BANCPOST SA

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2012

Prepared in accordance with International Financial Reporting Standards as adopted by EU

BANCPOST SA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF BANCPOST SA

Report on the Financial Statements

1 We have audited the accompanying financial statements of Bancpost SA ("the Bank") which comprise the statement of financial position as at 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and National Bank of Romania Order 27/2010, as amended ("NBR Order 27/2010"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

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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.

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 financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with IFRS as adopted by the EU and NBR Order 27/2010.

Report on Other Legal and Regulatory Requirements

We have read the Administrators' Report attached to these financial statements as presented on pages 1 to 18 and did not identify any material inconsistencies with the financial statements. The Administrators' Report is not a part of the financial statements.

Pricewaterhouse Coopers Audit SRL

PricewaterhouseCoopers Audit SRL — Bucharest, 12 April 2013

Our report has been prepared in Romanian and in English languages. In all matters of interpretation of information, views or opinions, the Romanian language version of our report takes precedence over the English language version.

NOTES TO FINANCIAL STATEMENTS

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in RON thousand unless otherwise stated)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Interest and similar income	5	776,507	934,902
Interest expense and similar charges	5	(489,076)	(583,006)
Net interest income		287,431	351,896
Fee and commission income	6	164,953	159,761
Fee and commission expense	6	(39,058)	(39,902)
Net fee and commission income		125,895	119,859
Net trading income	7	165,319	186,454
Other operating income	8	3,919	7,929
Operating Income		582,564	666,138
Other operating expenses	9	(542,189)	(571,306)
Profit/(Loss) from operations before impairment losses		40,375	94,832
Impairment charge for credit losses	10	(192,175)	(222,461)
Profit/ (Loss) before income tax		(151,800)	(127,629)
Income tax release/ (expense)	11	101,889	5,178
Profit/ (Loss) attributable to shareholders		(49,911)	(122,451)

The accompanying notes from 1 to 32 forms an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in RON thousand unless otherwise stated)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Profit/ (Loss) for the year		(49,911)	(122,451)
Net gains / (losses) on available-for-sale financial assets	17	23,630	(7,162)
- Changes in fair value arising during the period, before tax		20,961	(20,393)
- Transfers to Income Statement before tax		2,669	13,230
Income tax related to components of other comprehensive income	11	(3,781)	1,146
Other comprehensive (loss) income for the year, net of tax		19,849	(6,016)
Total comprehensive (loss)/ income for the year		(30,062)	(128,467)

The financial statements on pages 1 to 92 were approved by the Board of Directors and signed on behalf of the Board of Directors on April 11th, 2013 by:

MIHAI BOGZA
Chairman of the Board of Directors

LUCICA CRISTINA PITULICE
Executive Manager
Finance and Accounting

ANTONIOS C. HASSIOTIS
Executive President

Bancpost S.A.
PREŞEDINTE EXECUTIV
ROMANIA

BANCPOST SA

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in RON thousand unless otherwise stated)

	Note	31 December 2012	31 December 2011
Assets			
Cash	28	437,376	302,080
Balances with Central Bank	12	1,500,729	1,716,946
Loans and advances to banks	13	749,494	1,478,791
Loans and advances to customers (net)	3,16	7,148,461	7,577,696
Trading assets	14	546,528	347,154
Derivative financial instruments	15	60,496	66,396
Investment securities, available for sale	17	1,134,085	698,181
Intangible assets	18	113,083	111,283
Property plant and equipment	19	389,464	429,243
Other assets	20	56,816	77,361
Deferred income tax assets	11	48,112	-
Total assets		12,184,644	12,805,131
Liabilities			
Due to banks	21	1,066,854	1,517,806
Due to customers	22	8,032,640	7,971,236
Derivative financial instruments	15	92,597	125,232
Other borrowed funds	23	1,310,941	1,440,307
Other liabilities	24	143,017	131,854
Deferred income tax liability	11	-	50,002
Total liabilities		10,646,049	11,236,437
Equity			
Share capital	26	1,350,245	1,350,245
Share premium		81,133	81,133
Other reserves	27	171,285	151,625
Retained earnings		(64,068)	(14,309)
Shareholders' equity		1,538,595	1,568,694
Total equity		1,538,595	1,568,694
Total liabilities and equity		12,184,644	12,805,131

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MIHAI BOGZA
Chairman of the Board of Directors

LUCICA CRISTINA PITULICE
Executive Manager
Finance and Accounting

Bancpost S.A.
PREŞEDINTE EXECUTIV
ROMANIA

ANTONIOS C. HASSIOTIS
Executive President

The accompanying notes from 1 to 32 forms an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in RON thousand unless otherwise stated)

	Share capital	Share premium	Other reserves	Retained earnings	Total
Balance as at 1 January 2011	1,263,819	81,133	157,642	108,142	1,610,736
Other comprehensive income/ (loss) for the year	-	-	(6,016)	-	(6,016)
Profit/ (Loss) for the year	-	-	-	(122,451)	(122,451)
Total comprehensive income for the year	1,263,819	81,133	151,626	(14,309)	1,482,269
Issue of share capital/ by conversion of subordinated debt	86,426	-	-	-	86,426
Balance as at 31 December 2011	1,350,245	81,133	151,625	(14,309)	1,568,694
Balance as at 1 January 2012	1,350,245	81,133	151,625	(14,309)	1,568,694
Other comprehensive income/ (loss) for the year	-	-	19,849	-	19,849
Profit/ (Loss) for the year	-	-	-	(49,911)	(49,911)
Total comprehensive income for the year	1,350,245	81,133	171,474	(64,220)	1,538,632
Prior year correction	-	-	(189)	152	(37)
Issue of share capital/ by conversion of subordinated debt	-	-	-	-	-
Balance as at 31 December 2012	1,350,245	81,133	171,285	(64,068)	1,538,595

BANCPOST SA

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012
(All amounts in RON thousand unless otherwise stated)

	Note	2012	2011
Cash flows from operating activities			
Interest receipts		878,332	979,653
Interest paid		(524,804)	(583,051)
Fee and commission receipts		125,895	97,129
Net trading and other income received		66,426	359,977
Income from loans previously written off		153	24,441
Cash payments to employees and suppliers		(476,799)	(503,022)
Income taxes paid		-	-
Net cash flows from operating activities before changes in operating assets and liabilities		69,203	375,127
Net change in operating assets			
Net decrease/ (increase) in trading assets		(198,913)	(248,948)
Net increase in balances with Central Bank and other banks over 90 days		(178)	1,622
Net decrease/ (increase) in loans and advances to customers		226,379	(160,116)
Net decrease in other assets		19,319	3,237
Total net changes in operating assets		46,607	(404,205)
Net change in operating liabilities			
Net increase/ (decrease) in deposits from banks		(449,459)	(1,522,133)
Net increase/(decrease) in deposits from customers		49,586	(131,369)
Net (decrease)/ increase in other liabilities		(4,200)	(488,221)
Total net changes in operating liabilities		(404,073)	(2,141,723)
Net cash from operating activities		(288,263)	(2,170,801)
Cash flows from investing activities			
Purchase of investment securities		(2,014,265)	(410,555)
Proceeds from sale of investment securities		1,598,092	1,214,162
Proceeds from sale/(acquisition) of equity investments		(13)	50
Dividends received		505	1,801
Purchase of property, equipment and intangible assets		(21,248)	(28,378)
Net cash used in investing activities		(436,929)	777,080

The accompanying notes from 1 to 32 forms an integral part of these financial statements

(All amounts in RON thousand unless otherwise stated)

	Note	2012	2011
Cash flows from financing activities			
Proceeds from borrowed funds and debt securities		1,468,806	2,640,409
Repayments borrowed funds and debt securities		(1,566,783)	(1,976,758)
Proceeds from share capital increase		-	-
Net cash from financing activities		(97,977)	663,651
Effect of exchange rate movements on cash and cash equivalents		12,773	4,122
Increase/(Decrease) in cash and cash equivalents		(810,396)	(725,948)
Cash and cash equivalents at 1 January		3,497,817	4,223,765
Cash and cash equivalents at 31 December	28	2,687,421	3,497,817

(All amounts in RON thousand unless otherwise stated)

1 THE BANK AND ITS OPERATIONS

Bancpost SA ("Bancpost" or the "Bank") was incorporated in Romania in 1991 as a Joint Stock Company and it is licensed by the National Bank of Romania to conduct banking activities. The Bank is principally engaged in wholesale and retail banking operations in Romania and employed 3,046 people at 31 December 2012 (31 December 2011: 3,358). The Bank operates through its head office located in Bucharest and 240 branches and offices (31 December 2011: 265) located in Romania.

As at 31 December 2012, the registered office of the Bank was 6A Dimitrie Pompeiu Avenue, Bucharest, Sector 2, ROMANIA.

The **Board of Directors** composition (13 members) as at 31 December 2012 was:

Mihai Bogza	Chairman
Dimitrios Damkalidis*	Deputy Chairman
Theodoros Karakasis	Deputy Chairman
Michael Colakides	Member
Christina Theofilidi	Member
Iasmi Ralli	Member
Michael Vlastarakis	Member
Georgios Marinos	Member
Lambros Yiannis Demosthenous	Member
Antonios Hassiotis	Member
Stavros Ioannou	Member

Notes:* *Mr. Damkalidis submitted his resignation from the position of member of the Bancpost's Board of Directors, starting January 03rd 2013, whereas the bank's shareholders are to be notified in this respect during the next Ordinary General Assembly of Shareholders.*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the standalone financial statements are set out below:

2.1 Basis of preparation

The financial statements of the Bank a have been prepared on standalone basis and in accordance with International Financial Reporting Standards (IFRS) issued by the IASB, as endorsed and adopted by the European Union (the 'EU'), and in particular with those IFRSs standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements.

The policies set out below have been consistently applied to the years 2012 and 2011. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(a) Amended and new standards and interpretations effective in 2012 for EU:
- IFRS 7, Amendment - Disclosures, Transfers of Financial Assets

The standard requires new disclosures, regarding the transfers of financial assets, to be presented in the financial statements. Please see note 24.

(b) Standards and interpretations issued but not yet effective for EU
- IAS 1, Amendment - Presentation of Items of Other Comprehensive Income (effective 1 January 2013);
- IAS 12, Amendment - Deferred tax: Recovery of Underlying Assets (effective 1 January 2013);
- IAS 27, Amendment - Separate Financial Statements (effective 1 January 2014);
- IFRS 9, Financial Instruments (effective 1 January 2015, not yet endorsed by EU);
- IFRS 9 and IFRS 7, Amendment - Mandatory Effective Date and Transition Disclosures (effective 1 January 2015, not yet endorsed by EU);
- IFRS 13, Fair Value Measurement (effective 1 January 2013);

The management is assessing the impact of the above standards on the Bank financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- IAS 19, Amendment - Employee Benefits (effective 1 January 2013);
- IAS 28, Amendment - Investments in Associates and Joint Ventures (effective 1 January 2014);
- IAS 32, Amendment - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014);
- IFRS 7, Amendment - Disclosures, Offsetting Financial Assets and Financial Liabilities (effective 1 January 2013);
- IFRS 11, Joint Arrangements (effective 1 January 2014);
- IFRS 12, Disclosure of Interests in Other Entities (effective 1 January 2014);
- IFRS 10, 11 and 12 Amendments - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (effective 1 January 2013, not yet endorsed by EU);

The management expects the above standards to have immaterial or no impact on the Bank financial statements.

- Annual Improvements to IFRSs 2009–2011 Cycle (effective 1 January 2013, not yet endorsed by EU);
- FRS 10, 12 and 27 Amendments - Investment Entities (effective 1 January 2014, not yet endorsed by EU);

IFRS 9 is part of IASB's project to replace IAS 39 Financial Instruments which has not been finalized yet and as a result, it is not practicable to quantify its impact. The application of the other above mentioned standards and interpretations is not expected to have a material impact on the Bank's financial statements in the period of the initial application.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.
The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of the economic crisis in Greece

Greece entered into a new funding and restructuring programme with the European Commission, the ECB and the eurozone member-states as agreed in the Eurogroup meeting of February 21st 2012. The programme aimed at bringing the country's public debt-to-GDP ratio below 120% by 2020.

The new funding and reform programme improved the country's financial position and outlook, via the reduction of public debt and its servicing costs from 2012 onwards.

On the back of these developments, and after the implementation/legislation of a long list of structural reforms and fiscal austerity measures for 2013-16 by the Greek Government, the Eurogroup reached on November 26th, 2012 an agreement on a set of new measures for the reduction of Greek public debt to 124.0% of GDP by 2020 and 110.0% of GDP in 2022. This debt path is consistent with the debt sustainability required by the IMF.

Position of Eurobank Group

Greek sovereign debt exchange programme

On 21 February 2012 the Euro-area finance ministers agreed on a bail out programme for Greece, including financial assistance from the Official Sector and a voluntary debt exchange agreed with the Private Sector forgiving 53.5% of the face value of Greek debt. All exchanged bonds were derecognized and the new Greek government bonds (nGGBs) recognized at fair value, based on market quotes at the date of recognition.

Following the Eurogroup's decisions on 27 November 2012 and as part of debt reduction measures, the Greek State announced on 3 December 2012 an invitation to eligible holders of nGGBs to submit offers to exchange such securities for six months zero coupon notes to be issued by the European Financial Stability Fund (EFSF). Under its participation to the Greek state's debt buyback program, the Eurobank Ergasias Group submitted for exchange the 100% of its nGGBs portfolio of total face value € 2.3 bn.

Recapitalization Framework and Process

Given the severity of the impact of the Greek Government Bond exchange program (PSI+), on 21 February 2012 the Euro Area finance ministers allocated a total of € 50 bn of the second support program for Greece specifically for the recapitalisation of the Greek banking system. These funds are directed to the Hellenic Financial Stability Fund (HFSF) whose mandate has been extended and enhanced accordingly. € 23 bn of these funds were remitted to Greece in the second quarter of 2012, € 16 bn in December 2012 while the final € 11 bn are expected within next months.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank of Greece, after assessing the business plan and the capital needs of Eurobank has concluded on 19 April 2012 that Eurobank is a viable bank and, on 8 November 2012, notified the Bank that its Tier I capital should increase by € 5,839 million. The Bank, the HFSF and the European Financial Stability Facility ("EFSF") signed on 28 May 2012 and on 21 December 2012 a trilateral presubscription agreement (PSA) for the advance to the Bank of EFSF notes of face value of € 3,970 million and € 1,341 million (total € 5,311 million) as advance payment of its participation in the future share capital increase of the Bank. In addition, HFSF provided to the Bank a commitment letter for additional capital support of € 528 million up to the total level of recapitalisation needs of € 5,839 million. Proforma with the full recapitalisation amount of € 5,839 million, on 31 December 2012 the Group's regulatory capital stands at € 4.4 bn, the Core Tier I capital at € 4.1 bn, its Capital Adequacy ratio at 11.6% and the Core Tier I ratio at 10.8%. The above ratios will be negatively affected as of 31 March 2013 following recent changes in the Greek regulatory framework with respect to capital adequacy requirements. Such impact is expected to be mitigated through capital actions that are currently under planning and assessment stage by the Bank.

Alpha Bank - Eurobank Merger

On 22 May 2012, the Second Repeat Extraordinary Shareholders' Meeting of Alpha Bank aborted the merger procedure with Eurobank and recalled Alpha Bank's General Meeting decisions on 15 November 2011.

Position of the Bank

As at 31 December 2012, Bancpost does not rely on funding from the Parent bank but predominantly on locally collected deposits, its own capital base and international financial institutions.

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Banks operates ('the functional currency'). The financial statements are presented in RON, which is the Bank's functional and presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the income statement.
Monetary assets and liabilities denominated in foreign currencies have been translated into the functional currency at the market rates of exchange ruling at the balance sheet date and exchange differences are accounted for in the income statement.
Both foreign exchange differences arising from transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognized in the net trading income.

Non-monetary assets and liabilities have been translated into the functional currency at the exchange rates ruling at initial recognition, except for non-monetary items denominated in foreign currencies that are stated at fair value which have been translated using the rate of exchange at the date the fair value was determined. The exchange differences relating to these items are treated as part of the change in fair value and they are recognized in the income statement or recorded directly in equity depending on the classification of the non-monetary item.

2.3 Accounting for the effect of hyperinflation

Prior to 1 January 2004 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RON in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment in Romania indicate that hyperinflation has ceased, effective from 1 January 2004 the Bank no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these financial statements.

(All amounts in RON thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The restatement was calculated using the conversion factors derived from the Romanian Consumer Price Index ("CPI"), published by the National Institute of Statistics. The indices used to restate corresponding figures, based on 1998 prices (1998 = 100) for the five years ended 31 December 2003, and the respective conversion factors are:

Year	Movement in CPI	Indices	Conversion Factor
1999	54.8%	1.548	2.46
2000	40.7%	2.178	1.75
2001	30.3%	2.838	1.35
2002	17.8%	3.343	1.14
2003	14.1%	3.815	1.00

The main guidelines followed in restating the corresponding figures were:

All corresponding amounts were stated in terms of the measuring unit current at 31 December 2003.

Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current at 31 December 2003) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2003. The balance sheet items affected by the restatements are "Property, Plant and Equipment" and the Equity.

2.4 Financial instruments

(a) Classification

The Bank classifies its financial assets into the following IAS 39 categories: financial assets held at fair value through profit or loss, loans and receivables and available-for-sale financial assets. Management determines the classification of its instruments at initial recognition.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

This category has two sub-categories: financial assets held for trading ("HFT") and those designated at fair value through profit or loss upon initial recognition. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. As at 31 December 2012 the Bank had classified as financial assets held for trading, government bond bought for trading purposes (See Note 14). The Bank currently does not have any financial assets designated at fair value through profit or loss upon initial recognition. Derivatives are also categorized as held for trading unless they are hedging instruments.

(ii) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(iii) 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.
The gain / loss from disposals of AFS investments are presented under "other income" line in the Income Statement.

(b) Recognition, de-recognition and initial measurement

Purchases and sales of financial assets AFVPL, HTM and AFS are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans and receivables 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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsequent measurement

AFS financial assets and financial assets AFVPL are subsequently carried at fair value. Loans and advances and HTM investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the AFVPL 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 statement of comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in statement of comprehensive income 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. 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 observable in the market and discounted cash flow analysis. The Bank has recorded a gain of RON 138 thousand from disposals of investment securities classified as available for sale (a gain of RON 4,038 thousands from disposal of government bonds and a loss of RON 3,900 thousand from disposal of equity investment as available for sale), which is presented as other income.

2.5 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 offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.6 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 re-measured 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.
Included in derivatives are instruments purchased from the Parent Bank and contracts entered into with third parties. The derivatives are recognized and subsequently measured at the fair value.

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. The Bank did not identify any embedded derivatives that required separation during the reporting period.

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 2012 and 2011 and did not use hedge accounting. Consequently all the fair value gains or losses have been recognized by the Bank through profit or loss.

2.7 Interest income and expense

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

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2.8 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 interest on the loan.

Fee and commission income consists mainly of fees and commissions received for the transfers of money for customers, trading of securities and foreign exchange, and issuance of guarantees and letters of credit.

2.9 Net trading income

Net trading income comprises of gains less losses related to trading assets and liabilities, derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit and loss account and include all realized and unrealized fair value changes, interest and foreign exchange differences on these instruments and other elements.

2.10 Dividends

Dividend income is recognized in the income statement when the Bank's right to receive payment is established and inflow is probable.

2.11 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to banks or due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets

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.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
   - adverse changes in the payment status of borrowers in the group; or
   - national or local economic conditions that correlate with defaults on the assets in the group.

(a) Assets carried at amortized cost

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, pass-due status and other relevant factors). 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 similar credit risk characteristics. 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, , payment status, or other factors indicative of changes in the probability of losses in the group 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, the amount of the loss has been determined and the contractual rights from the financial asset have expired. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(b) *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 other comprehensive income 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.

2.13 Intangible assets

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

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Intangible assets are amortized using the straight-line method over their useful lives as follows:

	Useful lives in years	
	2012	2011
Major Corebanking Software	7 - 10	7 - 10
Other Software	5	5
Licenses	3	3

(All amounts in RON thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 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 (recognized in 2003).

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 of fixed assets are determined by comparing proceeds with carrying amount at the date of disposal and 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	
	2012	2011
Property	50	50
Office equipment, fixtures and fittings	3 – 20	3 - 20
Vehicles	5 - 10	5 – 10

Leasehold improvements are depreciated over the term of the underlying lease or useful life if shorter.

The hardware and related software that are integral part of the equipment are included in the line office equipment, fixtures and fittings.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 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.

2.16 Finance and operating lease liabilities

Accounting for leases as lessee

Where the Bank is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Bank, the assets leased are capitalized in property and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding lease obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

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.

2.17 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; loans and advances to banks and their accrued interest and short-term government securities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 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 has been 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 using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.19 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. 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 other operating expenses.

2.20 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Pension obligations and other post-retirement benefits

The Bank, in the normal course of business, is required to make 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.

The Bank operates a post retirement benefit scheme, by which each employee receives two salaries if the employee achieves the pension time in the Bank service- the amount has been assessed and accrued using actuarial methods. The Bank has no other obligation to provide further services to current or former employees.

2.22 Income taxes

(i) Current income tax

The Bank records profit tax upon net income from the financial statements prepared 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 statement of financial position date.

(ii) Deferred income tax

Deferred income tax is provided, using the balance sheet 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, loan provision, 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.

(All amounts in RON thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

2.23 Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the amount at initial recognition and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

2.24 Fiduciary activities

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions.

2.25 Comparatives

During 2012, the Bank has reclassified items between the following income statements lines:

- commission income and interest income;
- interest income and other operating income;
- fees and commission expenses and other expense; and
- interest expenses and commission expenses

in order to align the presentation of certain income statement items in these financial statements with the presentation requirements of National Bank of Romania Order 27/2010, which forms the basis of other regulatory reporting the Bank makes to the National Bank.

Accordingly the Bank restated the relevant 2011 comparatives as shown below:

Income statement line	As previously stated	Reclassification	As restated
Interest and similar income	951,883	(16,981)	934,902
Interest and similar expenses	(585,232)	2,226	(583,006)
Fees and commission income	136,562	23,199	159,761
Fees and commission expenses	(39,431)	(471)	(39,902)
Other operating income	13,867	(5,938)	7,929
Operating expenses	(569,271)	(2,035)	(571,306)

3 FINANCIAL RISK MANAGEMENT

3.1 Strategy in using financial instruments

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

By their nature, the Bank's activities are principally related to the use of financial instruments. 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.

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 other bonds.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Credit risk

(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').

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 groups of borrowers, and to geographical, client 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 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.

Exposure to credit risk is 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. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The split of portfolio of Loans and advances to customers of the Bank by industry is detailed in Note 16. The Bank's exposure to Central Bank is shown in Note 29 (see "Balances with Central Bank").

The Bank has no geographical exposure to a market other than Romania which exceeds 10% of its total assets.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Debt securities and other treasury bills

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

Some other specific control and mitigation measures on credit risk are outlined below:

(i) 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 and non-residential properties;
- Charges over business assets such as premises, inventory and accounts receivable and;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving credit facilities granted to natural persons are generally unsecured. In addition, in order to minimize potential credit losses the Bank will seek to obtain 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Derivatives and settlement risk

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., derivatives whose their fair value is positive), which in relation to derivatives is only a small fraction of the contract, 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.

(iii) 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 - 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 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 diminished by the value of the collateral. 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.

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2.1 Maximum exposure to credit risk before collateral held

Credit risk exposures relating to on-balance sheet assets are as follows:

	31 December 2012	31 December 2011
Loans and advances to banks	749,494	1,478,791
Loans and advances to customers(net)	7,148,461	7,577,696
- Lending to medium size and large corporate entities (wholesale)		
- Gross Book Value (GBV)	2,426,138	2,559,926
- Effect on GBV of previously written loans brought back into the statement of financial position*	4,498	
- Consumer lending		
- Gross Book Value (GBV)	1,576,136	1,834,552
- Effect on GBV of previously written loans brought back into the statement of financial position*	44,321	
- Mortgage lending		
- Gross Book Value (GBV)	2,576,633	2,490,988
- Effect on GBV of previously written loans brought back into the statement of financial position*	-	
- Small business lending		
- Gross Book Value (GBV)	1,120,454	1,180,104
- Effect on GBV of previously written loans brought back into the statement of financial position*	76,430	
Less Provision for impairment Losses	(676,149)	(487,873)
Trading assets:		
- Debt securities	546,528	347,154
Derivative financial instruments	60,496	66,396
Investment securities available for sale		
- Debt securities	1,047,617	620,716
Other financial assets	36,284	68,414
Total balance sheet exposure	9,588,880	10,159,167

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	31 December 2012	31 December 2011
Credit risk exposures relating to off-balance sheet items (Note 31)	1,095,414	1,298,366
At 31 December	10,684,294	11,457,534

** The amount represents the carrying balance as at 31 December2012 of the previously written-off loans that were re-recognised in the statements of financial position as at 1 January 2012 in order to comply with the National Bank of Romania Order 27/2010. As this operation affected both gross book value of loans and the allowance for credit losses to the same extent, the net impact on the statements of financial position is nil. Moreover, there was no impact on income statement.*

The above table represents the maximum credit risk exposure to the Bank at 31 December 2012 and 2011, without taking account of any collateral held. For on balance sheet assets, the exposures set out above are based on net carrying amounts.

The Bank monitors on ongoing basis the quality of the counterparties, banks or corporate clients. The counterparty banks are top rank banks, with sound financial situation. The corporate clients are assessed using the same acceptance procedures as for loans granting. The off balance sheet exposure is related to Romanian clients for which the Bank issued letter of guarantees, letter of credit and other undrawn commitments.

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2.2 Loans and advances

Loans and advances are summarised as follows:

	31 December 2012		31 December 2011	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	5,068,613	749,494	5,832,387	1,478,791
Past due but not impaired	1,481,472	-	1,240,767	-
Impaired:				
- collectively assessed	328,215	-	346,989	-
- individually assessed	946,309	-	645,426	-
Gross	7,824,610	749,494	8,065,570	1,478,791
Less: allowance for impairment	(676,149)	-	(487,874)	-
Net loans and advances	7,148,461	749,494	7,577,696	1,478,791
Past due more than 90 days included above	1,195,512	-	933,555	-

The wholesale and small business loans as at 31 December 2012 are covered by collaterals at 166 % and 117%, respectively (2011: 175 % and 148 %, respectively). Consumer loans are not collateralised. Mortgage loans are covered by collaterals at 146 % (2011:155 %).

(a) *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 at 31 December 2012 and 2011 can be assessed by reference to the Bank's standard grading system. The following information is based on that system:

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

				31 December 2012	
	Wholesale	Consumer	Mortgage	Small Business	Total
Grades:					
Satisfactory risk*	1,313,639	1,139,542	1,914,878	529,124	4,897,182
Watch list and special Mention*	171,431	-	-	-	171,431
Gross loans and advances	1,485,070	1,139,542	1,914,878	529,124	5,068,613
Less: allowance for impairment	(13,791)	(4,765)	(1,913)	(2,625)	(23,094)
Net loans and advances neither past due nor impaired	1,471,279	1,134,777	1,912,965	526,499	5,045,519

*Satisfactory risk customers represent current wholesale clients rated 1 to 6 (according to the Bank's standard grading system) and current retail loans that do not present impairment indicators while watch list loans represent current wholesale loans rated 7.

				31 December 2011	
	Wholesale	Consumer	Mortgage	Small business	Total
Grades:					
Satisfactory risk	1,740,588	1,257,459	1,963,458	670,563	5,632,067
Watch list and special mention	200,320	-	-	-	200,320
Gross loans and advances	1,940,908	1,257,459	1,963,458	670,563	5,832,387
Less: allowance for impairment	(1,651)	(1,359)	(325)	(2,098)	(5,433)
Net loans and advances neither past due nor impaired	1,939,257	1,256,099	1,963,133	668,465	5,826,954

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) *Loans and advances to customers past due but not impaired*

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

				31 December 2012	
	Wholesale	Consumer	Mortgage	Small Business	Total
Past due up to 29 days	532,505	189,401	319,560	2,584	1,044,050
Past due 30 - 89 days	134,808	73,133	113,896	61,941	383,779
Past due 90 – 180 days	3,099	423	48,488	-	52,011
Past due more than 180 days Past due less than 1 year	1,633	-	-	-	1,633
Gross loans and advances	672,046	262,957	481,945	64,525	1,481,473
Less: allowance for impairment	(5,552)	(12,397)	(8,841)	(7,570)	(34,360)
Net loans and advances past due but not impaired	666,494	250,560	473,104	56,955	1,447,113
Fair value of collateral	970,382	4,763	520,292	87,278	1,582,716

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

				31 December 2011	
	Wholesale	Consumer	Mortgage	Small business	Total
Past due up to 29 days	397,196	188,492	293,403	4,710	883,801
Past due 30 - 89 days	68,880	66,731	102,701	65,929	304,241
Past due 90 – 180 days	3,409	334	48,982	-	52,724
Gross loans and advances	469,485	255,556	445,087	70,639	1,240,767
Less: allowance for impairment	(20,745)	(11,406)	(7,374)	(2,995)	(42,520)
Net loans and advances past due but not impaired	448,740	244,150	437,713	67,644	1,198,248
Fair value of collateral	897,517	-	591,466	94,168	1,583,151

Based on past experience, consumer and small business loans less than 90 days past due, and mortgage loans less than 180 days past due, are not considered impaired, unless specific information indicates to the contrary. For wholesale loans the impairment trigger is the internal rating (i.e. loans having ratings between 1 and 7 are not considered impaired).
However, based on the internal collective assessment methodology, the Bank books provisions on a collective basis for loans current and past due and for the above mentioned categories the provisions incurred at December, 2012 are RON 34,360 thousand (2011: 42,520 thousand).

(c) *Impaired loans and advances to customers collectively assessed*

For collectively assessed accounts, loans are treated as impaired based on historical loss data for groups of loans with similar characteristics. The provision is computed for loans with impairment indicators using statistical provision percentages computed based on the historical loss data.

The gross exposure before provision for collectively assessed loans and advances to customers is RON 328,215 thousand (2011: RON 346,989 thousand).

			31 December 2012
	Consumer	Mortgage	Total
Collectively assessed loans	168,503	159,712	328,215
Allowance for impairment	(115,433)	(32,296)	(147,729)
Net impaired loans and advances collectively assessed	53,070	127,417	180,486
Fair value of collateral	839	122,547	123,386

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	31 December 2011		
	Consumer	Mortgage	Total
Collectively assessed loans	282,897	64,092	346,989
Allowance for impairment	(179,814)	(10,342)	(190,157)
Net impaired loans and advances collectively assessed	103,083	53,750	156,832
Fair value of collateral	-	58,452	58,452

(d) *Impaired loans and advances individually assessed*

For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred (Note 2.12)

The gross exposure before provision for individually assessed loans and advances to customers is RON 946,309 thousand (2011: RON 645,426 thousand). The breakdown of the gross amount of individually assessed loans and advances by classes is:

	31 December 2012				
	Small Business	Wholesale	Mortgage	Consumer	Total
Individually assessed loans	603,495	273,358	20,207	49,249	946,309
Allowance for impairment	(295,427)	(110,649)	(19,704)	(45,195)	(470,974)
Net impaired loans and advances individually assessed	308,069	162,709	503	4,054	475,335
Fair value of collateral	357,653	375,885	-	-	733,539

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

					31 December 2011
	Small Business	Wholesale	Mortgage	Consumer	Total
Individually assessed loans	438,903	149,482	38,691	18,351	645,426
Allowance for impairment	(156,085)	(69,700)	(6,644)	(17,335)	(249,763)
Net impaired loans and advances individually assessed	282,818	79,781	32,047	1,016	395,663
Fair value of collateral	356,432	481,596	1,135	-	839,163

3.2.3 Debt Securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2012, based on Moody's ratings or their equivalent:

	Trading securities	Available for sale securities	Total
Baa3	546,528	1,046,244	1,592,771
Unrated	-	1,374	1,374
Total	546,528	1,047,617	1,594,145

The table below presents an analysis of debt securities and equity investments by rating agency designation at 31 December 2011, based on Moody's ratings or their equivalent:

	Trading securities	Available for sale securities	Total
Baa3	347,154	619,237	966,391
Unrated	-	1,497	1,497
Total	347,154	620,716	967,870

RON 1.593 million included in securities rated Baa3 at 31December 2012, relates to sovereign debt issued by Romanian Government and local authorities.

The unrated securities include equity investments and mutual funds investments and local administration security debts.

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2.4 Concentration of credit risk

Industry sectors

The following table breaks down the Bank's main credit exposure at their net carrying amounts, as categorised by the industry sectors of its counterparties.

	Commerce and Services	Private Individuals	Manufacturing	Shipping	Construction	Other	Total
Loans and advances to banks	-	-	-	-	-	749,494	749,494
Loans and advances to customers							
(net of provision):						-	
- Mortgages	-	2,513,940	-	-	-	-	2,513,940
- Consumer lending (incl. credit cards)	-	1,442,607	-	-	-	-	1,442,607
- Small business lending	608,039	-	151,817	-	89,208	42,203	891,267
- Corporate lending	1,000,544	-	394,850	-	703,528	201,725	2,300,647
Financial assets held for trading							
-Debt securities						546,528	546,528
-Derivative financial instruments	2,976	40	70	-	2,593	54,816	60,496
Financial assets available for sale							
-Debt securities	-	-	-	-	-	1,047,617	1,047,617
Other financial assets	-	-	-	-	-	36,284	36,284
As at 31 December 2012	1,611,560	3,956,587	546,737	-	795,329	2,678,667	9,588,879

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Commerce and services	Private individuals	Manufacturing	Shipping	Construction	Other	Total
Loans and advances to banks						1,478,791	1,478,791
Loans and advances to customers (net of provision):							
- Mortgages		2,455,612	-	-			2,455,612
- Consumer lending (incl. credit cards)		1,635,328	-	-			1,635,328
- Small business lending	720,640	-	156,063	-	108,096	34,129	1,018,927
- Corporate lending	1,086,931	-	571,883	-	671,099	137,917	2,467,829
Financial assets held for trading							
-Debt securities						347,154	347,154
-Derivative financial instruments	18,667	-	1	-	3,024	44,704	66,396
Financial assets available for sale							
-Debt securities						620,716	620,716
Other financial assets	-	-	-	-	-	68,414	68,414
As at 31 December 2011	1,826,238	4,090,940	727,946	-	782,219	2,731,825	10,159,167

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in Bank Treasury and monitored by two teams separately. Regular reports are submitted to the Board of Directors and heads of each business unit.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank 's available-for-sale investments..

(a) Sensitivity analysis

Sensitivity calculation parameters

Interest Rate Sensitivity: The table below summarizes the impact of a parallel shift of the yield curve on the Bank's income statement and other comprehensive income performed on an interest rate gap model by applying a parallel shift of 100 basis points. Based on the fluctuation of interest rates in the prior year and Bank's Treasury Department forecast analysis ±100 basis points is determined to be a reasonably possible shift.

FX Rates Sensitivity: The table below summarizes the impact of a reasonably possible change of 10% in the value of RON against foreign currencies on the Bank's income statement and other comprehensive income calculated by applying the change to monetary financial instruments denominated in foreign currencies held by the Bank as at 31 December.

At 31 December 2012, if market interest rates had been 100 basis points higher/ lower and with all other variables held constant, profit for the year would have been RON 4,828 thousand (2011 RON 3,459 thousand) lower/ higher and comprehensive income would have been RON 22,771 thousand (2011: RON 21,946 thousand) lower/ higher.

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2012, if RON had strengthened/ weakened by 10% against relevant foreign currencies (all other variables held constant) profit for the year would have been RON 1,598 thousand higher/lower (2011: RON 6,056 thousand higher/ lower) and comprehensive income would have been unaffected.

			31 December 2012
	Total sensitivity	Sensitivity of income statement	Sensitivity of other comprehensive income
Interest rate (+100 b.p. parallel shift)	(27,599)	(4,828)	(22,771)
Foreign exchange (10% change in RON against foreign currencies)	1,598	1,598	-

			31 December 2011
	Total sensitivity	Sensitivity of income statement	Sensitivity of other comprehensive income
Interest rate (+100 b.p. parallel shift)	(25,406)	(3,459)	(21,946)
Foreign exchange (10% change in RON against foreign currencies)	6,056	6,056	-

(b) Interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items – re-pricing analysis

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. 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 level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily.

The table below summarises the Bank's exposure to interest rate risks at 31 December 2012. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	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
At 31 December 2012							
Assets							
Cash	437,376	-	-	-	-	-	437,376
Balances with Central Bank	1,500,729	-	-	-	-	-	1,500,729
Loans and advances to banks	742,994	-	-	-		6,500	749,494
Loans and advances to customers	969,392	425,647	1,162,821	4,590,601	-		7,148,461
Trading assets	546,528	-	-	-	-	-	546,528
Derivate financial instruments	44,655	15,920	(79)	-	-	-	60,496
Investment securities available for sale	86,468	-	401,781	644,463	1,374	-	1,134,085
Intangible assets	-	-	-	-	-	113,083	113,083
Property and equipment	-	-	-	-	-	389,464	389,464
Other assets	-	-	-	-	-	56,816	56,816
Deferred income tax asset	-	-	-	-	-	48,112	48,112
Total assets	4,328,142	441,567	1,564,523	5,235,064	1,374	613,975	12,184,644
Liabilities							
Due to banks	39,240	552,345	-	475,268	-	-	1,066,854
Due to customers	3,997,953	1,636,492	2,298,525	13	-	99,657	8,032,640
Derivative financial instruments	78,032	14,547	18	-	-	-	92,597
Other borrowed funds	139,261	19,987	267,503	443,114	443,345	(2,269)	1,310,941
Other liabilities	-	-	-	-	-	143,017	143,017
Deferred income tax liability	-	-	-	-	-	-	-
Total liabilities	4,254,486	2,223,371	2,566,046	918,394	443,345	240,405	10,646,048
Interest rate sensitivity gap	73,655	(1,781,805)	(1,001,523)	4,316,669	(441,971)	373,570	1,538,596

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	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
At 31 December 2012							
Total assets	4,328,142	441,567	1,564,523	5,235,064	1,374	613,975	12,184,644
Total liabilities	4,254,486	2,223,372	2,566,046	918,394	443,345	240,405	10,646,048
Interest rate sensitivity gap	73,655	(1,781,805)	(1,001,523)	4,316,669	(441,971)	373,570	1,538,596

	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
At 31 December 2011							
Assets							
Cash	302,080	-	-	-	-	-	302,080
Balances with Central Bank	1,716,946	-	-	-	-	-	1,716,946
Loans and advances to banks	1,477,487	-	-	-	1,304	-	1,478,791
Loans and advances to customers	4,070,831	2,235,149	1,271,716	-	-	-	7,577,696
Trading assets	347,154	-	-	-	-	-	347,154
Derivate financial instruments	60,196	3,880	2,320	-	-	-	66,396
Investment securities available for sale	-	69,795	103,304	515,889	1,523	7,670	698,181
Intangible assets	-	-	-	-	-	111,283	111,283
Property and equipment	-	-	-	-	-	429,243	429,243
Other assets	-	-	-	-	-	77,361	77,361
Total assets	7,974,694	2,308,824	1,377,340	515,889	2,827	625,557	12,805,131

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	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
Liabilities							
Due to banks	167,347	770,859	-	550,000	29,600	-	1,517,806
Due to customers	2,152,953	3,261,382	2,556,901	-	-	-	7,971,236
Derivative financial instruments	49,138	75,275	820	-	-	-	125,233
Other borrowed funds	-	1,215,423	224,884	-	-	-	1,440,307
Other liabilities	-	-	-	-	-	131,854	131,854
Deferred income tax liability	-	-	-	-	-	50,002	50,002
Total liabilities	2,369,438	5,322,939	2,782,605	550,000	29,600	181,856	11,236,438
Interest rate sensitivity gap	5,605,256	(3,014,115)	(1,405,265)	(34,111)	(26,773)	443,701	1,568,693
At 31 December 2011							
Total assets	7,974,694	2,308,824	1,377,340	515,889	2,827	625,557	12,805,131
Total liabilities	2,369,438	5,322,939	2,782,605	550,000	29,600	181,856	11,236,438
Interest rate sensitivity gap	5,605,256	(3,014,115)	(1,405,265)	(34,111)	(26,773)	443,701	1,568,693

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Foreign exchange risk

	Not exposed to currency risk	Exposed to currency risk			
At 31 December 2012	**RON**	**USD**	**EUR**	**Other**	**Total**
Assets					
Cash	361,573	11,594	50,158	14,052	437,376
Balances with Central Bank	931,738	-	568,991	-	1,500,729
Loans and advances to banks	110,245	8,404	622,507	8,338	749,494
Loans and advances to customers	2,305,597	51,349	3,621,697	1,169,818	7,148,461
Trading assets	507,183	-	39,345	-	546,528
Derivative financial instruments	57,929	12	2,554	-	60,496
Investment securities available for sale	695,525	-	438,561	-	1,134,085
Other assets	41,973	2,108	8,497	4,238	56,816
Deferred income tax asset	48,112	-	-	-	48,112
Total assets	5,059,877	73,466	5,352,310	1,196,445	11,682,098
Liabilities					
Due to banks	589,757	5,708	471,389	-	1,066,854
Due to customers	5,858,067	323,316	1,808,891	42,365	8,032,639
Derivative financial instruments	88,220	12	4,365	-	92,597
Other borrowed funds	139,261	-	1,171,679	-	1,310,941
Other liabilities	99,451	1,296	42,030	240	143,017
Total liabilities	6,774,757	330,332	3,498,355	42,605	10,646,048
Net on balance sheet position	(1,714,880)	(256,865)	1,853,955	1,153,840	1,036,050
Net off balance sheet position	-	-	62,362	21,780	(2,678,245)
Net foreign exchange position	(1,714,880)	(256,865)	1,916,317	1,175,620	(1,642,195)

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Not exposed to currency risk				Exposed to currency risk
At 31 December 2011	**RON**	**USD**	**EUR**	**Other**	**Total**
Assets					
Cash	225,808	11,373	50,739	14,161	302,080
Balances with Central Bank	1,014,019	-	702,927	-	1,716,946
Loans and advances to banks	1,124,827	6,089	342,872	5,003	1,478,791
Loans and advances to customers	2,915,563	98,783	3,467,735	1,095,614	7,577,696
Trading assets	307,981	-	39,173	-	347,154
Derivative financial instruments	28,784	35,630	1,982	-	66,396
Investment securities available for sale	222,061	-	476,120	-	698,181
Other assets	44,611	21,728	8,596	2,427	77,361
Total assets	5,883,654	173,603	5,090,144	1,117,204	12,264,605
Liabilities					
Due to banks	1,517,345	-	461	-	1,517,806
Due to customers	5,837,555	427,474	1,675,169	31,038	7,971,235
Derivative financial instruments	83,899	35,753	5,570	10	125,233
Other borrowed funds	-	-	1,440,307	-	1,440,307
Other liabilities	79,552	9,507	42,569	224	131,853
Deferred income tax liability	50,003	-	-	-	50,003
Total liabilities	7,568,354	472,734	3,164,076	31,271	11,236,436
Net on balance sheet position	(1,684,701)	(299,131)	1,926,068	1,085,932	1,028,168
Net off balance sheet position	2,673,894	292,090	(1,878,219)	(1,092,115)	(4,351)
Net foreign exchange position	989,194	(7,042)	(47,849)	(6,183)	1,023,818

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 overnight and intra-day positions, which are monitored daily. The Bank uses currency forwards, cross currency swaps and currency swaps to manage its foreign exchange risk. The table above summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank 's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and

- Managing the concentration and profile of debt maturities.

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 does not maintain excessive cash resources to meet all of these needs, 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 the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below presents the cash flows payable by the Bank under financial liabilities by earlier of remaining contractual maturities at the balance sheet date and expected payment date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

						At 31 December 2012
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Non-derivative liabilities						
Due to banks	44,337	547,572	-	-	471,616	1,063,525
Due to customers	2,156,711	2,503,530	3,257,275	191,187	-	8,108,704
Other liabilities (leasing)	46	92	230	-	-	369
Other borrowed funds	158,542	26,542	71,221	503,020	548,829	1,308,153
Derivative financial instruments settled on gross basis						
Payable	(389)	(749,081)	(293,457)	(6,749)	-	(1,049,676)
Receivable	3,267	559,916	295,774	11,791	-	870,748
Gross nominal (inflow)/ outflow	2,362,514	2,888,571	3,331,043	699,249	1,020,445	10,301,822
Assets held for managing liquidity risk (contractual maturity dates)	5,069,320	542,147	1,808,948	3,181,757	2,028,415	12,630,587

31 December 2012

	Less than 1 year	1 -5 years	More than 5 years
Guarantees:			
- guarantees and standby letters of credit	691,317	174,251	91,414
Commitments:			
- Undrawn loan commitments	136,318	-	-
- Documentary credits	2,114	-	-
- Other commitments	-	-	-
	829,749	174,251	91,414

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

					At 31 December 2011	
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Non-derivative liabilities						
Due to banks	167,591	769,375	2,072	594,532	31,461	1,565,031
Due to customers	2,050,541	3,335,432	2,650,436	77,349	-	8,113,759
Other liabilities (leasing)	44	89	407	370	-	911
Other borrowed funds	-	3,938	11,814	494,979	1,128,361	1,639,093
Derivative financial instruments settled on gross basis						
Payable	(583)	(1,028)	(3,807)	(1,058,397)	(342)	(1,064,158)
Receivable	6,948	520,731	274,123	33,436	349	835,587
Gross nominal (inflow)/ outflow	2,224,542	4,628,537	2,935,046	142,269	1,159,829	11,090,223
Assets held for managing liquidity risk (contractual maturity dates)	4,261,408	741,604	1,705,752	4,066,509	4,776,895	15,552,168

			31 December 2011
	Less than 1 year	1 -5 years	More than 5 years
Guarantees:			
- guarantees and standby letters of credit	880,090	211,313	89,008
Commitments:			
- Undrawn loan commitments	110,191	-	-
- Documentary credits	5,155	-	-
- Other commitments	2,608	-	-
	998,044	211,313	89,008

Management is confident that in spite of a substantial portion of deposits from customers having contractual maturity dates within three months, diversification of these deposits by number and type of deposits, and the past experience of the Bank would indicate that these deposits are rolled over and provide stable source of funding for the Bank.

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Fair values of financial assets and liabilities

(a) Loans and advances to customers

For loans and advances to customers, quoted market prices are n not available as there are no active markets where these instruments are traded. The fair value is determined using generally accepted valuation techniques with current market parameters. The fair value is estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted rates. As at 31 December 2012, the fair value of "loans and advances to customers" was RON 7,641,492 thousand

(b) Other financial instruments

For the other financial instruments presented in the statement of financial position, their carrying value represents a reasonable estimate of fair value.

3.6 Financial assets and liabilities at fair value

			31 December 2012	
	Level 1	Level 2	Level 3	Total
Trading assets:				
Government bonds	546,528	-	-	546,528
Derivative financial assets	-	60,496	-	60,496
Investment securities available for sale:				
Debts securities	1,047,617	-	-	1,047,617
Investments in mutual funds	-	79,914	-	79,914
Equity investments	-	6,554	-	6,554
Total assets	1,594,145	146,964	-	1,741,109
Derivative financial liabilities	-	92,597	-	92,597
Total liabilities	-	92,597	-	92,597

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

			31 December 2011	
	Level 1	Level 2	Level 3	Total
Trading assets:				
Government bonds	347,154	-	-	347,154
Derivative financial assets	-	66,396	-	66,396
Investment securities available for sale:				
Debts securities	620,716	-	-	620,716
Investments in mutual funds	-	69,795	-	69,795
Equity investments	-	7,670	-	7,670
Total assets	967,870	143,861	-	1,111,731
Derivative financial liabilities	-	125,233	-	125,233
Total liabilities	-	125,233	-	125,233

All financial instruments that are measured at fair value are categorised in one of the three fair value hierarchy levels at year-end; based on whether the inputs to the fair values are observable or non-observable:

Level 1 – Quoted prices in active markets for identical assets and liabilities. Quoted prices must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – Financial instruments measured using valuation techniques where all significant inputs are market observable.

Level 3 – Financial instruments measured using valuation technique with significant non observable inputs."

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.7 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank 's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank 's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the National Bank of Romania, for supervisory purposes. The required information is filed with the National Bank of Romania on a quarterly basis. The Capital Adequacy ratio of the bank was calculated in accordance with Basel II principles.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2012 and 2011. During these periods, the Bank complied with the externally imposed capital requirements to which they are subject.

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	31 December 2012	31 December 2011
Tier 1 capital		
Share capital	1,350,245	1,350,245
Share premium	81,133	81,133
Legal reserve	40,756	40,756
General risk reserves	41,583	41,583
General reserves	67,565	72,035
Retained earnings	(64,068)	(14,309)
Minority interests	-	-
Less: Intangibles	(113,083)	(111,283)
Less: Other deductions from Tier I capital	(730)	(1,777)
Total qualifying Tier 1 capital (core capital)*	1,403,402	1,458,385
Tier 2 capital		
Eligible Subordinated capital	442,870	433,192
Revaluation reserve – available-for-sale investments	8,016	(2,748)
Total qualifying Tier 2 capital (additional own funds)*	450,886	430,444
Less Equity investments in financial institutions (holdings over 10%)	-	-
Available Own Funds	1,854,288	1,888,829
Own Funds requirements for:		
Credit Risk	480,178	535,065
Market Risk	4,193	4,355
Foreign exchange Risk	-	6,876
Operational Risk	141,064	143,396
Total capital requirement	625,436	689,692
CAD ratios:		
Total capital adequacy ratio*	24%	22%
Core Capital Ratio	18%	17%
Regulatory Total Capital Ratio	8%	8%

*As at 01st of January 2012, NBR introduced the prudential filters (the difference between the prudential impairment provisions and IFRS provisions) as a supplemental deduction element from the own funds. In order to maintain the comparatives with the previous year (2011), we haven't taken into consideration the prudential filters when computing the CAD for 2012. The impact for 2012, if the prudential filters are taken into consideration is as follows:
- Total capital adequacy ratio: 15.22 %;
- Core capital ratio: 13.36 %

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Apart from the historical experience the Bank considered also the effect of the current financial industry conditions in evaluating these estimates and judgments.

Future fiscal losses realization

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Bank recognized deferred income tax asset of RON 92,472 thousand (2011: RON 61,976 thousand deferred income tax asset) in respect of a fiscal loss carried forward amounting to RON 577,950 thousand (2011: RON 416,086 thousand fiscal loss) that can be carried forward against future taxable income. In Romania, tax periods remain open for 7 years. Management estimates that the Bank will record sufficient taxable profit in the future periods either from normal banking operations or by utilizing tax planning opportunities related to the future use of a reserve established under retain earnings as at 1 January 2012 following the implementation of the National Bank of Romania order 27/2010 and corresponding amendments to the tax legislation. Accordingly the Bank has recognized an associated deferred tax liability based on the expected usage of the reserve

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a continuously 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 group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with similar 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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Operational environment

The economy of Romania continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country and a moderate inflation. The prospects for future economic stability in Romania are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal and regulatory developments.

Additionally, the banking sector in Romania is particularly impacted by currency fluctuations and macroeconomic conditions. Furthermore, the need for further developments in the bankruptcy laws, in formalized procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Romania. The borrowers of the Bank may also be adversely affected by the financial and economic environment which could in turn impact their ability to repay their outstanding loans.

Management closely monitors the evolution of the portfolio and the cash flow forecast such to ensure it reflects the revised estimates of expected future cash flows in the impairment assessments.

In addition, the ongoing global financial and economic crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to fully anticipate or completely guard against. Management is taking all the necessary measures to support the sustainability and development of the Bank's business in the current circumstances.

The impact of sovereign debt crisis on the Bank and his parent is presented in note 2.1

(All amounts in RON thousand unless otherwise stated)

5 NET INTEREST INCOME

	2012	2011
Interest and similar income		
Loans and advances to customers	676,271	759,963
Loans and advances to banks	48,459	116,213
Reverse repos (agreements to resell)	-	1,424
Investment securities available for sale	51,777	57,301
	776,507	934,902

	2012	2011
Interest expense and similar charges		
Due to customers	390,630	390,546
Due to banks	64,805	139,398
Repos (repurchase agreements)	4,116	20,927
Other borrowed funds	29,520	32,135
Debt securities in issue	5	-
	489,076	583,006
Net interest income	287,431	331,141

6 NET FEE AND COMMISSION INCOME

	2012	2011
Fee and commission income		
Fee and commissions income from bank operation	108,686	105,719
Other fee and commission income	48,028	45,529
Financial assets administration fee	8,239	8,513
	164,953	159,761
Fee and commission expense		
Customer transactions	22,645	24,653
Transactions with other banks	16,413	15,249
	39,058	39,902
Net fee and commission income	125,895	119,859

The bank operations relate to core activity regarding the granting of loans and payment services. The other fees and commission income refer mainly to issuance of letter of guarantees, fees for deposits closed before maturity and other services

(All amounts in RON thousand unless otherwise stated)

7 NET TRADING INCOME

	2012	2011
-Foreign exchange gains from transactions	16,713	9,989
- Net effect of translation of foreign currency denominated assets and liabilities	81,134	71,001
Gain/(Loss) from derivative instruments	41,534	85,684
-Options	591	1,158
-Foreign exchange derivatives	(5,659)	(18,765)
-Interest rate derivatives	46,602	103,291
Held for trading securities	25,938	19,780
	165,319	186,454

8 OTHER OPERATING INCOME

	2012	2011
Other income	3,276	313
Realized gains on disposal of investment securities available for sale	138	5,902
Dividend income	505	1,801
Income from sale of equity investments	-	(87)
	3,919	7,929

(All amounts in RON thousand unless otherwise stated)

9 OTHER OPERATING EXPENSES

	2012	2011
Salaries, wages and other employee benefits	182,442	187,333
Social contribution	7,259	10,639
Contributions to defined state benefits scheme	35,905	37,333
Services expense	47,826	56,913
Other tax and contribution	62,964	66,443
Rental expenses	51,607	57,129
Utilities	10,244	9,154
Communication	7,026	9,311
Depreciation, amortization and impairment (Note 18 and 19)	55,166	54,724
Loss on disposals of fixed assets	4,059	7,874
Repairs, maintenance and utilities	19,740	20,977
Postage, consumables	9,586	10,859
Other expenses	21,997	37,438
Travel expenses	1,411	2,981
Advertising	13,918	12,439
Insurance premiums	3,924	4,164
Impairment charge for other assets (Note 20)	1,487	(13,454)
Provision for contingent liabilities and other provisions (Note25)	5,628	(951)
	542,189	571,306

10 IMPAIRMENT CHARGE FOR CREDIT LOSSES

	2012	2011
Impairment charge for loans to customers (Note 16)	183,823	193,800
Recoveries from loans previously written off (Note 16)	(152)	-
Provision for other credit commitments	8,504	28,661
Total	192,175	222,461

(All amounts in RON thousand unless otherwise stated)

11 INCOME TAX

The income tax consists of current and deferred income tax (credit)/expense as follows:

	2012	2011
Deferred income tax credit	(101,889)	(5,178)
Total income tax release	(101,889)	(5,178)
Loss before tax	(151,800)	(127,629)
Theoretical tax charge at 16% (2011: 16%)	(24,288)	(20,421)
Tax effect of:		
Non-deductible expenses	27,372	38,667
Income not subject to tax	(23,798)	(30,768)
Tax effect of changes in regulation*	(41,679)	-
Tax effect of fiscal treatment of fixed assets**	(46,193)	-
Other elements	6,697	7,344
Income tax (credit)/expense for the year	(101,889)	(5,178)

**As at 1 January 2012, following the requirements of the NBR Order 27/2010, the Bank has recognized a special reserve established within retained earnings representing the difference between loan loss provisions determined in according with IFRS and statutory loan loss provisions computed using NBR rules. This reserve will be taxable at the moment of its utilization. As at 31.12.2011 the Bank had recognised a deferred tax liability in respect of this difference in loan loss provisions amounting to RON 81.5 million which, in accordance with IAS 12, should be released following the creation of the reserve. At the same time the Bank estimated that, in order to be able to benefit from all available fiscal losses as of 31 December 2012 it will need to utilise part of the above reserve amounting to RON 39.8 million.*
Therefore as of 31.12.2012 the Bank released RON 41.6 million of the deferred tax liability representing the net of the two above amounts.

*** The line presents the impact of the difference between fiscal and accounting treatment of fixed assets. For fiscal purpose the regulation require the Bank to reevaluate his land and building assets each tree years and to apply specific depreciation periods.*

11 INCOME TAX (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 % (2011: 16%). Deferred income taxes are calculated on all temporary differences under the liability method using a income tax rate of 16 % (2011: 16%).

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

(All amounts in RON thousand unless otherwise stated)

11 INCOME TAX (CONTINUED)

	31 December 2012	Tax recognised in income statement	Tax recognised in other comprehensive income	31 December 2011
Tax effects of deductible temporary differences				
Fixed assets impairment	-	1,016	-	(1,016)
Differences in the tax and accounting base for buildings	17,258	17,259	-	-
Loan origination fees and interest	-	(77,881)	-	77,881
Fiscal loss	92,472	30,496	-	61,976
Other accruals	2,101	(91,432)	-	93,533
Other provisions	11,567	935	-	10,632
	123,398	(119,607)	-	243,006
Tax effects of taxable temporary differences				
Fixed assets and investments	13,002	(19,121)	-	32,123
Provision for impairment of loans	59,027	(200,370)	-	259,397
Gain on fair value of investment securities available for sale	3,257	(2,012)	3,781	1,488
	75,286	(221,503)	3,781	293,008
Net tax effect of temporary differences	48,112	101,896	(3,781)	(50,002)
Total net deferred income tax asset/(liability)	48,112	101,896	(3,781)	(50,002)

(All amounts in RON thousand unless otherwise stated)

11 INCOME TAX (CONTINUED)

	31 December 2011	Tax recognised in income statement	Tax recognised in other comprehensive income	31 December 2010
Tax effects of deductible temporary differences				
Release of fixed assets impairment	(1,016)	-	-	(1,015)
Loan origination fees and interest	77,881	43,694	-	34,186
Fiscal loss	61,976	(14,473)	-	76,449
Other accruals	93,533	(7,884)	-	101,417
Provisions for contingent liabilities	-	(468)	-	468
Other provisions	10,632	1,998	-	8,635
	243,006	22,867	-	220,139
Tax effects of taxable temporary differences				
Fixed assets and investments	32,123	(4)	-	32,127
Provision for impairment of loans	259,397	17,692	-	241,706
Gain on fair value of investment securities available for sale	1,488	-	(1,146)	2,634
	293,008	17,688	(1,146)	276,466
Net tax effect of temporary differences	(50,002)	5,179	1,146	(56,326)
Total net deferred income tax liability	(50,002)	5,179	1,146	(56,326)

See also note 4 section “Future fiscal losses realization” for more details

(All amounts in RON thousand unless otherwise stated)

12 BALANCES WITH CENTRAL BANK

	31 December 2012	31 December 2011
Current account		
in RON	931,560	1,014,019
in EUR	568,991	702,927
Total current account and term deposits (Note 30)	1,500,551	1,716,946
Collateral deposits	178	-
	1,500,729	1,716,946

Current accounts are required to satisfy the mandatory reserve requirements of the National Bank of Romania. This reserve is a minimum average deposit with a holding period of one month, based on resources attracted on previous month. The cash balance held with central bank at the reporting date meets these requirements. During 2012 the interest rates ranged from 0.93% to 1.43% (2011: 1.29% to 1.86%) for reserves held in RON and was between 0.56 % and 0.79 % (2011: 0.65% and 0.88%) for reserves held in EUR.

During 2012 the ratio for minimum reserves held in RON was 15% (2011:15%) and for foreign currency was 20 % (2011: 25% until April when it was changed to 20%).

(All amounts in RON thousand unless otherwise stated)

13 LOANS AND ADVANCES TO BANKS

	31 December 2012	31 December 2011
Current accounts	22,786	29,943
Placements with banks as sight and term deposits	726,708	1,424,618
Loans to banks	-	-
Reverse repos (agreements to resell)	-	24,230
	749,494	1,478,791

As at 31 December 2012 the placements with initial maturity below 3 months, amounting to RON 749,494 thousand (2011: RON 1,478,791 thousand) were included in cash and cash equivalents (Note 28).

The Reverse Repurchase agreements represent transactions concluded with Parent Bank.

During 2012 interest on placements on RON ranged from 2 % to 8.2% with maturity less than three months. For USD ranged from 1.25 % to 3.2%. For EUR ranged from 0.05% to 4.5%.

As at 31 December 2012 placements with banks included sight and term deposits placed with Parent Bank amounting to RON 609,832 thousand (2011: RON 1,103,200 thousand with Eurobank Private Bank Luxembourg and RON 26,570 thousand with the Parent Bank).

14 TRADING ASSETS

	31 December 2012	31 December 2011
Government bonds	546,528	347,154
Total	546,528	347,154

15 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivative instruments for non-hedging purposes:

- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organized financial market. The credit risk is negligible, as futures contracts are collateralized by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

- Foreign currency options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency at a pre-determined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange. The options are negotiated between the Bank and a customer (OTC).

- Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (that is, cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market.

- An interest rate cap is a derivative in which the buyer received payments at the end of each period in which the interest rate exceeds the agreed strike price. An interest rate floor is a derivative in which the buyer received payments at the end of each period in which the interest rate is below the agreed strike price.

- The cross currency interest rate swaps have been mainly undertaken with the Parent Bank and represents the major part of the derivative transactions. They are disclosed as well in Note 29.

(All amounts in RON thousand unless otherwise stated)

15 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

- 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 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 notional amounts and fair values of derivative instruments held at the balance sheet date are set out below:

	Contract/notional		Fair values
At 31 December 2012	**Amount**	**Assets**	**Liabilities**
Derivatives held for trading			
a) Foreign exchange derivatives			
Currency forwards	217,775	6,355	(57)
Currency swaps	2,767,995	39,129	(1,804)
OTC currency options assets	7,474	132	-
OTC currency options liability	7,474	-	(132)
b) Interest rate derivatives			
Interest rate swaps	234,588	7,807	(9,444)
Cross-currency interest rate swaps	909,574	6,812	(80,899)
Interest rate options	-	261	(261)
Total	-	60,496	(92,597)

	Contract/notional		Fair values
At 31 December 2011	**Amount**	**Assets**	**Liabilities**
Derivatives held for trading			
a) Foreign exchange derivatives			
Currency forwards	415,719	5,948	(176)
Currency swaps	3,755,722	12,647	(10,680)
OTC currency options assets	283,351	36,748	-
OTC currency options liability	283,351	-	(36,748)
b) Interest rate derivatives			
Interest rate swaps	225,394	6,936	(8,920)
Cross-currency interest rate swaps	1,675,392	3,827	(68,330)
Interest rate options	-	290	(378)
Total	-	66,396	(125,232)

(All amounts in RON thousand unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS

Analysis by sector for corporate loans and by product for loans to individuals:

	31 December 2012	% of total	31 December 2011	% of total
Analysis by sector				
Industry	417,174	5.33	593,226	7.36
Commerce	663,570	8.48	707,778	8.78
Services	393,502	5.03	419,715	5.20
Shipping	-	0.00	-	0.00
Construction	743,278	9.50	696,144	8.63
Real estate	213,123	2.72	143,064	1.77
Retail				
Consumer	1,100,580	14.07	1,138,674	14.12
Mortgage	2,576,632	32.93	2,490,988	30.88
Small Business Banking	1,196,888	15.30	1,180,105	14.63
Credit cards and overdraft facilities	519,863	6.64	695,877	8.63
Gross Loans and Advances to customers	7,824,610	100.00	8,065,570	100.00
Provisions for impairment losses	(676,149)		(487,874)	
	7,148,461		7,577,696	

(All amounts in RON thousand unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

A reconciliation of the provision for impairment losses on loans and advances by class is as follows:

	Wholesale Lending	Consumer Lending	Mortgage Lending	Small business Lending	Total
Balance 1 January 2012	92,030	199,970	35,376	160,499	487,875
Elements that do not affect the impairment charge (Note 2.12(a))	7,125	491,963	-	78,014	577,102
Net charge for the year (Note 10)	31,244	61,263	26,410	64,906	183,823
Amounts written off/ (derecognition of net receivables)	-	(591,038)	-	-	(591,038)
Recoveries of write offs (Note 10)	-	(152)	-	-	(152)
Foreign exchange differences	(410)	15,844	904	2,202	18,539
At 31 December 2012	129,989	177,850	62,690	305,621	676,149

	Wholesale Lending	Consumer Lending	Mortgage Lending	Small business Lending	Total
Balance 1 January 2011	91,775	115,450	24,896	96,227	328,348
Net charge for the year (Note 10)	40,299	61,241	20,237	72,023	193,800
Amounts written off/ derecognition of net receivables)	(41,067)	21,972	(11,177)	(9,178)	(39,449)
Foreign exchange differences	1,023	1,307	1,419	1,426	5,175
At 31 December 2011	92,030	199,970	35,376	160,499	487,875

During 2012, the Bank has concluded 4 transfer agreements with 2 entities within Group: Eurobank Ergasias SA (August 2012, September 2012 and November 2012) and ERB New Europe Funding II (September 2012) regarding current and non-performing loans. Substantially all risks and rewards associated with the related portfolios were transferred from the Bank to the above mentioned counterparties through the agreements concluded. Post transfer the bank acts as an administrator of these loans. As a consequence, in respect to these transfers, in total the Bank derecognized net contractual receivables with a carrying amount of RON364,413 thousand at the time of the transfers. In total there was no net gain or loss recognized in the Income Statement resulting in respect of these transfers.

(All amounts in RON thousand unless otherwise stated)

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

During 2012 the Bank didn't write-off loans, whereas during 2011, the impact of written-off loans was RON 39,449 thousand.

During 2011, the Bank has concluded 4 transfer agreements with two entities within Eurobank Group, IMO Property Investments (January 2011) and ERB New Europe Funding II (May 2011, June 2011, December 2011) regarding current and non-performing loans (over 180 days delay). Substantially all risks and rewards associated with the related portfolios were transferred from the Bank to the above mentioned counterparties through the agreements concluded in January 2011, May 2011, June 2011 and December 2011. Post transfers the Bank acts as an administrator of these loans. As a consequence, in respect of these transfers, in total the Bank derecognized net contractual receivables with a carrying amount of RON 403,829 thousand at the time of the transfers. In total there was no net gain or loss recognized in the Income Statement resulting in respect of these transfers.

17 INVESTMENT SECURITIES AVAILABLE FOR SALE

		31 December 2012	31 December 2011
Debt securities (Note 30)	a)	1,047,617	620,716
Investments in Mutual Funds	b)	79,914	69,795
Equity investments	c)	6,554	7,670
		1,134,085	698,181

The movement in available for sale securities during 2012 and 2011 are presented below:

	2012	2011
At 1 January	698,181	1,509,110
Purchases	2,001,489	410,622
Disposals	(1,589,203)	(1,214,421)
Net gains/(loss) from changes in fair value	23,630	(7,162)
Foreign exchange differences	(13)	32
At 31 December	1,134,084	698,181

17 INVESTMENT SECURITIES AVAILABLE FOR SALE(CONTINUED)

a) Debt securities include treasury bills denominated in RON and EUR, issued by the Ministry of Public Finance having up to five years maturity. The RON denominated ones bear interest rates ranging from 5.85 to 6.5 % (2011: 6 to 11%). As at 31 December 2012 the EUR denominate ones bear interest rates ranging from 4.5% to 5.25 %(2011: from 4.5% to 5.25%).

b) During 2010, the Bank invested in two mutual funds Bancpost LF Active Balance and Bancpost LF Money Market Cash Fund. At 31 December 2012, the participation was 67.05% in LF Balanced Active Fund (93.9 % as at 31 December 2011) and 94.24% in LF Money Market Cash Fund (88.7% as at 31 December 2011).
The funds are managed by Eurobank Fund Management Company SA (member of the Parent Bank group). The administrator manages all the funds of the Parent Group in Romania. Bancpost SA has neither control nor significant influence on the asset management company and thus the funds are not consolidated and not accounted under equity method.

c) Equity investments comprise of minority participations in the share capital of other companies.

A currency analysis and residual maturity profile of the investment securities is presented in Note 3.

(All amounts in RON thousand unless otherwise stated)

17 INVESTMENT SECURITIES AVAILABLE FOR SALE (CONTINUED)

Description	Business of the investment	Shareholding	31 December 2012	Shareholding	31 December 2011
Transfond	local settlement entity	3.14%	4,265	3.14%	4,265
Romanian-Bulgarian FUND	investment fund	0.00%	-	7.50%	1,120
Biroul Romani De Credite	credit bureau	7.02%	1,078	7.02%	1,078
MASTERCARD	card agency	0.01%	-	0.01%	-
Visa Inc	card agency	0.03%	-	0.03%	-
Depozitarul Central	central depository for securities transactions	2.60%	776.96	2.60%	777
Swift	international settlement entity	0.01%	159.26	0.01%	155
ERB Retail Services IFN SA	consumer finance	0.17%	206.54	0.17%	207
SNCDD	local settlement entity	0.02%	1.13	0.02%	1
Eurobank Finance SA	business advisor	0.00%	-	0.00%	-
Eurobank Securities S.A.	broker	0.00%	-	0.00%	-
VISA Europe Limited	card agency	0.00%	0.04	0.00%	-
Fundatia BANCPOST SA		100.00%	67	100.00%	67
			6,554		7,670

(All amounts in RON thousand unless otherwise stated)

18 INTANGIBLE ASSETS

	Licence and Software	Software under development	Total
Year ended 31 December 2012			
Opening net book amount	101,453	9,830	111,283
Additions	-	21,421	21,421
Transfers	5,605	(5,605)	-
Disposals	-	-	-
Amortisation charge	(19,621)	-	(19,621)
Closing net book amount	87,437	25,646	113,083
At 31 December 2012			
Cost	198,957	25,646	224,603
Accumulated amortisation	(111,520)	-	(111,520)
Net Book Value	87,437	25,646	113,083
Year ended 31 December 2011			
Opening net book amount	97,956	5,622	103,578
Additions	-	23,383	23,383
Transfers	19,175	(19,175)	-
Disposals	-	-	-
Amortisation charge	(15,678)	-	(15,678)
Closing net book amount	101,453	9,830	111,283
At 31 December 2011			
Cost	193,352	9,830	203,182
Accumulated amortisation	(91,899)	-	(91,899)
Net Book Value	101,453	9,830	111,283

(All amounts in RON thousand unless otherwise stated)

19 PROPERTY PLANT AND EQUIPMENT

	Land and Buildings	Equipment, Fixtures & fittings	Vehicles	Total
Year ended 31 December 2012				
Opening net book amount	336,715	92,323	205	429,243
Additions	485	2,706	1,106	4,297
Disposals	(8,304)	(212)	(15)	(8,531)
Depreciation charge	(14,638)	(18,527)	(503)	(33,668)
Impairment charge	(1,581)	(296)	-	(1,877)
Closing net book amount	312,677	75,994	793	389,464
At 31 December 2012				
Cost	463,874	287,677	15,743	767,294
Accumulated depreciation	(151,197)	(211,683)	(14,950)	(377,830)
Net Book Value	312,677	75,994	793	389,464
Year ended 31 December 2011				
Opening net book amount	357,749	112,123	1,319	471,191
Additions	2,123	3,377	10	5,510
Disposals	(6,936)	(1,446)	(30)	(8,412)
Depreciation charge	(16,221)	(21,731)	(1,094)	(39,046)
Impairment charge	-	-	-	-
Closing net book amount	336,715	92,323	205	429,243
At 31 December 2011				
Cost	474,567	291,205	13,109	778,881
Accumulated depreciation	(137,852)	(198,882)	(12,904)	(349,638)
Net Book Value	336,715	92,323	205	429,243

As at 31 December 2012 vehicles amounting to cost RON 15,743 thousand (2011: cost RON 13,113 thousand) includes cars acquired under financial lease, amounting to cost RON 369 thousand – gross book value (2011: cost RON 911 thousand)."(Note 31)

(All amounts in RON thousand unless otherwise stated)

20 OTHER ASSETS

	31 December 2012	31 December 2011
Other financial assets		
Sundry receivables, gross	30,412	43,833
Provision for sundry receivables and other assets	(14,069)	(12,586)
Sundry receivables and other assets, net	16,343	31,247
Amounts in course of settlement	19,941	20,688
Total other financial assets, net	36,284	51,935
Other non-financial assets		
Prepayments	3,284	7,524
Receivable from state in respect of income tax	7,518	7,518
Receivable from state in respect of other taxes	8,440	8,961
Other assets	1,290	1,423
Total other non-financial assets	20,532	25,426
Total other assets, net	56,816	77,361

	2012	2011
Provision for other assets and receivables		
Provision at 1 January	12,586	25,709
Charge for the period (Note 9)	1,487	(13,454)
Foreign exchange differences (gain)/loss	(4)	331
Provision at 31 December	14,069	12,586

21 DUE TO BANKS

	31 December 2012	31 December 2011
Current accounts with banks	6,514	17,262
Sight deposits from banks	-	80,020
Term deposits from banks	1,060,340	1,420,524
	1,066,854	1,517,806

A currency analysis and residual maturity profile of amounts due to banks is presented in Note 3. The sight deposits bear an interest rate between 1.75% - 8.80% for RON. The term deposits bear an interest rate between 6.2%-8.08% for RON and 1%-2.39% for EUR.
As at 31 December 2012 term deposits from the group company Eurobank Ergasis were RON 442,870 thousand and deposits from Eurobank Private Bank Luxembourg amounted to RON 579,600 thousand (2011: Eurobank Private Bank Luxembourg RON 1,350,459 thousand).

(All amounts in RON thousand unless otherwise stated)

22 DUE TO CUSTOMERS

	31 December 2012	31 December 2011
Current accounts	2,157,461	1,905,869
Term deposits	5,747,064	5,768,424
Collateral deposits	99,683	123,483
Saving instruments	28,432	30,506
Repurchase agreements	-	142,955
	8,032,640	7,971,236

During 2012, interest rates ranged from 3.16 % to 6.5 % (2011: from 0% to 8%) on RON denominated term deposits and from 1.72 % to 4.75% (2011: from 0% to4. 5%) on EUR denominated term deposits. A currency analysis and residual maturity profile of amounts due to customers is presented in Note 3.

23 OTHER BORROWED FUNDS

	31 December 2012	31 December 2011
Loans from banks	728,335	742,047
Subordinated loans from other banks	443,345	433,192
Repurchase agreements	139,261	265,068
	1,310,941	1,440,307

The conversion of the subordinated debt is not performed automatically at the occurrence of a specific event, but only when decided by both parties by concluding an amendment to the subordinated loan contract.

The assets under the repurchase agreements represent government bonds.

An interest rate sensitivity analysis, a currency analysis and residual maturity profile of loans from banks is presented in Note 3.

23. OTHER BORROWED FUNDS (CONTINUED)

The other borrowed funds outstanding as at 31 December 2012 and 31 December 2011 are detailed below:

	31 December 2012			31 December 2011		
	Balance in Original currency	Currency	Balance in thousand RON	Balance in original currency	Currency	Balance in thousand RON
BEI (A)	3,125,000	EUR	13,846	3,750,000	EUR	16,249
BEI (B)	8,333,333	EUR	36,910	9,166,667	EUR	39,627
BEI (C)	4,210,526	EUR	18,659	4,473,684	EUR	19,392
BEI (D)	18,181,818	EUR	80,596	22,727,273	EUR	98,424
BEI (E)	3,913,044	EUR	17,347	4,347,826	EUR	18,830
BEI (F)	4,545,455	EUR	20,140	5,000,000	EUR	21,634
EBRD (G)	24,000,000	EUR	106,195	30,000,000	EUR	131,012
EBRD (H)	14,000,000	EUR	62,504	17,500,000	EUR	76,423
IFC (I)	57,585,000	EUR	254,065	57,585,000	EUR	249,299
Citibank Europe plc Dublin IE (J)	-	EUR	-	1,000,000	EUR	4,330
Citibank Europe plc Dublin IE (K)	-	EUR	-	2,800,000	EUR	12,137
Commerzbank AG (L)	-	EUR	-	1,000,000	EUR	4,369
Commerzbank AG (M)	-	EUR	-	1,000,000	EUR	4,342
The Bank of Nova Scotia (N)	-	EUR	-	3,000,000	EUR	13,080
The Bank of Nova Scotia (O)	-	EUR	-	3,000,000	EUR	13,007
The Bank of Nova Scotia (P)	-	EUR	-	4,596,040	EUR	19,892
The Bank of Nova Scotia (Q)	1,500,000	EUR	6,678			
The Bank of Nova Scotia (R)	3,000,000	EUR	13,348			
The Bank of Nova Scotia (S)	5,000,000	EUR	22,217			
The Bank of Nova Scotia (T)	1,000,000	EUR	4,442	-	EUR	-
The Bank of Nova Scotia (U)	1,600,000	EUR	7,101	-	EUR	-
The Bank of Nova Scotia (V)	6,300,000	EUR	27,950	-	EUR	-
The Bank of Nova Scotia (W)	1,000,000	EUR	4,434	-	EUR	-
The Bank of Nova Scotia (X)	7,200,000	EUR	31,903	-	EUR	-

23. OTHER BORROWED FUNDS (CONTINUED)

			31 December 2012			31 December 2011
	Balance in Original currency	Currency	Balance in thousand RON	Balance in original currency	Currency	Balance in thousand RON
NBR (Y)	31,440,644	EUR	139,261			
Eurobank Ergasias (Z)	-	EUR	-	6,075,548	EUR	26,369
Eurobank Ergasias (AA)	-	EUR	-	34,816,678	EUR	151,113
Eurobank Ergasias (BB)	-	EUR	-	20,179,741	EUR	87,585
Total loans from banks		EUR	867,596			1,007,114

			31 December 2012			31 December 2011
	Balance in Original currency	Currency	Balance in thousand RON	Balance in original currency	Currency	Balance in thousand RON
Eurobank Ergasias (CC)	15,000,000	EUR	66,484	15,000,000	EUR	65,045
Eurobank Ergasias (DD)	35,000,000	EUR	155,103	35,000,000	EUR	151,329
Eurobank Ergasias (EE)	50,000,000	EUR	221,758	50,000,000	EUR	216,818
Total subordinated loans from other banks			443,345			433,192
Total borrowed funds			1,310,941			1,440,307

23. OTHER BORROWED FUNDS (CONTINUED)

A. On 25 October 2007, a loan in the amount EUR 5,000,000 was obtained from the European Bank of Investments ("BEI"), repayable in 2017. The interest (Euribor 3M + 0.046%) is payable quarterly.

B. On 14 December 2007, a loan in the amount EUR 10,000,000 was obtained from the European Bank of Investments ("BEI"), repayable in 2022. The interest (Euribor 3M + 0.049%) is payable quarterly.

C. On 17 October 2008, a loan in the amount EUR 5,000,000 was obtained from the European Bank of Investments ("BEI"), repayable in 2028. The interest (Euribor 3M + 0.080%) is payable quarterly.

D. On 16 November 2009, a loan in the amount EUR 25,000,000 was obtained from the European Bank of Investments ("BEI"), repayable in 2016. The interest (Euribor 3M + 0.0526%) is payable quarterly.

E. On 16 November 2009, a loan in the amount EUR 5,000,000 was obtained from the European Bank of Investments ("BEI"), repayable in 2021. The interest (Euribor 3M + 0.0582%) is payable quarterly.

F. On 26 November 2010, a loan in the amount EUR 5,000,000 was obtained from the European Bank of Investments ("BEI"), repayable in 2017. The interest (Euribor 3M + 0.0267%) is payable quarterly.

G. On 18 November 2010, a loan in the amount EUR 30,000,000 was obtained from the European Bank of Restructuring and Development ("EBRD"), repayable in 2014. The interest (Euribor 6M + 3%) is payable half-yearly.

H. On 18 February 2011, a loan in the amount of EUR 17,500,000 was obtained from the European Bank of Restructuring and Development ("EBRD"), repayable in 2014. The interest is Euribor 6M + 3%.

I. On 20 April 2011 a loan in amount of EUR 57,585,000 was obtained from the International Finance Corporation ("IFC"), repayable in 2015. The interest is Euribor 6M + 3%.

J. On 24 May 2011 a loan in amount of EUR 1,000,000 was obtained from Citibank Europe plc Dublin, repayable on 17 April 2012. The interest is Euribor 6M + 0.5%.

K. On 2 August 2011 a loan in amount of EUR 2,800,000 was obtained from Citibank Europe plc Dublin, repayable on 17 April 2012. The interest is Euribor 3M + 0.5%.

23. OTHER BORROWED FUNDS (CONTINUED)

L. On 5 July 2011 a loan in amount of EUR 1,000,000 was obtained from Commerzbank AG, repayable on 5 January 2012. The interest is Euribor 6M + 0.5%.

M. On 18 October 2011 a loan in amount of EUR 1,000,000 was obtained from Commerzbank AG, repayable on 18 April 2012. The interest is Euribor 6M + 0.65%.

N. On 2 November 2011 a loan in amount of EUR 3,000,000 was obtained from The Bank of Nova Scotia, repayable on 2 May 2012. The interest is Euribor 6M + 0.5%.

O. On 8 August 2011 a loan in amount of EUR 3,000,000 was obtained from The Bank of Nova Scotia, repayable on 8 February 2012. The interest is Euribor 6M + 0.5%.

P. On 30 November 2011 a loan in amount of EUR 4,596,040 was obtained from The Bank of Nova Scotia, repayable on 30 May 2012. The interest is Euribor 6M + 0.5%.

Q. On 27July 2012 a loan in amount of EUR 1,500,000 was obtained from The Bank of Nova Scotia, repayable on 28 January 2013. The interest is Euribor 6M + 0.5%.

R. On 9 August 2012 a loan in amount of EUR 3,000,000 was obtained from The Bank of Nova Scotia, repayable on 11 February 2013. The interest is Euribor 6M + 0.5%.

S. On 29 August 2012 a loan in amount of EUR 5,000,000 was obtained from The Bank of Nova Scotia, repayable on 25 February 2013. The interest is Euribor 6M + 0.5%.

T. On 12 September 2012 a loan in amount of EUR 1,000,000 was obtained from The Bank of Nova Scotia, repayable on 12 March 2013. The interest is Euribor 6M + 0.5%.

U. On 10 October 2012 a loan in amount of EUR 1,600,000 was obtained from The Bank of Nova Scotia, repayable on 10 April 2013. The interest is Euribor 6M + 0.5%.

V. On 23 October 2012 a loan in amount of EUR 6,300,000 was obtained from The Bank of Nova Scotia, repayable on 23 April 2013. The interest is Euribor 6M + 0.5%.

W. On 13 November 2012 a loan in amount of EUR 1,000,000 was obtained from The Bank of Nova Scotia, repayable on 13 May 2013. The interest is Euribor 6M + 0.5%.

X. On 10 December 2012 a loan in amount of EUR 7,200,000 was obtained from The Bank of Nova Scotia, repayable on 10 April 2013. The interest is Euribor 6M + 0.5%.

23. OTHER BORROWED FUNDS (CONTINUED)

Y. On 31 December 2012 a repo in amount of EUR 31,440,644 was obtained from The National Bank of Romania, repayable on 7 January 2013. The interest 5.25%.

Z. On 21 November 2011 a repo in amount of EUR 6,075,548 was obtained from the Parent Bank ("Eurobank Ergasias"), repayable on 21 March 2012. The repo rate is 4.178%.

AA. On 21 November 2011 a repo in amount of EUR 34,816,678 was obtained from the Parent Bank ("Eurobank Ergasias"), repayable on 21 March 2012. The repo rate is 4.178%.

BB. On 21 November 2011 a repo in amount of EUR 20,179,741 was obtained from the Parent Bank ("Eurobank Ergasias"), repayable on 21 March 2012. The repo rate is 4.178%.

CC. On 31 October 2006, Parent Bank ("Eurobank Ergasias") granted a subordinated loan in the amount of EUR 15,000,000 repayable in October 2013. During 2011 the maturity of the loan was extended until 31 October 2019. The interest rate (Euribor 3M + 0.65%) is payable quarterly.

DD. On 16 December 2005, Parent Bank ("Eurobank Ergasias") granted a subordinated loan in the amount of EUR 35,000,000 repayable in December 2012. During 2011 the maturity of the loan was extended until 16 December 2019. The interest is (Euribor 3M + 0.65%) is payable quarterly.

EE. On 31 October 2007, Parent Bank ("Eurobank Ergasias") granted an un-termed subordinated loan in the amount of EUR 50,000,000 for an undetermined period. The interest (Euribor 3M + 0.65%) is payable in quarterly payments.

The above subordinated loans are payable only on maturity, or may be converted, at the agreement of both parties, in share capital. The EUR 50 mill loan from the parent having un-termed maturity may be repaid only after National bank of Romania consent was obtained.

24 TRANSFERRED FINANCIAL ASSETS

The Bank enters into transactions by which it transfers recognised financial assets directly to third parties or to SPEs. These transfers may give rise to the full, partial or no derecognition of the financial assets concerned.

A. Transfers of financial assets not qualifying for derecognition

1 Sale and repurchase agreements

The Bank sells, in exchange for cash, securities under an agreement to repurchase them ('repos') and assumes a liability to repay to the counterparty the cash received..
The Bank has determined that it retains substantially all the risks and rewards of these financial assets and therefore has not derecognised them.

The carrying amount of securities sold under repurchase agreements at 31 December 2012 was RON 139.2 million of which, securities with a carrying amount of RON 90.2 million and RON 49.0 million, were classified as held for trading (Note 14) and investment securities available for sale (Note 17) respectively. The carrying amount of the associated liabilities under repurchase agreements at 31 December 2012 was RON 139.2 million (Note 23, 31).

B. Transfers of financial assets qualifying for derecognition

Transferred financial assets that are derecognized in their entirety but where the Bank has a continuing involvement.

On 12/12/2011, the Bank transferred RON 171.7 million of non-performing loans to ERB New Europe Funding II B.V. The transfer was subject to a first loss clause where the transferor is required to cover the first 10% of assets' expected losses (due to decreases in the fair value of the collaterals held). No gain (loss) was recognized at the date of the transfer.

Bank's continuing involvement with the transferred assets through the first loss is recorded as a guarantee in other liabilities, which fair value is RON 17.5 million as at 31 December 2012 (2011: RON 15.2 million), representing also the Bank's maximum exposure to loss as of that date.
The loss recognized in 2012 is RON 2.3 million (out of which RON 0.4 million represents the foreign exchange effect) and the cumulative loss is RON 17.5 million.

If the Bank is required to reimburse the transferee under the first loss, the maximum undiscounted amount that the bank would pay is RON 17.5 million and is payable for a period of 5 years from the date of the transfer.

(All amounts in RON thousand unless otherwise stated)

25 OTHER LIABILITIES

	31 December 2012	31 December 2011
Financial liabilities		
Amounts in transit/settlements	36,798	45,425
Leasing	451	1,086
Goods, services and fixed assets payables	25,726	22,642
Payables to employees	55	57
Non-financial liabilities		
Social contributions and salaries taxes	14,736	15,791
Provisions for credit commitments (i)	41,238	31,996
Provision for contingent liabilities (ii)	5,628	-
Other provisions (iii)	7,214	3,651
Other liabilities	11,171	11,206
	143,017	131,854

(i) Provisions for credit commitments

The provisions for credit commitments are recorded at the best estimate of the expenditure required to settle any financial obligation at the balance sheet date, arising from credit commitments and credit related contingent liabilities. The balance as at 31 December 2012 is RON 41,238 thousand and is composed by provisions for enforcement risks of letters of guarantee, commitment letters and loan financing commitments. The balance includes a foreign exchange expense impact of RON 738 thousand. The related charge of these provisions in the financial year 2012 is RON 8,504 thousand (Note 10) (2011: charge of RON 28,661 thousand (Note 10).

(ii) Provision for contingent liabilities

Provision for contingent liabilities relate to litigations (RON 2,230 thousand) and provisions booked in respect of the branch closure (RON 3,398 thousand). For 2011, the provisions for contingent liabilities related to amounts payable for 2010 fraudulent transactions and was reversed by recognizing a release of RON 951 thousand (Note 9).

(iii) Other provision

Included in this category are retirement provisions, for which the Banks has a legal obligation to pay retirement benefits to its employees on retirement date and provisions for employees' bonuses. The payment made on retirement consists in a number of salaries paid to the former employee. The Bank uses actuarial techniques to make a reliable estimate of the amount of benefit that employees have earned in return for their service in the current and prior periods based on a collective work contract.

(All amounts in RON thousand unless otherwise stated)

26 SHARE CAPITAL

	31 December 2012	31 December 2011
Statutory registered amount	1,178,865	1,178,865
Hyperinflation adjustment prior to 2004	171,380	171,380
	1,350,245	1,350,245

Shareholder	31 December 2012 (%)	31 December 2011 (%)
Shareholding structure		
EFG Eurobank Ergasias SA	93.78	93.78
EFG New Europe Holding BV	5.33	5.33
Individuals (including employees and retired staff)	0.89	0.89
	100.00	100.00

At 31 December 2012 the share capital of the Bank consisted of 2,947,163,540 (2011: 2,947,163,540) allotted and fully paid ordinary shares of RON 0.40 each (2011: RON 0.40 each). Each share carries one vote.

During 2011 the bank's share capital was increased with the amount of RON 86,426,310.80, from RON 1,092,439,105.20 to RON 1,178,865,416.00, as follows:

- Through conversion of liquid and enforceable receivables against Bancpost SA of RON 86,420,000.00 by issuing a number of 216.050.000 new nominative shares in dematerialized form;

- Through new cash contributions from the rest of the shareholders of RON 6,310.80, by issuing a number of 15,777 new nominative shares in dematerialized form.

The new level of Bancpost' share capital was registered with The National Trade Register Office in 21st December 2011.

(All amounts in RON thousand unless otherwise stated)

27 OTHER RESERVES

The balances of reserve comprise:

	31 December 2012	31 December 2011
Legal reserve	40,756	40,755
General banking risk reserve	41,583	41,583
General reserve	71,847	72,035
Revaluation reserve – available for sale securities	17,099	(2,748)
	171,285	151,625

As at 31 December 2012, under Romanian banking legislation the Bank is required to create the following reserves from appropriation of profit:

- legal reserve, appropriated at the rate of 5% of the gross profit, until the total reserve is equal to 20% of the issued and fully paid up share capital; and

- general reserve for banking risk, appropriated from the gross profit at the rate of 1% of assets bearing banking risks (until 31 December 2006, according with the regulation).

General reserves comprise the following items:

- foreign exchange reserves related to foreign denominated cash, built up according to Law 189/2001;
- reserves built up for own funds increase;
- other reserves;

Amounts transferred to reserves must be used for the purposes designated when the transfer is made. According to the local legislation, these reserves cannot be used for other purposes.

(All amounts in RON thousand unless otherwise stated)

28 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 initial maturity:

	31 December 2012	31 December 2011
Cash	437,376	302,080
Current account with the Central Bank (Note 12)	1,500,551	1,716,946
Loans and advances to banks (Note 13)	749,494	1,478,791
	2,687,421	3,497,817

29 RELATED PARTY TRANSACTIONS

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 operation decisions. The Bank's immediate parent is Eurobank Ergasias S.A. (Greece) ("Parent bank").

Eurobank Ergasias S.A. shareholding structure

Until 23 July 2012, Eurobank Ergasias S.A. was a member of the EFG Group, which held 44.70% of the Bank's ordinary shares and voting rights, through wholly owned subsidiaries of the ultimate parent company.

On 23 July 2012, 43.55% of the ordinary shares and voting rights held by EFG Group were transferred to ten legal entities, each of which acquired approximately 4.4%, while the EFG Group retained the remaining 1.15%. These entities have formally stated they are independent from each other. As a result, from 23 July 2012, onwards, Eurobank ceased to be under EFG Group's control and will no longer be consolidated in the financial statements of the EFG Group. In addition, the Bank's corporate and trade name have already been amended in order to no longer include the "EFG" suffix.

The management includes the members of the Board of Directors, Executive Committee, the management of the Legal department, Compliance and Internal Audit departments and their relatives.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions, acquisition of other services and sale of loans. These transactions bear the normal market prices.

(All amounts in RON thousand unless otherwise stated)

29 RELATED PARTY TRANSACTIONS (CONTINUED)

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

			2012			2011
	Management	Shareholders	Other group entities*	Management	Shareholders	Other group Entities*
Assets						
Loans and advances to banks		625,246	-	-	50,617	1,103,200
Loans and advances to customers	6,874	-	-	7,447	-	-
Trading assets	-	-	-	-	-	-
Investment securities available for sale	-	-	80,188	-	-	274
Other debtors	-	-	8,568	15	15,008	4,972
Derivative financial instruments	-	54,595	-	-	43,974	-
Liabilities						
Due to banks	-	448,443	584,264	-	16,012	1,350,459
Due to customers	7,470	-	311,033	5,430	-	149,439
Other borrowed funds	-	443,345	-	-	698,260	-
Debts securities in issue		-	-	-	-	-
Other creditors	1	-	19,292	-	11,073	5,845
Derivative financial instruments	-	88,357	-	-	96,806	-

* Does not include entities with significant influence

(All amounts in RON thousand unless otherwise stated)

29. RELATED PARTY TRANSACTIONS (CONTINUED)

	Management	Shareholders	2012 Other group Entities*	Management	Shareholders	2011 Other group Entities*
Profit and loss						
Interest income	322	15,629	13,419	415	1,559	90,622
Interest expense	258	19,986	54,007	390	25,259	135,676
Net trading income/(loss)	-	(70,779)	-	8	370,098	(1)
Fee and Commission income	3	766	11,769	9	77	20,392
Fee and Commission expense	-	1,147	48	-	979	7,419
Other operating income	23	-	4,166	-	-	326,411
Other operating expense	22	-	47,087	7	-	50,502
Commitments	192	-	589,163	370,339	-	784,354
Financial guarantee	-	575,731	2,632	-	1,486,560	-

* Does not include entities with significant influence

	2012	2011
Remuneration of the Key Management Personnel	13,009	13,531

(All amounts in RON thousand unless otherwise stated)

30 CONCENTRATION OF ASSETS DUE FROM THE GOVERNMENT AND CENTRAL BANK

	31 December 2012	31 December 2011
Balances with the Central Bank (Note 12)	1,500,729	1,716,946
Debt securities (Note 17)	1,047,617	620,716
	2,548,346	2,337,662

The assets above represent 21 % of the Bank's total assets (31 December 2011: 18% of the Bank's total assets).

31 COMMITMENTS AND CONTINGENCIES

Assets pledged/restricted

	Assets pledged		Related liability	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Balances with the Central Bank	178	-	178	-
Investment securities	139,241	518,945	139,241	518,945
Cash Collateral Deposits	6,819	1,295	-	-

In accordance with the International Swap Dealers Association ("ISDA") agreements concluded with Eurobank Private Bank Luxembourg and with Parent Bank, the amounts payable/receivable from derivative transactions, placements with and term deposits from these counterparties are subject to standard netting clauses applicable in cases as provided in the ISDA agreements. The assets and liabilities subject to netting clauses are presented below:

	Assets		Liability	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Due from Banks	609,931	1,104,081	-	-
Due to Banks	-	-	(1,030,962)	(1,355,193)
Derivative financial instruments	54,595	43,974	(88,357)	(96,806)

(All amounts in RON thousand unless otherwise stated)

31 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, 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 borrowing.

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 since 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.

Outstanding amounts are:

	31 December 2012	31 December 2011
Letters of guarantee	956,982	1,180,412
Letters of credit	2,114	5,155
Undrawn loan commitments	136,318	110,191
Total credit commitments	1,095,414	1,295,758
Other commitment	-	2,608
	1,095,414	1,298,366

The letters of Guarantee include letters of guarantee in amount of RON 498,253 thousand (2011: RON 784,354 thousand) issued for credit risk in respect of loans granted by Eurobank Private Bank Luxembourg S.A. to Romanian customers.

(All amounts in RON thousand unless otherwise stated)

31 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 (accruing at a rate of approximately 36% p.a.). In Romania, tax periods remain open for 5 years. The company's management considers that the tax liabilities included in these financial statements are fairly stated. The last tax authority's inspection was performed for period January 1, 2006 until December 31, 2010.

Capital expenditure commitments

As at 31 December 2012 the Bank has contractual capital expenditure commitments in respect of equipment and software totaling RON 1,118 thousand (2011: RON 926.5 thousand).

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable building and cars operating leases are as follows:

	31 December 2012	31 December 2011
No later than 1 year	50,275	55,459
Later than 1 year and no later than 5 years	166,752	187,266
Later than 5 years	114,238	319,583
	331,265	562,308

On 31 December 2012 and 2011 the future minimum lease payments for financial leases were as follow:

	31 December 2012	31 December 2011
Up to one year	369	535
From two to five years including	-	376
	369	911

32 POST BALANCE SHEET EVENTS

National Bank of Greece S.A. Voluntary Tender Offer (VTO)

On 5 October 2012, the National Bank of Greece (NBG) announced its intention to launch a voluntary exchange offer to acquire all Eurobank's shares offering 58 new shares of NBG for every 100 shares of Eurobank tendered. NBG also stated that, Eurobank shareholders holding 43.6% of Eurobank's ordinary share capital have committed to tender their shares in the tender offer.

On 11 January 2013, the Board of Directors of Eurobank Ergasias S.A., having considered the content of the VTO information memorandum and the reports provided by the Bank's financial advisors, concluded in summary that the Offer Consideration satisfies the requirements of the Law and is fair from a financial point of view.

On 15 February 2013, NBG announced that all necessary regulatory approvals have been obtained. On 18 February 2013, NBG announced that during the offering's acceptance period for Eurobank's shareholders, 84,35% of Eurobank's shareholders have accepted legally the VTO; thus NBG holds 84,38% of Eurobank's paid in Share Capital.

As stated in the VTO documentation, the VTO will be followed by the merger of the two banks. In line with this, on 19 March 2013, the boards of Eurobank and NBG resolved to initiate the merger process, with NBG absorbing Eurobank, and set 31 December 2012 as the merger reference date.

On 8 April 2013, Eurobank announced that the relevant regulatory authorities, with the consent of the management of both banks, have decided that NBG and Eurobank will be independently recapitalized in full. As a consequence, the merger process of the two Banks is being suspended.

As per the announcement of the Bank of Greece, the recapitalization process for the four systemic banks will be completed before the end of April 2013. The final decisions regarding the merger process will be taken by their future common shareholder, the HFSF.

On 10 April 2013, Eurobank's Board of Directors decided to convene a General Shareholders`Meeting on 30 April 2013 in order to discuss the Bank`s €5.8 bn recapitalization. Within the current legal framework, a part of the recapitalization may be executed through the issuance of CoCos thus reducing the amount of the total Common Shares rights issue by an equal amount. Existing shareholders as well as other private investors will have the right to participate in the rights issue, while the recapitalization amount has already been guaranteed by the Hellenic Financial Stability Fund and €5.3 bn out of €5.8 bn has already been paid in advance to the Bank.

32 POST BALANCE SHEET EVENTS (CONTINUED)

Change of name of Eurobank group subsidiaries

As at beginning of March 2013, the name of Eurobank Securities S.A. changed to ERB ROM CONSULT S.A.