BANCA TRANSILVANIA

Annual Report

2006

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Financial Calendar

Preliminary Results 2006	05.02.2007
Annual General Meeting	25.04.2007
Annual Financial Statements	27.04.2007
First quarter results 2007	30.04.2007
Registration Date	11.05.2007
Half-year financial statements 2007	10.08.2007
Third quarter results 2007	31.10.2007

THE COUNCIL OF ADMINISTRATION

EXECUTIVE MEMBERS

Robert C. Rekkers – Chief Executive Officer
Ionuț Pătrăhău – Deputy Chief Executive Officer

NON – EXECUTIVE MEMBERS

Horia Ciorcilă – Chairman of the Council of Administration
Roberto Marzanati – Vice-Chairman of the Council of Administration
Claudiu Silaghi – Member of the Council of Administration
Constantin Jeican – Member of the Council of Administration
Gabriela Grigore – Member of the Council of Administration

EXECUTIVE MANAGEMENT – THE MANAGEMENT COMMITTEE

Robert C. Rekkers – Chief Executive Officer
Ionuț Pătrăhău – Deputy Chief Executive Officer
Nicolae Tarcea – Executive Manager
Leontin Toderici – Executive Manager
Lucia Pojoca – Executive Manager
Andrei Dudoiu – Executive Manager

Mission Statement

Banca Transilvania is an integrated Romanian Financial Group, established in Transilvania, focused on Entrepreneurial and Retail Banking and offering quality services through a nation wide network. Being the partner that keeps its promises, our mission is to provide superior returns to the shareholders, to be a good corporate citizen close to the community we belong to and a bank where we work with pride and professionalism.

Profile

Three main strategic business units:

- Corporate Banking
- SME Banking
- Retail Banking

supported by a strong operational platform

Nationwide distribution network

Strong roots in Transylvania

Local bank providing flexibility

Integrated financial services group

Committed staff

Blue chip of the Bucharest Stock Exchange

Contents

HIGHLIGHTS 2006 - IFRS

		thousand RON
	2006	**2005**
Total Assets	8,330,628	5,078,329
Loans, net	4,833,106	2,918,075
Customers' deposits	5,701,845	3,597,636
Shareholders' equity	795,393	516,147
Share Capital	362,142	236,733

Income Statement

		thousand RON
	2006	**2005**
Net interest income	363,258	257,562
Impairment loss on loans, net	56,033	19,769
Net commission income	175,003	108,904
Foreign exchange income, net	63,205	40,468
General administrative expenses	593,679	321,626
Net operating result	128,337	117,317
Gross profit (pre-tax profit)	128,737	122,341
Net profit (profit before tax)	108,597	107,291

Data about BT shares

Number of shares		
Outstanding common shares	3,933,548,620	2,367,330,000
Nominal value	0.1	0.1
Book value per share	0.2025	0.2180
Market capitalization (mil. ROL)	3,967,273,950.10	2,935,489,200
Share Price		
High	1.51	1.51
Low	0.85	0.67
Closing Price	1.01	1.24
Share Ratios		
Earnings per share (EPS)	0.0309	0.0487
Price-earning ratio (PER)	32.69	25.46
Price to book value (PBV)	4.99	5.69
Operating result per share	0.0326	0.0495

Additional Information

	2006	**2005**
Capital adequacy %	14.6	13.83
Number of employees	4,500	3,100
Branches and agencies	341	215
ATMs	530	360
POS	4,500	2,800

Chairman's and Chief Executive Officer's Statement

With a GDP growth of 7.7% and foreign direct investments of EUR 13.8 billion the Romanian economy continued to outperform Central & Eastern Europe markets. The banking sector also recorded a healthy growth (+40%) in total assets.

Within this favorable environment Banca Transilvania (BT) enjoyed very good results in 2006, helped by a strong growth in our product offering, network and client base.

In 2006 we took a number of steps forward, making BT a much stronger player on the Romanian banking market. The bank's capital base was strengthened with more than EUR 94 million in tier 1 and EUR 60 million in tier 2 capital, to a total of EUR 308 million. Assets increased by 78%, to EUR 2.46 billion, a figure which placed Banca Transilvania on the fifth place among banks in Romania.

Total investments amounted to EUR 27 million designated towards network expansion, IT and infrastructure improvement.

Our three core business lines: Corporate, SME and Retail outperformed many of our competitors, BT's market share growing across the board.

The corporate client sector registered very good results, accounting for monthly turnovers of more than EUR 1 billion routed through Banca Transilvania accounts. In 2006 a new premium product was designed – Business Account – a platform of a wide range of special tailored products and services, welcoming our clients to BUSINESS CLASS services.

We continued to put special emphasize on the SME sector and micro companies continuing to create a series of new products, in line with our commitment to launch every quarter innovative SME dedicated products. In September 2006, as part of this program, we initiated Clubul Intreprinzatorului Roman, an establishment offering consultancy and training to SME and micro companies, ensuring a networking environment. Currently, Clubul Intreprinzatorului Roman has more than 6000 members. During 2006, BT's market share in terms of SME clients grew to 16%, placing our bank on the second place within the Romanian banking environment.

With regard to Retail banking, a key client segment of our business, Banca Transilvania is serving more than 700,000 retail customers. The branches and agencies network is supplemented by the 530 ATMs and 4,500 POS and our internet banking tool, BT 24, is used by more than 25,000 clients.

Apart from BT Asigurari whose activity was negatively affected by difficult market conditions, our subsidiaries recorded excellent results last year, especially our leasing, brokerage and asset management activities. Also, our joint venture, Compania de Factoring had an encouraging start in 2006.

2007 will be of particular interest as we set new ambitious targets. We will continue our organic growth, increasing our loan portfolio, launching new products meant to help clients and propel our goals to a superior level. BT motto for 2007 is to achieve the target of 1,000,000 active clients.

In 2007, the Romanian financial market will face a unique challenge, the reorganization of the pension system, by introducing the second pillar, private mandatory pensions. Banca Transilvania is joining forces with Aegon, establishing a new subsidiary, BT Aegon, a company to offer private mandatory pensions.

The success of all these activities, decisive for the implementation of our plans, depends on our committed employees, who have as well great expectations for the year to come and we expect that with their help, confidence and enthusiasm, we will achieve all our targets that lay ahead of us.

We want to thank all our partners and clients, emphasizing once again that we will continue to be the same reliable business associate, hard working and dedicated, so that we can provide excellent services on a full time basis.

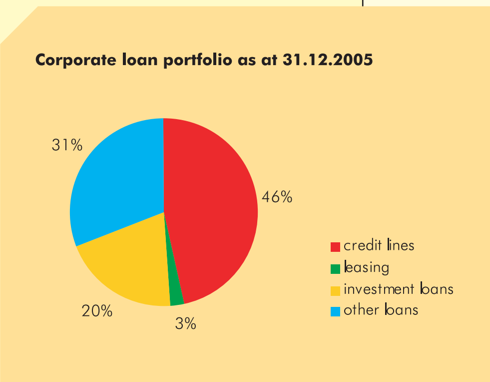
June 2007

Horia Ciorcila
Chairman

Robert C. Rekkers
Chief Executive Officer

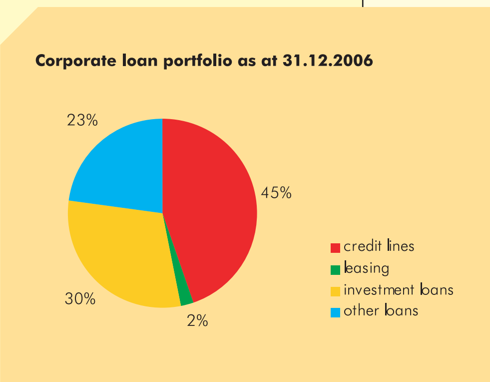
CORPORATE BANKING

Banca Transilvania provides through its Corporate Division a broad range of financial services to top-tier companies in Romania, responding to their diversified needs. Our people are constantly working in identifying those distinctive needs of each customer and provide solutions to raise their corporate value.



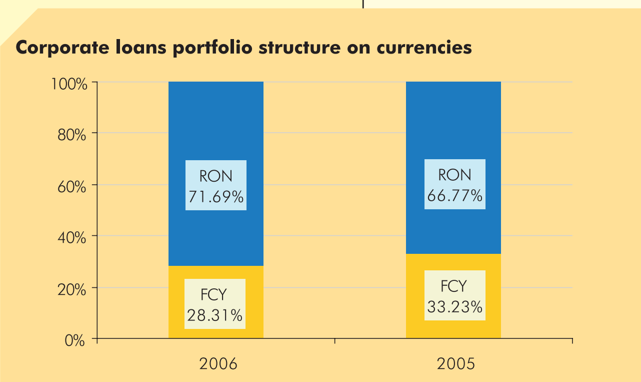
As the business environment where our customers operate has been changing rapidly, we always try to build a flexible offer to provide best answers, designing products and services that most precisely meet our client's requirements.

In figures, BT's performance in this business means end of 2006: over 9,500 active clients, more than EUR 628 million loans granted to this sector and monthly turnovers of over EUR 1 billion through BT accounts. In 2006, the corporate segment weighed 41% in the bank's total loan portfolio, growing with 47% against last year.



These results are owed to a dedicated team of 220 young and dynamic professionals.

BT's range of specialized services include cash management, trade finance, treasury products offered either through traditional distribution channels (branches and agencies) or via our Electronic Banking Platform – BT ULTRA – designed for on-line operations. The latter is a comfortable, time saving, flexible, useful and safe manner to offer our clients a window into daily banking operations, customers having an overlook at all their transactions. Since BT Ultra's implementation, the number of users increased constantly, at end of 2006 reaching 3,100 clients against 2,360 in 2005. A series of improvements like intra-day update of clients' account statements at timely intervals and extended cut-off time for payments and FX operations were implemented at BT Ultra, ensuring an efficient cash management planning tool for our clients. We envisage for 2007 to functionally integrate BT Ultra with the bank's Call Centre.



Within our Corporate Banking Division we try to maximize synergies and customize solutions, marshalling the comprehensive capabilities of the Group to offer timely and effective solutions to customer's exact requirements, while designing tailored platforms to increase corporate value.

As a bank means more than loans, we created special facilities for our clients simplifying their daily operations, thus welcoming our customers at the business class. Therefore, we launched the **Business Account**, a package continuing a personalized line of business, offering special treatment for business clients.

It proposes a variety of services ranging from urgent needs loans granted in a couple of hours, balance sheet restructuring loans and credit cards to cash management operations. What we offer in fact are straight relationships and high quality services, bringing along the extensive know-how of our professionals and making the Business Class more accessible.

SME BANKING

Our SME statement:

Banca Transilvania intends to become the No. 1 bank for the SME sector in Romania, offering simple, rapid and innovative products and services. We prove our commitment toward the SME sector by regularly launching new, less “red-taped” products which are designed together with our customers.

For achieving this target BT combines three main ingredients:

- Loan Products
- Business Banking
- Clubul Intreprinzătorului Român

Serving over 90,000 SME clients, Banca Transilvania owns end of 2006 a market share of around 16% in terms of SME customers’ number (vs 11% end of 2005).

Given the highly competitive market background with a strong focus on the SMEs sector, Banca Transilvania managed to keep the upward trend due to the planned strategy, including:

- friendly and dedicated approach
- openness and promptness
- fair play and transparency
- information and assistance
- attractive products and financing programs at appropriate pricing
- performing infrastructure and IT systems
- dedicated marketing campaigns
- professional sales force

Having in mind the committed statement, Banca Transilvania proved in 2006 as well, to be a reliable bank, dedicated to its SME customers. For them, Banca Transilvania continued launching competitive products, anticipating market trends and further specialize its dedicated personnel. Thus, during last year, the bank introduced every three months another original product, four new products coming to complete the extensive SME banking products portfolio, which at the end of 2006 included 8 innovative products:

New products:

- 100% Discount
- Banking Subscription
- Clubul Intreprinzătorului Român
- Real Estate for Companies. Loan without down payment

added to the existing ones:

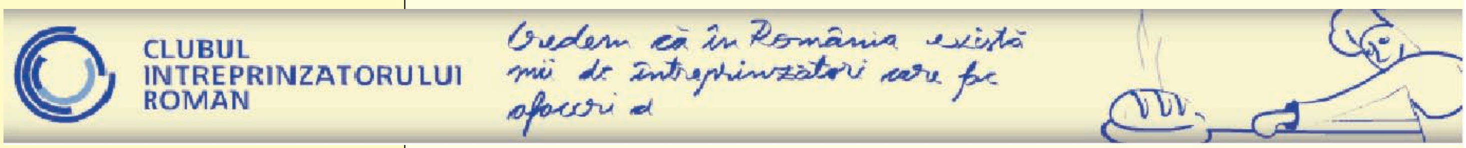
- 1 h loan, without collaterals
- 1 h loan for SMES for:
  - working capital
  - investments
- Start up loan
- 0% interest

Loan products characteristic is the high risk dispersion, without concentrating on any economic sectors.

Describing briefly the new product, we have to mention that the main advantage of **100% Discount** constitutes the companies' possibility to convert, before maturity, promissory notes and cheques received from clients into liquidities at their full face value.

The second product launched in 2006, **the Banking Subscription**, a non-lending product designed to help our customers to keep their banking fees under control, has been awarded as The Best Banking Product of the Year, by *Piata Financiara* magazine.

This is not the only award received by BT with regard to its SME banking profile, our remarkable performance in the SME area receiving another important acknowldgement: "Best Bank for SMEs" awarded by Bucharest Business Week.



Clubul Intreprinzătorului Român (CIR), launched in September 2006 is one of the most innovative initiative taken by Banca Transilvania. Unique in Romania, CIR intends to be an effective support for the Romanian entrepreneurs in their endeavor to develop and to prepare themselves for doing business in Romania, a new member state of the European Union.

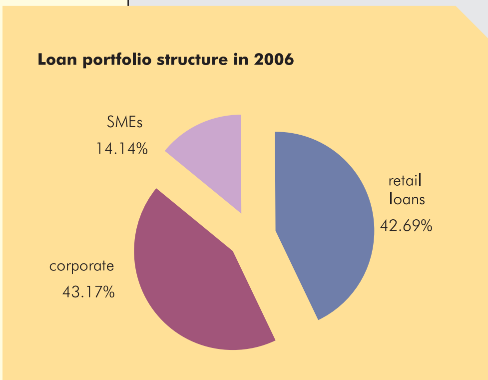
CIR will provide training programs, consultancy, networking, all of them especially conceived for SMEs and micro companies.

The access at BT's CIR is free for every entrepreneur, one of the main advantages from joining the Club being free or partially sponsored training courses, sustained both by professionals of Banca Transilvania and specialized training companies. Such trainings are delivered in over 50 towns, the Club organizing monthly 25 events where members benefit of free access. Up to now, 145 seminars have been organized, attended by over 4000 entrepreneurs. Main topics addressed by tutorials referred to: strategic & financial management, human resources management, leadership, financing strategies for companies, sales, general banking operations, treasury operations, investment funds etc.

From right to left: Mr. Robert C. Rekkers,
Mr. Horia Ciorcila,
Mr. Ionut Patrahau,
Mr. Jack Trout (*sitting*)

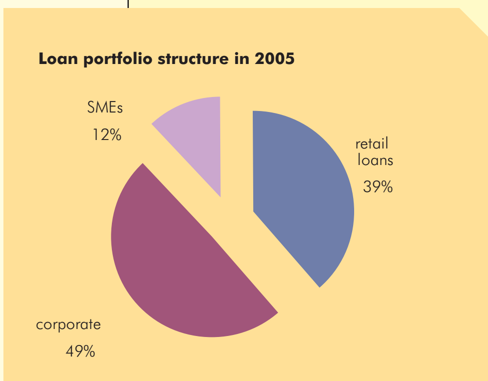
Retail Banking

The Retail banking sector benefits of an attentive focus from Banca Transilvania. Our main target is to provide best services for retail customers, aiming to exploit cooperation and cross-selling opportunities.

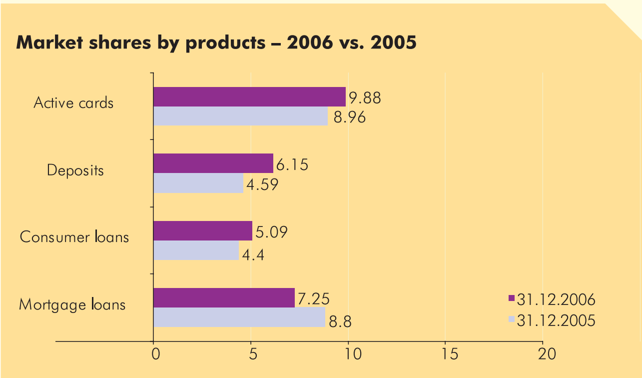


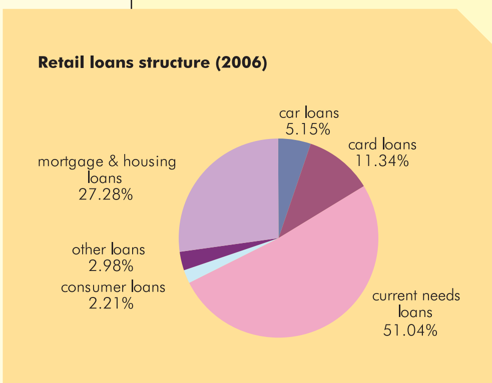
Considering the increasing number of retail customers and their weight in the total bank's client portfolio – 87%, we can state that Banca Transilvania is perceived and acknowledged as one of the most attractive retail banks in the system, having an extended card product offer and a wide range of retail loans and deposits.

End of 2006, loans granted to individuals weighted 43% in the bank's portfolio, increasing by over 85% against last year.

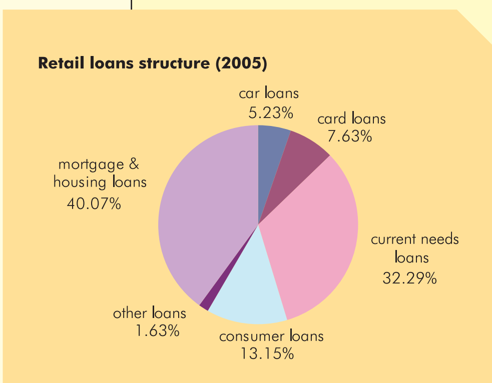


Emphasizing quality of customer service, Banca Transilvania continued to adapt its organizational flows, aiming to create an efficient infrastructure meant to support its priorities for the three different business lines, with a clear concentration on retail banking.





Based on such concept, during 2006, BT managed to uphold an important position in the retail banking sector, promoting both new products and services, but also using alternative distribution channels like Internet Banking and automatic teller machines (ATMs).



Cards segment

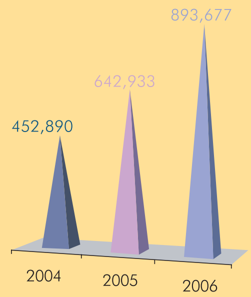
Taking advantage of its fresh start on the Romanian cards market and the remarkable experience gained in time, Banca Transilvania continued to write its success story related to the cards business. At the end of 2006, Banca Transilvania ranked fourth in Romania, with a market share of 9.88% (number of cards), formed of almost 900,000 active cards.

BT's cards portfolio, which grew in 2006 with 36% against previous year, includes 14 products, designated both for individuals and company clients.

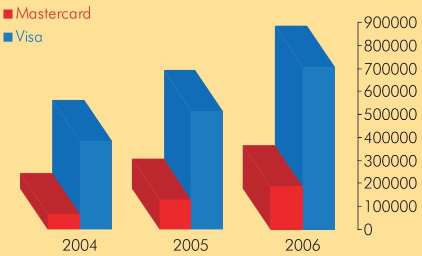
In order to increase clients' acceptance at national level and to ease access to non-cash instruments, the bank continued aggressively to expand its ATM and POS network, reaching at the end of 2006 a number of 530 ATMs and 4500 POS. Campaigns aimed at raising brand visibility were conducted throughout the year and activities were carried out in order to enhance cards' use at merchants.

With Visa Gold card launched at the end of 2005, Banca Transilvania had a very successful 2006. The over 5.400 gold cards issued during the year brought us a market share of ~ 25% on the "Gold products" market segment. Visa Gold cardholders benefit of dedicated customer care via specialized product managers.

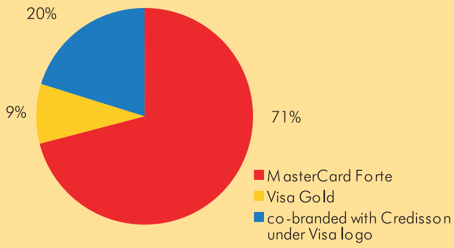
Number of Cards Issued



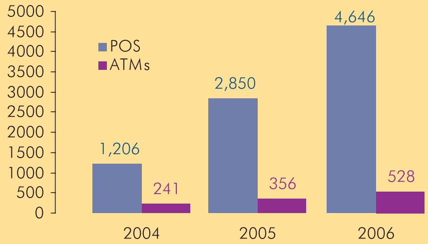
MASTERCARD vs VISA



Credit cards issued during 2006



Number of ATM's and POS



Internet banking - BT 24

BT 24, the internet service of Banca Transilvania plays a significant role in determining the performance and efficiency of banking services, offering comfortable and simple solutions in a fast moving world.

February 2006, BT 24 was nominated by a prestigious profile magazine in Romania as the best internet-banking application.

Internet banking subscribers recorded impressionable growth, reaching 270% against the number of clients in 2005. Not only the users' number increased significantly, but also the number of transactions grew rapidly, the latter registering an increase with 390% in 2006, against 2005.

At year end the number of subscriptions for the application was over 18,900 users.

In September 2006, a new platform – BT Trade, developed by BT Securities, member of BT Group was launched, using the same internet solution –BT 24. Through BT 24, banking and brokerage services are "click" close to our clients.

The constant increase of Romanian public interest manifested during the last 5 years concerning Internet usage and banking applications in general via Internet access, parallel with the effects expected on this market as a consequence of our country's accession to the EU, determine us to believe that 2007 shall certainly bring an enhancement of interest, making even more evident the importance of such an operating module, thus ensuring our team to believe that the course of the future in banking operations shall be established to a large extent by Internet based applications, hence making BT -24 an important banking gate.

RISK MANAGEMENT

Given the general market developments and the tremendous expansion of Banca Transilvania in the last years, new business opportunities are being generated, increasing thus the possibility of risks to be faced. Therefore, identifying, measuring, monitoring and controlling risks have never been more important for the bank's management.

Types of risk

Banca Transilvania divides the monitoring and controlling process associated with risk management with the following categories:

- Assets quality
- Market risk
- Liquidity risk
- Operational risk

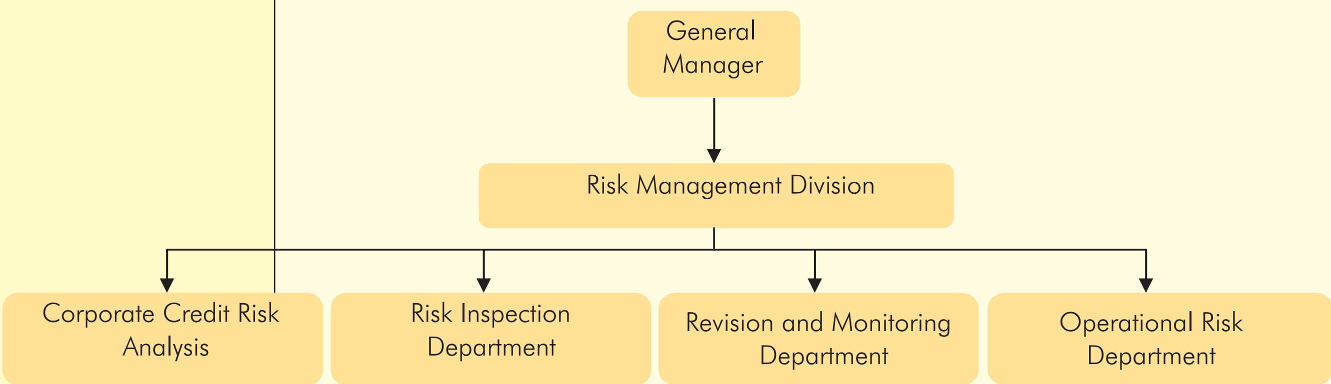
As changes are continuous in an emerging environment, risk categories are constantly reviewed in Banca Transilvania, which is trying to improve and refine control instruments.

The decision-making process for addressing credit, market, liquidity and operational risk is strengthened by the Risk Management Committee, which bases its activity on specific risk monitoring sub-committees like ALCO, Credit Risk Committee and Operational Risk Committee.

Assets Quality

Banca Transilvania's objective in 2006 concerning credit risk management was to maintain a reasonable balance between return and credit risk exposure, especially considering the descending trend of net margins.

Banca Transilvania organizes the credit risk in an independent manner, but simultaneously considers the connection between credit risk and other types of risks.



BT's norms and internal standards are periodically updated and improved to promote best practices for the credit risk management and to further raise the levels of accuracy and comprehensiveness.

All these principles are applied to increase transparency of loan conditions and approval standards for specific borrowing purposes. Main principles set out by BT's internal strategy are as follows:

- Creating and maintaining in a constant manner an adequate framework for credit risk management;
- Steady improvement of lending/granting activity;
- Maintaining an effective loan management, control and monitoring process;

BT's endeavor is to follow best practices related to the assessment of asset quality, provisions and reserve adequacy and credit risk disclosure, while concentrating on income generating assets.

Market risk

BT's market risk profile is considered low, due to prudential approach of all operations falling under this type of risk, as well as the numerous types of limits implemented and monitored daily in the bank's current activity. The purpose of this prudential approach is to protect from market price, interest rates and currency rates variations, all being external and independent factors.

Market risk management encompasses activities like:

- setting allowable risk limits
- establishing an efficient, at least dual, control system
- clear responsibility separations

Although, Banca Transilvania dose not have a Value-at-Risk system, it uses different software for the daily evaluations of all bank's positions, portfolio mark to market, signaling the reach of some levels defined as "attention levels" or "critical levels".

Currency risk in Banca Transilvania is assumed as being low with prudent maximum and minimum limits admitted as open positions. Nevertheless, it is ascertained that in 80% of cases, the actual open position is below the level of 75% of approved limits, and the number of dealt currencies, as well the types of instruments are minimal.

Upon addressing interest rate risk, the bank establishes a set of strict management and monitoring principles. Interest rate risk approach is performed in the bank considering a neutral position against interest rate risk of the main currencies – EUR and USD and a more aggressive management only for the national currency.

Liquidity risk

Liquidity risk is risk stemming from the lack of marketability of an investment that cannot be sold quickly enough to prevent or minimize a loss.

In line with the banking standards, Banca Transilvania deals with liquidity risk by monitoring changes in assets and liability structure, diversifying the funding base, with limited dependence on source of funds, seeking to enhance funding flexibility and continuity, launching of new products to improve maturity gap.

Operational risk

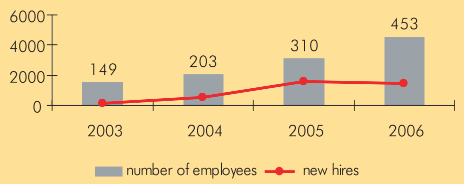
Managing such risk is becoming an important quality of sound risk management practice in modern financial markets in line with Basel II requirements. Operational risk involves mostly breakdowns in internal controls and corporate governance which can lead to financial losses through error, fraud, or failure to perform transactions in a timely manner. It can also affect the interests of the bank by its dealers, lending officers or other staff exceeding their authority or conducting business in an unethical or risky manner. Other aspects of operational risk include major failure of information technology systems or events such as major fires or other disasters.

The operational risk management approach is depending on the bank's size and sophistication, the nature and complexity of its activities. However, despite these differences, clear strategies and supervision by the Board and senior management, strong operational and internal control culture (including clear lines of responsibility and segregation of duties), effective reporting tools and contingency planning are all crucial elements of the banks operational risk management structure.

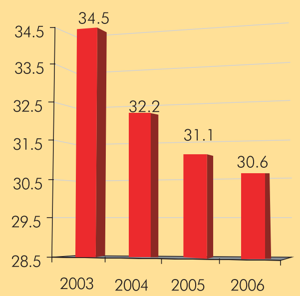
In the same manner, as for the credit risk management, Banca Transilvania is continuously building an appropriate operational risk management environment:

- Creating and maintaining an independent management function of operational risk within Risk Management Department;
- Creating and maintaining the necessary governance to ensure the performance base of operational risk management activities;
- Following compliance with norms and rules imposed by national and international authorities;
- Observing best practices in the field of operational risk;
- Drafting the business continuity plan;
- Continuously enhancing operational risk management for better capital allocation.

Headcount evolution



Average age evolution



HUMAN RESOURCES

Human Resource Department continued to sustain the bank in order to achieve its objectives in line with the management's approach geared to value creation, desired business expansion, and increase in income.

Banca Transilvania's vision is to develop a culture of excellence through its employees who via their commitment, integrity, professionalism, teamwork constitute the steering wheel behind an institution such as ours.

Because the bank's success depends on the engagement of its employees, one of the main objectives for 2007 constitutes the recruitment of young graduates with appropriate skills, interested in working in a dynamic environment, BT committing to provide conditions for their professional development, so that a perfect balance between the management's expectations and those of its employees to be created.

Our claim of excellence is achieved at individual level through personal development and at an organizational level primarily through best practice principles throughout the entire Group and in house training for our employees. Modules, self – training via Internet, training sessions organized by BT Academy are but a few stimulants to achieve the desired success.

As the Bank and the entire Group must continue to excel in providing clients and potential customers with quality services that can be accessed anytime, anywhere, network extension continues to be our target for 2006. At year end, with a network of 341 branches and agencies and with 4,500 employees, we envisage a further expansion, thus creating new work places and attracting professionals, as they constitute the most important asset ensuring advantage over competition.

2006 constitutes the year of targeted human resource development instruments such as a new employee recruitment process, practice where the candidate's personality, skills and experience are being tested. Thus, Banca Transilvania is confident in its young team of employees who pride themselves in working in a prosperous, efficient and progressive banking institution, renowned for its leadership and quality services.

• Gender ratio:	27 %M	73%F
• Management gender ratio:	39.1%M	60.9%F
• Average age:	30.6	
• Total headcount increase during 2006:	46.13	

BT Academy

In view of the requirements needed to create the culture of excellence, Banca Transilvania established BT Academy, a special entity meant to provide training and education to all of the bank's employees.

In order to ensure our customers that we shall be among the very best, BT Academy designed five performance levels which address not only the employees but the management as well.

1st level training course – Induction courses – a lead in course offered to new employees to boost their future performances at success level.

2nd level training course - offers knowledge about laws, internal regulations, and internal policies relevant for each work place within the bank. In this respect new e-learning measures were successfully introduced during the course of the year which comprises a sequence of e-learning and testing of employees. The program was called Star-BT and 1,000 employees participated to this training.

3rd level training course – training segment – sales – in line with the market requirements this level is designed for front-office employees and sales positions. Altogether, we provided sales training for 707 employees, broken down into two types of trainings: internal training, respectively Integrated Training for sales in agencies with a number of 587 employees participating, the goal representing the development of an adequate pool of employees, the trainer being none other than Banca Transilvania's Deputy CEO Mr. Ionut Patrahau and his team and external sales training with a number of 120 employees participating. These training sessions focused on the needs and whishes of sales management.

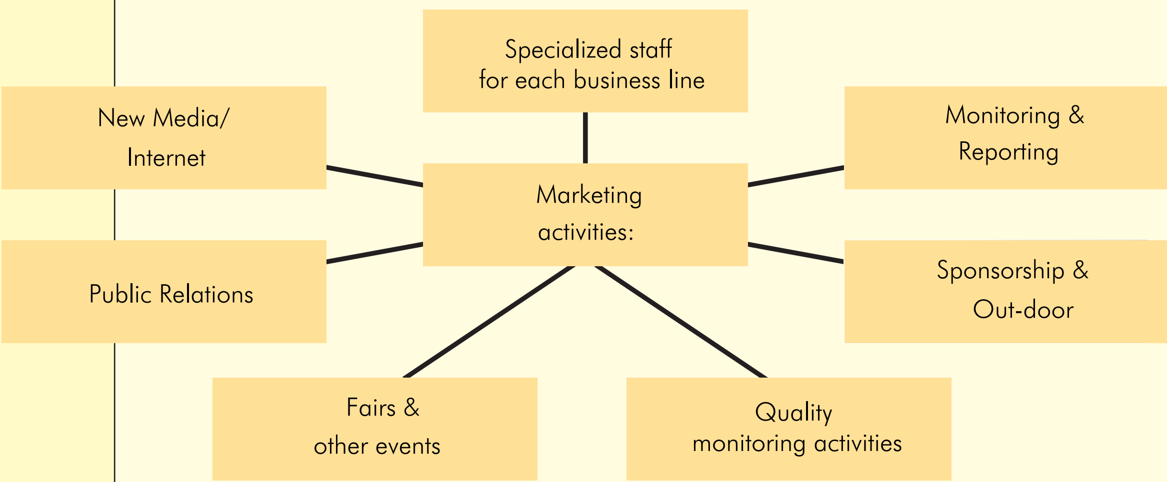
4^{th} level training course – supplies knowledge about the banking sector – payments systems, clearing systems, loans, cards, risk management, treasury products, and trade finance. In this respect we offered a training session called "ABC of Operations", a course having a budget of RON 500,000 and performed in 2 big centers – Bucharest and Cluj – Napoca. We are proud to announce that in 2006 we managed to create 6 more training centers – Oradea, Craiova, Galati, Timisoara, Constanta, Iasi – so that the all our employees could benefit of our full support.

5^{th} level training course – addresses middle and top management, offering leadership courses, MBAs, negotiation sessions, English courses, as well as Kaizen philosophy sessions, the Japanese management concept for gradual and continuous improvement of employees, in total, a number of 236 key people being trained to achieve performance.

We trust that our continuous investments to increase employee proficiency shall lead to corporate excellence and performance for the entire Group.

MARKETING

If at the end of 2005, according to a study performed by BBN (Business Branding Network), Banca Transilvania occupied the 5th place among banking institutions concerning spontaneous brand awareness amid population, six months later, in June 2006, according to Synovate study, brand awareness index increased from 3% to 6%, placing Banca Transilvania on the third place amidst banking institutions.



Amidst 2006 marketing & PR activities, we mention but a few key success campaigns, which are a blueprint for identifying and capitalizing our clients' needs using a consistent and coordinated approach.

– **Image and sales campaign for SME products** – this campaign was a real success because of its bold approach and efficient use of allotted budget (via niche TV networks); the introduction of "Fairy man", a charismatic character, an innovative element in banking advertisement, differentiating ourselves in the market; the bank promoted itself as a sustainer of the entrepreneurial spirit, first option for small and medium enterprises.

This image campaign had a tremendous contribution in seizing a significant market share of 16% among small and medium enterprises.

– **Corporate Social Responsibility Campaigns** – we try to address social issues and needs by applying our resources, expertise, and management talent to create shared value which subsequently will lead to self-sustaining solutions designed to strengthen the business environment.

– Aggressive usage of **Internet** as part of the marketing strategy by launching the new Internet site and by creating niche micro sites. During 2006, a series of micro sites were launched strategically addressing distinct products niches, proving a real success by visitors' number (www.creditpecard.ro; www.creditnevoipersonale.ro and www.imobiliar-ipotecar.ro).

Marketing activity concentrated on frequency increase of Internet campaigns and intensive use of search engines to attract visitors. We consider that the Internet was the most efficient promotion means in 2006, becoming a real on-line banking unit, generating important business volumes.

The promotion **campaigns of the newly launched products in the Retail segment** paid off too, market shares being maintained or increased during 2006.

– **Attracting potential customers** – An "education" campaign, offering alternative solutions to potential clients.

– **Successful implementation of Guerrilla Marketing concept:** encouragement of product sales in area with potential.

– **Quality maintenance of BT services by continuing the Mystery Shopping program**, identifying strong and weak aspects.

Public Relations in Banca Transilvania are an integrated part of Marketing Division ensuring a constant coherent communication with the public.

In 2006 Banca Transilvania communicated first and foremost with its employees, being the first ones to know about the bank's activities and achievements.

Besides the regular press releases and communicates, more than 100 events have been organized in 2006. We refer to press conferences where new products and services were revealed or important partnerships were made public, official openings of BT units, launching projects like the Italian Desk – in Timisoara or the opening of BT Cafè™ in the same city. As for BT Golf Cup™, the 4th edition of this event organized in September 2006, enjoyed an even larger success than the previous ones.

In 2006, BT obtained the "Golden Award for Excellence in Public Relations" within the Romanian Public Relations Awards Gala.

CORPORATE SOCIAL RESPONSIBILITY

Banca Transilvania places people on the first place. This is why 2006 has been a year when the bank decided to involve in a significant way in the life of the communities where it belongs, building a long term relationship, distinguished by commitment, dialog, transparency and ethics.

2006 plans included many programs dedicated to the community. BT supported over 150 projects and events, in various fields like education, culture, sport, healthcare etc. Amongst all projects sponsored by Banca Transilvania, the most important proved to be the one we called "You choose - Banca Transilvania gets involved", aiming the achievement of a special concept, initially developed within four cities in Transylvania: Alba Iulia, Bistrița, Deva and Sibiu. In each of these cities, the bank, in a close partnership with the local authorities, proposed three projects which needed financial support. Our customers, members of these communities, had the possibility to select whereto Banca Transivania's financial contributions would go, voting the projects considered most important for them.

The main gain of the bank's social involvement was the strengthening of BT brand both locally and at national level, and also its recognition on the market as a responsible and reliable institution willing to share with the community its incomes, returning part of its profits.

The positive feed back was acknowledged by obtaining important awards like "Award for social involvement" for the project "You choose - Banca Transilvania gets involved" within the "Gala People for People" (October 2006). Same project was nominated as well as "project of the month", in August 2006, by the visitors of the website www.responsabilitatesociala.ro, highlighting the fact that Banca Transilvania developed a visible, ethical social program, in an open and transparent way.

For Banca Transilvania, social responsibility goes beyond financial and marketing concerns, the bank proving to be a corporate citizen who cares.

OPERATIONS AND IT

As a consequence of last years' substantial growth, we have continuously struggled to deploy a solid technological infrastructure ensuring quick and accurate communication, as well as the transfer of large data volumes within a short time span.

We engaged ourselves in new various schemes meant to improve technology (both hardware and software), offering the possibility to consolidate the data warehouse and to create a Middleware, securing interfaces and increasing processing and storage capacities.

A major project undertaken in 2006 was the implementation of the BM7 & 7 Digits core system, which made it possible to generate over 1 million client IDs, increasing security and stability. With regard to cards operations, it is worth mentioning the installation of BD Oracle 8i – 10G version as well as TPGold; other improvements consisted in the cards issue automation and the recertification of Visa&MCard for ChipCard.

Adopting a firm orientation towards efficiency and protection, both for customers and ourselves, we define our strategy in terms of communication back-up, operations' monitoring and centralization, optimization of performance/cost ratio and risk administration. This strategy enables us to confirm the financial consistency and soundness of our processes, the appropriateness and transparency of pricing and the understanding of major risks associated with all types of undertaken operations. Moreover, it makes us conscious of the paramount importance of customer protection, which represents the very backbone of our bank.

SUBSIDIARIES

BT Asigurari

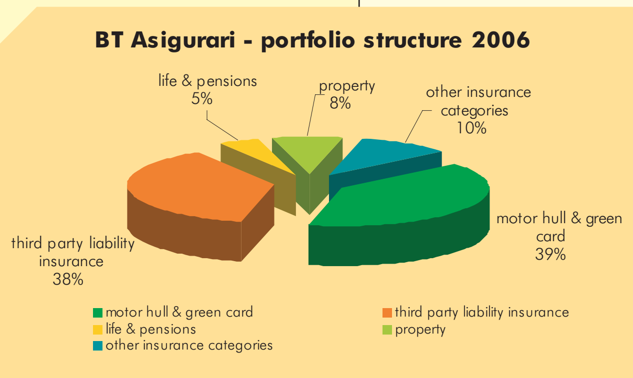
For BT Asigurari – the insurance company member of BT Financial Group, 2006 has been a challenging one. It used considerable efforts and resources both to keep the pace and consolidate its position on the market, among the first ten insurers, with a share of 3.69% compared to 2.35% in 2005 and also to develop its distribution network. In terms of general insurance, the company leapt from the 10th to the 9th position, with a market share of 4.39%, representing an increase by 1.52% as compared to 2005.

The company's share capital was increased with RON 16,500,000 up to a total of RON 36,500,000. During 2006, the aggregate value of gross premiums subscribed was of RON 210,995,788 (the equivalent of EUR 62 million), double the 2005 subscriptions.

At the beginning of 2006, BT Asigurari Transilvania had a network of 136 agencies, with an affiliated sales force of over 5,500 individual and company agents and 765 employees. By the end of the year, the sales structure encompassed 248 own units (agencies and work units) and 28 units opened in collaboration with Banca Transilvania, as well as over 10,000 agents and 1,362 employees.

In 2006, BT Asigurari scored important results also with respect to the number of insurance policies issued, which rose 199% to 753,847, as compared to 281,858 in 2005. The total portfolio structure of the company consists of general insurance policies weighing 95.45% of total gross premiums subscribed in 2006, a slight increase from 93.97% in 2005. Life insurance and pensions represent 4.55% ot total portfolio.

Main insurance categories within the company's portfolio are: Compulsory Motor Third Party Liability Insurance (RCA), standing for 37.83% of the total number of policies; car insurance (Motor Hull and Green Card), representing 39.64% of the portfolio; property insurance, with 7.76% and other insurance categories in percentage of 10.22%.



Based on a year to year assessment, BT Asigurari Transilvania global portfolio structure remained approximately constant, whitout material changes concerning the weight of main risks insured.

Close to 2006 year end a new product was launched: ***Group Life Insurance***. This insurance solution was promoted in Romania in partnership with Gen Re Reinsurance Company, a top five reinsurance company at worldwide level. The competitive insurance premiums, together with the simplified insurance contracting procedure, define this product as a modern instrument designed for staff retention and motivation, BT Asigurari being one of the first insurers to offer such a product to corporate clients.

Highlights for 2006, RAS

		RON
	2006	**2005**
Assets	228,875,253	137,913,513
Share capital	36,500,000	20,000,000
Gross Profit	(7,306,271)	7,944,908
Net Profit	**(7,306,271)**	**6,655,613**

BT Leasing Transilvania, the second largest subsidiary of Banca Transilvania develops a wide range of businesses in the financial and operational leasing sector for such goods as cars, IT equipment, printing, medical and office equipment.

BT Leasing continued to pursue in 2006 a growth path, benefiting of financial support from the group's core entity, which is Banca Transilvania. Assets increased to RON 130,434,569, particularly with regard to financial lease portofolio wich grew by RON 35,000,000.

In 2006 the company also increased its share capital from RON 10.044.172 to RON 14,980,753, capitalizing the retained profit from 2005.

After the rapid growth of recent years, the need to take a critical look at business processes became crucial, with the aim of deploying more resources in sales and improving customer service. The company intends to achieve these goals by streamlining business processes, optimizing cost structures and increasing efficiency.

Financial highlights 2006, RAS

		RON
	2006	**2005**
Assets	130,434,569	94,476,581
Equity	16,165,858	13,927,381
(of which) Share Capital	14,980,753	10,942,505
DEBTS	114,268,711	80,549,201
Total Operating Income	18,295,974	13,334,656
Total Operating Expenses	(15,163,871)	(10,382,861)
Net Profit	**3,276,360**	**3,753,291**

As part of its strategy to improve market position, BT Leasing launched two new products in 2006, designated mainly for SME clients, one of them with focus on start-ups.

The network expanded from 7 to18 sales representative offices in 2006, the company reaching a market share of 1.33%.

2,539 new leasing contracts were concluded in 2006, recording an increase of 47% as compared to 1,732 in the previous year.

BT Securities

BT Securities is the brokerage subsidiary of Banca Transilvania and a reliable, dynamic financial institution in Romania. Being 95% owned by Banca Transilvania, it is ranked among top five brokerage companies in Romania regarding transactions' volumes on Bucharest Stock Exchange.

The company's business model is centered on providing retail clients and overseas institutional investors, corporations and public entities with borkerage services on the Romanian capital market.

BT Securities implemented in 2006 BT TRADE an Internet Trading platform facilitating clients' access to transaction details, as well as electronic transmission of orders.

The company continued to extend its national network, having now 16 agencies. This has subsequently triggered growth of transactions' volume. BT Securities is active in intermediating issuances of corporate and municipality bonds.

Position in the market

	BVB	RASDAQ
2005	3	9
2006	4	6

Market share

	BVB	RASDAQ
2005	5.65%	3.40%
2006	5.32%	5.17%

Highlights 2006, RAS

		RON
	2006	**2005**
Operational Profit	3,532,165	3,144,362
Financial Profit	1,314,673	1,382,883
Gross Profit	4,846,838	4,527,245
Tax on Profit	702,131	621,267
Net Profit	**4,144,707**	**3,905,978**

BT Asset Management

BT Asset Management SAI SA started its activity in the second part of 2005 focusing on two main business lines: management of individual investment accounts and fund management.

In 2005 BT Asset Management registered a turnover of RON 111,437, while in 2006 it reached RON 1,066,580, with a raise of 857%.

Market share increased from 6.33% in 2005 to 6.82% in 2006, end of year gross profit amounting to RON 945.221, coming to underline the rapid and successful development of the company.

		RON
	2006	**2005**
Operational income	1,066,580	111,437
Operational expenses	754,697	279,001
Operational profit (loss) (1)	311,883	(167,5640)
Financial income	821,831	299,555
Financial expenses	188,493	–
Financial profit (2)	633,338	299,555
Gross profit (1+2)	945,221	131,991

		RON
	2006	**2005**
Fixed assets	256,274	294,474
Current assets	2,740,352	1,637,208
Shareholders' equity	2,887,152	1,617,174

Since its incorporation, BT Asset Management offered different investment options for its clients depending on their risc appetite. In 2006 it launched on the Romanian market an index fond, **BT Index**, – equity fund designed for assets allocation. BT Invest 1 Close-End Fund obtained the "**Excellence Diploma for Best Performance**" within UNOPC gala, registering an increase of 31.2% in 2006.

BT Direct

BT Direct is another subsidiary of Banca Transilvania, member of Banca Transilvania Financial Group, focused on consumer finance. Its main goal is the development of financing solutions, dedicated to retail clients.

BT Direct has amassed a suite of financial leasing products that ensure cost-saving automated direct debit processes end-to-end.

The year 2006 brought significant changes with respect to the ownership structure of the company. Being previously directly owned by Banca Transilvania, after the Shareholders' Meeting, 3 other BT's subsidiaries were co-opted as shareholders (BT Leasing, BT Logistic and BT Management); this was accompanied by a change in the company's status, more specifically, it became a non-banking financial institution organized as a joint-stock company.

The company's capital increased every year by incorporating its profits. At present, the share capital level is of RON 16,400,000. The finance portfolio for 2006 consists of 5,571 contracts in total amount of RON 11,6 million (25% increase as compared to 2005).

Apart from these developments, BT Direct has extended its partner network, which currently encompasses 220 shops, thus enhancing its competitive advantages summarized as follows:

- flexibility in assessing customers' credit worthiness;
- life and product insurance;
- discount on interest for full advance payments;
- promptness of feedback regarding credit application;
- facility of monthly installment payment at BT units across the country.

Highlights 2006, RAS

RON

	2006	2005
Assets	18,516,264	17,321,398
Share Capital	16,400,000	13,100,000
Total income	4,794,187	5,748,495
Number of finance contracts	5,571	4,865
Portofolio	11,600,000	9,092,786
Gross Profit	2,832,829	4,203,482
Tax on profit	417,470	643,179
Net Profit	**2,415,359**	**3,560,303**

Compania de Factoring IFN S.A.

Compania de Factoring IFN S.A. is the newest subsidiary within BT Financial Group. At the same time, it is the first company in Romania, member of Factors Chain International (FCI) association, being specialized exclusively in factoring services. Established in 2006, Compania de Factoring is a joint venture between Intermarket Bank, Austria and Banca Transilvania, Romania.

The company offers financing support to all economic sectors, focusing on corporate companies and SMEs.

The company's core business unfolds in three directions:

- financing of account receivables
- debtor management, including debtor accounting, dunning and collection
- full credit risk cover

Compania de Factoring adopted an efficient sales strategy based on 3 distribution channels:

- BT cooperation protocol regarding factoring products' trade
- agency agreements regarding trading via various agents
- own workforce trading via regional or Bucharest sales managers.

The year 2006 proved to be an encouraging year for the company, being marked by the accomplishment of two essential strategic objectives with respect to the market position and sales volume.

The good results of the company have been possible as well through the support of EBRD, which provided a EUR 6.5 million revolvong facility.

According to the company's representatives, the outlook for 2007 is positive, Compania de Factoring intending to reach the current market level, which now stands at EUR 550 million and enjoys huge growth potential connected with an increasing demand for consumer goods.

Highlights for 2006, RAS

	thd. RON
	2006
Assets	20,771
Shareholders'Equity	6,183
Share Capital	7,000
Profit	**(817)**

BANCA TRANSILVANIA S.A.

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS

31 DECEMBER 2006

INDEPENDENT AUDITORS' REPORT

(free translation[1])

The Shareholders'
Banca Transilvania S.A.

Report on the consolidated financial statements

1 We have audited the accompanying consolidated financial statements of Banca Transilvania S.A. (the "Bank") and its subsidiaries (the "Group"), which comprises the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

2 The consolidated financial statements of the Group as at 31 December 2005 were audited by other auditors whose report dated 25 March 2006 expressed an unqualified opinion on those consolidated financial statements, but drew attention to the fact that the Group has not performed a formal computation for the unexpired risk reserve in respect of insurance contracts as of 31 December 2005 and that they have not identified indicators that the results of such computation would result in the recognition of an unexpired risk reserve. The report of the other auditors also drew attention to the fact that the amounts presented in Euros in the consolidated balance sheet and consolidated income statement have been computed without being construed that the RON amounts have been, or could be in the future converted into Euros at any rate of exchange.

3 This report is made solely to the Bank's shareholders, as a body. Our audit work has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Management's responsibility for the consolidated financial statements

4 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

5 The financial statements of two consolidated companies, which statements reflect total assets constituting RON 28,792 thousand, total net loss constituting RON 973 thousand and total interest and commission income constituting RON 1,143 thousand as of and for the year ended 31 December 2006, were audited by other auditors whose reports have been furnished to us. Our audit report, insofar as it relates to the amounts included for those consolidated companies, is based solely on the furnished reports of the other auditors.

6 Our responsibility is to express an opinion on the consolidated financial statements of the Group based on our audit and the audits of other auditors. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

[1] TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditors' report is provided as a free translation from Romanian which is the official and binding version.

7 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

8 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

9 In our opinion, the accompanying consolidated financial statements of Banca Transilvania S.A.'s Group present fairly, in all material respects, the financial position of the Group as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matters

10 Without qualifying our opinion, we draw attention to the following:

- As presented in Notes 3j and 22 and 23 to the consolidated financial statements, the Group has estimated the impairment loss provision for loans and advances to customers and net lease investments at RON 41,852 thousand based on the internal methodologies developed and applied as at 31 December 2006. Because of the inherent limitations mentioned in Note 3j related to the historical experience in obtaining cash flow information and in methodologies applied, that estimate may differ from the value that would have been obtained had the Group obtained sufficient historical experience on obtaining reliable information on the timing and amounts of the expected future cash flows.

- As presented in Note 6 to the consolidated financial statements, the Group is in the process of amending the existing applications and adjusting existing internal financial reporting to support reporting of all relevant segment information within its business segments.

- As presented in Note 2c to the consolidated financial statements, the Group has presented in Euros for the convenience of readers the amounts reported in RON in the consolidated balance sheet and in the consolidated income statement. This presentation does not form part of the audited financial statements.

Report on conformity of the administrators' report with the consolidated financial statements

In accordance with the Order of the National Bank of Romania no. 512005, article no. 175, point 2) we have read the accompanying administrators' report on the consolidated financial statements of Banca Transilvania S.A. and its subsidiaries (the "Group") prepared in accordance with International Financial Reporting Standards as at and for the year ended 31 December 2006. The administrators' report as presented from page 1 to 12 is not a part of the Group's consolidated financial statements. In the administrators' report we have not identified any financial information which is not consistent, in all material respects, with the information presented in the Group's consolidated financial statements as at 31 December 2006.

Refer to the original signed Romanian version

K

KPMG Audit SRL
Bucharest, Romania
28 March 2007

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December

	Note	2006 RON thousand	2005 RON thousand	Convenience Translation* 2006 EUR thousand	2005 EUR thousand
Interest income		652,717	431,036	185,194	118,959
Interest expense		(289,459)	(173,474)	(82,128)	(47,876)
Net interest income	8	363,258	257,562	103,066	71,083
Fee and commission income		199,643	126,337	56,644	34,867
Fee and commission expense		(24,640)	(17,433)	(6,991)	(4,811)
Net fee and commission income	9	175,003	108,904	49,653	30,056
Net trading income	10	63,205	40,468	17,933	11,169
Net earned insurance premiums	11	137,455	38,283	39,000	10,565
Other operating income	12	23,767	13,556	6,743	3,741
Operating income		762,688	458,773	216,395	126,614
Impairment losses on financial assets	13	(40,672)	(19,830)	(11,540)	(5,473)
Net insurance claims	14	(77,215)	(27,866)	(21,908)	(7,691)
Personnel expenses	15	(229,609)	(129,764)	(65,147)	(35,813)
Depreciation and amortisation	26, 27	(40,372)	(36,707)	(11,455)	(10,131)
Other expenses	16	(246,483)	(127,289)	(69,934)	(35,130)
Operating expenses		(634,351)	(341,456)	(179,984)	(94,238)
Share of profit in associates		400	5,024	113	1,387
Profit before income tax		128,737	122,341	36,524	33,763
Income tax expense	17	(20,140)	(15,050)	(5,714)	(4,154)
Profit for the year		108,597	107,291	30,810	29,609
Attributable to:					
Equity holders of the Bank		114,448	108,585	32,472	29,968
Minority interest		(5,851)	(1,294)	(1,662)	(359)
Profit for the year		108,597	107,291	30,810	29,609
Earnings per share	41				
Basic		0.0309	0.0311		
Diluted		0.0309	0.0311		

* refer to Note 2c

The consolidated financial statements were approved by the Board of Directors on 28. 03. 2007 and were signed on its behalf by:

Horia Ciorcila
Chairman

Maria Moldovan
Chief Financial Officer

CONSOLIDATED BALANCE SHEET
As at 31 December

				Convenience Translation*	
	Note	2006 RON thousand	2005 RON thousand	2006 EUR thousand	2005 EUR thousand
Assets					
Cash and cash equivalents	18	1,995,168	1,232,504	589,990	335,184
Placements with banks	19	675,009	167,907	199,606	45,663
Financial assets at fair value through profit and loss	20	95,976	75,720	28,381	20,592
Insurance premiums receivables	21	47,021	38,218	13,905	10,394
Loans and advances to customers	22	4,833,106	2,918,075	1,429,194	793,581
Net lease investments	23	135,405	94,812	40,041	25,784
Investment securities, available for sale	24	133,511	264,195	39,480	71,849
Investment securities, held to maturity	24	22,151	26,521	6,550	7,212
Investments in associates	25	27,938	19,241	8,262	5,233
Property and equipment	26	234,518	167,549	69,349	45,566
Intangible assets	27	9,884	11,328	2,923	3,081
Goodwill	27	13,780	16,452	4,075	4,474
Other assets	29	107,161	43,141	31,689	11,732
Total assets		8,330,628	5,075,663	2,463,444	1,380,344
Liabilities					
Deposits from banks	30	56,541	227,691	16,720	61,921
Deposits from customers	31	5,645,304	3,369,945	1,669,369	916,468
Loans from banks and other financial institutions	32	1,268,422	763,206	375,084	207,556
Other subordinated liabilities	33	201,583	–	59,610	–
Debt securities issued	35	58,522	71,195	17,305	19,362
Technical insurance reserves	34	133,517	73,524	39,482	19,995
Deferred tax liabilities	28	12,074	11,368	3,570	3,092
Other liabilities	36	159,272	42,587	47,098	11,582
Total liabilities		7,535,235	4,559,516	2,228,239	1,239,976
Equity					
Share capital	37	483,254	326,632	142,903	88,829
Treasury shares		(7,559)	(4,333)	(2,235)	(1,178)
Share premiums		96,995	40,071	28,682	10,897
Retained earnings		30,769	3,174	9,099	863
Revaluation reserve		6,665	6,555	1,971	1,783
Other reserves	38	178,238	141,377	52,707	38,448
Total equity attributable to equity holders of the Bank		788,362	513,476	233,126	139,642
Minority interest		7,031	2,671	2,079	726
Total equity		795,393	516,147	235,205	140,368
Total liabilities and equity		8,330,628	5,075,663	2,463,444	1,380,344

* refer to Note 2c

The consolidated financial statements were approved by the Board of Directors on 28. 03. 2007 and were signed on its behalf by:

Horia Ciorcila
Chairman

Maria Moldovan
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2006

In RON thousand	Attributable to equity holders of the Bank							
	Share capital	**Treasury shares**	**Share premium**	**Revaluation reserve**	**Other reserves**	**Retained earnings**	**Minority interests**	**Total**
Balance at 31 December 2004	**223,393**	**(3,958)**	**25,121**	**–**	**69,911**	**(15,005)**	**985**	**300,447**
Increase in share capital through appropriation of statutory retained earnings	64,769	–	–	–	–	(64,769)	–	–
Increase in share capital through incorporation of share premium	25,121		(25,121)	–	–	–	–	–
Cash contribution to share capital	13,349	–	40,071	–	–	–	–	53,420
Distribution to statutory reserves	–	–	–	–	27,279	(27,279)	–	–
Own shares acquired		(375)	–	–	–	–	–	(375)
Increase of convertible bonds	–	–	–	–	822	–	–	822
Increase in revaluation reserve	–	–	–	6,555	–	–	110	6,665
Increase in the shareholding of minority interest in BT Asigurari S.A.	–	–	–	–	–	1,642	2,578	4,220
Fair value gains on available for sale investments, taken to equity (net of tax)	–	–	–	–	43,365	–	292	43,657
Profit for the year						108,585	(1,294)	107,291
Balance at 31 December 2005	326,632	(4,333)	40,071	6,555	141,377	3,174	2,671	516,147
Increase in share capital through appropriation of statutory retained earnings	80,485	–	–	–	–	(80,485)	–	–
Increase in share capital through incorporation of share premium	40,071	–	(40,071)	–	–	–	–	–
Cash contribution to share capital	35,510	–	91,670	–	–	–	704	127,884
Distribution to statutory reserves	–	–	–	–	37,215	(37,215)	–	–
Increase in share capital through conversion of bonds	556	–	–	–	–	–	–	556
Acquisition of treasury shares, net of shares sold	–	(3,226)	–	–	–	–	–	(3,226)
Share premium from conversion of bonds into share capital	–	–	5,325	–	–	–	–	5,325
Transfer from minority interest to revaluation reserve	–	–	–	110	–	–	(110)	–
Transfer to liability of the equity component from the bonds issued	–	–	–	–	(822)	–	–	(822)
Share of the increase in associate's equity	–	–	–	–	–	7,806	–	7,806
Fair value gains from available for sale investments, (net of tax)	–	–	–	–	468	23,467	6,381	30,316
Profit for the year						114,448	(5,851)	108,597
Part of the reserves attributed to minority interest						(426)	3,236	2,810
Balance at 31 December 2006	483,254	(7,559)	96,995	6,665	178,238	30,769	7,031	795,393

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December

	Note	2006 RON thousand	2005 RON thousand
Cash flows from operating activities			
Profit before taxation		128,737	122,341
Adjustments for:			
Depreciation and amortisation	26,27	40,372	36,707
Net impairment losses and written offs on financial assets		56,033	19,874
Share of profit in associate, net of dividends		(340)	(3,255)
Insurance provisions		59,993	50,754
Profit on disposal of equity investments available for sale		(9,684)	(2,620)
Fair value adjustment of financial assets at fair value through profit and loss		(20,557)	(11,490)
Foreign exchange difference on convertible loans		(11,873)	
Other adjustments		(8,482)	(2,081)
Operating profit before changes in operating assets and liabilities		234,199	210,230
Change in investment securities		183,545	(24,358)
Change in placement with banks		(205,115)	(2,476)
Change in loans and advances to customers		(1,971,064)	(1,542,394)
Change in net lease investments		(40,593)	(24,121)
Change in financial assets at fair value through profit and loss		301	4,097
Change in insurance premiums receivables		(8,803)	(25,930)
Change in other assets		(66,030)	(22,041)
Change in deposits from banks and customers		2,104,318	1,651,875
Change in other liabilities		116,685	22,697
Income tax paid		(12,356)	(13,272)
Net cash from operating activities		335,087	234,307
Investing activities			
Net acquisitions of property and equipment and intangible assets		(103,225)	(88,042)
Increase in shareholding in associate		–	(12,185)
Cash flows from investing activities		(103,225)	(100,227)
Financing activities			
Proceeds from issue of share capital		127,180	53,420
Subscription in share capital of subsidiary by minority interest		2,011	6,113
Proceeds from loans from banks and other financial institutions, subordinated liabilities and bonds issued, net of payments		710,256	471,535
Payments for the purchase of treasury shares		(6,658)	–
Cash flows from/(used) in financing activities		832,789	531,068
Net increase in cash and cash equivalents		1,064,651	665,148
Cash and cash equivalents at 1 January		1,397,550	732,402
Cash and cash equivalents at 31 December		2,462,201	1,397,550

Analysis of cash and cash equivalents

	2006 RON thousand	2005 RON thousand
Cash and cash equivalents comprise:		
Cash on hand and current accounts held with banks	178,418	293,055
Balances with the National Bank of Romania – less than 3 months	1,816,750	1,064,495
Placements with other banks – less than 3 months	467,033	40,000
Total	2,462,201	1,397,550

Reconciliation of cash and cash equivalents to balance sheet

	31 December 2006 RON thousand	31 December 2005 RON thousand
Cash and cash equivalents	1,995,168	1,232,504
Placements with banks	675,009	167,907
Less placements with banks – more than 3 months	(207,976)	–
Less collateral deposits with other banks	–	(2,861)
Cash and cash equivalents in the statement of cash flows	2,462,201	1,397,550

Cash flows from operating activities include:

In RON thousand	2006	2005
Interest received	603.692	414.589
Interest paid	256.104	157.954

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

Banca Transilvania Group (the "Group") comprises the parent bank, Banca Transilvania SA (the "Bank") and its subsidiaries domiciled in Romania. The consolidated financial statements of the Group for the year ended 31 December 2006 comprise the Group and its subsidiaries (together referred to as the "Group"). The subsidiaries include the following companies:

Subsidiaries	Field of activity	31 December 2006	31 December 2005
BT Securities SRL	Investments	95.50 %	95.50 %
BT Leasing Transilvania IFN S.A.	Leasing	100.00 %	100.00 %
BT Investments SRL	Investments	100.00 %	100.00 %
BT Direct SRL	Leasing	100.00 %	100.00 %
BT Asigurari Transilvania S.A.	Insurance	79,89 %	79,89 %
BT Management SRL	Investments	100.00 %	100.00 %
BT Logistic SRL	Investments	100.00 %	100.00 %
BT Building SRL	Investments	100.00 %	100.00 %
BT Asset Management SAI	Asset management	80.00 %	89.99 %
BT Solution Agent de Asigurare SRL	Insurance	95.00 %	95.00 %
BT Safe Agent de Asigurare SRL	Insurance	95.00 %	95.00 %
BT Intermedieri Agent de Asigurare SRL	Insurance	95.00 %	95.00 %
SAR Building SRL	Leasing	100,00 %	79.89 %
BT Asist SRL	Insurance	79.88 %	79.88 %
BT Advice SRL	Consulting	80.90 %	80.90 %
BT Strategy SRL	Consulting	80.90 %	80.90 %
BT Evolution SRL	Consulting	80.90 %	80.90 %
BT Consulting SRL	Consulting	80.90 %	80.90 %
BT Alpha SRL	Investments	100.00 %	100.00 %
BT Beta SRL	Investments	100.00 %	100.00 %
BT Delta SRL	Investments	-	100.00 %
BT Epsilon SRL	Investments	-	100.00 %
BT Gamma SRL	Investments	100,00 %	100.00 %
BT Iota SRL	Investments	-	100.00 %
BT Kappa SRL	Investments	-	100.00 %
BT Lamda SRL	Investments	-	100.00 %
BT Omega SRL	Investments	-	100.00 %
BT Phi SRL	Investments	-	100.00 %
BT Sigma SRL	Investments	-	100.00 %
BT Theta SRL	Investments	-	100.00 %
BT Marketing SRL	Investments	-	100.00 %
BT Member SRL	Investments	-	100.00 %
BT Util SRL	Investments	-	100.00 %
BT Economic SRL	Investments	-	100.00 %
BT Program SRL	Investments	-	100.00 %
BT Concret SRL	Investments	-	100.00 %
BT Capital SRL	Investments	-	100.00 %
BT Account Agent de Asigurare SRL	Investments	-	100.00 %
BT Business SRL	Investments	-	100.00 %
BT Partner SRL	Investments	-	100.00 %
BT Compania de Factoring IFN	Factoring	50.00 %	-
BT Finop Leasing	Leasing	51.00 %	-

The Group has the following principal areas of business activity: banking, which is performed by the Bank, leasing and consumer finance, which is performed mainly by BT Leasing Transilvania S.A., BT Finop Leasing SA. and BT Direct SRL, insurance, which is performed by BT Asigurari Transilvania SA, asset management and investment funds and investments on capital markets, which are performed by the other subsidiaries presented above.

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 operations in 1994 and its main operations involve corporate and retail banking operations in Romania. The Bank operates through its Head Office located in Cluj-Napoca, 52 branches, 282 agencies, 6 working points and 2 foreign exchange offices (2005: 47 branches, 162 agencies, 2 working points and 3 foreign exchange offices) throughout the country. The Bank accepts deposits and grants loans, carries out fund transfers in Romania and abroad, exchanges currencies and provides banking services for its corporate and retail customers.

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

The number of employees as of 31 December 2006 was 4,537 (31 December 2005 – 3,109).

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

The shareholders' structure of the Bank is as follows:

	31 December 2006	31 December 2005
European Bank for Reconstruction and Development ("EBRD")	15.00 %	15.00 %
Individuals, citizens of Romania	44.42 %	48.01 %
Domestic companies	22.17 %	20.16 %
Foreign individuals	6.48 %	5.50 %
Foreign companies	11.93 %	11.33 %
Total	100.00 %	100.00 %

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

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. The company was initially incorporated under the name of LT Leasing Transilvania S.A., which was changed to the current name in February 2003. The company operates through its Head Office located in Cluj-Napoca, 7 branches and one agency (2005: 7 branches and one agency) throughout the country. The company leases various types of vehicles, manufacturing and other equipment.

The number of employees as of 31 December 2005 was 72 (31 December 2005: 46).

The registered address of BT Leasing Transilvania IFN S.A. is Calea Turzii no 134, Cluj-Napoca, Romania.

BT Direct S.R.L.

BT Direct SRL was incorporated in 2003 as a liability limited company, established under Romanian laws. The company grants consumer finance loans mainly for domestic electric appliances.

The number of employees as of 31 December 2005 was 17 (31 December 2004: 13).

The registered address of the company is Bulevardul Eroilor no 36, Cluj-Napoca, Romania.

BT Asigurari Transilvania S.A.

BT Asigurari Transilvania S.A. ("BT Asigurari S.A.") was incorporated in 1994 and is licensed by the Insurance Supervisory Committee to conduct insurance activities. In 2004 the company was acquired by Banca Transilvania S.A., which holds 78.89% as at 31 December 2006 (31 December 2005: 79.89%). The company operates through its Head Office located in Cluj-Napoca, 243 agencies (2005: 134) throughout the country. The company operates in two principal areas of business providing life and pensions and healthcare and general products to its customers. The company offers wide range of whole life, term insurances, endowment pensions and supplementary pensions. General insurance products offered include motor, household, travel medical, credit and third party liability insurance.

The number of employees as of 31 December 2006 was 1,362 (31 December 2005: 765).

The registered address of the company is Baritiu St. 8, Cluj-Napoca, Romania.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In estimating impairment losses for loans and receivables and net lease investments, the Group has applied the internal methodology described in Note 3 (j) to assess impairment for loans and advances to customers and net lease investments.

Differences between IFRS and statutory accounts

The form of presentation of the financial statements reflects the reporting format applicable under IAS 30 ("Disclosures in the Financial Statements of Banks and Similar Financial Institutions).

The accounts of the Bank are maintained in RON in accordance with Romanian accounting law and National Bank of Romania banking regulations. The subsidiaries maintain their accounting records in accordance with Romanian accounting law. All these accounts of the Bank and subsidiaries are defined hereafter as the statutory accounts.

These accounts have been restated to reflect the differences between the statutory accounts and IFRS. Accordingly, such adjustments have been made to the statutory accounts as have been considered necessary to bring the financial statements into line, in all material respects, with IFRS. The major changes from the statutory financial statements prepared under domestic law are:

- grouping of numerous detailed items into broader captions;
- restatement adjustments required in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies") related to the Romanian economy being 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');
- adjustments to the income statement to account for certain revenues and expenses on an accruals basis; and
- the necessary IFRS disclosure requirements.

(b) Basis of measurement

The consolidated financial statements of the Group are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held at fair value through profit and loss and available-for-sale instruments, except 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, revalued amount or historical cost. Non-current assets held for sale are stated at the lower of carrying amount and fair value less cost to sell.

(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 prepared and presented in Romanian Lei ("RON"), which is the Bank's functional and presentation currency, rounded to the nearest thousand.

Convenience translation

For the convenience of readers, the restated RON figures have been presented in EUR, following the requirement of IAS 21 "The Effect of Changes in Foreign Exchange Rates". This presentation does not form part of the audited financial statements.

According to IAS 21, since the measurement 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 2006: 3.3817 RON/EUR; 31 December 2005: 3.6771 RON/EUR);
- income and expense 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 2006: 3.5245 RON/EUR; average exchange rate in 2005: 3.6234 RON/EUR);
- all exchange differences resulting from translation in the current period are recognised directly in equity.

The restatement and presentation procedures used according with IAS 21, "The Effects of Changes in Foreign Exchange Rates", could result in distortion of the figures presented in EUR compared with real values.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and 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 results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Notes 4 and 5.

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.

In respect of comparative information, certain items from the consolidated financial statements as at 31 December 2005 have been reclassified to conform to current presentation.

a) Basis of consolidation

(i) Subsidiaries

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

The Bank consolidated the financial statements of its subsidiaries in accordance with IAS 27 "Consolidated and separate financial statements".

(ii) Funds management

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

(iii) Associates

Associates are those enterprises over whose financial and operating policies the Bank has the ability to exercise significant influence, but not control. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, 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.

The Bank holds a 25% (2005: 25%) investment in an associate Asiban S.A, an insurance company providing non-life and life insurance services to Romanian individuals and corporate customers. The Group included the share of total recognized gains and losses of this associate in accordance with IAS 28 "Investment in Associates".

(iv) Jointly controlled entities

Jointly controlled entities are those enterprises whereby 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.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, have been eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised 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 translated to the functional currency of the Group entities at exchange rates at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognised in the income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investments hedges. 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 exchange rates at the dates the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale financial assets which are included in the fair value reserve in equity.

ii) Translation of foreign operations

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

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

The exchange rates of major foreign currencies were:

Currencies	**31 December 2006**	**31 December 2005**	**%**
Euro (EUR)	1: RON 3.3817	1: RON 3.6771	(8%)
US Dollar (USD)	1: RON 2.5676	1: RON 3.1078	(17%)

c) Accounting for the effect of hyperinflation

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

IAS 29 suggests that economies should be regarded as hyperinflationary if, among other factors, the cumulative inflation rate over a period of three years exceeds 100%. The continuously decreasing inflation rates and other factors related to the characteristics of the economic environment in Romania indicate that the economy whose functional currency was adopted by the Group ceased to be hyperinflationary, effective for financial periods starting at 1 January 2004. Therefore, the provisions of IAS 29 have no longer been adopted in preparing these financial statements.

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

d) Interest

Interest income and expenses are recognised in the income statement at amortised cost using the effective interest rate method.

The effective interest method is a method of calculating the amortised 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 points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fair value changes of derivative instruments are presented in net trading income. Fair value changes of other financial assets and liabilities at fair value through profit and loss are presented as interest income and expenses.

e) Fees and commission

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

Fee and commission directly attributable to the financial asset or liability origination, both income and expense, that are integral to the effective interest rate on a financial asset or liability 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 recognised 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 is recognized as the related service is provided. 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 comprises all fair value changes of derivative instruments and net foreign exchange differences.

g) Dividends

Dividend income is recognised 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. The only profit available for distribution is the profit for the year recorded in the Romanian statutory accounts, which differs from the profit in these financial statements, prepared in accordance with IFRS, due to the differences between the applicable Romanian Accounting Regulations and IFRS.

h) Lease payments made

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

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

i) Income tax expenses

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Additional income taxes that arise from the distribution of dividends are recognised 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 2006 is 16% (2005: 16%).

j) Financial assets and liabilities

(i) Classification

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.

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. The Group had included in this category certain treasury bills issued by the Ministry of Public Finance of Romania.

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

(ii) Recognition

Financial assets and financial liabilities are initially recognised 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 recognises 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 recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(iii) Derecognition

The Group derecognises 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 recognised as a separate asset or liability.

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

(iv) Offsetting

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

(v) Amortised cost measurement

The amortised 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 amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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 at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date. Where a fair value cannot be reliably be estimated, unquoted equity instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the balance sheet.

(vii) Identification and measurement of impairment

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

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. When a subsequent event causes the amount of impairment to decrease, the impairment loss is reversed through profit and loss.

Loans and advances to customers and net lease investments

The Group, based on its internal impairment assessment methodology, has 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 reorganisation;
(e) observable data indicating that there are economic or social conditions that can influence adversely the industry in which the borrower operates and that affect these borrowers.

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

For the purpose of a collective evaluation of impairment, loans and advances to customers and net lease investments are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the industry for corporate clients and small and medium enterprises and on the basis of significant types of products for individuals).

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.

Because of the inherent limitations related to the historical experience in obtaining information for individual impaired loans and net lease investments, incurred loss information and complexity of methodology applied, that estimate may differ from the value that would have been obtained had the Group obtained sufficient historical experience on obtaining reliable information on the timing and amounts of the expected future cash flows.

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 removed 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 removed 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 profit or loss.

Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed 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.

(vii) Designation at fair value through profit and loss

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

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- Designation eliminates or significantly reduced and accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

During 2006, the Group revised the information related to the classification of certain listed equity investments designated as financial assets available for sale at 31 December 2005 and concluded that the initial classification should have been as financial assets at fair value through profit or loss on the basis that such listed equity investments are managed, evaluated and reported internally on a fair value basis. The impact of the revision on the balance sheet at 31 December 2005 was a reclassification of RON 31,152 thousand from investment securities available for sale into financial assets at fair value through profit or loss.

k) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks 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, and are used by the Group in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

l) Trading assets and liabilities

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

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

m) Derivatives

(i) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the balance sheet.

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

(ii) Embedded derivatives

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

n) Loans and advances and net lease investments

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. When the Group is the lessor in a lease agreement that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances. Consumer finance facilities granted to customers are also included in net lease investments.

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

Loans and advances and net lease investments are presented net of provision for impairment losses. Provision for impairment losses are made against the carrying amount of loans and advances and net lease investments that are identified as being impaired based on regular reviews of outstanding balances to reduce these assets to their recoverable amounts.

o) Investment securities

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

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the linear method. The linear amortisation method used to determine the amortised cost for held-to-maturity investments represent the management's best estimate for the value of the corresponding amortisation and the impact of applying the effective interest rate method would not be material. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Fair value through profit and loss

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

(iii) Available-for-sale

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

Debt securities issued by the Government of Romania do not have an active market to support the assessment of their fair value. Consequently, the fair value of these securities was estimated using discounted cash-flow techniques applying the prevailing reference rates for similar placements on the local inter-banking market commonly used by market participants in Romania.

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

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.

p) Insurance contracts

(i) Classification of insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance contracts may also transfer some financial risk.

Insurance risk is significant if, and only if, an insured event could cause the Group to pay significant additional benefits. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expire. Contracts under which the transfer of insurance risk to the company from the policyholder is not significant are classified as investment contracts.

(ii) General insurance contracts

Revenue
The gross written premiums include all amounts due according to insurance contracts. If the insurance contract's duration is longer than 1 year, the gross written premium represents the amounts due during one calendar year from the insurance contract, with the exception of the single premiums contracts, for which the gross written premium represents the value of the single premium. The Group recognizes in gross written premium, the premium income from motor third party liability policies concluded during

December current financial year, with vesting period starting with January next year, and create provisions for unearned premium in proportion of 100% of premium income. The gross written premium in respect of these policies will be earned stating with 1st of January next year.

Unearned premium provision
The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the pro rata method.

Claims and provisions for outstanding claims
Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring during the financial year together with adjustments to prior year claims provisions.
Claims outstanding provisions comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and related internal and external claims handling expenses and an appropriate prudential margin. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported the effect of both internal and external foreseeable events and past experience and trends. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior years are reflected in the financial statements of the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly. Where applicable, provisions are disclosed net of the prudent estimates for salvage and subrogation recoveries.

Unexpired risk provision
Provision is made for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims provisions.

(iii) Life insurance contracts

Revenue

The gross written premiums include all amounts due according to insurance contracts. If the insurance contract's duration is higher than 1 year the gross written premium represents the amounts due during one calendar year from the insurance contract, with the exception of the single premiums contracts, for which the gross written premium represents the value of the single premium.

Claims

Claims include maturities, surrenders and death claims, and policyholder bonuses allocated in anticipation of a bonus declaration. Maturity claims are recognised as an expense when due for payment. Surrender claims are recognised when paid. Death claims are recognised when notified.

Mathematical reserve

The mathematical reserve represents the actuarial value of the financial obligations of the insurer after deduction of the actuarial value of the financial obligations of the insured. This reserve is computed separately for each life insurance contract.

For the life insurance contracts that stipulate the right of the insured to participate in the benefits obtained by investment of the mathematical reserve, the insurer will set up the reserve for benefits and discounts in accordance with the obligations assumed.

q) Deferred acquisition costs

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs "DAC" is capitalized and amortized on a straight line basis over the life of the contract. All other acquisition costs are recognized as an expense when incurred.

An impairment review is performed at each reporting date and the carrying value is written down to the recoverable amount.

r) Reinsurance assets

The Group cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Group may not receive all amounts due to it under the terms of the contract and that this can be measured reliable.

s) 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 capitalised and depreciated once the assets enter into use.

In 2005 the Group revalued items of land and buildings using an independent valuer, Darian Rom Suisse S.R.L. The value for each item was estimated by applying the working methodology recommended by the National Association of Evaluators of Romania (ANEVAR) and by the International Valuation Standards Committee.

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

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised 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.
The estimated useful lives for the current and comparative periods are as follows:

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

The leasehold improvements are depreciated over the rental contract period, which varies between 1 and 52 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

t) Intangible assets

(i) Goodwill and negative goodwill

Goodwill/(negative goodwill) arises on the acquisition of subsidiaries.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of minority interests
Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

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 cost of the acquisition.

(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 capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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

u) Leased assets – 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 recognised on the Group's balance sheet.

v) Impairment of non-financial assets

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised 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 recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss 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 amortisation, if no impairment loss had been recognised.

w) Deposits from customers

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

x) 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 recognised 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 amortised cost.

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

y) Provisions

A provision is recognised in the balance sheet 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.

z) 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 recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

aa) Employee benefits

(i) Short term service benefits

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

(ii) Defined contribution plans

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

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

(iii) Share-based payment transactions

The Bank has two types of share-based payment transactions:

- Shares granted to employees at a price different from the quoted market price of the Bank's shares at the granting date. The difference between the grant date fair value of the Bank's shares and the considerations paid by the employees is recognised as expense
- Share options granted to employees subject to certain vesting conditions. The difference between the grant date fair value of the Bank's shares and the considerations paid by the employees for these share options is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

ab) 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.

ac) 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.

ad) Treasury shares

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

ae) New standards and interpretations not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted. Management considered the following new standards, amendments and interpretations to existing standards:

- IFRS 7 ("Financial Instruments: Disclosures") effective from 1 January 2007. This standard will require increased disclosures in respect of the Group's financial instruments. It supersedes IAS 30 ("Disclosures in the Financial Statements of Banks and Similar Financial Institutions") and is applicable to all entities that prepare financial statements in accordance with IFRS. The Bank and the Group consider that the significant additional disclosures required will relate to its financial risk management objectives, policies and processes. The Group is currently in the process of amending the reporting applications to enable the Group present the additional disclosure as required by IFRS 7.
- Amendment to IAS 1 ("Presentation of Financial Statements – Capital Disclosures") effective from 1 January 2007. As a complementary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect to the Group's capital. This amendment will require significantly more disclosures regarding the capital structure of the Group. The Group is currently in the process of amending the reporting applications to enable the Group present the additional disclosure as required by IAS 1.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 8 Scope of IFRS 2 Share-based payments addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required and is not expected to have any impact on the financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively. The impact of the changes brought by IFRIC 10 has not been estimated at this time.

4. Financial Risk management

a) Introduction and overview

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

- derivative financial instruments
- credit risk
- interest rate risk
- currency risk
- liquidity risk
- taxation risks
- operational risks
- insurance risk

This section provides details of the Group's exposure to risk and describes the methods used by management to control 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 Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors of the Bank has established the Management Board and the Asset and Liability (ALCO), Credit Risk and Operational Risk committees, which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees report regularly to the Management Board.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

b.) Credit risk

The Group is exposed to credit risk through its trading, lending, leasing and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or 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 balance sheet. In addition, the Group is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued (see Note 40).

The Board of Directors of the Bank has delegated, through the Management Board, the responsibility for the management of credit risk to its Credit Committee. A separate Credit Administration Department, reporting to the Management Board, is responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to five levels of credit approvers. Larger facilities require approval by the highest level Credit Committee or the Board of Directors as appropriate.
- *Reviewing and assessing credit risk*. Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being approved or recommended for approval by the Board of Directors and/or committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Bank's risk grading for corporate customers* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining the Bank's risk monitoring activities and relationships with the clients. The current risk grading framework consists of grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the Credit Administration Department and approval authority of the Management Committee. Risk grades are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types.
- Regular reports are provided to Credit Committee on the credit quality of portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk

Each branch/agency is required to implement Bank's credit policies and procedures. 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.

Regular audits of branches/agencies and Bank credit processes are undertaken by Internal Audit.

Concentrations of credit risk that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by individual counterparty and by type of customer in relation to the Group's loans and advances, commitments to extend credit and guarantees issued.

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

In RON thousand	**31 December 2006**	**31 December 2005**
Agriculture	1.8%	2.7%
Fishing industry	0.0%	0.0%
Construction	6.0%	5.0%
Chemical industry	2.6%	3.1%
Energy industry	0.4%	0.4%
Mining industry	0.1%	0.1%
Manufacturing	12.6%	17.4%
Trading	19.9%	20.7%
Services	3.5%	3.8%
Free lancers	0.5%	0.5%
Telecommunication	0.3%	0.2%
Transport	7.0%	7.8%
Real estate	1.7%	0.5%
Individuals	39.7%	34.2%
Governmental bodies	0.1%	1.3%
Financial institutions	1.8%	0.6%
Others	1.8%	1.5%
Total	100.0%	100.0%

The amounts reflected in the table above represents the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts of credit risk shown, therefore, greatly exceed expected losses, which are included in the loan impairment provision.

The Group holds collateral against loans and advances to customers in the form of pledge over cash deposits, mortgage interests over property, guarantees and other pledge over equipments and/or receivables. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2006 or 2005.

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

c) Interest rate risk

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

Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. In general, the Group is liability sensitive on foreign currency instruments because its foreign currency interest-earning assets have a longer duration and reprice less frequently than foreign currency interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as foreign currency liabilities reprice. However the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies. The Group is less sensitive to local currency instruments as most of the assets and liabilities bear floating rates.

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

The interest rates related to the local currency and the major foreign currencies as at 31 December 2006 and 2005 were as follows:

Currencies	**Interest rate**	**31 December 2006**	**31 December 2005**
Leu (RON)	BUBOR 3 months	8.6%	7.6%
Euro (EUR)	Euribor 3 months	3.7%	2.5%
Euro (EUR)	Euribor 6 months	3.8%	2.6%
US Dollar (USD)	Libor 6 months	5.4%	4.7%

Range of interest rates

The following table shows the interest rates per annum obtained or offered by the Group for its interest-bearing assets and liabilities during financial year 2006:

	RON Range		**USD Range**		**EUR Range**	
Assets	**Min**	**Max**	**Min**	**Max**	**Min**	**Max**
Cash and cash equivalents	1.50%	1.90%	0.95%	1%	0.70%	0.80%
Placements with banks	1%	25%	4.19%	7%	2.15%	6.50%
Loans and advances to customers	1%	30%	1%	15.50%	1%	17.50%
Net lease investments	8.50%	28%			7.80%	16%
Investment securities	6.52%	14%	-	-	-	-
Liabilities						
Deposits from banks	0.50%	23%	4.55%	6.95%	2.37%	6.50%
Deposits from customers	4.50%	8.25%	3%	4.50%	3%	4.50%

Interest rates on loans from banks and other financial institutions, subordinated loans and debt securities are presented in the notes 32, 33 and 35, respectively.

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during financial year 2005:

	RON Range		**USD Range**		**EUR Range**	
Assets	**Min**	**Max**	**Min**	**Max**	**Min**	**Max**
Cash and cash equivalents	1.50%	6%	0.75%	0.80%	0.70%	1%
Placements with banks	1%	19%	2.28%	4.80%	1.50%	3.15%
Financial assets at fair value through profit and loss	6.47%	16.7%				
Loans and advances to customers	7.50%	35%	4.50%	15%	6%	17.50%
Net lease investments	8.50%	28.00%	15.00%	15.00%	7.50%	25.00%
Investment securities	5%	14%	-	-	-	-
Liabilities						
Deposits from banks	1%	16.6%	2.4%	4.65%	2%	3.20%
Deposits from customers	4.5%	16.5%	3%	4%	3%	5%

Interest rates on loans from banks and other financial institutions, subordinated loans and debt securities are presented in the notes 32, 33 and 35, respectively.

A summary of the Group's interest rate gap position on interest bearing instruments as at 31 December 2006 is as follows:

In RON thousand	**Less than 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Non sensitive**	**Total**
Cash and cash equivalents	1,995,168	-	-	-	-	1,995,168
Placements with banks	675,009	-	-	-	-	675,009
Financial assets at fair value through profit and loss	95,976	-	-	-	-	95,976
Loans and advances to customers	251,301	4,446,259	135,546	-	-	4,833,106
Net lease investments	17,374	53,057	64,974	-	-	135,405
Financial assets available for sale	105,132	14,037	3,470	6,990	3,882	133,511
Held to maturity investments	5	11,366	10,000	780	-	22,151
	3,139,965	4,524,719	213,990	7,770	3,882	7,890,326
Deposits from banks	56,541	-	-	-	-	56,541
Deposits from customers	2,382,764	3,140,907	112,627	9,006	-	5,645,304
Loans from banks and other financial institutions, other subordinated loans and debt securities	377,069	1,151,458	-	-		1,528,527
	2,816,374	4,292,365	112,627	9,006	-	7,230,372
Total interest sensitivity gap	323,591	232,354	101,363	(1,236)	3,882	659,954

A summary of the Group's interest rate gap position on interest bearing instruments as at 31 December 2005 is as follows:

In RON thousand	**Less than 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Non sensitivity**	**Total**
Cash and cash equivalents	1,232,504	-	-	-	-	1,232,504
Placements with banks	167,907	-	-	-	-	167,907
Financial assets at fair value through profit and loss	75,720	-	-	-		75,720
Loans and advances to customers	1,677,468	1,028,379	212,228	-	-	2,918,075
Net lease investments	14,590	34,427	45,795	-	-	94,812
Financial assets available for sale	129,825	50,887	50,940	28,450	4,093	264,195
Held to maturity investments	-	6,741	19,000	780	-	26,521
	3,298,014	1,120,434	327,963	29,230	4,093	4,779,734
Deposits from banks	227,691	-	-	-	-	227,691
Deposits from customers	2,869,077	465,506	28,890	6,472	-	3,369,945
Loans from banks and other financial institutions, other subordinated loans and debt securities	95,891	708,454	30,056	-	-	834,401
	3,192,659	1,173,960	58,946	6,472	-	4,432,037
Total interest sensitivity gap	105,355	(53,526)	269,017	22,758	4,093	347,697

d) Currency risk

The Group is exposed to currency risk through transactions in foreign currencies against RON. 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 monetary assets and liabilities held in RON and in foreign currencies at 31 December 2006 are presented below:

In RON thousand	**RON**	**USD**	**EUR**	**Other**	**Total**
Monetary assets					
Cash and cash equivalents	826,311	182,951	966,149	19,757	1,995,168
Placement with banks	518,989	20,556	133,490	1,974	675,009
Financial assets at fair value through profit and loss	95,976	-	-	-	95,976
Insurance premium receivables	31,365	1,606	14,050	-	47,021
Loans and advances to customers	3,178,467	242,783	1,411,305	551	4,833,106
Net lease investments	30,611	-	104,794	-	135,405
Financial assets available for sale	133,511	-	-	-	133,511
Held-to-maturity investments	22,151	-	-	-	22,151
Investments in associates	27,938	-	-	-	27,938
Other assets	101,500	728	4,509	424	107,161
Total monetary assets	4,966,819	448,624	2,634,297	22,706	8,072,446
Monetary liabilities					
Deposits from banks	4,212	5,671	46,650	8	56,541
Deposits from customers	4,118,649	283,369	1,225,810	17,476	5,645,304
Loans from banks and other financial institutions, other subordinated loans and debt securities issued	137	160,788	1,367,602	-	1,528,527
Technical reserves	133,517	-	-	-	133,517
Other liabilities	140,613	4,688	12,817	1,154	159,272
Total monetary liabilities	4,397,128	454,516	2,652,852	18,638	7,523,161
Net currency position	569,691	(5,892)	(18,582)	4,068	549,285

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2005 are presented below:

In RON thousand	**RON**	**USD**	**EUR**	**Other**	**Total**
Monetary assets					
Cash and cash equivalents	584,636	229,161	405,403	13,304	1,232,504
Placement with banks	54,010	61,594	51,066	1,237	167,907
Financial assets at fair value through profit and loss	75,720	-	-	-	75,720
Insurance premium receivables	5,962	9,348	22,908	-	38,218
Loans and advances to customers	1,689,634	243,103	903,720	81,618	2,918,075
Net lease investments	14,156	0	80,424	232	94,812
Financial assets available for sale	264,195	-	-	-	264,195
Held-to-maturity investments	26,521	-	-	0	26,521
Investments in associates	19,241	-	-	0	19,241
Other assets	34,854	1,955	6,287	45	43,141
Total monetary assets	2,768,929	545,161	1,469,808	96,436	4,880,334
Monetary liabilities					
Deposits from banks	193,174	3,108	31,330	79	227,691
Deposits from customers	2,218,386	343,214	729,487	78,858	3,369,945
Loans from banks and other financial institutions, other subordinated loans and debt securities issued	205	144,337	689,859	-	834,401
Technical reserves	73,524	-	-	-	73,524
Other liabilities	31,737	10,291	559	-	42,587
Total monetary liabilities	2,517,026	500,950	1,451,235	78,937	4,548,148
Net currency position	251,903	44,211	18,573	17,499	332,186

e) Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of the asset positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings, bonds issued and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding, and diversifying the funding base.

The financial assets and liabilities of the Group analysed over the remaining period from the balance sheet date to contractual maturity are as at 31 December 2006 as follows:

In RON thousand	**Up to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Without maturity**	**Total**
Financial Assets						
Cash and cash equivalents	1,995,168	-	-	-	-	1,995,168
Placements with banks	675,009	-	-	-	-	675,009
Financial assets at fair value through profit and loss	-	-	-	-	95,976	95,976
Insurance premium receivables	28,497	18,524	-	-	-	47,021
Loans and advances to customers	717,546	1,521,571	1,419,124	1,174,865	-	4,833,106
Net lease investments	17,726	52,719	64,960	-	-	135,405
Financial assets available for sale	-	739	16,074	7,684	109,014	133,511
Held-to-maturity investments	5	10,066	11,300	780		22,151
Investment associates	-	-	-	-	27,938	27,938
Other assets	77,534	21,592	3,775	943	3,317	107,161
Total financial assets	3,511,485	1,625,211	1,515,233	1,184,272	236,245	8,072,446
Financial Liabilities						
Deposits from banks	56,541	-	-	-	-	56,541
Deposits from customers	4,090,838	610,568	934,892	9,006	-	5,645,304
Loans from banks and other financial institutions, other subordinated loans and debt securities issued	36,430	385,364	780,973	325,760	-	1,528,527
Technical insurance reserves	71,967	46,279	11,071	4,194	6	133,517
Other liabilities	153,131	2,767	2,956	-	418	159,272
Total financial liabilities	4,408,907	1,044,978	1,729,892	338,960	424	7,523,161
Maturity surplus/ (shortfall)	(897,422)	580,233	(214,659)	845,312	235,821	549,285

The financial assets and liabilities of the Group analysed over the remaining period from the 31 December 2005 to contractual maturity are as follows:

In RON thousand	**Up to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**Without maturity**	**Total**
Financial Assets						
Cash and cash equivalents	1,232,504	-	-	-	-	1,232,504
Placements with banks	165,112	2,738	-	-	57	167,907
Financial assets at fair value through profit and loss	-	-	-	-	75,720	75,720
Insurance premium receivables	24,265	13,953	-	-	-	38,218
Loans and advances to customers	481,093	1,074,232	846,094	516,656	-	2,918,075
Net lease investments	14,590	34,427	45,795	-	-	94,812
Financial assets available for sale	61,139	30,000	67,444	29,195	76,417	264,195
Held-to-maturity investments	10	5,431	20,300	780	-	26,521
Investment associates	-	-	-	-	19,241	19,241
Other assets	22,176	11,310	9,397	-	258	43,141
Total financial assets	2,000,889	1,172,091	989,030	546,631	171,693	4,880,334
Financial Liabilities						
Deposits from banks	227,691	-	-	-	-	227,691
Deposits from customers	2,869,077	465,506	28,890	6,472	-	3,369,945
Loans from banks and other financial institutions, other subordinated loans and debt securities issued	55,246	252,498	409,740	116,917	-	834,401
Technical insurance reserves	-	-	-	-	73,524	73,524
Other liabilities	42,283	304	-	-	-	42,587
Total financial liabilities	3,194,297	718,308	438,630	123,389	73,524	4,548,148
Maturity surplus/ (shortfall)	(1,193,408)	453,783	550,400	423,242	98,169	332,186

f) Taxation risk

The Romanian Government has a number of agencies that are authorised to conduct audits (controls) of Romanian companies as well as of foreign companies doing business in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. In addition, the agencies conducting these controls appears to be subject to significantly less safeguard than is customary in many countries. It is likely that the Group will continue to be subject to controls from time to time as new laws and regulations are issued.

g) Operating environment

As at 1 January 2007 Romania became a full member of the European Union.

The economy of Romania continues to display characteristics of an emerging market. These characteristics include, but are not limited to, a high current account deficit, the existence of a competitiveness gap between Romania and other EU countries, a relatively unsophisticated financial market, weak infrastructure, and fluctuations in the foreign currency exchange rates.

h) Operational risks

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

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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 the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

Compliance with Bank standards is supported by a program of periodical reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

i) Insurance risk

The Group's management of insurance and financial risk is a critical aspect of the business.

The main risks are related to the following:

- Underwriting strategy;
- Reinsurance strategy;
- Motor insurance;
- Property insurance;
- Life insurance contracts.

The primary insurance activity carried out by the Group assumes the risk of loss from persons or organizations that are directly subject to the risk. Such risks may relate to property, liability, life, accident, health, or other perils that may arise from an insurable event. As such the Group is exposed to the uncertainty surrounding the timing, frequency and severity of claims under the contracts. The Group also has exposure to market risk through its insurance and investment activities.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency or severity of claims is greater than expected. In addition, for some contracts, there is uncertainty about the timing of insured events. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

5. Use of estimates and judgements

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

Impairment losses on loans and advances

The Group reviews its loan and net lease investments portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and net lease investments before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (lessees) in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the impairment provision for loans and advances to customerswould be estimated RON 2,377 thousand higher or RON 2,336 thousand lower.

Fair value of financial instruments

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 Group uses its judgment to select the valuation method and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analysis for the available-for-sale financial instruments that were not traded in active markets.

The carrying amount of available-for-sale financial assets would not be significantly different were the analyzed cash flow to differ by +/- 5% from management's estimate.

Financial assets and liabilities

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

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

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 amortised cost. If the entire class of held-to-maturity investments is tainted, the fair value would be lower than the carrying amount by RON 16 thousand, with a corresponding entry in the fair value reserve in shareholders' equity.

Insurance contract provision and reinsurance assets

The assumptions used in the estimation of insurance assets and liabilities are intended to result in provisions which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen.

However, given the uncertainty in establishing a provision for outstanding claims, it is likely that the final outcome will prove to be different from the original liability established.

General insurance contracts

Provision is made at the balance sheet date for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid.

The provision for claims is not discounted for the time value of money.

The sources of data used as inputs for the assumptions are typically internal to the Group, using detailed studies that are carried out at least annually. The assumptions are checked to ensure that they are consistent with observable market information or other published information. For some claims, such as those in relation to asbestos and environmental claims, external information is used.

The Group pays particular attention to current trends. Where in early years there is insufficient information to make a reliable estimate of claims development, prudent assumptions are used.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimates of claims already notified, where more information is available. IBNR claims may often not be apparent to the Group until several years after the occurrence of the event giving rise to the claim.

Each notified claim is assessed on a separate case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises.

The provision estimation difficulties differ by class of business due for a number of reasons, including:

- Differences in the terms and conditions of the insurance contracts;
- Differences in the complexity of claims;
- The severity of individual claims;
- Difference in the period between the occurrence and reporting of claims.

The liability class of claims will typically display greater variation between initial estimates and the actual outcome because there is a greater degree of difficulty in estimating the IBNR provisions. For the other classes of business, claims are typically reported reasonably soon after the claim event, and hence tend to display lower levels of variability.

The cost of outstanding claims and the IBNR provisions are estimated using statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claims and ultimate claim numbers for each accident year upon observed development of earlier years and expected loss ratios. The key statistical method used is the chain ladder method, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost.

To the extent that these methods use historical claims development information, they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- Economic, legal, political and social trends (resulting, for example, in a difference in expected levels of inflation);
- Changes in the mix of insurance contracts incepted;
- The impact of large losses.

IBNR provisions and provisions for outstanding claims are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The method uses historical data, gross IBNR estimates and the terms and conditions of the reinsurance contracts to estimate the carrying value of the reinsurance asset. The Group considers the credit rating of the individual re-insurer in the initial measurement of the reinsurance asset.

Claims on general insurance contracts are payable on a claims-occurrence basis. The contracts are concluded for short periods, mostly for one year, the Group being liable for all insured events that occurred during the term of the contract. The shorter settlement period for these claims allows the Group to achieve a higher degree of certainty about the estimated cost of claims, and relatively small IBNR is held at year end.

Life insurance contracts

A main part of the life insurance business cover only death and disability risk. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and national mortality tables.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in contract holder behaviour.

The most significant factors that could increase the overall frequency of claims are epidemics, cancer or wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

In the management's view the history of the Group does not provide sufficient information needed to carry out an investigation with reference to industry tables in order to adjust the crude mortality rates with the view of producing the best estimate or expected mortality for the future.
Notes to the consolidated financial statements

Therefore, the actuarial assumptions are based on standard mortality tables issued by the National Institute of Statistics.

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.

The Group is currently in the process of amending the existing applications and adjusting existing internal financial reporting to support identification of the lower level reportable business segments and related segment information within its business segments. The implementation of such internal applications during 2007 will enable the reporting of segment expenses and results. Therefore, as at 31 December 2006, in respect of segment expenses and results, the Group had only available segment information related to interest income and commission for the banking segments and had presented other elements of income and expenses for the banking segments as unallocated items.

Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise property and equipment, intangible assets, other assets and other liabilities and taxation.

The Group's segment reporting as at 31 December 2006 comprises the following main business segments:

- Corporate banking. 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.

- Retail and SME banking. The Group provides individuals and SME's 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.

- Other. Within other the Group incorporates financial products and services provided to or by financial institutions including money market and treasury operations, syndicated loans taken and bonds issued, foreign currency and derivative transactions, financial instruments trading and investment and assets fund management.

- Leasing and customer finance. Within leasing the Group includes financial products and services provided by the leasing and consumer finance arm of the Group.

- Insurance – Within insurance the Group includes financial products and services provided by the insurance arm of the Group.

Business segments
As at 31 December 2006

In RON thousand	Corporate banking		Retail Banking and SME		Leasing consumer finance		Insurance business		Other		Eliminations		Unallocated		Group	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Interest income	191,581	148,326	282,084	169,353	12,996	9,343	-	-	90,532	74,671			75,524	29,343	652,717	431,036
Commission income	90,328	60,351	131,743	64,343	2,859	2,502	-	-	7,817	1,248	33,104	2,107			199,643	126,337
Insurance income	-	-	-	-	-	-	137,455	38,283	-	-	-	-	-	-	137,455	38,283
Unallocated income	-	-	-	-	16,399	8,016	105,485	81,662	-	-	481,363	292,903	455,482	259,655	96,003	56,430
Total income	281,909	208,677	413,827	233,696	32,254	19,861	242,940	119,945	98,349	75,919	514,467	295,010	531,006	288,998	1,085,818	652,086
Unallocated costs	-	-	-	-	-	-	-	-	-	-	-	-	(957,081)	(529,745)	(957,081)	(529,745)
Profit before tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	128,737	122,341
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(20,140)	(15,050)
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	108,597	107,291
Segment assets	2,113,273	1,492,157	2,779,841	1,463,529	121,199	85,120	86,309	55,932	2,949,753	1,832,351	(60,008)	(45,656)	-	-	7,990,367	4,883,433
Unallocated assets	-	-	-	-	9,790	9,357	142,581	81,982	-	-	(44,605)	(40,544)	232,495	141,435	340,261	192,230
Total assets	2,113,273	1,492,157	2,779,841	1,463,529	130,989	94,477	228,890	137,914	2,949,753	1,832,351	(104,613)	(86,200)	232,495	141,435	8,330,628	5,075,663
Segment liabilities	1,865,710	1,433,593	3,804,932	1,890,409	130,989	94,477	228,890	137,914	1,585,068	1,077,896	(283,329)	(98,044)	-	-	7,332,260	4,536,245
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	202,975	23,271	202,975	23,271
Total liabilities	1,865,710	1,433,593	3,804,932	1,890,409	130,989	94,477	228,890	137,914	1,585,068	1,077,896	(283,329)	(98,044)	998,368	539,418	7,535,235	4,559,516

7. Financial assets and liabilities

Accounting classifications and fair values

In RON thousand	Note	Financial assets at fair value through profit and loss	Held to maturity	Loans and re-ceivables (including net lease investments)	Available for sale	Other amor-tised cost	Total carrying amount	Fair value
31 December 2006								
Financial Assets								
Cash and cash equivalents	18	-	-	-	-	1,995,168	1,995,168	1,995,168
Placements with banks	19	-	-	-	-	675,009	675,009	675,009
Financial assets at fair value through profit and loss	20	95,976	-	-	-	95,976	-	95,976
Loans and advances to customers	22	-	-	4,833,106	-	-	4,833,106	5,045,550
Net lease investments	23	-	-	135,511	-	-	135,511	132,760
Investments securities	24	-	22,151	-	95,976	-	118,127	118,111
Total financial assets		95,976	22,151	4,968,617	95,976	2,766,153	7,756,921	8,062,574
Financial Liabilities								
Deposits from banks	30	-	-	-	-	56,541	56,541	56,541
Deposits from customers	31	-	-	-	-	5,645,280	5,645,280	5,642,880
Loans from banks and other financial institutions	32	-	-	-	-	1,268,422	1,268,422	1,268,422
Other subordinated loans	33	-	-	-	-	201,583	201,583	201,583
Debts securities issued	35	-	-	-	-	58,522	58,522	58,522
Total financial liabilities						7,230,348	7,230,348	7,227,948

8. Net interest income

	2006 RON thousand	2005 RON thousand
Interest income		
Current accounts with banks	15,369	13,013
Placements with banks	12,837	17,416
Loans and advances to customers	543,786	342,413
Financial assets at fair value through profit and loss	39,326	17,926
Net lease investments	18,777	15,779
Investment securities, available-for-sale	22,622	24,489
Total interest income	652,717	431,036
Interest expense		
Deposits from banks	5,489	5,184
Deposits from customers	201,392	131,104
Loans from banks and other financial institutions and debt securities issued	82,578	37,186
Total interest expense	289,459	173,474
Net interest income	363,258	257,562

9. Net fee and commission income

	2006 RON thousand	2005 RON thousand
Fee and commission income		
Payment transactions	110,280	82,117
Loan administration and guarantee issuance	7,480	25,213
Other	81,883	19,007
Total fee and commission income	199,643	126,337
Fee and commission expense		
Bank commissions	18,692	12,934
Payment transactions	5,948	4,499
Total fee and commission expense	24,640	17,433
Net fee and commission income	175,003	108,904

10. Net trading income

	2006 RON thousand	2005 RON thousand
Gains on foreign currency transactions		
US Dollars	15,638	15,380
Euro	65,823	54,847
Other	4,241	2,722
Total gain on foreign currency transactions (i)	85,702	72,949
Losses on foreign currency transactions		
US Dollars	10,822	11,506
Euro	12,646	19,874
Other	2,297	1,272
Total loss on foreign currency transactions (i)	25,765	32,652
Net gains from revaluation of assets and liabilities in foreign currency	3,268	171
Net trading income	63,205	40,468

i) Foreign currency transactions gains and losses include gains and losses from spot and forward contracts (including unrealized gains and losses on derivative transactions).

11. Net earned insurance premiums

	2006	2005
General insurance business	133,644	32,293
Life insurance business	3,811	5,990
	137,455	38,283

Analysis of income:

	2006		2005	
	General insurance	Life insurance	General insurance	Life insurance
Contract premium revenues	163,967	4,009	46,507	6,074
Reinsurance premiums	(30,323)	(198)	(14,214)	(84)
	133,644	3,811	32,293	5,990

12. Other operating income

	2006 RON thousand	2005 RON thousand
Operating income	9,755	7,730
Dividend income	4,004	1,234
Other operating income	9,387	469
Gain on disposal of fixed assets	-	663
Gain on sale of available-for-sale securities	621	3,460
Total	23,767	13,556

13. Impairment losses on financial assets

	2006 RON thousand	2005 RON thousand
Net charge of impairment losses to income statement (i)	16,854	6,207
Recoveries from loans previously written off	(15,361)	(4,789)
Loans and net lease investments written-off	39,179	18,412
Net impairment losses on financial assets	40,672	19,830

(i) Net charge of impairment losses contains the following: RON 14,123 thousand related to loans and advances to customers, RON 2,084 thousand related to net lease investments and RON 437 thousand related to prepayments to lease suppliers and RON 210 thousand related to other assets.

14. Net insurance claims

	2006	2005
General insurance	75,954	24,666
Life insurance	1,261	3,200
	77,215	27,866

Analysis of net insurance claims:

	2006		2005	
	General insurance	Life insurance	General insurance	Life insurance
Gross insurance contracts claims paid	91,045	524	25,466	454
Reinsurer's share of gross life insurance contracts claims paid	(26,320)	-	(8,243)	(55)
Gross change in insurance contracts	18,874	969	9,046	2,813
Reinsurer's share of gross change in insurance contracts	(7,645)	(232)	(1,603)	(12)
	75,954	1,261	24,666	3,200

Other insurance income and expenses items presented below are included in the relevant captions of the consolidated income statements:

	2006	2005
Other income	4,898	5,568
Other expenses	(68,502)	(16,770)
Salaries and related expenses	(30,097)	(9,565)
Interest expense	(28)	(85)
	(93,729)	(20,852)

Other expenses include commissions paid to agents and brokers of RON 28,485 thousand (2005: RON 3.985 thousand).

15. Personnel expenses

	2006 RON thousand	2005 RON thousand
Wages and salaries	158,150	91,419
Contribution to social security	31,667	21,358
Contribution to unemployment fund	3,867	2,464
Contribution to health fund	12,527	5,771
Meal tickets and other taxes related to personnel	14,915	8,752
Cash settled share-based payments	8,483	-
Total	229,609	129,764

The Group's number of employees at 31 December 2006 was 6,225 persons (31 December 2005: 4,079 persons).

On 1 July 2006 the Bank established a share option programme that entitles certain employees to purchase shares in the Bank. In accordance with this programme options are exercisable at a price lower than the market price and difference is recorded by the Bank as personnel expense. The term and condition of the programme are: grant date of 1 July 2006, number of share instruments available of 9,885,732 and vesting period of 30 months.

Additionally, treasury shares of the Bank were granted to certain employees at the end of 2006 at a price lower than the market price. The difference is recorded by the Group as personal expense. The number of shares instruments available to the employees amounted to 13,050,000. If the labour contract is cancelled the difference up to the market price is supported by the ex-employee.

16. Other expenses

	2006 RON thousand	2005 RON thousand
Operating lease	45,155	18,770
Advertising and promotional expenses	28,339	8,000
Taxes	14,553	22,187
Materials and consumables	30,407	16,526
Postage and telecommunications	24,441	12,447
Electricity and heating	6,316	3,124
Travel and transport	1,196	396
Legal, advisory and consulting	34,215	174
Loss on sale of property and equipment	489	-
Other	61,372	45,665
Total	246,483	127,289

17. Income tax expense

	2006 RON thousand	2005 RON thousand
Current tax expense at 16% (2005: 16%) of taxable profits determined in accordance with Romanian Law	15,421	12,603
Deferred tax (expense)/ revenue	4,719	2,447
Total Income tax (expense)/ revenue	20,140	15,050

Tax reconciliation

In RON thousand	2006	2005
Profit before tax	128,737	122,341
Taxation at statutory rate of 16% (2005: 16%)	20,598	19,575
Non-deductible expenses and non-taxable revenues	(4,965)	(9,415)
Effect of carried forward losses	4,507	4,890
Taxation in the income statement	20,140	15,050

18. Cash and cash equivalents

In RON thousand	31 December 2006	31 December 2005
Cash on hand	148,712	101,142
Minimum compulsory reserve (i)	1,816,750	1,064,495
Current accounts held with other banks (ii)	29,706	66,867
Total	1,995,168	1,232,504

(i) At 31 December 2006 the minimum compulsory reserve, held with the Central Bank, was established at 20% for RON and 40% for USD or EUR (31 December 2005: 16% for RON and 30% for USD or EUR) denominated funds. The balance of mandatory reserve can vary on a daily basis. The interest paid by the Central Bank for the reserve held by banks was 1.9% p.a. for RON denominated reserves, 0.8% p.a. for EUR and 1% p.a. for US Dollars denominated reserves. The mandatory reserve can be used by the Bank's day to day activities providing the average balance for the month is maintained within required formula.

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

19. Placements with banks

As at 31 December 2006, placements with banks include term deposits held with the National Bank of Romania, totalling RON 192,494 thousand (2005: RON 40,000 thousand) and sight and term deposits with other banks amounting to RON 482,515 thousand (2005: RON 127,907 thousand).

20. Financial assets at fair value through profit and loss

	31 December 2006 RON thousand	31 December 2005 RON thousand
Trading assets		
Listed equity investments (i)	95,976	67,128
Un-listed equity investments (ii)	-	8,582
Treasury bills	-	10
Total	95,976	75,720

(i) All shares in listed companies are quoted on the Bucharest Stock Exchange.
The Group has as at 31 December 2006 significant investments in the following companies: SIF Banat-Crisana S.A. (RON 54,438 thousand), SIF Moldova SA (RON 5,297 thousand), SIF Oltenia SA (RON 4,413 thousand), SIF Transilvania SA (RON 5,066 thousands), SNP Petrom SA (RON 9,571 thousands) and BRD-Societe Generale SA (RON 10,175 thousands).

ii) As at 31 December 2006 the Group classified al its investment units as financial assets available-for-sale (see Note 24). As at 31 December 2005 225,610 units funds held in Transilvania Fund at market value of RON 38.0374 per unit were classified as financial assets at fair value through profit and loss. This fund is administrated by the asset management company Globinvest S.A.

21. Insurance premium receivables

	2006 RON thousand	2005 RON thousand
Due from policyholders	41,252	32,977
Due from reinsures	-	250
Due from agents, brokers and intermediaries	5,769	4,991
Total insurance premium receivables	47,021	38,218

22. 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 2006 were and 31 December 2005, was as follows:

	31 December 2006 RON thousand	31 December 2005 RON thousand
Agriculture	91,635	79,374
Fishing industry	791	749
Construction	214,970	111,661
Chemical industry	108,422	102,145
Energy industry	7,079	6,778
Mining industry	6,963	3,515
Manufacturing	640,501	496,572
Trading	919,902	547,282
Services	183,464	119,765
Free lancers	19,377	11,104
Telecommunication	13,990	8,089
Transport	330,773	207,400
Real estate	69,527	15,339
Individuals	2,110,827	1,140,342
Governmental bodies	3,077	47,881
Financial institutions	64,103	3,147
Others	86,645	41,721
Total loans and advances to customers before provisions	4,872,046	2,942,864
Less provision for impairment losses on loans	(38,940)	(24,789)
Net loans and advances to customers	4,833,106	2,918,075

Movement in provision for impairment loss on loans and advances to customers granted as at 31 December 2006 were and 31 December 2005, was as follows:

	2006 RON thousand	2005 RON thousand
Balance at 1 January	24,817	18,643
Change of impairment losses	14,123	6,146
Balance at 31 December	38,940	24,789

23. Net lease investments

The Group acts as a lessor under finance lease, mainly of motor vehicles and equipments. The leases are denominated in EUR and RON 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:

	2006 RON thousand	2005 RON thousand
Investments in leases less than one year, gross	75,774	59,969
Investments in leases between one and five years, gross	69,874	53,338
Total investment in leases, gross	145,648	113,307
Unearned finance income	(7,331)	(17,667)
Total investments in leases, net	138,317	95,640
Impairment provisions	(2,912)	(828)
Total	135,405	94,812

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

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

	2006 RON thousand	2005 RON thousand
Balance at beginning of the year	828	667
Net charge for the year	2,084	161
Balance at end of the year	2,912	828

24. Investment securities

	31 December 2006 RON thousand	31 December 2005 RON thousand
Investment securities available-for-sale		
Unlisted debt and other fixed-income instruments:		
Treasury securities issued by the Government of Romania (i)	15,842	123,093
Certificates of deposit issued by National Bank of Romania	-	52,447
Bonds (ii)	8,698	12,970
Unit funds (iii)	36,955	71,578
Listed equity securities (iv)	68,134	14
Equity investments	3,882	4,093
Total investment securities available-for-sale	133,511	264,195
Investment securities held-to-maturity		
Treasury securities issued by the Government of Romania (i)	22,151	26,521
Total investment securities held-to-maturity	22,151	26,521
Total investment securities	155,662	290,716

(i) Treasury securities issued by the Government of Romania include discount and coupon securities denominated in RON. Discount treasury bills bear fixed interest rates.
As at 31 December 2006 treasury securities were in amount of RON 37,993 out of which RON 30,880 thousand were pledged for other current operations (National Bank of Romania, BVB, SENT, Mastercard and VISA). As at 31 December 2005 treasury securities amounting to RON 46,780 thousand were pledged for other current operations (SNCDD, BVB, SENT and Europay). Income from debt instruments is recognised in interest and similar income.

ii) The Group has as at 31 December 2006 the following bonds issued by Estima Finance (RON 7,000 thousand), International Leasing (RON 599 thousand) and Alba Iulia municipality (RON 951 thousand). The RON-bonds issued by Estima Finance bear a floating interest rate of BUBOR 6M+1.75% (i.e. 10.84% as at 31 December 2006) p.a. and mature in 2009, issued by Alba Iulia municipality bear a floating interest rate of (BUBID 6M+BUBOR 6M)/2+1.5% (i.e. 9.5% as at 31 December 2006) p.a. and mature in 2025 and issued by International Leasing bear a floating interest rate of BUBOR 6M+2.25% (i.e. 11.44% as at 31 December 2006) p.a. and mature in 2009.

iii) The Group has the following structure of the unit funds:

Fund	Unit funds number		Fair value	
	2006	2005	2006	2005
BT INDEX	320,202	-	3,215	-
BT INVEST 1	268	50,000	3,817	525
BT CLASIC	540,157	399,400	6,271	4,173
BT MAXIM	623,586	400,000	8,487	4,532
Fondul Mutual Transilvania	229,042	-	10,319	-
Fondul Privat Comercial	25,416	23,184	4,526	3,631
FMT-Fapt	125	-	320	-
SIF Banat Crisana Arad	-	23,781,849	-	58,266
SIF Moldova Bacau	-	50,000	-	113
SIF Transilvania Brasov	-	100,000	-	210
SIF Oltenioa Craiova	-	50,000	-	128
TOTAL			36,955	71,578

iv) As at 31 December 2006 the Group has significant investments in the following listed companies: SIF Banat Crisana (RON 67,957 thousand) and SIF Oltenia (RON 176 thousand).

The movement in investment securities may be summarised as follows:

	Available for Sale RON thousand	Held to Maturity RON thousand
At 1 of January 2006	264,195	26,521
Additions	369,646	1,791
Disposals (sale and redemption)	500,330	6,161
At 31 December 2006	133,511	22,151
At 1 of January 2005	224,336	21,779
Additions	888,541	22,279
Disposals (sale and redemption)	848,682	17,537
Reversal of impairment		
At 31 December 2005	264,195	26,521

25. Investment in associates

In RON thousand	2006	2005
Balance at 1 January	19,241	8,886
Additions	-	1,434
Goodwill on partial acquisition	-	8,921
Share of other increases in associates' equity	8,297	
Share of profit	400	-
Balance at 31 December	27,938	19,241

The Group's investments in associates include 25% interest (2005: 25%) in ASIBAN S.A., an unlisted insurance company, whose financial information is presented below:

In RON thousand	Assets	Liabilities	Revenues*	(Loss)/profit	% interest held
2006					
Asiban S.A	159,685	129,908	162,717	400	25%
2005					
Asiban S.A.	95,099	84,779	70,005	5.024	25%

* Revenues comprise net earned insurance premiums.

At 31 December 2006, the Bank included in other assets the amount of RON 10,750 thousand representing cash contribution to the proposed share capital increase of ASIBAN S.A., which has not been formally finalised at the balance sheet date.

Impairment test for associates

For the purpose of impairment testing, the investment in ASIBAN S.A. was tested based on the fair value less cost to sell model.

In the recent year competing business in the same sector has been bought and sold to companies in the industry as part of the ongoing industry consolidation. The Group considered the fair value less cost to sell of similar recent transactions in the Romanian insurance market for which the price of the transactions exceeded the net assets of the respective entities. Based on this model, the Group did not record any provision related to the impairment of its investment in ASIBAN S.A.

26. Property and equipment

In RON thousand	**Land and buildings**	**Computers and equipments**	**Vehicles**	**Assets in the course of construction**	**Total**
Cost					
Balance at 1 January 2005	58,346	72,706	9,441	5,157	145,650
Additions	19,144	28,885	5,609	61,648	115,286
Additions from non-consolidated subsidiaries in 2004	-	1,049	-	-	1,049
Revaluation	8,491	-	-	-	8,491
Disposals	(912)	(2,266)	(161)	(33,955)	(37,294)
Balance at 31 December 2005	85,069	100,374	14,889	32,850	233,182
Balance at 1 January 2006	85,069	100,374	14,889	32,850	233,182
Additions	36,778	41,795	10,584	89,099	178,256
Disposals	(1,583)	(21,162)	(1,710)	(76,269)	(100,724)
Balance at 31 December 2006	120,264	121,007	23,763	45,680	310,714
Depreciation and impairment losses					
Balance at 1 January 2005	7,860	25,483	4,041	-	37,384
Charge for the year	3,851	14,658	2,061	-	20,570
Impairment losses	-	8,427	565	-	8,992
Additions from non-consolidated subsidiaries in 2004	-	238	-	-	238
Revaluation	556	-	-	-	556
Accumulated depreciation of disposals	(316)	(1,646)	(145)	-	(2,107)
Balance at 31 December 2005	11,951	47,160	6,522	-	65,633
Balance at 1 January 2006	11,951	47,160	6,522	-	65,633
Charge for the year	10,031	19,909	3,665	-	33,605
Accumulated depreciation of disposals	(555)	(19,823)	(2,664)	-	(23,042)
Balance at 31 December 2006	21,427	47,246	7,523	-	76,196
Carrying amount					
At 1 January 2006	73,118	53,214	8,367	32,850	167,549
At 31 December 2006	98,837	73,761	16,240	45,680	234,518

As at 31 December 2006 the Group included in the property and equipment RON 6,188 thousand (31 December 2005: 2,604 thousand) representing vehicles and equipments acquired under finance lease.

27. Intangible assets (including goodwill)

	Goodwill RON thousand	Purchased software RON thousand
Cost		
Balance at 1 January 2005	16,908	24,778
Partial deemed disposal of investments in BT Asigurari SA	(456)	-
Additions	-	391
Disposal	-	(873)
Transfer from intangible in progress	-	6,320
Balance at 31 December 2005	16,452	30,616
Balance at 1 January 2006	16,452	30,616
Additions	-	7,805
Transferred to fixed assets	(2,672)	(7,893)
Balance at 31 December 2006	13,780	30,528
Accumulated amortisation		
Balance at 1 January 2005	-	12,157
Amortisation charge for the year	-	7,144
Disposals	-	(13)
Balance at 31 December 2005	-	19,288
Balance at 1 January 2006	-	19,288
Amortisation charge for the year	-	6,767
Disposals	-	(5,411)
Balance at 31 December 2006		20,644
Carrying amount		
At 1 January 2006	16,452	11,328
At 31 December 2006	13,780	9,884

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.

The carrying amount of the goodwill RON 13,780 thousand was allocated to the unit formed by the acquired subsidiary, BT Asigurari S.A. (the acquisition date took place in 2004).

The BT Asigurari S.A. impairment test was based on the fair value less cost to sell model.

In the past year competing business in the same sector has been bought and sold to companies in the industry as part of the ongoing industry consolidation. The Group considered the fair value less to cost to sell of similar recent transactions in the Romanian insurance market for which the price of the transactions exceeded the net assets of the respective entities. Based on this model, the Group did not record any provision related to the impairment of goodwill related to BT Asigurari S.A.

28. Deferred tax assets and liabilities

In RON thousand	Asset	2006 Liability	Net
Property and equipment	-	7,970	7,970
Loans and advances to customers (including net lease investments)	-	31,326	31,326
Investment securities, available-for-sale	-	26,297	26,297
Other assets	-	9,872	9,872
Total		75,465	75,465
Net temporary differences			75,465
Deferred tax liability at 16%			12,074

In RON thousand	Asset	2006 Liability	Net
Property and equipment	-	10,305	10,305
Loans and advances to customers (including net lease investments)	-	3,982	3,982
Investment securities, available-for-sale	-	53,026	53,026
Other liabilities	-	3,738	3,738
Total			71,051
Net temporary differences			71,051
Deferred tax liability at 16%			11,368

29. Other assets

	31 December 2006 RON thousand	31 December 2005 RON thousand
Tax receivable	307	715
Prepayments	34,904	13,680
Sundry debtors	28,524	10,374
Overdue and doubtful debtors	30,474	12,561
Assets repossessed	3,762	1,844
Other assets	9,400	3,967
Less provision for other assets	(210)	-
Total	107,161	43,141

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

	31 December 2006 RON thousand	31 December 2005 RON thousand
Balance at 1 January	-	-
Charge impairment losses	210	-
Balance at 31 December	210	-

30. Deposits from banks

	31 December 2006 RON thousand	31 December 2005 RON thousand
Repayable on demand	1,668	191,807
Term deposits	54,873	35,884
Total	56,541	227,691

31. Deposits from customers

	31 December 2006 RON thousand	31 December 2005 RON thousand
Payable on demand	1,708,543	1,047,234
Sight deposits	-	-
Term deposits	3,813,231	2,216,741
Collateral deposits	123,506	105,869
Certificates of deposit	24	101
Total	5,645,304	3,369,945

Deposits from customers can be also analysed as follows:

	31 December 2006 RON thousand	31 December 2005 RON thousand
Retail customers	2,915,754	1,475,501
Corporate customers	2,729,550	1,894,444
Total	5,645,304	3,369,945

32. Loans from banks and other financial institutions[1]

	2006 RON thousand	2005 RON thousand
Loans from banks (i)	1,023,958	608,910
Loans from financial institutions (ii)	93,142	61,290
Other funds from financial institutions (iii)	151,322	93,006
Total	1,268,422	763,206

Lender	**FCY**	**Amount granted (in '000 FCY)**		**Maturity**		**Outstanding balance as 31 December**	
(i) Loans from Banks		**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Austria Bank Vienna	USD	2,000		2007	-	4,979	-
B.E.R.D.	USD	2,223	3,790	2008	-	5,810	-
Sumitomo Mitsui Banking Corporate	USD	5,000		2007	-	12,287	-
F.M.O.- Banca pentru Dezvoltare	USD	2,500	3,000	2011	2011	6,555	27,150
IFC _ Banca Mondiala	USD	2,301	2,630	2014	-	5,930	-
BERD-Mortgage contract	USD	564	630	2015	-	1,474	1,958
Credit Europe Bank N.V	USD	-	500		2006	-	1,459
West LB AG London Branch	USD	3,000	-	2007	-	7,608	-
Banque Marocaine Du Commerce Ex	USD	1,000	-	2007	-	2,536	-
Bankhaus Neelmeyer – Bremen	USD	1,000	-	2007	-	2,465	-
The Economy Bank NV	USD	1,000	-	2007	-	2,536	-
Landesbank Rheinland Pfalz	USD	3,000	-	2007	-	7,432	-
Landesbank Rheinland Pfalz	USD	3,000	-	2007	-	7,431	-
Austria Bank Vienna	EUR	4,000	4,000	2007	2006	13,259	14,111
Austria Bank Vienna	EUR	75,000		2012	-	251,585	-
Bayerische Hypo- Vereinsbank	EUR	9,500	4,000	2007	2006	31,707	14,555
State Bank of India	EUR	5,000	-	2007	-	16,416	-
Abn Amro Bank N.V.	EUR	4,000	-	2007	-	13,296	-
Bank of Montreal	EUR	4,000	-	2007	-	13,243	-
B.E.R.D.	EUR	20,544	27,038	2012	2012	69,635	111,424

[1] Disclaimer: confidential information regarding pricings is not provided

Lender	FCY	Amount granted (in '000 FCY)		Maturity		Outstanding balance as 31 December	
(i) Loans from Banks (continue)		**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
United Garanti Bank International	EUR	8,200	7,500	2007	2006	27,338	27,721
Landesbank Berlin AG	EUR	5,000		2007		17,164	-
Anglo Romanian Bank London	EUR	-	3,000	-	2006	-	10,588
Kommunal Kredit Austria AG	EUR	4,000		2007		13,111	-
Sumitomo Mitsui Banking Corporate	EUR	-	2,000	-	2006	-	7,021
Tokyo-Mitsubishi Ufj LTD London	EUR	3,000		2007		9,867	-
F.M.O.- Banca pentru Dezvoltare	EUR	4,000	4,800	2011	2011	13,753	36,814
F.M.O.- Banca pentru Dezvoltare	EUR	10,000		2011		33,775	-
Standard Bank Limited	EUR	-	1,000		2006	-	3,522
Bank Sepah International PLC	EUR	1,000		2007	-	3,278	-
IFC _ Banca Mondiala	EUR	17,000	18,000		2014	57,388	74,468
IFC _ Banca Mondiala	EUR	10,000	10,000	2015	2015	34,301	36,607
IFC _ Banca Mondiala	EUR	10,000		2016	-	34,267	-
BERD-Mortgage contract	EUR	8,500	9,500	2015	-	29,140	34,931
Credit Europe Bank N.V	EUR	5,000	0	2007	-	16,522	-
Dresdner Bank AG Frankfurt	EUR	5,000	-	2007	-	16,582	-
American Express Bank GMBH	EUR	-	2,978		2006	-	10,951
ICICI Bank UK Limited	EUR	25,000	-	2008	-	84,357	-
Black Sea Trade& Development	EUR	1,958	3,282	2007	2007	6,690	12,177
Moscow Narodny Bank	EUR	-	8,200	-	2006	-	29,460
Oberbank AG Austria	EUR	3,000	3,000	2007	2006	9,948	10,916
Westlb AG London Branch	EUR	-	3,000		2006	-	10,559
Bankkgesellschaft Berlin	EUR	5,000	5,000	2007	2007	16,922	18,398
Anglo irish Bank Corporation	EUR	4,200	2,000	2007	2006	11,817	7,070
Piraeus Bank London	EUR	-	7,000	-	2006	-	24,692
Hypo Alpe Aria Bank International	EUR	-	1,000	-	2006	-	3,534
IceBank	EUR	-	2,000	-	2006	-	7,038
KfW Bank	EUR	15,000	7,500	2015	2015	50,751	27,578
Israel Discount Bank of NY	EUR	-	1,500	-	2006	-	5,296
Banque Marocaine Du Commerce EX	EUR	1,000	1,000	2007	2006	3,386	3,531
Melli Bank PLC	EUR	-	1,000	-	2006	-	3,521
Bank Muscat International	EUR	2,000	4,000	2007		6,555	14,089
Mashreq Bank PSC Dubai	EUR	-	2,000	-	2006	-	7,050
Atlantic Forfaitierungs AG	EUR	-	500	-	2006	-	1,738
Magyar Kereskedelmi Bank	EUR	5,000	-	2007	-	17,145	-
Bankhaus Neelmeyer-Bremen	EUR	1,000	-	2007	-	3,317	-
The Economy Bank	EUR	1,000	-	2007	-	3,316	-
Landesbank Rheinland Pfalz	EUR	4,000	-	2007	-	13,100	-
Habib Allied International Bank	EUR	3,000	-	2007	-	9,833	-
Exim Bank	EUR	1,203	2,408	2007	2007	4,151	8,983
Total						1,023,958	608,910

Lender	FCY	Amount granted (in '000 FCY)		Maturity		Outstanding balance as 31 December	
(ii) Loans from financial institutions		**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
HVB Bank	EUR	328	1,375	2008	2008	1,110	5,059
Alpha Bank	EUR	431	521	2008	2008	1,459	1,917
B.E.R.D	EUR	4,367	4,936	2012	2012	14,767	18,150
Garanti Bank	EUR	3,652	2,313	2009	2009	12,350	8,507
Piraeus Bank	EUR	2,863	82	2007	2007	9,683	300
Anglo Romanian Bank	EUR	6,450	4,958	2008	2008	21,587	18,230
Volskbank	EUR	2,147	2,045	2011	2011	7,259	7,519
Raiffeisen Bank	EUR	1,932	4,373	2011	2011	6,534	1,608
Banc Post	EUR	3,892	-	2010	-	13,161	-
HVB Tiriac	EUR	1,297	-	2011	-	4,387	-
Intermarket Austria	EUR	250	-	2007	-	845	-
Total						93,142	61,290

Lender	FCY	Amount granted (in '000 FCY)		Maturity		Outstanding balance as 31 December	
(iii) Other loans from financial institutions		**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Ministry of Public Finance	USD	13,386	12,882	2017	2016	35,222	40,820
Ministry of Public Finance	EUR	870	0	2009	-	2,942	-
European Fund for the South East Europe	EUR	10,000	0	2016	-	34,132	-
D.E.G.	EUR	22,319	14,091	2017	2011	75,767	52,186
Banca Comerciala Romana	EUR	435	-	2013	-	1,470	-
Banca Comerciala Romana	RON	232	-	2010	-	232	-
Alpha Bank	EUR	346	-	2008	-	1,173	-
Unicredit Romania	EUR	100	-	2007	-	340	-
Shareholders	RON	44	-	-	-	44	-
Total						151,322	93,006

No assets of the Group have been pledge as collaterals for these loans.

33. Other subordinated liabilities

In 2006, the Group contracted a subordinated loan agreement with five credit institutions for EUR 60,000,000, bearing an interbanking interest rate available during the respective period plus a margin. The interbanking rate is, for each period, the annual interest rate offered for deposits in the respective currency, which is published on the reference page at 11:00 am, Brussels time. The loan shall be repaid by one instalment at the seventh anniversary from the contract date.

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

34. Technical insurance reserves

	2006	2005
Life insurance		
Mathematical reserve	3,324	4,686
Claims reserves	170	21
Other reserves	2,288	2,154
	5,782	6,861
General insurance		
Unearned premium reserve	77,808	53,114
Outstanding claims reserve	49,927	13,549
	127,735	66,663
Total reserves	133,517	73,524

35. Debt securities issued

In September 2005 the Bank issued 2,290 convertible bonds with a par value of USD 10,000 each. The interest is payable semi-annually starting from 15 January 2005 until 15 July 2010. The rate for the first interest period was set at LIBOR USD 6 months + 3% and for subsequent interest periods, the rate will be established by the Payment Agent on the basis of: (i) LIBOR for such a period taking as a reference the interbanking offered rate for USD deposits by the British Banker Association: plus (ii) a margin applicable to such period by reference to either the highest foreign currency credit rating given to Romania by S&P or the long term ratings in foreign currency given by Moody's on the Romanian government bonds applicable on the payment date.

The bonds cannot be prepaid or redeemed before the redemption date and the bond holder will not have the option of anticipated redemption, except in the case of bank liquidation. The redemption value is the par value.

The bondholders can convert at their discretion to common shares of the Bank starting from 1 November 2006 to 15 June 2010. The minimum convertible value per bondholder is USD 500,000 and the total number of shares of a bond holder cannot exceed after the conversion 5% of the existing number of shares at the date of conversion. The conversion price will be determined at the date of conversion based on the average price between the daily maximum and minimum prices of the Bank's shares weighted to the daily volume of transactions during the previous 90 working days of the Bucharest Stock Exchange.

At 1 November 2006, the price establishing date, part of the bond holders exercised their rights of converting the bonds into shares. At that date 212 bonds in amount of USD 2,120,000 were converted into shares. The number of shares was determined by dividing the RON equivalent of the principal outstanding that the bond holders decided to convert based on a spot exchange rate on the conversion date.

The communicated price was RON 1.0587/share and the USD exchanged rate published by NBR on 1 November 2006 was RON 2.7739/share.

From the conversion resulted 5,554,620 shares, the share capital was increased with RON 555,463. Also, the Group booked conversion premiums in amount of RON 5,325,206.

As at 31 December 2006 there were 2,198 bonds amounting to USD 21,980,000 (31 December 2005: USD 22,900,000).

36. Other liabilities

	31 December 2006 RON thousand	31 December 2005 RON thousand
Amounts under settlement	86,455	3,401
Sundry creditors	28,558	17,462
Debts regarding reinsurance	18,898	10,728
Social contributions payable	12,385	7,288
Leasing liabilities (i)	1,116	315
Other liabilities	11,860	3,393
Total	159,272	42,587

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

	31 December 2006 RON thousand	31 December 2005 RON thousand
Minimum lease payments		
2007	730	315
2008	323	-
2009	63	-
Total minimum lease payments	1,116	315
Less future interest	-	-
Present value of minimum lease payments	1,116	315

37. Share capital

The statutory share capital of the Bank as of 31 December 2006 is represented by 3,933,548,620 ordinary shares of RON 0.1 each (31 December 2005: 2,367,330,000 shares of RON 0.1 each). The shareholders structure of the Bank is presented in Note 1.

38. Other reserves

As at 31 December 2006 and 31 December 2005 the reserves include the following:

In RON thousand	31 December 2006	31 December 2005
General banking risks (i)	60,676	30,076
Statutory reserve (ii)	72,849	66,232
Fair value gains taken to equity (net of tax) on available for sale investments	44,713	44,247
Equity component	-	822
Total	178,238	141,377

Reserves for general banking risks

In RON thousand	2006	2005
At 1 January	30,076	7,700
Appropriations from profit	30,600	22,376
At 31 December	60,676	30,076

Statutory reserves

In RON thousand	2006	2005
At 1 January	66,232	61,326
Appropriations from profit	6,617	4,906
Total	72,849	66,232

(i) The general banking risks reserve includes 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.

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

The statutory reserves and the reserves for general banking risks are not distributable.

39. Related party transactions

Transactions with shareholders

During 2006, the Group entered into a number of banking transactions with its shareholders in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rate.

During the year ended 31 December 2006, the following banking transactions were carried out with the shareholders:

	2006 RON thousand	2005 RON thousand
Assets		
Current account with banks	51,156	119,688
Liabilities		
Deposits from banks	1,662	1,275
Loans from financial institutions	121,806	168,105
Subordinated loans	40,717	-
Other payables and credit balances	114	92
Income statement		
Income	843	797
Expenses	13,763	10,619

Transactions with key management personnel

During the year ended 31 December 2006, the following banking transactions were carried out with the members of the Board of Directors and other key personnel:

	2006 RON thousand	2005 RON thousand
Assets		
Current account with banks	3,549	4,937
Liabilities		
Deposit from banks	11,423	8,748
Other payables and credit balances	1,267	825
Income statement		
Income	923	429
Expenses	246	198

During 2006 the total salaries paid by the Bank to the Board of Director's members and executive management amounting to RON 2,648 thousand (2005: RON 2,263 thousand).

40. 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 recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2006	2005
Guarantees issued	236,868	187,228
Loan commitments	1,007,377	455,221
Total	1,244,245	642,449

The notional values for forward transactions in foreign currencies outstanding at 31 December 2006 amounted to EUR 600,000 (31 December 2005: EUR 4,700,000) for sale transactions and EUR 2,200,000 (31 December 2005: EUR 4,700,000) for buy transactions. The transactions outstanding at 31 December 2006 matured in January 2007.

Litigations

As at 31 December 2006 the Group is involved in a number of litigations. The management of the Group, based upon legal advice, assessed the outstanding claims in progress and decided not to record a provision for such claims due to low probability of generating cash outflows in the foreseeable future.

41. 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 114,448 thousand (31 December 2005: RON 107,291 thousand) and the weighted average number of the ordinary shares outstanding during the year calculated as follows:

	31 December 2006	31 December 2005
Issued ordinary shares at 1 January	2,367,330,000	1,334,937,124
Effect of shares issued during the period	1,339,278,208	2,154,633,924
Weighted average number of shares as at 31 December	3,706,608,208	3,489,571,048

Diluted earnings per share

The potential ordinary shares of the Bank are represented by the outstanding as at convertible bonds (please refer to Note 35). The potential ordinary shares are anti-dilutive because their conversion to ordinary shares would increase earnings per share.

Because the calculation of the diluted earnings per share does not assume conversion of potential ordinary shares that would have an anti-dilutive effect, this is the same as the basic earnings per share.

42. Acquisition and mergers of subsidiaries

Acquisitions

In August 2006 the Group acquired 51% of the share capital of BT Finop Leasing IFN S.A., a Romanian incorporated company providing finance and operating lease services to Romanian individuals and corporate customers.

The negative goodwill was recognised immediately in profit or loss for the negative excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of BT Finop Leasing IFN S.A.

The acquisition had the following effect on the Group's assets and liabilities:

Net assets acquired	**In RON thousand**
Cash and cash equivalents	194
Property and equipment	4,166
Net lease investments	3,215
Other assets	905
Loans from banks	(4,102)
Leasing liabilities	(1,492)
Other liabilities	(1,327)
Net identifiable assets and liabilities	**1,559**
Acquired interest	51%
Share of net identifiable assets and liabilities acquired	**795**
Negative goodwill on acquisition	210
Consideration paid	(585)
Cash acquired	194
Net cash outflow	**(181)**

In the 5 months to 31 December 2006 the subsidiary contributed net loss of RON 82 thousand to the Group's consolidated net profit for the year.

In June 2006 the Group also contributed 50% to the initial share capital of BT Compania de Factoring IFN S.A., a Romanian incorporated company providing factoring services to Romanian corporate customers. The Group considered this company as a jointly controlled entity.

The Group's share of interest in the entity's assets, liabilities, revenues and expenses are presented below:

	In RON thousand
Cash and cash equivalents	404
Loans and advances to customers	9,662
Property and equipment	158
Other assets	162
Loans from banks	(6,465)
Other liabilities	(829)
Net assets	3,092
Interest income	272
Interest expense	(85)
Commission income	219
Commission expense	(15)
Other income	37
Operating expenses	(836)
Net loss	(408)

Mergers

During 2006 the following mergers occurred within the Group:

– BT Lamda, BT Omega, BT Iota, BT Phi, BT Sigma and BT Teta merged into BT Alpha
– BT Marketing, BT Member, BT Util, BT Economic, BT Program and BT Kappa merged into BT Beta
– BT Delta, BT Epsilon, BT Concret, BT Capital, BT Business and BT Partner merged into BT Gamma.

43. Reconciliation of profit under IFRS and Romanian Accounting Standards

In RON hundreds	**2006**	**2005**
Net profit under RAS	160,171	95,164
Fair value adjustment for investment securities	(11,009)	5,060
Net release/(charge) on provision for impairment losses	(1,120)	7,791
Reversal of dividends from subsidiaries	(47,245)	-
Adjustment to amortised cost of loans to customers	28,190	3,607
Elimination of statutory insurance provision	(2,405)	(991)
Deferred tax expense	(6,537)	(1,010)
Acquisition of Bank's shares from BT Asigurari SA	(7,353)	-
Other items	(4,095)	(2,330)
Net profit after tax under IFRS	108,597	107,291

44. Reconciliation of equity under IFRS and Romanian Accounting Standards

In RON thousands	**31 December 2006**	**31 December 2005**
Equity under Romanian Accounting Standards	727,501	483,789
Loans related adjustments	30,494	3,982
Fixed assets related adjustments	6,665	6,665
Revaluation of available-for-sale investments	32,542	44,542
Equity method adjustments	10,162	2,465
Cancelling of the income from sales of treasury shares between subsidiaries	(7,352)	
Other items	(4,619)	(25,296)
Equity under IFRS	795,393	516,147

45. Subsequent events

After the year end the Bank acquired Medicredit SA – IFN located in Copilului St, no. 16, Bucharest, Romania, which operates in the leasing industry.

The investment held by the Bank amounts to RON 5,993,400 representing 38.89% of the share capital of this entity.

Also the General Shareholders' Meeting of BT Asigurari S.A. approved on 12 April 2007 the merger by absorption of SC BT Evolution, SC BT Consulting, SC BT Strategy and SC BT Advice SRL.

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