



BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.
FINANCIAL STATEMENTS
31 DECEMBER 2014

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

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STATEMENT
Pursuant to art.30 of Accounting Law no. 82/1991

The yearly financial statements as at 31 December 2014 were prepared for:

Legal person: BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A. ("the Bank")

County: 02--ARAD

Address: ARAD, B-DUL REVOLUTIEI, No. 88, TEL.0257-308200, zip code 310025

Secondary headquarter:

Bucharest, Nicolae Caramfil, no 85 A, Art Business Center, 4th Floor, District 1, zip code: 014142,

Bucharest, Romania

Trade Register no.: J02/82/1996

Type: 34—joint stock companies

Main activity (NACE code and description): 6419—other monetary intermediation activities

Fiscal Identification Code: 8145422

The General Manager of the Bank, Marco Capellini, takes responsibility for the preparation of the annual financial statements as at 31 December 2014 and confirms the following:

- a) the accounting policies used in the preparation of the annual financial statements comply with the applicable accounting regulations (respectively International Financial Reporting Standards as endorsed by European Union);
- b) the annual financial statements present fairly the financial position, financial performance as well as the other information regarding the activity performed.
- c) The Bank is a going concern.

Marco Capellini
General Manager

BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.
STATEMENT OF PROFIT OR LOSS
for the year ended at 31 December 2014
(All amounts are presented in RON, unless otherwise stated)

	Note	2014 RON	2013 RON
Interest income		232.532.960	273.131.138
Interest expense		-88.624.004	-124.199.578
Net interest income	7	143.908.956	148.931.560
Fee and commission income		41.165.216	36.571.988
Fee and commission expense		-10.494.753	-11.619.460
Net fee and commission income	8	30.670.463	24.952.528
Net trading income	9	15.572.603	26.765.220
Other income from sale of available for sale financial instruments	10	365.090	8.212.319
Other operating income		1.383.765	1.808.856
Net other operating income		17.321.458	36.786.395
Total operating income		191.900.877	210.670.483
Impairment allowance on loans and advances to customers	18	-302.040.194	-227.464.164
Net losses from disposal of assets		-2.050.248	-1.237.591
Impairment of equity investments		-8.900.000	-
Net charge / (release) of provisions for risks and charges		3.377.068	-7.426.873
Personnel expenses	11	-69.272.567	-70.013.281
Depreciation, amortization and impairment of tangible and intangible assets and investment property	20,21, 22	-25.595.319	-13.801.260
Other operating expenses	12	-51.526.498	-56.111.699
Loss before tax		-264.106.881	-165.384.385
Income tax expense	13	-	-
Loss for the year		-264.106.881	-165.384.385

The financial statements were approved by the Board of Directors on 13 March 2015 and were signed on its behalf by:

Marco Capellini
General Manager



Carmen Baschir
Chief of Accounting Department

BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended at 31 December 2014
(All amounts are presented in RON, unless otherwise stated)

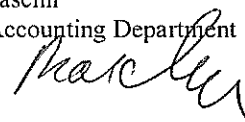
	2014	2013
	RON	RON
Loss for the year	<u>-264.106.881</u>	<u>-165.384.385</u>
Other comprehensive income, net of income tax		
Items that are or may be reclassified to profit or loss		
Revaluation reserve of available-for-sale financial assets		
Net difference from fair valuation	7.438.741	2.813.145
Net amount transferred from reserve to profit or loss	260.281	799.809
Related tax	-1.231.843	-578.073
Other comprehensive income, net of tax	<u>6.467.179</u>	<u>3.034.881</u>
Total comprehensive income for the year, net of tax	<u>-257.639.702</u>	<u>-162.349.504</u>

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Marco Capellini
General Manager




Carmen Baschir
Chief of Accounting Department

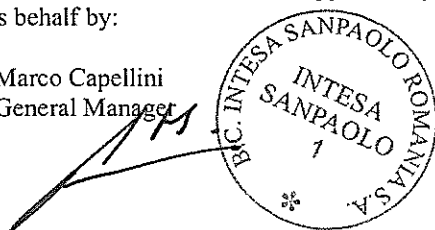


BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.
STATEMENT OF FINANCIAL POSITION
As at 31 December 2014
(All amounts are presented in RON, unless otherwise stated)

	Note	2014 RON	2013 RON
ASSETS			
Cash and balances with central bank	15	602.915.825	812.098.874
Derivative assets held for risk management	17	1.797.655	119.217
Placements with banks	16	308.034.381	144.559.284
Loans and advances to customers	18	2.883.488.505	3.444.819.875
Available for sale financial instruments	19	499.536.470	526.911.857
Equity investments	19	11.269.138	9.059.504
Property and equipment	20	77.069.544	81.794.831
Intangible assets	21	27.649.245	23.164.714
Investment property	22	7.183.377	21.828.043
Deferred tax assets	23	15.911.575	15.911.575
Other assets	24	12.704.277	12.359.105
TOTAL ASSETS		4.447.559.992	5.092.626.879
LIABILITIES			
Derivatives liabilities held for risk management	17	1.652.151	40.230
Deposits from banks	25	78.586.091	185.549.400
Borrowings from banks	27	750.239.314	936.044.625
Deposits from customers	26	3.067.079.410	3.159.091.716
Subordinated loans	28	31.420.864	31.445.115
Provisions	29	23.034.482	25.804.845
Deferred tax liabilities	23	1.961.900	730.057
Other liabilities	30	24.529.505	27.224.914
TOTAL LIABILITIES		3.978.503.717	4.365.930.902
EQUITY			
Share capital and share premium	31	1.178.443.100	1.178.443.100
Accumulated losses		-747.037.771	-482.930.890
Reserves	31	37.650.946	31.183.767
TOTAL EQUITY		469.056.275	726.695.977
TOTAL LIABILITIES AND EQUITY		4.447.559.992	5.092.626.879

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Marco Capellini
General Manager

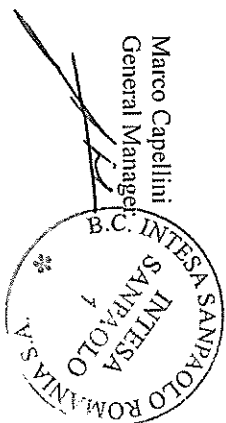


Carmen Baschir
Chief of Accounting Department

BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.
STATEMENT OF CHANGES IN EQUITY
For the year ended at 31 December 2014
(All amounts are presented in RON, unless otherwise stated)

	Attributable to equity holders of the Bank					Total
	Share capital	Share Premium	Accumulated losses	Reserves related to available for sale financial assets	Other reserves	
Balance at 1 January 2013	926.814.210	251.628.890	-317.546.505	797.915	27.350.971	889.045.480
Comprehensive income	-	-	-165.384.385	-	-	-165.384.385
Loss for the year	-	-	-165.384.385	-	-	-165.384.385
Net variation in reserves for the financial instruments available for sale	-	-	-	3.034.881	-	3.034.882
Total comprehensive income	-	-	-165.384.385	3.034.881	-	-162.349.503
Transactions with shareholders, recorded directly in equity	-	-	-	-	-	-
Balance at 31 December 2013	926.814.210	251.628.890	-482.930.890	3.832.796	27.350.971	726.695.977
Balance at 1 January 2014	926.814.210	251.628.890	-482.930.890	3.832.796	27.350.971	726.695.977
Comprehensive income	-	-	-264.106.881	-	-	-264.106.881
Loss for the year	-	-	-264.106.881	-	-	-264.106.881
Net variation of the reserve for financial instruments available for sale.	-	-	-	6.467.179	-	6.467.179
Total comprehensive income	-	-	-264.106.881	6.467.179	-	-257.639.702
Transactions with shareholders, recorded directly in equity	-	-	-	-	-	-
Balance at 31 December 2014	926.814.210	251.628.890	-747.037.771	10.299.975	27.350.971	469.056.275

Marco Capellini
 General Manager



Carmen Baschir
 Chief of Accounting Department

Accompanying notes are an integral part of these financial statements.

BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.
STATEMENT OF CASH FLOWS
for the year ended at 31 December 2014
(All amounts are presented in RON, unless otherwise stated)

	Note	2014	2013
Cash flows from operating activities			
Loss before taxation		-264,106,881	-165,384,385
Adjustments for:			
Depreciation and amortization of tangible and intangible assets	20,21, 22	25,595,319	13,801,260
Net loss on impairment of financial assets	18,19	310,940,194	227,464,164
Change in fair value of financial assets at fair value through profit and loss		-66,517	-129,575
Other non-cash adjustments		1,272,437	-1,039,503
		<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities		73,634,552	74,711,961
		<hr/>	<hr/>
Changes in operating assets:			
(Increase)/decrease in securities available for sale		35,334,691	-28,727,432
(Increase)/decrease in loans and advances to customers		250,391,176	-123,015,258
(Increase)/decrease in other assets		-345,172	4,797,993
Change in operating liabilities:			
Decrease in deposits from banks		-102,733,652	-340,455,666
Increase / (decrease) in deposits from customers		-92,012,306	662,704,678
Increase / (decrease) in other liabilities		-2,695,407	16,948,152
		<hr/>	<hr/>
Net cash used in operating activities		161,573,882	266,964,428
		<hr/>	<hr/>
Cash flows from investing activities			
Income from sale of tangible assets		1,383,467	102,304
Acquisition of tangible and intangible assets		-12,286,717	-16,107,004
Acquisition of equity investments		-6,600,000	-11,020
Dividends received		280,637	306,093
		<hr/>	<hr/>
Net cash used in investing activities		-17,222,614	-15,709,627
		<hr/>	<hr/>
Cash flows from financing activities			
Repayment of borrowings from banks		-190,059,219	-261,661,900
Proceeds from borrowings from banks		-	112,117,500
		<hr/>	<hr/>
Net cash used in financing activities		-190,059,219	-149,544,400
		<hr/>	<hr/>
Net increase of cash and cash equivalents		-45,707,952	101,710,401
		<hr/>	<hr/>
Cash and cash equivalents at 1 January		956,658,158	854,947,757
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	32	910,950,206	956,658,158
		<hr/>	<hr/>

Accompanying notes are an integral part of these financial statements.

BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.
STATEMENT OF CASH FLOWS
for the year ended at 31 December 2014
(All amounts are presented in RON, unless otherwise stated)

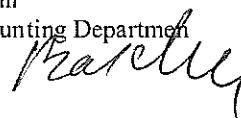
Cash flows from operating activities include:

Interest received	264.476.844	234.340.050
Interest paid	-99.074.671	-116.545.330

Marco Capellini
General Manager



Carmen Baschir
Chief of Accounting Department



BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.
NOTES TO THE FINANCIAL STATEMENTS
as at and for the year ended 31 December 2014
(all amounts are presented in RON, unless otherwise stated)

1. REPORTING ENTITY

Banca Comerciala Intesa Sanpaolo Romania S.A. ("the Bank") was established in Romania in December 1996, originally under the name "West Bank" and is accredited by the National Bank of Romania to perform banking activities. The bank changed its name from "West Bank" to "Sanpaolo IMI Bank Romania" after approval by the National Bank of Romania on 16 October 2003 and finally in "Intesa Sanpaolo Romania Commercial Bank" after approval by the National Bank of Romania on 14 January 2008 as a result of the merger between Banca Intesa and Sanpaolo IMI.

In 2012, according to the decisions of the Extraordinary General Shareholders Meeting, Banca Comerciala Intesa Sanpaolo Romania SA and Banca Comerciala CR Firenze Romania S.A. took place the merger of the banks in accordance with the Article 238 paragraph (1) point a) of the Companies Law 31/1990 with subsequent amendments and completions, as a result, Banca Comerciala CR Firenze Romania SA, as the absorbed company, has been integrated into Banca Comerciala Intesa Sanpaolo Romania SA, as absorbing company.

The share capital as at 31 December 2014 is in amount of RON 886,639,410, with the following structure:

- Intesa Sanpaolo SpA, major shareholder, which owns 81,096,905 shares in amount of RON 810,969,050, representing 91.47% of the Bank's share capital;
- CASSA DI RISPARMIO DI FIRENZE SpA, which owns 7,252,825 shares in amount of RON 72,528,250, representing 8.18% of the share capital;
- INTESA SANPAOLO HOLDING INTERNATIONAL S.A., which owns 314,211 shares in amount of RON 3,142,110, representing 0.35% of the share capital.

The Bank's main activity is to provide banking services to companies and individuals. These include: opening of deposit, local and abroad payments, foreign exchange operations, credit lines, medium term facilities, letters of guarantee, letters of credit and financing micro enterprises and small and medium enterprises which are operating in Romania etc.

As at 31 December 2014, the Bank had 42 branches, 29 agencies, resulting a total of 71 units plus the headquarters and a total number of 777 employees. As at 31 December 2013 the bank had 44 branches, 32 agencies (a total of 76 units with the headquarter) and a total of 823 employees.

The headquarters of the Bank is located at the following address: Revolution Boulevard no. 88, Arad, Romania.

The secondary headquarters:

Bucharest, Street Nicolae Caramfil, no. 85A, Art Business Center, 4th floor, district 1, zip code 014142, Bucharest, Romania, following that in 2015 it will become the headquarters of the registered office address of the Bank

The Board of Directors of the Bank comprises 7 members elected by the General Meeting of Shareholders.

The Board of Directors of the Bank comprises the following members:

31 December 2014		31 December 2013	
1. Giovanni Ravasio	President	Giovanni Ravasio	President
2. Ezio Salvai	Vice-president	Ezio Salvai	Member
3. Giampiero Trevisan	Member	Giampiero Trevisan	Member
4. Alexandru Ene	Member	Giulio Ponti	Member
5. Marina Tabacco	Member	Marina Tabacco	Member
6. Luca Finazzi	Member	Luca Finazzi	Member
7. Giovanni Bergamini	Member		

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1. Statement of Compliance

As at 31 December 2014 the financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS).

From the Romanian accounting perspective, the Bank is exempt to prepare consolidated financial statements, complying with stipulations as per paragraph 31 point b from the accounting Regulations of IFRS, approved by the Order of the National Bank of Romania no. 27/2010 (IFRS), fulfilling the cumulative conditions stipulated on paragraph 32 and 33 from the same Regulations and in accordance with National Bank of Romania communication number III/5698/07.01.2010.

According to IAS 27, a parent society has no need to present consolidated financial statements if and only if:

- the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
- the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- the ultimate or any immediate parent of the producers consolidated financial statements available for public use that comply with International Financial Reporting Standards;
- the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; the parent company or any other final intermediate parent of the parent company produces financial statements available to the public, to comply with IFRS.

The parent society which issues the consolidated financial statements is INTESA SANPAOLO SpA, located in Italy, 10121 Torino, Piazza San Carlo no. 156.

The annual consolidated financial statements are available for public view on INTESA's website (www.group.intesasanpaolo.com). The Bank fulfils the above criteria through the membership to Intesa Sanpaolo Spa which prepares and publishes financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union.

2.2. Basis of measurement

The Bank's accounting records are maintained in RON, according to accounting legislation of Romania, as well as banking regulations in force issued by the National Bank of Romania.

The financial statements have been prepared on a fair value basis for derivative instruments, the financial assets and liabilities at fair value through profit or loss and financial instruments available for sale, except those for which fair value cannot be determined reliably.

Other financial assets and liabilities and non-financial assets and liabilities are carried at amortized cost, historical cost or revaluated amount.

2.3. Functional and presentation currency

Management believes that functional currency as defined by IAS 21 ("Effects of exchange rate changes") is RON. The financial statements are presented in RON.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

2.4. Use of estimates and judgments

Preparation of financial statements is performed by applying the Bank's accounting policies, which are in accordance with IFRS as adopted by the European Union. In the process of applying the Bank's accounting policies, management proceed to the use of judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical data and other factors considered to be eloquent in the circumstances, and the result of these factors form the basis of judgments used in determining the carrying amount of assets and liabilities for which there are no other sources of evaluation available. Actual results could differ from these estimates. Estimates and judgments are periodically reviewed. Revision of accounting estimates are recognized in the period in which the estimate is performed and in any future periods affected, if the revision affects both current period and future periods.

Information regarding the significant estimates and judgments in applying accounting policies that have a significant effect on the amounts recognized in the financial statements are presented in Notes 5 and 6.

3. CHANGES IN ACCOUNTING POLICIES

The Bank has acknowledged and endorsed the following new standards and amendments to existing ones that have application date 1 January 2014: Offsetting financial assets and financial liabilities (Amendments to IAS 32 Financial Instruments: Presentation)

Nature and changes are explained below:

Offsetting financial assets and financial liabilities (Amendments to IAS 32 Financial Instruments: Presentation)

The amendments do not introduce new rules on compensation for financial assets and liabilities, but clarify situations where compensation is permitted to limit proven inconsistencies in the application of standards.

The amendments clarify the existence of compensation right when:

- It's not conditioned by future events;
- Can be exercised both for business continuity and commitment for failure, insolvency or bankruptcy of the entity or partners.

These amendments did not have a significant impact on the financial statements because it does not apply offsetting financial assets and liabilities and has no other compensation commitments.

4. SIGNIFICANT ACCOUNTING POLICIES

These significant accounting policies adopted and applied by the Bank as set out below have been applied consistently to all periods presented in these financial statements.

a) Business combination with entities under common control

Business combinations arising from transfers of interest in entities that are under the control of the shareholder that controls the both entities are accounted for as of the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated.

b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the bank at exchange rates at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position 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. 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.

The exchange rates of major foreign currencies were:

Currency	31 December 2014	31 December 2013	%
Euro (EUR)	1: RON 4.4821	1: RON 4.4847	-0.06%
US Dollar (USD)	1: RON 3.6868	1: RON 3.2551	+13.00%

c) Accounting for the effect of hyperinflation

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy are restated in terms of the measuring unit current at the end of reporting period (i.e. non-monetary items are restated using a general price index from the date of acquisition or contribution).

As the characteristics of the economic environment of Romania indicate that hyperinflation has ceased, effective from 1 January 2004 the Bank no longer applied the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these financial statements.

d) Interest incomes and expenses

Interest income and expense are recognized in the income statement using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Interest incomes and expenses

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

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

The calculation of the effective interest rate includes all fees and commissions, paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

e) Fees and commissions

Fees and commission income and expenses that are directly attributable to the financial asset or liability origination are included in the measurement of the effective interest rate.

Other fee and commission income arising on the financial services provided by the Bank is recognized in the profit and loss account 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) Dividends

Dividend income is recognized in the profit and loss account when the right to receive income is established. Dividends are reflected as a component of other operating income in the Income Statement.

Dividends are treated as an appropriation of profit in the period they are declared and approved by the Shareholders General Assembly.

g) Lease payments

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

h) Net trading income

This category comprises gains less losses related to trading assets and liabilities and derivatives held for risk management, and includes all realized and unrealized fair value changes and foreign exchange differences.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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 statement of financial position date, and any adjustment to tax payable in respect of prior periods.

Deferred tax is provided using the statement of financial position 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 realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

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

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

j) Financial assets and liabilities

(i) Recognition

The Bank 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 Bank becomes a party to the contractual provisions of the instrument.

(ii) Classification

Financial assets:

The Bank classifies its financial assets in the following categories:

- Loans and receivables
- Held until maturity
- Available for sale and
- At the fair value through profit and loss, and in the same category:
 - held for trading or
 - designated at fair value through profit and loss

Financial liabilities:

The Bank classifies the financial liabilities, other than financial guarantees and loan commitments, at amortised costs or fair value through profit or loss.

(iii) Derecognition

The Bank 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 Bank is recognised as a separate asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

When the Bank sells a financial asset and simultaneously signs a repurchase agreement of the asset (or a similar asset) at a fixed price and at a time set ("repo"), the contract is recorded as a loan from banks and asset to which it relates continues to be recognized in the balance Bank.

The Bank enters into a transaction that transfers assets recognized on the balance sheet, but retains either all risks or rewards of the transferred assets or a part thereof. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or most significant risks and rewards include, for example, securities lending or sale transactions with repurchase clause.

For transactions in which the Bank neither retains nor transfers substantially the risks and rewards of ownership of a financial asset, the asset is derecognizes if it was lost control over it.

The rights and obligations retained after the transfer are recognized separately as assets and liability, respectively. In transfers where control over the asset is retained, the Bank continues to recognize the asset to the extent that remains involved, the degree of involvement is determined by the degree to which the Bank is exposed to changes in value of the asset transferred.

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

The Bank uses the specific identification method to determine the gain or loss on derecognition.

In 2014 the loans in non-collection situation (with recovery estimation 0) entirely provisioned were recorded outside balance, and the accounting policy updated accordingly.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Bank 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.

(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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of traded financial instruments on an active market is based on the mid price (stock markets, dealer markets, broker markets) or on the mid price established by the broker/dealer which is posted through electronic information posting platforms (Bloomberg, Reuters), with no deduction for transactioning costs.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include pricing models and discounted cash flows. The cash flows estimated are determined based on the management's best estimate and market discount rate as at the reporting date for a similar instrument. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. Where a fair value cannot be estimated reliably for a financial instrument that is not traded on an active market, the financial instrument is valued at cost and is tested for impairment as at the reporting date.

The Bank recognises transfers between levels of the fair value hierarchy as of the date or change in circumstances in which the change has occurred.

(vii) Identification and measurement of impairment

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets not carried at fair value through profit or loss are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised 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 loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The amount of the reversal is recognised in profit or loss.

Loans and advances to customers

The Bank, 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 or groups of loans to customers are impaired:

- a) significant financial difficulty of the borrower such as breach of contract, default or delinquency in interest or principal payments of the borrowers (individually and in the same group of borrowers);

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

- b) the lender, for economic or legal reasons relating to the borrower'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;
- c) is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- d) 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 Bank first assesses whether objective evidence of impairment exists as described above individually for loans and advances to customers that are individually significant, and individually or collectively for loans that are not individually significant. If the Bank determines that no objective evidence of impairment exists for individually assessed loans and advances to customers, whether significant or not, it includes the loans and advances to customers in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans and advances to customers that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, loans and advances to customers are grouped on the basis of similar credit risk (size, debt service on the reporting date, type of customer, sector, and type of product) characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Future cash flows in a group of loans to customers that are collectively evaluated for impairment are estimated on the basis of historical probability of default and estimations regarding loss given default for loans with credit risk characteristics similar to those in the group. Historical probability of default experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The management estimates are based on the visible effects of current loans conditions. Significant changes in financial markets may generate significant adjustments on loss rates.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(viii) Designation at fair value through profit or loss

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an 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.

k) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, 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 Bank in the management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

l) Trading assets and liabilities

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

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position 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.

At 31 December 2014 the Bank does not have trading assets and liabilities.

m) 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 or hedging instruments. Derivatives held for risk management purposes are initially recognised at fair value. After their initial recognition, derivatives are subsequently measured at their fair values without any deduction for transactions costs to be incurred on sale or disposal. The changes in the fair value of such instruments are recognised immediately in profit or loss as a component of Net trading income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Loans and advances

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method as described in the Note 4.d. above, except when the Bank chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (j) (vii) see above. Loans and advances are presented net of impairment allowance (see accounting policy (j) (vi) see above).

o) Investment securities

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

(i) Held-to-maturity

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

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank 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 effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

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

(ii) Available for sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised, as other operating income, in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Property and equipment

(i) Recognition and measurement

Items of property and equipment are stated at their cost or revaluated amount less accumulated depreciation value and impairment losses.

(ii) Subsequent costs

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

All other costs are recognised in the income statement as an expense as incurred.

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss 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. Land is not depreciated.

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

	<u>Economic useful life in years</u>
Buildings	10-50
Office equipment, lightning and accessories	3-15
Other assets	5

Improvements in rented premises are depreciated over the rental agreements periods for the Bank's premises.

q) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programs are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives (no more than 5 years), from the date that is available for use.

Subsequent expenditure on software 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

r) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Bank accounts for investment property using the cost model (less impairment).

s) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

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.

t) 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.

u) Borrowings

Borrowings such as loans from banks and other financial institutions and other liabilities evidenced by paper such as subordinated loans or bonds issued are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs occurred. Borrowings and other liabilities evidenced by paper are subsequently stated at amortised cost.

v) Provisions

A provision is recognised in the statement of financial position when the Bank 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. A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

w) *Financial guarantees and loan commitments*

Financial guarantees are contracts that require the Bank 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. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantee or loan commitments are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee or the commitment. The 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).

x) *Employee benefits*

(i) *Short term 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, 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 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 recognised as an expense in the income statement as incurred. The Bank does not have any further obligations.

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

(iii) *Employment termination benefits*

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, than they are discounted to their present value.

y) *New standards and interpretations not yet adopted*

A) **Standards adopted by European Union.**

a) IFRIC 21 - "Governmental Fees" (effective date: annual periods that have as starting date 18 June 2014 or later)

This interpretation provides further details regarding the date on which such an obligation should be reflected in the accounts as a liability. In accordance with this interpretation, recognition obligation date should be the date of the activities that generated the obligation to pay. Debt should be recognized as performing the activity.

The Bank is in the process of assessing the possible effects that may have application of IFRIC 21 in the financial statements.

b) IFRS annual changes (cycles from 2010 to 2012 and from 2011 to 2013, most effective for annual periods beginning 1st of February 2015)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Amendments introduce 11 changes over 9 standards. Below are presented the amendments that might have an impact over the Bank's activity:

- IFRS 8 – The reporting on segments: the amendments introduce the presentation requirements of judgements made in order to present aggregated reporting segments;
- IFRS 13 – The measurement at fair value: the amendments clarifies the fact that short- term liabilities and claims that have no interest attached can be presented in the fair value note – at the amount invoiced, if the discount effect is not significant.
- IAS 16 and IAS 38 – clarifies the restatement of accumulated depreciation at the time of the reevaluation;
- IAS 24 – Expands the definition of affiliated entities;
- IAS 40 – Investment properties; amendments that clarify the criteria for separation between an investment property in accordance with IAS 40 or a business combination in accordance with IFRS 3;
- IFRS 7 - Financial Instruments Presentation: amendments clarify continuing involvement in the asset transferred.

A. Standards that have not been yet approved by the European Union

a) IFRS 9 Financial Instruments (effective date: annual periods the start in 1st of January 2018.

This standards replaces the requirements from IAS 39 “ Financial Instruments: recognition and measurements on classifying and measuring financial assets, except for the matters regarding the hedge accounting in respect of wick entities will be able to choose between applying IAS 39 or IFRS 9.

The financial assets will be classified using one or more evaluation methods: at amortization cost or at the fair value. A financial asset cand be evaluated at amortized cost only if the next two requirements are fulfilled: the assets are held within a business model of the company whose objective is to manage based on contractual performance and cash flows at dates specified at specified contractual dates according to the contractual terms to be presented only by the principal and interest. Subsequent gains or losses from changes in the value of assets measured at fair value are recognized in profit or loss except for investments in equity instruments that are not held for trading, for which the standard allows measurement at initial recognition at fair value with recognition subsequent value changes in the comprehensive income. The casual loss in IAS 39 is replaced with the expected loss model. Also, disclosure requirements are substantial.

The Bank is in the process of assessing the possible effects that may have application IFRS 9 in the financial statements.

b) IFRS 15 – Revenues from contracts with clients (effective for periods starting with or after 1st of January 2017).

The Standard issued on 28th of May 2014 replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC – 31. The standard is applicable to contracts with clients, other than insurance, financial instruments, leasing. The standard prescribes a single model for the analysis of customer contracts and two approaches for recognition of revenue - at one time or duration of the contract, depending on the time of fulfilling the obligation under the contract.

The Bank believes that this amendment will not have a significant effect on the individual financial statements because most contracts with customers are covered by other standards.

c) Amendments to IAS 1 (effective date for periods starting at or after 1st of January 2016.

The definition of materiality was modified in order to clarify the applicability of the financial statements as a whole and on each presentation requirements within a standard. Also, changes were also made regarding the financial statements and notes in order to clarify that entities have flexibility regarding disclosure of accounting policies in the notes.

The Bank believes that this amendment will not have a significant effect on the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

These amendments prohibit depreciation based on income for tangible and place restrictions on the applicability of this method for intangible assets. The Bank believes that this amendment will not have a material effect on the financial statements because it does not apply to individual depreciation based on income.

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

The amendments allow an entity assesses its subsidiaries, associates and joint ventures in the separate financial statements using the equity method. The Bank believes that this amendment will not have a significant effect on the financial statements.

5. RISK MANAGEMENT

(a) Introduction

This note provides details of the Bank's exposure to risk and describes the methods used by management to control the risks. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk (interest rate risk, currency risk, counterparty risk). The bank is also exposed to reputational risk, strategic risk, operational risk and risk related to taxation.

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

Risk management structure

The Board of Directors is the last responsible for identifying and controlling risks, yet there are separate and independent bodies responsible for managing and monitoring risks. The Bank conducts its entire business on the principles of corporate governance. The Board of Directors and the Management Committee are independent and separate structures.

Board of directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Management Committee

The management committee has the responsibility to monitor the overall risk process within the bank.

Credit Committee

Credit Committee (CC) is a permanent decisional committee, acting within delegations and competencies established by the Board of Directors. Credit Committee is the highest deliberative body in lending activities - within the limits set by the Board of Directors of the Bank and except the competence of the Asset Quality Committee - and has the right to sub-delegation.

5. RISK MANAGEMENT (CONTINUED)

Assets Quality Committee

Assets Quality Committee ("AQC") is a permanent decisional committee, acting within delegations and competencies established by the Board of Directors, aiming on taking measures to prevent and reduce losses stemming from lending activity. AQC is the highest deliberative body in all other aspects of crediting that is not in the competence of the loan and has the right to sub-delegation.

Financial Risk Committee

The main objective of the Financial Risk Committee is to protect the Bank's own funds and their allocation, to align the Bank's assets and liabilities taking into account the pricing structure and maturity profile in accordance with law, rules and regulations of the National Bank of Romania, internal Bank's structures and its parent company as they were adopted by the Bank. Financial Risk Committee ensures continuous monitoring and control of the Bank's exposure to market risk, liquidity risk and interest rate risk, risk related to shares, property risk and currency risk.

Operational Risk Committee

Operational Risk Committee proposes approves and verifies aspects of operational risk issuing opinions where is required by law, by parent company or by corporate bodies. Regarding operational risk issues, the main objective of the Committee is to assist the Board of Directors in reviewing the overall operational risk profile of the Bank. Operational risk is the risk of loss due to inadequacy or error process, human resources and internal systems or due to external events. Operational risk also includes legal risk and compliance risk (if associated with legal or administrative sanctions). Legal compliance risk component is also included in the category of operational risk.

(b) Credit risk

Credit risk is defined as the current or future risk to earnings and capital adversely affected as a result of failure by the debtor of its contractual obligations or failure in meeting the objectives.

Credit risk identification system

Credit risk identification, monitoring, control and administration are activities performed both at the level of the territorial units and Head Office.

The main purpose of the monitoring process of the credit portfolio is to supervise its quality by an early identification (either manual or automatic) of those risk factors, negative symptoms or detrimental events which may affect the creditworthiness of the counterparty, its debt repayment capacity and, as the case may be, the value of the guarantees/ collaterals/ their enforceability.

The frequency of monitoring activities shall be determined depending on the risk profile of the counterparty, the availability and accuracy of information.

The persons assigned to the task within the territorial units and/or the specialized staff of the structures with competencies in credit management, have the obligation to analyze and watch the manner in which loan drawings are used, the compliance with the conditions considered in their approval, throughout the loan period, monitoring the reimbursing modality, as well as the status of the reimbursement sources etc. and immediately notifying of any anomaly to the Head Office competent structures, in line with the specific provisions implemented by the Bank.

5. RISK MANAGEMENT (CONTINUED)

The monitoring process consists of three different streams:

- Daily monitoring (identification of risk exposures);
- Periodic monitoring activities (at least once a month);
- General monitoring of the portfolio.

The daily relationship with the counterparty and the continuous support provided by the early warning system implemented by the Bank are the basis of the identification of risky exposures in the Banca Comerciala Intesa Sanpaolo Romania S.A. portfolio. The commercial units that manage the crediting relationship with the counterparties are responsible for the detection of negative events (negative symptoms/ detrimental events).

When negative symptoms or detrimental events are identified, a detailed counterparty analysis is necessary for the above mentioned clients that could result in the classification of the counterparty exposure to “problem” or “nonperforming” category, as per stipulations of the dedicated process for risky and nonperforming exposures management.

Portfolio performance evaluation is done on a daily basis (using information from the previous day), based on negative symptoms detectable in the Bank’s database and information available in the morning through the Credit Risk Bureau. Based on this evaluation, customers are classified into two categories, namely, high risk or low risk based on the score obtained by correlating all available information on internal and external database.

Based on the results of the monitoring and control activities carried out concerning creditworthiness of the client, his payment behavior, as recorded in specific documents implemented by the competent structures of the Bank, the commercial units make proposals of measures, which are submitted to the approval of the hierarchical superior and/or to other competent authorities in this respect.

After their approval, the measures established shall be communicated in writing to the counterparty with a view to their application.

Collection and workout process (workout)

During the collection and recovery process, the following main steps were identified:

- „Soft” collection activities
- Action plan
- Recovery activities („hard collection”)

The main methods to recover the receivables resulting from the lending activity are:

1. Extrajudicial recovery
2. Judicial recovery.

Both methods are usually activated when the debtor’s worthiness is seriously and irreversibly damaged, the purpose being to identify the best strategy for recovering the exposure.

The process may include:

- Restructuring the counterparty’s credit exposure (replacement of the exposure),
- Amicably recovery by identifying the potential sources of repayment (usually others than the ones sustained by the debtor’s economic-financial performance), that may involve the debtor, and also the co-debtors, guarantees, third parties.
- Enforcement recovery by all means, including over the guarantees issued in the Bank’s favor.
- Recovery by including the receivables in a portfolio offered for sale to third parties.

RISK MANAGEMENT (CONTINUED)

- Moving the assets in the receivables account, followed by selling the assets or transferring the assets to other entities;
- Recovery during the insolvency procedure.

The Bank has defined the following methods of achieving the replacement operations:

- **Loans rescheduling:** the method by which the Bank modifies the intermediary maturity and/or the payment of one/or more loan rates, without exceeding the initial loan period.
- **Loans rescheduling - prolongation:** the method by which the Bank changes the maturity and/or the payment of one/or more rates, by exceeding the initial period of the loan and/or by classifying the loan in a different category (medium/long term).
- **Loan refinancing:** the Bank grants a new cash credit facility to reimburse the the partial/complete loan/loans owned by the applicant/counterparty.
- **Conversion of the revolving loans in non revolving loans,** a method characterized by eliminating the revolving character of the loan and by switching to a medium or long term product.

When any amicable method of recovering the exposure is ineffective, the Credit Recovery Department analyses and applies the decision of the competent authority to initiate legal procedures against the debtor/third parties, that represent the last solution for the Bank to recover the receivables.

Counterparty's creditworthiness assessment is performed, which could result in the classification of the counterparty exposure to "problem" or "nonperforming" category thus allowing evaluating the best strategy in order to:

- minimize the risk of losses for credit facilities which are still performing;
- maximize the recovery of outstanding exposure for nonperforming loans.

The Bank adopted starting 2012 the following rules for classification of its debtors in accordance with IFRS standards as endorsed by the European Union and aligned with main shareholder requirements and the Bank of Italy:

Nonperforming Loans, classified as follows:

- **Doubtful:** Balance and off-balance sheet exposures (loans, letters of guarantees, derivatives etc.) to borrowers being effectively insolvent (although not yet legally) or in comparable status, regardless of any loss forecasts made by the Bank.
- **Substandard:** Balance and off-balance sheet exposures (loans, letters of guarantees, derivatives etc.) to borrowers experiencing temporary objective financial or economic difficulties that are likely to be overcome in a reasonable period of time.
- **Restructured:** Balance and off-balance sheet exposures (loans, letters of guarantees, derivatives etc.) where the Bank (or a pool of banks) renegotiates the original terms of a debt due to deterioration of the creditworthiness of the debtor (for example by granting a payment moratorium or by decreasing the debt or the interests). If such renegotiation results in a loss, the exposure will be classified as restructured.
- **Past due:** Balance sheet exposures (loans, letters of guarantees, derivatives, etc) other than those classified as doubtful, substandard or restructured that, as at reporting date, are past due for over 90 days and also exceed a threshold of materiality representing 5% of the total exposure of the borrower cash.

5. RISK MANAGEMENT (CONTINUED)

Performing loans. Balance and off-balance sheet exposures (loans, securities, derivatives etc.) other than those classified as doubtful, substandard, restructured or past due.

Performing loans could be divided in two sub-categories, respectively:

- *Performing –Standard:* This refers to all the exposures without any anomalies attached, or with anomalies that do not require management in accordance with the principles defined for the classification of Problem Loans. From a portfolio management point of view, these exposures fall under the responsibility of the commercial structure responsible and are managed in accordance with normal/ordinary credit granting and monitoring processes.
- *Performing (watch list).* It refers to the exposure granted to customers (private, corporate, other entities etc) which, due to inherent characteristics or because of external factors, show signs of varying degrees of difficulty, with possible deterioration of the credit quality.

Performing Loans include credit with potential problems that have not yet incurred, but could lead to breach of contract unless timely resolved.

Impairment methodology

The Bank reviewed in 2013 the methodologies for determining IFRS collective provision and has assigned clear roles and responsibilities for the individual impairment allowance.

As such, performing loans are collectively assessed based on groups of assets with similar characteristics, as follows:

- a) Size
- b) Days past due, at the reporting date
- c) Customer type
- d) Activity
- e) Product type

Nonperforming loans are individually assessed case by case or based on a portfolio approach, as follows:

- **Past Due:** the exposures classified with this status, independently of the amount, are subject to monthly individual assessment on portfolio basis (flat-rate adjustments) in accordance with the tables provided by the Risk Management Department, on the basis of the historical series of status changes and recoveries.
- **Substandard:** the exposures below the materiality (EUR 75.000) are measured automatically, and those exceeding within a defined threshold will be subject to monthly individual assessment on portfolio basis (flat rate adjustments) in accordance with the tables provided by the Risk Management Department, on the basis of the historical series of status changes and recoveries.

The significant exposures are subject to an individual evaluation. The recovery forecasts are made at classification, and subsequently every 6 (six) months, and in any case, for any relevant event that may occur during the period (i.e. significant changes of the financing period etc).

The assessments are based on an attentive and in-depth qualitative and quantitative analysis:

- (i) of the economic, asset and financial situation of the counterparty in addition to
- (ii) exogenous factors such as trends in the reference sector.

An analytical assessment is made for each individual credit on the basis of the risk implied by the technical form of the outstanding, the degree of dependence on any mitigating factors, and if significant, the financial effects of the time realistically estimated as necessary for its recovery.

A recovery forecast is made on the basis of the evaluation of the significance of the guarantees/collaterals in place, the type of utilisation, the counterparty's solvency and its current and prospective profitability. Department or under external management are valued using the individual assessment.

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5. RISK MANAGEMENT (CONTINUED)

(b) Credit Risk (Continued)

	Loans to customers		Placements with banks		Available for sale financial instruments		Loan commitments and letters of guarantee	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Total net exposure	2,883,488,505	3,444,819,875	828,278,813	875,326,006	499,536,470	526,911,857	1,058,688,165	1,080,256,175
Non-performing loans, individually impaired:								
Doubtful	868,611,544	1,234,938,528	-	-	-	-	2,306,970	1,253,981
Substandard	163,531,044	194,015,891	-	-	-	-	2,129,747	8,714,612
Restructured exposure	246,132	2,665,317	-	-	-	-	0	-
Past due	6,107,001	9,705,815	-	-	-	-	4,360	21,175
Gross exposure	1,038,495,721	1,441,325,551	-	-	-	-	4,441,076	9,989,768
Impairment allowance	(727,896,953)	(828,964,583)	-	-	-	-	(688,121)	(7,046,583)
Net exposure	310,598,768	612,360,968	-	-	-	-	3,752,955	2,943,186
<i>out of which rescheduled as defined by NBR</i>	110,392,793	198,930,895	-	-	-	-	-	-
Collectively impaired loans								
Performing – Standard	2,358,055,569	2,646,565,485	-	-	-	-	1,022,077,030	1,029,549,024
Doubtful credits – Watch List	250,164,560	256,098,199	-	-	-	-	37,460,897	40,717,383
Gross exposure	2,608,220,129	2,902,663,684	-	-	-	-	1,059,537,927	1,070,266,406
Impairment allowance	(35,330,392)	(70,204,777)	-	-	-	-	(4,602,717)	(4,367,552)
Net exposure	2,572,889,737	2,832,458,907	-	-	-	-	1,054,935,210	1,065,898,854
<i>out of which rescheduled as defined by NBR</i>	119,147,335	144,031,545	-	-	-	-	-	-
Past due, performing loans								
< 30 days	99,634,047	164,253,388	-	-	-	-	-	-
31 - 60 days	29,184,001	45,117,949	-	-	-	-	-	-
61 - 90 days	19,837,682	46,425,160	-	-	-	-	-	-
>91 days	7,122,358	14,265,570	-	-	-	-	-	-
Net exposure	155,778,088	270,062,067	-	-	-	-	-	-
<i>Out of which rescheduled, at net value</i>	14,614,426	18,719,725	-	-	-	-	-	-

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5. RISK MANAGEMENT (CONTINUED)

(b) Credit Risk (Continued)

	Loans to customers		Placements with banks		Available for sale financial instruments		Loan commitments and letters of guarantee	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
<i>Performing loans with no overdue</i>								
Performing – Standard	2,306,392,500	2,478,602,467	828,278,813	875,326,006	499,536,470	526,911,857	1,022,077,030	1,029,549,024
Doubtful loans – Watch List	138,570,371	83,794,372	-	-	-	-	37,460,897	40,717,383
	<u>2,444,962,871</u>	<u>2,562,396,840</u>	<u>828,278,813</u>	<u>875,326,006</u>	<u>499,536,470</u>	<u>526,911,857</u>	<u>1,059,537,927</u>	<u>1,070,266,406</u>
<i>out of which rescheduled as defined by NBR, at net value</i>	<u>104,532,910</u>	<u>125,311,820</u>	-	-	-	-	-	-

Impaired loans and advances

The Bank classified loans and advances as being impaired where there is proper evidence that a loss event has occurred after the initial recognition and that loss event has an impact on the estimated future cash flows of the asset.

Overdue and not-individually impaired exposures

Overdue and not-impaired exposures are those exposures for which there is interest and instalment overdue and payment rates, for which the Bank believes that there is no sufficient evidence to lead to prominence them as nonperforming because of the delay in number of days, of the outstanding amount towards the total exposure and economic and financial situation of the client.

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5. RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Collaterals held and other techniques to reduce credit risk

	<u>31 December 2014</u>	<u>31 December 2013</u>
Performing loans		
Mortgages	3,340,950,171	3,436,547,713
Pledge on equipments	409,824,721	411,407,274
Pledge on goods, merchandize etc.	155,298,776	171,725,156
Other express, irrevocable and unconditional personal guarantees issued by FNGCIMM SA	50,709,144	95,157,943
Guarantees received from the public institutions of Romania – credits - 0% level of risk, “prima casa”	144,276,214	130,752,375
Pledge on vehicles	90,642,311	83,685,579
Letters of guarantee	171,641,712	221,760,062
Other express, irrevocable and unconditional personal guarantees issued by FGC of Romania	35,083,127	39,407,780
Pledge – collateral deposits	20,291,907	53,628,188
Total	<u>4,418,718,083</u>	<u>4,644,072,070</u>
	<u>31 December 2014</u>	<u>31 December 2013</u>
Non-performing loans		
Mortgages	1,078,243,360	1,158,359,455
Pledge on equipments	82,479,676	75,911,076
Pledge on goods, merchandize etc.	23,214,997	45,152,814
Other express, irrevocable and unconditional personal guarantees issued by FNGCIMM SA	49,331,672	48,825,428
Guarantees received from the public institutions of Romania – credits - 0% level of risk, “prima casa”	575,480	224,823
Pledge on vehicles	10,692,415	10,778,117
Letters of guarantee	2,243,449	-
Other express, irrevocable and unconditional personal guarantees issued by FGC of Romania	7,545,541	5,154,249
Pledge – collateral deposits	795,377	539,829
Total	<u>1,255,121,967</u>	<u>1,344,945,791</u>

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5. RISK MANAGEMENT(continued)

(b) Credit risk (continued)

Loans secured by mortgages

The table below stratifies credit exposures on mortgages and advances to retail customers and corporate on loan-to-value loan intervals (LTV). LTV is calculated as the ratio of the gross amount of the loan - or committed amount for loan commitments - and the collateral value. Gross amounts exclude any adjustments for impairment. Evaluation of collaterals excludes any adjustments for obtaining and selling of collateral. Collateral values presented below for mortgage loans are based on the value of revaluated collateral in accordance with market changes.

	<u>Loan to value rate (LTV)</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
Corporate	50%	230,963,385	150,117,911
	51% -70%	352,958,382	172,938,282
	71% - 90%	426,660,740	71,578,489
	91% - 100%	163,585,672	110,853,336
	>100%	1,065,889,538	954,374,169
	Total		<u>2,240,057,718</u>
	<u>Loan to value rate (LTV)</u>	<u>31 December 2014</u>	<u>31 December 2013</u>
Retail	50%	108,585,655	49,259,541
	51% -70%	157,140,788	155,669,864
	71% - 90%	296,053,015	28,371,866
	91% - 100%	60,849,889	22,753,288
	>100%	63,297,876	313,444,979
	Total		<u>685,927,222</u>

In addition to assessing the quality of corporate customers, the Bank revaluates with a frequency of once a year, respectively once every 3 years for residential mortgage collaterals.

Active obtained by taking possession of collateral

The situation of the acquired assets, net worth:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Property:	7,183,377	21,828,043

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5. RISK MANAGEMENT(continued)

(b) Credit risk (continued)

<i>Concentration by sector</i>	Loans and advances to customers		Placements with banks		Available for sale financial instruments	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Agriculture	314,807,012	335,240,050	-	-	-	-
Other activities	10,641,054	20,032,861	-	-	-	-
Commerce	318,026,197	455,129,522	-	-	-	-
Constructions	190,357,331	286,074,309	-	-	-	-
Processing and conservation	35,635,183	36,852,242	-	-	-	-
Manufacturing(gas, electric energy)	112,349,065	138,174,248	-	-	-	-
Extraction (oil, gravel)	9,015,270	14,254,405	-	-	-	-
Furniture, shoes, equipment manufacturing	389,175,077	508,179,485	-	-	-	-
Other industrial activities	75,321,766	120,948,997	-	-	-	-
Transportation	45,671,872	68,072,699	-	-	-	-
Hotels	58,892,502	75,483,038	-	-	-	-
Real estate	186,736,285	228,115,966	-	-	-	-
Leasing	3,177,310	3,887,751	-	-	-	-
Car and ships repairs	2,684,566	4,938,059	-	-	-	-
Other services	164,536,650	246,900,237	-	-	-	-
Individuals	966,461,364	902,536,009	-	-	-	-
Banks	-	-	828,278,813	875,326,006	-	-
Sovereign exposures	-	-	-	-	499,536,470	526,911,857
Total net exposure	2,883,488,505	3,444,819,875	828,278,813	875,326,006	499,536,470	526,911,857

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5. RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The portfolio, of securities which is held and classified as available for sale is described below.

	<u>31 December 2014</u>	<u>31 December 2013</u>
Government securities and treasury bills:		
Rating BBB- and lower	499,536,470	526,911,857

The table below describes the exposures arising from financial derivatives. Overall transactions with the derivatives of the Group are fully secured by cash.

31 December 2014	Banking institutions		Other	
	<u>Notional</u>	<u>Fair value</u>	<u>Notional</u>	<u>Fair value</u>
Financial derivatives acquired	347,757,210	1,465,039	47,840,489	332,616
Financial derivatives sold	246,858,746	820,760	106,127,569	831,391
31 December 2014				
Financial derivatives acquired	461,174,858	44,000	176,076,907	75,217
Financial derivatives sold	462,302,501	40,100	175,643,431	130

(c) Country risk

Situations that may lead to the emergence of country risk may include events such as those that affect profitability and return on investment. In this category can be included nationalization, restrictions on repatriation of profits or damages. Other situations that can generate country risk are: raising taxes, corruption, restrictive regulatory framework for foreigners, etc.

A number of other factors influence its country risk. From the demographic and educational dynamics private sector investments policy, banking system and to external debt, all of them affect the economic situation of the country and may underlie the country risk.

In terms of country risk, as indicated by the ruling group, eurozone countries are not subject to continuous monitoring.

(d) Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk management

Liquidity risk arises because of the possibility that the bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on regular basis. The bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high liquid assets which could be used to secure additional funding if required.

5. RISK MANAGEMENT (continued)

(d) Liquidity risk

The Bank maintains a portfolio of eligible assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has EUR 270,000,000 money market limit with Intesa Sanpaolo S.p.A. Milan and a committed back-up line of credit in amount of EUR 50,000,000 from Intesa Sanpaolo S.p.A. Milan that it can access to meet liquidity needs in case of a liquidity crisis. In accordance with the Bank's policy the liquidity position is assessed and managed under a variety of scenarios, giving consideration to stress factors relating to both the market in general and specifically to the Bank.

Liquidity risk exposures

The key ratio used by the Bank for the management of Liquidity Risk is the ratio between net liquid assets and customer accounts. For this purpose net liquid assets are considered as cash and cash equivalents, securities for which there is an active and liquid market less any deposits from banks, debt securities, loans and other liabilities due the following month.

Rate of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	2014	2013
As at 31 December	49.81%	42.71%
Average for the period	39.07%	37.41%
Maximum for the period	49.81%	52.87%
Minimum for the period	31.71%	26.83%

Level of liquidity ratios calculated according to National Bank of Romania requirements are given below as follows:

	2014				
	<=1 month	1-3 months	3-6 months	6-12 months	>12 months
As at 31 December	1.67	6.81	6.25	11.47	2.78
Maximum for the period	2.57	6.93	12.05	11.47	2.78
Minimum for the period	1.41	1.73	3.84	3.82	2.00

	2013				
	<=1 months	1-3 months	3-6 months	6-12 months	>12 months
As at 31 December	1.57	5.79	7.00	7.01	2.90
Maximum for the period	1.57	6.39	12.80	7.01	2.90
Minimum for the period	1.20	2.81	2.97	3.49	2.35

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5. RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

31 December 2014	Book value	3 months –				
		<1 month	1-3 months	1 year	1-5 years	> 5 years
Derivative assets	1,797,655	1,656,970	117,709	22,976	-	-
Cash, balances with the Central Bank	602,915,825	602,915,825	-	-	-	-
Loans and advances to banks	308,034,381	308,034,381	-	-	-	-
Loans and advances to customers	2,883,488,505	224,641,332	213,106,491	643,484,622	826,153,809	976,102,251
Treasury bills	499,536,470	499,536,470	-	-	-	-
Other assets	12,704,277	12,704,277	-	-	-	-
Total assets	4,308,477,113	1,649,489,255	213,224,200	643,507,598	826,153,809	976,102,251
				3 months –		
	Book value	<1 month	1-3 months	1 year	1-5 years	> 5 years
Derivative liabilities	1,652,151	1,543,869	88,333	19,949	-	-
Deposits from banks	828,825,405	81,435,230	95,244,625	484,066,800	168,078,750	-
Deposits from customers	3,067,079,410	1,794,815,837	326,032,634	550,956,431	383,807,083	11,467,425
Subordinated debts	31,420,864	-	-	-	31,445,115	-
Other liabilities	24,529,506	24,529,506	-	-	-	-
Total liabilities	3,953,507,336	1,902,324,442	326,120,967	646,221,005	899,294,747	179,546,175
Net position	354,969,777	(252,835,187)	(112,896,767)	(2,713,407)	(73,140,938)	796,556,076
<i>Future interest related to financial liabilities</i>						
	Total	<1 luna	1-3 luni	3 luni - 1 an	1-5 ani	> 5ani
Deposits and loans from banks	141,722,838	5,663,825	2,115,313	25,919,410	81,636,974	26,387,316
Deposits from clients	14,895,856	2,330,559	3,993,364	5,894,037	2,657,794	20,102

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5. RISK MANAGEMENT (continued)
(d) Liquidity risk (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

31 December 2013	Book value	3 months –					
		<1 month	1-3 months	1 year	1-5 years	> 5 years	
Derivative assets	119,217	119,217	-	-	-	-	-
Cash, balances with the Central Bank	812,098,874	812,098,874	-	-	-	-	-
Loans and advances to banks	144,559,284	144,559,284	-	-	-	-	-
Loans and advances to customers	3,444,819,875	429,845,836	352,761,981	775,102,011	918,544,859	968,565,188	-
Treasury bills	526,911,854	526,911,857	-	-	-	-	-
Other assets	12,359,106	12,359,106	-	-	-	-	-
Total assets	4,940,868,210	1,925,894,174	352,761,981	775,102,011	918,544,859	968,565,188	-
				3 months –			
	Book value	<1 month	1-3 months	1 year	1-5 years	> 5 years	
Derivative liabilities	40,230	40,230	-	-	-	-	-
Deposits from banks	1,121,594,025	91,118,859	44,964,724	229,147,842	328,573,791	427,788,809	-
Deposits from customers	3,159,091,716	1,439,816,902	743,809,124	840,701,974	129,187,253	5,576,463	-
Subordinated debts	31,445,115	-	-	-	31,445,115	-	-
Other liabilities	27,224,912	27,224,912	-	-	-	-	-
Total liabilities	4,339,395,998	1,558,197,041	788,777,710	1,069,849,816	489,206,159	433,365,272	-
Net position	601,472,214	367,662,138	(435,980,735)	(294,747,805)	429,338,700	535,199,916	-
<i>Future interest related to financial liabilities</i>							
	Total	<1 luna	1-3 luni	3 luni - 1an	1-5 ani	> 5ani	
Deposits and loans from banks	208,067,073	16,903,473	8,341,413	42,509,250	60,953,772	79,359,165	-
Deposits from clients	24,998,946	11,389,193	5,883,655	6,650,094	1,021,893	44,111	-

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5. RISK MANAGEMENT (continued)

e) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank does not hold Trading Portfolios. The market risk for the Banking Book is monitored based on a Value-at-Risk (VaR) methodology regarding Foreign Exchange risk and sensitivity analysis for the Interest Rate risk. Interest rate risk exposure related to activities out of the trading portfolio. Interest rate risk arises from the possibility that changes in interest rates affect future cash flows or fair values of financial instruments. Bank has set limits on interest rate differences in the banking portfolio. In accordance with Bank policies, positions are monitored on a regular basis and daily gaps are checked.

The following table shows the interest rate risk of the Bank based on sensitivity ratio to interest rate for + / - 50 basis points, respectively + / - 100 basis points, both for 2013 and 2014.

	+100 basis pt.	-100 basis pt.	+50 basis pt.	-50 basis pt.
<i>Sensitivity of projected net interest income (in RON)</i>				
2014				
At 31 December	7,135,133	-3,269,046	3,565,543	-2,767,720
Average for the period	8,921,217	-5,853,311	4,459,309	-4,129,619
Maximum for the period	11,544,525	-3,269,046	5,770,859	-2,475,747
Minimum for the period	6,085,004	-8,333,369	3,041,380	-5,718,720
2013				
At 31 December	8,866,903	-6,387,034	4,432,473	-4,390,414
Average for the period	7,824,504	-5,698,196	3,910,981	-3,681,003
Maximum for the period	12,220,349	-3,346,525	6,108,758	-2,086,981
Minimum for the period	4,575,054	-9,440,452	2,286,944	-5,861,722

The table below presents annual interest rates obtained or provided by the Bank for the interest bearing assets and liabilities during the financial year 2014 (in percentages):

	2014		USD		EUR	
	RON		Range		Range	
	Min	Max	Min	Max	Min	Max
Assets						
Current accounts with the National Bank of Romania	0.32	0.76	-	-	0.32	0.38
Placements with banks	0.25	6.20	0.02	0.31	0.00	0.50
Loans and advances to customers	2.81	23	4.26	9.5	0.21	14.85
Liabilities						
Deposits from banks	0.05	6.50	-	-	0.00	0.40
Subordinated debts	-	-	-	-	1.2220	1.3310
Borrowings from banks	-	-	-	-	0.3490	3.9270

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5. RISK MANAGEMENT (continued)

(e) Market risk (continued)

The table below presents annual interest rates obtained or provided by the Bank for the interest bearing assets and liabilities during the financial year 2013 (in percentages):

2013	RON		USD		EUR	
	Range		Range		Range	
	of interest rates		of interest rates		of interest rates	
	Min	Max	Min	Max	Min	Max
Assets						
Current accounts with the National Bank of Romania	0.59	1.3	-	-	0.36	0.56
Placements with banks	1	6.5	-	-	-	-
Loans and advances to customers	3.92	17.92	4.27	4.27	4.92	7.07
Liabilities						
Deposits from customers						
Deposits from banks	0.2	5.9	0.25	0.25	0.05	1.4
Subordinated debts	-	-	-	-	1.202	1.270
Borrowings from banks	-	-	-	-	0.463	4.629

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 pentru exercitiul financiar incheiat la 31 December 2014
(toate sumele sunt exprimate in RON, daca nu este specificat altfel)

5. RISK MANAGEMENT (CONTINUED)

(e) Market risk (continued)

The table below represents the statement of cash flows (notional and future interest) relating to interest bearing assets and liabilities allocated to time bands depending on the time of re-pricing. If assets / liabilities bearing variable interest are awarded on the basis of notional proper time period re-pricing and cash flows resulting from the application of spread are distributed on time to maturity bands according to the repayment schedule. If assets / liabilities bearing fixed interest and notional interest flows are spread over time bands according to the repayment schedule.

	Exposure	Overnight	< 3 months	3-12 months	1-5 years	> 5 years
31 December 2014						
Cash and current accounts with central bank	603,209,944	463,205,150	140,004,795	-	-	-
Loans and advances to banks	303,154,606	-	303,154,606	-	-	-
Loans and advances to customers	3,531,844,062	-	2,726,959,237	76,727,707	285,565,321	442,591,796
Securities	517,711,850	-	2,228,700	91,378,775	424,104,375	-
Total assets	4,955,920,462	463,205,150	3,172,347,338	168,106,482	709,669,696	442,591,796
Deposits and borrowings from banks	950,328,038	-	762,097,307	59,202,284	107,632,153	21,396,294
Deposits from customers	3,082,938,515	456,537,077	1,298,190,949	716,273,599	611,002,768	934,121
Total liabilities	4,033,266,553	456,537,077	2,060,288,257	775,475,883	718,634,921	22,330,415
Net position	922,653,909	6,668,073	1,112,059,081	(607,369,401)	(8,965,224)	420,261,381
31 December 2014	Exposure	Overnight	< 3 months	3-12 months	1-5 years	> 5 years
Cash and current accounts with central bank	810,501,938	810,501,938	-	-	-	-
Loans and advances to banks	29,652,569	-	29,652,569	-	-	-
Loans and advances to customers	4,038,208,621	31,808	3,119,757,702	92,731,812	352,349,346	473,337,953
Securities	559,519,700	-	11,419,500	207,026,500	341,073,700	-
Total assets	5,437,882,828	810,533,746	3,160,829,771	299,758,312	693,423,046	473,337,953
Deposits and borrowings from banks	1,260,172,197	-	1,004,149,527	110,294,369	118,110,859	27,617,441
Deposits from customers	3,161,853,629	813,244,920	1,362,412,514	878,446,828	107,749,367	-
Total liabilities	4,422,025,826	813,244,920	2,366,562,041	988,741,197	225,860,226	27,617,441
Net position	1,015,857,002	(2,711,174)	794,267,730	(688,982,885)	467,562,820	445,720,512

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5. RISK MANAGEMENT (continued)

(e) Market risk (continued)

The Bank's policy is to maintain foreign currency position in balance covering the operational needs resulted from the ordinary activities of bank's customers. The Bank monitors on a daily frequency total foreign currency position of the Bank and VaR. At the reporting date, net currency exposures are as follows:

31 December 2014	RON	EUR	USD	Others	Total
Assets					
Cash and current accounts with banks	347,109,761	250,994,076	2,169,175	2,642,813	602,915,825
Placements with banks	194,646,493	57,959,236	51,340,931	4,087,722	308,034,381
Investment securities	499,536,470	-	-	-	499,536,470
Loans and advances to customers	901,632,528	1,969,940,612	2,773,347	9,142,018	2,883,488,505
Total assets	1,942,925,252	2,278,893,924	56,283,453	15,872,553	4,293,975,182
Liabilities					
Deposits from banks	74,058,584	4,433,448	89,442	4,617	78,586,091
Borrowings from banks	-	750,239,314	-	-	750,239,314
Subordinated debts	-	31,420,864	-	-	31,420,864
Deposits from customers	1,507,842,505	1,496,430,794	57,248,946	5,557,165	3,067,079,410
Total liabilities	1,581,901,089	2,282,524,420	57,338,388	5,561,782	3,927,325,679
Net Foreign Currency position	361,024,163	3,630,496	-1,054,935	10,310,771	366,649,503
31 December 2013					
Assets					
Cash and current accounts with banks	360,859,623	446,125,938	3,073,451	2,039,862	812,098,874
Placements with banks	114,267,028	21,877,436	5,903,334	2,511,575	144,559,373
Investment securities	526,911,857	-	-	-	526,911,857
Loans and advances to customers	1,075,904,086	2,350,178,914	8,602,642	10,134,233	3,444,819,875
Total assets	2,077,942,594	2,818,182,288	17,579,427	14,685,670	4,928,389,979
Liabilities					
Deposits from banks	88,873,940	96,455,698	182,009	37,753	185,549,400
Borrowings from banks	-	936,044,625	-	-	936,044,625
Subordinated debts	-	31,445,115	-	-	31,445,115
Deposits from customers	1,499,080,974	1,602,707,181	53,971,303	3,332,258	3,159,091,716
Total liabilities	1,587,954,914	2,666,652,619	54,153,312	3,370,011	4,312,130,855
Net Foreign Currency position	489,987,680	151,529,669	-36,573,885	11,315,661	616,259,124

5. RISK MANAGEMENT (continued)

e) Market risk (continued)

Value at risk, represents a control tool of the foreign exchange position by revealing the maximum amount of loss the Bank may book, taking into consideration the current exchange position and the potential profit and loss generated by this 1 year period. The intervention period considered is 1 day. The maximum permissible limit is equivalent to EUR 100,000 with a sub-limit of EUR 80,000.

Year	VaR 2014	FX VaR EUR
2014	31 December	3.244
2014	Average daily	9.092
2014	Max	44.301
2014	Min	1.139

Year	VaR 2013	FX VaR eq EUR
2013	31 December	26.830
2013	Average daily	8.347
2013	Max	53.128
2013	Min	1.023

(f) Operational Risk

Operational risk is the risk of loss resulting from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Board of Directors has delegated the responsibility of operational risk to Operational Risk Committee, which is responsible for the development and implementation of controls to deal with operational risk. This responsibility is supported by the development of general Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with legal regulations;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced by the bank, and the adequacy of controls and procedures to address the risks identified;
- reporting requirements of operational losses and proposed remedial action;
- development of emergency plans;
- training and professional development;
- ethical and business standards, and
- mitigation, including insurance even this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. Internal audit results are discussed in Operational Risk Committee and the Audit Committee, and management of the Bank.

Regulations and rules from the Group must be:

- Brought to attention, formally, to the Bank Management(Board of Directors, Management Committee);
- Implemented in the internal regulations of the Bank.

Quarterly reports to the Group of the disclosure of state/ implement rules and regulations received. Also, the Group can ask to each Subsidiary, ad hoc basis, a reporting regarding the ones mentioned (and other frequency than quarterly)

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5. RISK MANAGEMENT (continued)

(g) Taxation risk

The Romanian tax legislation provides for detailed and complex rules and has suffered various changes in the recent years. Interpretation of the text and practical implementation procedures of tax legislation could vary, and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Bank's treatment. Furthermore, the recent conversion to IFRS of the Romanian banks raised additional tax implications that are not yet fully clarified in the legislation and might generate potential tax risks.

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

(h) Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value

	Actual 2014	**Required 2014	Actual 2013	**Required 2013
Regulatory capital				
*Total capital	<u>370,183,166</u>	<u>236,808,087</u>	<u>388,356,362</u>	<u>261,220,990</u>
Risk weighted assets	<u>2,960,101,085</u>		<u>3,265,262,373</u>	
Tier 1 capital ratio	12.51%		11.89%	

*Year 2014 was marked by the entry into force of Regulation (EU) No. 575/2013. Rules on capital requirements or CRR, which was adopted in June 2013 as a single regulatory framework of prudential requirements for institutions (for example credit institutions and investment firms) established in the Union.

The requirements of this Regulation, include more stringent provisions regarding the quantity and quality of capital and new regulations on liquidity management, the assets and liabilities compared to the previous regulations.

Based on the economic crisis, new prudential regulatory framework requires a minimum level of Tier 1 of 4.5% of risk-weighted assets (compared with a 2% minimum required by previous regulations), the total requirement capital is preserved at the level of 8% of risk-weighted assets for a period of two years from 2014, gradually increasing to 10.5% of risk-weighted assets in 2019.

The new requirements aim reserves accumulation in times of economic growth, reserves to be available to absorb losses in times of crisis.

**Represents capital requirements for credit risk, market risk and operational risk calculated in accordance with Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012

5. RISK MANAGEMENT (continued)

(h) Business environment

The National Institute of Statistics announced in February 2015 that the GDP in 2014 was, in real terms, up by 2.9% compared with 2013, while the GDP in the fourth quarter of 2014 was, in real terms, up by 0.5% compared with the previous quarter. This increase was mainly driven by industry and services sector, by categories of resources and by the final consumption per utilisation categories. The private consumption was the main contributor to GDP growth due to improved purchasing power.

The Consumer Price Index (CPI) at the end of December 2014 was below market expectations, reaching + 0.83% compared to December 2013, the lower limit of the target range of NBR (2.5% + / - 1 percentage point).

Low inflation during the year was mainly due to the evolution of volatile components. NBR maintained a loose monetary policy, reducing the monetary policy rate from 3% in December 2014 to 2.5% in February 2015 and reducing the Reserve Requirements During 2014 to 10% for RON and 14% Liabilities Liabilities in foreign currency. The current account deficit decreased by 40% in 2014 compared to 2013 to EUR 696 million (Source: NIS, NBR, estimates BRD GSG Research)

Management believes that it has taken all necessary measures to support the sustainability and growth of the Bank in the current business by:

- Constant monitoring of liquidity positions and excessive dependence on categories of sources;
- Short-term forecasting of net liquidity positions;
- Obtaining shareholders' engagement on their continued support for the Bank's operations in Romania;
- Review the terms and conditions of funding agreements and consideration of the imposed obligations implications and risks identified such as maturity dates, or any other terms or clauses that may have been violated or may be violated near future.

During 2014 have remained concerns regarding credit risk of some euro area countries, prompting speculation on long-term sustainability of the Eurozone. Worsening the recession has registered for a number of countries, political and economic consequences generated so fiscal austerity programs, as well as other actions of governments and uncertainties regarding the continuity of certain financial institutions in these countries have led to an increase in volatility exposures of governmental yields. Recently, some measures taken by the European Central Bank and the European Commission have had positive effects on the confidence of the markets. However, the situation of these countries is still sensitive. At 31 December 2014 and 31 December 2013, the Bank has recorded exposures of euro area countries, classified as having a high credit risk.

6. USE OF ESTIMATES AND JUDGMENTS

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

The use of judgments and estimates has the greatest importance in respect of:

a) Impairment

Assets accounted for at amortized cost are evaluated for impairment on the basis described in Note 4 letter (j) (vi).

The specific component of the total allowances for impairment applies for financial assets assessed individually for impairment and is based upon Bank's best estimate of the present value of cash flows that are expected to be received.

6. USE OF ESTIMATES AND JUDGMENTS (continued)

a) Impairment (continued)

In estimating these cash flows, the Bank makes judgments about a debtor's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed based on its own characteristics, as well as on the recoverability strategy and the estimation of cash flows considered recoverable, depending on the decisions independently approved by the Committee for Asset Quality.

The Bank reviews its loans and significant advances on an individual level at each reporting date, in order to assess whether to record an impairment loss in the income statement. In particular, management's assessments are needed for the estimation of value and coordinating future cash flows when an impairment loss is determined. These estimates are based on assumptions about several factors and actual results may differ, resulting in future changes of adjustments.

Individual assessment is required in all cases where there is objective evidence of impairment. For loans recognized at amortized value (cost amortized) the loss is measured as the difference between the exposure (at amortized cost) and net present value of future cash flows discounted at the effective interest rate.

Collective assessment is mandatory in all cases where there were no objective evidence of impairment identified and this is achieved by grouping financial assets according to similar characteristics of credit risk and their assessment using historical loss rates associated with information on loss experience, in the groups of assets in question and relevant observable data.

A collective component of the total allowances for impairment applies is established as follows:

- Individual adjustments for impairments identified in homogeneous groups of loans and other receivables that are not individually analyzed to determine the level of impairment because they are not individually significant;
- Collective adjustments for losses incurred but unidentified, loans and receivables, whether or not individually significant, for which there were no individual adjustments for impairment.

The collective adjustment for homogeneous groups of loans is determined by using statistical methods and estimation of the adjustment is made on the basis of historical data on default behavior of borrowers and history / forecast of losses for impaired positions combined so to reflect the terms of product structure, their economic effects on the reporting date.

The collective adjustment for significant groups of assets, but which have not been individually assessed for impairment refers to the expected loss of the credit portfolio.

In assessing collective impairment adjustment, the Bank takes into account factors such as credit quality, portfolio size, concentration levels and economic factors.

In order to estimate the necessary adjustment, hypotheses are developed to define how expected losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. Accuracy in determining the total adjustments for impairment applies depends, therefore, estimates of future cash flows of counterparties individually assessed and the assumptions and parameters used in determining collective adjustments.

Adjustments for impairment applied for loans and receivables are presented in more detail in Note 18.

Investments in equity instruments of participation and were valued at their book value, since it was not possible to determine an impairment test or assessment to market value / fair value.

Assessment to determine whether an investment in sovereign debt (see Note 5) is impaired can be very complex, but only because the bank holds investments in government securities Romanian, test them for impairment applies is excluded. To evaluate these instruments, please see point b) fair value.

6. USE OF ESTIMATES AND JUDGMENTS (continued)

a) Impairment (continued)

The loan impairment assessment considers the visible effects on current market conditions on the individual/ collective assessment of loans and advances to customers' impairment. The Bank has estimated the impairment loss provision for loans and advances to customers based on the internal methodology

harmonized with Group policies and assessed that no further provision for impairment losses are required except as already provided for in the financial statements. Because of the uncertainties on the local financial markets regarding assets valuation and operating environment of the borrowers, that Bank's estimate could be revised after the date of the approval of the financial statements.

As of 31 December 2014, the Bank's portfolio of insolvent clients (without reorganisations) consisted of a total gross exposure of RON 602,6 millions, for which the Bank recorded impairment adjustments amounting RON 523,1 millions. These exposures are covered with collaterals (market value of collaterals) totalling RON 638,5 thousands.

For most cases in insolvency, the future cash-flows includes mainly the amounts expected to be recovered through foreclosure procedures and selling of real-estate collateral mortgaged in favour of the Bank.

Based on the NBR formal recommendations included in the letter no. VI/2/17655/26.11.2014 and considering the results of the recoverability analysis for insolvent cases, the Bank revised its recoverability assessment for insolvent customers up to 90%.

Taking into consideration the limited historical data available in terms of closed insolvencies and the early stages of insolvency procedure for a significant part of insolvent portfolio, significant uncertainties related to the difficult economic environment of the Bank's borrowers, the low level of actual recoveries up to date, as well as the reduced liquidity of actual transactions with collaterals in the market and prices obtained in recent transactions in the market, the estimated future cash flows on insolvent customers could differ from those considered by the Bank.

Loans in case of non-collection (to estimate recovery 0) and to insolvent debtors, fully provisioned on the recommendation of the National Bank, were recorded off balance.

b) Fair value

Where the fair values of assets and liabilities cannot be measured on active markets, because of their specialisation, low volume of transactions, the fair values are determined using valuation techniques which include financial and mathematical models. The inputs for the models are derived from existing markets when possible and when not, judgement is needed to establish fair values. The judgements refer to liquidity and input values.

Determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in note 3 (j) (vi).

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques which contain variable information obtained from market perceptible. When using valuation techniques (e.g. models) to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are adjusted to ensure that outputs reflect actual data and comparative market prices. To the extent that this is practical, models use only perceptible information, however, areas such as credit risk (both own and counterparty), fluctuations and correlations require management attention to be estimated. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

6. USE OF ESTIMATES AND JUDGMENTS (continued)

b) Fair value (continued)

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The accounting policy of the Bank regarding the measurement through fair value is presented in Note 3 (j)(vi)

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

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

Level 2: Valuation techniques based on observable inputs, either directly - i.e. as prices – or indirectly - i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques used refers to the net present value and discounted cash flows. Assumptions and input parameters used in valuation techniques include risk-free rate and the reference interest and exchange rates.

The Bank uses widely recognized valuation models for determining the fair value of financial instruments simple (interest rate instruments and foreign exchange instruments) that use only observable market data and require a little reasoning to estimate. Observable prices and model input parameters are provided by dedicated structure within the Bank.

For the treasury bills, the Bank uses to official listings nationwide through a single dedicated system, this is also the depository of such securities issued in dematerialized form in the Romanian national market.

All financial instruments recorded at fair value are classified into three categories as follows:

Level 1 - Quoted market prices

Level 2 - Valuation techniques (noticed on the market)

Level 3 - Valuation techniques (market unnoticed)

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6. USE OF ESTIMATES AND JUDGEMENTS (continued)

b) Fair value (continued)

The Bank owned the following financial instruments measured at fair value:

At 31 December 2014:

Assets measured at fair value	Total	Level 1	Level 2	Level 3
Derivatives	1,797,655	-	1,797,655	-
Securities available for sale	499,246,311	-	499,246,311	-
Liabilities measured at fair value	Total	Level 1	Level 2	Level 3
Derivatives	1,652,151	-	1,652,151	-

At 31 December 2013:

Assets measured at fair value	Total	Level 1	Level 2	Level 3
Derivatives	119,221	-	119,221	-
Securities, available for sale	526,621,698	-	526,621,698	-
Liabilities measured at fair value	Total	Level 1	Level 2	Level 3
Derivatives	40,235	-	40,235	-
	40,235	-	40,235	-

In 2013 and 2014 there were no transfers between Level 1 fair value measurements and Level 2.

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6. USE OF ESTIMATES AND JUDGMENTS (continued)

Financial assets and liabilities

Please find below a comparison by class of the carrying amounts and fair values of financial instruments that banks are not recorded at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

The following paragraphs describe the methodologies and assumptions used to determine fair values of those financial instruments that are not already recorded at fair value in the financial statements:

Assets for which fair value approximates accounting value

For financial assets and liabilities that are due in the short term (under one year), it is assumed that the carrying amounts approximate their fair value. This assumption applies to term deposits and savings accounts without a specific maturity.

The fair value of financial assets and liabilities with fixed rate at amortized cost are estimated by comparing market interest rates after they were first recognized with current market rates for similar financial instruments.

The following table summarizes the carrying amounts and fair values of those assets and liabilities that are not listed in the bank's balance sheet at their fair value.

31 December 2014

	Level 1	Level 2	Level 3	Fair Value	Book Value
Financial assets					
Cash, current accounts with the central bank	-	-	602,915,825	602,915,825	602,915,825
Placements with banks	-	-	308,098,462	308,098,462	308,034,381
Loans and advances to customers	-	-	3,100,429,743	3,100,429,743	2,883,488,505
Total	-	-	4,011,444,030	4,011,444,030	3,794,438,711
Financial liabilities					
Deposits from banks	-	-	78,583,584	78,583,584	78,586,091
Deposits to customers	-	-	3,077,298,976	3,077,298,976	3,067,079,410
Borrowings from banks and subordinate debts	-	-	881,786,817	881,786,817	781,660,178
Total	-	-	4,037,669,377	4,037,669,377	3,927,325,679

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6. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

31 December 2013

	Level 1	Level 2	Level 3	Fair Value	Book Value
Financial assets					
Cash, current accounts with the central bank	-	-	812,098,874	812,098,874	812,098,874
Placements with banks	-	-	144,584,564	144,584,564	144,559,284
Loans and advances to customers	-	-	3,643,006,791	3,643,006,791	3,444,819,875
Total	-	-	4,599,690,229	4,599,690,229	4,401,478,033
Financial liabilities					
Deposits from banks	-	-	183,444,117	183,444,117	185,549,400
Deposits to customers	-	-	3,133,936,229	3,133,936,229	3,159,091,716
Borrowings from banks and subordinate debts	-	-	940,444,820	940,444,820	967,489,740
Total	-	-	4,257,825,166	4,257,825,166	4,312,130,856

7. NET INTEREST INCOME

	2014	2013
Interest income:		
Unimpaired loans and advances to customers	191,435,379	230,564,549
Impaired loans and advances to customers	44,768,020	57,558,001
Unwinding interest	-29,803,547	-47,919,577
Current accounts and deposits with banks	4,563,914	5,859,793
Financial investments – available for sale	21,569,194	27,068,372
Total interest income	232,532,960	273,131,138
Interest expense:		
Deposits from customers	-64,320,752	-91,058,875
Deposits from banks	-1,317,587	-5,374,703
Borrowings from banks	-22,589,424	-26,486,006
Subordinated loans	-396,137	-384,635
Repurchase agreements	-103	-895,359
Total interest expense	-88,624,004	-124,199,578
Net interest income	143,908,956	148,931,560

The interest income related to the impaired loans are RON 14,964,473 (31 December 2013: RON 9,638,424).

8. NET FEE AND COMMISSION INCOME

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	<u>2014</u>	<u>2013</u>
Fee and commission income		
Income from transactions fees	29,998,936	25,850,423
Income from commissions on loans	11,139,494	10,694,008
Other commission income	26,787	27,557
Total fee and commission income	<u>41,165,216</u>	<u>36,571,988</u>
Fee and commission expense		
Expeses related to transaction fees	-5,262,694	-5,678,664
Commissions paid to the Loan Guarantee Funds	-4,703,615	-5,202,650
Fees for cash acquisition	-91,153	-136,724
Inter-banking transactions fees	-437,292	-601,422
Total fee and commission expense	<u>-10,494,753</u>	<u>-11,619,460</u>
Net fee and commission income	<u>30,670,463</u>	<u>24,952,528</u>

9. NET TRADING INCOME

	<u>2014</u>	<u>2013</u>
Gain from foreign exchange differences	1,063,538	327,833
Revenue from transactions with foreign exchange derivatives	14,509,065	26,437,387
	<u>15,572,603</u>	<u>26,765,220</u>

10. OTHER REVENUE FROM SALE OF AVAILABLE FOR SALE FINANCIAL INSTRUMENTS

	<u>2014</u>	<u>2013</u>
Gains on sale of available-for-sale securities	370,098	8,649,735
Net loss on sale of available-for-sale securities	-5,008	-437,416
	<u>365,090</u>	<u>8,212,319</u>

11. PERSONNEL EXPENSES

	<u>2014</u>	<u>2013</u>
Wages and salaries	53,395,522	53,520,432
Compulsory social security contributions	14,487,505	15,259,382
Other personnel expenses	1,389,540	1,233,467
	<u>69,272,567</u>	<u>70,013,281</u>

Other personnel expenses represent meal tickets.

11. PERSONNEL EXPENSES (continued)

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Share-based payment

In 2012 the Bank purchased a total of 39,014 shares Intesa Sanpaolo SPA Italia which have to be attributed to managers as remuneration according to the policy and rules approved by the Group. Until the final allocation of shares to managers, the Bank will own the shares.

According to the group policy, the cost of shares was covered by the Bank through a provision booked for staff bonuses. At 31 December 2014, the market value of these shares was RON 423,522 (31 December 2013: 313,888 RON).

12. OTHER OPERATING EXPENSES

	<u>2014</u>	<u>2013</u>
Administrative expenses	34,749,831	39,406,929
Local taxes expenses	2,460,072	3,104,770
Software licensing	3,931,671	3,949,608
Advertising and marketing	723,214	1,470,810
Bank Deposits Guarantee fund expenses	8,236,038	6,649,404
Consultancy and professional services	1,400,268	1,425,904
Others	25,404	104,273
	<u>51,526,498</u>	<u>56,111,699</u>

Administrative expenses are detailed below:

	<u>2014</u>	<u>2013</u>
Rental Expenses	14,887,800	18,345,832
Expenses with maintenance and repairs	3,557,344	2,176,867
Inventories and consumables	132,597	98,943
Heating, electricity and others	2,742,935	3,308,577
IT & C expenses	1,572,670	1,746,700
Postage, telephone and other expenses	1,736,773	2,219,256
Travel expenses	1,100,121	1,822,059
Security services expenses	1,008,304	1,237,535
Expenditure on staff trainings	134,781	170,689
Insurance expenses	449,730	403,157
Cleaning service expenses	1,146,692	1,140,661
Card service expenses	2,235,553	2,041,752
Protocol expenses	557,512	617,442
Legal service expenses	186,126	187,244
Expense with forms, stationery and other printed material	1,118,527	1,688,161
Transportation services	792,076	891,387
Others	1,390,289	1,310,668
	<u>34,749,831</u>	<u>39,406,929</u>

As a result of a detailed analysis of operating results and the achievement of operational performance targets, over the past two years 15 units have been closed (from which 5 units during 2014 and other 10 units during 2013) - which failed to meet performance targets and / or losses obtained after approval from the Board of Directors of the Bank.

The Bank recorded provisions covering the total costs for closure of these units. The costs of closing these branches include penalties paid to owners for unilateral termination of leases, lease improvements of the object written off.

13. INCOME TAX REVENUE

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	<u>2014</u>	<u>2013</u>
Expense / (income) with current tax	-	-
Expense / (income) with deferred tax		
Allowance for impairment on loans to customers	-	66,247,527
Tax credit for losses	-	-67,241,168
Deductible/taxable temporary differences	-	993,641
Venituri cu impozitul pe venit amanat	<u>-</u>	<u>-</u>
Impozit pe profit total (venit)	<u>-</u>	<u>-</u>

Reconcilierea cotei de impozitare efective:

	<u>2014</u>		<u>2013</u>	
Loss before tax		-264,106,881		-165,384,385
Theoretical taxation at statutory rate	16.00%	-42,257,101	16.00%	-26,461,502
Tax exempt income	0.00%	6,036	-34.99%	57,875,350
Fiscal depreciation	-0.04%	103,670	0.04%	-59,298
Non-taxable income	1.45%	-3,816,358	7.73%	-12,779,565
Non-deductible expenses	-2.70%	7,124,339	-8.70%	14,393,440
Temporary differences	-0.01%	33,642	0.10%	158,983
(De)recognition of tax losses	14.69%	38,805,771	-19.84%	-32,809,443
Income tax		<u>-</u>		<u>-</u>

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14. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

RON	Note	Designated at fair value through profit or loss	Loans and receivables	Available for sale	At amortised cost	Total
At 31 December 2014						
ASSETS						
Cash and cash equivalents	15	-	602,915,825	-	-	602,915,825
Derivatives assets held for risk management	17	1,797,655	-	-	-	1,797,655
Loans and advances to banks	16	-	308,034,381	-	-	308,034,381
Loans and advances to customers	18	-	2,883,488,505	-	-	2,883,488,505
Financial instruments available for sale	19	-	-	499,536,470	-	499,536,470
Equity Investments	19	-	-	-	11,269,138	11,269,138
TOTAL ASSETS		1,797,655	3,794,438,711	499,536,470	11,269,138	4,307,041,974
LIABILITIES						
Derivate liabilities held for risk management	17	1,652,151	-	-	-	1,652,151
Deposits from banks	25	-	-	-	78,586,091	78,586,091
Loans from banks	27	-	-	-	750,239,314	750,239,314
Deposits from customers	26	-	-	-	3,067,079,410	3,067,079,410
Subordinated liabilities	28	-	-	-	31,420,864	31,420,864
TOTAL LIABILITIES		1,652,151	-	-	3,927,326,679	3,928,977,830

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14. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

RON	Note	Designated at fair value through profit or loss	Loans and receivables	Available for sale	At amortised cost	Total
31 December 2013						
ASSETS						
Cash and cash equivalents	15	-	812,098,874	-	-	812,098,874
Derivatives assets held for risk management	17	119,217	-	-	-	119,217
Loans and advances to banks	16	-	144,559,284	-	-	144,559,284
Loans and advances to customers	18	-	3,444,819,875	-	-	3,444,819,875
Financial instruments available for sale	19	-	-	526,911,857	-	526,911,857
Equity investments	19	-	-	-	9,059,504	9,059,504
TOTAL ASSETS		119,217	4,401,478,033	526,911,857	9,059,504	4,937,568,611
LIABILITIES						
Derivate liabilities held for risk management	17	40,230	-	-	-	40,230
Deposits from banks	25	-	-	-	185,549,400	185,549,400
Loans from banks	27	-	-	-	936,044,625	936,044,625
Deposits from customers	26	-	-	-	3,159,091,716	3,159,091,716
Subordinated liabilities	28	-	-	-	31,445,115	31,445,115
TOTAL LIABILITIES		40,230	-	-	4,312,130,856	4,312,171,086

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15. CASH AND BALANCES WITH CENTRAL BANK

	<u>31 December 2014</u>	<u>31 December 2013</u>
Cash	82,671,393	81,332,152
Current accounts at National Bank of Romania	380,243,460	730,766,722
Sight deposits with the National Bank of Romania	140,000,972	-
	<u>602,915,825</u>	<u>812,098,874</u>

Current accounts include reserves in the National Bank of Romania. Minimum reserve level set by the National Bank of Romania for renewable attracted with the maturity of less than two years and for attracted sources with residual maturity greater than two years, which provide contractual clauses relating to refunds, withdrawals, transfer of 10% was anticipated sources deposits in lei and 14% of bank currency as well at 31 December 2014 compared with 31 December 2013 where the level of minimum reserve required by the National Bank of Romania was 15% for funds raised in RON and 20% for amounts in foreign currency. The Bank may use the minimum reserve requirement in daily operational activities, subject to specified levels for average monthly balances.

In 2014, interest rates ranged between 0.76% and 0.27% (2013: between 1.30% and 0.59%) for reserves kept in RON and remained between 0.39% and 0.31% (2013: between 0.56% and 0.36%) for reserves kept in EUR. In 2014, interest rates for term deposits in RON at National Bank of Romania were: under 1% (2013: between 1% and 2.25%).

16. PLACEMENTS WITH BANKS

	<u>31 December 2014</u>	<u>31 December 2013</u>
Current accounts	68,223,254	34,497,409
Overnight deposits and term deposits	239,811,127	110,061,875
Total placements with banks	<u>308,034,381</u>	<u>144,559,284</u>

In 2014, the interest on bank deposits ranged between 1.27% and 2.04% for RON and between 0.02% and 0.22% for other currencies (2013: between 1.10% and 6.50%). Placements with banks are not pledged in favor of third parties.

17. DERIVATIVES HELD FOR RISK MANAGEMENT

The fair values of derivatives held are presented below:

	<u>31 December 2014</u>		<u>31 December 2013</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Currency Swaps	1,443,063	820,760	44,003	40,100
Currency Forwards	355,592	831,391	75,214	130
Total	<u>1,797,655</u>	<u>1,652,151</u>	<u>119,217</u>	<u>40,230</u>

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18. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2014		31 December 2013	
	Gross Value	Impairment allowance	Gross Value	Impairment allowance
Retail loans				
Consumer loans collateralized by mortgage	339,585,724	-25,292,616	314,293,108	-20,445,384
Equipments loans	-	-	-	-136,902
Loans for real estate investments	647,620,098	-10,505,960	637,114,138	-6,356,759
Cash loans	14,612,723	-549,930	14,062,793	-704,824
Other loans to customers	11,674	-24	11,650	-27,880
Commissions to recover	1,135,077	-155,402	979,675	-77,515
Corporate loans				
Loans to financial institutions	-	-	-	-906,116
Equipments loans	300,294,458	-58,107,551	242,186,907	-72,707,921
Loans for real estate investments	753,778,016	-228,886,144	524,891,872	-240,447,954
Cash loans	1,118,402,095	-315,170,111	803,231,984	-429,156,852
Loans resulted from novation contracts	21,622,813	-7,307,231	14,315,582	-7,860,779
Other loans to customers	440,521,457	-109,879,590	330,641,866	-116,802,108
Commissions to recover	9,131,855	-7,372,925	1,758,930	-3,538,366
Total	3,646,715,989	-763,227,484	2,883,488,505	-899,169,360
				3,444,819,875

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18. LOANS AND ADVANCES TO CUSTOMERS (continued)

	<u>2014</u>	<u>2013</u>
Individual Provision		
At 1 January	828,964,583	602,945,194
Charge for the year	574,895,953	385,008,714
Recoveries	-237,031,038	-161,031,303
Write-offs – recoveries	-460,116,808	-51,815,303
Adjustments for interest on impaired loans	29,803,547	47,919,577
Effect of exchange rate	-8,619,142	5,937,704
At 31 December	<u>727,897,095</u>	<u>828,964,583</u>
Collective Provision		
At 1 January	70,204,777	66,255,198
Charge for the year	72,419,682	114,358,414
Recoveries	-107,269,100	-110,871,661
Differences from exchange rates	-24,970	462,825
At 31 December	<u>35,330,389</u>	<u>70,204,777</u>

19. SECURITIES AVAILABLE FOR SALE

	<u>31 December 2014</u>	<u>31 December 2013</u>
Debt securities	499,246,311	526,621,698
Equity investments, available for sale	290,159	290,159
Total	<u>499,536,470</u>	<u>526,911,857</u>

(a) Debt securities

Debt securities comprise treasury bills, bonds denominated in RON issued by Ministry of Public Finance of Romania. All securities were free of charge at 31 December 2014.

Investments in shares available for sale, owned by the Bank, are detailed below:

Investment	Country of incorporation	Nature of business	Shareholding	
			<u>31 December 2014</u>	<u>31 December 2013</u>
Sibex Sibiu Stock Exchange	Romania	Exchange of products	26,880	26,880
Romanian Clearing House	Romania	Compensation house BMFMS	40,500	40,500
TransFonD	Romania	Compensation and settlement interbankar transfer	193,803	193,803
Credit bureau	Romania		28,976	28,976
Total			<u>290,159</u>	<u>290,159</u>

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19. SECURITIES AVAILABLE FOR SALE (continued)

(b) Equity investments

	31 December 2014	31 December 2013
Intesa Sanpaolo Leasing IFN S.A. (i)	10,845,616	8,745,616
Intesa Sanpaolo SPA (ii)	423,522	313,888
Total	11,269,138	9,059,504

(i) The shares held by the Bank in the share capital of Intesa Sanpaolo Leasing Romania IFN SA (registered at the Romanian Trade Register under number J40/14030/2005 fiscal code RO 17863812) increased during 2014 with an amount worth RON 11,000,000, by releasing 400 new shares at the market value of RON 27,500 per share, exclusively by the main shareholder's contribution BC Intesa Sanpaolo SA.

The increase was made as below:

- Share capital in the of amount 720,000 RON, increased from 1,080,000 RON to 1,800,000 RON as a result of the contribution of the main shareholder SC Intesa Sanpaolo Romania SA;
- Share premium with 10,280,000 RON representing the difference between the market value/issuance of a share (27,500 RON) and the nominal value of the share (1,800 RON).

Amount in total worth of 11,000,000 RON was returned as follows by BC Intesa Sanpaolo Romania SA:

- 4,400,000 RON from the subordinated loan conversion granted by the bank to the subsidiary ISP Leasing under contract no. 12 dated 30.06.2009, resulting in a total of 400 newly issued shares, 160 shares that can be released (in compliance with Art 210, paragraph 2 from Law no. 31/1990) by offsetting the liquid debt the Bank had over the Subsidiary (and subordinated loan) with shares of the Subsidiary.
- 6,600,000 RON cash contribution, equivalent to 240 shares of the total of 400 newly issued shares.

Due to the increase, the shareholders structure of the leasing company is the following:

- Intesa Sanpaolo Romania S.A. owns a number of 997 shares of RON 1,800 per share, representing 99.7% of share capital;
- CIB Lizing Zrt. owns a number of 3 shares of 1,800 RON per share, representing 0.3% of share capital.

The Bank stake in the leasing society, increased with 11,000 thousand RON, but there has been an adjustment for depreciation amounting to 8,900 thousands RON in order to mitigate the impact in 2015, when an integration of the leasing activity in the banking activity is intended.

During 2015, the Bank plans to incorporate leasing activity in the banking activity, in order to increase the leasing activity and a better monitoring.

(ii) During 2012 Banca CR Firenze Romania SA acquired from Intesa Sanpaolo SPA. a total of 39,014 shares in the amount of RON 169,570. At the end of 2014 the shares were revalued based on stock market quotations them being on 31 December 2014 amounting to RON 423,522 (2013: RON 313,888).

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20. PROPERTY AND EQUIPMENT

	<u>Land and Buildings</u>	<u>Computer Hardware</u>	<u>Other assets</u>	<u>Total</u>
Costs:				
At 1 January 2013	106,882,445	11,856,144	29,315,666	148,054,255
Additions	121,974	1,783,148	95,446	2,000,568
Disposals	-3,319,115	-320,912	-3,445,790	-7,085,817
At 31 December 2013	103,685,304	13,318,380	25,965,322	142,969,006
At 1 January 2014	103,685,304	13,318,380	25,965,322	142,969,006
Additions	1,984,134	242,343	864,512	3,090,988
Disposals	-1,380,161	-125,685	-1,627,139	-3,132,984
At 31 December 2014	104,289,276	13,435,038	25,202,696	142,927,010
Depreciation:				
At 1 January 2013	30,822,546	9,806,892	18,414,660	59,044,098
Disposals	-2,379,706	-319,218	-3,058,974	-5,757,898
Depreciation charge for the year	3,587,674	1,756,000	2,544,301	7,887,975
Impairment losses	-	-	-	-
At 31 December 2013	32,030,514	11,243,674	17,899,987	61,174,175
At 1 January 2014	32,030,514	11,243,674	17,899,987	61,174,175
Disposals	-875,262	-123,935	-1,289,747	-2,288,945
Depreciation charge for the year	3,489,136	1,256,776	2,226,324	6,972,236
Impairment losses	-	-	-	-
At 31 December 2014	34,644,388	12,376,514	18,836,564	65,857,466
Net book value:				
At 31 December 2013	71,654,790	2,074,706	8,065,335	81,794,831
At 31 December 2014	69,644,888	1,058,524	6,366,132	77,069,544

Other assets include motor vehicles, furniture and fittings, household equipment, air conditioning equipment.

All tangible assets are unencumbered and are secured to the net carrying amount at the concluding date of the insurance.

Gross value of property and equipment fully depreciated and still in use is RON 31,709,934 (31 December 2013: RON 18,421,482).

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21. INTANGIBLE ASSETS

	Computer software	Other intangible assets	TOTAL
Costs:			
At 1 January 2013	38,766,982	11,770	38,778,752
Additions	15,328,553	-	15,328,553
Disposals	-260,317	-1,014	-261,331
At 31 December 2013	53,835,218	10,756	53,845,974
At 1 January 2014	53,835,218	10,756	53,845,974
Additions	11,081,856	-	11,081,856
Disposals	-99,500	-1,049	-100,549
At 31 December 2014	64,817,574	9,706	64,827,280
Depreciation:			
At 1 January 2013	25,661,471	11,770	25,673,241
Disposals	-248,339	-1,014	-249,353
Amortization charge for the year	5,257,372	-	5,257,372
At 31 December 2013	30,670,505	10,756	30,681,260
At 1 January 2014	30,670,505	10,756	30,681,260
Disposals	-70,268	-1,049	-71,317
Amortization charge for the year	6,568,092	-	6,568,092
At 31 December 2014	37,168,328	9,706	37,178,035
Net book value:			
At 31 December 2013	23,164,714	-	23,164,714
At 31 December 2014	27,649,245	-	27,649,245

Intangible assets include licenses for software used by the Bank. Increase in intangible assets during 2014 is mostly due to purchase new software.

The remaining average amortization period is 2.5 years.

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22. INVESTMENT PROPERTY

	Amount
Cost	
At 1 January 2013	34,589,721
Additions	15,474
Disposals	-
At 31 December 2013	<u>34,605,195</u>
At 1 January 2014	34,605,195
Additions	-
Disposals	-2,865,708
At 31 December 2014	<u>31,739,487</u>
Amortization si depreciari:	
At 1 January 2013	12,121,240
Depreciation	-
Depreciation charge for the year	655,912
At 31 December 2013	<u>12,777,153</u>
At 1 January 2014	12,777,153
Disposals	-276,033
Impairment	11,497,626
Depreciation charge for the year	557,364
At 31 December 2014	<u>24,556,110</u>
Net book value:	
At 31 December 2013	<u>21,828,043</u>
At 31 December 2014	<u>7,183,377</u>

Investment property is held by the Bank following the takeover of assets held as collaterals for non performing loans. Their fair value is based on a valuation performed by ANEVAR experts.

During this year were recorded allowances for impairment amounting 12,815 thousands RON. From the real estate portfolio, was sold the Gruiu property, from the transaction yielding a profit of 111 thousands RON.

23. DEFERRED TAX

Current tax is calculated by applying the rate of 16% (2013: 16%). Deferred income taxes are calculated based on all temporary differences under the liability method using a tax rate of 16%.

Assets and liabilities related to deferred tax are attributable to the following items:

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23. DEFFERED TAX (continued)

2014	Balance at 1 January	Recognized in the income statement	Recognized in the comprehensive income statement	31 December		
				Net	Asset	Liability
Allowance for impairment on loans and advances to customers	-	-	-	-	-	-
Fair value of securities available for sale	-730,057	-	-1,231,843	-1,961,900	-	-1,961,900
Fiscal credit for losses	9,273,757	-	-	9,273,757	9,273,757	-
Deductible temporary differences	6,637,818	-	-	6,637,818	6,637,818	-
Assets related to deferred tax	15,911,575	-	-	15,911,575	15,911,575	-
Liabilities related to deferred tax	-730,057	-	-1,231,843	-1,961,900	-	-1,961,900
<hr/>						
2013	Balance at 1 January	Recognized in the income statement	Recognized in the comprehensive income statement	31 December		
				Net	Asset	Liability
Allowance for impairment on loans and advances to customers	-66,247,527	66,247,527	-	-	-	-
Fair value of securities available for sale	-151,984	-	-578,073	-730,057	-	-730,057
Fiscal credit for losses	76,514,925	-67,241,168	-	9,273,757	9,273,757	-
Deductible temporary differences	5,644,176	993,642	-	6,637,818	6,637,818	-
Assets related to deferred tax	15,911,575	-	-	15,911,575	15,911,575	-
Liabilities related to deferred tax	-151,984	-	-578,073	-730,057	-	-730,057

The decrease of fiscal credit of RON 67,241,168 is due to the following:

- Distribution of the net gain resulted from the difference between the IFRS specific impairment allowance on loans and advances to customers and the prudential provision for loans and advances to customers as at 31 December 2011 and
- The possibility of recovery of assets representing deffered tax was evaluated by the Bank in accordance with the budget for 2015 – 2017 in which the tax loss recovery it is estimated of only RON 56,646,825 from the amount of RON 680,548,354, the total tax loss registered by the Bank at 31 December 2014.

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23. DEFERRED TAX (continued)

Also, following the clarifications introduced in the tax legislation, the deferred tax recorded on 1 January 2012 related to the difference between the carrying amount and the tax base of the Bank's loan and advances to customers portfolio, was cancelled as it is considered to be of a permanent nature and therefore, not tax deductible in the future. Reversal of deferred tax generated non-taxable income of 66,247,527 RON.

It is worth mentioning that the Bank has a claim to recover from the state budget an amount of 2,253,376 RON.

According to the Fiscal Code, starting with 2009, the annual tax loss can be reported and recovered from income tax derived in the next seven consecutive years. Detail of the limitation period tax loss for the bank which recognize deferred tax is presented below:

<u>Fiscal loss</u>	<u>Expiry year</u>
RON	
66,325,152	2016
18,369,538	2017
237,342,158	2018
115,765,171	2019
242,746,335	2020

24. OTHER ASSETS

	<u>31 December</u> <u>2014</u>	<u>31 December</u> <u>2013</u>
Deposits paid for rent, electricity	776,102	1,805,717
Expenses paid in advance	2,770,089	2,409,428
Sundry debtors	7,367,667	6,210,211
Advances paid to suppliers	30,344	101,420
Inventory	744,037	672,752
Foreign currency spots	1,016,038	1,159,577
Total	<u>12,704,277</u>	<u>12,359,105</u>

25. DEPOSITS FROM BANKS

	<u>31 December 2014</u>	<u>31 December 2013</u>
Sight deposits	67,318,600	11,794,094
Term deposits	-	164,442,541
Amounts in transit	11,267,491	9,312,765
Total	<u>78,586,091</u>	<u>185,549,400</u>

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25. DEPOSITS FROM BANKS (continued)

The main part of term deposits from customers were in RON and EURO. Interest rate during the year 2014 for term deposits ranged between 2.75 % and 1.94% for RON (2013: between 2.75% and 4.97%) for deposits in EUR ranged between 2.24% and 1.62% (2013: between 0.35% and 3.10%).

26. DEPOSITS FROM CUSTOMERS

	<u>31 December 2014</u>	<u>31 December 2013</u>
Current accounts	495,987,458	443,367,836
Sight deposits	406,252,507	340,090,657
Term deposits	2,098,714,229	2,298,920,400
Collateral deposits	66,125,215	76,712,823
Total	<u>3,067,079,410</u>	<u>3,159,091,716</u>

27. BORROWINGS FROM BANKS

	<u>31 December 2014</u>	<u>31 December 2013</u>
Loans from Intesa Sanpaolo Group	688,533,665	868,738,743
Loans from European Investment Bank	61,705,649	67,305,882
Total	<u>750,239,314</u>	<u>936,044,625</u>

The amount from Intesa Sanpaolo Group at 31 December 2014 comprises borrowings received from Societe Europeene de Banque SA Luxemburg and Cassa di Risparmio di Firenze. Total amount granted is EUR 153,000,000 (2013: EUR 193,000,000). In 2013, additional to the borrowings received from the Group, the Bank also received a borrowing from the European Investment Bank in amount of EUR 13,750,000.

There are no restrictions to demand early reimbursement.

The first loan was received on 29 June 2007 in the amount of EUR 20,000,000 is repayable in one installment on 29 June 2015.

The second loan was received on 23 October 2008, in the amount of EUR 20,000,000 and will be repaid in one installment on October 19, 2018.

The third loan was received on 27 October 2008, in amount of EUR 20,000,000 and is repayable in one installment on 19 October 2018.

The fourth loan was received on 17 October 2011, in amount of EUR 30,000,000 and is repayable in one installment on 17 December 2023.

The fifth loan was received on 31 January 2011, in amount of EUR 50,000,000 EUR and is repayable in one installment on 28 February 2019.

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27. BORROWINGS FROM BANKS (continued)

The sixth loan was received on 17 December 2013, in amount of EUR 10,000,000 and is repayable in one installment on 17 December 2018.

The seventh loan was received on 30 December 2007, by CR Firenze Bank in amount of EUR 3,000,000 and is repayable in one installment on 24 November 2016

Weighted average interest rate for these loans is 2,56% p.a. (2013: 2,54 % p.a.)

28. SUBORDONATED LOANS

	<u>31 December 2014</u>	<u>31 December 2013</u>
Subscribed loan from Cassa di risparmio di Firenze	31,420,864	31,445,115
Total	<u><u>31,420,864</u></u>	<u><u>31,445,115</u></u>

The subscribed loan from Cassa di Risparmio di Firenze was received on 7 May 2007 in the amount of EUR 7,000,000 and has the maturity on 27 April 2017.

In case of insolvency of the debtor, creditor claims arising from subordinated loan agreement will take precedence over any other creditor of the debtor and will have priority only to the shareholders of the debtor.

29. PROVISIONS

	<u>31 December 2014</u>	<u>31 December 2013</u>
Provision for risk and charges	3.539.643	2.226.023
Provision for litigation	3.561.146	3.513.785
Provision for letters of guarantee off balance sheet exposure	4.600.458	11.414.135
Provisions for personnel expenses	11.333.235	8.650.903
Total	<u><u>23.034.482</u></u>	<u><u>25.804.845</u></u>

Provision for risk and charges includes the provision made for audit services (507,928 RON) the provision made for additional building taxes and related penalties possibly owed to local tax authorities budgets, starting with the year 2009 and until 2015, the prescription date (RON 1,200,000) and provision for other expenses (RON 1,831,715). In order to optimize local network during 2014 were supplemented by the amount of the provision for restructuring RON 4,286,827.

The movement in provisions during 2014 is as follows:

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29. PROVISIONS (CONTINUED)

	<u>Letters of guarantees</u>	<u>Litigation</u>	<u>Personnel</u>	<u>Others</u>	<u>Total</u>
At 1 January	11,414,134	3,513,785	8,650,903	2,226,023	25,804,845
Arising during the year	9,792,499	250,000	7,187,125	2,511,929	19,741,553
Utilized	-16,621,521	-201,716	-4,504,793	-1,198,309	-22,526,339
Unused amounts reversed		-	-	-	-
Exchange rate differences	15,346	-923	-	-	14,423
At 31 December	<u>4,600,458</u>	<u>3,561,146</u>	<u>11,333,235</u>	<u>3,539,643</u>	<u>23,034,482</u>

30. OTHER LIABILITIES

	<u>31 December 2014</u>	<u>31 December 2013</u>
Taxes due to the State Budget	1,981,656	2,201,742
Salary to be paid	5,717,112	5,821,785
Expense accruals	341,009	454,657
Commission for LG's	4,621,827	5,120,547
Open spot foreign currency position	1,878,607	2,474,313
MoneyGram creditors	3,566,041	2,841,942
Other liabilities	6,423,253	8,309,928
Total	<u>24,529,505</u>	<u>27,224,914</u>

31. SHARE CAPITAL AND RESERVES

Social Capital

	<u>31 December 2014</u>	<u>31 December 2013</u>
Registered share capital	886,639,410	886,639,410
Share capital premiums	251,628,890	251,628,890
Restatement in accordance with IAS 29	40,174,800	40,174,800
Total share capital and share premium	<u>1,178,443,100</u>	<u>1,178,443,100</u>

Movement in the number of shares is shown in the table below:

	2014	2013
	(RON)	(RON)
Number of shares owned by Intesa Sanpaolo group		
At the beginning of the period	88,663,941	88,663,941
Issue of new shares	-	-
Shares issued at the merger	-	-
At the end of the period	<u>88,663,941</u>	<u>88,663,941</u>

At 31 December 2014 the share capital of the Banks is represented by 88,663.941 shares with a nominal value of 10/share. During 2014 the social capital of the Bank did not change.

All issued shares are fully paid and confer the right to one vote each.

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31. SHARE CAPITAL AND RESERVES (continued)

Shareholding structure as of 31 December 2014 is shown in the table below:

Shareholder	31 December 2014	
	Number of shares	%
Intesa Sanpaolo S.p.A Italia	81,096,905	91.47
Intesa Sanpaolo Holding	314,211	0.35
Cassa di Risparmio di Firenze	7,252,825	8.18
Total	88,663,941	100.00

RESERVES

	Available-for-sale reserve	Statutory reserve	Other capital reserve	Total
At 1 January 2013	797,915	15,723,724	11,627,247	28,148,886
Increase	-	-	-	-
Net gains (losses) on available-for-sale financial assets	3,034,881	-	-	3,034,881
At 31 December 2013	3,832,796	15,723,724	11,627,247	31,183,767
At 1 January 2014	3,832,796	15,723,724	11,627,247	31,183,767
Increase	-	-	-	-
Net gains (losses) on available-for-sale financial assets	6,467,179	-	-	6,467,179
At 31 December 2014	10,299,975	15,723,724	11,627,247	37,650,946

The other capital reserve at 31 December 2014 include: general reserve for credit risk (829,845 RON), and funds for general banking risks (10,162,589 RON) and other reserves (634,813 RON) General reserve for general banking risks was set beginning with financial year of 2004 until the end of financial year 2007, the accounting profit determined before the deduction of income tax - gross profit in shares and limits provided by law. General credit risk reserve was established up to 2% of the outstanding loans by the end of fiscal year 2003.

32. CASH AND CASH EQUIVALENTS

	31 December 2014	31 December 2013
Cash	82,671,393	81,332,153
Current Account to National Bank of Romania	380,243,460	730,766,722
Sight deposits with the National Bank of Romania	140,000,972	-
Current accounts	68,223,254	34,497,409
Overnight deposits	239,811,127	110,061,875
Total	910,950,206	956,658,158

Current accounts with central banks include mandatory reserve deposits. These are available to the Bank for daily operations, with the condition that the Bank to maintain minimum required by law for monthly average.

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32. COMMITMENTS AND CONTINGENCIES

The Bank issues guarantees and letters of credit on behalf of its customers. The market and credit risk on these financial instruments, as well as the operating risk is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank.

The aggregate amount of outstanding gross commitments and contingencies as at period end was:

	<u>31 December 2014</u>	<u>31 December 2013</u>
Letters of guarantee issued for non-banking clients	492,919,854	477,276,897
Unused loan facilities and letters of credit	326,914,982	394,998,176
Letters of guarantee issued for other banks	238,853,329	207,981,102
Total	<u>1,058,688,165</u>	<u>1,080,256,175</u>

Letters of guarantee include letters of guarantee in amount of RON 100,901,569 (31 december 2013: 51,342,701 RON) issued for the credit risk regarding the loans granted by Intesa Sanpaolo Ireland, Banka Koper, Intesa Mediocredito SPA Milano and Intesa Sanpaolo Spa to Romanian customers.

The future operating lease payments committed are disclosed below:

	<u>31 December 2014</u>	<u>31 December 2013</u>
No later than 1 year	11,887,845	14,986,243
Later than 1 year and no later than 5 years	27,828,318	39,764,261
Later than 5 years	9,877,555	13,900,127

The rentals which the Bank has to pay in the next years are according to the contracts for the rented spaces where some units of the Bank develop their activity (branches and agencies).

Future minimum rental under non-cancellable operating leases as at 31 December are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
No later than 1 year	622,556	350,577
Later than 1 year and no later than 5 years	1,543,695	473,988
Later than 5 years	867,083	161,449

34. RELATED PARTY TRANSACTIONS

The Bank is a member of the Intesa Sanpaolo Group. The Bank's immediate parent is Intesa Sanpaolo SpA, a bank incorporated in Italy, which directly owns 91.47 % of the ordinary shares.

Pa The related parties considered for reporting purposes include: Intesa Sanpaolo S.p.A., Societe Europeenne de Banque S.A., Intesa Sanpaolo Bank Ireland, Central-European International Bank, Intesa Sanpaolo Banka DD Sarajevo, Intesa Sanpaolo Branch Tokyo, Banka Koper, Intesa Sanpaolo Card,

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34. RELATED PARTY TRANSACTIONS

Banca, VUB Banka Bratislava, Vseobecna Uverova Banka AS Branch Praga, Intesa Mediocredito SpA Milano, Bank of Alexandria, Cassa Di Risparmio Di Firenze, Intesa Sanpaolo Holding International S.A. Luxembourg, Intesa Sanpaolo Leasing Romania, which are all entities controlled by the Intesa Sanpaolo Group.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Through the business activities are conducted certain banking transactions with related parties.

These include loans, deposits and foreign currency transactions, acquisition of other services.

The volumes of related party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

Transactions with key personnel of the Bank

	Balance as at 31 December 2014	Income 2014	Balance as at 31 December 2013	Income 2013
<u>Key management personnel of the Bank:</u>				
Current account	69,181	391	124,375	4,312
Deposits	1,212,594	8,495	1,553,423	63,934

The transactions with “key management personnel” represent only transactions related to current accounts and deposits, excluding any other benefits. The remuneration of key management personnel for the year ended 31 December 2014 1,906,599 RON (2013: 1,654,316 RON).

Transactions with other related parties

Besides transactions regarding “key management personnel”, the Bank performs transactions with entities which significantly influence the Bank.

In the table below, there are presented the balances and the related interests during the year:

Entities with significant influence on the Bank			Amounts due from related parties	Amounts due to related parties
	Interest from related parties	Interest to related parties	Balance at 31 December	Balance at 31 December
2014	121,207	22,709,972	20,676,940	787,273,129
2013	6,644	28,986,728	20,470,057	1,006,408,494

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34. RELATED PARTY TRANSACTIONS (continued)

		Interest from related parties	Interest due to related parties	Amounts due from related parties Balance at 31 December	Amounts due to related parties Balance at 31 December
Intesa Sanpaolo Leasing Romania IFN SA:					
	2014	168,453	385,904	-	29,909,060
	2013	2,396,005	143,347	4,465,510	25,233,688

Terms and conditions of transactions with related parties

The above mentioned balances arose from the ordinary course of business. The interest charged to and by related parties is at normal commercial rates. All amounts are expected to be settled in cash. There have not been offered or received any guarantees of related party receivables or payables. For the year ended 31 December 2014, the Bank did not record any impairment losses for doubtful debts relating to amounts owed by related parties (31 December 2013: nil).

35. SUBSEQUENT EVENTS

There are no events subsequent to the the balance sheet date 31 December 2014.