 49,778 |
| **Total Financial assets** | **31,663,425** | **41,420,003** | **18,439,761** | **2,613,052** | **6,403,302** | **4,639,530** | **2,887,572** | **6,297,394** | **139,392** |
| **Net position** | | **12,457,689** | **(1,467,418)** | **(1,171,806)** | **4,479,114** | **3,472,234** | **1,100,231** | **5,905,942** | **139,392** |



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# Notes to the consolidated financial statements

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

**c) Liquidity risk (continued)**

| *In thousand RON* | Carrying amount | Gross nominal inflow/(outflow) | Less than 3 months | 3-6 months | 6-12 months | 1-3 years | 3 – 5 years | More than 5 years | Without maturity |
|---|---|---|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | | | | |
| **Financial liabilities** | | | | | | | | | |
| Deposits from banks | 45,953 | (45,970) | (45,668) | (302) | - | - | - | - | - |
| Deposits from customers | 23,167,128 | (23,330,667) | (15,883,599) | (3,438,186) | (1,578,226) | (916,121) | (1,401,888) | (112,647) | - |
| Loans from banks and other financial institutions and other subordinates liabilities | 3,324,754 | (3,395,962) | (1,779,618) | (106,007) | (421,741) | (928,436) | (123,826) | (36,334) | - |
| **Total Financial liabilities** | **26,537,835** | **(26,772,599)** | **(17,708,885)** | **(3,544,495)** | **(1,999,967)** | **(1,844,557)** | **(1,525,714)** | **(148,981)** | **-** |
| **Financial assets** | | | | | | | | | |
| Cash and cash equivalents | 5,579,088 | 5,579,088 | 5,579,088 | - | - | - | - | - | - |
| Placements with banks | 1,405,173 | 1,425,208 | 1,329,966 | 1,207 | 3,273 | 65,762 | 12,900 | 12,100 | - |
| Financial assets at fair value through profit and loss | 125,851 | 125,851 | 64,171 | - | - | - | - | - | 61,680 |
| Loans and advances to customers | 15,361,263 | 22,869,452 | 4,320,829 | 2,617,326 | 5,659,849 | 3,017,479 | 1,842,954 | 5,411,015 | - |
| Net finance lease investments | 202,686 | 292,966 | 71,813 | 26,669 | 43,362 | 113,403 | 32,288 | 5,431 | - |
| Investment securities, available for sale | 6,420,054 | 7,363,445 | 5,645,055 | 142,911 | 185,922 | 736,245 | 436,946 | 196,824 | 19,542 |
| Investment in associates | 25,858 | 25,858 | - | - | - | - | - | - | 25,858 |
| **Total Financial assets** | **29,119,973** | **37,681,868** | **17,010,922** | **2,788,113** | **5,892,406** | **3,932,889** | **2,325,088** | **5,625,370** | **107,080** |
| **Net position** | | **10,909,269** | **(697,963)** | **(756,382)** | **3,892,439** | **2,088,332** | **799,374** | **5,476,389** | **107,080** |

# Notes to the consolidated financial statements

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

### d) Market risk

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

#### d1) Interest rate Risk

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

The main sources of the interest rate risk is the defective correlation between the maturity dates (for fixed interest rates) or price updating date (for variable interest rates) on assets and liabilities bearing interest, adverse evolution rate efficiency curve (unparalleled evolution of interest rates efficiency of interest bearing assets and liabilities). Interest bearing asset and liabilities management activities is carried out in the context of the Group's interest rate fluctuations. Generally, the Group is more sensitive to the instruments in foreign currency, since assets recorded in foreign currency interest bearing have a longer duration even if interest adjusting is correlated with interest bearing liabilities recorded in foreign currencies.

The Group is less affected by interest rate risk related to instruments in local currency, as the majority of assets and liabilities bearing variable interest or assimilated variable interest.

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

Interest rate risk is managed by GAP monitoring (mismatch) regarding the interest rate, through a system of limits and indicators approved on categories (time intervals) of interest relocation.

Assets and Liabilities Management Committee is the body that monitors the compliance of these limits, being assisted in the daily monitoring of these limits by the Department of Treasury.

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

| | **200 basis points Increase** | **200 basis points Decrease** | **100 basis points Increase** | **100 basis points Decrease** |
|---|---|---|---|---|
| | **RON thousand** | **RON thousand** | **RON thousand** | **RON thousand** |
| **At 31 December 2013** | | | | |
| Average for the period | 5,171 | (5,171) | 2,586 | (2,586) |
| Minimum for the period | (16,642) | 16,642 | (8,321) | 8,321 |
| Maximum for the period | 45,272 | (45,272) | 22,636 | (22,636) |
| **At 31 December 2012** | | | | |
| Average for the period | (4,984) | 4,984 | (2,492) | 2,492 |
| Minimum for the period | (44,260) | 44,260 | (22,130) | 22,130 |
| Maximum for the period | 14,704 | (14,704) | 7,352 | (7,352) |

# Notes to the consolidated financial statements

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

### d) Market risk (continued)

### d1) Interest rate Risk (continued)

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

Based on the Group's sensitivity analysis according to the methodology presented above it can be observed that the impact over the Group's profit is limited. The highest impact is recorded for the interval 6-12 months, fact that gives the Group sufficient time to adjust to the financial market conditions. The average for the period included in the table above represents the average monthly impact of the change in interest rates over the Group's profit (according to the methodology presented above) and the minimum included represents the annual potential impact of the change in interest rates over the profit for the time interval 1-3 months, and the maximum represent the potential annual impact of the change in interest rates over the profit on the interval 6 – 12 months.

The interest rates related to the local currency and the major foreign currencies as at 31 December 2013 and 2012 were as follows:

| **Currency** | **Interest rate** | **31 December 2013** | **31 December 2012** |
|---|---|---|---|
| Romanian Leu (RON) | Robor 3 months | 2.44% | 6.05% |
| Euro (EUR) | Euribor 3 months | 0.2870% | 0.1870% |
| Euro (EUR) | Euribor 6 months | 0.3890% | 0.3200% |
| US Dollar (USD) | Libor 6 months | 0.3480% | 0.4089% |



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 (continued)

### d1) Interest rate Risk (continued)

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

| *In RON thousand* | Less than 6 months | 6 – 12 months | 1 – 3 years | 3 – 5 years | More than 5 years | Non sensitive | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 4.105.584 | - | - | - | - | - | **4.105.584** |
| Placements with banks | 1.679.449 | 18.042 | 46.702 | 6.330 | 9.994 | - | **1.760.517** |
| Financial assets at fair value through profit and loss | 103.556 | - | - | - | - | - | **103.556** |
| Loans and advances to customers | 10.398.305 | 4.596.667 | 427.350 | 382.197 | 62.666 | 716.213 | **16.583.398** |
| Net lease investments | 243.151 | - | - | - | - | - | **243.151** |
| Financial assets available for sale | 8.007.450 | 14.472 | 303.869 | 202.147 | 287.755 | 1.748 | **8.817.441** |
| | **24.537.495** | **4.629.181** | **777.921** | **590.674** | **360.415** | **717.961** | **31.613.647** |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | 418.755 | - | - | - | - | - | **418.755** |
| Deposits from customers | 22.025.659 | 3.662.127 | 8.991 | 15.479 | 23.960 | - | **25.736.216** |
| Loans from banks and other financial institutions, other subordinated loans and debt securities | 2.484.867 | - | - | - | - | - | **2.484.867** |
| | **24.929.281** | **3.662.127** | **8.991** | **15.479** | **23.960** | **-** | **28.639.838** |
| **Net position** | **(391.786)** | **967.054** | **768.930** | **575.195** | **336.455** | **717.961** | **2.973.809** |

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 (continued)

### d1) Interest rate Risk (continued)

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

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

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# Notes to the consolidated financial statements

## 4. Financial risk management (continued)

### d) Market risk (continued)

### d2) Currency risk

The Group controls its exposure to market risk through daily monitoring of the fair value of the trading portfolio in order to ensure compliance with the risk exposure limits authorized by the Assets and Liabilities Committee. The trading portfolio is composed of fixed income securities issued by local or European entities (state treasury bills, bonds issues by entities with a rating higher or equal to the sovereign rating), denominated in LEI, EUR and USD, also shares issued by local entities traded at the Bucharest Stock Exchange (these are not directly exposed to the interest rate and currency risk, these being exposed to the price risk).

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

The Group performs monthly crisis simulations for the currency risk.

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

| *In RON thousand* | **RON** | **EUR** | **USD** | **Other** | **Total** |
|---|---|---|---|---|---|
| **Monetary assets** | | | | | |
| Cash and cash equivalents | 1,859,392 | 2,000,649 | 205,631 | 39,912 | **4,105,584** |
| Placement with banks | 869,150 | 727,684 | 85,769 | 77,914 | **1,760,517** |
| Financial assets at fair value through profit and loss | 91,473 | 12,083 | - | - | **103,556** |
| Loans and advances to customers | 11,356,276 | 4,985,603 | 241,519 | - | **16,583,398** |
| Net lease investments | 67,999 | 174,144 | 1,008 | - | **243,151** |
| Financial assets available for sale | 6,065,025 | 2,352,359 | 400,057 | - | **8,817,441** |
| Investments in associates | 49,778 | - | - | - | **49,778** |
| Other assets | 156,959 | 7,765 | 1,958 | 1,142 | **167,824** |
| **Total monetary assets** | **20,516,052** | **10,260,287** | **935,942** | **118,968** | **31,831,249** |
| **Monetary liabilities** | | | | | |
| Deposits from banks | 380,285 | 38,099 | 309 | 62 | **418,755** |
| Deposits from customers | 16,334,738 | 8,377,238 | 913,294 | 110,946 | **25,736,216** |
| Loans from banks and other financial institutions, and other subordinated liabilities | 779,765 | 1,427,625 | 277,477 | - | **2,484,867** |
| Other liabilities | 287,193 | 42,289 | 5,665 | 2,216 | **337,363** |
| **Total monetary liabilities** | **17,781,981** | **9,885,251** | **1,196,745** | **113,224** | **28,977,201** |
| **Net currency position** | **2,734,071** | **375,036** | **(260,803)** | **5,744** | **2,854,048** |

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# Notes to the consolidated financial statements

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

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

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

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

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

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

# Notes to the consolidated financial statements

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

### e) Taxation risk

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

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

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

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

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

### f) Operating environment

In 2013, the economic environment has been challenging, although some improvements appeared compared to prior years. Gross domestic product growth accelerated to an estimated 3.5% (according to the Statistics National Institute), from 0.6% in 2012, sustained by strong external demand and a strong crop in agriculture. This would be the strongest growth rhythm since the onset of the economic crisis, in 2008.

Despite the better headline GDP figure, broad economic local activity has presented unequal results, with a persistence of the internal demand deficit, the increase being around the export segment.

Demand for loans remained weak, both from legal entities and individuals. Non-government loans decreased 4.1% as of November 2013, compared to November 2012, to RON 219.7 billion (source: National Bank of Romania).

Income for banks has also been hurt by the squeeze in interest margins, as the National Bank of Romania embarked an easing cycle that saw the key interest rate decline from 5.25% to 4%. Banks responded by adjusting the passive interest offered to customers, tightening cost management, with more staff lay-offs and more branches closed. These measures allowed the banking sector to turn a profit of RON 1.4 billion for the first nine months of 2013, versus a loss of RON 2.3 billion in 2012 (source: National Bank of Romania).

The Management estimates also for 2014 a significant level of impairment adjustment of loans, with a tendency towards maintenance of the impairment expense recorded in 2013, with corresponding effects on the separate financial statements of the Group.

# Notes to the consolidated financial statements

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

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

Management believes it is taking all the necessary measures to support the growth of the Group's business in the current circumstances by:

- continuous improvement of risk management framework;
- constant monitoring of relevant indicators for the Group's financial stability an strength;
- better control of costs, increase of work efficiency;
- maintain the quality of the Group's assets; a proper provisioning policy;
- continuing increase of the portfolio of corporate clients by identifying and lending of the mature, healthy businesses which survived to the crisis and defending the existing customers;
- maintaining competitive advantage and increase of loans for the agricultural sector;
- increasing the number of retail customers through the development of banking products and services packages on classes / categories of customers;
- improving customer service concept, based on cross-selling, finding fast solutions.

### g) Operational risks

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

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

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

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

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

# Notes to the consolidated financial statements

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

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

- relevant indicators and acceptability limits regarding the operational risks;
- requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- a formalized approach over the continuity of the business with a focus on IT infrastructure (public services, hardware, software, human resources) due to its high degree of support during the activity;
- training and professional development for all business line and for all the Bank employees; development of ethical and business standards;
- monitoring transactions in the employees' accounts;
- IT- risk in terms of operational risk;
- calculation of the capital adequacy in terms of operational risk;
- risk mitigation, including insurance where applicable.

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

### h) Capital management

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

- Tier 1 capital, which includes ordinary share capital, share premium eligible reserves after deductions of intangible assets, 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.

At 31 December 2013 the calculation of regulatory capital was based on the NBR Regulation no. 18/2006, including the subsequent amendments.

# Notes to the consolidated financial statements

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

### h) Capital management *(continued)*

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.

The Group's regulatory capital as at 31 December 2013 and 31 December 2012 and the legal requirements regarding capital management at 31 December 2013 and 31 December 2012 were as follows:

| *In RON thousand* | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Tier I | 2,863,115 | 2,470,461 |
| Tier II | 357,601 | 88,212 |
| **Total Group's capital** | **3,220,716** | **2,558,673** |
| | | |
| Capital requirement for credit risk, counterparty risk, decrease in receivables and for incomplete transactions | 1,187,377 | 1,134,995 |
| Capital requirements for foreign exchange position and commodities | 272,055 | 160,953 |
| Capital requirements for operational risk | 233,437 | 219,881 |
| **Total capital requirements** | **1,692,869** | **1,515,829** |

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

## 5. Use of estimates and judgments

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

***Impairment losses on loans and advances***

The Group reviews its loan and net lease investments portfolios to assess impairment at least on a half year basis (monthly by the Bank). In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and net lease investments before the decrease can be identified with an individual loan in that portfolio.

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

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (lessees) in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The loan impairment assessment considers the visible effects of current market conditions on the individual / collective assessment of loans and advances to customers' impairment. Hence, the Group has estimated the impairment loss provision for loans and advances to customers based on the internal methodology harmonized with Group policies and assessed that no further provision for impairment losses is required except as already provided for in the financial statements.

To the extent that the net present value of estimated cash flows differs by +/-5 percent, the impairment provision for loans and advances to customers would be estimated RON 50,380 thousand higher or RON 46,838 thousand lower (31 December 2012: RON 36,083 thousand higher or RON 31,334 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.

# Notes to the consolidated financial statements

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

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

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

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

Carrying amount of assets and liabilities classified as fair value through profit and loss and of financial assets available for the, would decrease as at 31 December 2013 with approximate RON 474,624 thousand, out of which RON 6,049 thousand through profit and loss and RON 468,575 thousand through equity, or would increase with RON 697,265 thousand, out of which RON 6,049 thousand through profit and loss and RON 691,216 thousand through equity, as compared to the fair value as at 31 December 2013, if interest rates of the financial assets available for sale would change with +/- 2%, and prices of the financial assets at fair value through profit and loss would change with +/- 10% as compared to the Management estimates.

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

| *In RON thousand* | **Note** | **Level 1 - Quoted market prices in active markets** | **Level 2- Valuation techniques – observable inputs** | **Level 3- Valuation techniques – unobservable inputs** | **Total** |
|---|---|---|---|---|---|
| **31 December 2013** | | | | | |
| Financial assets at fair value through profit and loss | 19 | 103,033 | 523 | - | 103,556 |
| Investments securities, available for sale | 22 | 91,263 | 8,724,430 | 1,748 | 8,817,441 |
| **31 December 2012** | | | | | |
| Financial assets at fair value through profit and loss | 19 | 125,851 | - | - | 125,851 |
| Investments securities, available for sale | 22 | 43,177 | 6,374,614 | 2,263 | 6,420,054 |

# Notes to the consolidated financial statements

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

***Financial assets and liabilities***

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

The Group's accounting policies provide scope for assets and liabilities to be 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(k);
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by its accounting policy.

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

# Notes to the consolidated financial statements

## 6. Segment reporting

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

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

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

- *Corporate customers.* Within corporate banking the Group provides corporations with a range of banking products and services, including lending and deposit taking, providing cash management, foreign commercial business, investment advices, financial planning, securities business, project and structured finance transactions, syndicated loans and asset backed transactions.
- *SME* – is a client segment for which the Group developed and provided personalized products, easy to access and which cover their business needs: loans, saving products, current account transactions.
- *Individuals.* The Group provides individuals with a range of banking products and services, including lending (consumer loans, vehicles purchase, personal needs, and mortgages), savings and deposit taking business, payment services and securities business.
- *Treasury:* 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, logistics, and real estate.

In 2013 the Group reanalyzed the relevant reporting segments and included the Medical Division in the other reported segments. In the stand alone financials presented as at 31 December 2012 this was presented as a separate segment.

The following notes present financial information on segments, regarding the separate financial position and the operational result before net expenses with the impairment allowance for loans and advances to customers, for the financial year ended at 31 December 2013, and comparative data with 2012.

# Notes to the consolidated financial statements

## 6. Segment reporting

### Information about reportable segments at 31 December

| *In RON thousand* | Corporate banking | | SME | | Retail Banking | | Treasury | | Leasing and consumer finance | | Others | | Eliminations & adjustments | | Un-allocated | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| **Business segment assets** | 8,603,070 | 7,655,589 | 2,047,601 | 2,063,357 | 6,208,440 | 5,979,874 | 14,978,505 | 13,739,502 | 382,894 | 312,310 | 469,624 | 420,356 | (446,052) | (459,792) | - | - | 32,244,082 | 29,711,196 |
| **Un-allocated assets** | | | | | | | | | | | | | | | | | - | - |
| **Total Assets** | 8,603,070 | 7,655,589 | 2,047,601 | 2,063,357 | 6,208,440 | 5,979,874 | 14,978,505 | 13,739,502 | 382,894 | 312,310 | 469,624 | 420,356 | (446,052) | (459,792) | - | - | 32,244,082 | 29,711,196 |
| **Business segment Liabilities** | 5,961,937 | 5,152,570 | 3,188,832 | 2,978,457 | 17,435,264 | 16,059,129 | 2,397,338 | 2,686,951 | 272,676 | 217,234 | 33,236 | 84,067 | (254,359) | (282,223) | - | - | 29,034,924 | 26,896,185 |
| **Total Liabilities** | 5,961,937 | 5,152,570 | 3,188,832 | 2,978,457 | 17,435,264 | 16,059,129 | 2,397,338 | 2,686,951 | 272,676 | 217,234 | 33,236 | 84,067 | (254,359) | (282,223) | - | - | 29,034,924 | 26,896,185 |
| Equity | | | | | | | | | | | | | | | 3,209,158 | 2,815,011 | **3,209,158** | **2,815,011** |
| **Total Liabilities** | 5,961,937 | 5,152,570 | 3,188,832 | 2,978,457 | 17,435,264 | 16,059,129 | 2,397,338 | 2,686,951 | 272,676 | 217,234 | 33,236 | 84,067 | (254,359) | (282,223) | 3,209,158 | 2,815,011 | 32,244,082 | 29,711,196 |

# Notes to the consolidated financial statements

## 6. Segment reporting *(continued)*

## Information about reportable segments at 31 December

| In RON thousand | Corporate banking | | SME | | Retail banking | | Treasury | | Leasing and consumer finance | | Other | | Elimination & Adjustments | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Net interest income | 301,676 | 288,977 | 190,659 | 177,723 | 350,863 | 346,919 | 147,184 | 116,544 | 29,964 | 31,294 | 5,727 | 5,682 | 694 | 593 | 1,026,767 | 967,732 |
| Net commission income | 121,205 | 98,071 | 119,632 | 120,516 | 120,898 | 138,474 | - | - | 1,816 | 2,100 | 9,244 | 5,452 | (1,717) | (1,137) | 371,078 | 363,476 |
| Net trading income | 25,304 | 24,131 | 19,439 | 18,750 | 18,874 | 18,126 | 64,312 | 53,528 | 1,243 | (282) | 17,635 | 33,219 | 147 | 194 | 146,954 | 147,666 |
| Net gain from sale of available for sale financial instruments | - | - | - | - | - | - | 203,613 | 75,344 | (1,078) | - | 282 | (657) | - | - | 202,817 | 74,687 |
| Contribution to the Banking Deposits Guarantee Fund | (13,812) | (11,996) | (7,191) | (6,355) | (43,395) | (35,694) | - | - | - | - | - | - | - | - | (64,398) | (54,045) |
| Other operating income | - | 6 | - | 86 | 14,766 | 10,373 | - | - | 32,179 | 32,299 | 38,942 | 49,937 | (3,547) | (3,712) | 82,340 | 88,989 |
| **Total Income** | **434,373** | **399,189** | **322,539** | **310,720** | **462,006** | **478,198** | **415,109** | **245,416** | **64,124** | **65,411** | **71,830** | **93,633** | **(4,423)** | **(4,062)** | **1,765,558** | **1,588,505** |
| Personnel expenses | (110,755) | (106,783) | (86,866) | (85,450) | (128,881) | (140,915) | (82,021) | (55,993) | (15,072) | (15,317) | (39,662) | (33,464) | 1,043 | 942 | (462,214) | (436,980) |
| Operating expenses | (50,480) | (52,998) | (39,555) | (42,418) | (58,612) | (69,977) | (43,670) | (33,399) | (10,066) | (16,595) | (98,145) | (77,229) | 2,235 | 803 | (298,293) | (291,813) |
| Advertising and promotional expenses | (1,637) | (2,531) | (1,965) | (4,701) | (8,733) | (5,169) | (981) | (1,067) | (332) | (341) | (553) | (823) | - | - | (14,201) | (14,632) |
| Depreciation and amortization | (7,227) | (8,124) | (5,666) | (6,503) | (8,401) | (10,733) | (5,365) | (4,265) | (6,881) | (6,764) | (31,703) | (18,321) | - | - | (65,243) | (54,710) |
| Other expenses | (3,437) | (5,839) | (2,690) | (4,678) | (3,993) | (7,751) | (2,532) | (3,045) | (19,250) | (10,741) | (2,054) | (8,237) | 2,013 | 459 | (31,943) | (39,832) |
| **Total Expenses** | **(173,536)** | **(176,275)** | **(136,742)** | **(143,750)** | **(208,620)** | **(234,545)** | **(134,569)** | **(97,769)** | **(51,601)** | **(49,758)** | **(172,117)** | **(138,074)** | **5,291** | **2,204** | **(871,894)** | **(837,967)** |
| **Operational result, before net impairment charges** | **260,837** | **222,914** | **185,797** | **166,970** | **253,386** | **243,653** | **280,540** | **147,647** | **12,523** | **15,653** | **(100,287)** | **(44,441)** | **868** | **(1,858)** | **893,664** | **750,538** |

# 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 | Loans and receivables (including net lease investments) | Available for sale | Other amortized cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents | 17 | - | - | - | 4,105,584 | 4,105,584 | 4,105,584 |
| Placements with banks | 18 | - | - | - | 1,760,517 | 1,760,517 | 1,760,517 |
| Financial assets at fair value through profit and loss | 19 | 103,556 | - | - | - | 103,556 | 103,556 |
| Loans and advances to customers | 20 | - | 16,583,398 | - | - | 16,583,398 | 17,032,938 |
| Net lease investments | 21 | - | 243,151 | - | - | 243,151 | 243,151 |
| Investment securities | 22 | - | - | 8,817,441 | - | 8,817,441 | 8,817,441 |
| **Total financial assets** | | **103,556** | **16,826,549** | **8,817,441** | **5,866,101** | **31,613,647** | **32,063,187** |
| **Financial Liabilities** | | | | | | | |
| Deposits from banks | 27 | - | - | - | 418,755 | 418,755 | 418,755 |
| Deposits from customers | 28 | - | - | - | 25,736,216 | 25,736,216 | 25,761,913 |
| Loans from banks and other financial institutions | 29 | - | - | - | 2,146,743 | 2,146,743 | 2,146,743 |
| Other subordinated loans | 30 | - | - | - | 338,124 | 338,124 | 338,124 |
| **Total financial liabilities** | | **-** | **-** | **-** | **28,639,838** | **28,639,838** | **28,665,535** |

# Notes to the consolidated financial statements

## 7. Financial assets and liabilities

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

| *In RON thousand* | Note | Financial assets at fair value through profit and loss | Loans and receivables (including net lease investments) | Available for sale | Other amortized cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents | 17 | - | - | - | 5,579,088 | 5,579,088 | 5,579,088 |
| Placements with banks | 18 | - | - | - | 1,405,173 | 1,405,173 | 1,405,173 |
| Financial assets at fair value through profit and loss | 19 | 125,851 | - | - | - | 125,851 | 125,851 |
| Loans and advances to customers | 20 | - | 15,361,263 | - | - | 15,361,263 | 15,361,263 |
| Net lease investments | 21 | - | 202,686 | - | - | 202,686 | 202,686 |
| Investment securities | 22 | - | - | 6,420,054 | - | 6,420,054 | 6,420,054 |
| **Total financial assets** | | **125,851** | **15,563,949** | **6,420,054** | **6,984,261** | **29,094,115** | **29,094,115** |
| **Financial Liabilities** | | | | | | | |
| Deposits from banks | 27 | - | - | - | 45,953 | 45,953 | 45,953 |
| Deposits from customers | 29 | - | - | - | 23,167,128 | 23,167,128 | 23,172,382 |
| Loans from banks and other financial institutions | 30 | - | - | - | 3,035,944 | 3,035,944 | 3,035,944 |
| Other subordinated loans | 31 | - | - | - | 288,810 | 288,810 | 228,810 |
| **Total financial liabilities** | | **-** | **-** | **-** | **26,537,835** | **26,537,835** | **26,483,089** |

# Notes to the consolidated financial statements

## 8. Net interest income

| *In RON thousand* | 2013 | 2012 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers *(i)* | 1,443,844 | 1,493,484 |
| Current accounts held with banks | 28,845 | 36,859 |
| Available for sale securities | 358,547 | 411,871 |
| Placements with banks | 17,264 | 31,294 |
| Net lease investments | 33,989 | 36,606 |
| *Total interest income* | *1,882,489* | *2,010,114* |
| **Interest expense** | | |
| Deposits from customers | 794,447 | 913,474 |
| Loans from banks and other financial institutions | 56,281 | 117,806 |
| Deposits from banks | 4,886 | 10,984 |
| Net lease investments | 108 | 118 |
| *Total interest expense* | *855,722* | *1,042,382* |
| **Net interest income** | **1,026,767** | **967,732** |

(i) Interest income from loans and advances to customers for the year ended at 31 December 2013 includes interest income related to impaired loans amounting to RON 206,234 thousand (2012: RON 147,960 thousand). The interest income and expense related to the financial assets and liabilities, others than those held at fair value through profit and loss, are determined using the effective interest rate method.

The impairment charge determined for the impaired loans is included in the interest income. The amount resulted from this effect is RON 132,565 thousand for the year 2013 (2012: RON 137,632 thousand) consisting in a decrease in the interest income and a decrease in the provision expense.

## 9. Net fee and commission income

| *In RON thousand* | 2013 | 2012 |
|---|---|---|
| **Fee and commission income** | | |
| Transactions | 414,359 | 379,371 |
| Loans management, factoring and guarantees issuance *(i)* | 31,161 | 48,236 |
| Financial lease management | 547 | 794 |
| Other fee and commission income | 49 | 38 |
| *Total fee and commission income* | *446,116* | *428,439* |

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

| | | |
|---|---|---|
| **Fee and commission expense** | | |
| Bank commissions | 61,081 | 51,339 |
| Transactions | 13,957 | 13,624 |
| *Total fee and commission expense* | *75,038* | *64,963* |
| **Net fee and commission income** | **371,078** | **363,476** |

*(i)* In 2013, the Bank reclassified the loans and financial lease management fees as interest income as they considered them as an integral part of the effective interest rate of a financial instrument.

## 10. Net trading income

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| Net income from foreign exchange transactions *(i)* | 141,253 | 117,937 |
| Net income/ (expenses) from financial assets at fair value through profit and loss | 25,704 | 34,267 |
| Losses on equity instruments derivatives | (7,829) | - |
| Net expense from revaluation of assets and liabilities held in foreign currency | (12,174) | (4,538) |
| **Net trading income** | **146,954** | **147,666** |

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

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

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| Gain from sale of financial instruments available for sale | 248,016 | 118,393 |
| Losses from sale of financial instruments available for sale | (45,199) | (43,706) |
| **Total** | **202,817** | **74,687** |

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.

## 12. Other operating income

| *In RON thousand* | 2013 | 2012 |
|---|---|---|
| Rent income | 12,749 | 14,911 |
| Dividend income | 508 | 6,979 |
| Other operating income | 63,146 | 65,930 |
| **Total** | **76,403** | **87,820** |

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

| *In RON thousand* | 2013 | 2012 |
|---|---|---|
| Net charge of impairment losses on assets *(i)* | 417,491 | 385,060 |
| Loans and net lease investments written-off | 21,298 | 4,653 |
| Other liabilities and credit commitments | 208 | 3,893 |
| Recoveries from loans and financial lease previously written off | (24,717) | (14,070) |
| **Net impairment losses on financial assets, other liabilities and credit commitments** | **414,280** | **379,536** |

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

| *In RON thousand* | Note | 2013 | 2012 |
|---|---|---|---|
| Loans and advances to customers | 20 | 407,089 | 369,867 |
| Net lease investments | 21 | 11,938 | 16,754 |
| Investment securities | 22 | (537) | 56 |
| Other assets | 26 | (965) | (1,744) |
| Property and equipment | 23 | (34) | 127 |
| **Net charge with impairment losses** | | **417,491** | **385,060** |

## 14. Personnel expenses

| *In RON thousand* | 2013 | 2012 |
|---|---|---|
| Wages and salaries | 343,781 | 327,232 |
| Contribution to social security | 66,454 | 65,080 |
| Meal tickets and other taxes related to personnel | 18,605 | 17,920 |
| Contribution to health fund | 19,152 | 18,753 |
| Contribution to unemployment fund | 2,333 | 1,554 |
| Provisions for other employee benefits | 11,889 | 6,441 |
| **Total** | **462,214** | **436,980** |

## 14. Personnel expenses (continued)

The Group's number of employees at 31 December 2013 was 6,370 persons (31 December 2012: 6,494).

The expenses related to share-based payments transactions with employees, is included in the wages and salaries line amounting to RON 21,098 thousand in 2013 (2012: RON 14,420 thousand). In 2013 the Bank granted a number of 15,446,531 shares to the employees and administrators of the Bank and its subsidiaries, with a vesting period of less than 3 years.

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

**2013**

Shares granted 2013 15,446,531

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

**2012** Shares granted 2012 14,000,000

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

# Notes to the consolidated financial statements

## 15. Other operating expenses

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| Operating lease (rent) | 87,277 | 90,926 |
| Repairs and maintenance | 65,775 | 54,345 |
| Materials and consumables | 27,098 | 28,737 |
| Postage and telecommunications | 21,301 | 27,351 |
| Advertising and promotional expenses | 16,680 | 16,703 |
| Security and protection | 20,284 | 20,325 |
| Taxes | 9,342 | 2,846 |
| Electricity and heating | 18,260 | 16,162 |
| Travel and transport | 6,224 | 10,284 |
| Legal, advisory and consulting | 6,199 | 3,866 |
| Loss on sale of property and equipment | 1,785 | - |
| Other operating expenses | 64,212 | 74,732 |
| **Total** | **344,437** | **346,277** |

## 16. Income tax expense

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| Current tax expense at 16% (2012: 16%) of taxable profits determined in accordance with Romanian Law | 45,616 | 19,165 |
| Deferred tax expense | 25,211 | 5,381 |
| **Total income tax expense** | **70,827** | **24,546** |

***Tax reconciliation***

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| **Profit before tax** | **479,382** | **371,002** |
| **Taxation at statutory rate of 16% (2012: 16%)** | 76,701 | 59,360 |
| Non-deductible expenses and non-taxable revenues and other permanent differences | (3,950) | (21,709) |
| Effect of carried forward losses | (1,924) | (13,105) |
| **Taxation in the income statement** | **70,827** | **24,546** |

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

## 17. Cash and cash equivalents

| *In RON thousand* | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Minimum compulsory reserve *(i)* | 3,510,624 | 4,974,894 |
| Cash on hand | 539,139 | 519,613 |
| Current accounts held with other banks *(ii)* | 55,821 | 84,581 |
| **Total** | **4,105,584** | **5,579,088** |

*(i)* As at 31 December 2013, the minimum reserve requirement held with the National Bank of Romania was set at 15% for RON and 20% for balances denominated in USD or EUR (31 December 2012: 15% for RON and 20% for USD and EUR). Minimum reserve balance may vary from day to day. The interest paid by the National Bank of Romania for the reserves held by banks was 0.55% - 1.30% per year for the reserves in RON, 0.36% - 0.56% per year for reserves denominated in EUR and 0.14% - 0.50% per year for reserves denominated in USD. Mandatory reserve can be used by the Bank for daily activities as long as the average monthly balance is maintained within the limits required.

*(ii)* Current accounts held with other banks are at immediate disposal of the Bank and unencumbered and contain value recovered in the short term.

## 18. Placements with banks

| *In RON thousand* | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Sight and term deposits placed at other banks | 870,760 | 1,259,285 |
| Reverse repo type transactions *(i)* | 724,348 | 67,562 |
| Loans and advances to banks *(ii)* | 165,409 | 78,326 |
| **Total** | **1,760,517** | **1,405,173** |

*(i)* Investment securities reclassified by the Group during 2008 and 2010 from assets available for sale into loans and advances (see note 22 (v)).

*(ii)* As at 31 December 2013 reverse repurchase agreements transactions amounting to RON 724,348 thousand were concluded with commercial banks (31 December 2012: RON 67,562 thousand).

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

| *In RON thousand* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| ***Trading assets*** | | |
| Listed equity investments *(i)* | 103,556 | 125,851 |
| **Total** | **103.556** | **125,851** |

*i)* As at 31 December 2013, the Group owns shares quoted on the Bucharest Stock Exchange S.A. and Vienna Stock Exchange.

As at 31 December 2013, the Group owns significant investments in amount of RON 76,910 thousand at the following companies: Fondul Proprietatea S.A., SIF Moldova S.A., SIF Muntenia SA, SIF Oltenia SA, SNP Petrom and Nuclearelectrica (31 December 2012: RON 93,608 thousand at the following companies: SIF Moldova S.A., SIF Oltenia S.A, SIF Transilvania S.A, Fondul Proprietatea S.A. and SNP Petrom S.A.)

## 20. Loans and advances to customers

The Group's commercial lending is concentrated on companies and individuals domiciled in Romania. Economic sector risk concentrations within the customer's loan portfolio as at 31 December 2013 were and 31 December 2012, was as follows:

| *In RON thousand* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Individuals | 6,874,467 | 6,391,713 |
| Trading | 3,134,675 | 2,945,755 |
| Manufacturing | 3,026,037 | 2,525,429 |
| Construction | 1,063,539 | 990,837 |
| Services | 1,054,313 | 946,453 |
| Transport | 874,526 | 702,460 |
| Real estate | 723,692 | 526,949 |
| Agriculture | 582,973 | 730,764 |
| Free lancers | 424,684 | 382,202 |
| Chemical industry | 316,776 | 315,305 |
| Mining industry | 315,645 | 170,697 |
| Financial institutions | 106,629 | 124,341 |
| Telecommunication | 152,083 | 125,484 |
| Energy industry | 82,853 | 322,277 |
| Governmental bodies | 28,597 | 31,030 |
| Fishing industry | 8,025 | 7,255 |
| Others | 390,009 | 295,986 |
| **Total loans and advances to customers before impairment allowance** | **19,159,523** | **17,534,937** |
| Less provisions for impairment allowance on loans | (2,576,125) | (2,173,674) |
| **Total loans and advances to customers, net of provisions** | **16,583,398** | **15,361,263** |

# Notes to the consolidated financial statements

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

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

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| Balance at 1 January | 2,173,674 | 1,721,801 |
| Net impairment change (Note 13) | 407,089 | 369,867 |
| Impairment allowances on written off loans (Note 4b) | (145,772) | (63,431) |
| Effect of adjustment effect on the interest income for impaired loans (Note 8) | 132,565 | 137,632 |
| FX gain/loss | 8,569 | 7,805 |
| **Balance at 31 December** | **2,576,125** | **2,173,674** |

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

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| Balance at 1 January | 1,134,809 | 823,813 |
| Net impairment change | 266,272 | 264,242 |
| Impairment allowances on written off loans | (5,524) | (4,719) |
| Effect of adjustment effect on the interest income for impaired loans | 48,488 | 53,754 |
| FX gain/loss | 22,107 | (2,281) |
| **Balance at 31 December** | **1,466,152** | **1,134,809** |

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

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| Balance at 1 January | 1,038,865 | 897,988 |
| Net impairment change | 140,817 | 105,625 |
| Impairment allowance for written off loans | (140,248) | (58,712) |
| Effect of adjustment of interest income for impaired loans | 84,077 | 83,878 |
| FX gain/loss | (13,538) | 10,086 |
| **Balance at 31 December** | **1,109,973** | **1,038,865** |

# Notes to the consolidated financial statements

## 21. Net finance lease investments

The Group acts as a lessor under finance lease, mainly of motor vehicles and equipment. 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 2013** | **31 December 2012** |
|---|---|---|
| Investments in leases less than one year (gross) | 175,846 | 189,819 |
| Investments in leases between one and five years (gross) | 174,132 | 111,078 |
| Total investment in leases, gross | 349,978 | 300,897 |
| Unearned finance income | (37,298) | (36,143) |
| Total investments in leases, net unearned finance income | 312,680 | 264,754 |
| Impairment allowances | (69,529) | (62,068) |
| **Total net leasing investment** | **243,151** | **202,686** |

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

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

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| Balance at beginning of the year | 62,068 | 62,197 |
| Net impairment provision expense (Note 13) | 11,938 | 16,754 |
| Written – off lease investment (Note 4b) | (4,095) | (17,836) |
| Foreign exchange difference | (382) | 953 |
| **Balance at the end of the year** | **69,529** | **62,068** |

# Notes to the consolidated financial statements

## 22. Investment securities

| *In RON thousand* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| **Investment securities available-for-sale** | | |
| **Unlisted debt and other fixed income instruments:** | ***8,724,430*** | **6,374,614** |
| Treasury securities issued by the Government of Romania, from which: | 6,905,103 | 5,540,477 |
| - *discount certificates* | *34,956* | *13,405* |
| - *coupon certificates* | *32,757* | *30,635* |
| - *Benchmark bonds (RON)* | *5,904,251* | *4,305,860* |
| - *Treasury certificates with coupon (EUR)* | *933,139* | *1,190,577* |
| EURO bonds issued by Romania's Government on external markets | 1,386,564 | 705,063 |
| USD bonds issued by Romania's Government on external markets | 400,057 | 119,294 |
| Bonds, from which: | 32,706 | 9,780 |
| - *issued by Bucharest Municipality* | *8,928* | *9,128* |
| - *issued by Municipality Alba Iulia* | *597* | *652* |
| - *issued by Croatian Bank of Reconstruction and Development* | *23,181* | - |
| ***Listed shares*** | ***99*** | ***70*** |
| ***Unit funds*** | ***53,679*** | ***43,107*** |
| ***Certificates of participation*** | ***37,485*** | |
| ***Equity securities measured at acquisition price, from which:*** | ***1,748*** | ***2,263*** |
| *Gross value* | *1,756* | *2,808* |
| *Allowances for impairment* | *(8)* | *(545)* |
| **Total investment securities available-for-sale** | **8,817,441** | **6,420,054** |

(i) As at 31 December 2013 treasury securities in amount of RON 28,450 thousand (31 December 2012: RON 28,450 thousand) were pledged for other current operations (RoCLEAR, SENT, MASTERCARD and VISA).

(ii) Treasury securities issued by Romania's Government have maturities between 2014 and 2027.

As at 31 December 2013, the Bank has concluded repo transactions with other financial institutions having as supporting assets investment securities available for sale amounting to RON 1,615,107 thousand (31 December 2012: RON 1,721,650 thousand). Also, as of 31 December 2013 the Bank had not pledges on the investment securities available for sale (31 December 2012: RON 466,819 thousand).

(iii) The municipal bonds of Alba Iulia have variable interest (Robid 6M + Robor 6M)/2 + 1.5% (31 December 2013: 4.5%; 31 December 2012: 6.5%). EURO bonds issued by Bucharest Municipality have a fixed interest of 4.125% and bonds issued by Croatian Bank for Reconstruction and Development have a coupon rate of 6%.

# Notes to the consolidated financial statements

## 22. Investment securities *(continued)*

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

Gains realized on disposal of financial assets available for sale reclassified from other comprehensive income to profit or loss were RON 223,300 thousand (2012: RON 91,791 thousand) with the related tax RON 35,724 thousand (2012: RON 16.687 thousand).

**(v) 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 " (presented in accounting policies at 3p(iv)). The Group has identified financial assets that have fulfilled the conditions imposed by this category (the non-derivative financial assets fixed and determinable payments that are not quoted on an active market) and held in the foreseeable future.

The value of securities classified as "loans and advances" at the end of 2012 was RON 78,324 thousand.

During 2013 the Group has purchased and classified as loans and receivables, corporate bonds issued by International Personal Finance and Turkiye Garanti Bankasi in the amount of RON 17,236 thousand.

Movement of investment securities classified in the category "Loans and advances" in 2013 is reflected in the table below:

| | **2013** |
|---|---|
| **Balance at 31 December 2012** | 78,324 |
| Acquisitions 2013 | 17,235 |
| Decreases 2013 | (3,407) |
| Coupon for bonds | 7,284 |
| Coupon cashed during the year | (7,080) |
| Amortization of the difference between fair value and acquisition value (Interest income) | (21) |
| **Balance at 31 December 2013** | **92,335** |

# Notes to the consolidated financial statements

## 22. Investment securities *(continued)*

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

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| Balance at the beginning of the year | **545** | **489** |
| Net impairment loss (Note 13) | (537) | 56 |
| Balance at the end of the year | **8** | **545** |

The movement in investment securities may be summarized as follows:

| *In RON thousand* | **Available for sale** | **Held to maturity** |
|---|---|---|
| **At 1 January 2013** | **6,420,054** | **-** |
| Additions (acquisitions and increase in value) | 20,751,267 | - |
| Disposals (sale, redemption and decrease in value) | 18,353,880 | - |
| **At 31 December 2013** | **8,817,441** | **-** |
| **At 1 January 2012** | **5,816,778** | **819** |
| Additions (acquisitions and increase in value) | 19,482,327 | 70 |
| Disposals (sale, redemption and decrease in value) | 18,879,051 | 889 |
| **At 31 December 2012** | **6,420,054** | **-** |

# Notes to the consolidated financial statements
## 23. Property and equipment

| *In thousand RON* | Land and buildings | Computers and equipment | Vehicles | Assets in progress | Total |
|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | |
| **Balance at 1 January 2012** | **300,337** | **196,293** | **63,642** | **27,717** | **587,989** |
| Additions | 661 | 22,504 | 13,934 | 44,819 | 81,918 |
| Transfers from investment in progress | 17,903 | 30,904 | 1,221 | - | 50,028 |
| Reevaluations | 364 | 1,804 | 2,506 | - | 4,674 |
| Disposals | (2,927) | (14,717) | (8,147) | (42,559) | (68,350) |
| Reevaluations | (75) | - | - | - | (75) |
| **Balance at 31 December 2012** | **316,263** | **236,788** | **73,156** | **29,977** | **656,184** |
| | | | | | |
| **Balance at 1 January 2013** | **316,263** | **236,788** | **73,156** | **29,977** | **656,184** |
| Additions | 342 | 7,618 | 8,709 | 33,260 | 49,929 |
| Transfers from investment in progress | 33,131 | 16,628 | 1,370 | - | 51,129 |
| Additions through merger of subsidiaries | - | 133 | - | - | 133 |
| Reevaluations | (1,537) | 239 | 221 | - | (1,077) |
| Disposals | (5,405) | (16,980) | (13,642) | (52,073) | (88,100) |
| **Balance at 31 December 2013** | **342,794** | **244,426** | **69,814** | **11,164** | **668,198** |
| **Depreciation and impairment** | | | | | |
| | | | | | |
| **Balance at 1 January 2012** | **118,645** | **135,569** | **36,244** | **-** | **290,458** |
| Charge for the year | 14,090 | 23,465 | 9,626 | - | 47,181 |
| Accumulated depreciation of disposals | (2,821) | (6,844) | (6,712) | - | (16,377) |
| Accumulated depreciation related to revaluation | 208 | - | - | - | 208 |
| Reversal of provision for impairment | - | - | 127 | - | 127 |
| **Balance at 31 December 2012** | **130,122** | **152,190** | **39,285** | **-** | **321,597** |
| | | | | | |
| **Balance at 1 January 2013** | **130,122** | **152,190** | **39,285** | **-** | **321,597** |
| Charge for the year | 10,522 | 25,755 | 10,361 | - | 46,638 |
| Additions through merger of subsidiaries | - | 133 | - | - | 133 |
| Accumulated depreciation of disposals | (3,331) | (15,847) | (9,055) | - | (28,233) |
| Accumulated depreciation related to revaluation | (130) | - | - | - | (130) |
| Provision for impairment | - | - | 20 | - | 20 |
| Reversal of provision for impairment | - | - | (54) | - | (54) |
| **Balance at 31 December 2013** | **137,183** | **162,231** | **40,557** | **-** | **339,971** |
| | | | | | |
| **Net carrying amount** | | | | | |
| **Balance at 1 January 2013** | **186,141** | **84,598** | **33,871** | **29,977** | **334,587** |
| **Balance at 31 December 2013** | **205,611** | **82,195** | **29,257** | **11,164** | **328,227** |

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

# Notes to the consolidated financial statements

## 23. Property and equipment (continued)

At 31 December 2013 the Group leased property and equipment on a carrying amount of RON 6,885 thousand (31 December 2012: 8,105 RON) and intangibles acquired through finance lease, with a net book value of RON 134 thousand (31 December 2012: nil). At 31 December 2012 the Group had no pledged property, equipment or intangible assets. Property and equipment outstanding at 31 December 2013 were revalued by an independent valuer. If the assets would have been recorded under the cost model, the carrying amount recognized were: land and buildings RON 167,708 thousand (2012: RON 145,664 thousand), computers and equipment RON 81,589 thousand (2012: RON 82,920 thousand) transportation RON 28,405 thousand (2012: RON 31,448 thousand).

## 24. Intangible assets (including goodwill)

| *In RON thousand* | Goodwill | Software |
|---|---|---|
| **Gross carrying amount** | | |
| **Balance at 1 January 2012** | **376** | **114,106** |
| Additions | - | 18,408 |
| Disposals | - | (180) |
| **Balance at 31 December 2012** | **376** | **132,334** |
| **Balance at 1 January 2013** | **376** | **132,334** |
| Additions | - | 21,200 |
| Revaluation | - | 205 |
| Additions through merger | - | 194 |
| Disposals | - | (14,575) |
| **Balance at 31 December 2013** | **376** | **139,358** |
| ***Accumulated amortization*** | | |
| **Balance at 1 January 2012** | **-** | **43,551** |
| Charge for the year | - | 7,529 |
| Disposals | - | (179) |
| **Balance at 31 December 2012** | **-** | **50,901** |
| **Balance at 1 January 2013** | **-** | **50,901** |
| Charge for the year | - | 18,604 |
| Additions through merger | - | 163 |
| Disposals | - | (14,540) |
| **Balance at 31 December 2013** | **-** | **55,128** |
| **Net Carrying amount** | | |
| **Balance at 1 January 2012** | **376** | **70,555** |
| **Balance at 31 December 2012** | **376** | **81,433** |
| **Balance at 1 January 2013** | **376** | **81,433** |
| **Balance at 31 December 2013** | **376** | **84,230** |

# Notes to the consolidated financial statements

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

### Impairment testing for cash generating units containing goodwill

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

At 31 December 2013 the goodwill at BT Leasing Transilvania IFN S.A was in amount of RON 376 thousand (31 December 2011: RON 376 thousand).

## 25. Deferred tax assets and liabilities

| *In RON thousand* | 31 December 2013 | | |
|---|---|---|---|
| | **Asset** | **Liability** | **Net** |
| Loans and advances to customers (including net lease investments) | - | 229,973 | (229,973) |
| Investment securities, available-for-sale | - | 94,590 | (94,590) |
| Financial assets at fair value by income statement | 475 | - | 475 |
| Investment in associates | - | 7,568 | (7,568) |
| Tangible and intangible assets | - | 29,213 | (29,213) |
| Other assets | 99 | - | 99 |
| **Total** | **574** | **361,344** | **(360,770)** |
| Net temporary differences | | | (360,770) |
| **Deferred tax liability at 16%** | | | **57,723** |

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

# Notes to the consolidated financial statements

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

Movement of assets and liabilities from deferred tax

| *In RON thousand* | 31 December 2012 | Inputs | Outputs | 31 December 2013 |
|---|---|---|---|---|
| ***Deferred tax assets*** | | | | |
| Deferred tax assets for retained earnings from specific impairment provisions | (21,929) | (5) | (10,852) | (11,082) |
| Deferred tax assets for financial assets at fair value through profit and loss | (98) | - | (22) | (76) |
| Deferred tax assets for other assets | (74) | (104) | (162) | (16) |
| **Total** | **(22,101)** | **(109)** | **(11,036)** | **(11,174)** |
| ***Deferred tax liabilities*** | | | | |
| Differed tax liabilities for loans and advances to customers (including net finance lease investments) | 33,990 | 14,916 | 1,028 | 47,878 |
| Differed tax liabilities for securities available for sale | 15,474 | 12,955 | 13,224 | 15,134 |
| Deferred tax liabilities for associates | 164 | 1,122 | 146 | 1,211 |
| Deferred tax liabilities for property and equipment and intangible assets | - | 5,254 | 580 | 4,674 |
| **Total** | **49,628** | **34,247** | **14,978** | **68,897** |
| **Total Deferred tax liabilities** | **27,527** | **34,138** | **3,942** | **57,723** |

## 26. Other assets

| *In RON thousand* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Amounts under settlement | 18,107 | 30,091 |
| Inventories and consumables | 60,319 | 61,095 |
| Prepayments | 19,212 | 20,445 |
| Sundry debtors | 30,300 | 35,361 |
| VAT receivable | 5,691 | 29,453 |
| Other assets | 46,999 | 11,758 |
| Less impairment allowance for other assets | (12,804) | (13,376) |
| **Total** | **167,824** | **174,827** |

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

| *In RON thousand* | 2013 | 2012 |
|---|---|---|
| **Balance at 1 January** | 13,376 | 15,507 |
| Impairment change (Note 13) | (965) | (1,744) |
| Exchange rate differences | 393 | (387) |
| **Balance at 31 December** | **12,804** | **13,376** |

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

## 27. Deposits from banks

| *In RON thousand* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Sight deposits | 254,249 | 1,617 |
| Term deposits | 164,506 | 44,336 |
| **Total** | **418,755** | **45,953** |

## 28. Deposits from customers

| *In RON thousand* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Current accounts | 5,038,324 | 3,638,485 |
| Sight deposits | 167,141 | 156,541 |
| Term deposits | 20,050,490 | 18,882,728 |
| Collateral deposits | 480,261 | 489,374 |
| **Total** | **25,736,216** | **23,167,128** |

Deposits from customers can be also analyzed as follows:

| *In RON thousand* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Retail customers | 17,090,119 | 15,669,535 |
| Corporate customers | 8,646,097 | 7,497,593 |
| **Total** | **25,736,216** | **23,167,128** |

## 29. Loans from banks and other financial institutions

| *In RON thousand* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Loans from commercial banks | 31,755 | 30,125 |
| *Romanian banks* | 29,815 | 26,802 |
| *Foreign banks* | 1,940 | 3,323 |
| Loans from development banks (EBRD, IFC) | 390,277 | 557,860 |
| Repurchase agreements | 1,615,107 | 1,721,650 |
| Other funds from financial institutions | 109,604 | 726,309 |
| **Total** | **2,146,743** | **3,035,944** |

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

| | **2013** | | **2012** | |
|---|---|---|---|---|
| | Minimum | Maximum | Minimum | Maximum |
| EUR | 0.22% | Euribor 3m+5.50% | 0.75% | Euribor 3m+5.50% |
| LEI | 1.40% | 2.00% | 5.25% | 5.25% |
| USD | 0.80% | Libor 6m+4.50% | Libor 6m+0.51% | Libor 6m+4.50% |

## 30. Other subordinated liabilities

***In RON thousand***

| | 2013 | 2012 |
|---|---|---|
| Loans from financial institutions | 200,627 | 288,810 |
| Convertible Bonds | 137,497 | - |
| **Total** | **338,124** | **288,810** |

The subordinated debt is in amount of EUR 45 million, equivalent of RON 201,812 thousand (in 2012: EUR 60 million, equivalent of RON 287,866 thousand) representing 3 subordinate loans contracted as follows:
- 15 million EURO contracted in 2013, at EURIBOR 6M+6.20% due in 2018
- 25 million EURO contracted in 2013, at EURIBOR 6M+6.20% due in 2023
- 5 million EURO contracted in 2012, at EURIBOR 6M+6.50% due in 2018

The Bank issued in 2013 convertible bonds worth EURO 30 million, equivalent to 134,541 thousand at EURIBOR 6M 6.25%, due in 2020. Unmatured bonds may be converted into shares at the option of bondholders.

Accrued interest on subordinated debt is in worth of RON 1,771 thousand (2012: RON 944 thousand)

## 31. Other liabilities

| *In RON thousand* | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Amounts under settlement | 153,818 | 218,813 |
| Other fees payable | 48,135 | 22,884 |
| Sundry creditors | 54,232 | 27,524 |
| Leasing liabilities *(i)* | 1,666 | 1,796 |
| Other liabilities | 30,274 | 22,738 |
| Provisions *(ii)* | 49,238 | 37,068 |
| **Total** | **337,363** | **330,823** |

*(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 2013** | **31 December 2012** |
|---|---|---|
| **Minimum lease payments** | | |
| 2012 | - | 114 |
| 2013 | - | 382 |
| 2014 | 424 | 432 |
| 2015 | 424 | 417 |
| 2016 | 424 | 432 |
| 2017 | 424 | 432 |
| 2018 | 207 | 72 |
| **Total minimum lease payments** | **1,903** | **2,281** |
| Less future interest | (237) | (485) |
| **Present value of minimum lease payments** | **1,666** | **1,796** |

# Notes to the consolidated financial statements

## 31. Other liabilities *(continued)*

*(ii)* Under „Provisions" are included the followings:

*In RON Thousand*

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Provisions for credit commitments | 10,314 | 10,020 |
| Provisions for employee benefits as compensated absences | 2,927 | 6,042 |
| Provisions for other employee benefits | 35,924 | 20,921 |
| Other provisions | 73 | 85 |
| **Total** | **49,238** | **37,068** |

## 32. Share capital

The statutory share capital of the Bank as of 31 December 2013 was represented by 2,206,436,324 ordinary shares of RON 1 each (31 December 2012: 1,903,042,413 shares of RON 1 each). The shareholders structure of the Bank is presented in Note 1.

| *In RON thousand* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Subscribed capital paid at Trade Register | 2,206,436 | 1,903,042 |
| Capital adjustment at inflation | 89,899 | 89,899 |
| Share capital adjustment with revaluation reserve of tangible assets | (3,398) | (3,398) |
| **Total** | **2,292,937** | **1,989,543** |

The capital increased by incorporating the reserves in the statutory profit, revaluation reserves and share premiums amounting to RON 303,393,911 was registered at the Trade Register in 2013.

## 33. Other reserves

As at 31 December 2013 and 31 December 2012 the reserves include the following:

| *In RON thousand* | 31 December 2013 | 31 December 2012 |
|---|---|---|
| General banking risks *(i)* | 77,893 | 77,893 |
| Statutory reserve *(ii)* | 161,977 | 139,446 |
| Fair value gains/ (losses) taken to equity (net of tax) on available for sale investments | 79,364 | 82,525 |
| **Total** | **319,234** | **299,864** |

# Notes to the consolidated financial statements

## 33. Other reserves *(continued)*

***Statutory reserves***

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| At 1 January | 139,446 | 121,437 |
| Appropriations from profit | 22,531 | 18,009 |
| **Total** | **161,977** | **139,446** |

*(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 and of subsidiaries.

The statutory reserves are not distributable.

## 34. Related parties transactions

**Transactions with shareholders**

During the year ended 31 December 2013, the following banking transactions were carried out with the shareholders:

| *In thousand RON* | **2013** | **2012** |
|---|---|---|
| **Assets** | | |
| Loans to shareholders | - | 763 |
| **Liabilities** | | |
| Current accounts, deposits, related | 32,383 | 114,422 |
| Loans from financial institutions | 320,421 | 458,985 |
| Subordinated loans | - | 106,662 |
| Subordinate securities | 111,525 | - |
| | | |
| **Income statement** | | |
| Interest and commission income | 68 | 156 |
| Commission income of performance | 10 | 294 |
| Interest and commission expense | 24,610 | 37,747 |

# Notes to the consolidated financial statements

## 34. Related parties transactions *(continued)*

**Transactions with key management personnel**

During the year ended 31 December 2013, the following banking transactions were carried out with key personnel:

| *In RON thousand* | **2013** | **2012** |
|---|---|---|
| **Assets** | | |
| Loans to key personnel granted by Banca Transilvania SA, related interest and provisions | 92,588 | 100,635 |
| **Liabilities** | | |
| Current accounts at Banca Transilvania SA, deposits and accrued | 65,595 | 53,074 |
| **Commitments to key personnel** | 7,649 | 6,987 |
| **Income statement** | | |
| Interest and commission income | 4,894 | 4,891 |
| Interest and commission expense | 2,220 | 1,999 |

During 2013 the total salaries paid to the Board of Director's members and executive management of the Bank and subsidiaries amounting to RON 7,698 thousand (2011: RON 5,985 thousand).

## 35. 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 2013** | **31 December 2012** |
|---|---|---|
| Guarantees issued | 1,866,259 | 1,753,730 |
| Loan commitments | 3,002,719 | 2,418,410 |
| **Total** | **4,868,978** | **4,172,140** |

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# Notes to the consolidated financial statements

## 35. Commitments and contingencies *(continued)*

Commitments to customers were provisioned in the amount of RON 10,314 thousand (2012: RON 10,020 thousand).

At 31 December 2013 currency transactions were:

*Forward transactions*

Transactions with clients (corporate)

Purchases: RON 275,059 equivalent of EUR 59,834

*Transactions with banks*

Purchases: RON 361,554,850 equivalent of EUR 80,950,000

Purchases: EUR 58,000,000 equivalent of RON 258,939,300

Sales: EUR 53,000,000 equivalent of USD 72,888,489

## 36. Earnings per share

**Basic earnings per share**

The calculation of basic earnings per share (basic and diluted) was based on net profit attributable to ordinary shareholders of RON 404,942 thousand (31 December 2012: RON 341,259 thousand) and the weighted average number of the ordinary shares outstanding during the year calculated as follows:

| | **2013** | **2012** |
|---|---:|---:|
| Ordinary shares issued at 1 January | 1,903,042,413 | 1,773,658,066 |
| Effect of shares issued during the year | 155,385,376 | 72,408,476 |
| Weighted average number of shares as at 31 December | 2,058,427,789 | 2,149,460,453 |
| Weighted average number of shares as at 31 December (updated) | n/a | n/a |

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

There were no subsequent events after the date of the consolidated statement of financial position that could have significant impact on the Bank for the 2013 financial year.

| | |
|---|---|
| Horia Ciorcila | George Calinescu |
| *Chairman* | *Deputy CEO* |

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