BANCPOST SA

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2013

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

BANCPOST SA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

CONTENTS

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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 2013 and the statements of profit and loss and other 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 subsequently 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 Bank'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 accompanying financial statements present fairly, in all material respects, the financial position of Bancpost SA as at 31 December 2013, 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 consistency of the Administrators' Report with the financial statements

7 In accordance with the Annex no.1 to the NBR Order 27/2010, article no. 15, point (2), we have read the Administrators' Report attached to these financial statements as presented on pages 1 to 26. The Administrators' Report is not a part of the financial statements. In the Administrators' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying financial statements.

PricewaterhouseCoopers Audit SRL

PricewaterhouseCoopers Audit SRL Bucharest, 10 April 2014

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.

BANCPOST SA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

NOTES TO FINANCIAL STATEMENTS

BANCPOST SA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in RON thousand unless otherwise stated)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Interest and similar income	5	703,332	776,507
Interest expense and similar charges	5	(391,661)	(489,076)
Net interest income		311,671	287,431
Fee and commission income	6	159,411	164,953
Fee and commission expense	6	(39,042)	(39,058)
Net fee and commission income		120,369	125,895
Net trading income	7	146,787	165,319
Other operating income	8	15,854	3,919
Other operating expenses	9	(508,696)	(542,189)
Profit from operations before impairment losses		85,985	40,375
Impairment charge for credit losses	10	(230,522)	(192,175)
Loss before income tax		(144,537)	(151,800)
Income tax credit	11	9,862	101,889
Loss for the year		(134,675)	(49,911)

The accompanying notes from 1 to 34 forms an integral part of these financial statements

BANCPOST SA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in RON thousand unless otherwise stated)

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Loss for the year		(134,675)	(49,911)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Net gains on available-for-sale financial assets	17	61,954	23,630
- Changes in fair value arising during the period, before tax		65,115	20,961
- Transfers to profit or loss before tax		(3,161)	2,669
Items that will not be reclassified to profit or loss:			
- Actuarial gain/(losses) on post-employment benefit obligation, before tax	33	(555)	-
Income tax related to components of other comprehensive income	11	(9,823)	(3,781)
Other comprehensive income for the year, net of tax		51,576	19,849
Total comprehensive loss for the year		(83,099)	(30,062)

The financial statements on pages 1 to 112 were approved by the Board of Directors and signed on behalf of the Board of Directors on 10 April 2014 by:

MIHAI BOGZA
Chairman of the Board of Directors

LUCICA CRISTINA PITULICE
Executive Manager
Finance and Accounting

ANTONIOS C. HASSIOTIS
Executive President

The accompanying notes from 1 to 34 forms an integral part of these financial statements

BANCPOST SA

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in RON thousand unless otherwise stated)

	Note	31 December 2013	31 December 2012
Assets			
Cash	28	443,002	437,376
Balances with Central Bank	12	1,905,819	1,500,729
Loans and advances to banks	13	1,025,685	749,494
Loans and advances to customers (net)	3,16	6,433,471	7,148,461
Trading assets	14	132,678	546,528
Derivative financial instruments	15	6,893	60,496
Investment securities, available for sale	17	1,346,832	1,134,085
Intangible assets	18	112,973	113,083
Property plant and equipment	19	358,466	389,464
Other assets	20	56,030	56,816
Deferred income tax assets	11	48,152	48,112
Total assets		11,870,001	12,184,644
Liabilities			
Due to banks	21	727,234	1,066,854
Due to customers	22	8,527,437	8,032,640
Derivative financial instruments	15	20,030	92,597
Other borrowed funds	23	1,007,527	1,310,941
Other liabilities	25	132,277	143,017
Total liabilities		10,414,505	10,646,049
Equity			
Share capital	26	1,350,245	1,350,245
Share premium		81,133	81,133
Other reserves	27	222,861	171,285
Retained earnings		(198,743)	(64,068)
Total equity		1,455,496	1,538,595
Total liabilities and equity		11,870,001	12,184,644

The financial statements on pages 1 to 112 were approved by the Board of Directors and signed on behalf of the Board of Directors on 10 April 2014 by:

MIHAI BOGZA
Chairman of the Board of Directors

LUCICA CRISTINA PITULICE
Executive Manager
Finance and Accounting

ANTONIOS C. HASSIOTIS
Executive President

The accompanying notes from 1 to 34 forms an integral part of these financial statements

BANCPOST SA

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in RON thousand unless otherwise stated)

	Share capital	Share premium	Other reserves	Retained earnings	Total
Balance as at 1 January 2012	1,350,245	81,133	151,625	(14,309)	1,568,694
Profit/ (Loss) for the year	-	-	-	(49,911)	(49,911)
Other comprehensive income/ (loss) for the year	-	-	19,849	-	19,849
Total comprehensive income for the year	-	-	19,849	(49,911)	(30,062)
Prior year correction	-	-	(189)	152	(37)
Balance as at 31 December 2012, as previously reported	1,350,245	81,133	171,285	(64,068)	1,538,595

The accompanying notes from 1 to 34 forms an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013
(All amounts in RON thousand unless otherwise stated)

	Share capital	Share premium	Other reserves	Retained earnings	Total
Balance as at 1 January 2013	1,350,245	81,133	171,285	(64,068)	1,538,595
Other comprehensive income/ (loss) for the year	-	-	51,576	-	51,576
Profit/ (Loss) for the year	-	-	-	(134,675)	(134,675)
Total comprehensive income for the year	-	-	51,576	(134,675)	(83,099)
Prior year correction	-	-	-	-	-
Balance as at 31 December 2013	1,350,245	81,133	222,861	(198,743)	1,455,496

The accompanying notes from 1 to 34 forms an integral part of these financial statements

(All amounts in RON thousand unless otherwise stated)

	Note	2013	2012
Cash flows from operating activities			
Interest receipts		768,456	878,332
Interest paid		(396,408)	(524,804)
Net fee and commission receipts		120,369	125,895
Net trading and other income received		105,399	66,426
Income from loans previously written off		(428)	153
Cash payments to employees and suppliers		(440,441)	(476,799)
Income taxes paid		(1,498)	-
Net cash flows from operating activities before changes in operating assets and liabilities		155,449	69,203
Net change in operating assets			
Net decrease/ (increase) in trading assets		413,754	(198,913)
Net (decrease)/increase in balances with Central Bank and other banks over 90 days		176	(178)
Net decrease/ in loans and advances to customers		449,235	226,379
Net decrease in other assets		(179)	19,319
Total net changes in operating assets		862,986	46,607
Net change in operating liabilities			
Net (decrease) in due to banks		(348,847)	(449,459)
Net increase in due to customers		482,939	49,586
Net (decrease) in other liabilities		(22,405)	(4,200)
Total net changes in operating liabilities		111,687	(404,073)
Net cash from /(used in) operating activities		1,130,122	(288,263)
Cash flows from investing activities			
Purchase of investment securities		(1,169,536)	(2,014,265)
Proceeds from sale of investment securities		1,018,741	1,598,092
Proceeds from sale/(acquisition) of equity investments		76	(13)
Dividends received		575	505
Purchase of property, equipment and intangible assets		(22,716)	(21,248)
Net cash used in investing activities		(172,860)	(436,929)

(All amounts in RON thousand unless otherwise stated)

	Note	2013	2012
Cash flows from financing activities			
Proceeds from borrowed funds and debt securities		931,004	1,468,806
Repayments borrowed funds and debt securities		(1,222,064)	(1,566,783)
Net cash used in financing activities		(291,060)	(97,977)
Effect of exchange rate movements on cash and cash equivalents		20,883	12,773
Increase/(Decrease) in cash and cash equivalents		687,085	(810,396)
Cash and cash equivalents at 1 January		2,687,421	3,497,817
Cash and cash equivalents at 31 December	28	3,374,506	2,687,421

(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 2,829 people at 31 December 2013 (31 December 2012: 3,046). The Bank operates through its head office located in Bucharest and 207 branches and offices (31 December 2012: 240) located in Romania.

As at 31 December 2013, the registered office of the Bank was 6A Dimitrie Pompeiu Avenue, Bucharest, Sector 2, Romania.

The **Board of Directors** composition (9 members) as at 31 December 2013 was:

Mihai Bogza	Chairman
Theodoros Karakasis	Deputy Chairman
Antonios Hassiotis	Member
Iasmi Ralli	Member
Michail Vlastarakis	Member
Lambros Yiannis Demosthenous	Member
Codin-Radu Nastase	Member
Christos Adam*	Member
Konstantinos Vousvounis*	Member

*Notes: * Mr. Adam ad Mr. Vousvounis are temporary directors, subject to NBR authorization*

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

The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and of financial assets and financial liabilities (including derivative instruments) at fair-value-through-profit-or-loss.

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.

The policies set out below have been consistently applied to the years 2013 and 2012, except as described below. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(a) The following new standards and amendments to existing standards, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), applied from 1 January 2013:

IAS 1, Amendment - Presentation of Items of Other Comprehensive Income
The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The adoption of the amendments did not have a material impact on the presentation of other comprehensive income in the Bank financial statements.

IAS 12, Amendment - Deferred tax: Recovery of Underlying Assets
The amendment provides a practical approach for measuring deferred tax assets and deferred tax liabilities when investment property is measured using the fair value model in IAS 40 "Investment Property". The amendment has no impact on the Bank's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 19, Amendment - Employee Benefits

In 2013, the Bank applied the Amendments to IAS 19 'Employee benefits' which introduce several changes to the accounting for employee benefits. The amendments amongst other, eliminate the corridor approach and require all actuarial gains and losses to be recognised directly in other comprehensive income. Previously, the Bank had elected to recognise immediately all actuarial gains and losses directly in the income statement. No retrospective application has been performed due to immaterial effect.
The effects of the changes of the amendments are shown in note 2.21 and note 33-Standard legal staff retirement indemnity obligations.

IFRS 7, Amendment - Disclosures, Offsetting Financial Assets and Financial Liabilities

The amendment requires disclosure of the effect or potential effect of netting arrangements on an entity's financial position. In particular, it requires information about all recognized financial instruments that are set off, according to IAS 32 "Financial Instruments: Presentation", as well as about those recognized financial instruments that, although they are not set off under IAS 32 "Financial Instruments: Presentation", are subject to an enforceable master netting arrangement or similar agreement.
The amendments have been applied by the Bank retrospectively. As a result, the Bank has expanded disclosures about offsetting financial assets and financial liabilities in Note 32- Offsetting of financial assets and financial liabilities.

IFRS 13, Fair value measurement

IFRS 13 establishes a single framework for measuring fair value, provides a revised definition of fair value and introduces more comprehensive disclosure requirements on fair value measurement. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application (1 January 2013). There was no material impact on the financial statements of the Bank from the prospective adoption of the measurement requirements of IFRS 13. New disclosures and enhancements to existing disclosures are provided in note 3.5- Fair value of financial assets and liabilities

Annual Improvements to IFRSs 2009–2011 Cycle

Improvements to IFRSs comprise amendments to a number of standards aiming to clarify:
- the requirements for comparative information in IAS 1 "Presentation of Financial Statements";
- when certain types of equipment are classified as property, plant and equipment in IAS 16 "Property Plant and Equipment";

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- the accounting for the tax effect of distributions to holders of equity instruments in IAS 32 "Financial Instruments: Presentation"; and
- interim financial reporting requirements regarding total segment assets and liabilities in IAS 34 "Interim Financial Reporting"

The above improvements to IFRSs did not have a material impact on the Bank financial statements.

(b) A number of new standards, amendments and interpretations to existing standards are effective after 2013, as they have not yet been endorsed for use in the European Union or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IAS 19, Amendment- Defined Benefit Plans: Employee Contributions (effective 1 January 2015, not yet endorsed by EU)

The amendment clarifies the accounting for post- employment benefit plans where employees or third parties are required to make contributions which do not vary with the length of employee service, for example, employee contributions calculated according to a fixed percentage of salary. The amendment allows these contributions to be deducted from pension expense in the year in which the related employee service is delivered, instead of attributing them to periods of employee service.

The adoption of the amendment is not expected to have a material impact on the Bank financial statements.

IAS 27, Amendment - Separate Financial Statements (effective 1 January 2014)

The amendment is issued concurrently with IFRS 10 Consolidated Financial Statements and together they supersede IAS 27 'Consolidated and Separate Financial Statements'. The amendment prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

The adoption of the amendment is not expected to have any impact on the Bank financial statements.

IAS 28, Amendment - Investments in Associates and Joint Ventures (effective 1 January 2014)

The amendment replaces IAS 28 'Investments in Associates', prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The adoption of the amendment is not expected to have a material impact on the Bank financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 32, Amendment - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)
The amendment clarifies the requirements for offsetting financial assets and financial liabilities. The adoption of the amendment is not expected to have a material impact on the Bank financial statements.

IAS 36, Amendment - Recoverable Amount Disclosures for Non-Financial Assets (effective 1 January 2014)
The amendments restrict the requirement to disclose the recoverable amount of an asset or cash generating unit only to periods in which an impairment loss has been recognized or reverses. They also include detailed disclosure requirements applicable when an asset or cash generating unit's recoverable amount has been determined on the basis of fair value less costs of disposal. The adoption of the amendment is not expected to have a material impact on the Bank financial statements.

IAS 39, Amendment - Novation of derivatives and continuation of hedge accounting (effective 1 January 2014)
The amendment provides relief from discontinuing hedge accounting when, as a result of laws and regulations, a derivative designated as a hedging instrument is novated to effect clearing with a central counterparty and specific criteria are met.
The adoption of the amendment is not expected to have a material impact on the Bank financial statements.

IFRS 9, Financial Instruments (effective date to be determined by IASB)
IFRS 9, Financial instruments, is a new standard for financial instruments that is ultimately intended to replace current IAS 39 Financial Instruments: Recognition and Measurement in its entirety.

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. It requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment which is not held for trading, in other comprehensive income, with only dividend income generally recognized in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities, as well as derecognition requirements, IFRS 9 requires that, in cases where a financial liability is designated as at fair value through profit or loss, the part of a fair value change due to the reporting entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Fair value changes attributable to a financial liability's credit risk are not subsequently reclassified in profit or loss. According to IAS 39 which currently applies, the amount of the change in the fair value of the financial liability designated as fair value through profit or loss is recognized in profit or loss.

Based on IFRS 9 and IFRS 7 Amendments, Mandatory Effective Date and Transition Disclosures, issued in December 2011, entities were required to apply IFRS 9 for annual periods beginning on or after January 1, 2015, with earlier application permitted. Additionally, IFRS 9 should be applied to all financial instruments outstanding as of the effective date, as if the classification and measurement under IFRS 9 had always been applied, but comparative periods do not need to be restated.

IFRS 9 was amended in November 2013 with IFRS 9 Financial Instruments: Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 to include a new general hedge accounting model that will better reflect reporting entities' risk management activities in the financial statements and some related amendments to IAS 39 and IFRS 7. The amendments also allow entities to early adopt the provision in IFRS 9 as issued in 2010, related to the presentation of changes in an entity's own credit risk within other comprehensive income without applying the other requirements of IFRS 9 at the same time. In addition, the January 1 2015 mandatory effective date is removed and a new mandatory effective date will be set upon completion of the impairment phase of the accounting for financial instruments.
Entities that adopt IFRS 9 as amended in November 2013 can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being.

As IFRS 9 is an ongoing IASB project, which has not yet been finalized, it remains impractical to quantify its effect, as at the date of the publication of these financial statements.

IFRS 10, Consolidated Financial Statements (effective 1 January 2014)
IFRS 10 replaces the part of IAS 27 'Consolidated and Separate Financial Statements' that deals with consolidated financial statements and SIC 12 'Consolidation-Special Purpose Entities'. Under IFRS 10, there is a new definition of control, providing a single basis for consolidation for all entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This basis is built on the concept of power over the investee, variability of returns from the involvement with the investee and their linkage, replacing thus focus on legal control or exposure to risks and rewards, depending on the nature of the entity.
The adoption of this standard is not expected to have a material impact on the Bank financial statements.

IFRS 11, Joint Arrangements (effective 1 January 2014)
IFRS 11 replaces IAS 31 'Interests in Joint Ventures' and SIC-13 'Jointly Controlled Entities- Non – monetary Contributions by Venturers'. Under IFRS 11, there are only two types of joint arrangements, joint operations and joint ventures and their type is determined by focusing on the rights and obligations of the arrangement, rather than its legal form. The equity method of accounting is now mandatory for joint ventures. The option to use the proportionate consolidation method to account for joint ventures, which is not applied by the Bank, is no longer allowed.
The adoption of this standard is not expected to have a material impact on the Bank financial statements.

IFRS 12, Disclosure of Interests in Other Entities (effective 1 January 2014)
IFRS 12 specifies the disclosures required to enable users of financial statements to evaluate the nature of and risks associated with the reporting entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.
The adoption of the standard is not expected to result in expanded disclosures in the Bank financial statements.

IFRS 10, 11 and 12 Amendments - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (effective 1 January 2014)

The amendments clarify the transition guidance in IFRS 10 and provide additional transition relief in IFRS 10, 11 and 12, requiring adjusted comparative information to be limited only to the preceding comparative period. In addition, for disclosures related to unconsolidated structured entities, the requirement to present comparative information for periods before IFRS 12 is first applied, is removed.
The Bank will adopt these amendments when it first applies IFRS 10, IFRS 11 and IFRS 12.

IFRS 10, 12 and IAS 27 Amendments - Investment Entities (effective 1 January 2014)
The amendments require that 'investment entities', as defined below, account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. Under the amendments an 'Investment entity' is an entity that:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) obtains funds from one or more investors for the purpose of providing those investors with investment management services;
(b) commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
(c) measures and evaluates the performance of substantially all of its investments on a fair value basis.
The amendments also set out disclosure requirements for investment entities.
The adoption of the amendments is not expected to affect Bank financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle (effective 1 January 2015, not yet endorsed by EU)

The amendments introduce key changes to seven IFRSs following the publication of the results of the IASB's 2010-12 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- Definition of vesting condition in IFRS 2 "Share – based Payment";
- Accounting for contingent consideration in a business combination in IFRS 3 "Business Combinations";
- Aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets in IFRS 8 "Operating Segment";
- Short-term receivables and payables in IFRS 13 "Fair Value Measurement";
- Revaluation method—proportionate restatement of accumulated depreciation in IAS 16 "Property, Plant and Equipment";
- Key management personnel in IAS 24 "Related Party Disclosures"; and
- Revaluation method—proportionate restatement of accumulated amortization in IAS 38 "Intangible Assets";

Annual Improvements to IFRSs 2011-2013 Cycle (effective 1 January 2015, not yet endorsed by EU)

- The amendments introduce key changes to four IFRSs following the publication of the results of the IASB's 2011-13 cycle of the annual improvements project. The topics addressed by these amendments are set out below:
- Scope exceptions for joint ventures in IFRS 3 "Business Combinations";
- Scope of portfolio exception in IFRS 13 "Fair Value Measurement";
- Clarifying the interrelationship between IFRS 3 "Business Combinations" and IAS 40 "Investment Property" when classifying property as investment property or owner-occupied property in IAS 40; and
- Meaning of "effective IFRSs" in IFRS 1 First-time Adoption of International Financial Reporting Standards

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRIC 21, Levies (effective 1 January 2014, not yet endorsed by EU)

IFRIC 21 Levies clarifies that an entity recognizes a liability for a levy that is not income tax when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, for example a specified level of revenue, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

The adoption of the interpretation is not expected to have a material impact on the Bank financial statements.

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 21 February 2012. The programme aimed to bring the country's public debt-to-GDP ratio below 120.0% 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 26 November 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 was consistent with the debt sustainability required by the IMF.

Position of Group

Greek sovereign debt exchange programme

On 21 February 2012 the Euro-area finance ministers agreed on a bailout 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 derecognised and the new Greek government bonds (nGGBs) recognised 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 100% of its nGGBs portfolio of total face value €2.3 billion.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recapitalisation Framework and Process

Given the severity of the impact of the Greek Government Bond exchange programme (PSI+), on 21 February 2012 the Euro Area finance ministers allocated a total of €50 billion of the second support programme for Greece specifically for the recapitalisation of the Greek banking system. These funds were directed to the Hellenic Financial Stability Fund (HFSF) whose mandate has been extended and enhanced accordingly. €39 billion of these funds were remitted to Greece in 2012 and the final €11 billion in 2013.

Recapitalisation of Eurobank Ergasias S.A.

The Bank of Greece, after assessing the business plan and the capital needs of Eurobank Ergasias S.A. has concluded on 19 April 2012 that Eurobank Ergasias S.A. is a viable bank and, on 8 November 2012, notified Eurobank Ergasias S.A. that its Tier I capital should increase by €5.839 million. Eurobank Ergasias S.A., the HFSF and the European Financial Stability Facility (EFSF) signed on 28 May 2012, on 21 December 2012 and on 30 April 2013 a trilateral presubscription agreement (PSA) for the advance to Eurobank Ergasias S.A. of EFSF notes of face value of €3,970 million, €1,341 million and €528 million, respectively, (total €5,839 million), as advance payment of its participation in the share capital increase of Eurobank Ergasias S.A.

On 7 April 2013, the relevant regulatory authorities, with the consent of the management of both banks, decided that National Bank of Greece S.A. (NBG) and Eurobank Ergasias S.A. will be independently recapitalised in full. As a consequence, the merger process of the two Banks was suspended. Following the above decision, the Board of Directors of Eurobank Ergasias S.A. evaluated the specificities of the exercise in relation with the attraction of capital from private investors and, in particular, the uncertainty regarding the completion or not of the merger with NBG, the ensuing inability of properly assessing the investment proposal, as well as the absence of tens of thousands of Eurobank Ergasias S.A.'s traditional shareholders who were substituted, due to the recent Voluntary Tender Offer, by NBG's stake of approximately 85% in Eurobank Ergasias S.A.'s capital. As a consequence, the Board of Directors of Eurobank Ergasias S.A. proposed to the Extraordinary General Meeting on 30 April 2013 that the share capital increase of €5,839 million be fully subscribed by the HFSF.

On 30 April 2013, the Extraordinary General Meeting approved the increase of the share capital of the Eurobank Ergasias S.A., in accordance with the provisions of Law 3864/2010 and Act of Cabinet 38/9.11.2012, in order to raise €5.839 million by issuing 3,789,317,358 new ordinary shares, covered entirely by the HFSF with the contribution of bonds issued by the EFSF and owned by the HFSF. The capital increase was certified on 31 May 2013 and the listing of the new shares was completed on 19 June 2013 after obtaining the relevant approvals from Greek regulatory authorities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On 28 March 2013, the BoG issued an Executive Committee Act (13/28.03.2013) bringing the limit for the Core Tier I capital to 9% of Risk Weighted Assets and for Equity Core Tier I to 6%, effective from 31 March 2013. According to the new definition of Core Tier I capital, AFS reserve is fully recognised, while deferred tax asset's recognition is limited to 20% of Core Tier I capital. On 23 December 2013, the BoG issued an Executive Committee Act (36/23.12.2013) lifting the aforementioned limitation related to the deferred tax asset's recognition, effective from 31 December 2013. As at 31 December 2013, the Core Tier I ratio stood at 10.4% and proforma with the completion of transaction with Fairfax Financial Holdings Limited (increase of Fairfax's participation in Eurobank Properties S.A. through share capital increase) and the implementation of Basel II IRB credit risk methodology to New Hellenic Postbank's mortgage portfolio at 11,3%.

On 14 November 2013, Eurobank Ergasias S.A. announced the initiation of the process to raise approximately € 2 bn through a capital increase. On 14 January 2014, Eurobank Ergasias S.A. and HFSF announced that the transaction timetable will be adjusted to allow for the finalization of the assessment of forward looking capital needs of the Greek banking sector and the new recapitalization framework. The BoG, following the assessment of Eurobank's capital needs, concluded on 6 March 2014 and notified Eurobank that its Core Tier I capital should increase by € 2,945 million. Eurobank Ergasias S.A. with its letter to BoG on 24 March 2014, submitted its capital enhancement plan whereby revised its capital actions providing for an additional positive impact on regulatory capital of €81 million and stated that it intends to cover the remaining capital needs of €2.864 million through a share capital increase, which constitutes a step towards further strengthening Eurobank's capital position and enhances Eurobank's ability to support the Greek economy. The proposed capital increase will be effected through a marketed equity offering.

Position of the Bank

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.

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.

As at 31 December 2013, 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 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 2013 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) Financial liabilities

The Bank classifies its financial liabilities in the following categories: financial liabilities measured at amortised cost and financial liabilities at fair-value-through-profit-or-loss. Financial liabilities at fair-value-through-profit-or-loss have two sub categories: financial liabilities held for trading and financial liabilities designated at fair-value-through-profit-or-loss upon initial recognition.
The Bank designates financial liabilities at fair-value-through-profit-or-loss when any of the following apply:

i. it eliminates or significantly reduces measurement or recognition inconsistencies; or
ii. financial liabilities share the same risks with financial assets and those risks are managed and evaluated on a fair value basis; or
iii. structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

De-recognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability of the Bank is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.
The Bank considers the terms to be substantially different, if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.
If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.
Similarly, when the Bank repurchases any debt instruments issued by the Bank, it accounts for such transactions as an extinguishment of debt.

(c) Recognition, de-recognition and initial measurement

Purchases and sales of financial assets AFVPL 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.

(d) 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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(e) Fair value measurement of financial instruments

The policy applied by the Bank on the fair value measurement of financial instruments both before and after the adoption of IFRS 13 "Fair Value Measurement", is set out below.

Policy applicable from 1 January 2013

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Bank has elected to use mid-market pricing as a practical expedient for fair value measurements within a bid-ask spread.
The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price- i.e. the fair value of the consideration given or received unless the Bank determines that the fair value at initial recognition is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (see note 3.5).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank recognises transfers into and out of the fair value hierarchy levels at the beginning of the quarter in which a financial instrument's transfer was effected.

Policy applicable before 1 January 2013

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in arm's length transaction on the measurement date.
When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on arm's length basis.

If the market for a financial instrument is not active, the Bank establishes fair value by using a valuation technique. These include the use of recent arm's length market transactions, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

2.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when and only when there is a legally enforceable right to offset the recognized amounts and there is an intention either 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 principles of fair value measurement of financial instruments, including derivative financial instruments are described in notes 2.4 (e) and 3.5

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 2013 and 2012 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.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Once a financial asset is identified as impaired, the increase in net present value of the written down amount due to the passage of time (unwinding), is recognized as interest income using the rate of interest that was 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 or 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.

In determining whether a loan is individually significant for the purposes of assessing impairment, the Bank considers a number of factors, including importance of the individual loan relationship and how it is managed, the size of the loan, and the product line. Consequently, loans to corporate clients and financial institutions as well as investment securities, are generally considered as individually significant. Retail lending portfolios are generally assessed for impairment on a collective basis as they consist of large homogenous portfolios, while exposures that are managed on an individual basis are assessed individually for impairment.

The Bank assesses at each balance sheet date whether there is an objective evidence of impairment.

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 reorganization;
e) the disappearance of an active market for that financial asset because of financial difficulties; or

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Reversals of impairment

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account or the asset's carrying amount as appropriate. The amount of the reversal is recognised in the income statement.

Write-off of loans and advances

A loan and the associated provision are written off when there is no realistic prospect of recovery. The Bank considers all relevant information including the occurrence of a significant change in the borrower's financial position such that the borrower can no longer pay the obligation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The timing of write-off is mainly dependent on whether there is any underlying collateral as well as the Bank's estimate of the amount collectible. The number of days past due is considered by the Bank as an indicator, however it is not regarded as a determining factor. Especially for collateralized exposures, the timing of write-offs is mainly dependent on local jurisdictions and consequently maybe delayed due to various legal impediments.
Unpaid debt continues to be subject to enforcement activity even after it is written-off, except for limited cases where debt is forgiven by the Bank as an expression of its social responsibility.

Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment 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.

(All amounts in RON thousand unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	Useful lives in years	
	2013	2012
Major core-banking software	7 - 10	7 - 10
Other software	5	5
Licenses	3	3

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	
	2013	2012
Property	50	50
Office equipment, fixtures and fittings	3 – 20	3 – 20
Vehicles	5 - 10	5 - 10

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.15 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.18 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.21 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, standard legal staff retirement indemnity (SLSRI) by which each employee receives two salaries if the employee achieves the pension time in the Bank service. The Bank has no other obligation to provide further services to current or former employees.

Provision has been made for the actuarial value of the lump sum payable on retirement using the projected unit credit method. Under this method the cost of providing retirement indemnities is charged to the income statement so as to spread the cost over the period of service of the employees, in accordance with the actuarial valuations which are performed every year.

The SLSRI obligation is calculated as the present value of the estimated future cash outflows using the yield on long-term fixed interest bonds of the appropriate term issued by the Romanian Government. The currency and term to maturity of the bonds used are consistent with the currency and estimated term of the retirement benefit obligations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a result of the Banks's adoption of IAS 19 Amendment, actuarial gains/losses are now recognized directly in other comprehensive income in the period in which they occur and not to the profit or loss. No retrospective application has been performed due to immaterial effect.

Past service costs and interest expense are recognised immediately in the income statement. In calculating the standard legal staff retirement obligation, the Bank also considers potential separations before normal retirement based on the terms of previous voluntary separation schemes.

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The bank recognises termination benefits at the earlier of the following dates:

(a) when the bank can no longer withdraw the offer of those benefits; and
(b) when the entity recognises costs for a restructuring and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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 2013	31 December 2012
Loans and advances to banks	1,025,685	749,494
Loans and advances to customers (net)	6,433,471	7,148,461
- Lending to medium size and large corporate entities (wholesale)		
Gross book value (GBV)	1,832,444	2,430,637
Less Provisions for impairment Losses	(81,600)	(129,989)
- Consumer lending		
Gross book value (GBV)	1,742,566	1,620,457
Less Provisions for impairment Losses	(232,749)	(177,850)
- Mortgage lending		
Gross book value (GBV)	2,566,749	2,576,632
Less Provisions for impairment Losses	(93,154)	(62,689)
- Small business lending		
Gross book value (GBV)	967,757	1,196,884
Less Provisions for impairment Losses	(268,542)	(305,621)
Trading assets:		
- Debt securities	132,678	546,528
Derivative financial instruments	6,893	60,496
Investment securities available for sale		
- Debt securities	1,346,832	-
Other financial assets	37,163	36,284
Total balance sheet exposure	8,982,722	-
Credit risk exposures relating to off-balance sheet items (Note 31)	710,862	1,095,414
At 31 December	9,693,584	-

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The above table represents the maximum credit risk exposure to the Bank at 31 December 2013 and 2012, 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.

3.2.2 Loans and advances

Loans and advances are summarised as follows:

	31 December 2013		31 December 2012	
	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	4,809,162	1,025,685	5,071,471	749,494
Past due but not impaired	1,165,144	-	1,479,932	-
Impaired:				
- collectively assessed	430,391	-	327,874	-
- individually assessed	704,819	-	945,333	-
Gross	7,109,516	1,025,685	7,824,610	749,494
Less: allowance for impairment	(676,045)	-	(676,149)	-
Net loans and advances	6,433,471	1,025,685	7,148,461	749,494

The wholesale and small business loans as at 31 December 2013 are covered in aggregate by collaterals at 185 % and 119%, respectively (2012: 166 % and 117 %, respectively). Consumer loans are generally not collateralised. Mortgage loans are covered in aggregate by collaterals at 138 % (2012:133 %).

The tables below present the total gross amount, representing the maximum exposure to credit risk gross of impairment allowance, of loans and advances that are classified as non impaired (i.e. "neither past due nor impaired" and "past due but not impaired") and those classified as impaired. They also present the impairment allowance recognised for those non-impaired or impaired loans and advances that are either individually or collectively assessed, the total net amount, as well as the value of collateral held as security to mitigate credit risk.

(All amounts in RON thousand unless otherwise stated)

In addition, the value of collateral presented in the tables below is capped to the respective gross loan amount. For this purpose, 2012 comparative information on collaterals have been presented on a similar basis.

	31 December 2013								
	Non impaired		Impaired			Impairment allowance			
	Neither past due nor impaired	Past due but not impaired	Individually assessed	Collectively assessed	Total gross amount	Individually assessed	Collectively assessed	Total net amount	Value of collateral
Wholesale	1,272,705	392,116	167,623	-	1,832,444	(81,600)	-	1,750,84	1,378,240
Consumer	1,247,282	211,545	47,664	236,075	1,742,566	(44,082)	(188,667)	1,509,817	13,664
Mortgage	1,832,628	510,504	29,301	194,316	2,566,749	(29,047)	(64,107)	2,473,595	2,191,193
Small Business	456,547	50,979	460,231	-	967,757	(265,471)	(3,071)	699,215	566,597
Total	4,809,162	1,165,144	704,819	430,391	7,109,516	(420,200)	(255,845)	6,433,471	4,149,694

(All amounts in RON thousand unless otherwise stated)

	31 December 2012								
	Non impaired		Impaired			Impairment allowance			
	Neither past due nor impaired	Past due but not impaired	Individually assessed	Collectively assessed	Total gross amount	Individually assessed	Collectively assessed	Total net amount	Value of collateral
Wholesale	1,486,269	671,348	273,020	-	2,430,637	(129,989)	-	2,300,648	1,946,193
Consumer	1,140,022	262,683	49,249	168,503	1,620,457	(45,195)	(132,655)	1,442,607	20,080
Mortgage	1,915,611	481,443	20,207	159,371	2,576,632	(19,703)	(42,986)	2,513,943	2,209,862
Small Business	529,569	64,458	602,857	-	1,196,884	(295,427)	(10,194)	891,263	743,761
Total	5,071,471	1,479,932	945,333	327,874	7,824,610	(490,314)	(185,835)	7,148,461	4,919,897

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 2013 and 2012 can be assessed by reference to the Bank's standard grading system. The following information is based on that system:

					31 December 2013
	Wholesale	Consumer	Mortgage	Small Business	Total
Grades:					
Satisfactory risk*	1,020,987	1,247,281	1,832,628	456,547	4,557,444
Watch list*	251,718	-	-	-	251,718
Gross loans and advances	1,272,705	1,247,282	1,832,628	456,547	4,809,162
Less: allowance for impairment	(19,715)	(2,305)	(211)	(308)	(22,539)
Net loans and advances neither past due nor impaired	1,252,990	1,244,977	1,832,417	456,239	4,786,623

					31 December 2012
	Wholesale	Consumer	Mortgage	Small business	Total
Grades:					
Satisfactory risk*	1,314,839	1,140,022	1,915,611	529,569	4,900,041
Watch list*	171,430	-	-	-	171,430
Gross loans and advances	1,486,269	1,140,022	1,915,611	529,569	5,071,471
Less: allowance for impairment	(13,788)	(4,829)	(1,848)	(2,624)	(23,089)
Net loans and advances neither past due nor impaired	1,472,481	1,135,193	1,913,763	526,945	5,048,382

*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.

(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 2013	
	Wholesale	Consumer	Mortgage	Small Business	Total
Past due up to 29 days	328,873	160,797	319,333	2,366	811,369
Past due 30 - 89 days	52,539	50,430	135,653	48,613	287,235
Past due 90 – 180 days	540	318	54,797	-	55,655
Past due more than 180 days					
Past due less than 1 year	8,532	-	721	-	9,253
Past due greater than 1 year	1,632	-	-	-	1,632
Gross loans and advances	392,116	211,545	510,504	50,979	1,165,144
Less: allowance for impairment	(6,996)	(9,933)	(8,049)	(2,763)	(27,741)
Net loans and advances past due but not impaired	385,120	201,612	502,455	48,216	1,137,403
Fair value of collateral	244,071	2,823	408,928	35,114	690,936

				31 December 2012	
	Wholesale	Consumer	Mortgage	Small Business	Total
Past due up to 29 days	531,952	189,203	319,227	2,581	1,042,963
Past due 30 - 89 days	134,668	73,057	113,778	61,877	383,380
Past due 90 – 180 days	3,096	423	48,438	-	51,957
Past due more than 180 days					
Past due less than 1 year	1,632	-	-	-	1,632
Gross loans and advances	671,348	262,683	481,443	64,458	1,479,932
Less: allowance for impairment	(5,552)	(12,397)	(8,841)	(7,570)	(34,360)
Net loans and advances past due but not impaired	665,796	250,286	472,602	56,888	1,445,572
Fair value of collateral	570,382	4,763	383,244	45,098	1,003,487

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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, 2013 are RON 27,654 thousand (2012: 34,360 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 430,874 thousand (2012: RON 328,215 thousand).

			31 December 2013
	Consumer	Mortgage	Total
Collectively assessed loans	236,075	194,316	430,391
Allowance for impairment	(176,429)	(55,847)	(232,276)
Net impaired loans and advances collectively assessed	59,646	138,469	198,115
Fair value of collateral	1,280	124,169	125,449

			31 December 2012
	Consumer	Mortgage	Total
Collectively assessed loans	168,503	159,371	327,874
Allowance for impairment	(115,429)	(32,296)	(147,725)
Net impaired loans and advances collectively assessed	53,074	127,075	180,149
Fair value of collateral	839	106,352	107,191

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 705,609 thousand (2012: RON 946,309 thousand). The breakdown of the gross amount of individually assessed loans and advances by classes is:

					31 December 2013
	Small Business	Wholesale	Mortgage	Consumer	Total
Individually assessed loans	460,231	167,623	29,301	47,664	704,819
Allowance for impairment	(265,471)	(54,889)	(29,047)	(44,082)	(393,489)
Net impaired loans and advances individually assessed	194,760	112,734	254	3,582	311,330
Fair value of collateral	171,157	122,558	2,311	105	296,131

					31 December 2012
	Small Business	Wholesale	Mortgage	Consumer	Total
Individually assessed loans	602,857	273,020	20,207	49,249	945,333
Allowance for impairment	(295,427)	(110,649)	(19,704)	(45,195)	(470,975)
Net impaired loans and advances individually assessed	307,430	162,371	503	4,054	474,358
Fair value of collateral	278,107	186,414	1,214	130	465,865

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2.3 Debt Securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2013, based on Moody's ratings or their equivalent:

	Trading securities	Available for sale securities	Total
Baa3	132,678	1,208,398	1,341,076
Unrated	-	138,434	138,434
Total	132,678	1,346,832	1,479,510

The table below presents an analysis of debt securities and equity investments 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	1,046,243	1,592,771
Unrated	-	1,374	1,374
Total	546,528	1,047,617	1,594,145

RON 1.341 million included in securities rated Baa3 at 31December 2013, 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	Construction	Other	Total
Loans and advances to banks					1,025,685	1,025,685
Loans and advances to customers (net of provision):						
- Mortgages	-	2,473,595	-	-	-	2,473,595
- Consumer lending (incl. credit cards)	-	1,509,817	-	-	-	1,509,817
- Small business lending	478,097	-	117,064	63,872	40,182	699,215
- Corporate lending	759,438	-	318,706	474,306	198,394	1,750,844
Financial assets held for trading						
-Debt securities	-	-	-	-	132,678	132,678
-Derivative financial instruments	1,450	3	426	387	4,627	6,893
Financial assets available for sale						
-Debt securities	-	-	-	-	1,346,832	1,346,832
Other financial assets	-	-	-	-	37,163	37,163
As at 31 December 2013	1,238,985	3,983,415	436,196	538,565	2,785,561	8,982,722

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Commerce and services	Private individuals	Manufacturing	Construction	Other	Total
Loans and advances to banks	-	-	-	-	749,494	749,494
Loans and advances to customers						
(net of provision):					-	
- Mortgages	-	2,513,943	-	-	-	2,513,943
- Consumer lending (incl. credit cards)	-	1,442,607	-	-	-	1,442,607
- Small business lending	608,039	-	151,817	89,208	42,199	891,263
- Corporate lending	1,000,544	-	394,850	703,528	201,726	2,300,648
Financial assets held for trading						
-Debt securities					546,528	546,528
-Derivative financial instruments	2,977	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	3,956,590	546,737	795,329	2,678,664	9,588,880

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 2013, 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 793 thousand (2012 RON 4,828 thousand) lower/ higher and comprehensive income would have been RON 34,370 thousand (2012: RON 22,771 thousand) lower/ higher.

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2013, if RON had strengthened/ weakened by 10% against relevant foreign currencies (all other variables held constant) profit for the year would have been RON 8,407 thousand higher/lower (2012: RON 1,598 thousand higher/ lower) and comprehensive income would have been unaffected.

			31 December 2013
	Total sensitivity	Sensitivity of income statement	Sensitivity of other comprehensive income
Interest rate (+100 b.p. parallel shift)	(33,577)	793	(34,370)
Foreign exchange (10% change in RON against foreign currencies)	12,702	12,702	-

			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	-

(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 2013. 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 2013							
Assets							
Cash	443,002	-	-	-	-	-	443,002
Balances with Central Bank	1,905,819	-	-	-	-	-	1,905,819
Loans and advances to banks	1,020,321	-	-	-	-	5,364	1,025,685
Loans and advances to customers	890,546	295,440	1,056,908	4,190,577	-	-	6,433,471
Trading assets	-	-	5,393	124,073	3,212	-	132,678
Derivate financial instruments	5,169	1,724	-	-	-	-	6,893
Investment securities available for sale	137,227	63,441	217,861	872,571	55,732	-	1,346,832
Intangible assets	-	-	-	-	-	112,973	112,973
Property and equipment	-	-	-	-	-	358,466	358,466
Other assets	-	-	-	-	-	56,030	56,030
Deferred income tax asset	-	-	-	-	-	48,152	48,152
Total assets	4,402,084	360,605	1,280,162	5,187,221	58,944	580,985	11,870,001
Liabilities							
Due to banks	21,457	-	-	705,777	-	-	727,234
Due to customers	5,315,592	1,640,609	1,475,801	-	-	95,435	8,527,437
Derivative financial instruments	13,071	6,959	-	-	-	-	20,030
Other borrowed funds	22,298	142,368	222,409	171,475	448,977	-	1,007,527
Other liabilities	-	-	-	-	-	132,277	132,277
Deferred income tax liability	-	-	-	-	-	-	-
Total liabilities	5,372,418	1,789,936	1,698,210	877,252	448,977	227,712	10,414,505
Interest rate sensitivity gap	(970,334)	(1,429,331)	(418,048)	4,309,969	(390,033)	353,273	1,455,496

(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 2013							
Total assets	4,402,084	360,605	1,280,162	5,187,221	58,944	580,985	11,870,001
Total liabilities	5,372,418	1,789,936	1,698,210	877,252	448,977	227,712	10,414,505
Interest rate sensitivity gap	(970,334)	(1,429,331)	(418,048)	4,309,969	(390,033)	353,273	1,455,496

	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

(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	39,241	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	4,254,487	2,223,371	2,566,046	918,395	443,345	240,405	10,646,049
Interest rate sensitivity gap	73,654	(1,781,804)	(1,001,523)	4,316,669	(441,971)	373,570	1,538,595
At 31 December 2012							
Total assets	4,328,141	441,567	1,564,523	5,235,064	1,374	613,975	12,184,644
Total liabilities	4,254,487	2,223,371	2,566,046	918,395	443,345	240,405	10,646,049
Interest rate sensitivity gap	73,654	(1,781,804)	(1,001,523)	4,316,669	(441,971)	373,570	1,538,595

(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 2013	RON	USD	EUR	Other	Total
Assets					
Cash	339,633	11,357	67,350	24,662	443,002
Balances with Central Bank	1,282,509	-	623,310	-	1,905,819
Loans and advances to banks	160,057	6,639	837,144	21,845	1,025,685
Loans and advances to customers	2,181,183	63,651	3,009,712	1,178,925	6,433,471
Trading assets	132,678	-	-	-	132,678
Derivative financial instruments	5,650	2	1,241	-	6,893
Investment securities available for sale	561,662	44,758	740,412	-	1,346,832
Other assets	35,396	7,527	9,600	3,507	56,030
Deferred income tax asset	48,152	-	-	-	48,152
Total assets	4,746,920	133,934	5,288,769	1,228,939	11,398,562
Liabilities					
Due to banks	39,824	11,068	676,342	-	727,234
Due to customers	6,108,031	352,984	2,028,125	38,297	8,527,437
Derivative financial instruments	17,266	2	2,762	-	20,030
Other borrowed funds	-	-	1,007,527	-	1,007,527
Other liabilities	96,461	1,225	34,260	331	132,277
Deferred income tax liability	-	-	-	-	-
Total liabilities	6,261,582	365,279	3,749,016	38,628	10,414,505
Net on balance sheet position	(1,514,662)	(231,345)	1,539,753	1,190,311	984,057
Net off balance sheet position	-	275,931	(1,442,480)	(1,205,114)	(2,371,663)
Net foreign exchange position	(1,514,662)	44,586	97,273	(14,803)	(1,387,606)

(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 2012	**RON**	**USD**	**EUR**	**Other**	**Total**
Assets					
Cash	361,573	11,594	50,158	14,051	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	57,930	12	2,554	-	60,496
Investment securities available for sale	695,524	-	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	5,059,875	73,467	5,352,310	1,196,445	11,682,097
Liabilities					
Due to banks	589,757	5,708	471,389	-	1,066,854
Due to customers	5,858,068	323,316	1,808,891	42,365	8,032,640
Derivative financial instruments	88,220	12	4,365	-	92,597
Other borrowed funds	139,261	-	1,171,680	-	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	10,646,049
Net on balance sheet position	(1,714,882)	(256,865)	1,853,955	1,153,840	1,036,048
Net off balance sheet position	-	258,695	(1,873,725)	(1,153,035)	(2,768,065)
Net foreign exchange position	(1,714,882)	1,830	(19,770)	805	(1,732,017)

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 2013	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	23,285	3,656	16,453	740,482	-	783,876
Due to customers	5,155,445	1,845,628	1,492,245	3,787	91,581	8,588,686
Other liabilities	81,649	2,668	10,205	49,594	51,657	195,773
Other borrowed funds	17,589	151,012	94,279	247,304	591,778	1,101,962
Total non-derivative liabilities	5,277,968	2,002,964	1,613,182	1,041,167	735,016	10,670,297
Derivative financial instruments settled on gross basis						
Payable	(1,200,885)	(519,904)	(509)	-	-	(1,721,298)
Receivable	1,876,493	1,328,463	509	-	-	3,205,465
Total derivative financial instruments settled on gross basis	675,608	808,559	-	-	-	1,484,167
Gross nominal (inflow)/ outflow	5,953,576	2,811,523	1,613,182	1,041,167	735,016	12,154,464
Assets held for managing liquidity risk (contractual maturity dates)*	5,163,726	631,299	1,580,749	3,808,692	3,710,098	14,894,564
Net position	(789,850)	(2,180,224)	(32,433)	2,767,525	2,975,082	2,740,100

Guarantees:	Less than 1 year	1 -5 years	Over 5 years
- guarantees and standby letters of credit	524,790	121,719	62,514
Commitments:			
- Undrawn loan commitments	-	-	-
- Documentary credits	1,839	-	-
- Other commitments	-	-	-
	526,629	121,719	62,514

*Included in assets held for liquidity risk are: cash, NBR reserves, due from other banks, held for trading securities

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

						At 31 December 2012
Non-derivative liabilities	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
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	-	8,108,703
Other liabilities	85,730	832	1,782	7,276	2,167	97,787
Other borrowed funds	158,542	26,542	71,221	503,020	548,829	1,308,154
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	2,448,198	2,889,311	3,332,595	706,525	1,022,612	10,399,241
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

Guarantees:	Less than 1 year	1 -5 years	Over 5 years
- 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

*Included in assets held for liquidity risk are: cash, NBR reserves, due from other banks, held for trading securities

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

3.5 Fair value of financial assets and liabilities

Financial instruments carried at fair value

Trading assets, derivatives and other transactions undertaken for trading purposes, as well as available-for-sale securities and assets and liabilities designated at fair-value-through-profit-or-loss are measured at fair value by reference to quoted prices when available. If quoted prices are not available, the fair values are estimated using valuation techniques.

These financial instruments carried at fair value are categorised into the three levels of the fair value hierarchy as at 31 December 2013 based on whether the inputs to the fair values are observable or unobservable, as follows:

a) Level 1 – Financial instruments measured based on quoted prices in active markets for identical financial instruments that an entity can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. These include actively quoted debt instruments, equity and derivative instruments traded on exchanges, as well as mutual funds and unit-linked products that have regularly and frequently published quotes.
b) Level 2 – Financial instruments measured using valuation techniques with the following inputs: i) quoted prices for similar financial instruments in active markets, ii) quoted prices for identical or similar financial instruments in markets that are not active, iii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers and iv) may also include other unobservable inputs which are insignificant to the entire fair value measurement. Level 2 financial instruments mainly include over-the-counter (OTC) derivatives and less-liquid debt instruments.

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Level 3 – Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). Level 3 financial instruments include unquoted equity instruments.

The fair value hierarchy categorisation of the Bank's financial assets and liabilities carried at fair value is presented in the following table:

Financial assets measured at fair value:				**31-December-2013**
	Level 1	Level 2	Level 3	Total
Financial instruments held for trading	132,678	-	-	132,678
Derivative financial instruments		6,893	-	6893
Available-for-sale investment securities	1,209,605	130,871	6,356	1,346,832
Total Financial assets	1,342,283	137,764	6,356	1,486,403

Financial liabilities measured at fair value:				**31-December-2013**
	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	20,030	-	20,030
Total Financial Liabilities	-	20,030	-	20,030

Financial assets measured at fair value:				**31-December-2012**
	Level 1	Level 2	Level 3	Total
Financial instruments held for trading	546,528	-	-	546,528
Derivative financial instruments	-	60,496	-	60,496
Available-for-sale investment securities	1,047,617	86,468	-	1,134,085
Total Financial assets	1,594,145	146,964	-	1,741,109

Financial liabilities measured at fair value:				**31-December-2012**
	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	92,597	-	92,597
Total Financial Liabilities	-	92,597	-	92,597

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank recognises transfers into and out of the fair value hierarchy levels at the beginning of the quarter in which a financial instrument's transfer was effected. Other than the transfer of RON 44,8 million available-for-sale equity instruments from Level 2 to Level 1 effected in the 4th quarter 2013, as observable quoted prices became available, there were no other transfers between Level 1 and 2 and vice versa, as well as, no changes in valuation techniques used, during the period.

Following management review of the fair value hierarchy categorisation, the Group transferred in 2013 RON 6,356 thousand of unquoted available-for-sale equity instruments into Level 3, due to the significance of the unobservable inputs used in their fair value measurement.

Reconciliation of Level 3 fair value measurement as at December 2013:

Balance at 1 January	-
Transfer into Level 3	6,356
Transfer out of Level 3	-
Gain/(loss) included in Other Comprehensive Income	-
Gain/(loss) included in profit or loss	-
Purchases/(sales)	-
Balance at 31 December	6,356

Bank's valuation processes

The Bank uses widely recognized valuation models for determining the fair value of common financial instruments, such as interest and cross currency swaps, that use only observable market data and require little management estimation and judgment. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Where valuation techniques are used to determine the fair values of financial instruments, they are validated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the bank entity and the counterparty, where appropriate.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Bank establishes the processes and procedures governing the fair valuations, in line with the Bank's accounting policies. Some of the specific valuation controls include: verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc. Where third parties' valuations are used for fair value measurement, these are reviewed in order to ensure compliance with the requirements of IFRS 13.

Valuation techniques

Over-The-Counter (OTC) derivative financial instruments are fair valued by discounting expected cash flows using market interest rates at the measurement date. Counterparty credit risk adjustments and own credit risk adjustments are applied to OTC derivatives, where appropriate. Bilateral credit risk adjustments consider the expected cash flows between the Bank and its counterparties under the relevant terms of the derivative instruments and the effect of the credit risk on the valuation of these cash flows. As appropriate in circumstances, the Bank considers also the effect of any credit risk mitigating arrangements, including collateral agreements and master netting agreements on the calculation of credit risk valuation adjustments (CVAs).

For the period ended 31 December 2013, the Group has switched from Libor discounting to overnight index swap (OIS) discounting for collateralized derivatives ,only to single currency EUR and USD transactions. The effect of this switch was immaterial.

The bank determines fair values for debt securities held using quoted market prices in active markets for securities with similar credit risk, maturity and yield or by using discounted cash flows method.

The fair values of unquoted available-for-sale equity instruments are estimated mainly (i) using third parties' valuation reports based on investees' net assets, where management does not perform any further significant adjustments, and (ii) net assets' valuations, adjusted where considered necessary.

(All amounts in RON thousand unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial instruments not carried at fair value

The following table presents the carrying amounts and fair values of financial assets and liabilities which are not carried at fair value on the balance sheet, analysed by the level in the fair value hierarchy into which each fair value measurement is included:

					31 December 2013
	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying amount
Financial assets					
Loans and advances to customers	-	-	6,851,544	6,851,544	6,433,471

					31 December 2012
	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying amount
Financial assets					
Loans and advances to customers	-	-	7,641,492	7,641,492	7,148,461

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value on the balance sheet date are in line with those used to calculate the fair values for financial instruments carried at fair value and are as follows:

a) For loans and advances to customers quoted market prices are not available as there are no active markets where these instruments are traded. The fair values are estimated by discounting future cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted rates. Loans are grouped into homogenous assets with similar characteristics, as monitored by Management, such as product, borrower type and delinquency status, in order to improve the accuracy of the estimated valuation outputs. In estimating future cash flows, the Group makes assumptions on expected prepayments, product spreads and timing of collateral realisation. The discount rates incorporate inputs for expected credit losses and interest rates, as appropriate.

b) For other financial instruments which are short term or re-price at frequent intervals (cash and balances with central banks, loans and advances to banks, due to central and other banks and due to customers), the carrying amounts represent reasonable approximations of fair values.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.6 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 2013 and 2012. 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 2013	31 December 2012
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
Special reserves	(555)	-
General reserves	58,167	67,565
Retained earnings	(198,743)	(64,068)
Minority interests	-	-
Less: Intangibles	(112,973)	(113,083)
Less: Other deductions from Tier I capital	(1,105)	(730)
Less: Prudential filters-provisions	(271,592)	(305,122)
Less: Tax filters	(54,315)	(53,991)
Total qualifying Tier 1 capital (core capital)	933,203	1,044,288
Tier 2 capital		
Eligible Subordinated capital	448,470	442,870
Revaluation reserve – available-for-sale investments	30,362	8,016
Less: Prudential filters-provisions	(271,592)	(305,122)
Total qualifying Tier 2 capital (additional own funds)	207,240	145,764
Less Equity investments in financial institutions (holdings over 10%)	-	-
Available Own Funds	1,140,441	1,190,052
Own Funds requirements for:		
Credit Risk	421,885	480,178
Market Risk	14,013	4,193
Operational Risk	136, 634	141,064
Total capital requirement	572,532	625,435
CAD ratios:		
Total capital adequacy ratio	15.94%	15.22%
Core Capital Ratio	13.04%	13.36%
Regulatory Total Capital Ratio	8%	8%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the process of applying the Bank's accounting policies, the Bank's Management makes various judgments, estimates and assumptions that affect the reported amounts of assets and liabilities recognised in the financial statements 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 89,542 thousand (2012: RON 92,472 thousand deferred income tax asset) in respect of a fiscal loss carried forward amounting to RON 559,637 thousand (2012: RON 577,950 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 retained 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 39.9 mil RON

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.
For the Bank's mortgage portfolios, recovery rates are calculated based on management best estimates regarding the realizable value of residential properties held as collateral a well as timing of foreclosure. Both the amount and timing of expected cash flows have been affected by the level of activity in the real estate market.

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

A 3% decline in the estimated recovery rates used in the collective impairment calculation for the Bank's mortgage portfolio, would give rise to additional impairment provision of approximately RON 2.2 mil.

For the rest of the retail portfolios (consumer and small business lending), statistical analysis of historical loss experience is the primary tool used in order to determine the future customer behavior and payment patterns. Due to the stressed macroeconomic environment during the last years, depending on the portfolio under examination, there is a level of uncertainty in terms of the level of future cash flows as well as the time these cash flows will come. Management exercises judgment to determine the applicable recovery rates which are affected by the existing economic conditions. A decrease in the estimated recovery rates used in the calculation of the collective impairment allowance by 5 % for the unsecured portfolios, and by 3% for the secured portfolios, would increase loan impairment losses by approximately RON 5.5 mil for the consumer portfolio and would result in an insignificant impact for small business banking portfolio.

Impairment losses for the medium size and large corporate entities are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realization of any assets held as collateral against the loans. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral. In estimating individual impairment allowance, the Bank considers multiple risk factors such as industry prospects, financial condition and outlook of borrower, net realizable value of any collateral and therefore, there is no single factor to which the Bank's individual impairment allowance as a whole is highly sensitive.

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.

(All amounts in RON thousand unless otherwise stated)

5 NET INTEREST INCOME

	2013	2012
Interest and similar income		
Loans and advances to customers*	620,094	676,271
Loans and advances to banks	37,066	48,459
Investment securities available for sale	46,172	51,777
	703,332	776,507

	2013	2012
Interest expense and similar charges		
Due to customers	344,112	390,630
Due to banks	29,139	64,805
Repos (repurchase agreements)	572	4,116
Other borrowed funds	17,838	29,520
Debt securities in issue	-	5
	391,661	489,076
Net interest income	311,671	287,431

**During 2013, the Bank changed its estimates in respect of recognition of interest income on impaired loans, thereby increasing the amount recognised as interest income in profit or loss with a corresponding impact to the provision charge in the year. Interest income recognised on impaired loans, amounted RON 45,307 thousands for 2013. See also note 16*

(All amounts in RON thousand unless otherwise stated)

6 NET FEE AND COMMISSION INCOME

	2013	2012
Fee and commission income		
Fee and commissions income from bank operation	95,081	108,686
Other fee and commission income	56,270	48,028
Financial assets administration fee	8,060	8,239
	159,411	164,953
Fee and commission expense		
Customer transactions	23,205	22,645
Transactions with other banks	15,837	16,413
	39,042	39,058
Net fee and commission income	120,369	125,895

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.

7 NET TRADING INCOME

	2013	2012
Gain from foreign exchange:	138,196	97,847
-Foreign exchange gains from transactions	98,236	16,713
-Net effect of translation of foreign currency denominated assets and liabilities	39,960	81,134
Gain/(Loss) from derivative instruments:	(7,895)	41,534
-Options	899	591
-Foreign exchange derivatives	(33,500)	(5,659)
-Interest rate derivatives	24,706	46,602
Gain held for trading securities	16,486	25,938
	146,787	165,319

(All amounts in RON thousand unless otherwise stated)

8 OTHER OPERATING INCOME

	2013	2012
Other income	4,710	3,276
Realized gains on disposal of investment securities available for sale	10,569	138
Dividend income	575	505
Income from sale of equity investments	-	-
	15,854	3,919

9 OTHER OPERATING EXPENSES

	2013	2012
Salaries, wages and other employee benefits	165,639	182,442
Social contribution	9,342	7,259
Contributions to defined state benefits scheme	32,718	35,905
Services expense	45,456	47,826
Other tax and contribution	58,826	62,964
Rental expenses	46,889	51,607
Utilities	10,218	10,244
Communication	4,695	7,026
Depreciation, amortization and impairment (Note 18 and 19)	46,486	55,166
Loss on disposals of fixed assets	7,338	4,059
Repairs, maintenance and utilities	19,735	19,740
Postage, consumables	7,353	9,586
Other expenses	20,744	21,997
Travel expenses	1,079	1,411
Advertising	13,808	13,918
Insurance premiums	2,953	3,924
Impairment charge for other assets (Note 20)	2,347	1,487
Provision for contingent liabilities and other provisions	13,070	5,628
	508,696	542,189

(All amounts in RON thousand unless otherwise stated)

10 IMPAIRMENT CHARGE FOR CREDIT LOSSES

	2013	2012
Impairment charge for loans to customers (Note 16)	233,724	183,823
Recoveries from loans previously written off (Note 16)	428	(152)
Provision for other credit commitments	(3,630)	8,504
Total	230,522	192,175

11 INCOME TAX

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

	2013	2012
Deferred income tax credit	(9,862)	(101,889)
Total income tax release	(9,862)	(101,889)
Loss before tax	(144,537)	(151,800)
Theoretical tax charge at 16% (2012: 16%)	(23,126)	(24,288)
Tax effect of:		
Non-deductible expenses	1,389	27,372
Income not subject to tax	(41)	(23,798)
Unused deferred tax asset form fiscal loss	11,925	-
Tax effect of changes in regulation*	-	(41,679)
Tax effect of fiscal treatment of fixed assets**	-	(46,193)
Other elements	(9)	6,697
Income tax (credit)/expense for the year	(9,862)	(101,889)

**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.*

11 INCOME TAX (CONTINUED)

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.*

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 % (2012: 16%). Deferred income taxes are calculated on all temporary differences under the liability method using a income tax rate of 16 % (2012: 16%).

(All amounts in RON thousand unless otherwise stated)

11 INCOME TAX (CONTINUED)

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

	31 December 2013	Tax recognised in income statement	Tax recognised in other comprehensive income	31 December 2012
Tax effects of deductible temporary differences				
Fixed assets impairment	-	-	-	-
Differences in the tax and accounting base for buildings	16,627	(632)	-	17,258
Loan origination fees and interest	-	-	-	-
Fiscal loss	89,542	(2,930)	-	92,472
Other accruals	2,545	444	-	2,101
Other provisions	10,603	(964)	-	11,567
	119,317	(4,082)	-	123,398
Tax effects of taxable temporary differences				
Fixed assets and investments	11,832	(1,170)	-	13,002
Potential utilisation of IFRS transition reserves	39,858	-	-	39,858
Prudential filters	6,395	(12,774)		19,169
Gain on fair value of investment securities available for sale	13,169	-	9,912	3,257
Loss on remeasurement of retirement benefits obligation	(89)	-	(89)	-
	71,165	(13,944)	9,823	75,286
Net tax effect of temporary differences	48,152	9,862	(9,823)	48,112
Total net deferred income tax asset/(liability)	48,152	9,862	(9,823)	48,112

(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	30,489	-	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
Potential utilisation of IFRS transition reserves	39,858	39,858	-	-
Prudential filters	19,169	(240,228)		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	101,889	(3,781)	(50,002)
Total net deferred income tax asset/(liability)	48,112	101,889	(3,781)	(50,002)

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 2013	31 December 2012
Current account		
in RON	1,282,509	931,560
in EUR	623,310	568,991
Total current account and term deposits (Note 30)	1,905,819	1,500,551
Collateral deposits	-	178
	1,905,819	1,500,729

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 2013 the interest rates ranged from 0.55% to 1.30% (2012: 0.93% to 1.43%) for reserves held in RON and was between 0.36 % and 0.56 % (2012: 0.56 % and 0.79) for reserves held in EUR.

During 2013 the ratio for minimum reserves held in RON was 15% (2012:15%) and for foreign currency was 20 % (2012: 20%).

13 LOANS AND ADVANCES TO BANKS

	31 December 2013	31 December 2012
Current accounts	40,798	22,786
Placements with banks as sight and term deposits	984,887	726,708
Loans to banks	-	-
	1,025,685	749,494

As at 31 December 2013 the placements with initial maturity below 3 months, amounting to RON 1,025,685 thousand (2012: RON 749,494 thousand) were included in cash and cash equivalents (Note 28).

During 2013 interest on placements on RON ranged from 1 % to 7.45% with maturity less than three months. For USD ranged from 0.3 % to 2.35%. For EUR ranged from 0.05% to 2.95%.

As at 31 December 2013 placements with banks included sight and term deposits placed with Parent Bank amounting to RON 819,355 thousand (2012: RON 609,832 thousand).

(All amounts in RON thousand unless otherwise stated)

14 TRADING ASSETS

	31 December 2013	31 December 2012
Government bonds	132,678	546,528
Total	132,678	546,528

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

(All amounts in RON thousand unless otherwise stated)

15 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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.

- 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 2013	**Amount**	**Assets**	**Liabilities**
Derivatives held for trading			
a) Foreign exchange derivatives			
Currency forwards	155	2	-
Currency swaps	4,452,256	720	(12,337)
OTC currency options assets	130,105	948	-
OTC currency options liability	130,105	-	(948)
b) Interest rate derivatives			
Interest rate swaps	160,545	4,020	(5,488)
Cross-currency interest rate swaps	-	1,086	(1,140)
Interest rate options		117	(117)
Total		6,893	(20,030)

(All amounts in RON thousand unless otherwise stated)

15 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

At 31 December 2012	Contract/notional Amount	Assets	Fair values 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)

(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 2013	% of total	31 December 2012	% of total
Analysis by sector				
Industry	333,558	4.69	417,164	5.33
Commerce	498,952	7.02	663,570	8.48
Services	295,881	4.16	393,502	5.03
Shipping	-	0.00	-	0.00
Construction	496,412	6.98	743,278	9.50
Real estate	207,641	2.92	213,123	2.72
Retail				
Consumer	1,196,458	16.83	1,100,594	14.07
Mortgage	2,566,749	36.10	2,576,632	32.93
Small Business Banking	967,757	13.61	1,196,884	15.30
Credit cards and overdraft facilities	546,108	7.68	519,863	6.64
Gross Loans and Advances to customers	7,109,516	100.00	7,824,610	100.00
Provisions for impairment losses	(676,045)	-	(676,149)	-
	6,433,471	-	7,148,461	-

(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 2013	129,989	177,850	62,690	305,620	676,149
Net charge for the year (Note 10)	66,885	56,566	37,098	73,175	233,724
Amounts written off/ (derecognition of net receivables)	(111,195)	(2,417)	-	(78,893)	(192,505)
Recoveries of write offs (Note 10)	-	428	-	-	428
Foreign exchange differences	1,046	322	202	1,987	3,557
Effects of interest income recognised for impaired loans*	(5,125)	-	(6,836)	(33,347)	(45,308)
At 31 December 2013	81,600	232,749	93,154	268,542	676,045

*During 2013, the Bank changed its estimates in respect of recognition of interest income on impaired loans, thereby increasing the amount recognised as interest income in profit or loss with a corresponding impact to the provision charge in the year. Interest income recognised on impaired loans, amounted RON 45,307 thousands for 2013.

	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	903	2,202	18,539
At 31 December 2012	129,989	177,850	62,689	305,621	676,149

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

During 2013, the Bank has concluded 6 transfer agreements with 3 entities within Group: Eurobank Ergasias SA (March 2013, September 2013 and two contracts in December 2013), ERB New Europe Funding II (December 2013) and ERB New Europe Funding III Limited (August 2013) regarding 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 RON 446,150 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. Beside these new contracts, the Bank also transferred to Eurobank Ergasias SA (April 2013, August 2013, September 2013, October 2013 and December 2013) new withdrawals from open credit lines that were part of sub-participation contracts concluded before 2013, with a carrying amount of RON 3,002 thousand.

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 RON 364,413 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)

17 INVESTMENT SECURITIES AVAILABLE FOR SALE

		31 December 2013	31 December 2012
Debt securities (Note 30)	a)	1,209,605	1,047,617
Investments in Mutual Funds	b)	85,839	79,914
Equity investments	c)	51,388	6,554
		1,346,832	1,134,085

The movement in available for sale securities during 2013 and 2012 are presented below:

	2013	2012
At 1 January	1,134,085	698,181
Purchases	1,147,879	2,001,489
Disposals	(997,160)	(1,589,203)
Net gains from changes in fair value	61,954	23,630
Foreign exchange differences	74	(12)
At 31 December	1,346,832	1,134,085

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 4.8 to 11 % (2012: 5.85 to 6.5). As at 31 December 2013 the EUR denominate ones bear interest rates ranging from 3% to 5 %(2012: 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 2013, the participation was 67.05% in LF Balanced Active Fund (67.05 % as at 31 December 2012) and 94.24% in LF Money Market Cash Fund (94.24% as at 31 December 2012).
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 2013	Shareholding	31 December 2012
Transfond	local settlement entity	3.14%	4,265	3.14%	4,265
Biroul Roman De Credite	credit bureau	7.25%	1,152	7.02%	1,078
MASTERCARD	card agency	0.01%	38,731	0.01%	-
Visa Inc	card agency	0.03%	6,027	0.03%	-
Depozitarul Central	central depository for securities transactions	2.60%	776	2.60%	776
Swift	international settlement entity	0.01%	161	0.01%	159
ERB Retail Services IFN SA	consumer finance	0.17%	207	0.17%	207
SNCDD	local settlement entity	0.02%	1	0.02%	1
VISA Europe Limited	card agency	0.00%	1	0.00%	1
Fundatia BANCPOST SA		100.00%	67	100.00%	67
			51,388		6,554

(All amounts in RON thousand unless otherwise stated)

18 INTANGIBLE ASSETS

	Licence and Software	Software under development	Total
Year ended 31 December 2013			
Opening net book amount	87,437	25,646	113,083
Additions	19,189	33	19,222
Transfers	11,627	(11,627)	-
Disposals	-	-	-
Amortisation charge	(19,332)	-	(19,332)
Closing net book amount	98,921	14,052	112,973
At 31 December 2013			
Cost	204,416	14,052	218,468
Accumulated amortisation	(105,495)	-	(105,495)
Net Book Value	98,921	14,052	112,973
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

(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 2013				
Opening net book amount	312,677	75,994	793	389,464
Additions	1,331	2,912	-	4,243
Disposals	(6,747)	(1,334)	(5)	(8,086)
Depreciation charge	(13,537)	(15,276)	(219)	(29,032)
Impairment charge	1,581	296	-	1,877
Closing net book amount	295,305	62,592	569	358,466
At 31 December 2013				
Cost	430,954	260,723	15,000	706,677
Accumulated depreciation	(135,649)	(198,131)	(14,431)	(348,211)
Net Book Value	295,305	62,592	569	358,466
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

As at 31 December 2013 vehicles amounting to cost RON 15,000 thousand (2012: cost RON 15,743 thousand) includes cars acquired under financial lease, amounting to cost RON 256 thousand – gross book value (2012: cost RON 369thousand)."(Note 31)

(All amounts in RON thousand unless otherwise stated)

20 OTHER ASSETS

	31 December 2013	31 December 2012
Other financial assets		
Sundry receivables, gross	31,287	30,412
Provision for sundry receivables and other assets	(16,409)	(14,069)
Sundry receivables and other assets, net	14,878	16,343
Amounts in course of settlement	22,285	19,941
Total other financial assets, net	37,163	36,284
Other non-financial assets		
Prepayments	2,823	3,284
Receivable from state in respect of income tax	8,809	7,518
Receivable from state in respect of other taxes	6,253	8,440
Other assets	982	1,290
Total other non-financial assets	18,867	20,532
Total other assets, net	56,030	56,816

	31 December 2013	31 December 2012
Provision for other assets and receivables		
Provision at 1 January	14,069	12,586
Charge for the period (Note 9)	2,347	1,487
Foreign exchange differences (gain)/loss	(7)	(4)
Provision at 31 December	16,409	14,069

(All amounts in RON thousand unless otherwise stated)

21 DUE TO BANKS

	31 December 2013	31 December 2012
Current accounts with banks	-	6,514
Sight deposits from banks	10,392	-
Term deposits from banks	716,842	1,060,340
	727,234	1,066,854

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 of 6.2% for RON and 3% for EUR.
As at 31 December 2013 term deposits from the group company Eurobank Ergasis were RON 672,705 thousand and deposits from Eurobank Private Bank Luxembourg amounted to RON 29,600 thousand (2012 Eurobank Ergasias RON 442,870 thousand and Eurobank Private Bank Luxembourg RON 579,600 thousand).

22 DUE TO CUSTOMERS

	31 December 2013	31 December 2012
Current accounts	2,391,542	2,157,461
Term deposits	6,015,430	5,747,064
Collateral deposits	95,437	99,683
Saving instruments	25,028	28,432
Repurchase agreements	-	-
	8,527,437	8,032,640

During 2013, interest rates ranged from 4.84 % to 6.47 % (2012: from 3.16 % to 6.5 %) on RON denominated term deposits and from 2.83 % to 3.64% (2012: from 1.72 % to 4.75%) on EUR denominated term deposits. A currency analysis and residual maturity profile of amounts due to customers is presented in Note 3.

(All amounts in RON thousand unless otherwise stated)

23 OTHER BORROWED FUNDS

	31 December 2013	31 December 2012
Loans from banks	558,550	728,335
Subordinated loans from other banks	448,977	443,345
Repurchase agreements	-	139,261
	1,007,527	1,310,941

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 2013 and 31 December 2012 are detailed below:

	31 December 2013			31 December 2012		
	Balance in Original currency	Currency	Balance in thousand RON	Balance in original currency	Currency	Balance in thousand RON
BEI (A)	2,500,000	EUR	11,217	3,125,000	EUR	13,846
BEI (B)	7,500,000	EUR	33,640	8,333,333	EUR	36,910
BEI (C)	3,947,368	EUR	17,714	4,210,526	EUR	18,659
BEI (D)	13,636,364	EUR	61,211	18,181,818	EUR	80,596
BEI (E)	3,055,862	EUR	13,718	3,913,044	EUR	17,347
BEI (F)	3,636,364	EUR	16,316	4,545,455	EUR	20,140
EBRD (G)	12,000,000	EUR	53,807	24,000,000	EUR	106,195
EBRD (H)	7,000,000	EUR	31,640	14,000,000	EUR	62,504
IFC (I)	34,551,000	EUR	154,498	57,585,000	EUR	254,065
The Bank of Nova Scotia (J)	-	EUR	-	1,500,000	EUR	6,678
The Bank of Nova Scotia (K)	-	EUR	-	3,000,000	EUR	13,348
The Bank of Nova Scotia (L)	-	EUR	-	5,000,000	EUR	22,217
The Bank of Nova Scotia (M)	-	EUR	-	1,000,000	EUR	4,442
The Bank of Nova Scotia (N)	-	EUR	-	1,600,000	EUR	7,101
The Bank of Nova Scotia (O)	-	EUR	-	6,300,000	EUR	27,950
The Bank of Nova Scotia (P)	-	EUR	-	1,000,000	EUR	4,434
The Bank of Nova Scotia (Q)	-	EUR	-	7,200,000	EUR	31,903
The Bank of Nova Scotia (R)	9,655,000	EUR	43,340	-	EUR	-
The Bank of Nova Scotia (S)	1,700,000	EUR	7,629	-	EUR	-
The Bank of Nova Scotia (T)	1,000,000	EUR	4,487	-	EUR	-
The Bank of Nova Scotia (U)	3,400,000	EUR	15,254	-	EUR	-
The Bank of Nova Scotia (V)	1,065,000	EUR	4,777	-	EUR	-
Banca Popolare di Sondrio (W)	2,545,877	EUR	11,439	-	EUR	-
Banca Popolare di Sondrio (X)	1,000,000	EUR	4,492	-	EUR	-

23 OTHER BORROWED FUNDS (CONTINUED)

			31 December 2013			31 December 2012
	Balance in Original currency	Currency	Balance in thousand RON	Balance in original currency	Currency	Balance in thousand RON
Banca Popolare di Sondrio (Y)	1,426,000	EUR	6,403	-	EUR	-
Banca Popolare di Sondrio (Z)	550,000	EUR	2,469	-	EUR	-
Banca Popolare di Sondrio (AA)	5,225,000	EUR	23,448	-	EUR	-
Banca Popolare di Sondrio (BB)	2,150,000	EUR	9,647	-	EUR	-
Banca Popolare di Sondrio (CC)	7,000,000	EUR	31,404	-	EUR	-
NBR (DD)	-	EUR	-	31,440,644	EUR	139,261
Total loans from banks			558,550			867,596

			31 December 2013			1 December 2012
	Balance in Original currency	Currency	Balance in thousand RON	Balance in original currency	Currency	Balance in thousand RON
Eurobank Ergasias (EE)	15,000,000	EUR	67,335	15,000,000	EUR	66,484
Eurobank Ergasias (FF)	35,000,000	EUR	157,068	35,000,000	EUR	155,103
Eurobank Ergasias (GG)	50,000,000	EUR	224,574	50,000,000	EUR	221,758
Total subordinated loans from other banks			448,977			443,345
Total borrowed funds			1,007,527			1,310,941

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 + 0.526%) 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 + 0.582%) 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 + 0.267%) 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 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%.

23 OTHER BORROWED FUNDS (CONTINUED)

K. 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%.

L. 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%.

M. 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%.

N. 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%.

O. 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%.

P. 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%.

Q. 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%.

R. On 15 November 2013 a loan in amount of EUR 9,655,000 was obtained from The Bank of Nova Scotia, repayable on 17 February 2014. The interest is Euribor 3M + 0.5%.

S. On 29 November 2013 a loan in amount of EUR 1,700,000 was obtained from The Bank of Nova Scotia, repayable on 28 February 2014. The interest is Euribor 3M + 0.5%.

T. On 5 December 2013 a loan in amount of EUR 1,000,000 was obtained from The Bank of Nova Scotia, repayable on 5 March 2014. The interest is Euribor 3M + 0.5%.

U. On 12 December 2013 a loan in amount of EUR 3,400,000 was obtained from The Bank of Nova Scotia, repayable on 12 March 2014. The interest is Euribor 3M + 0.5%.

V. On 20 December 2013 a loan in amount of EUR 1,065,000 was obtained from The Bank of Nova Scotia, repayable on 20 March 2014. The interest is Euribor 3M + 0.5%.

W. On 1 October 2013 a loan in amount of EUR 2,545,877 was obtained from Banca Popolare di Sondrio, repayable on 3 January 2014. The interest is Euribor 3M + 0.5%.

X. On 15 October 2013 a loan in amount of EUR 1,000,000 was obtained from Banca Popolare di Sondrio, repayable on 15 January 2014. The interest is Euribor 3M + 0.5%.

23 OTHER BORROWED FUNDS (CONTINUED)

Y. On 31 October 2013 a loan in amount of EUR 1,426,000 was obtained from Banca Popolare di Sondrio, repayable on 31 January 2014. The interest is Euribor 3M + 0.5%.

Z. On 20 November 2013 a loan in amount of EUR 550,000 was obtained from Banca Popolare di Sondrio, repayable on 20 February 2014. The interest is Euribor 3M + 0.5%.

AA. On 29 November 2013 a loan in amount of EUR 5,225,000 was obtained from Banca Popolare di Sondrio, repayable on 28 February 2014. The interest is Euribor 3M + 0.5%.

BB. On 6 December 2013 a loan in amount of EUR 2,150,000 was obtained from Banca Popolare di Sondrio, repayable on 6 March 2014. The interest is Euribor 3M + 0.5%.

CC. On 18 December 2013 a loan in amount of EUR 7,000,000 was obtained from Banca Popolare di Sondrio, repayable on 18 March 2014. The interest is Euribor 3M + 0.5%.

DD. 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 is 5.25%.

EE. 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.

FF. 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.

GG. 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 de-recognition

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 Was RON 17.5 million as at 31 December 2012 , representing also the Bank's maximum exposure to loss as of that date.

During 2013,the Bank was required to reimburse the transferee under the first loss and the amount that the bank paid was RON 17.5 million .

(All amounts in RON thousand unless otherwise stated)

25 OTHER LIABILITIES

	31 December 2013	31 December 2012
Financial liabilities		
Amounts in transit/settlements	32,759	36,798
Leasing	-	451
Goods, services and fixed assets payables	24,278	25,726
Total financial liabilities	57,037	62,975
Non-financial liabilities		
Social contributions and salaries taxes	12,159	14,736
Payables to employees	1,186	55
Provisions for credit commitments (i)	20,875	41,238
Provision for contingent liabilities (ii)	18,745	5,628
Other provisions (iii)	8,277	7,214
Other liabilities	13,998	11,171
Total Non-financial liabilities	75,240	80,042
	132,277	143,017

(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 2013 is RON 20,875 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 income.impact of RON 803 thousand. During 2013 there was a release related to these provisions in amount of RON 19,560 thousand (Note 10) (2012: charge of RON 8,504 thousand (Note 10).

(ii) Provision for contingent liabilities

Provision for contingent liabilities mostly relate to litigations amounted in 2013 RON 4,343 thousand (2012 : RON 2,230 thousand) and provisions booked in respect of the branch closure amounted in 2013 RON 13,502 thousand(2012: RON 3,398 thousand).

(iii) Other provision

Included in this category are retirement provisions, for which the Bank 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 2013	31 December 2012
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 2013 (%)	31 December 2012 (%)
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 2013 the share capital of the Bank consisted of 2,947,163,540 (2012: 2,947,163,540) allotted and fully paid ordinary shares of RON 0.40 each (2012: 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 21 December 2011.

(All amounts in RON thousand unless otherwise stated)

27 OTHER RESERVES

The balances of reserve comprise:

	31 December 2013	31 December 2012
Legal reserve	40,756	40,756
General banking risk reserve	41,583	41,583
General reserve	71,847	71,847
Revaluation reserve – available for sale securities	69,230	17,099
Special reserves	(555)	-
	222,861	171,285

As at 31 December 2013, 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 2013	31 December 2012
Cash	443,002	437,376
Current account with the Central Bank (Note 12)	1,905,819	1,500,551
Loans and advances to banks (Note 13)	1,025,685	749,494
	3,374,506	2,687,421

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").

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.

Related party transactions - Eurobank Ergasias S.A. shareholding structure

EFG Group was the controlling shareholder of the Eurobank Ergasias S.A., holding 44.70% of the Eurobank's ordinary shares and voting rights until 23 July 2012. In May 2013, following its full subscription in Eurobank's recapitalisation of €5.839 million, the HFSF became the controlling shareholder and a related party of Eurobank. On 19 June 2013, HFSF acquired 3,789,317,358 Eurobank's ordinary shares with voting rights, representing 98.56% of its ordinary share capital. Following the issuance of 205,804,664 new ordinary shares in July, as resolved at the Annual General Meeting of the Shareholders on 27 June 2013, the percentage of the voting rights held in Eurobank by HFSF decreased to 93.55%. Following the share capital increase approved by the Extraordinary General Meeting of 26 August 2013, the controlling percentage of HFSF increases to 95.23%.

29 RELATED PARTY TRANSACTIONS (CONTINUED)

Eurobank Ergasias Group regards other Greek Banks controlled, jointly controlled or significantly influenced by HFSF, within the context of the Greek Banks' recapitalization, as well as the members of key management personnel of HFSF, as related parties. Eurobank Ergasias Group's transactions with HFSF's related Greek banks are made in the ordinary course of business, are carried out on market terms, are not influenced by the HFSF as the controlling shareholder of the Bank and are not included in the related party transactions presented in the Group's consolidated financial statements.

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

On 15 February 2013, the National Bank of Greece SA (NBG) acquired 84.35% of Eurobank's voting shares following the completion of a Voluntary Tender Offer (VTO) launched on 11 January 2013. The VTO would have been followed by the merger of the two banks, the process of which initiated on 19 March 2013.

On 28 March 2013, BoG sent letters to all viable banks, including Eurobank Ergasias S.A. and NBG, stating that each bank should proceed with its recapitalization by the end of April 2013 and requesting them to proceed with the relevant necessary actions. On 7 April 2013, as the joint banks' request for the extension of the recapitalization process up to 20 June 2013 was not granted, the relevant regulatory authorities with the consent of the management of both banks decided that the Eurobank and NBG will be independently recapitalized in full. As a consequence, the merger process of the two banks was suspended.

In this respect, the Extraordinary General Meeting of shareholders of Eurobank Ergasias S.A., convened on 30 April 2013, decided the increase of the Eurobank's ordinary share capital, in order to raise €5.839 million, subscribed by way of contribution in kind from HFSF, in accordance with Law 3864/2010 and Act of Cabinet 38/9.11.2012. As a result of the above mentioned share capital increase of the Bank, the percentage of the voting rights held by NBG as at 31 December 2013 was reduced below 5%.

(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:

			2013			2012
	Management	Shareholders	Other group entities*	Management	Shareholders	Other group Entities*
Assets						
Loans and advances to banks	-	848,591	89,220		625,246	-
Loans and advances to customers	7,297	-	-	6,874	-	-
Trading assets	-	-	-	-	-	-
Investment securities available for sale	-	-	86,113	-	-	80,188
Other debtors	-	3,798	7,511	-	-	8,568
Derivative financial instruments	-	4,201	-	-	54,595	-
Liabilities						
Due to banks	-	448,470	-	-	448,443	584,264
Due to customers	7,289	682,404	227,850	7,470	-	311,033
Other borrowed funds	-	-	-	-	443,345	-
Debts securities in issue	-	-	-	-	-	-
Other creditors	-	423	149	1	-	19,292
Derivative financial instruments	-	12,645	-	-	88,357	-

* Does not include entities with significant influence

(All amounts in RON thousand unless otherwise stated)

29 RELATED PARTY TRANSACTIONS (CONTINUED)

			2013			2012
	Management	Shareholders	Other group Entities*	Management	Shareholders	Other group Entities*
Profit and loss						
Interest income	325	22,688	1,932	322	15,629	13,419
Interest expense	192	20,775	16,609	258	19,986	54,007
Net trading income/(loss)	5	79,015	-	-	(70,779)	-
Fee and Commission income	2	39	19,873	3	766	11,769
Fee and Commission expense	-	1,502	3,542	-	1,147	48
Other operating income	-	-	472	23	-	4,166
Other operating expense	2	299	38,849	22	-	47,087
Commitments	476	833	3,319	192	-	589,163
Financial guarantee	-	587,433	16,926	-	575,731	2,632

* Does not include entities with significant influence

	2013	2012
Remuneration of the Key Management Personnel	11,108	13,009

(All amounts in RON thousand unless otherwise stated)

30 CONCENTRATION OF ASSETS DUE FROM THE GOVERNMENT AND CENTRAL BANK

	31 December 2013	31 December 2012
Balances with the Central Bank (Note 12)	1,905,819	1,500,729
Debt securities (Note 17)	1,209,605	1,047,617
	3,115,424	2,548,346

The assets above represent 26 % of the Bank's total assets (31 December 2012: 21% of the Bank's total assets).

31 COMMITMENTS AND CONTINGENCIES

Assets pledged/restricted

	Assets pledged		Related liability	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Balances with the Central Bank	-	178	-	178
Investment securities	-	139,241	-	139,241
Cash Collateral Deposits	5,415	6,819	-	-

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.

(All amounts in RON thousand unless otherwise stated)

31 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 2013	31 December 2012
Letters of guarantee	709,023	956,982
Letters of credit	1,839	2,114
Undrawn loan commitments	-	136,318
Total credit commitments	710,862	1,095,414
Other commitment	-	-

The letters of Guarantee include letters of guarantee in amount of RON 338,069 thousand (2012: RON 498,253 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 22% 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 2013 the Bank has contractual capital expenditure commitments in respect of equipment and software totaling RON 2,292 thousand (2012: RON 1,118 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 2013	31 December 2012
No later than 1 year	35,949	50,275
Later than 1 year and no later than 5 years	116,652	166,752
Later than 5 years	76,474	114,238
	229,075	331,265

On 31 December 2013 and 2012 the future minimum lease payments for financial leases were as follow:

	31 December 2013	31 December 2012
Up to one year	164	369
From two to five years including	92	-
	256	369

(All amounts in RON thousand unless otherwise stated)

32 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2013:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments (d)	Cash collateral received (e)	(c) - (d) - (e)
ASSETS						
Derivative Assets	4,201	-	4,201	4,201	-	-
Total assets subject to offsetting, master netting and similar arrangements	**4,201**		4,201	4,201	-	-
LIABILITIES						
Derivative Liabilities	12,465	-	12,465	4,201	-	8,264
Total liabilities subject to offsetting, master netting and similar arrangements	12,465	-	12,465	**12,465**	-	-

(All amounts in RON thousand unless otherwise stated)

32 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2012:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure
				Financial instruments (d)	Cash collateral received (e)	(c) - (d) - (e)
ASSETS						
Derivative Assets	54,595	-	54,595	54,595	-	-
Total assets subject to offsetting, master netting and similar arrangements	54,595	-	54,595	54,595	-	-
LIABILITIES						
Derivative Liabilities	105,864	-	105,864	54,595	-	51,269
Total liabilities subject to offsetting, master netting and similar arrangements	105,864	-	105,864	54,595		-

(All amounts in RON thousand unless otherwise stated)

33 STANDARD LEGAL STAFF RETIREMENT INDEMNITY OBLIGATIONS

Application of IAS 19 Amendment

In 2013, the Bank applied the Amendments to IAS 19 'Employee benefits' which introduce several changes to the accounting for employee benefits. The amendments amongst other, eliminate the corridor approach and require all actuarial gains and losses to be recognised directly in other comprehensive income. Previously, the Bank had elected to recognise immediately all actuarial gains and losses directly in the income statement. No retrospective application has been performed due to immaterial effect.

The impact of the amendments on the income statement and statement of comprehensive income for 2013 is shown in the following tables:

Impact on profit/(loss) for the year (increase/(decrease))

	31 December 2013
Salaries, wages and other employee benefits	(2,582)
Profit from operations before impairment on loans and advances and non recurring valuation losses	(2,582)
Profit/(loss) before tax	(2,582)
Income tax	413
Net profit/(loss) for the year	(2,169)

Impact on other comprehensive income for the year (increase/(decrease)):

	31 December 2013
Remeasurement of the retirement benefit obligations, net of tax	466
Other comprehensive income for the year	466

(All amounts in RON thousand unless otherwise stated)

33 STANDARD LEGAL STAFF RETIREMENT INDEMNITY OBLIGATIONS (CONTINUED)

Staff retirement indemnity obligation

The Bank provides for staff retirement indemnity obligation for its employees who are entitled to a lump sum payment at the date of retirement, if they remain in the employment of the Bank until normal retirement age, in accordance with the local labour legislation. The above retirement indemnity obligations typically expose the Bank to actuarial risks such as interest rate risk and salary risk. Therefore, a decrease in the discount rate used to calculate the present value of the estimated future cash outflows or an increase in future salaries will increase the staff retirement indemnity obligations of the Bank.

The movement in the standard legal staff retirement indemnity obligations over the year is as follows:

	2013
Balance at 1 January	3,371
Current service cost	357
Interest cost	233
Past service cost and (gains)/losses on settlements	1,992
Remeasurements:	
Actuarial (gains)/losses arising from changes in demographic assumptions	-
Actuarial (gains)/losses arising from changes in financial assumptions	806
Actuarial (gains)/losses arising from experience adjustments	(251)
Exchange differences	-
Benefit payments	(2,253)
Balance at 31 December	4,255

(All amounts in RON thousand unless otherwise stated)

33 STANDARD LEGAL STAFF RETIREMENT INDEMNITY OBLIGATIONS (CONTINUED)

Significant actuarial assumptions

The significant actuarial assumptions (expressed as weighted averages) were as follows:

	2013	2012
	%	%
Discount rate	5.5	7
Future salary increases	1.25	-

The average duration of the standard legal staff retirement indemnity obligations at 31 December 2013 is 15 years (2012: 23 years)

34 POST BALANCE SHEET EVENTS

During 2014, up to the moment of signing these financial statements there were no other significant events having an impact on the financial statements.