



**INTESA SANPAOLO BANK**

Romania



**ANNUAL REPORT  
2008**

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# 1. Introduction & Business Description

The Management Board of Intesa Sanpaolo Bank has the pleasure of presenting its Annual report to the shareholders of the Bank. This comprises summary management reviews, the audited financial statements and accompanying audit report for the year ended 31 december 2008.

The Annual Report includes the annual financial statements prepared in accordance with International Financial Reporting Standards and audited in accordance with International Standards on Auditing.

Intesa Sanpaolo Bank is member of Intesa Sanpaolo, one of the top banking groups in the Europe and leader in Italy in all business areas.

Intesa Sanpaolo Bank is an universal bank with ambitious objectives in delivering high quality products and services to individuals, small and mid sized enterprises, as well as large corporations.

The objective of the Bank is to become a quality leader, offering its customers innovative products and services that will make a difference on the Romanian banking market.

By the end of 2011 Intesa Sanpaolo Bank intends to increase it's market share in order to become a challenger to the top ten banks.

## Exchange rate

The following mid exchange rate set by the NBR, rulling on December 31, 2008, has been used to translate balances in foreign currency on that date:

1 EUR=3,9852 RON

## Intesa Sanpaolo Bank at a Glance (as of December 2008)

Employees:  
**aprox. 840**

Customers:  
**> 60,000**

Network:  
**92 branches**

Total assets  
**RON 2.794 mln**  
(+56% compared to  
December 2007)

Credits portfolio  
**RON 1.832 mln**  
(+63% compared to  
December 2007)

Clients deposits  
**RON 631 mln**  
(-2% compared to  
December 2007)

Net profit  
**RON 15.5 mln**  
(-6% compared to  
December 2007)

Net operating profit  
**RON 35 mln**  
(+34% compared to  
December 2007)

## Business Description of the Bank

Intesa Sanpaolo Bank is active on the Romanian market since 1996 when started as West Bank and was mainly focused on SMEs segment and on Italian investors. Starting with 2008 the bank was rebranded, following the Group international process of rebranding, and targeting now individuals, SMEs and large companies.

## Network

At the end of december 2008 the bank had 92 branches. The branch network is split into two areas – WEST and EAST area, for each of it being a dedicated office compund of an Area Network Manager assisted by a Corporate & Retail Coordinator. Through this organization model, the branches receive an effective support on the business side, support that is reflected in the quality of service provided to the customer.

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## Corporate Banking

Corporate definition in Intesa Sanpaolo Bank Romania is represented by all the legal entities resident or nonresident in the country.

The bank has a small but efficient structure in the Head Office while is leveraging on a very good and professional branch network.

Supported by powerful electronic distribution channels, our network of well organized branches is the key driving force in serving our clients efficiently.

Due to its wide network of correspondent banks, Intesa Sanpaolo Romania offers its clients fast and affordable services in the area of international payments.

Also, Intesa Sanpaolo Bank Romania has a very quick process of handling domestic payments. The Bank directly participates in the national clearing system and thus has the ability to process any payment through the most appropriate channel. Improved with the new functionality, Internet banking for corporate clients is available for both domestic and international payments.

In terms of finance banking, Intesa Sanpaolo Bank Romania is a challenging participant on the Romanian market. Intesa Sanpaolo, despite having a smaller number of branches compared with the top 10 banks, has developed many contemporary products and has largely initiated the development of the financial market in the country. Consequently, Intesa Sanpaolo Bank Romania, has an active role in the foreign exchange market, money market and primary and secondary capital market.

In order to keep up this level of services, the bank has a dedicated department of Cash Management that is focused on offering innovative products on the market.

All banking and advisory services for the foreign customers are provided by the International Desk of Intesa Sanpaolo. Apart from conducting business relations, this unit also assists foreign investors in the process of setting up a new company.

The International Desk department is responsible for establishing and developing co-operation with foreign entities (foreign companies and private individuals engaged in business activities).

## Retail Banking

The competition on the CE retail banking market is harsh, the first entrant to a market usually takes the most. Such an approach is evident in the initiatives banks take in order to get a presence on the market and create a customer base for further development. Banks also need to start to look at efficiency improvements such as cost optimization or reorganization of back office functions; for example: running a comprehensive cost optimization program touching upon administration costs generated within the Bank.

Increased competition is forcing banks to develop new product and services.

Retail Banking 2009 focuses on key technology solutions and innovations that will enable retail banks to reinvent their products, marketing, and pricing strategies to compete more effectively.

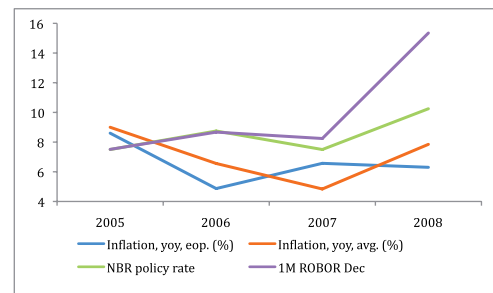
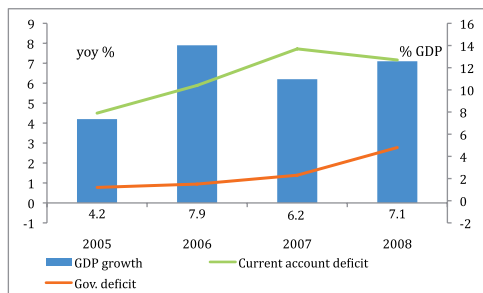
The mission is:

- to meet financial service needs of customers at maximum quality and to make it the leader in terms of customer satisfaction and service quality
- the key issues such as: profitable growth; convergence of payments and banking; changing customer demographics and expectations; delivery channel strategy; optimized relationship between small business entrepreneurs and the retail bank; and the need to secure both customer and institutional information.
- real-time analytics in sales and service processes
- to establish a model of service for private customers in terms of products / services, a model of relationship with the manager, branch layout, support tools
- to define and treat the development of new products and services, monitor its amendamento, upgrade the product catalogue

## 2. Macroeconomic environment

### 2008 Macroeconomic Performance

The Romanian economy experienced another eventful and exciting year in 2008, continuing the good performance of the last years, even if in the last quarter it was experienced the lowest growth rate of the last three years, due to the country's vulnerability and the exposure to the global financial crisis. Buoyant consumption, investment and exports determined the real GDP growth to reach an impressive 7.1% in 2008, as compared with the strong growth of 5.8% in 2007. The inflation rate recorded a peak in July 2008 at around 9%, followed by a gradual reduction in the second half of 2008.



The Romanian current account deficit showed the first signs of improvement in the last quarter of 2008 driven strongly by contracting imports. This helped the current account deficit to increase by only 5% compared with 2007, reaching EUR 17.4 bln (12.7% of GDP), slightly decreasing from 13.7% in 2007. Also the RON depreciation helped to this lower increase of the deficit through rising import prices which generated a lower import-oriented consumption.

The foreign direct investments reached a record high in 2008 of around EUR 9.6 bln (7% of the GDP) helped also by the privatization of some state-owned enterprises in the first half of the year. However, the external financing gap will remain one of the major sources of concern given the tight global capital flow backdrop.

### 2009 Macroeconomic Outlook

The real GDP growth is expected to significantly slowdown in 2009, under the impact of the global economic crisis, as well as recession in the Euro zone and the US. Adequate policy measures in order to guarantee the funding necessary for the real economy would help to soften the contraction.

Consumer price index, after a dramatic increase of 3 pp to 7.9% in 2008, fuelled by the rise in food prices, the depreciation of the RON, and the rapid wage growth, is expected to slow down in 2009 with an average inflation expected at 5%. The RON depreciated by 22% against the Euro between the end of July 2008 and the middle of January 2009, especially as a result of global financial market turmoil, and partly because of growing worries about Romania's macroeconomic fundamentals. The exchange rate is expected to fluctuate around the current level (4.30 RON for 1 Euro) for most of this year, before appreciating slightly in the next period, still far from pre-2008 levels.

In 2009 it is expected that the current account deficit will narrow to around 10% helped by the weaker domestic demand which will lower the imports and the lower energy prices.

The growth profile of banking intermediation (loans and deposits) is generally expected to decelerate significantly in 2009. In the last years the strong annual increase in bank loans and deposits has been driven by two main factors: cyclical factors (strong GDP growth rates) and structural factors (the financial deepening process i.e. the progressive increase of Private Credit/GDP and Deposit/GDP ratios in parallel of the real economic convergence towards Euro Area countries). It is expected that in 2009 a temporary slowdown of the financial deepening process will occur while cyclical factors are expected to be weak. As a result of this loan and deposit growth rates are expected to increase at low nominal rates in 2009.

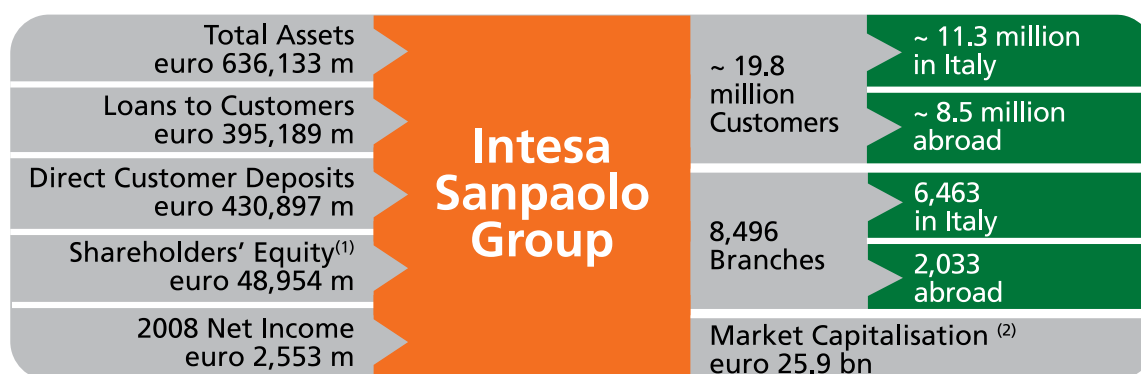
Lending and deposit interest rates rose sharply from 2007 to 2008, with spreads narrowing, indicating tougher need and competition for customer deposits. Both rates are expected to keep rising in 2009 and later to reverse starting from 2010. Spreads should slightly widen towards the end of the forecasted period.

### 3. Intesa Sanpaolo Group

Intesa Sanpaolo Group was born in January 2007 due to the merger between Banca Intesa, the leader of the Italian market and another important financial institution: Sanpaolo IMI.

Intesa Sanpaolo is one of the first 3 European financial groups and the 8th in the world, with a market capitalization of 24 billion Euros (as of February 27th, 2009). Currently the Group is present in more than 40 countries with the main focus in Eastern and Central Europe and in the Mediterranean basin.

#### The Group at a Glance. Financial Highlights



Figures at 31 December 2008, <sup>(1)</sup> Including Net Income; <sup>(2)</sup> As at March 2009

The Group offers financial services and products for different segments of clients from retail to large companies. Intesa Sanpaolo sustain also the economical growth of the countries where is present.

Besides the outstanding financial figures and its global vision, Intesa Sanpaolo Group is also an active social player sustaining and investing in different social responsible projects from ecology to art, sport and music.

## 4. Three Year Summary and Financial Highlights of Intesa Sanpaolo Bank Romania

(in RON million)

	2008	2007	2006	CAGR 2006- 2008
<b>Income statement and balance sheet</b>				
Net operating income	149	85	61	56%
Net operating profit	35	26	23	25%
Net profit for the year	15	17	22	-16%
Total Assets	2,794	1,795	1,097	60%
Loans and advances to customers	1,832	1,124	563	80%
Due to customers	631	644	511	11%
Shareholders' equity	543	166	149	91%
<b>Other data (management accounts)</b>				
Return on average equity	4.0%	11.0%	18.2%	
Return on average assets	0.7%	1.2%	2.4%	
Assets per employee (RON ths)	3,326	2,971	2,203	23%
Cost/Income Ratio	76.3%	69.1%	63.0%	
No. of employees	840	604	498	30%
No. of branches	92	50	38	56%
No. of customers (ths)	62	47	39	26%



## 5. Report from the CEO

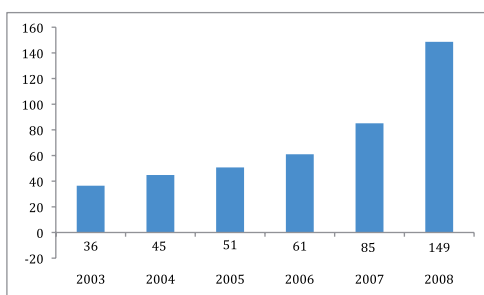
It is my honor to present the business results of the Bank for 2008. 2008 continued the good results of the last years for Intesa Sanpaolo Bank in terms of profitability, product development and branch expansion. This strategy has been a consequence of the Group strategy to further develop on this region. As a general policy, Intesa Sanpaolo is a market leader almost in every country where it owns banks, as the domestic markets are priority for the Group. The strategy for Romania is of organically growth and we are doing our best to deliver this objective. We intend to become in 2011 a challenger for Top 10.

We have to succeed in a very competitive environment but we are confident that we will manage with the support of the Group. I would like to thank to our shareholders for their commitment, trust and outstanding performance, and also to express my appreciation for the bank's employees for their involvement and dedication.

The bank succeeded to improve its net operating income by 75 percent compared with last year to RON 149 million in December 2008 with positive impacts mainly from net

interest income. The major driver of income was the increase of the loan portfolio which grew by 63% in the last 12 months.

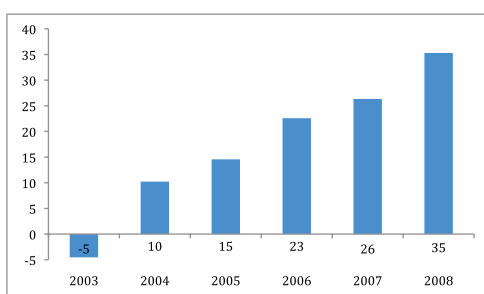
**Net operating income – 2003-2007**  
In RON million



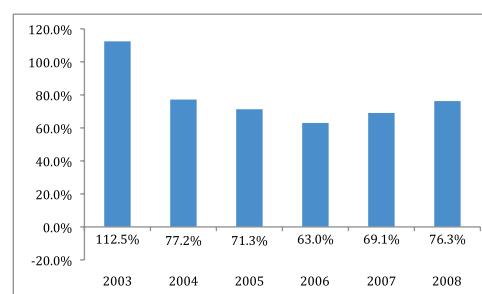
Mostly due to the increase of the number of headcounts from 604 in December 2007 to 840 in December 2008, the costs with personnel increased by 59 percent. Increased network expansion and increased level of activity in the existing branches resulted in a 168 percent increase in operating expenses. The bank added 42 new branches in the last 12 months especially in new cities in order to have a better coverage of the country and performed some renovations to a number of others. Due to these developments, total operating expenses increased by 93 percent, while the cost to income ratio increased to 76 percent from 69 percent in December 2007.

Both profit before taxes and net profit are slightly below last year by 6 percent, taking into account both the development of the bank and the increased cost of risk. Net profit reached RON 15.5 million.

**Net operating profit – 2003-2008**  
In RON million



**Cost/Income ratio – 2003-2008**  
In %

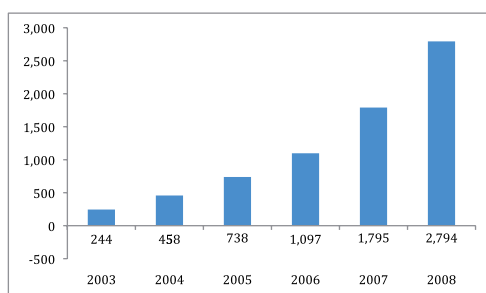


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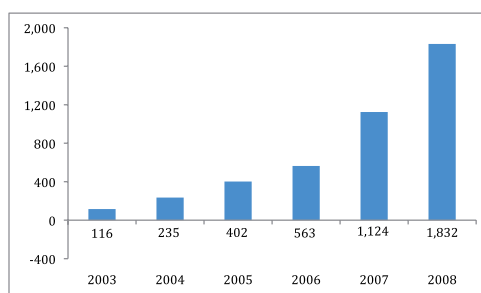
The bank's total assets notably increased by 56 percent compared with December 2007 and reached RON 2.8 billion. The increase was largely attributable to an outstanding growth of the loans to customers which increased by 63 percent compared with December 2007 and reached RON 1.8 billion. These increases were financed partially from customer deposits, which are almost constant at RON 0.63 billion and the rest from funds from the group, showing the commitment towards the Romanian market.

In 2008, the group increased the share capital by EUR 100 million continuing the involvement in the development of the bank on the Romanian market. This capital increase will sustain the growth of the bank in the next years, both in terms of geographical presence and business volumes, maintaining in the same time sound levels of the prudential indicators.

**Total assets – 2003-2008**  
In RON million



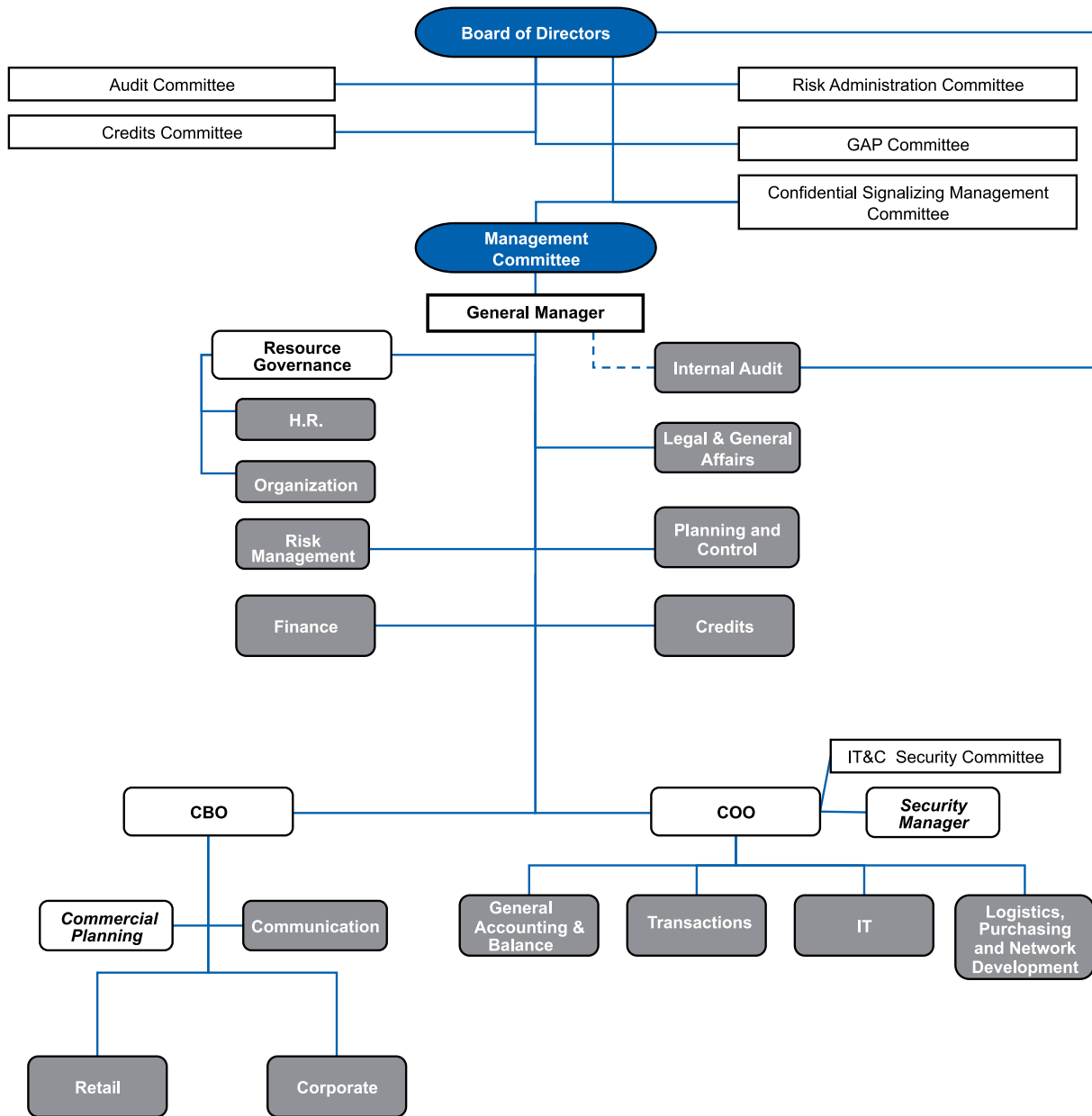
**Loans to customers – 2003-2008**  
In %



# 6. Organizational Chart

Flow Chart  
HQ

LEGEND  
Department  
Office



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## 7. Consolidated Financial Statements

Prepared in Accordance with International Financial Reporting Standards

31 December 2008



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## Independent Auditor's Report

### To the Shareholders of Intesa Sanpaolo Romania SA

1. We have audited the accompanying financial statements of Intesa Sanpaolo Romania SA and its subsidiary (the "Bank"), which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statement

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

### Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.


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

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

## Opinion

6. In our opinion, the consolidated financial statements presented fairly, in all material respects, the financial position of the Bank as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Finance Reporting Standards as adopted by the European Union.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style font.

Ernst and Young Assurance Services SRL

Bucharest, Romania

2 April 2009

## Consolidated Income Statement

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	Note	31 December 2008	31 December 2007
Interest and similar income	3	210,759,901	88,951,344
Interest expense and similar charges	3	(98,284,582)	(53,291,361)
<b>Net interest income</b>		<b>112,475,319</b>	<b>35,659,984</b>
Fee and commission income	4	22,613,100	36,193,946
Fee and commission expense	4	(1,980,857)	(1,658,808)
<b>Net fee and commission income</b>		<b>20,632,243</b>	<b>34,535,138</b>
Net trading income	5	13,450,962	14,093,122
Gains less losses from investment securities		(159,841)	-
Other operating income	6	2,215,322	808,436
Impairment charge for loan losses	7	(22,319,762)	827,442
Operating expenses	8	(108,574,198)	(67,098,925)
<b>Profit before income tax</b>		<b>17,720,045</b>	<b>18,825,197</b>
Income tax expense	21	(2,268,705)	(2,301,461)
<b>Profit for the year</b>		<b>15,451,340</b>	<b>16,523,736</b>
Attributable to:			
Equity holders of the Bank		15,451,340	16,523,736

The financial statements on pages 1 to 72 were approved and signed on behalf of the Board of Directors on 5 March 2009 by:



Nicola Calabro  
General Manager



Mihai Ardelean  
Finance Manager

## Consolidated Balance Sheet

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	Note	31 December 2008	31 December 2007
<b>ASSETS</b>			
Cash	25	58,226,300	30,672,039
Balances with Central Bank	9	758,838,938	493,135,759
Loans and advances to banks	10	6,568,825	26,920,781
Loans and advances to customers	12	1,831,624,164	1,124,495,742
Derivative financial instruments	11	64,253	3,698,131
Investment securities available-for-sale	13	11,366,111	24,499,459
Investments available-for-sale	13	255,580	230,552
Intangible assets	14	9,579,855	4,245,194
Property and equipment	15	101,911,855	75,090,031
Other assets	16	15,356,004	11,712,942
<b>Total assets</b>		<b>2,793,791,885</b>	<b>1,794,692,621</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Deposits from banks	17	582,100,363	301,239,193
Due to customers	18	631,098,880	644,060,069
Derivative financial instruments	11	2,399,459	3,458,004
Other borrowed funds	19	1,004,578,748	652,537,510
Other liabilities	20,21	28,193,380	26,462,629
Current income tax liability		675,393	837,515
Deferred tax liability	22	1,775,064	213,998
<b>Total liabilities</b>		<b>2,250,821,287</b>	<b>1,628,808,918</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the parent</b>			
Share capital	23	291,285,910	180,174,800
Share Premium	24	251,628,890	-
Accumulated deficits		(15,568,198)	(30,734,795)
Other reserves	24	16,332,155	15,958,825
Revaluation reserve	24	(708,159)	484,873
		<b>542,970,598</b>	<b>165,883,703</b>
Minority interest		-	-
<b>Total equity</b>		<b>542,970,598</b>	<b>165,883,703</b>
<b>Total liabilities and equity</b>		<b>2,793,791,885</b>	<b>1,794,692,621</b>

The financial statements on pages 1 to 72 were approved and signed on behalf of the Board of Directors on 5 March 2009 by:



Nicola Calabro  
General Manager



Mihai Ardelean  
Finance Manager

## Consolidated Cash Flow Statement

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	Note	Year ended 2008	Year ended 2007
<b>Cash flows from operating activities</b>			
Profit before taxation		17,720,045	18,825,198
Depreciation and amortization	8	9,170,326	6,644,677
Provision from loans impairment	12c	22,626,480	-
Release of provision from loans		-	(3,261,415)
Accrual performance bonus		2,585,415	3,039,571
Adjustment for non-cash items - interest expenses		37,188,762	13,335,313
- FX differences		85,188,365	40,841,540
<b>Net cash flow from operating activities before changes in operating assets and liabilities</b>		<b>174,479,392</b>	<b>79,424,884</b>
<b>Change in operating assets</b>			
Decrease in amounts due from other banks		-	72,361,031
Increase in loans and advances to customers		(729,754,901)	(557,793,121)
Increase in other assets		(4,148,044)	(3,144,022)
<b>Total changes in operating assets</b>		<b>(733,902,945)</b>	<b>(488,576,112)</b>
<b>Change in operating liabilities</b>			
Increase in deposits from banks		280,861,169	119,035,674
(Decrease)/Increase in amounts owed to depositors		(12,961,188)	133,455,004
(Decrease)/Increase in other liabilities		(2,202,698)	8,880,962
<b>Total changes used in operating liabilities</b>		<b>270,102,679</b>	<b>261,371,640</b>
<b>Net cash from operating activities</b>		<b>(289,320,874)</b>	<b>(147,779,588)</b>
Income tax paid		-	(2,772,547)
<b>Cash flows from investing activities</b>		<b>(289,320,874)</b>	<b>(150,552,135)</b>
Purchase of property, equipment and intangible assets		(41,326,811)	(17,382,132)
Dividends received		489,530	331,768
Proceeds from financial assets AFS		13,913,751	1,851,735
<b>Net cash used in investing activities</b>		<b>(26,923,529)</b>	<b>(15,198,629)</b>
<b>Cash flows from financing activities</b>			
Share issue	23	111,111,110	-
Share Premium	24	251,628,890	-
Increase in other borrowings		258,824,000	553,409,400
Interest paid on other borrowings		(32,414,113)	(195,983,408)
<b>Net cash from financing activities</b>		<b>589,149,887</b>	<b>357,425,992</b>
Increase in cash and cash equivalents		272,905,485	191,675,228
Cash and cash equivalents at 1 January		550,728,579	359,053,351
<b>Cash and cash equivalents at the end of the period</b>		<b>823,634,064</b>	<b>550,728,579</b>

## Consolidated Statement of Changes in Shareholders' Equity

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

	Note	Attributable to equity holders of the Bank					Total equity
		Share capital	Other Reserves	Accumulated deficits	Total attributable to equity holders of the Bank	Minority interest	
<b>Balance at 1 January 2008</b>		<b>180,174,800</b>	<b>16,443,698</b>	<b>(30,734,795)</b>	<b>165,833,703</b>	-	<b>165,833,703</b>
Profit for the year		-	-	15,451,340	15,451,340	-	15,451,340
Change in available for sale investments net of tax		-	(1,193,032)	88,587	(1,104,435)	-	(1,104,435)
<b>Total recognized income/expense</b>		-	<b>(1,193,032)</b>	<b>15,539,927</b>	<b>14,346,905</b>	-	<b>14,346,905</b>
Increase of share capital		111,111,110	251,628,890	-	362,740,000	-	362,740,000
Transfer		-	373,330	(373,330)	-	-	-
<b>Balance at 31 December 2008</b>	<b>23</b>	<b>291,285,910</b>	<b>267,252,886</b>	<b>(15,568,198)</b>	<b>542,970,598</b>	-	<b>542,970,598</b>
<b>Balance at 1 January 2007</b>		<b>180,174,800</b>	<b>11,539,643</b>	<b>(42,351,707)</b>	<b>149,362,736</b>	<b>2,935</b>	<b>149,365,671</b>
Profit for the year		-	-	16,523,736	16,523,736	-	16,523,736
Net change in available for sale investments net of tax		-	(2,779)	-	(2,779)	-	(2,779)
Disposal of subsidiary		-	-	-	-	(2,935)	(2,935)
<b>Total recognized income/expense</b>		-	<b>(2,779)</b>	<b>16,523,737</b>	<b>16,520,957</b>	<b>(2,935)</b>	<b>16,518,022</b>
Transfer		-	4,906,824	(4,906,824)	-	-	-
<b>Balance at 31 December 2007</b>		<b>180,174,800</b>	<b>16,443,698</b>	<b>(30,734,795)</b>	<b>165,833,703</b>	-	<b>165,833,703</b>

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 1. The Intesa Sanpaolo Romania and its Operations

Intesa Sanpaolo Romania SA (the "Bank") has been incorporated in Romania in December 1996, initially under the name of "West Bank" and is licensed by the National Bank of Romania to conduct banking activities. The Bank has changed its name from "West Bank" to "Sanpaolo IMI Bank Romania" after the approval by National Bank of Romania on 16 October 2003 and finally to "Intesa Sanpaolo Romania" after the approval by the National Bank of Romania on the 14 January 2008. The Bank is principally engaged in retail banking operations in Romania.

The Bank's holding company and ultimate holding company is Intesa Sanpaolo SpA.

As at 31 December 2008 the Bank had 39 branches and 53 representative offices (2007: 30 branches and 20 representative offices).

The Bank's registered office is located at the following address:

88, B-dul Revoluției, Arad, Romania

As for 2008 the number of employees was on average 693 (2007: 532).

The Board of Directors formulates policies for the operation of the Bank and monitors their implementation. The Board is composed of 9 members appointed by the General Meeting of Shareholders.

As at 31 December 2008 the Board of Directors of the Bank comprised the following members:

- |                       |           |
|-----------------------|-----------|
| 1. Giovanni Ravasio   | president |
| 2. Ioan Mihail Anca   | member*   |
| 3. Daniele Bordina    | member    |
| 4. Nicola Calabró     | member*   |
| 5. Massimo Pierdicchi | member    |
| 6. Francesco Cervetti | member    |
| 7. Adriana Saitta     | member    |
| 8. Paolo Sarcinelli   | member    |
| 9. Beata Kissne Foldi | member    |

\*) Members of the Executive Committee

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies

#### 2.1. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the revaluation of available-for-sale investments and derivative transactions at fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

These financial statements are presented in RON and all values are rounded to the nearest RON, except when otherwise indicated.

##### **Statement of compliance**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations issued by the International Accounting Standards Board ("IASB").

##### **Basis of consolidation**

The consolidated balance sheet as at 31 December 2007 & 2008 comprises only the balance sheet of the parent Intesa Sanpaolo Romania S.A. The subsidiary, West Leasing S.A., was liquidated during 2007.

All intra-Bank balances resulting from intra-Bank transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are de-consolidated from the date on which control ceases.

Acquisition of minority interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognized directly in the income statement in the year of acquisition.

Minority interests' represent the portion of net assets not owned, directly or indirectly, by the Bank and are presented in the equity in the consolidated balance sheet, separately from parent shareholders' equity.

#### 2.2. Significant Accounting Judgments and Estimates

In the process of applying the Bank's recognition and measurement accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the balance sheet. The most significant use of judgments and estimates are as follows:

##### **(a) Impairment losses on loans and advances**

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

#### **(b) Fair value of derivatives**

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are certified before they are used, and are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

#### **(c) Provision for litigations**

The Bank follows the guidance of IFRS for recording the provisions for contingencies. Provisions are recorded when the Bank has a present obligation (legal or constructive) as a result of a past event, there is a probable cash outflow from the Bank and the cash flow can be reliably estimated. In assessing the probability of the cash outflow the bank assesses the conditions existing at balance sheet date and uses the judgment and advice of internal and external lawyers which represent the Bank in legal court cases. If the conditions are no longer met, the Bank reverses the provisions. In assessing the probable cash outflows the Banks also involves its legal advisers and formal documentation from the legal files. The amount of provision is also computed with reference to the timing of expected outflow. Where the timing is over 1 year, the Bank records the provision at their present value discounted at the Bank's cost of funds rate.

### 2.3. Changes in Accounting Policies and Adoption of Revised/Amended IFRSs

The Bank adopted the following interpretation and amendments to IFRSs as of 1 January 2008 and during the year 2008.

- **IFRIC 11, IFRS 2-Bank and Treasury Share Transactions** *(effective for financial years beginning on or after 1 March 2007)*

This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by an entity even if the entity chooses or is required to buy those equity instruments from another party, or the shareholders of the entity provide the equity instruments needed. The Interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for schemes when their employees receive rights to equity instruments of the parent.

This Interpretation applies to the way the Bank's subsidiaries account, in their individual financial statements, for options granted to their employees to buy equity shares of the Company.

IFRIC 11 is not relevant to the Bank.

- **IFRIC 12, Service Concession Arrangements** *(effective for financial years beginning on or after 1 January 2008)*

IFRIC 12 outlines an approach to account for contractual (service concession) arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset. IFRIC 12 is not relevant to the Bank's operations.

- **IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** *(effective for financial years beginning on or after 1 January 2008).*

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. It also explains how this limit, also referred to as the "asset ceiling test", may be influenced by a minimum funding requirement and aims to standardize current practice.

IFRIC 14 is not relevant to the Bank.

#### 2.4. Future changes in accounting policies

##### **Standards and Interpretations that are issued but have not yet come into effect**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2008 or later periods but which the Bank has not early adopted, as follows:

- **IAS 39, "Financial Instruments: Recognition and Measurement" and IFRIC 9, "Reassessment of embedded derivatives"** (Amended), (effective for annual periods ending on or after 30 June 2009).

This amendment clarifies the accounting treatment of embedded derivatives for entities that make use of the Reclassification Amendment issued by the IASB in October 2008. The reclassification amendment allows entities to reclassify particular financial instruments out of the 'fair value through profit or loss' category in specific circumstances. These amendments to IFRIC 9 and IAS 39 clarify that on reclassification of a financial asset out of the 'fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for in financial statements. The amendments apply retrospectively and are required to be applied. The Bank expects that this amendment will have no impact on its financial statements. . This amendment has not yet been endorsed by the EU.

- **IFRS 1, "First-time Adoption of International Financial Reporting Standards" and IAS 27, "Consolidated and Separate Financial Statements"** (Amended), (effective for annual periods beginning on or after 1 January 2009).

The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. The amendment to IAS 27 will have to be applied prospectively. The new requirements affect only the parent's separate financial statement and do not have an impact on the consolidated financial statements. The Bank expects that this amendment will have no impact on its financial statements

- **IFRS 7, "Financial Instruments: Disclosures"** (Amended), (effective for annual periods beginning on or after 1 January 2009).

The amendment requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: a) Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1). (b) Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2) (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3). This information must be given by class of financial instrument. The amendment also revises specified minimum liquidity risk disclosures. This amendment's impact on the Bank has not yet been assessed. This amendment has not yet been endorsed by the EU.

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

- **IAS 39, "Financial Instruments: Recognition and Measurement" (Amended)**, *(effective for annual periods beginning on or after 1 July 2009).*

The amendment relates to eligible hedged items and addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment to IAS 39 has not yet been endorsed by the EU. The Bank has concluded that the amendment will have no impact on the financial position or performance of the Bank, as the Bank has not entered into any such hedges.

- **IFRS 8, Operating Segments** *(effective for financial years beginning on or after 1 January 2009)*

IFRS 8 replaces IAS 14 Segment Reporting and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences.

The Bank is in the process of assessing the impact of this standard on its financial statements.

- **IAS 23 (revised), Borrowing Costs** *(effective for financial years beginning on or after 1 January 2009)*

The benchmark treatment in the existing standard of expensing all borrowing costs to the income statement is eliminated in the case of qualifying assets. All borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset must be capitalized. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

- **IFRIC 13, Customer Loyalty Programs** *(effective for financial years beginning on or after 1 July 2008)*

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank expects that this Interpretation will have no impact on its financial statements as no such schemes currently exist.

- **IFRIC 15, "Agreements for the Construction of Real Estate"**, *effective for financial years beginning on or after 1 January 2009 and is to be applied retrospectively.*

IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 'Construction Contracts' or IAS 18 'Revenue' and, accordingly, when revenue from such construction should be recognized. IFRIC 15 will not have any impact on the financial statements because the Bank does not conduct real estate activity.

- **IFRIC 16, "Hedges of a Net Investment in a foreign operation"**, *effective for financial years beginning on or after 1 October 2008 and is to be applied prospectively.*

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## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 2. Basis of Preparation and Significant Accounting Policies (continued)

IFRIC 16 clarifies three main issues, namely:

- A presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation.
- Hedging instrument(s) may be held by any entity or entities within the group.
- While IAS 39, 'Financial Instruments: Recognition and Measurement', must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of the hedging instrument, IAS 21 'The Effects of Changes in Foreign Exchange Rates' must be applied in respect of the hedged item.

The Bank is in the process of assessing the impact of this interpretation and which accounting policy to adopt for the recycling on the disposal of the net investment.

- **IFRIC 17, "Distributions of Non-cash Assets to Owners"**, effective for annual periods beginning on or after 1 July, 2009. IFRIC 17 clarifies the following issues, namely:

- a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity;
- an entity should measure the dividend payable at the fair value of the net assets to be distributed;
- an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss; and
- an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions. It is to be applied prospectively and earlier application is permitted. The Bank is in the process of assessing the impact of this interpretation.

- **IFRIC 18, "Transfers of Assets from Customers"**, effective for financial years beginning on or after 1 July 2009 and is to be applied prospectively. However, limited retrospective application is permitted. This Interpretation is of particular relevance for the utility sector as it clarifies the accounting for agreements where an entity receives an item of PP&E (or cash to construct such an item) from a customer and this equipment in turn is used to connect a customer to the network or to provide ongoing access to supply of goods/services. The Bank is in the process of assessing the impact of this interpretation.

- **IAS 39, "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures; Reclassification of Financial Assets"**, effective from 1 July 2008 and cannot be applied retrospectively to reporting periods before the effective date. The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss ("FVTPL") category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The amendments do not permit reclassification into FVTPL. The amendment to IFRS 7 relates to the disclosures required to financial assets that have been reclassified. This amendment is not relevant to the Bank.

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

- **IAS 1 'Presentation of Financial Statements'** (effective for annual periods beginning on or after 1 January 2009)

IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. Of the main revisions are the requirement that the statement of changes in equity includes only transactions with shareholders; the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together with "other comprehensive income"; and the requirement to present restatements of financial statements or retrospective application of a new accounting policy as at the beginning of the earliest comparative period, i.e. a third column on the balance sheet. The Bank will make the necessary changes to the presentation of its financial statements in 2009.

- **IFRS 2 'Share Based Payment' - Vesting Conditions and Cancellations** (effective for annual periods beginning on or after 1 January 2009)

The amendment clarifies two issues: The definition of 'vesting condition', introducing the term 'non-vesting condition' for conditions other than service conditions and performance conditions. It also clarifies that the same accounting treatment applies to awards that are effectively cancelled by either the entity or the counterparty.

The Bank expects that this Interpretation will have no impact on its financial statements.

- **IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements'** (effective for annual periods beginning on or after 1 July 2009)

A revised version of IFRS 3 Business Combinations and an amended version of IAS 27 Consolidated and Separate Financial Statements were issued by IASB on 10 January 2008. IFRS 3R introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). IAS 27R requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give rise to a gain or loss.

Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

- **IAS 32 and IAS 1 Puttable Financial Instruments** (effective for annual periods beginning on or after 1 January 2009)

The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity.

The Bank does not expect these amendments to impact the financial statements of the Bank.

**In May 2008 the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These amendments are effective for periods beginning on or after 1 January 2009:**

- **IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" (Amended)**, effective for annual periods beginning on or after 1 July 2009. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale, under IFRS 5, even when the entity will retain a non-controlling interest in the

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

subsidiary after the sale. To be applied prospectively from the date at which the company first applied IFRS 5. Therefore, any investments in subsidiaries classified as held for sale since IFRS 5 was applied will need to be re-evaluated. Early application is permitted. If early adopted, IAS 27 (as amended in January 2008) must also be adopted from that date.

- **IFRS 7, "Financial Instruments: Disclosures" (Amended)**, effective for annual periods beginning on or after 1 January 2009. This amendment removes the reference to 'total interest income' as a component of finance costs.

- **IAS 1, "Presentation of Financial Statements" (Amended)**, effective for annual periods beginning on or after 1 January 2009. This amendment clarifies that assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet. To be applied retrospectively. Early application is permitted.

- **IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors" (Amended)**, effective for annual periods beginning on or after 1 January 2009. This amendment clarifies that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

- **IAS 10, "Events after the Reporting Period" (Amended)**, effective for annual periods beginning on or after 1 January 2009. This amendment clarifies that dividends declared after the end of the reporting period are not obligations.

- **IAS 16, "Property, Plant and Equipment" (Amended)**, effective for annual periods beginning on or after 1 January 2009.

Replaces the term 'net selling price' with 'fair value less costs to sell', regarding the recoverable amount, to be consistent with IFRS 5 and IAS 36 Impairment of Assets.

Items of property, plant & equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds on sale are subsequently shown as revenue. IAS 7 Statement of cash flows is also revised, to require cash payments to manufacture or acquire such items to be classified as cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also shown as cash flows from operating activities.

- **IAS 18, "Revenue" (Amended)**, effective for annual periods beginning on or after 1 January 2009. This amendment replaces the term 'direct costs' with 'transaction costs' as defined in IAS 39.

- **IAS 19, "Employee Benefits" (Amended)**, effective for annual periods beginning on or after 1 January 2009.

Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment. To be applied prospectively – to changes to benefits occurring on or after 1 January 2009. Early application is permitted.

Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation. To be applied retrospectively. Early application is permitted.

Revises the definition of 'short-term' and 'other long term' employee benefits to focus on the point in time at which the liability is due to be settled. To be applied retrospectively. Early application is permitted.

Deletes the reference to the recognition of contingent liabilities to ensure consistency with IAS 37 Provisions,

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

Contingent Liabilities and Contingent Assets. IAS 37 does not allow for the recognition of contingent liabilities. To be applied retrospectively. Early application is permitted.

- **IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance" (Amended)**, effective for annual periods beginning on or after 1 January 2009. Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates, thereby being consistent with IAS 39. The difference between the amount received and the discounted amount is accounted for as a government grant. To be applied prospectively – to government loans received on or after 1 January 2009. Early application is permitted. However, IFRS 1 First-time Adoption of IFRS has not been revised for first-time adoptees; hence they will be required to impute interest on all such loans outstanding at the date of transition.

- **IAS 23, "Borrowing Costs" (Amended)**, effective for annual periods beginning on or after 1 January 2009. The amendment revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method as described in IAS 39. To be applied retrospectively. Early application is permitted.

- **IAS 27 "Consolidated and Separate Financial Statements" (Amended)**, effective for annual periods beginning on or after 1 January 2009. When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale. To be applied prospectively from the date at which the company first applied IFRS 5. Therefore, any subsidiaries classified as held for sale since IFRS 5 was adopted will need to be re-evaluated. Early application is permitted.

- **IAS 28, "Investment in Associates" (Amended)**, effective for annual periods beginning on or after 1 January 2009.

If an associate is accounted for at fair value in accordance with IAS 39 (as it is exempt from the requirements of IAS 28), only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. To be applied retrospectively, although an entity is permitted to apply it prospectively. Early application is permitted. If early adopted, an entity must also adopt the amendment below, and the amendments to paragraph 3 of IFRS 7 Financial Instruments: Disclosures, paragraph 1 of IAS 31 Joint Ventures and paragraph 4 of IAS 32 Financial Instruments: Presentation at the same time.

An investment in an associate is a single asset for the purpose of conducting the impairment test – including any reversal of impairment. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance. Any impairment is reversed if the recoverable amount of the associate increases. If early adopted, an entity must also adopt the amendment above, and the amendments to paragraph 3 of IFRS 7 Financial Instruments: Disclosures, paragraph 1 of IAS 31 Joint Ventures and paragraph 4 of IAS 32 Financial Instruments: Presentation at the same time.

- **IAS 29, "Financial Reporting in Hyperinflationary Economies" (Amended)**, effective for annual periods beginning on or after 1 January 2009. This amendment revises the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. No specific transition requirements have been stated as it is a clarification of the references rather than a change.

- **IAS 31, "Interest in Joint ventures" (Amended)**, effective for annual periods beginning on or after 1 January 2009. This amendment clarifies that if a joint venture is accounted for at fair value, in accordance with IAS 39 (as it is exempt from the requirements of IAS 31), only the requirements of IAS 31 to disclose the commitments

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## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 2. Basis of Preparation and Significant Accounting Policies (continued)

of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses will apply. Early application is permitted. If early adopted, an entity must also adopt the amendments to paragraph 3 of IFRS 7 Financial Instruments: Disclosures, IAS 28 Investments in Associates and paragraph 4 of IAS 32 Financial Instruments: Presentation at the same time.

- **IAS 34, "Interim Financial Reporting" (Amended)**, effective for annual periods beginning on or after 1 January 2009. This amendment clarifies that earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

- **IAS 36, "Impairment of assets" (Amended)**, effective for annual periods beginning on or after 1 January 2009. This amendment clarifies that when discounted cash flows are used to estimate 'fair value less costs to sell', the same disclosure is required as when discounted cash flows are used to estimate 'value in use'. To be applied retrospectively. Early application is permitted.

- **IAS 38, "Intangible Assets" (Amended)**, effective for annual periods beginning on or after 1 January 2009.

Expenditure on advertising and promotional activities is recognized as an expense when the entity either has the right to access the goods or has received the services. To be applied retrospectively. Early application is permitted.

Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method. To be applied retrospectively. Early application is permitted.

A prepayment may only be recognized in the event that payment has been made in advance to obtaining right of access to goods or receipt of services.

- **IAS 39, "Financial instruments recognition and measurement" (Amended)**, effective for annual periods beginning on or after 1 January 2009.

Clarifies that changes in circumstances relating to derivatives – specifically derivatives designated or de-designated as hedging instruments after initial recognition – are not reclassifications. Thus, a derivative may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Similarly, when financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of IFRS 4 Insurance Contracts, this is a change in circumstance, not a reclassification. To be applied retrospectively. Early application is permitted.

Removes the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. To be applied retrospectively. Early application is permitted.

Requires use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring a debt instrument on the cessation of fair value hedge accounting. To be applied retrospectively. Early application is permitted.

- **IAS 40, "Investment property" (Amended)**, effective for annual periods beginning on or after 1 January 2009.

Revises the scope (and the scope of IAS 16) such that property that is being constructed or developed for future use as an investment property is classified as investment property. If an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. To be applied prospectively. Early application is permitted. An entity is permitted to apply the amendments to investment properties under construction from any date before 1 January

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## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 2. Basis of Preparation and Significant Accounting Policies (continued)

2009 provided that the fair values of investment properties under construction were determined at those dates.

Revises the conditions for a voluntary change in accounting policy to be consistent with IAS 8.

Clarifies that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.

- **IAS 41, "Agriculture" (Amended)**, effective for annual periods beginning on or after 1 January 2009.

Replaces the term 'point-of-sale costs' with 'costs to sell'. Revises the example of produce from trees in a plantation forest from 'logs' to 'felled trees'.

Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.

Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Rather, cash flows that are expected to be generated in the 'most relevant market' are taken into account. To be applied prospectively. Early application is permitted.

### 2.5. Summary of Significant Accounting Policies

#### 2.5.1. Foreign currency translation

##### (a) Functional and presentation currency

Functional currency of the Bank is the currency of the primary economic environment in which it operates. The financial statements are presented in RON which is the Bank's functional and presentation currency. The functional currency of the subsidiary is RON.

##### (b) Transaction and balances

Transactions denominated in foreign currency are translated into the functional currency at the official exchange rate ruling at the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income at the time of settlement using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are expressed in RON as at the balance sheet date. At 31 December 2008 the exchange rate used for translating foreign currency balances was USD 1 = RON 2.8342 (2007: USD 1 = RON 2.4564) and EUR 1 = RON 3.9852 (2007: EUR 1 = RON 3.6102). Foreign currency gains and losses arising from the translation of monetary assets and liabilities are reflected in the statement of income for the year.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary items, such as equities classified as available for sale financial assets, are included in the fair value reserve in equity.

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

#### 2.5.2. Financial assets

##### **(a) Classification**

The Bank classifies its financial assets into the following categories: financial assets held at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

##### (i) Financial assets at fair value through profit or loss ("FVTPL")

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The Bank currently does not have any financial assets designated at fair value through profit or loss at inception. Derivatives are also categorized as held for trading unless they are designated as hedges.

##### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

##### (iii) Held-to-maturity ("HTM")

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank sells other than an insignificant amount of HTM assets, the entire category would be tainted and reclassified as available for sale. During 2007 and 2008 the Bank did not held any HTM securities in its portfolio.

##### (iv) Available-for-sale ("AFS")

AFS investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

##### **(b) Recognition, de-recognition and initial measurement**

Purchases and sales of financial assets FVTPL, HTM and AFS are recognized on trade-date - the date on which the Bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss.

Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transactions costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished - that is, when the obligation is discharged, cancelled or expires.

##### **(c) Subsequent measurement**

AFS financial assets and financial assets FVTPL are subsequently carried at fair value. Loans and receivables and

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

HTM investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the FVTPL category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of AFS financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the income statement. Dividends on AFS equity instruments are recognized in the income statement when the entity's right to receive payment is established.

#### **(d) Fair value measurement principles**

The fair values of quoted investments in active markets are based on current bid prices for the treasury bills denominated in RON and for the Eurobonds. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and discounted cash flow analysis.

#### 2.5.3. Offsetting financial instruments

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

#### 2.5.4. Derivative financial instruments and hedge accounting

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognizes profits on day 1.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement. No embedded derivatives exist at reporting date.

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank did not designate any derivative transaction as a hedging instrument during the years 2007 and 2008 and did not use hedge accounting. The fair value gain or loss has been recognized by the Bank through profit or loss.

#### 2.5.5. Interest income and expense

Interest income and expense are recognized in the statement of income for all instruments measured at amortized cost and debt instruments classified as available for sale using the effective interest rate method. Interest income includes coupons earned on fixed income investment securities and accrued discount and premium on treasury securities.

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

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

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

#### 2.5.6. Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred and recognized as adjustments to the effective yield on the loan.

Fee and commission income consists mainly of fees and commissions received for the payments and receipts transacted through customer accounts, current account administration, trading of securities and foreign exchange.

#### 2.5.7. Dividends

Dividends on ordinary shares are recognized as a liability and deducted from equity in the period in which they are approved by the Annual General Meeting of shareholders. The statutory financial statements of the Bank prepared in accordance with Romanian Accounting Regulations are the basis for profit distribution and other appropriations.

#### 2.5.8. Impairment of financial assets

##### **(a) Assets carried at amortized cost**

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is 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.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest;
- cash flow and financial difficulties experienced by the borrower;
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral; and
- downgrading below investment grade level.

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods vary between four months and six months; in exceptional cases, longer periods are warranted. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan 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 calculation of the present value of the estimated future cash flows of a collateralized financial asset 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 purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (e.g. on the basis of the industry and product types, and for retail if the exposure is insured for credit risk). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

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## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 2. Basis of Preparation and Significant Accounting Policies (continued)

#### Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralized in credit risk management team of Bank Treasury and reported to the Board of Directors and head of each business unit regularly.

#### Credit risk measurement

##### (a) Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss (the 'expected loss model') and are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee), are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses

(i) The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Bank are segmented into four rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

#### Bank's internal ratings scale and mapping of external ratings

Bank's rating	Description of the grade	External rating: Standard & Poor's equivalent
1	Investment grade	AAA, AA+, AA- A+, A-
2	Standard monitoring	BBB+, BBB, BBB-, B+, BB, BB-, B+, B, B-
3	Special monitoring	CCC to C
4	Sub-standard	D

The ratings of the major rating agency shown in the table above are mapped to our rating classes based on the long-term average default rates for each external grade. The Bank uses the external ratings where available to benchmark our internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

(ii) Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the carrying value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

(iii) Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

#### **(b) Debt securities and other bills**

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by Bank Treasury for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

#### Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and Banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved monthly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

#### **(a) Collateral**

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accountsreceivable, commercial effects;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

#### **(b) Derivatives**

The Bank maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

#### **(c) Master netting arrangements**

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

#### **(d) Credit-related commitments**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

#### **Impairment and provisioning policies**

The internal and external rating systems described above focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 2. Basis of Preparation and Significant Accounting Policies (continued)

The impairment provision shown in the balance sheet at year-end is derived from each of the four internal rating grades. However, the majority of the impairment provision comes from the bottom two gradings. The table below shows the percentage of the Bank's on- and off-balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

	Bank's rating			
	2008		2007	
	Loans and advances	Impairment provision	Loans and advances	Impairment provision
1. Investment grade	-	-	-	-
2. Standard monitoring	97.64%	0.97%	97.85%	1.42%
3. Special monitoring	0.68%	23.56%	0.42%	18.81%
4. Sub-standard	2.58%	47.54%	1.74%	58.35%
	<b>100%</b>	<b>2.10%</b>	<b>100%</b>	<b>1.31%</b>

#### (e) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. 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 is reversed through the income statement.

#### 2.5.9. Intangible assets

Intangible assets consist of computer software licenses computer software development costs whose useful lives are finite. Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as 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 recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives which is typically three years.

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

#### 2.5.10. Property and equipment

##### Cost

Property and equipment are stated at cost, restated to the equivalent purchasing power of the Romanian Leu at 31 December 2003 for assets acquired prior to 1 January 2004, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Costs of repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalized and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

##### Depreciation

Land is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

##### Useful lives in years

Buildings	10-50
Office equipment, fixtures and fittings	3-15
Other assets	5

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

#### 2.5.11. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### 2.5.12. Assets held for sale

Assets held for sale represent foreclosed assets obtained through execution of bad loans collaterals and are initially recorded at fair value and subsequently measured at lower of its carrying amount and fair value less costs to sell. Gains and losses on disposal of assets held for sale are calculated as the difference between the amount received and the carrying value of the asset. A gain would be disclosed under other operating income and a loss under operating expenses in the income statement.

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

#### 2.5.13. Operational Leasing

The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

#### 2.5.14. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition: cash; non-restricted balances with central banks, including minimum mandatory reserves; treasury bills and other eligible bills; loans and advances to banks and short-term government securities.

#### 2.5.15. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

#### 2.5.16. Financial guarantees contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given being the relative fee income. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the income statement under Credit loss expense.

#### 2.5.17. Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments and letters of credit. Specific provisions are raised against other credit related commitments when the Bank has a present obligation as a result of a past event, when it is probable that there will be an outflow of resources and when the outflow can be reliably measured.

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## Notes to the Consolidated Financial Statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 2. Basis of Preparation and Significant Accounting Policies (continued)

#### 2.5.18. Pension obligations and other post retirement benefits

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. Substantially all employees of the Bank are members of the State pension plan which is a defined contribution plan. The Bank has no obligation besides the payment of the contributions.

The Bank does not operate any other pension scheme and, consequently, has no obligation in respect of pensions.

#### 2.5.19. Income taxes

##### **(a) Current income tax**

The Bank records profit tax upon net income from the financial statements in accordance with Romanian Accounting Regulations and profit tax legislation. Romanian profits tax legislation is based on a fiscal year ending on 31 December. In recording both the current and deferred income tax charge for the year ended, the Bank has computed the annual income tax charge based on Romanian profits tax legislation enacted (or substantially enacted) at the balance sheet date.

##### **(b) Deferred income tax**

Differences between financial reporting under International Financial Reporting Standards and Romanian fiscal regulations give rise to material differences between the carrying value of certain assets and liabilities and income and expenses for financial reporting and income tax purposes.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for post-retirement benefits and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognized in the income statement together with the realized gain or loss.

#### 2.5.20. Borrowings

Borrowings are recognized initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Interest expense is capitalized for qualifying assets.

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## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 2. Basis of Preparation and Significant Accounting Policies (continued)

#### 2.5.21. Comparatives

Where necessary, comparative figures have been restated to conform to changes in presentation in the current year. Property, plant and equipment with a net book value of RON 2,,203,949 as at 31 December 2007 has been reclassified to intangible assets as at the 31 December 2007.

### 3. Interest Income

	<u>2008</u>	<u>2007</u>
<b>Interest and similar income</b>		
Loans and advances to customers	172,005,685	32,771,850
Interest income accrued on impaired loans	5,532,268	46,145,595
Current accounts and deposits to banks	31,983,251	8,964,633
Investment securities available for sale	1,238,697	1,069,266
	<u><b>210,759,901</b></u>	<u><b>88,951,344</b></u>
<b>Interest expense and similar charges</b>		
Due to customers	30,511,564	24,621,149
Deposits from banks	27,043,275	12,483,441
Other borrowed funds	40,729,743	16,186,770
	<u><b>98,284,582</b></u>	<u><b>53,291,361</b></u>

### 4. Net Fee and Commission Income

	<u>2008</u>	<u>2007</u>
<b>Fee and commission income</b>		
Transactions related fee and commission income	15,931,581	13,719,590
Other fee and commission income	6,681,519	22,474,357
	<u><b>22,613,100</b></u>	<u><b>36,193,946</b></u>
<b>Fee and commission expense</b>		
Transactions with banks	1,551,250	1,280,381
Other fees paid	429,607	378,428
	<u><b>1,980,857</b></u>	<u><b>1,658,808</b></u>

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## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 5. Net Trading Income

	<u>2008</u>	<u>2007</u>
Foreign exchange		
- Translation gains less losses	(1,057,988)	581,184
- Transaction gains less losses	14,508,951	12,967,402
Interest rate swaps	-	544,536
	<u><b>13,450,962</b></u>	<u><b>14,093,122</b></u>

### 6. Other Operating Income

	<u>2008</u>	<u>2007</u>
Dividend income	465,030	331,768
Other income	1,750,292	476,668
	<u><b>2,215,322</b></u>	<u><b>808,436</b></u>

### 7. Impairment Charge for Loan Losses

	<u>2008</u>	<u>2007</u>
Impairment charge for loans to customers	(22,965,477)	(4,336,558)
Recoveries of loans previously written-off	338,997	7,317,995
Income from sale of foreclosed assets	-	279,3978
Release of/(charge for) provisions for letters of guarantee	306,718	(2,433,973)
	<u><b>(22,319,762)</b></u>	<u><b>827,442</b></u>

Included in recoveries of loans previously written off are amounts representing the Bank's estimate of recoverable amounts for the loan exposures written off balance sheet.

## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 8. Operating Expenses

	<u>2008</u>	<u>2007</u>
Staff costs	39,767,646	24,414,205
State pension contribution	11,669,787	7,997,921
Release of provisions for risk and charges	(1,440,800)	8,284,208
Administrative expenses	36,308,762	17,478,333
Depreciation and amortization	9,170,326	6,644,677
Local tax expenses – Building rates and taxes	1,497,653	1,125,866
Advertising and marketing	6,718,823	297,031
Guarantee fund expenses	634,161	512,610
Software expenses	2,138,356	236,636
Loss on sale on property and equipment	261,759	52,251
Other	1,847,726	55,187
	<u><b>108,574,198</b></u>	<u><b>67,098,925</b></u>

#### Administrative Expenses

The administrative expenses are detailed below:

	<u>2008</u>	<u>2007</u>
Rental Expenses for Bank's units	12,494,362	3,170,122
Rental Expenses for employees	1,037,769	345,353
Inventory objects	987,311	680,593
Electricity	1,160,995	808,487
IT Communications	1,273,694	710,406
Telephone charges	970,710	910,082
Travel costs	2,181,859	474,339
Security	1,968,415	2,941,785
Personnel training	1,129,727	91,873
Insurance expenses	609,179	327,167
Cleaning	653,536	457,204
Services from third parties	2,640,449	409,766
Services for cards	1,189,659	528,941
Other	8,011,098	5,622,215
<b>Total Administrative expenses</b>	<u><b>36,308,762</b></u>	<u><b>17,478,333</b></u>

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## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 9. Balances with Central Bank

	<u>31 December 2008</u>	<u>31 December 2007</u>
Current account	<b>758,838,938</b>	<b>493,135,759</b>

Current accounts are required to satisfy the mandatory reserves requirements of the National Bank of Romania. During 2008 the interest ranged from 2.5% to 5.6% (2007: from 1.9% to 2.5%) for reserves held in RON and was between 1.35% and 2.75% (2007: from 0.80% to 1.35%) for reserves held in EUR. The interest rates for term deposits with National Bank of Romania ranged during 2008 from 8% to 8. % (2008 : from 1% to 8.75%).

### 10. Loans and Advances to Banks

	<u>31 December 2008</u>	<u>31 December 2007</u>
Current accounts	6,568,825	6,903,514
Placements with banks as sight and term deposits	-	20,017,267
<b>Total due from banks</b>	<b><u>6,568,825</u></b>	<b><u>26,920,781</u></b>

During 2008 interest on placements with banks ranged from 2.80% to 4.00% for USD (2007: from 5.25% to 6.4%), from 5.00% to 44.00% for RON (2007: from 0.9% to 48%) and from 3.00% to 6.35% for EUR (2007: from 3.73% to 5.87%).

### 11. Derivative Financial Instruments

The Bank uses the following derivative instruments for non-hedging purposes:

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies and interest rates. No exchange of principal takes place, except for certain currency swaps.

The interest rate swap is undertaken with the parent company and represents the only derivative transaction for the Bank.

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price

## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 11. Derivative Financial Instruments (continued)

risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out below.

	<u>Contract/notional amount</u>	<u>Fair values</u>	
		<u>Assets</u>	<u>Liabilities</u>
<b>At 31 December 2008</b>			
<b>Derivatives held for trading</b>			
<i>a) Foreign exchange derivatives</i>			
Currency forwards - RON - currency	394,728,500	-	1,972,519
Currency forwards - Currency - currency	26,365,327	64,253	-
Currency forwards - Currency - RON	125,533,800		370,989
<i>b) Interest rate derivatives</i>			
Interest rate swaps	7,970,400		55,952
<b>Total recognized derivative</b>	<b><u>554,598,027</u></b>	<b><u>64,253</u></b>	<b><u>2,399,459</u></b>
<b>At 31 December 2007</b>			
<b>Derivatives held for trading</b>			
<i>a) Foreign exchange derivatives</i>			
Currency forwards - RON - currency	130,060,580	-	3,458,004
Currency forwards - Currency - currency	165,627,489	3,482,920	-
<i>Interest rate derivatives</i>			
Interest rate swaps	7,220,400	215,211	-
<b>Total recognized derivative</b>	<b><u>302,908,469</u></b>	<b><u>3,698,131</u></b>	<b><u>3,458,004</u></b>

## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 12. Loans And Advances To Customers

#### (a) Analysis by type of customer

	<u>31 December 2008</u>	<u>31 December 2007</u>
Companies	1,652,008,442	974,054,843
Individuals	218,861,946	165,333,425
<b>Gross loans</b>	<b>1,870,870,388</b>	<b>1,139,388,269</b>
Less provision	(39,246,224)	(14,892,527)
<b>Total loans</b>	<b><u>1,831,624,164</u></b>	<b><u>1,124,495,742</u></b>

#### (b) Analysis by sector

	<u>31 December 2008</u>	<u>% of total</u>	<u>31 December 2007</u>	<u>% of total</u>
Trade	497,918,827	27	298,606,246	26
Industry	391,836,522	21	287,811,648	25
Individuals	218,861,946	12	165,333,425	15
Services	389,888,934	21	214,795,107	19
Constructions	292,799,371	16	116,557,901	10
Agriculture	68,542,057	4	46,846,535	4
Other	11,022,731	1	9,437,406	1
	<b>1,870,870,388</b>	<b>100</b>	<b>1,139,388,268</b>	<b>100</b>
Less provision for loans losses	(39,246,224)		(14,892,527)	
<b>Total loans</b>	<b><u>1,831,624,164</u></b>		<b><u>1,124,495,741</u></b>	

A currency analysis and residual maturity profile of loans and advances to customers is presented below.

#### (c) Allowance for loan losses

	<u>31 December 2008</u>	<u>31 December 2007</u>
<b>At the beginning of the year</b>	<b>(14,892,527)</b>	<b>(10,653,938)</b>
Write-offs	(1,998,736)	97,970
Charge for the year	(20,966,740)	(4,336,558)
Effect of exchange rates on provisions	(1,727,218)	-
Recoveries of loans previously written off	338,997	
<b>At the end of the year</b>	<b><u>39,246,224</u></b>	<b><u>(14,892,527)</u></b>

## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 12. Loans And Advances To Customers (continued)

The main source of income for the Bank is represented by loans to customers. The interest rates charged for the year ended 31 December 2008 for loans and advances to customers, including overdue loans, ranged from 8.24% to 33.79% for RON (2007: from 10.97% to 14.2%), from 3.4% to 16.10% for USD (2007: from 7.76% to 10.38%) and from 4.39% to 23.26% for EUR (2007: from 8.17% to 10.09%).

#### (d) Maximum exposure to credit risk before collateral held or other credit enhancements

The maximum credit risk exposure is represented by the amounts on the face of the balance sheet, while for the derivatives items includes also the notional amount booked in off B/S accounts. The maximum credit risk exposures for B/S positions are presented in the following table

	<u>31 December 2008</u>	<u>31 December 2007</u>
<b>ASSETS</b>		
Cash	58,226,300	30,672,039
Balances with Central Bank	758,838,938	493,135,759
Loans and advances to banks	6,568,825	26,920,781
Loans and advances to customers	1,831,624,164	1,124,495,742
Derivative financial instruments	26,301,074	169,149,758
Investment securities available-for-sale	11,366,111	24,499,459
Investments available-for-sale	255,580	230,552
Intangible assets	9,579,855	4,245,194
Property and equipment	101,911,855	75,090,031
Other assets	15,356,004	11,712,942
<b>TOTAL ASSETS</b>	<b><u>2,820,028,706</u></b>	<b><u>1,960,032,977</u></b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Deposits from banks	582,100,363	301,239,193
Due to customers	631,098,880	644,060,069
Derivative financial instruments	530,632,160	133,518,584
Other borrowed funds	1,004,578,748	652,537,510
Other liabilities	28,193,380	26,462,629
Current income tax liability	675,393	837,515
Deferred tax liability	1,775,064	213,998
<b>Total liabilities</b>	<b><u>2,779,053,988</u></b>	<b><u>1,758,869,498</u></b>

## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 12. Loans And Advances To Customers (continued)

The Maximum Credit Risk for off B/S Positions are Presented Below

	<u>31 December 2008</u>	<u>31 December 2007</u>
Letters of guarantee	256,871,470	241,755,471
Unused loan facilities and letters of credit	81,170,152	89,918,638
Letters of guarantee issued for other banks	74,074,269	19,590,437
<b>Total</b>	<b><u>412,115,891</u></b>	<b><u>351,264,546</u></b>

#### (e) Analysis of Loans and advances

	<u>31 December 2008</u>		<u>31 December 2007</u>	
	<u>Loans and advances to customers</u>	<u>Loans and advances to banks</u>	<u>Loans and advances to customers</u>	<u>Loans and advances to banks</u>
Neither past due nor impaired	1,794,095,638	6,568,825	1,107,240,274	26,920,781
Past due but not impaired	19,962,549	-	7,615,958	-
Impaired	56,812,200	-	24,532,037	-
<b>Gross</b>	<b><u>1,870,870,387</u></b>	<b><u>6,568,825</u></b>	<b><u>1,139,388,269</u></b>	<b><u>26,920,781</u></b>
Less: allowance for impairment	(39,246,224)	-	(14,892,527)	-
<b>Net</b>	<b><u>1,831,624,163</u></b>	<b><u>6,568,825</u></b>	<b><u>1,124,495,742</u></b>	<b><u>26,920,781</u></b>

The total impairment provision for loans and advances is 39,246,224 (2007: 14,892,527) of which 21,576,271 (2007: 6,730,459) relates to the individually impaired loans and the remaining amount of to the portfolio provision.

During the year ended 31 December 2008, the Bank's total loans and advances increased by 64.2% as a result of the expansion of the lending business. When entering into new markets or new industries, in order to minimize the potential increase of credit risk exposure, the Bank focused more on the business with large corporate enterprises or banks with good credit rating or retail customers providing sufficient collateral.

## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 12. Loans And Advances To Customers (continued)

(i) Loans and advances neither past due nor impaired.

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

31 December 2008

	Loans and advances to customers				Corporate entities			Total	
	Individual (retail customers)				Large corporate customers	SMEs	Other customers		
	Overdrafts	Credit cards	Term loans	Mortgages				Loans and advances to customers	Loans and advances to banks
<b>Grades:</b>									
1. Investment grade	-	-	-	-	-	-	-	-	-
2. Standard monitoring	-	-	163,078,245	39,967,064	163,328,071	1,427,722,258	-	1,794,095,638	6,568,825
3. Special monitoring	-	-	-	-	-	-	-	-	-
4. Sub-standard	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>163,078,245</b>	<b>39,967,064</b>	<b>163,328,071</b>	<b>1,427,722,258</b>	-	<b>1,794,095,638</b>	<b>6,568,825</b>

Mortgage loans in the sub-standard class were considered not to be impaired after taking into consideration the recoverability from collateral.

## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 12. Loans And Advances To Customers (continued)

31 December 2007

	Loans and advances to customers						Total		
	Individual (retail customers)			Corporate entities					
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	SMEs	Other	Loans and advances to customers	Loans and advances to banks
<b>Grades:</b>	-	-	-	-	-	-	-	-	-
1. Investment grade	-	-	123,646,804	35,681,430	77,577,637	870,334,402	-	1,107,240,274	26,920,781
2. Standard monitoring	-	-	-	-	-	-	-	-	-
3. Special monitoring	-	-	-	-	-	-	-	-	-
4. Sub-standard	-	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	<b>123,646,804</b>	<b>35,681,430</b>	<b>77,577,637</b>	<b>870,334,402</b>	-	<b>1,107,240,274</b>	<b>26,920,781</b>

## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 12. Loans And Advances To Customers (continued)

(ii) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2008

	<b>Individual (retail customers)</b>				<b>Total</b>
	<b>Overdrafts</b>	<b>Credit cards</b>	<b>Term loans</b>	<b>Mortgages</b>	
Past due up to 30 days	-	-	11,636,089	2,135,013	13,771,102
Past due 30 - 60 days	-	-	-	-	-
Past due 60-90 days	-	-	-	-	-
<b>Total</b>	-	-	<b>11,636,089</b>	<b>2,135,013</b>	<b>13,771,102</b>
<b>Fair value of collateral</b>	-	-	<b>41,655,710</b>	<b>3,582,338</b>	<b>45,238,048</b>

	<b>Corporate entities</b>				<b>Total</b>
	<b>Overdrafts</b>	<b>Credit cards</b>	<b>Term loans</b>	<b>Mortgages</b>	
Past due up to 30 days	-	-	6,191,447	-	6,191,447
Past due 30 - 60 days	-	-	-	-	-
Past due 60-90 days	-	-	-	-	-
<b>Total</b>	-	-	<b>6,191,447</b>	-	<b>6,191,447</b>
<b>Fair value of collateral</b>	-	-	<b>8,221,588</b>	-	<b>8,221,588</b>

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 12. Loans And Advances To Customers (continued)

31 December 2007

	Individual (retail customers)				
	Overdrafts	Credit cards	Term loans	Mortgages	Total
Past due up to 30 days	-	-	5,314,619	515,313	5,829,932
Past due 30 - 60 days	-	-	-	-	-
Past due 60-90 days	-	-	-	-	-
<b>Total</b>	-	-	<b>5,314,619</b>	<b>515,313</b>	<b>5,829,932</b>
<b>Fair value of collateral</b>	-	-	<b>22,320,687</b>	<b>587,830</b>	<b>22,908,517</b>

	Corporate entities				
	Overdrafts	Credit cards	Term loans	Mortgages	Total
Past due up to 30 days	-	-	1,786,026	-	1,786,026
Past due 30 - 60 days	-	-	-	-	-
Past due 60-90 days	-	-	-	-	-
<b>Total</b>	-	-	<b>1,786,026</b>	-	<b>1,786,026</b>
<b>Fair value of collateral</b>	-	-	<b>3,203,289</b>	-	<b>3,203,289</b>

(iii) Loans and advances individually impaired

(1) Loans and advances to customers

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is 56,403,614 (2007: 24,685,572).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

31 December 2008

	Individual				Corporate entities		Total
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	SMEs	
Individually impaired loans	-	-	1,762,950	286,110	-	54,763,140	56,812,200
Fair value collateral	-	-	2,841,848	177,341	-	66,883,557	69,902,746

## Notes to the Consolidated Financial Statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 12. Loans And Advances To Customers (continued)

31 December 2007

	Individual				Corporate entities		Total
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	SMEs	
Individually impaired loans	-	-	12,430	78,644	-	24,332,963	24,532,037
Fair value collateral	-	-	23,625	83,937	-	42,296,148	42,403,710

(2) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2008 was nil (2007: nil). No collateral is held by the Bank, and a full impairment provision has been provided against the gross amount.

(iv) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review.

Restructuring is most commonly applied to term loans, in particular customer finance loans.

Renegotiated loans that would otherwise be past due or impaired totaled 4,067,853 at 31 December 2008 (2007: 2,245,347).

	<u>2008</u>	<u>2007</u>
Loans and advances to customers - individuals:		
- Term loans	4,067,853	2,245,347
<b>Total</b>	<b><u>4,067,853</u></b>	<b><u>2,245,347</u></b>

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 13. Investment Securities Available for Sale

#### (f) Repossessed collateral

During 2008, the Bank did not acquire any assets by taking possession of collateral held as security

	<u>31 December 2008</u>	<u>31 December 2007</u>
Debt securities - listed	11,366,111	24,378,715
Equity investments - unlisted	255,580	120,744
	<u><b>11,621,691</b></u>	<u><b>24,499,459</b></u>
		<u><b>Available for sale</b></u>
<b>At 1 January 2008</b>		<u><b>24,499,459</b></u>
Additions		-
Disposals		(11,684,736)
Loss from changes in fair value		(1,193,032)
<b>At 31 December 2008</b>		<u><b>11,621,691</b></u>
<b>At 1 January 2007</b>		<u><b>24,686,048</b></u>
Additions		-
Disposals		(183,810)
Loss from changes in fair value		(2,779)
<b>At 31 December 2007</b>		<u><b>24,499,459</b></u>

Debt securities comprise treasury bills denominated in RON and Eurobonds issued by Romanian Ministry of Finance.

The Bank has entered into economic hedge to mitigate the interest rate risk related to the Eurobonds redeemable on 2 July 2010, by a swap agreement with Intesa Sanpaolo S.p.A Torino, for same amount and maturity (see details in Note 11).

Equity investments held by the Bank are detailed below:

Investment	Country of incorporation	Nature of business	Shareholding	
			<u>31 December 2008</u>	<u>31 December 2007</u>
BMFMS	Romania	commodity exchange	0.12%	0.12%
Casa Română de Compensăție	Romania	clearing house BMFMS	0.37%	0.37%
TransFonD	Romania	settlement and clearing inter-banking transfer	2.47%	2.47%
Biroul de Credit	Romania		0.23%	0.23%

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## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 14. Intangible Assets

	<u>Intangibles</u>
<b>Year ended 31 December 2007</b>	
<b>Opening net book value</b>	<b>3,275,773</b>
Additions	2,692,237
Transfer from fixed assets in progress	-
Disposals	(1,338)
Amortization charge	(1,721,478)
<b>Closing net book value</b>	<b>4,245,194</b>
<b>At 31 December 2007</b>	
Cost	9,859,022
Accumulated amortization	(5,613,828)
<b>Net book value</b>	<b>4,245,194</b>
<b>Year ended 31 December 2008</b>	
<b>Opening net book value</b>	<b>4,245,194</b>
Additions	8,900,128
Transfer from fixed assets in progress	-
Disposals	(897,489)
Amortization charge	(2,667,978)
<b>Closing net book value</b>	<b>9,579,855</b>
<b>At 31 December 2008</b>	
Cost	17,766,546
Accumulated amortization	(8,186,691)
<b>Net book value</b>	<b>9,579,855</b>

Included in tangible assets are computer software licenses (FIBA) and MasterCard licenses.

Amortization of intangible assets is included in 'Other operating expenses' in the income statement. The remaining average amortization period is 3 years.

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 15. Property and equipment

	<u>Land and buildings</u>	<u>Other assets</u>	<u>Fixed assets in progress</u>	<u>Total</u>
<b>Year ended</b>				
<b>31 December 2007</b>				
<b>Opening net book value</b>	<b>41,268,313</b>	<b>5,805,868</b>	<b>17,628,124</b>	<b>64,702,305</b>
Additions	53,489	1,145,786	13,542,971	14,742,246
Transfer from fix assets in progress	10,375,975	3,299,945	(13,675,921)	
Disposals	(12,109)	(38,804)		(50,913)
Depreciation charge	(1,321,652)	(2,981,955)	-	(4,303,607)
<b>Closing net book value</b>	<b>50,364,016</b>	<b>7,230,840</b>	<b>17,495,174</b>	<b>75,090,031</b>
<b>At 31 December 2007</b>				
Cost or valuation	61,168,957	18,876,994	17,495,174	97,541,126
Accumulated depreciation	(10,804,941)	(11,646,154)	-	(22,451,095)
<b>Net book value</b>	<b>50,364,016</b>	<b>7,230,840</b>	<b>17,495,174</b>	<b>75,090,031</b>
<b>Year ended</b>				
<b>31 December 2008</b>				
<b>Opening net book value</b>	<b>50,364,016</b>	<b>7,230,840</b>	<b>17,495,174</b>	<b>75,090,031</b>
Additions	883,173	5,362,099	27,340,555	33,585,827
Transfer from fix assets in progress	18,340,028	12,520,565	(30,860,593)	-
Disposals	-	(261,655)		(261,655)
Depreciation charge	(2,224,365)	(4,277,983)	-	(6,502,348)
<b>Closing net book value</b>	<b>67,362,852</b>	<b>20,573,866</b>	<b>13,975,136</b>	<b>101,911,855</b>
<b>At 31 December 2008</b>				
Cost or valuation	80,392,159	35,049,469	13,975,136	129,416,764
Accumulated depreciation	(13,029,307)	(14,475,603)	-	(27,504,909)
<b>Net book value</b>	<b>67,362,852</b>	<b>20,573,866</b>	<b>13,975,136</b>	<b>101,911,855</b>

Included within other assets are motor vehicles, furniture and fittings, household equipment, air conditioning equipment.

In the category Fixed Assets in Progress the Bank includes all the assets from the moment of acquisition until the moment the item enters into production. The main items included here are buildings with related investments ( RON 10 mln )

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 16. Other Assets

	<u>31 December 2008</u>	<u>31 December 2007</u>
Collaterals paid by the bank	1,594,897	67,553
Repossessed assets	2,672,177	3,683,238
Negotiable Instruments	4,614,664	5,646,992
Expenses paid in advance	830,488	162,166
Sundry debtors	3,168,620	1,026,245
Other	2,475,158	1,126,748
<b>Total other assets</b>	<b><u>15,356,004</u></b>	<b><u>11,712,942</u></b>

Details on sundry debtors are presented below:

	<u>31 December 2008</u>	<u>31 December 2007</u>
Sundry debtors (gross)	3,169,613	4,337,347
Less provision for doubtful debtors	(993)	(3,311,102)
<b>Other debtors (net)</b>	<b><u>3,168,620</u></b>	<b><u>1,026,245</u></b>

The provision for sundry debtors was made for the receivable recorded by the Bank from a bankrupt company.

### 17. Deposits from Banks

	<u>31 December 2008</u>	<u>31 December 2007</u>
Sight deposits	49,363,557	115,402,253
Term deposits	532,736,806	185,836,940
	<b><u>582,100,363</u></b>	<b><u>301,239,193</u></b>

The interest rate during 2008 for term deposits ranged from 3.30% to 6.1% for USD (2007: from 1% to 5.8%), from 3.00% to 30.00% for RON (2007: from 1% to 17%) and from 2.40% to 6.95% for EUR (2007: from 3.83% to 5.8%).

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 18. Due to Customers

	<u>31 December 2008</u>	<u>31 December 2007</u>
Term deposits - companies	162,135,258	208,734,039
Current accounts	193,832,475	246,979,110
Term deposits - individuals	246,230,261	152,029,931
Restricted deposits	28,907,631	36,316,988
<b>Total deposits from customers</b>	<b><u>631,098,880</u></b>	<b><u>644,060,069</u></b>

Included in restricted deposits were margin accounts for forward transactions outstanding as at 31 December 2008 in the amount of RON 1,923,411 (2007: 1,876,621).

The interest rate during 2008 for term deposits ranged from 0.5% to 25.3% for RON (2007: from 0.5% to 12.0%), from 2.0% to 4.75% for USD (2007: from 1% to 5.8%) and from 0.25% to 7.60% for EUR (2007: from 0.7% to 5.31%).

### 19. Other Borrowed Funds

	<u>31 December 2008</u>	<u>31 December 2007</u>
Loan from Intesa Sanpaolo Group	<u>1,004,578,748</u>	<u>652,537,510</u>

The amount from Intesa Sanpaolo Group comprises four loans received from Intesa Sanpaolo Bank Ireland, Societe Generale de Banque and a subordinated loan granted by Intesa Sanpaolo Ireland. Total amount granted is EUR 165,000,000 (2007: EUR 165,000,000) and a subordinated loan of EUR 15,000,000 (2007: EUR 15,000,000).

The first loan was received on 27 June 2007 in the amount of EUR 20,000,000 with an interest of EURIBOR 3 months + 0.27 % p.a. is repayable in one tranche on 29 June 2015.

The second loan was received on 26 July 2007, in the amount of EUR 35,000,000 with an interest of EURIBOR 3 months + 0.13% p.a. is repayable in one tranche on 26 July 2010.

The third one was received on 27 June 2007 in the amount of EUR 20,000,000 with an interest of EURIBOR 3 months + 0.25% p.a. and is repayable in one tranche on 29 June 2014.

The fourth one was received on 26 August 2007 in the amount of EUR 20,000,000 with an interest of EURIBOR 3 months + 0.32% p.a. and is repayable in one tranche on 26 August 2011.

The fifth one was received on 24 September 2007 in the amount of EUR 20,000,000 with an interest of EURIBOR 3 months + 0.26% p.a. and is repayable in one tranche on 24 September 2009.

The sixth one was received on 8 November 2007 in the amount of EUR 20,000,000 with an interest of EURIBOR 3 months + 0.55% p.a. and is repayable in one tranche on 8 November 2013.

The seventh one was received on 24 December 2007 in the amount of EUR 30,000,000 with an interest of

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 19. Other Borrowed Funds (continued)

EURIBOR 3 months + 0.89% p.a. and is repayable in one tranche on 17 December 2013.

The eight one was received on 17 October 2008 in the amount of EUR 30,000,000 with an interest of EURIBOR 3 months + 3.58% p.a. and is repayable in one tranche on 17 October 2011.

The ninth one was received on 23 October 2008 in the amount of EUR 20,000,000 with an interest of EURIBOR 3 months + 5.7% p.a. and is repayable in one tranche on 20 October 2014.

The tenth one was received on 27 October 2008 in the amount of EUR 20,000,000 with an interest of EURIBOR 3 months + 5.7% p.a. and is repayable in one tranche on 20 October 2014.

The subordinated loan from Intesa Sanpaolo Ireland was received on 13 October 2005 in amount of EUR 15,000,000 with an interest rate of EURIBOR 6M +1.46% p.a. and is repayable on 17 October 2015.

Upon the insolvency of the borrower the lender's claims arising from this agreement will rank behind those of all other creditors of the borrower and will rank ahead only of the shareholders of the borrower.

### 20. Provisions

	<b>31 December 2008</b>	<b>31 December 2007</b>
Provision for rebranding	2,532,932	3,000,000
Provision for risk and charges	4,419,977	8,332,219
Provision for letters of guarantee (Note 26)	3,467,755	3,774,473
Provisions for personnel expenses	5,624,986	-
<b>Total provisions</b>	<b>16,045,650</b>	<b>15,106,692</b>
<b>Provision for litigations and guarantees</b>		
Provision at beginning of period	15,106,692	3,048,011
Charge/(Release) for the year		
-Litigation	(1,440,800)	5,284,208
-Guarantees	(306,718)	2,433,973
-Provisions for charges	568,128	-
-Rebranding	(467,067)	3,000,000
- Personnel expenses	2,585,415	-
<b>Provision at end of period</b>	<b>16,045,650</b>	<b>15,106,692</b>

The provision for litigations arises from the possible outflows from the litigations it has with the third parties. The provision for rebranding arises from the integration projects in which the bank is involved with its new holding company.

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 21. Other Liabilities

	<u>31 December 2008</u>	<u>31 December 2007</u>
Taxes due to the state budget	746,527	454,137
Other liabilities	11,401,203	10,901,800
<b>Total other liabilities</b>	<b><u>12,147,730</u></b>	<b><u>11,355,937</u></b>

Details on other liabilities are presented below:

	<u>31 December 2008</u>	<u>31 December 2007</u>
Creditors Parent Company	1,792,122	2,451,140
Negotiable Instruments	4,614,663	5,646,992
Suppliers	4,561,089	1,261,599
Others	433,329	1,542,069
<b>Total other liabilities</b>	<b><u>11,401,203</u></b>	<b><u>10,901,800</u></b>

### 22. Income Tax Expense

The income tax consists of current and deferred income tax as follows:

	<u>31 December 2008</u>	<u>31 December 2007</u>
Current tax	707,639	1,134,998
Deferred tax charge	1,561,066	1,166,463
	<b><u>2,268,705</u></b>	<b><u>2,301,461</u></b>

	<u>31 December 2008</u>	<u>31 December 2007</u>
<b>Profit before tax</b>	<b><u>17,720,045</u></b>	<b><u>18,825,198</u></b>
Theoretical tax charge at the applicable statutory rate	2,835,207	3,012,032
Tax effect on items which are not deductible:		
non-deductible expenses	2,914,784	1,535,049
income which is exempt of taxation	(3,481,287)	(2,245,620)
<b>Income tax expense for the year</b>	<b><u>2,268,705</u></b>	<b><u>2,301,461</u></b>

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 22. Income Tax Expense (continued)

The differences between regulations issued by the Romanian Ministry of Finance and the accounting rules applied in preparing these financial statements give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting and tax purposes.

Current income tax is calculated applying a rate of 16% (2007: 16%). Deferred income taxes are calculated on all temporary differences under the liability method using a profit tax rate of 16% (2007: 16%).

Deferred income tax assets and liabilities are attributable to the following items:

	<b>31 December 2008</b>	<b>Tax recognized in income statement</b>	<b>31 December 2007</b>
<b>Tax effects of deductible temporary differences</b>			
Loan origination fees	(1,137,435)	10,947	(1,148,382)
Loans impairment	3,544,820	2,315,907	1,228,913
Derivatives Financial Instruments	125,062	125,062	0
Interest rate swap	(42,907)	(77,341)	34,434
	<b>2,489,540</b>	<b>2,374,575</b>	<b>114,965</b>
<b>Tax effects of taxable temporary differences</b>			
IAS 29 restatement of fixed assets	(601,171)	(664,051)	62,880
Gain on fair value of investment securities available - for - sale	(113,305)	(149,459)	36,153
	<b>(714,476)</b>	<b>(813,509)</b>	<b>99,033</b>
<b>Net tax effect of temporary differences</b>	<b>(1,775,063)</b>	<b>(1,561,066)</b>	<b>(213,998)</b>
<b>Total net deferred tax liability</b>	<b>(1,775,063)</b>	<b>(1,561,066)</b>	<b>(213,998)</b>

### 23. Share Capital

	<b>31 December 2008</b>	<b>31 December 2007</b>
Registered share capital	251,111,110	140,000,000
Restatement in accordance with IAS 29	40,174,800	40,174,800
<b>Total share capital</b>	<b>291,285,910</b>	<b>180,174,800</b>

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 23. Share Capital (continued)

The authorized and issued share capital as at 31 December 2008 comprises of 25,111,111 shares (2007: 14,000,000 shares) with a nominal value of RON 10 each. All issued shares are fully paid and carry one vote. During 2008, the bank increased the capital by RON 111,111,110. The issued shares at higher than par which resulted in a share premium increase to the value of RON 251,628,890.

The capital structure as at 31 December 2008 and 31 December 2007 is as follows:

Shareholder	31 December 2008		31 December 2007	
	Number of shares	%	Number of shares	%
Intesa Sanpaolo S.p.A Italia	24,921,567	99.25	13,810,446	98.65
Simest S.p.A Italy	189,544	0.75	189,544	1.35
Carosiello Roberto	-	-	3	-
Sangalli Luigi	-	-	3	-
Paolo Bozzoli	-	-	4	-
	<b>25,111,111</b>	<b>100.00</b>	<b>14,000,000</b>	<b>100.00</b>

### 24. Other Reserves

	31 December 2008	31 December 2007
Share Premium	251,628,890	-
General banking reserve	10,363,003	10,363,003
Statutory reserve	5,969,152	5,595,822
Revaluation reserve available - for - sale investments	(708,159)	484,873
<b>Total reserves</b>	<b>267,252,886</b>	<b>16,443,698</b>
<b>General banking reserve</b>		
<b>At 1 January</b>	<b>10,363,003</b>	<b>6,866,416</b>
Transfer from retained profits	-	3,496,587
<b>At 31 December</b>	<b>10,363,003</b>	<b>10,363,003</b>
<b>Statutory reserve</b>		
<b>At 1 January</b>	<b>5,595,822</b>	<b>4,185,585</b>
Transfer from retained profits	373,330	1,410,237
<b>At 31 December</b>	<b>5,969,152</b>	<b>5,595,822</b>
<b>Revaluation reserve available - for - sale investments</b>		
<b>At 1 January</b>	<b>484,873</b>	<b>487,652</b>
Net gains from changes in fair value	(1,193,032)	(2,779)
<b>At 31 December</b>	<b>(708,159)</b>	<b>484,873</b>

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## Notes to the consolidated financial statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 24. Other Reserves (continued)

In accordance with the Romanian law on banks and banking activities, the Bank must distribute the profit as dividends or affect a transfer to retained earnings (reserves) on the basis of the financial statements prepared under Romanian Accounting Regulations ("RAR"). Amounts transferred to reserves must be used for the purposes designated when the transfer is made.

As at 31 December 2008, under Romanian banking legislation the Bank is required to create the following reserves from appropriation of profit:

Statutory reserve, appropriated at the rate of 5% of the gross statutory profit, until the total reserve equals maximum 20% of the issued and fully paid up share capital (all based on figures from the statutory financial statements prepared in accordance with RAR);

After reducing taxes and setting aside the legal and general reserves as discussed above, the remaining balance of net profit may be distributed to shareholders. Dividends may only be declared from current statutory profit.

### 25. Analysis of Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity:

	<u>31 December 2008</u>	<u>31 December 2007</u>
Cash per the balance sheet	58,226,300	30,672,039
Current account with Central Bank	758,838,938	493,135,759
Due from banks less than 3 months	-	26,920,781
<b>Cash and cash equivalents</b>	<b><u>817,065,238</u></b>	<b><u>550,728,579</u></b>

Current accounts with Central Bank represent mandatory reserve deposits. These are available for use in the Bank's day to day operations, provided that on a month average, the Bank maintains the minimum required by law.

### 26. 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.

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## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 26. Commitments and Contingencies (continued)

#### Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit are collateralized and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss equal to the total unused commitments.

However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorizations being drawn by the customer and, second, from these drawings subsequently not being repaid as due.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

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

	<u>31 December 2008</u>	<u>31 December 2007</u>
Letters of guarantee	256,871,470	241,755,471
Unused loan facilities and letters of credit	81,170,152	89,918,638
Letters of guarantee issued for other banks	74,074,269	19,590,437
<b>Total</b>	<b><u>412,115,891</u></b>	<b><u>351,264,546</u></b>

The letters of guarantee include letters of guarantee in amount of RON 208,633,877 (2007: 209,226,328) issued for credit risk in respect of loans granted by Intesa Sanpaolo S.p.A. Vienna, Intesa Sanpaolo Ireland, Banka Koper and Inter - Europa Bank to Romania customers.

#### Provision for letters of guarantee

	<u>2008</u>	<u>2007</u>
<b>As at 1 January</b>	<b>3,774,473</b>	<b>1,340,550</b>
Charge for the year	(306,718)	2,433,923
<b>As at 31 December</b>	<b><u>3,467,755</u></b>	<b><u>3,774,473</u></b>

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## Notes to the consolidated financial statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 26. Commitments and Contingencies (continued)

#### Capital commitments

As at 31 December 2008 the Bank had capital expenditure contracted for but not recognized in these financial statements of RON 25,469,135 ( 2007 : RON 911,141). The Bank's management is confident that future net revenues and funding will be sufficient to cover these commitments.

The future operating lease payments committed are disclosed below:

	<u>31 December 2008</u>	<u>31 December 2007</u>
No later than 1 year	25,469,135	911,141
Later than 1 year and no later than 5 years	84,049,554	2,291,006
Later than 5 years	4,806,808	537,371

#### Taxation risk

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (0.1% per day delay). In Romania, the Bank's records are open to inspection by the tax authorities for up to 5 years. The Bank's management considers that the tax liabilities included in these financial statements are fairly stated.

### 27. 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 owns 100 % of the ordinary shares.

The related parties considered for the reporting purposes comprise S.p.A., Societe Generale de Banque, Intesa Sanpaolo S.p.A. Torino, Intesa Sanpaolo Ireland, Intereuropa Bank, Banka Kooper which are entities controlled by Intesa Sanpaolo Group.

Related parties were also considered Intesa Sanpaolo Real Estate Romania SA, an entity incorporated in Romania primarily for real estate activities, which has as main shareholder Intesa Sanpaolo SpA Italy.

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.

A number of banking transactions is entered into with related parties in the normal course of business. 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:

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 27. Related Party Transactions (continued)

	Parent company		Group companies		Management and employees	
	2008	2007	2008	2007	2008	2007
<b>Revenues and expenses</b>						
Interest revenues	202,367	31,418	4,717	50,717	997,535	661,375
Interest expenses	(1,998,899)	(69)	(43,022,885)	(20,134,997)	(745,816)	(269,585)
Key management compensation – short term employee benefits	-	-	-	-	4,261,780	293,784
<b>Balance sheet position</b>						
Current accounts	200,530	-	1,345	-	3,655,662	2,669,275
Term deposits placed with banks	535,899,540	-	-	-	-	-
Term deposits due to individuals	-	-	-	-	14,997,195	5,639,242
Term deposits due to group Companies	-	-	-	162,459,000	-	-
Collateral deposits due to group	-	-	-	-	7,970	299,347
Loans from banks	-	-	996,300,000	595,683,000	-	-
Loans to individuals	-	-	-	-	15,130,809	12,371,197
Loans to group companies	1,368,600	3,060,527	220,669	47,165	-	-
<b>Commitments</b>	-	-	<b>74,074,269</b>	<b>209,226,328</b>	-	-

#### 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. Outstanding balances at year end are unsecured. There have been no guarantees provided or received for any related party receivable or payable. For the year ended 31 December 2008 the Bank has not made a provision for doubtful debts relating to amounts owed by related parties. (2007: Nil).

### 28. Financial Risk Management

#### Strategy in using financial instruments

By their nature, the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

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## Notes to the consolidated financial statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 28. Financial Risk Management (continued)

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

#### Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided where there is objective evidence that the bank will not be able to collect all amounts due. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in evidence that is different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved by the board.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

#### *Credit-related commitments*

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit - which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties - carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

#### Interest rate risk

##### *Interest sensitivity of assets, liabilities and off balance sheet items - repricing analysis*

Interest rate risk is the risk that the present value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk affects the fair value of cash flows generated by assets and liabilities to the extent that a change in market interest rates affects the present value of such cash flows. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the sensitivity of the present value of all assets and liabilities to a change in interest rate.

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 28. Financial Risk Management (continued)

The table below summarizes the Bank's exposure to interest rate risks at 31 December 2008. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
<b>At 31 December 2008</b>							
<b>Assets</b>							
Cash	58,226,300	-	-	-	-	-	58,226,300
Balance with Central Bank	758,838,938	-	-	-	-	-	758,838,938
Loans and advances to banks	6,568,825	-	-	-	-	-	6,568,825
Loans and advances to customers	112,269,141	147,134,463	516,164,225	291,055,267	765,001,067	-	1,831,624,163
Derivative financial instruments	-	-	-	-	-	-	-
Investment securities available – for - sale	-	-	-	11,366,111	-	255,580	11,621,691
Intangible assets	-	-	-	-	-	9,579,855	9,579,855
Property and equipment	-	-	-	-	-	101,911,855	101,911,855
Deferred income tax assets	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	15,356,004	15,356,004
<b>Total assets</b>	<b>935,903,205</b>	<b>147,134,463</b>	<b>516,164,225</b>	<b>302,421,378</b>	<b>765,001,067</b>	<b>127,103,294</b>	<b>2,793,727,632</b>
<b>Liabilities</b>							
Deposits from banks	49,363,557	395,388,943	137,347,863	-	-	-	582,100,363
Due to customers	406,386,439	139,557,209	53,503,083	6,520,760	1,204,242	23,927,149	631,098,881
Derivative financial instruments	2,051,108	228,145	-	55,952	-	-	2,335,206
Other borrowed funds	-	-	79,711,158	542,209,069	382,658,521	-	1,004,578,748
Other liabilities	-	-	-	-	-	-	28,193,380
Current income tax liabilities	-	-	-	-	-	675,393	675,393
Deferred tax liabilities	-	-	-	-	-	1,775,064	1,775,064
<b>Total liabilities</b>	<b>457,801,104</b>	<b>535,174,297</b>	<b>270,562,104</b>	<b>548,785,782</b>	<b>383,862,763</b>	<b>54,570,985</b>	<b>2,250,757,034</b>
<b>Cumulative interest rate gap</b>	<b>478,102,101</b>	<b>90,062,267</b>	<b>335,664,389</b>	<b>89,299,985</b>	<b>470,438,289</b>	<b>542,970,598</b>	

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 28. Financial Risk Management (continued)

The table below summarizes the effective interest rate by major currencies for monetary financial instruments.

<b>31 December 2008</b>	<u>EUR</u>	<u>USD</u>	<u>RON</u>
	%	%	%
<b>Assets</b>			
Current accounts with Central Bank	2.80	1.05	5.60
Deposits with Central Bank	-	-	-
Loans and advances to banks available - for - sale	-	-	1.00
Investment securities	5.85	-	8.96
<b>Loans and advances to customers</b>			
<i>Individuals</i>			
short term	8.87	-	21.00
medium and long term	6.49	9.09	19.59
<i>Companies</i>			
1-3 months	8.66	9.50	18.93
3-12 months	8.14	7.90	19.73
more than 12 months	8.32	9.09	20.08
Deposits from banks	4.19	-	13.25
Other borrowed funds	6.41	-	-
<b>Due to customers</b>			
up to 30 days	4.59	3.00	12.23
1-3 months	4.76	3.20	15.27
3-9 months	4.65	3.35	14.12
9-12 months and over	5.24	3.43	7.72

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 28. Financial Risk Management (continued)

The table below summarizes the Bank's exposure to interest rate risks at 31 December 2007. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Total assets	595,419,885	114,041,760	342,589,704	174,529,015	473,024,136	91,518,846	1,791,123,346
Total liabilities	623,867,409	177,413,107	121,307,050	302,706,000	380,410,500	19,646,848	1,625,350,914
<b>Cumulative Interest rate gap</b>	<b>(28,447,524)</b>	<b>(91,818,871)</b>	<b>129,463,783</b>	<b>1,286,798</b>	<b>93,900,434</b>	<b>165,772,432</b>	

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 28. Financial Risk Management (continued)

The table below summarizes the effective interest rate by major currencies for monetary financial instruments.

<b>31 December 2007</b>	<b>EUR</b>	<b>USD</b>	<b>RON</b>
	%	%	%
<b>Assets</b>			
Current accounts with Central Bank	1.35	-	2.50
Deposits with Central Bank	-	-	-
Loans and advances to banks available - for - sale	2.83	1.23	7.77
Investment securities	5.75	-	7.08
Loans and advances to customers			
<i>Individuals</i>			
short term	8.61	15.00	34.29
medium and long term	8.33	8.94	11.23
<i>Companies</i>			
1-3 months	8.97	10.12	13.16
3-12 months	8.37	10.10	11.03
more than 12 months	8.41	11.92	11.26
Deposits from banks	5.16	-	7.28
Other borrowed funds	5.10	-	-
Due to customers			
up to 30 days	3.54	3.65	6.91
1-3 months	1.85	1.05	2.01
3-9 months	4.37	4.89	7.64
9-12 months and over	4.83	4.75	4.94

#### Interest rate sensitivity analysis

The amounts below represent the sensitivity to a modification by 25 bps of the interest rates to the income statement and equity.

The assets and liabilities included in the calculations are the outstanding volumes as at the 31 December 2008 and 31 December 2007.

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 28. Financial Risk Management (continued)

31 December 2008

Currency	Increase in BPs	Interest rate sensitivity				
		0-18 M	19-36 M	3-5 Y	5-10Y	10-15Y
RON	+25	(68,472)	(1,696)	(21,753)	(43,132)	(1,801)
EUR	+25	435,782	(155,124)	(279,430)	(1,029,210)	(259,668)
CHF	+25	(2,196)	(4,689)	(10,743)	(39,047)	(16,765)
USD	+25	2,299	(677)	(1,375)	(4,316)	-
Others	+25	-	-	-	-	-

Currency	Decrease in BPs	Interest rate sensitivity				
		0-18M	19-36M	3-5Y	5-10Y	10-15Y
RON	-25	68,472	1,696	21,753	43,132	1,801
EUR	-25	(435,782)	155,124	279,430	1,029,210	259,668
CHF	-25	2,196	4,689	10,743	39,047	16,765
USD	-25	(2,299)	677	1,375	4,316	-
Others	-25	-	-	-	-	-

31 December 2007

Currency	Increase in BPs	Interest rate sensitivity				
		0-18 M	19-36 M	3-5 Y	5-10Y	10-15Y
RON	+25	(37,849)	(5,426)	(39,117)	(62,446)	(5,000)
EUR	+25	304,621	(85,609)	(164,867)	(404,017)	(131,826)
CHF	+25	(303)	(2,679)	(6,047)	(22,535)	(11,740)
USD	+25	2,903	(570)	(1,173)	(3,996)	-
Others	+25	-	-	-	-	-

Currency	Decrease in BPs	Interest rate sensitivity				
		0-18M	19-36M	3-5Y	5-10Y	10-15Y
RON	-25	37,849	5,426	39,117	62,446	5,000
EUR	-25	(304,621)	85,609	164,867	404,017	131,826
CHF	-25	303	2,679	6,047	22,535	11,740
USD	-25	(2,903)	570	1,173	3,996	-
Others	-25	-	-	-	-	-

#### Currency Risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 28. Financial Risk Management (continued)

overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2007. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by currency.

	<u>RON</u>	<u>EUR</u>	<u>USD</u>	<u>Other</u>	<u>Total</u>
<b>At 31 December 2008</b>					
<b>Assets</b>					
Cash	40,907,113	15,522,403	1,038,392	758,392	58,226,300
Balances with Central Bank	67,324,012	691,514,926	-	-	758,838,938
Loans and advances to banks	118,337	4,566,471	886,555	997,463	6,568,825
Loans and advances to customers	470,302,279	1,339,433,714	5,209,371	16,678,800	1,831,624,164
Derivative financial instruments	-	-	-	-	-
Investments securities available -for - sale	3,907,370	7,714,321	-	-	11,621,691
Intangible assets	9,579,855	-	-	-	9,579,855
Property and equipment	101,911,855	-	-	-	101,911,855
Deferred income tax assets	-	-	-	-	-
Other assets	14,561,249	774,628	14,019	6,108	15,356,004
<b>Total assets</b>	<b><u>708,612,070</u></b>	<b><u>2,059,526,463</u></b>	<b><u>7,148,337</u></b>	<b><u>18,440,763</u></b>	<b><u>2,793,727,632</u></b>
<b>Liabilities</b>					
Deposits from banks	41,156,869	524,904,839	5,102	16,033,553	582,100,363
Due to customers	343,138,896	276,521,048	9,777,764	1,661,172	631,098,880
Derivative financial instruments	2,335,206	-	-	-	2,335,206
Other borrowed funds	-	1,004,578,748	-	-	1,004,578,748
Other liabilities	27,026,880	1,152,784	13,716	-	28,193,380
Def Tax Liab	675,393	-	-	-	675,393
Current income tax liabilities	1,775,064	-	-	-	1,775,064
<b>Total liabilities</b>	<b><u>416,108,308</u></b>	<b><u>1,807,157,420</u></b>	<b><u>9,796,582</u></b>	<b><u>17,694,725</u></b>	<b><u>2,250,757,034</u></b>
<b>Net on balance-sheet position</b>	<b><u>292,503,763</u></b>	<b><u>252,369,043</u></b>	<b><u>(2,648,245)</u></b>	<b><u>746,038</u></b>	<b><u>542,970,599</u></b>
Net off balance sheet position	-	(244,118,856)	2,252,940	-	(241,865,916)
<b>Net foreign exchange</b>	<b><u>292,503,763</u></b>	<b><u>8,250,187</u></b>	<b><u>(395,305)</u></b>	<b><u>746,038</u></b>	<b><u>301,104,683</u></b>

Other currencies include mainly British Pound and Hungarian Forint.

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 28. Financial Risk Management (continued)

The table below summarizes the Bank's exposure to foreign exchange rate risk at 31 December 2007:

	RON	EUR	USD	Other	Total
<b>At 31 December 2007</b>					
Total assets	608,318,062	1,167,907,388	5,396,177	9,501,721	1,791,123,347
Total liabilities	450,685,222	1,165,101,277	8,652,444	911,971	1,625,350,914
<b>Net on balance-sheet position</b>	<b>157,632,840</b>	<b>2,806,111</b>	<b>(3,256,267)</b>	<b>8,589,750</b>	<b>165,772,433</b>
Net off balance sheet position	-	(42,399,122)	88,149,919	(1,683,520)	44,067,277
<b>Net foreign exchange</b>	<b>157,632,840</b>	<b>(39,593,011)</b>	<b>84,893,652</b>	<b>6,906,230</b>	<b>209,839,710</b>

#### Market risk – Non-trading

The tables below indicate the currencies to which The Bank has significant exposures at 31st December 2008 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against RON, with all the other variables held constant on the income statement (due to the fair value of currency sensitivity non-trading monetary assets and liabilities) and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

Currency	Changes (%)	Effect in the income statement	
		2008	2007
RON	+10	825,019	(651,768)
EUR	+10	(39,531)	(24,400)
CHF	+10	74,604	46,673
<b>TOTAL Effect</b>	<b>+10%</b>	<b>860,092</b>	<b>(629,495)</b>

Currency	Changes (%)	Effect in the income statement	
		2008	2007
RON	-10	(825,019)	651,768
EUR	-10	39,531	24,400
CHF	-10	(74,604)	+46,673
<b>TOTAL Effect</b>	<b>-10%</b>	<b>860,092</b>	<b>629,495</b>

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 28. Financial Risk Management (continued)

#### Liquidity risk and funding management

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank maintains a daily equilibrium between maturing assets and maturing liabilities but does not maintain cash resources to meet all future liabilities, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on liquidity mismatching in order to comply with National Bank of Romania's regulations and with other internationally defined regulations. The tendency in the last 6 months of 2007 was to increase the source of funds represented by deposits in the liquidity band 1 to 3 months (due to pricing policy offered by the Bank); therefore offering a better cover to liquidity risk.

At 31 December 2008	Up to 1 month	1 month to 3 months	3 months to 1 year	Over 1 year	Total
<b>Assets</b>					
Cash	58,226,300	-	-	-	58,226,300
Balances with Central Bank	758,838,938	-	-	-	758,838,938
Loans and advances to banks	6,568,825	-	-	-	6,568,825
Loans and advances available -for - sale to customers	112,269,141	147,134,463	516,164,225	1,056,056,334	1,831,624,163
Derivative securities AFS	-	-	-	-	-
Investment securities	-	-	-	11,621,691	11,621,691
Intangibles	-	-	-	9,579,855	9,579,855
Property and equipment	-	-	-	101,911,855	101,911,855
Deferred income tax assets	-	-	-	-	-
Other assets	-	-	-	15,356,004	15,356,004
<b>Total assets</b>	<b>935,903,205</b>	<b>147,134,463</b>	<b>516,164,225</b>	<b>1,194,525,739</b>	<b>2,793,727,632</b>
<b>Liabilities</b>					
Deposits from banks	49,363,557	395,388,943	137,347,863	-	582,100,363
Due to customers	406,386,439	139,557,209	53,503,083	31,652,150	631,098,881
Derivative financial instruments	2,051,108	228,145	-	55,952	2,335,206
Other borrowed funds	-	-	79,711,158	924,867,590	1,004,578,748
Other liabilities	-	-	-	28,193,380	28,193,380
Current income tax liability	-	-	-	2,450,457	2,450,457
<b>Total liabilities</b>	<b>457,801,104</b>	<b>535,174,297</b>	<b>270,562,104</b>	<b>987,219,529</b>	<b>2,250,757,034</b>
<b>Net liquidity gap</b>	<b>478,102,101</b>	<b>90,062,267</b>	<b>335,664,389</b>	<b>542,970,598</b>	
<b>At 31 December 2007</b>					
Total assets	605,093,459	115,067,222	342,589,704	728,372,961	1,791,123,346
Total liabilities	628,407,565	177,413,107	121,307,050	698,223,192	1,625,350,914
<b>Net liquidity gap</b>	<b>(23,314,106)</b>	<b>(62,345,885)</b>	<b>221,282,654</b>	<b>30,149,769</b>	<b>165,772,432</b>

## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 28. Financial Risk Management (continued)

#### Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of The Bank's financial liabilities at 2008 based on contractual undiscounted repayment obligations. See in the table also the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, The Bank expects that many customers will not request repayment on the earliest date. The Bank could be required to pay and the table does not reflect the expected cash inflows indicated by The Bank's deposit retention history.

<b>At 31 December 2008</b>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>Over 1 year</b>	<b>Total</b>
Deposits from banks	49,377,438	396,088,066	143,304,700	-	588,770,204
Due to customers	414,148,487	146,147,309	72,464,118	9,909,480	642,669,394
Derivative financial instruments	3,846,519	-	-	58,667	3,905,186
Other borrowed funds	-	-	81,588,203	1,123,832,273	1,205,420,475
Other liabilities	28,193,380	-	-	-	28,193,380
Current income tax liability	-	2,450,457	-	-	2,450,457
<b>Total liabilities</b>	<b>495,565,824</b>	<b>544,685,831</b>	<b>297,357,021</b>	<b>1,133,797,705</b>	<b>2,471,409,096</b>

<b>At 31 December 2007</b>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 months to 1 year</b>	<b>Over 1 year</b>	<b>Total</b>
Deposits from banks	139,053,744	102,140,455	81,746,016	-	322,940,215
Due to customers	480,639,443	85,115,299	49,924,695	33,041,168	648,720,605
Derivative financial instruments	-	-	-	-	-
Other borrowed funds	-	-	-	909,636,672	909,636,672
Other liabilities	26,462,629	-	-	-	26,462,629
Current income tax liability	-	1,051,836	-	-	1,051,836
<b>Total liabilities</b>	<b>646,155,816</b>	<b>188,307,589</b>	<b>131,670,711</b>	<b>942,677,840</b>	<b>1,908,811,634</b>

#### Fair values of financial assets and liabilities

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	<b>Carrying value</b>		<b>Fair value</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Financial assets</b>				
Loans and advances				
to banks	6,568,825	26,920,781	6,568,825	26,870,438
Loans and advances				
to customers	1,831,624,164	1,124,495,742	1,750,011,674	1,073,025,163
<b>Financial liabilities</b>				
Deposits from banks	582,100,363	301,239,193	580,660,642	303,119,466
Due to customers	631,098,880	644,060,069	631,012,,742	642,095,567
Other borrowed funds	1,004,578,748	652,537,188	902,163,377	641,317,971

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## Notes to the consolidated financial statements

*(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)*

### 28. Financial Risk Management (continued)

#### Loans and advances to banks

Due from other banks includes inter-bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

#### Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Deposits from banks, due to customers and other borrowed funds

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

### 29. Capital Adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the National Bank of Romania in supervising the Bank. During the year the Bank has complied in full with all externally imposed capital requirements.

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. The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

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## Notes to the consolidated financial statements

(All amounts are expressed in Romanian Lei ("RON"), unless otherwise stated)

### 29. Capital Adequacy (continued)

#### Regulatory capital

	<b>Actual</b> <b>31.12.2008</b>	<b>Actual</b> <b>31.12.2007</b>
Tier 1 capital	528,191,032	150,963,988
Tier 2 capital	337,842	60,674,842
<b>Total capital</b>	<b>528,528,874</b>	<b>211,638,830</b>
Risk weighted assets	1,735,191,848	1,444,847,978
<b>Total capital ratio</b>	<b>30.41%</b>	<b>14.65%</b>

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation and minority interests less accrued dividends, net long positions in own shares and goodwill. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of Romania. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt, preference shares and revaluation reserves.

### 30. Events After the Balance Sheet Date

As of 09 February 2009 Mr. Francesco Cervetti was substituted in the BoA by Mr. Riccardo Parasporo.



