# Banca Comerciala Romana S.A.

## Consolidated Financial Statements

## (The Group and the Bank)

**Prepared in Accordance with**
**International Financial Reporting Standards**

**31 December 2007**

# CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

ERNST & YOUNG

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## INDEPENDENT AUDITOR'S REPORT

**To the shareholders of Banca Comerciala Romana S.A.**

1 We have audited the accompanying financial statements of Banca Comerciala Romana SA and its subsidiaries (the "Bank"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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## Opinion

6 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

## Other Matters

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

Ernst & Young

Ernst and Young Assurance Services SRL
Bucharest, Romania
4 March 2008

BCR

# INCOME STATEMENT

## Consolidated and Bank
## for the year ended 31 December 2007

| RON Thousand | Notes | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|---|
| Interest and similar income | 4 | 4,130,235 | 3,120,035 | 3,914,973 | 2,975,214 |
| Interest and similar expense | 5 | (2,167,303) | (1,433,675) | (2,049,470) | (1,368,263) |
| **Net interest income** | | **1,962,932** | **1,686,360** | **1,865,503** | **1,606,951** |
| Fees and commission income | 6 | 945,398 | 642,201 | 908,103 | 601,284 |
| Fees and commission expense | 6 | (87,852) | (75,731) | (84,173) | (72,148) |
| **Net fees and commission income** | 6 | **857,546** | **566,470** | **823,930** | **529,136** |
| Net trading income | 7 | 255,914 | 262,991 | 254,501 | 255,694 |
| Net gain or loss on financial assets and liabilities designated at fair value through profit or loss | | (9,317) | (15,200) | (9,227) | (15,520) |
| Net result of insurance business | 8 | 18,243 | 34,246 | - | - |
| Other operating income | 9 | 41,007 | 74,325 | 31,645 | 27,524 |
| **Total operating income** | | **3,126,325** | **2,609,192** | **2,966,352** | **2,403,785** |
| Credit loss expense | 10 | (164,444) | (157,595) | (159,677) | (150,973) |
| **Net operating income** | | **2,961,881** | **2,451,597** | **2,806,675** | **2,252,812** |
| Personnel expenses | 11 | (1,193,553) | (922,196) | (1,134,200) | (872,221) |
| Depreciation and impairment of property and equipment | 21 | (131,634) | (161,481) | (124,961) | (154,876) |
| Amortization of intangible assets | 22 | (40,411) | (32,671) | (38,840) | (31,093) |
| Other operating expenses | 12 | (475,384) | (407,556) | (458,259) | (402,189) |
| **Total operating expenses** | | **(1,840,982)** | **(1,523,904)** | **(1,756,260)** | **(1,460,379)** |
| **Profit before tax** | | **1,120,899** | **927,693** | **1,050,415** | **792,433** |
| Income tax expense | 13 | (187,516) | (159,011) | (162,927) | (125,564) |
| **Profit for the year** | | **933,383** | **768,682** | **887,488** | **666,869** |
| Attributable to: | | | | | |
| Equity holders of the parent | | 924,781 | 756,306 | 887,488 | 666,869 |
| Minority interest | | 8,602 | 12,376 | - | - |

The financial statements were approved by the Management Board on 4 March 2008 and were signed on its behalf by:

BANCA COMERCIALA ROMANA BCR PRESEDINTE EXECUTIV

Mr. Manfred Wimmer
Executive President

Mr. Helmuth Hintringer
Executive Vice President

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# BALANCE SHEET
## Consolidated and Bank
## at 31 December 2007

| RON Thousand | Notes | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with central banks | 15 | 17,303,337 | 13,544,290 | 17,181,773 | 13,433,219 |
| Due from banks | 16 | 3,252,888 | 4,509,121 | 2,499,103 | 3,866,907 |
| Financial assets held for trading | | 2,995 | - | 20 | - |
| Reverse repurchase agreements | | - | 2,464 | - | 2,464 |
| Financial assets designated at fair value through profit or loss | 17 | 470,064 | 512,038 | 469,708 | 513,196 |
| Loans and advances to customers | 18 | 37,538,771 | 25,418,306 | 35,061,389 | 23,799,177 |
| Financial investments – available-for-sale | 19 | 1,685,570 | 844,802 | 2,047,742 | 1,096,778 |
| Financial investments – held-to-maturity | 19 | 10,615 | 15,176 | 2,941 | 15,143 |
| Investments of insurance companies | 20 | 413,198 | 165,479 | - | - |
| Property and equipment | 21 | 1,644,367 | 1,666,802 | 1,531,658 | 1,551,751 |
| Goodwill and other intangible assets | 22 | 208,669 | 178,384 | 178,338 | 175,692 |
| Deferred tax assets | 13 | 2,076 | 51,560 | - | 46,293 |
| Other assets | 23 | 826,313 | 527,328 | 638,478 | 354,069 |
| **TOTAL ASSETS** | | **63,358,863** | **47,435,750** | **59,611,150** | **44,854,689** |
| **LIABILITIES AND EQUITY** | | | | | |
| Due to banks | 24 | 22,535,473 | 12,902,693 | 19,601,910 | 11,036,281 |
| Repurchase agreements | | - | 301,839 | - | 301,839 |
| Due to customers | 25 | 30,131,647 | 24,591,172 | 30,251,774 | 24,477,065 |
| Debt issued and other borrowed funds | 26 | 3,842,264 | 4,207,291 | 3,879,599 | 4,250,934 |
| Current tax liabilities | | 9,351 | 8,462 | - | - |
| Deferred tax liabilities | 13 | 41,193 | 5,053 | 34,591 | - |
| Other liabilities | 27 | 1,412,534 | 765,997 | 1,178,979 | 651,273 |
| Provisions | 28 | 519,024 | 404,243 | 140,982 | 161,995 |
| **TOTAL LIABILITIES** | | **58,491,486** | **43,186,750** | **55,087,835** | **40,879,387** |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT** | | | | | |
| Issued capital | 30 | 2,119,693 | 2,119,693 | 2,119,693 | 2,119,693 |
| Retained earnings | | 1,608,468 | 1,051,614 | 1,354,967 | 835,406 |
| Available-for-sale reserve | 30 | 9,982 | 16,971 | 10,533 | 17,460 |
| Foreign currency translation reserve | 30 | 40,051 | 9,663 | - | - |
| Other capital reserve | 30 | 1,051,738 | 1,017,789 | 1,038,122 | 1,002,743 |
| | | **4,829,932** | **4,215,730** | **4,523,315** | **3,975,302** |
| MINORITY INTEREST | | 37,445 | 33,270 | - | - |
| **TOTAL EQUITY** | | **4,867,377** | **4,249,000** | **4,523,315** | **3,975,302** |
| **TOTAL LIABILITIES AND EQUITY** | | **63,358,863** | **47,435,750** | **59,611,150** | **44,854,689** |

The financial statements were approved by the Management Board on 4 March 2008 and were signed on its behalf by:

BANCA COMERCIALĂ ROMÂNĂ BCR PREȘEDINTE EXECUTIV

Mr. Manfred Wimmer
Executive President

Mr. Helmuth Hintringer
Executive Vice President

The accompanying notes from pages 9 to 84 form an integral part of these financial statements

# STATEMENT OF RECOGNISED INCOME AND EXPENSE
## Consolidated and Bank
## for the year ended 31 December 2007

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| Available-for-sale investments | | | | |
| Valuation (losses)/gains taken to equity | (12,332) | (24,036) | (11,729) | 7,154 |
| Transferred to profit or loss on sale | 4,408 | 38,152 | 3,483 | 7,292 |
| Exchange differences on translation of foreign operations | 30,961 | (39,764) | - | - |
| Actuarial gains on defined benefit plans | 40,911 | 11,369 | 42,118 | 10,699 |
| Tax on items taken directly to or transferred from equity | (5,792) | (2,859) | (5,420) | (4,023) |
| **Net income recognised directly in equity** | **58,156** | **(17,138)** | **28,452** | **21,122** |
| Profit for the period | 933,383 | 768,682 | 887,488 | 666,869 |
| **Total recognised income and expense for the period** | **991,539** | **751,544** | **915,940** | **687,991** |
| Attributable to: | | | | |
| Equity holders of the parent | 982,129 | 739,437 | 915,940 | 687,991 |
| Minority interest | 9,410 | 12,107 | - | - |

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# CASH FLOW STATEMENT
## Consolidated and Bank
## for the year ended 31 December 2007

| RON Thousand | Notes | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Profit before tax | | 1,120,899 | 927,693 | 1,050,415 | 792,433 |
| Adjustments for: | | | | | |
| Change in operating assets | 33 | (12,782,071) | (9,754,011) | (11,681,911) | (8,583,075) |
| Change in operating liabilities | 33 | 18,368,275 | 7,130,730 | 19,524,203 | 5,889,286 |
| Non-cash items included in profit before tax | 33 | 1,261,912 | 435,481 | 983,481 | 418,325 |
| Net gain from investing activities | | (20,136) | (33,378) | (50,320) | (2,507) |
| Payments made against provisions | 33 | (151,307) | (2,868) | (74,294) | (2,864) |
| Income tax paid | | (128,474) | (176,066) | (109,621) | (160,835) |
| **Net cash flows from/(used in) operating activities** | | **7,669,098** | **(1,472,419)** | **9,641,953** | **(1,649,237)** |
| **INVESTING ACTIVITIES** | | | | | |
| Purchase of property and equipment | | (157,011) | (169,329) | (147,450) | (106,848) |
| Proceeds from sale of property and equipment | | 8,608 | 2,750 | 8,077 | 809 |
| Purchase of financial investments | | (3,075,080) | (49,014) | (2,912,155) | (61,661) |
| Proceeds from sale of financial investments | | 1,995,000 | 22,209 | 1,977,842 | 22,209 |
| Acquisition of minority interest | | (29,439) | - | - | - |
| Dividends received | | 20,564 | 6,962 | 50,156 | 42,114 |
| **Net cash flows used in investing activities** | | **(1,237,358)** | **(186,422)** | **(1,023,530)** | **(103,377)** |
| **FINANCING ACTIVITIES** | | | | | |
| Proceeds from debt issued and other borrowed funds | | 4,590,673 | 10,971,950 | 2,141,340 | 10,971,953 |
| Repayment of debt issued and other borrowed funds | | (8,440,553) | (5,419,815) | (8,035,599) | (5,419,815) |
| Proceeds from bonds | | - | 216,550 | - | 240,140 |
| Repayment of finance lease liabilities | | - | - | (19,190) | (36,639) |
| Dividends paid to minority interests | | (2,529) | (4,333) | - | - |
| Dividends paid to equity holders of the parent | | (367,927) | (359,935) | (367,927) | (359,935) |
| **Net cash flows (used in)/from financing activities** | | **(4,220,336)** | **5,404,417** | **(6,281,376)** | **5,395,704** |
| Net increase in cash and cash equivalents | | 2,211,404 | 3,745,576 | 2,337,047 | 3,643,090 |
| **Cash and cash equivalents at 1 January** | | **17,489,947** | **13,744,371** | **17,242,263** | **13,599,173** |
| **Cash and cash equivalents at 31 December** | 33 | **19,701,351** | **17,489,947** | **19,579,310** | **17,242,263** |
| **Operational cash flows from interest and dividends** | | | | | |
| Interest paid | | 1,936,518 | 1,367,603 | 1,821,532 | 1,315,371 |
| Interest received | | 4,005,200 | 3,059,891 | 3,802,523 | 2,933,858 |

The accompanying notes from pages 9 to 84 form an integral part of these financial statements

## 1. CORPORATE INFORMATION

Banca Comerciala Romana S.A. ('the Bank' or 'BCR') together with its subsidiaries (the 'Group') provides retail, corporate banking and investment banking services mainly in Romania. As a result of the privatization process organized by the government of Romania, Erste Bank der oesterreichischen Sparkassen AG ("Erste Bank") purchased 61.88% of the share capital of the Bank pursuant to a share purchase agreement dated 21 December 2005. In December 2006, Erste Bank purchased further 7.27% from employees of the Bank. The ultimate parent of the Group is Erste Bank.

The Group provides day-to-day banking services and other financial services to governmental institutions, corporate and individual clients operating in Romania and abroad. These services include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance, medium and long term facilities, retail loans, finance micro and small enterprises, bank guarantees, letter of credits and also leasing, insurance, brokerage, financial consultancy services and asset management.

Banca Comerciala Romana S.A. is incorporated and domiciled in Romania. Its registered office is at 5, Elisabeta Boulevard, Bucharest, Romania.

The consolidated financial statements for the year ended 31 December 2007 were authorized for issue in accordance with a resolution of the Management Board on 4 March 2008.

## 2. ACCOUNTING POLICIES

**The accounting policies apply to both the consolidated ("Group") and separate financial statements of the Bank, except for accounting of investments in subsidiaries in the Bank's financial statements.**

### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis modified to include the inflation adjustments under International Accounting Standard (IAS) 29 "Financial Reporting in Hyperinflationary Economies" up to 31 December 2003, except for available-for-sale investments, derivative financial instruments and financial assets held at fair value through profit or loss, that have been measured at fair value.

The Bank and its subsidiaries which are incorporated in Romania maintain their books of account and prepare their statutory financial statements in accordance with Romanian Accounting Regulations and in the case of the Bank, also in accordance with Romanian Banking Regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS with adjustments and certain reclassifications for the purpose of the fair presentation in accordance with IFRS. These adjustments are summarized in Note 31.

The consolidated financial statements are presented in Romanian Lei ("RON"), and all values are rounded to the nearest RON thousand, except when otherwise indicated.

The Bank has the following subsidiaries consolidated in the financial statements of the Group as at 31 December 2007 and 31 December 2006:

| Company's Name | Country of incorporation | Nature of the business | Shareholding 31 December 2007 | Shareholding 31 December 2006 |
|---|---|---|---|---|
| Anglo-Romanian Bank Ltd | United Kingdom | Banking | 100% | 100.00% |
| BCR Chisinau | Moldova | Banking | 100% | 100.00% |
| Financiara SA | Romania | Financial services | 97.10% | 97.10% |
| BCR Securities SA | Romania | Brokerage | 85.51% | 85.51% |
| BCR Leasing IFN SA | Romania | Leasing | 98.73% | 89.08% |
| BCR Asigurari SA | Romania | General insurance | 81.14% | 81.14% |
| BCR Asigurari de Viata SA | Romania | Life insurance | 68.33% | 68.07% |
| BCR Asset Management SA | Romania | Asset Management | 81.03% | 58.29% |
| Bucharest Financial Plazza SRL | Romania | Real Estate | 97.10% | 97.10% |
| BCR Fond de Pensii SA | Romania | Pension Fund | 99.99% | - |

## 2. ACCOUNTING POLICIES (continued)

### (1) Impact of inflation

Romania was a hyperinflationary economy and was officially declared as ceasing to be hyperinflationary for IFRS reporting purposes as at 1 July 2004. The financial statements of the Group and the Bank have been restated to take into account the effects of inflation until 31 December 2003 in accordance with the provisions of and guidance in IAS 29. In summary IAS 29 requires that financial statements prepared on a historical cost should be restated in terms of measuring unit current at the balance sheet date and that any gain or loss on the net monetary position should be included in the income statement and disclosed separately.

### (2) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB) as adopted by the EU.

### (3) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

The Bank is accounting the investments in subsidiaries in the separate financial statements as "Finacial investments – available-for-sale".

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognized directly in the income statement in the year of acquisition.

## 2. ACCOUNTING POLICIES (continued)

### 2.2 Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

#### (1) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs.

#### (2) Impairment losses on loans and advances

The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. Collective impairment assessment is made for individually significant loans and advances for which impairment losses have been incurred but not detected as well as collectively assessed risk provisions for loans and advances that are not individually significant.

#### (3) Impairment of equity investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' greater than 1 year. In addition, the Group evaluates other factors, such as the share price volatility.

#### (4) Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

#### (5) Benefits granted on the date of retirement

The cost of the defined benefit consisting of a one-off payment of up to six monthly gross salaries on the date of retirement is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. See Note 29 for the assumptions used.

#### (6) General insurance business

A provision is made for the estimated cost of claims notified but not settled and claims incurred but not reported at the balance sheet date. The provision for the cost of claims notified but not settled is based upon a best estimate of the cost of setting the outstanding claims after taking into account all known facts, recent past experience and assumptions about the future development of the outstanding cases. The provisions for claims incurred but not reported are based on past experience and industry practices.

**2. ACCOUNTING POLICIES (continued)**

**(7) Life inssurance business**

For life assurance contracts, actuarial estimates are made in respect of the liabilities arising from death claims, based on standard international mortality tables that reflect historical mortality experience.

Estimates are also made as to future investment income arising from assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Estimates for future deaths, voluntary terminations, investment returns and administration expenses are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and any changes are reflected with adjustments to the liability.

For accident and health insurance contracts, estimates are made for the expected ultimate cost of claims reported and claims incurred but not yet reported at the balance sheet date. Claims estimates are based on past experience and market trends.

## 2.3 Change in accounting policies

The accounting policies adopted are consistent with those used in the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies

- IFRS 7, Financial Instruments: Disclosures
- Amendment to IAS 1, Presentation of Financial Statements
- IFRIC 8, Scope of IFRS 2
- IFRIC 9, Reassessment of Embedded Derivatives
- IFRIC 10, Interim Financial Reporting and Impairment
- IFRIC 11, IFRS 2-Group and Treasury Share Transactions

The principal effects of these changes are as follows:

**IFRS 7 Financial Instruments: Disclosures**
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

**IAS 1 Presentation of Financial Statements**
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 38.

**IFRIC 8 Scope of IFRS 2**
IFRIC interpretation 8 was issued in January 2007 and is required to be applied for financial years beginning on or after 1 May 2007. It requires IFRS 2 Share-based Payment to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The interpretation had no impact on the financial position or performance of the Group.

**IFRIC 9 Reassessment of Embedded Derivatives**
IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group's embedded derivatives requiring separation from the host contract are not significant, the interpretation had no significant impact on the financial position or performance of the Group.

**IFRIC 10 Interim Financial Reporting and Impairment**
The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

## 2. ACCOUNTING POLICIES (continued)

### 2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

#### (1) Foreign currency translation

The consolidated financial statements are presented in RON, which is the Bank's functional and presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

***(i) Transactions and balances***

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the rate of exchange ruling at the balance sheet date. All differences are taken to 'Other operating income' or 'Other operating expenses' in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

***(ii) Group companies***

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Bank's presentation currency (the RON) at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement in 'Other operating expenses' or 'Other operating income', respectively.

## 2. ACCOUNTING POLICIES (continued)

### (2) Financial instruments – initial recognition and subsequent measurement

***(i) Date of recognition***

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognized on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are recognized on trade date basis.

***(ii) Initial recognition of financial instruments***

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

***(iii) Derivatives recorded at fair value through profit or loss***

Derivatives include currency swaps, forward foreign exchange contracts. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives held for trading are included in 'Net trading income'.

***(iv) Financial assets held for trading***

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded in the balance sheet at fair value. Changes in fair value are recognized in 'Net trading income'. Interest and dividend income or expense are recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions in debt securities and securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

***(v) Financial assets or financial liabilities designated at fair value through profit or loss***

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in 'Interest and similar income' when the right to the payment has been established.

***(vi) Held-to-maturity financial investments***

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment of such investments are recognized in the income statement line 'Impairment losses on financial investments'.

## 2. ACCOUNTING POLICIES (continued)

***(vii) Due from banks and loans and advances to customers***

'Due from banks' and 'Loans and advances to customers' are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investment – available-for-sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that should be an integral part of the effective interest rate. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognized in the income statement in 'Credit loss expense'.

***(viii) Available-for-sale financial investments***

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments, investments in mutual funds and money market and other debt instruments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity in the 'Available-for-sale reserve'. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement in 'Other operating income' or 'Other operating expenses'. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognized in the income statement as 'Interest and similar income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the income statement in 'Impairment losses on financial investments' and removed from the available-for-sale reserve.

***(ix) Debt issued and other borrowed funds***

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under 'Debt issued and other borrowed funds', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that should be an integral part of the effective interest rate.

### (3) Derecognition of financial assets and financial liabilities

***(i) Financial assets***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired; or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## 2. ACCOUNTING POLICIES (continued)

**(ii) Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### (4) Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the balance sheet. The corresponding cash received, including accrued interest, is recognized on the balance sheet as a 'Repurchase agreements', reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method. Where the transferee has the right to sell or pledge the asset, the asset is recorded on the balance sheet as 'Financial assets held for trading pledged as collateral'.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized on the balance sheet. The corresponding cash paid, including accrued interest, is recognized on the balance sheet as a 'Reverse repurchase agreements'. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement using the effective interest rate method.

### (5) Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the balance sheet if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the balance sheet, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in 'Net trading income'.

### (6) Determination of fair value

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date. Where a fair value can not reliably estimated, unquoted equity instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

### (7) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 2. ACCOUNTING POLICIES (continued)

***(i) Due from banks and loans and advances to customers***

For amounts due from banks and loans and advances to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years 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 reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

***(ii) Held-to-maturity financial investments***

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

***(iii) Available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

**2. ACCOUNTING POLICIES (continued)**

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

***(iv) Renegotiated loans***

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

**(8) Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

**(9) Insurance business**

***(i) Insurance contracts liabilities***

***Life insurance contracts liabilities***

The provision for life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life policy.

***General insurance contracts liabilities***

General business contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs that are reduced for expected salvage value and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims (particularly in respect of business interruption, environmental and pollution exposures) the ultimate cost cannot be known with certainty at the balance sheet date.

***Insurance contracts with fixed and guaranteed terms***

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognized. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and policy administration expenses, based on the valuation assumptions used. The liability is based on assumptions as to mortality, investment income and the maintenance expenses that are established at the time the contract is issued.

A margin for adverse developments is included in the assumptions to provide a best estimate of possible future claims. Adjustments to the liabilities at each reporting date are recorded in the income statement as an expense. Profits originated from adverse margins on run-off contracts, are recognized in the income statement over the life of the contract, whereas losses are fully recognized in the income statement

## 2. ACCOUNTING POLICIES (continued)

during the first year of run-off.

***(ii) Claims and provisions for outstanding claims***

Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring during the financial year together with adjustments to prior year claims provisions.

Claims outstanding provisions comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not, and related internal and external claims handling expenses and an appropriate prudential margin. Claims outstanding are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported the effect of both internal and external foreseeable events and past experience and trends. Provisions for claims outstanding are not discounted.

Adjustments to claims provisions established in prior years are reflected in the financial statements of the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly. Where applicable, provisions are disclosed net of the prudent estimates for salvage and subrogation recoveries.

***(iii) Provision for unearned premiums***

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium.

***(iv) Provisions for unexpired risks (Liability adequacy test)***

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

***(v) Reinsurance assets***

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

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

***(vi) Income from insurance business***

Income from insurance business comprises all revenues and expenses of fully consolidated insurance companies, other than commission income from the sale of insurance products, which is included in net commission income.

Income includes primarily premiums earned net of ceded business, investment income from underwriting business and unrealized gains from capital investments.

Expenses include claims incurred, changes in underwriting provisions, and expenses for bonuses to holders of with-profits policies, investment and interest expenses and all operating expenses of the insurance business.

***(vii) Investments of insurance companies***

Investments of insurance companies are reported as a separate main item. They include land and buildings, investments in listed companies,

**2. ACCOUNTING POLICIES (continued)**

mortgage receivables, securities and prepayments on insurance contracts. Investments of insurance companies are measured in accordance with the standards applicable to the particular asset types concerned.

***(viii) Acquisition costs***

The acquisition costs include the expenses incurred in the acquisition of the insurance contracts and comprise direct expenses, such as acquisition commissions and expenses for opening the files or issuing the insurance contracts, but also indirect expenses, such as administrative expenses related to the processing of the requests and preparation of the files. The acquisition costs are capitalized and recognized in the profit and loss account in accordance with the accrual principle with the exception of the acquisition commissions for the general insurance, that are recognized at the moment of the premium collection.

**(10) Leasing**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

***(i) Group as a lessee***

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities.' Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income in 'Interest and similar expense.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

***(ii) Group as a lessor***

Finance leases, where the Bank transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the balance sheet in 'Loans and advances to customers'. A receivable is recognized over the leasing period of an amount equaling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in 'Interest and similar income' in the income statement.

**(11) Recognition of income and expenses**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

***(i) Interest and similar income and expense***

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.
Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

**2. ACCOUNTING POLICIES (continued)**

***(ii) Fee and commission income***

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

*Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

*Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees and brokerage fees.

***(iii) Dividend income***

Revenue is recognized when the Group's right to receive the payment is established.

***(iv) Net trading income***

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

**(12) Cash and cash equivalents**

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, current accounts with central banks and amounts due from banks on demand or with an original maturity of three months or less.

**(13) Property and equipment**

Property and equipment is stated at restated cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Buildings — 30 to 50 years (mainly 50 years)
- Office equipment — 3 to 10 years
- Other furniture and equipment — 3 to 15 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' or 'Other operating expenses' in the income statement in the year the asset is derecognized.

## 2. ACCOUNTING POLICIES (continued)

### (14) Business combinations and Goodwill

Business combinations are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

### (15) Intangible assets

Intangible assets include the value of computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Computer software and licenses 3-5 years

### (16) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

*Goodwill*
The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

## 2. ACCOUNTING POLICIES (continued)

### (17) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Credit loss expense'. The premium received is recognized in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

### (18) Employee benefits

***(i) Short term service benefits***

Short-term employee benefits include wages, salaries, bonuses and social security contributions. Short-term employee benefits are recognized as expense when services are rendered. The Group includes in short-term benefits the accruals for the employees' current year profit sharing payable within twelve months after the end of the year.

***(ii) Defined contribution plans***

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

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

***(iii) Defined benefit plans***

Certain foreign incorporated subsidiaries operate defined benefits plans for the non-Romanian employees. The defined benefit liabilities have been calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The calculation is performed by a qualified actuary using the projected unit credit method. The defined benefit obligation has been recognized in the consolidated financial statements of the Group.

***(iv) Long-term service benefits***

The Bank's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. On the basis of the Collective Labor Agreement, the Bank and one of its Romanian subsidiaries have a contractual obligation to make a one-off payment of up to six (the Bank), respectively three (the subsidiary) gross monthly salaries to retiring employees on the date of retiring. The defined benefit obligations are calculated by a qualified actuary taking into account the estimated salary at the date of retirement and the number of years served by each individual. In accordance with Amendment to IAS 19 ("Employee Benefits – Actuarial gains and Losses, Group Plans and Disclosures"), the Bank and its respective subsidiary have opted for actuarial gains and losses to be recognized in full as they arise in equity.

### (19) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

## 2. ACCOUNTING POLICIES (continued)

### (20) Taxes

***(i) Current tax***

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation
authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

***(ii) Deferred tax***

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### (21) Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

### (22) Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Group's shareholders.

**2. ACCOUNTING POLICIES (continued)**

Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the year that are approved after the balance sheet date are disclosed as an event after the balance sheet date.

**(23) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

**2.5 Future changes in accounting policies**

**(1) Standards and interpretations not yet effective**

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

**IFRS 8 'Operating Segments' (effective for annual periods beginning on or after 1 January 2009)**
IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a management-based approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. The Group is in the process of assessing the impact of this standard on its financial statements.

**Revisions to IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements' (effective for annual periods beginning on or after 1 July 2009)**
A revised version of IFRS 3 Business Combinations and an amended version of IAS 27 Consolidated and Separate Financial Statements were issued by IASB on January 10, 2008. IFRS 3R introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Such changes include the expensing of acquisition-related costs and recognizing subsequent changes in fair value of contingent consideration in the profit or loss (rather than by adjusting goodwill). IAS 27R requires that a change in ownership interest of a subsidiary is accounted for as an equity transaction. Therefore such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests. These revised Standards have not yet been endorsed by the EU.

**IAS 23 Borrowing Costs**
A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group does not have borrowing costs related to qualifying assets, as described above. The Standard will have no impact on the Group's financial statements. This revised Standard has not yet been endorsed by the EU.

**Amendments to IAS 1 'Presentation of Financial Statements' (effective for annual periods beginning on or after 1 January 2009)**
IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. Of the main revisions are the requirement that the statement of changes in equity includes only transactions with shareholders; the introduction of a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with "other comprehensive income"; and the requirement to present restatements of financial statements or retrospective application of a new accounting policy as at the beginning of the earliest comparative period, i.e. a third column on the balance sheet. The Group will make the necessary changes to the presentation of its financial statements in 2009. These Amendments have not yet been endorsed by the EU.

**Amendments to IFRS 2 'Share Based Payment' – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009)**
The amendment clarifies two issues: The definition of 'vesting condition', introducing the term 'non-vesting condition' for conditions other than

**2. ACCOUNTING POLICIES (continued)**

service conditions and performance conditions. It also clarifies that the same accounting treatment applies to awards that are effectively cancelled by either the entity or the counterparty. The Group expects that this Interpretation will have no impact on its financial statements. These Amendments have not yet been endorsed by the EU.

**Amendments to IAS 32 and IAS 1 Puttable Financial Instruments (effective for annual periods beginning on or after 1 January 2009)**
The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity.
The Group does not expect these amendments to impact the financial statements of the Group. These Amendments have not yet been endorsed by the EU.

**IFRIC 11, IFRS 2-Group and Treasury Share Transactions (effective for financial years beginning on or after 1 March 2007)**
This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by an entity even if the entity chooses or is required to buy those equity instruments from another party, or the shareholders of the entity provide the equity instruments needed. The Interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for schemes when their employees receive rights to equity instruments of the parent. The Group will make the necessary changes in its financial statements in 2008. This Interpretation has not yet been endorsed by the EU.

**IFRIC 12 Service Concession Arrangements**
IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group. This Interpretation has not yet been endorsed by the EU.

**IFRIC 13 Customer Loyalty Programmes**
IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation will have no impact on the Group's financial statements as no such schemes currently exist. This Interpretation has not yet been endorsed by the EU.

**IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**
IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no significant impact on the financial position or performance of the Group.. This Interpretation has not yet been endorsed by the EU.

## 3. SEGMENT INFORMATION

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

For management purposes, the Bank is organized into three business segments:

Retail banking - Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities.

Corporate banking - Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.

Other -Principally providing investment banking services including money market and treasury operations, syndicated loans and structured financing transactions, foreign currency and derivative transactions, financial instruments trading and investment, issuance of bonds; within this segment the Group also includes financial products and services provided by the leasing, insurance, brokerage, asset management, real estate services and financial consultancy services operations of the Group.

For the purpose of segmental reporting, interest is allocated based on a pool rate determined by Treasury based on the Bank's cost of borrowing.
The business segment reporting format is the Group's primary basis of segment reporting. Transactions between business segments are conducted at arm's length.

Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise property and equipment, intangible assets, other assets and other liabilities and taxation. The Group's segment reporting as at 31 December 2007 comprises the following main business segments:

- Corporate banking. Within corporate banking the Group provides corporations (including small-medium enterprises and public institutions) with a range of financial products and services, including lending and deposit taking, providing cash management, foreign commercial business, leasing, investment advices, financial planning, securities business, project and structured finance transactions, syndicated loans and asset backed transactions.
- Retail banking. The Group provides individuals with a range of financial products and services, including lending (consumer loans, vehicles purchase, personal needs, and mortgages), savings and deposit taking business, payment services and securities business.
- Other. Within other the Group incorporates financial products and services provided to or by financial institutions including money market and treasury operations, syndicated loans and structured financing transactions, foreign currency and derivative transactions, financial instruments trading and investment, issuance of bonds. Within other the Group also incorporates financial products and services provided by the leasing, insurance, brokerage, asset management, real estate services and financial consultancy services operations of the Group.

### 3. SEGMENT INFORMATION (continued)

#### Group - Business segments

| RON Thousand | Corporate banking 2007 | Corporate banking 2006 | Retail banking 2007 | Retail banking 2006 | Other 2007 | Other 2006 | Group 2007 | Group 2006 |
|---|---|---|---|---|---|---|---|---|
| Interest income | 1,696,964 | 1,484,757 | 1,742,043 | 1,195,810 | 691,228 | 439,468 | 4,130,235 | 3,120,035 |
| Commission income | 289,691 | 330,676 | 601,222 | 301,109 | 54,485 | 10,416 | 945,398 | 642,201 |
| Other income | - | - | - | - | 255,914 | 262,991 | 255,914 | 262,991 |
| **Total income** | **1,986,655** | **1,815,433** | **2,343,265** | **1,496,919** | **1,001,627** | **712,875** | **5,331,547** | **4,025,227** |
| Unallocated revenues | | | | | | | 49,933 | 93,371 |
| Unallocated expenses | | | | | | | (4,260,581) | (3,190,905) |
| **Profit before tax** | | | | | | | **1,120,899** | **927,693** |
| Income tax expense | | | | | | | (187,516) | (159,011) |
| **Profit for the year** | | | | | | | **933,383** | **768,682** |

| RON Thousand | Corporate banking 2007 | Corporate banking 2006 | Retail banking 2007 | Retail banking 2006 | Other 2007 | Other 2006 | Group 2007 | Group 2006 |
|---|---|---|---|---|---|---|---|---|
| Segment assets | 21,746,517 | 16,386,638 | 15,791,368 | 10,047,337 | 23,139,555 | 18,577,697 | 60,677,440 | 45,011,672 |
| Unallocated assets | - | - | - | - | - | - | 2,681,423 | 2,424,078 |
| **Total assets** | **21,746,517** | **16,386,638** | **15,791,368** | **10,047,337** | **23,139,555** | **18,577,697** | **63,358,863** | **47,435,750** |
| Segment liabilities | 13,528,199 | 12,872,483 | 16,592,841 | 11,718,688 | 26,758,343 | 18,177,818 | 56,879,383 | 42,768,989 |
| Unallocated liabilities | - | - | - | - | - | - | 1,612,103 | 417,761 |
| **Total liabilities** | **13,528,199** | **12,872,483** | **16,592,841** | **11,718,688** | **26,758,343** | **18,177,818** | **58,491,486** | **43,186,750** |

#### Bank – Business segments

| RON Thousand | Corporate banking 2007 | Corporate banking 2006 | Retail banking 2007 | Retail banking 2006 | Other 2007 | Other 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|---|---|---|---|
| Interest income | 1,525,255 | 1,386,779 | 1,727,680 | 1,117,801 | 662,038 | 470,634 | 3,914,973 | 2,975,214 |
| Commission income | 259,990 | 310,221 | 601,222 | 286,791 | 46,891 | 4,272 | 908,103 | 601,284 |
| Other income | - | - | - | - | 254,501 | 255,694 | 254,501 | 255,694 |
| **Total income** | **1,785,245** | **1,697,000** | **2,328,902** | **1,404,592** | **963,430** | **730,600** | **5,077,577** | **3,832,192** |
| Unallocated revenues | | | | | | | 22,418 | 12,004 |
| Unallocated expenses | | | | | | | (4,049,580) | (3,051,763) |
| **Profit before tax** | | | | | | | **1,050,415** | **792,433** |
| Income tax expense | | | | | | | (162,927) | (125,564) |
| **Profit for the year** | | | | | | | **887,488** | **666,869** |

| RON Thousand | Corporate banking 2007 | Corporate banking 2006 | Retail banking 2007 | Retail banking 2006 | Other 2007 | Other 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|---|---|---|---|
| Segment asset | 19,445,711 | 14,695,033 | 15,615,678 | 9,875,560 | 22,201,289 | 18,156,291 | 57,262,678 | 42,726,884 |
| Unallocated assets | - | - | - | - | - | - | 2,348,472 | 2,127,805 |
| **Total assets** | **19,445,711** | **14,695,033** | **15,615,678** | **9,875,560** | **22,201,289** | **18,156,291** | **59,611,150** | **44,854,689** |
| Segment liabilities | 13,724,188 | 12,807,110 | 16,527,586 | 11,669,955 | 23,481,513 | 16,240,327 | 53,733,287 | 40,717,392 |
| Unallocated liabilities | - | - | - | - | - | - | 1,354,548 | 161,995 |
| **Total liabilities** | **13,724,188** | **12,807,110** | **16,527,586** | **11,669,955** | **23,481,513** | **16,240,327** | **55,087,835** | **40,879,387** |

## 4. INTEREST AND SIMILAR INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Due from banks | 440,977 | 338,946 | 386,941 | 298,662 |
| Loans and advances to customers (refer to 6 (i) below) | 3,457,778 | 2,598,514 | 3,278,473 | 2,468,450 |
| Financial investments – available-for-sale | 108,964 | 166,171 | 104,597 | 160,768 |
| Financial investments – held-to-maturity | 344 | - | 344 | - |
| Dividend income | 5,394 | 9,406 | 50,156 | 44,557 |
| Rental income | 5,332 | 6,998 | 3,090 | 2,777 |
| Other (i) | 79,370 | - | 59,779 | - |
| Financial assets designated at fair value through profit or loss | 32,076 | - | 31,593 | - |
| | **4,130,235** | **3,120,035** | **3,914,973** | **2,975,214** |

(i) Other interest and similar income includes mainly spreads of currency swaps

## 5. INTEREST AND SIMILAR EXPENSE

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Due to banks | 832,710 | 374,433 | 707,358 | 307,860 |
| Due to customers | 1,139,811 | 864,319 | 1,147,261 | 867,064 |
| Debt issued and other borrowed funds | 190,298 | 194,923 | 190,380 | 193,339 |
| Other | 4,484 | - | 4,471 | - |
| | **2,167,303** | **1,433,675** | **2,049,470** | **1,368,263** |

## 6. NET FEES AND COMMISSION INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Lending business (i) | 395,526 | 153,979 | 385,425 | 142,625 |
| Payment transfers | 518,324 | 398,587 | 505,941 | 385,729 |
| Other fees received | 31,548 | 89,635 | 16,737 | 72,930 |
| **Total fees and commission income** | **945,398** | **642,201** | **908,103** | **601,284** |
| Lending business | 18,718 | 19,680 | 17,042 | 17,483 |
| Payment transfers | 60,957 | 48,140 | 59,060 | 46,625 |
| Other fees paid | 8,177 | 7,911 | 8,071 | 8,040 |
| **Total fees and commission expense** | **87,852** | **75,731** | **84,173** | **72,148** |
| **Net fees and commission income** | **857,546** | **566,470** | **823,930** | **529,136** |

(i) Includes amounts relating to risk management and administration fees for consumer loans, for 2007 of RON 295,706 thousand (2006: RON 105,015 thousand) which represent part of the corresponding loans effective interest rate.

## 7. NET TRADING INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Debt securities (i) | - | 105 | - | 21 |
| Net realized foreign exchange gains from foreign exchange transactions (ii) | 413,873 | 227,618 | 407,054 | 225,285 |
| Net effect of translation of foreign currency denominated assets and liabilities | (157,959) | 35,268 | (152,553) | 30,388 |
| **Net trading income** | **255,914** | **262,991** | **254,501** | **255,694** |

(i) Debt securities income includes the effect of buying and selling, and changes in the fair value of government securities and corporate debt bonds.

(ii) Net realized foreign exchange gains from foreign exchange transactions include gains and losses mainly from money market instruments and also from currency swaps, spot and forward contracts.

## 8. NET RESULT OF INSURANCE BUSINESS

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| RON Thousand | General insurance | Life insurance | Total | General insurance | Life insurance | Total |
| Premiums earned | 305,113 | 57,808 | 362,921 | 165,947 | 37,753 | 203,700 |
| Investment income from technical business | 9,090 | - | 9,090 | 7,660 | - | 7,754 |
| Claims incurred | (190,712) | (26,088) | (216,800) | (111,532) | (22, 061) | (133,813) |
| Change in underwriting reserves | - | (6,997) | (6,997) | 3,001 | (4,729) | (1,728) |
| Operating expenses | (111,643) | (7,290) | (118,933) | (76,023) | (3,368) | (79,391) |
| Sundry underwriting profit/loss | 10 | (15,309) | (15,299) | 38,506 | (5,001) | 33,505 |
| **Underwriting profit/loss** | **11,858** | **2,124** | **13,982** | **27,559** | **2,594** | **30, 152** |
| Financial profit/loss | 86 | - | 86 | 95 | - | 95 |
| Carry forward-underwriting | - | 4,175 | 4,175 | - | 4,000 | 4000 |
| **Total** | **11,944** | **6,299** | **18,243** | **27,653** | **6,593** | **34,246** |

## 9. OTHER OPERATING INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| RON Thousand | 2007 | 2006 | 2007 | 2006 |
| Gain from sale of available-for-sale financial investments | 4,408 | 38,152 | 3,483 | 7,292 |
| Gain from sale of fixed assets | 3,980 | 554 | 3,647 | - |
| Negative goodwill | 998 | - | - | - |
| Other (i) | 31,621 | 35,619 | 24,515 | 20,232 |
| | **41,007** | **74,325** | **31,645** | **27,524** |

(i) Other income includes income from non-banking activities, mainly services related to cash transportation and collection, indemnities paid by insurance companies, services of Electronic Archive registration, and sales of payment documents.

## 10. CREDIT LOSS EXPENSE

| | Group | | Bank | |
|---|---|---|---|---|
| RON Thousand | 2007 | 2006 | 2007 | 2006 |
| Net charge for impairment loss provision on loans and advances to customers | 339,202 | 220,158 | 255,875 | 220,086 |
| Loans written-off | 46,284 | 84,946 | 46,284 | 77,217 |
| Recoveries from loans previously written-off | (221,042) | (147,509) | (142,482) | (146,330) |
| | **164,444** | **157,595** | **159,677** | **150,973** |

## 11. PERSONNEL EXPENSES

| | Group | | Bank | |
|---|---|---|---|---|
| RON Thousand | 2007 | 2006 | 2007 | 2006 |
| Wages and salaries | 910,920 | 668,096 | 865,437 | 629,681 |
| Social security costs | 254,283 | 196,203 | 241,919 | 186,164 |
| Pension costs – Defined benefit plan (Note 29) | 19,671 | 13,405 | 19,579 | 13,354 |
| Provision for early retirement | - | 43,022 | - | 43,022 |
| Provision for pensions | 8,679 | 1,470 | 7,265 | - |
| | **1,193,553** | **922,196** | **1,134,200** | **872,221** |

The number of employees of the Bank at 31 December 2007 was 9,832 employees (31 December 2006: 11,283 employees). The number of the employees of the Group at 31 December 2007 was 12,223 employees (31 December 2006: 13,015 employees).

## 12. OTHER OPERATING EXPENSES

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| Advertising and marketing | 75,046 | 34,020 | 61,021 | 31,950 |
| Administrative | 272,429 | 245,081 | 281,648 | 253,991 |
| Payment into deposit insurance fund | 19,681 | 30,850 | 19,609 | 30,596 |
| Other | 108,228 | 97,605 | 95,981 | 85,652 |
| | **475,384** | **407,556** | **458,259** | **402,189** |

## 13. TAXATION

### Consolidated income statement

The components of income tax expense for the years ended 31 December 2007 and 2006 are:

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| Current income tax | 107,207 | 175,957 | 87,463 | 147,386 |
| Deferred tax relating to origination and reversal of temporary differences | 80,309 | (16,946) | 75,464 | (21,822) |
| **Income tax expense reported in the income statement** | **187,516** | **159,011** | **162,927** | **125,564** |

### Reconciliation of the total tax charge

A reconciliation between the tax expense and the accounting profit multiplied by Romania's tax rate for the years ended 31 December 2007 and 2006 is as follows:

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| **Accounting profit before tax** | **1,120,899** | **927,693** | **1,050,415** | **792,433** |
| At statutory income tax rate of 16% (2006: 16%) | 179,344 | 148,431 | 168,066 | 126,789 |
| Effect of different tax rates in other countries | 11,606 | 5,825 | - | - |
| Income not subject to tax | (42,747) | (38,417) | (38,038) | (42,521) |
| Non deductible expenses | 39,313 | 43,172 | 32,899 | 41,296 |
| **Income tax expense reported in the income statement** | **187,516** | **159,011** | **162,927** | **125,564** |
| The effective tax rate | 16.73% | 17.14% | 15.51% | 15.85% |

## 13. TAXATION (continued)

### Consolidated statement of changes in equity

Deferred tax related to items charged or credited directly to equity during the year is as follows:

**GROUP**

| RON Thousand | 2007 Available-for-sale reserve | 2007 Actuarial gains / (losses) | 2007 Total | 2006 Available-for-sale reserve | 2006 Actuarial gains / (losses) | 2006 Total |
|---|---|---|---|---|---|---|
| **At 1 January** | **2,534** | **1,476** | **4,010** | **1,175** | **-** | **1,175** |
| Net gain of financial investments (available-for-sale) | (1,209) | - | (1,209) | 1,359 | - | 1,359 |
| Actuarial gains / (losses) | - | 6,960 | 6,960 | - | 1,476 | 1,476 |
| **At 31 December** | **1,325** | **8,436** | **9,761** | **2,534** | **1,476** | **4,010** |

**BANK**

| RON Thousand | 2007 Available-for-sale reserve | 2007 Actuarial gains / (losses) | 2007 Total | 2006 Available-for-sale reserve | 2006 Actuarial gains / (losses) | 2006 Total |
|---|---|---|---|---|---|---|
| **1 January** | **3,325** | **1,712** | **5,037** | **1,014** | **-** | **1,014** |
| Net gain of financial investments (available-for-sale) | (1,319) | - | (1,319) | 2,311 | - | 2,311 |
| Actuarial gains / (losses) | - | 6,739 | 6,739 | - | 1,712 | 1,712 |
| **31 December** | **2,006** | **8,451** | **10,457** | **3,325** | **1,712** | **5,037** |

The deferred tax included in the balance sheet and changes recorded in the income tax expense are as follows:

**GROUP:**

| RON Thousand | Deferred tax asset 2007 | Deferred tax liability 2007 | Income statement 2007 | Deferred tax asset 2006 | Deferred tax liability 2006 | Income statement 2006 |
|---|---|---|---|---|---|---|
| Loans to customers, credit institutions | 187 | (10,196) | (91,484) | 81,475 | - | 7,596 |
| Available-for-sale reserve | 984 | (2,290) | 262 | (2,623) | (154) | - |
| Financial assets designated at fair value through profit or loss | - | (768) | 4,456 | (5,225) | 1 | 2,570 |
| Financial investments – available-for-sale | (1,115) | (35,766) | (2,206) | (33,891) | (784) | 1,389 |
| Intangible assets | (13) | (13,707) | 182 | (13,902) | - | 375 |
| Property and equipment | 282 | 4,134 | (372) | 5,112 | (324) | 6,571 |
| Other assets | (198) | 4,708 | 4,655 | (251) | 106 | 647 |
| Tax losses carried forward (including current year) | 2,384 | - | (1,531) | 3,915 | - | (4,259) |
| Amounts owed to customers, credit institutions | (20) | (2,395) | 1,854 | (4,269) | - | (314) |
| Debts issued and other borrowed funds | - | (592) | 488 | (1,080) | - | (44) |
| Provisions for early retirement and retirement benefits | 309 | 10,473 | (2,100) | 19,369 | 37 | 1,445 |
| Other provisions | - | (6,236) | (2,287) | - | (3,949) | (1,357) |
| Other liabilities | (724) | 11,442 | 7,774 | 2,930 | 14 | 2,327 |
| | **2,076** | **(41,193)** | **(80,309)** | **51,560** | **(5,053)** | **16,946** |

## 13. TAXATION (continued)

**BANK:**

| RON Thousand | Deferred tax asset 2007 | Deferred tax liability 2007 | Income statement 2007 | Deferred tax asset 2006 | Deferred tax liability 2006 | Income statement 2006 |
|---|---|---|---|---|---|---|
| Loans to customers, credit institutions | - | (10,196) | (91,060) | 80,864 | - | 8,618 |
| Available-for-sale reserve | - | (2,006) | - | (3,325) | - | - |
| Financial assets designated at fair value through profit or loss | - | - | 5,225 | (5,225) | - | 2,626 |
| Financial investments – available-for-sale | - | (35,766) | (3,098) | (32,668) | - | 14 |
| Intangible assets | - | (13,706) | 191 | (13,897) | - | 376 |
| Property and equipment | - | 4,464 | 71 | 4,393 | - | 6,589 |
| Other assets | - | 4,016 | 4,237 | (221) | - | - |
| Amounts owed to customers, credit institutions | - | (2,394) | 1,499 | (3,893) | - | (555) |
| Debts issued and other borrowed funds | - | (592) | 488 | (1,080) | - | (44) |
| Provisions for early retirement and retirement benefits | - | 10,167 | (1,868) | 18,774 | - | 1,678 |
| Other liabilities | - | 11,422 | 8,851 | 2,571 | - | 2,520 |
| | **-** | **(34,591)** | **(75,464)** | **46,293** | **-** | **21,822** |

## 14. DIVIDENDS PAID

Declared and paid during the year:

2007: RON Thousand 367,927 (2006: RON Thousand 359,935).

## 15. CASH AND BALANCES WITH CENTRAL BANKS

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| Cash on hand (Note 33) | 1,235,734 | 898,494 | 1,230,010 | 895,065 |
| Current account with the central banks (Note 33) | 16,067,603 | 12,645,796 | 15,951,763 | 12,538,154 |
| | **17,303,337** | **13,544,290** | **17,181,773** | **13,433,219** |

The current accounts held by the Bank with the National Bank of Romania are for compliance with the minimum reserve requirements. These funds are not available for the Bank's daily business. At 31 December 2007, the mandatory minimum reserve was set at 20% for RON and 40% for USD and EUR denominated funds attracted (31 December 2006: 20% for RON and 40% for USD and EUR).

## 16. DUE FROM BANKS

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| Nostro account | 41,407 | 46,198 | 34,623 | 39,563 |
| Placements with the central banks | 804,744 | 1,735,050 | 800,381 | 1,727,752 |
| Placements with other banks | 1,600,026 | 2,672,779 | 1,563,380 | 2,052,749 |
| Loans and advances to banks | 806,711 | 55,094 | 100,719 | 46,843 |
| | **3,252,888** | **4,509,121** | **2,499,103** | **3,866,907** |

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Listed debt securities (i) | 396,907 | 451,725 | 396,880 | 452,952 |
| Listed equity securities (ii) | 59,128 | 47,384 | 58,799 | 47,315 |
| Unlisted equity securities | 14,029 | 12,929 | 14,029 | 12,929 |
| | **470,064** | **512,038** | **469,708** | **513,196** |

(i) Listed debt securities at fair value through profit or loss of the Bank and of the Group include Romanian sovereign bonds, listed corporate and municipality bonds.

(ii) Listed equity securities include SIF's shares and other quoted shares on Bucharest Stock Exchange.

## 18. LOANS AND ADVANCES TO CUSTOMERS

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Public sector | 2,841,546 | 2,121,313 | 2,793,599 | 2,073,302 |
| Commercial customers | 19,670,124 | 14,043,663 | 17,382,493 | 12,619,267 |
| Private customers | 16,887,836 | 10,047,337 | 16,712,146 | 9,875,560 |
| | **39,399,506** | **26,212,313** | **36,888,238** | **24,568,129** |
| Less: Allowance for impairment losses | (1,860,735) | (794,007) | (1,826,849) | (768,952) |
| | **37,538,771** | **25,418,306** | **35,061,389** | **23,799,177** |

### (a) Allowance for impairment losses

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| **At 1 January** | **794,007** | **581,769** | **768,952** | **553,499** |
| Charges for the year | 164,444 | 157,595 | 159,677 | 150,973 |
| Recoveries | 221,042 | 147,509 | 142,482 | 146,331 |
| Amounts written off | (46,284) | (84,946) | (46,284) | (77,217) |
| Reintegration of loans previously written-off | 725,820 | - | 725,820 | - |
| Effect of change in foreign exchange | 3,521 | (7,920) | 78,017 | (4,634) |
| Unwinding | (1,815) | - | (1,815) | - |
| **At 31 December** | **1,860,735** | **794,007** | **1,826,849** | **768,952** |

**18. LOANS AND ADVANCES TO CUSTOMERS (continued)**

**(b) Analysis by sector**

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Individuals | 17,081,413 | 10,047,337 | 16,579,000 | 9,875,560 |
| Commerce | 4,422,889 | 3,165,733 | 3,449,720 | 2,613,377 |
| Agriculture, Fishery and Food Industry | 3,038,093 | 2,378,770 | 2,951,767 | 2,287,800 |
| Leasing and real estate transactions | 2,028,934 | 443,403 | 1,884,633 | 533,598 |
| Wood industry | 396,922 | 476,499 | 304,499 | 438,040 |
| Metallurgical industry | 526,519 | 373,260 | 526,519 | 308,738 |
| Textile industry, leather and footwear | 509,038 | 441,273 | 482,090 | 406,908 |
| Chemical and petrochemical industry | 1,197,864 | 1,063,852 | 1,114,262 | 930,380 |
| Electrical and thermal power industry | 451,891 | 431,660 | 444,675 | 421,873 |
| Public institutions | 2,862,664 | 2,121,313 | 2,821,961 | 2,073,302 |
| Metallic and non-metallic products industry | 995,220 | 540,110 | 917,094 | 511,185 |
| Transportation means industry | 275,055 | 411,259 | 275,055 | 409,491 |
| Extracting industry | 501,357 | 449,189 | 457,690 | 409,774 |
| Constructions | 1,731,986 | 943,701 | 1,530,623 | 840,629 |
| Transports | 1,123,098 | 764,676 | 834,551 | 595,397 |
| Tourism and public catering | 567,308 | 322,877 | 526,131 | 303,594 |
| Machines and equipment industry | 377,459 | 464,563 | 303,880 | 431,252 |
| Others (including governmental credit) | 1,311,796 | 1,372,838 | 1,484,088 | 1,177,231 |
| | **39,399,506** | **26,212,313** | **36,888,238** | **24,568,129** |
| Less: allowance for impairment losses | (1,860,735) | (794,007) | (1,826,849) | (768,952) |
| | **37,538,771** | **25,418,306** | **35,061,389** | **23,799,177** |

**c) Finance lease receivables**

The Group acts as a lessor under finance leases through the subsidiary BCR Leasing SA, mainly on motor vehicles and equipment. The leases are mainly denominated in EUR and typically run for a period of between one to ten years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease based on fixed and variable (based on EURIBOR) interest rates. The receivables are secured by the underlying assets and by other collateral. Loans and advances to customers include the following finance lease receivables:

| **RON thousand** | **2007** | **2006** |
|---|---|---|
| Gross investment in finance leases | 1,709,830 | 1,097,711 |
| Unearned finance income | (246,749) | (152,057) |
| Allowance for impairment | (10,247) | (4,611) |
| **Net investment in finance leases** | **1,452,834** | **941,043** |
| | | |
| Net investment in finance leases, with remaining maturities | | |
| Less than one year | 512,667 | 320,060 |
| Between one and five years | 940,167 | 620,983 |
| **Net investment in finance leases** | **1,452,834** | **941,043** |

The loans granted to the subsidiary BCR Leasing SA are secured by the assignment of receivables of all present and future rights in respect of receivables under leasing contracts concluded for assets financed from these loans.

## 19. FINANCIAL INVESTMENTS

### Available-for-sale

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| Debt securities | 238,100 | 165,841 | 145,029 | 61,660 |
| | **238,100** | **165,841** | **145,029** | **61,660** |
| **Non-listed investments** | | | | |
| Other debt securities | 1,383,821 | 630,536 | 1,382,023 | 613,997 |
| Equities: | | | | |
| - investments in subsidiaries | - | - | 465,410 | 373,429 |
| - other investments | 63,649 | 48,425 | 55,280 | 47,692 |
| | **1,447,470** | **678,961** | **1,902,713** | **1,035,118** |
| | **1,685,570** | **844,802** | **2,047,742** | **1,096,778** |

Listed debt securities include shares quoted on Bucharest Stock Exchange.

Unlisted debt securities available-for-sale of the Group and Bank include treasury bills denominated in RON and foreign currencies, bonds denominated in foreign currencies issued by governments other than Romanian, certificates of deposit issued by National Bank of Romania and unlisted corporate and municipality bonds.

### Held-to-maturity

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| Quoted debt securities | 10 | - | - | - |
| Debt securities | 10,605 | 15,176 | 2,941 | 15,143 |
| | **10,615** | **15,176** | **2,941** | **15,143** |

The financial investments held-to-maturity are only debt securities issued by the Romanian Government exclusively to the Bank compensating the non-performing assets transferred by the Bank to the Banking Assets Recovery Agency ("AVAB"), in accordance with Government Ordinance 39/1999. Such non-performing assets are limited to the ones taken over by the Bank from "Bancorex", the former state-owned bank with which the Bank merged in 1999, based on Government Ordinance 39/1999.

The debt securities have a maturity between January and December 2008, are denominated in USD,MDL and bear an interest rate of between 5% and 16.54% per year.

## 20. INVESTMENTS OF INSURANCE COMPANIES

| RON Thousand | 2007 General insurance | 2007 Life insurance | 2007 Total | 2006 General insurance | 2006 Life insurance | 2006 Total |
|---|---|---|---|---|---|---|
| Held-to-maturity portfolio | 23,116 | 19,597 | 42,713 | 37,345 | 12,432 | 49,777 |
| Fair value through profit or loss portfolio | 27,526 | - | 27,526 | 20,019 | 397 | 20,416 |
| Available-for-sale portfolio | 46,607 | 7,955 | 54,562 | 13,595 | - | 13,595 |
| Other | 208,527 | 79,870 | 288,397 | 54,071 | 27,620 | 81,691 |
| **Total** | **305,776** | **107,422** | **413,198** | **125,030** | **40,449** | **165,479** |

### 20. INVESTMENTS OF INSURANCE COMPANIES (continued)

Investment securities held to maturity, denominated in RON are, in case of BCR Asigurari municipality bonds and corporate bonds. Municipality bonds bear a floating interest rate, computed as the average of BUBID and BUBOR for 3 or 6 months, plus a 1.50% to 2% margin, ranging between 8.45% and 10% as at 31 December 2007 (31 December 2006: average of BUBID and BUBOR for 6 months, plus a 1.45% to 3% margin, ranging between 9.45% and 11%). The municipality bonds included in the HTM portfolio have a maturity that varies from 2008 to 2025. The corporate bonds issued by BCR and ProCredit Bank maturity vary between February and September 2009. Also they bear a fixed interest rate of 7.25% for BCR and 8.50% for ProCredit Bank. In case of BCR Asigurari de Viata held to maturity denominated in RON are corporate bonds and ProCredit Bank bonds that bear a variable interest rate computed, as the average of BUBID and BUBOR for 6 months, plus a 1.45% to 3% margin, ranging between 9.45% and 11% as at 31 December 2007, with a maturity of 3 years.

Fair value through profit or loss portfolio is represented, in case of BCR Asigurari, by unit funds and shares that comprise the following: SIF I, SIF II, SIF III, SIF IV, SIF V, Antibiotice Iasi, Biofarm, SNP Petrom, Banca Transilvania, BRD, Rompetrol Rafinare Constanta, SN Transelectrica, SN Transgaz, Turbomecanica, Compa Sibiu, Electromagnetica.

In case of BCR Asigurari de Viata listed equity investments designated at fair value through profit or loss are represented by investments in shares and comprise the following: Electromagnetica SA, Dafora SA, Cemacon SA, BRD-GSG SA, Biofarm SA, Banca Carpatica SA, Albalact SA, Banca Transilvania SA, CNTEE Transelectrica SA, SIF 3, Rompetrol Well Service SA, Iproeb SA, Impact Developer&Contractor SA.

The available-for-sale portfolio, in case of BCR Asigurari is comprised of:

a) T-Bills, denominated in RON, which have been issued by Romanian Ministry of Finance bearing a fixed interest rate as at 31 December 2007 ranging between 6.90% and 8.00% and maturities up to 4 years (31 December 2006 ranging between 7.74% and 8.00%).

b) Municipality bonds issued by Herculane municipality and Eforie municipality. The issues have maturities in 2020 and 2017 and bear a floating interest rate computed as the rounded average of BUBID and BUBOR for 6 months plus a 1.45% and 1.50% margin.

The investments securities designated as Available for Sale in case of BCR Asigurari de Viata are represented by the Unit Funds investments and comprise the following: BCR Expert, BCR Classic, Star Focus and Star Next.

## 21. PROPERTY AND EQUIPMENT

| RON Thousand | Group | | | | Bank | | | |
|---|---|---|---|---|---|---|---|---|
| | Land and buildings | Computer hardware | Other furniture and equipment | Total | Land and buildings | Computer hardware | Other furniture and equipment | Total |
| ***Cost:*** | | | | | | | | |
| **At 1 January 2007** | **1,545,750** | **220,125** | **596,524** | **2,362,399** | **1,429,252** | **214,022** | **579,387** | **2,222,661** |
| Additions | 37,524 | 30,908 | 44,590 | 113,022 | 37,435 | 30,283 | 41,580 | 109,298 |
| Disposals | (6,535) | (12,015) | (8,955) | (27,505) | (5,632) | (11,750) | (8,571) | (25,953) |
| Exchange adjustment | 648 | 42 | 188 | 878 | - | - | - | - |
| **At 31 December 2007** | **1,577,387** | **239,060** | **632,347** | **2,448,794** | **1,461,055** | **232,555** | **612,396** | **2,306,006** |
| ***Depreciation and impairment:*** | | | | | | | | |
| **At 1 January 2007** | **168,977** | **175,281** | **351,339** | **695,597** | **161,805** | **170,845** | **338,260** | **670,910** |
| Disposals | (988) | (12,784) | (9,105) | (22,877) | (150) | (12,689) | (8,684) | (21,523) |
| Depreciation charge for the year | 48,699 | 31,138 | 51,797 | 131,634 | 42,275 | 30,462 | 52,224 | 124,961 |
| Exchange adjustment | (24) | 7 | 90 | 73 | - | - | - | - |
| **At 31 December 2007** | **216,664** | **193,642** | **394,121** | **804,427** | **203,930** | **188,618** | **381,800** | **774,348** |
| ***Net book value:*** | | | | | | | | |
| **At 1 January 2007** | **1,376,773** | **44,844** | **245,185** | **1,666,802** | **1,267,447** | **43,177** | **241,127** | **1,551,751** |
| **At 31 December 2007** | **1,360,723** | **45,418** | **238,226** | **1,644,367** | **1,257,125** | **43,937** | **230,596** | **1,531,658** |
| ***Cost:*** | | | | | | | | |
| **At 1 January 2006** | **1,502,454** | **208,304** | **559,725** | **2,270,483** | **1,385,083** | **202,911** | **543,714** | **2,131,708** |
| Additions | 44,740 | 16,636 | 46,762 | 108,138 | 44,740 | 15,855 | 44,999 | 105,594 |
| Disposals | (571) | (4,779) | (9,749) | (15,099) | (571) | (4,744) | (9,326) | (14,641) |
| Exchange adjustment | (873) | (36) | (214) | (1,123) | - | - | - | - |
| **At 31 December 2006** | **1,545,750** | **220,125** | **596,524** | **2,362,399** | **1,429,252** | **214,022** | **579,387** | **2,222,661** |
| ***Depreciation and impairment:*** | | | | | | | | |
| **At 1 January 2006** | **94,737** | **154,822** | **295,544** | **545,103** | **91,001** | **151,527** | **285,814** | **528,342** |
| Disposals | (34) | (4,752) | (7,659) | (12,445) | (34) | (4,717) | (7,557) | (12,308) |
| Impairment of buildings | 31,649 | - | - | 31,649 | 31,649 | - | - | 31,649 |
| Depreciation charge for the year | 41,311 | 25,124 | 63,397 | 129,832 | 39,189 | 24,035 | 60,003 | 123,227 |
| Exchange adjustment | 1,314 | 87 | 57 | 1,458 | - | - | - | - |
| **At 31 December 2006** | **168,977** | **175,281** | **351,339** | **695,597** | **161,805** | **170,845** | **338,260** | **670,910** |
| ***Net book value:*** | | | | | | | | |
| **At 1 January 2006** | **1,407,717** | **53,482** | **264,181** | **1,725,380** | **1,294,082** | **51,384** | **257,900** | **1,603,366** |
| **At 31 December 2006** | **1,376,773** | **44,844** | **245,185** | **1,666,802** | **1,267,447** | **43,177** | **241,127** | **1,551,751** |

The Bank has purchased a number of IT equipment and vehicles under finance lease agreements. At 31 December 2007, the net carrying amount of leased equipments was RON thousand 5,565 (31 December 2006: RON thousand 80,004). The leased equipment secures lease obligations.

The fair value of land and buildings at 31 December 2007 is RON thousand 1,553,284 or the Group and RON thousand 1,404,620 for the Bank.

There are no fixed assets pledged as collateral as at 31 December 2007, and 31 December 2006.

## 22. GOODWILL AND OTHER INTANGIBLE ASSETS

| RON Thousand | Group Goodwill | Group Computer software | Group Total | Bank Computer software |
|---|---|---|---|---|
| ***Cost:*** | | | | |
| **At 1 January 2007** | - | **295,711** | **295,711** | **282,695** |
| Increase in shareholding of subsidiary (i) | 26,733 | - | 26,733 | - |
| Additions | - | 43,989 | 43,989 | 41,541 |
| Disposals | - | (589) | (589) | (208) |
| Exchange adjustment | - | 12 | 12 | - |
| **At 31 December 2007** | **26,733** | **339,123** | **365,856** | **324,028** |
| ***Amortization:*** | | | | |
| **At 1 January 2007** | - | **117,327** | **117,327** | **107,003** |
| Disposals | - | (516) | (516) | (153) |
| Amortization charge for the year | - | 40,411 | 40,411 | 38,840 |
| Exchange adjustment | - | (35) | (35) | - |
| **At 31 December 2007** | - | **157,187** | **157,187** | **145,690** |
| ***Net book value:*** | | | | |
| **At 1 January 2007** | - | **178,384** | **178,384** | **175,692** |
| **At 31 December 2007** | **26,733** | **181,936** | **208,669** | **178,338** |
| ***Cost:*** | | | | |
| **At 1 January 2006** | - | **268,723** | **268,723** | **257,109** |
| Additions | - | 31,098 | 31,098 | 29,667 |
| Disposals | - | (4,106) | (4,106) | (4,081) |
| Exchange adjustment | - | (4) | (4) | - |
| **At 31 December 2006** | - | **295,711** | **295,711** | **282,695** |
| ***Amortization:*** | | | | |
| **At 1 January 2006** | - | **88,934** | **88,934** | **79,896** |
| Disposals | - | (4,011) | (4,011) | (3,986) |
| Amortization charge for the year | - | 32,671 | 32,671 | 31,093 |
| Exchange adjustment | - | (267) | (267) | - |
| **At 31 December 2006** | - | **117,327** | **117,327** | **107,003** |
| ***Net book value:*** | | | | |
| **At 1 January 2006** | - | **179,789** | **179,789** | **177,213** |
| **At 31 December 2006** | - | **178,384** | **178,384** | **175,692** |

(i) Increase in shareholding of subsidiary

At the end of December 2007, the Group completed the acquisition of 9.61% of the share capital of the subsidiary BCR Leasing from minority shareholders, increasing its shareholding from 89.08 % to 98.69 %.
No impairment test was carried out on goodwill at year-end, as goodwill was generated at the end of December 2007 through the increase in shareholding explained above.

## 23. OTHER ASSETS

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| Accrued interest receivable | 396,593 | 271,558 | 366,507 | 254,057 |
| Prepayments | 38,971 | 45,618 | 24,190 | 34,787 |
| Other receivables | 390,749 | 210,152 | 247,781 | 65,225 |
| | **826,313** | **527,328** | **638,478** | **354,069** |

### Accrued interest receivable

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| Due from banks | 95,395 | 31,003 | 77,846 | 13,681 |
| Due from customers | 172,502 | 214,096 | 161,604 | 213,918 |
| Financial instruments - assets | 15,921 | 15,021 | 15,921 | 15,021 |
| Other bearing assets | 112,775 | 11,438 | 111,136 | 11,437 |
| | **396,593** | **271,558** | **366,507** | **254,057** |

## 24. DUE TO BANKS

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| Deposits from other banks | 15,650,682 | 2,716,918 | 14,875,951 | 850,506 |
| Current accounts of other banks | 71,666 | 31,708 | 2,718 | 31,708 |
| Borrowings and financing lines | 6,813,125 | 10,154,067 | 4,723,241 | 10,154,067 |
| | **22,535,473** | **12,902,693** | **19,601,910** | **11,036,281** |

The outstanding loans principal arising from the main financing agreements obtained by the Bank is presented below:

| RON thousand | Currency nominal amount | 2007 | 2006 |
|---|---|---|---|
| A bank from Austria (vii) | EUR 600,000,000 | - | 2,029,020 |
| A bank from Austria (vii) | EUR 415,000,000 | - | 1,403,406 |
| A bank from Ireland (vii) | EUR 300,000,000 | - | 1,014,510 |
| A bank from Austria (vii) | EUR 200,000,000 | - | 676,340 |
| A bank from Cyprus (transfer from Ireland) | EUR 288,000,000 | 1,039,737 | - |
| Syndicated loan (i), (vi) | USD 400,000,000 | 982,560 | 1,027,040 |
| Syndicated loan (ii), (vi) | EUR 181,147,541 | 261,591 | 490,069 |
| International Finance Corporation, USA (iii), (vii) | EUR 113,249,043 | 408,851 | 408,843 |
| European Bank for Reconstruction and Development – SMM,(vi) (vii) | EUR 11,350,000 | 40,975 | 24,517 |
| European Bank for Reconstruction and Development for mortgage loans (iv), (vii) | EUR 49,984,238 | 180,452 | 169.032 |
| European Bank for Reconstruction and Development - SME (v), (vii) | EUR 4,444,444 | 16,045 | 30,060 |
| European Investment Bank - Global Loan (vii) | EUR 10,000,000 | 36,102 | - |
| A bank from Austria (vii) | EUR 170,000,000 | - | 574,889 |
| A bank from Austria | EUR 150,000,000 | 541,530 | 507,255 |

## 24. DUE TO BANKS (CONTINUED)

| RON thousand | Currency nominal amount | 2007 | 2006 |
|---|---|---|---|
| A bank from Germany (vii) | EUR 40,000,000 | 144,408 | 135,268 |
| A bank from USA (vii) | EUR 35,000,000 | 126,357 | 118,360 |
| A bank from Austria | EUR 30,000,000 | 108,306 | 101,451 |
| A bank from Germany | EUR 25,000,000 | 90,255 | 84,542 |
| A bank from Germany | EUR 25,000,000 | 90,255 | 84,542 |
| A bank from Luxemburg | EUR 22,431,584 | 80,982 | 113,785 |
| A bank from Hungary | EUR 20,000,000 | 72,204 | 67,634 |
| A bank from USA | EUR 20,000,000 | 72,204 | - |
| A bank from USA | EUR 20,000,000 | 72,204 | 84,542 |
| A bank from Holland | EUR 20,000,000 | 72,204 | 84,542 |
| Other loans (vii) | | 286,019 | 924,420 |
| **Total** | | **4,723,241** | **10,154,067** |

### i) 1st Syndicated loan

The first syndicated loan was concluded in the first half of 2005 by the Bank with a syndicate of 16 banks and the mandated lead arrangers were Bank Austria Creditanstalt AG, Calyon, Citibank N.A. and WestLB, London Branch and it was partially used to prepay the USD 200,000,000 syndicated loan raised by the Bank during 2004 from a syndicate of 19 banks (the mandated lead arrangers were Bank Austria Creditanstalt AG, Citibank N.A, Erste Bank Der oesterreichischen Sparkassen AG and Raiffeisen Zentralbank Oesterreich AG Austria). This loan will be reimbursed in five quarterly installments starting with 24 March 2009 and having the final maturity on 24 March 2010.

### ii) 2nd Syndicated loan

The second syndicated loan was concluded in the second half of 2005 by the Bank with a syndicate of 15 banks and the mandated lead arranger was Mizuho Corporate Bank London. The total amount of this syndicated loan is USD 221,000,000 and it was drawn entirely in EUR. The outstanding amount of this facility as of 31 December 2007 was EUR 72,459,016; the final maturity of this syndicated loan will be on 25 August 2008.

### iii) International Finance Corporation ("IFC")

The Bank has concluded two financing agreements with IFC.

The first agreement is dated 17 December 2002, its purpose being to improve the structure of Bank's balance sheet by reducing maturity mismatches between foreign currency assets and foreign currency liabilities, and to expand Bank's activities with private sector firms and individuals. Committed amount represents USD 75,000,000 and has been fully drawn by the Bank. The reimbursements are due in biannual installments starting with 15 June 2006 and ending on 15 December 2009. Interest payment is biannual at a variable interest rate of LIBOR 6 months plus a revised margin. Based on the amendment dated December 2006, the outstanding loan payable of USD 67,500,000 was converted into a EUR facility, the loan balance being EUR 53,548,661 at 31 December 2006. This revised facility is payable in semi-annual equal installments starting with 15 December 2006 and ending on 15 December 2012 with interest payments also biannual at a variable interest rate of EURIBOR 6 months plus a revised margin.

The second agreement is dated 5 December 2006, its purpose being to provide the Bank with long-term funds to expand its lending to small and medium enterprises and to strengthen its retail lending. Committed amount represents EUR 75,000,000 which has been fully drawn by the Bank. The reimbursements are due in biannual installments starting with 15 June 2008 and ending on 15 December 2012. Interest payment is biannual at a variable interest rate of EURIBOR 6 months plus a revised margin.

## 24. DUE TO BANKS (CONTINUED)

### iv) European Bank for Reconstruction and Development ("EBRD") mortgage loans

The Bank has concluded 2 finance agreements with EBRD for mortgage loans.

The first agreement is dated 14 January 2003, its purpose being to grant mortgages for real estate (houses, flats, and the respective land), as the case may be and the like used or to be used by individual sub-borrowers for personal use in Romania or legal entity sub-borrowers for constructing or buying houses, flats or the like in Romania for their employees.

Committed amount represents EUR 50,000,000 and drawn-downs can be either in EUR or USD. As at 31 December 2003 the Bank has fully drawn in USD the agreement amount and the first two loan installment repayments were made in disbursement currency on 17 May and 17 November 2006, the loan balance at 31 December 2006 was of USD 50,255,132. At 25 November 2006 was signed an amendment to this agreement which among other provisions stipulates that the new repayment period will start on 17 May 2008 in 21 biannual equal installments on 17 May and 17 November. Interest is payable semi-annually at a variable interest rate of LIBOR 6 months plus a revised margin. On the basis of the second amendment signed at 7 February 2007, at 14 February 2007 a conversion of the outstanding loan from USD to EUR has been made. Consequently the balance of the loan after conversion became 41,984,237 EUR and as the repayment period will start only at 17 May 2008 this balance remains unchanged at the end of 31 December 2007.

The second agreement is dated 25 November 2006, its purpose being to grant also mortgages for sub-borrowers. Committed amount represents EUR 50,000,000 and drawn-downs can be either in EUR or USD. At 31 December 2006 the Bank has drawn EUR 600,000 of the agreement amount and during the year 2007 other three draw-downs in EUR were made. Consequently, at 31 December 2007 the outstanding balance of the loan was of 8,000,000 EUR.

The loan re-payment is made in disbursement currency starting with 17 May 2008 in 21 biannual equal installments on 17 May and 17 November. Interest payment is also biannual at a variable interest rate of EURIBOR or LIBOR 6 months on the related period plus a margin.

### v) European Bank for Reconstruction and Development - Small and Medium Enterprises (SME)

There were two agreements dated 22 January 2001 and 9 December 2002 representing a SME Finance Facility to promote lending to SME in the accession countries to European Union. In each agreement the committed amount was EUR 20,000,000. As at 31 December 2007 the outstanding loan principal is nil for the first agreement and EUR 8,888,888.90 for the second agreement.

The loan re-payment is made in equal biannual installments on 10 May and 10 November. Interest payment is also made in equal biannual installments.

### vi) European Bank for Reconstruction and Development - Small and Medium-sized Municipalities (SMM)

The agreement dated 21 December 2004 represents a Finance Facility for small and medium-sized municipalities, their associations and utility companies held or controlled by them, to improve public services, upgrade infrastructure and meet EU environmental directives. Under this Facility, BCR and the SMM borrowers are the recipients of grants provided by the EU in the limit on EUR 3,000,000, in order to support the SMM borrowers and encourage the long term lending, as follows: for BCR – Maturity Enhancement Fee (EUR 1,000,000), Performance Fee (EUR 275,000) and Technical Co-Operation Support (EUR 300,000); for SMM borrowers – Municipality Financial Incentive (EUR 550,000) and Technical Assistance (EUR 875,000).

The committed amount is EUR 20,000,000. As at 31 December 2007 the outstanding loan principal is EUR 7,250,000 (31 December 2006: EUR 3,150,000). The loan re-payment is made in equal biannual installments on 19 May and 19 November. Interest payment is also made in equal biannual installments.

### vii) Interest rates

Loans from banks and other financial institutions outstanding at 31 December 2007 bear interest rates between 3% - 6.83% p.a. (31 December 2006: 3% - 6.25% p.a.).

The final maturities of loans from banks and other financial institutions other than the facilities received from EBRD and IFC vary between February 2008 and October 2022.

## 24. DUE TO BANKS (CONTINUED)

In general, the loan agreements concluded with the banks and other financial institutions provides that if the Bank fails to perform any of its obligations under these agreements or any other agreements between the Bank and the other banks and financial institutions and such failure continues for a certain period after the other banks and financial institutions notify the Bank of that failure, these banks and other financial institutions may, under certain circumstances and by notice to the Bank, require the Bank to repay the loans immediately.

No assets of the Bank have been pledged as collateral for the above loans.

The additional loans taken by the Bank's consolidated subsidiaries from banks and other financial institutions that are outstanding at 31 December 2007 bear interest rates linked to EURIBOR plus margins varying between 1.875% and 4%. The loans taken by the subsidiary BCR Leasing SA is collateralized by the subsidiary's net lease receivable (refer to note 18).

## 25. DUE TO CUSTOMERS

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| **Corporate customers:** | | | | |
| Current accounts | 4,371,199 | 4,213,234 | 4,371,199 | 4,213,234 |
| Term deposits | 9,167,607 | 8,659,249 | 9,352,990 | 8,593,876 |
| **Retail customers:** | | | | |
| Current/saving accounts | 3,606,720 | 2,282,083 | 3,606,720 | 2,282,083 |
| Term deposits | 12,986,121 | 9,436,606 | 12,920,865 | 9,387,872 |
| | **30,131,647** | **24,591,172** | **30,251,774** | **24,477,065** |

## 26. DEBT ISSUED AND OTHER BORROWED FUNDS

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Bonds issued | 2,006,890 | 1,883,288 | 2,044,225 | 1,926,931 |
| Certificates of deposit | 1,835,374 | 2,324,003 | 1,835,374 | 2,324,003 |
| | **3,842,264** | **4,207,291** | **3,879,599** | **4,250,934** |

In December 2005 the Bank issued corporate bonds with a face amount of EUR 500 million (equivalent of RON 1,838,550). The maturity of these bonds is 3 years and the coupon rate is 3.75% p.a. and is paid annually. The yield of these bonds at the issuance was 4% corresponding to an issuance price of 99.306% of the nominal value. The bonds are listed on the London Stock Exchange since December 2005 (symbol BORFX 97). These bonds constitute direct, general, un-conditional, unsecured and un-subordinated obligations of the Bank. The payment obligations of the Bank under the bonds will, at all times, rank at least pari passu with all the other present and future unsecured and un-subordinated debts of the Bank and save for such obligations that may have a superior rank by mandatory provisions of applicable law.

On November 28th 2006 the Bank issued on the domestic market bonds denominated in RON. A number of 2,428,278 bonds were sold for RON 242,827,800. The bonds have a face value of RON 100, a fixed coupon of 7.25% p.a. paid semi-annually and a 3 years maturity. The subsidiary BCR Securities was the lead manager of the IPO. Legal persons acquired 98.63% of the IPO and individuals acquired 1.37% of the IPO. The bonds are listed on the Bucharest Stock Exchange since 29 March 2007 (symbol BCR09).

## 27. OTHER LIABILITIES

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Accrued interest payable (i) | 477,862 | 247,077 | 459,387 | 231,449 |
| Accounts payable and sundry creditors | 806,096 | 459,646 | 611,754 | 373,226 |
| Deferred income | 57,704 | 55,953 | 31,746 | 23,691 |
| Currency transactions | 70,872 | 3,321 | 70,872 | 1,886 |
| Finance lease payable (ii) | - | - | 5,220 | 21,021 |
| | **1,412,534** | **765,997** | **1,178,979** | **651,273** |

### (i) Accrued interest payable related to the following financing sources:

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Due to banks | 292,339 | 88,499 | 273,865 | 74,366 |
| Due to customers | 179,063 | 143,221 | 179,062 | 141,713 |
| Debt issued and other borrowed funds | 6,460 | 15,357 | 6,460 | 15,370 |
| | **477,862** | **247,077** | **459,387** | **231,449** |

### (ii) Finance lease payable

| | Bank | |
|---|---|---|
| **RON Thousand** | **2007** | **2006** |
| Up to one year | 4,824 | 17,460 |
| Between one year and five years | 396 | 3,561 |
| | **5,220** | **21,021** |

## 28. PROVISIONS

| RON Thousand | Group 2007 | Group 2006 | Bank 2007 | Bank 2006 |
|---|---|---|---|---|
| Provision for retirement benefits | 63,778 | 117,566 | 63,525 | 117,336 |
| Provision for early retirement (i) | - | 43,022 | - | 43,022 |
| Provision for pension | 7,057 | 7,203 | - | - |
| Provision for litigations and off-balance sheet items | 5,808 | 2,469 | 5,076 | 1,637 |
| Provisions for lay-offs (ii) | 72,381 | - | 72,381 | - |
| Underwriting provisions net of ceded business (iii) | 370,000 | 233,983 | - | - |
| | **519,024** | **404,243** | **140,982** | **161,995** |

### (i) Provision for early retirement

On 27 December 2006 the Bank officially announced an early retirement program. The Bank management has performed an assessment regarding the number of employees that would be affected by this program. As a result of this assessment the Bank has recognized a provision of RON 43 million. During 2007, the program was finished and the provision was fully utilized.

### (ii) Provision for lay-offs

On 8 November 2007 the Bank officially announced a collective lay-off program. The Bank's management has performed an assessment regarding the number of employees that would be affected by this program. The lay-off program is expected to be completed in 2008.

### (iii) Underwriting provisions net of ceded business

The movement in underwriting provisions net of ceded business during 2007 is as follows:

**General insurance**

| RON Thousand | Provision for unearned premium | Provision for non-transacted insurance claims | Provision for profit-sharing | Other underwriting provisions | Total |
|---|---|---|---|---|---|
| At 1 January 2007 | 111,649 | 46,739 | 2,983 | 3,342 | 164,713 |
| Arising during the year | 54,530 | 108,208 | 221 | 10,548 | 173,507 |
| Utilised | - | (56,143) | (2,983) | (3,342) | (62,468) |
| **At 31 December 2007** | **166,179** | **98,804** | **221** | **10,548** | **275,752** |

**Life insurance**

| RON Thousand | Provision for uneamed premium | Actuarial reserve | Provision for non-transacted insurance claims | Total |
|---|---|---|---|---|
| At 1 January 2007 | (765) | 60,966 | 9,069 | 69,270 |
| Arising during the year | 31,926 | - | 7,524 | 39,450 |
| Utilised | - | (14,472) | - | (14,472) |
| **At 31 December 2007** | **31,161** | **46,494** | **16,593** | **94,248** |

## 29. RETIREMENT BENEFIT COSTS

Changes in the present value of the defined benefit obligation are as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Opening defined benefit obligation | 117,566 | 117,722 | 117,336 | 117,546 |
| Interest cost | 8,467 | 8,471 | 8,451 | 8,458 |
| Current service cost | 11,204 | 11,622 | 11,128 | 11,584 |
| Benefits paid | (31,277) | (2,868) | (31,272) | (2,864) |
| Actuarial gains on obligations | (42,182) | (10,692) | (42,118) | (10,699) |
| Transfer in/ transfer out | - | (6,689) | - | (6,689) |
| | **63,778** | **117,566** | **63,525** | **117,336** |

**Defined benefit obligation**

According to the collective labor agreement, employees of the Bank and one of its subsidiaries are entitled to one lump sum payment on the date of normal age retirement, of up to 6 gross monthly salaries, (the Bank), up to 3 gross monthly salaries (the subsidiary), depending on seniority.

This is a defined benefit plan that defines an amount of benefit that an employee is entitled to receive on the date of normal age retirement, dependent on one or more factors such as age, years of service and salary. A full actuarial valuation by a qualified independent actuary is carried out every year.

The plan liability is measured on an actuarial basis using the projected unit credit method adjusted for unrecognized actuarial gains and losses. The defined benefit plan liability is discounted using rates equivalent to the market yields at the balance sheet date of high-quality corporate bonds that are denominated in the currency in which benefits will be paid, and that have a maturity approximating to the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the statement of changes in equity.

The principal assumptions used in determining the defined benefit obligation of the Group's plan are shown below:

| | **2007**<br>% | **2006**<br>% |
|---|---|---|
| Discount rate | 7% | 7.35% |
| Future salary increases | 5% | 10% |
| Mortality rates | ETTL- PAGLER | |
| Disability rates | ETTL- PAGLER | |

## 30. ISSUED CAPITAL AND RESERVES

The statutory share capital of the Bank as at 31 December 2007 and 31 December 2006 is represented by 792,468,750 ordinary shares of RON 1 each (31 December 2006 shares of RON 1 each). The shareholders of the Bank are as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Number of shares | Percentage holding (%) | Number of shares | Percentage holding (%) |
| Erste Bank der oesterreichischen Sparkassen AG | 548,165,833 | 69.1719 | 547,976,335 | 69.1480 |
| Societatea de Investitii Financiare „Banat Crisana" | 47,548,125 | 6.0000 | 47,548,125 | 6.0000 |
| Societatea de Investitii Financiare „Moldova" | 47,548,125 | 6.0000 | 47,548,125 | 6.0000 |
| Societatea de Investitii Financiare „Transilvania" | 47,548,125 | 6.0000 | 47,548,125 | 6.0000 |
| Societatea de Investitii Financiare „Muntenia" | 47,548,125 | 6.0000 | 47,548,125 | 6.0000 |
| Societatea de Investitii Financiare „Oltenia" | 48,479,429 | 6.1175 | 48,479,429 | 6.1175 |
| MEI Roemenie en Bugarije Fonds NV | 171,875 | 0.0217 | 171,875 | 0.0217 |
| HTI Valori Imoboliare SRL | - | - | 107,328 | 0.0135 |
| Middle Europe Opportunity Funds II NV | 103,125 | 0.013 | 103,125 | 0.0130 |
| SC Actinvest SA | 15,773 | 0.002 | 15,773 | 0.0020 |
| SC Carina Import Export SRL | 4,376 | 0.0006 | - | - |
| Certinvest SA | 1,000 | 0.0001 | 1,000 | 0.0002 |
| SC Milord Impex SRL | 1,951 | 0.0002 | - | - |
| SC Yoyo Impex SRL | 2,359 | 0.0003 | - | - |
| SC Cozamin SRL | 10,647 | 0.0013 | - | - |
| Individuals | 5,319,882 | 0.6713 | 5,421,385 | 0.6841 |
| **Total** | **792,468,750** | **100.0000** | **792,468,750** | **100.0000** |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the general shareholders' meetings of the Bank.

The reconciliation of the statutory share capital of the Bank to the share capital in the balance sheet is presented below:

| RON thousand | 2007 | 2006 |
|---|---|---|
| Share capital as per Romanian statutory accounts | 792,469 | 792,469 |
| IAS 29 hyperinflation adjustment recorded in prior years (i.e. until 31 December 2003) | 1,327,224 | 1,327,224 |
| **Share capital in the balance sheet** | **2,119,693** | **2,119,693** |

## 30. ISSUED CAPITAL AND RESERVES (continued)

The reconciliation of opening and closing balances of share capital, reserves and accumulated profit is presented below:

### GROUP

| | Attributable to equity holders of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| RON Thousand | Issued capital | Retained earnings | Available-for-sale reserve | Foreign currency translation reserve | Actuarial gain / (loss) | Other capital reserve | Total | Minority interest | Total equity |
| **At 31 December 2006** | **2,119,693** | **1,051,614** | **16,971** | **9,663** | **9,893** | **1,007,896** | **4,215,730** | **33,270** | **4,249,000** |
| Net gains/(losses) on available-for-sale financial investments | - | - | (8,198) | - | - | - | (8,198) | 274 | (7,924) |
| Foreign currency translation | - | - | - | 30,388 | - | - | 30,388 | 573 | 30,961 |
| Actuarial gains (i) | - | - | - | - | 40,909 | - | 40,909 | 2 | 40,911 |
| Deferred tax | - | - | 1,209 | - | (6,960) | - | (5,751) | (41) | (5,792) |
| Total income and expense for the year recognized directly in equity | - | - | **(6,989)** | **30,388** | **33,949** | - | **57,348** | **808** | **58,156** |
| Profit for the year | - | 924,781 | - | - | - | - | 924,781 | 8,602 | 933,383 |
| **Total income and expense for the year** | - | **924,781** | **(6,989)** | **30,388** | **33,949** | - | **982,129** | **9,410** | **991,539** |
| Acquisition of minority shareholdings | - | - | - | - | - | - | - | (2,706) | (2,706) |
| Distribution of dividends (Note 14) | - | (367,927) | - | - | - | - | (367,927) | (2,529) | (370,456) |
| **At 31 December 2007** | **2,119,693** | **1,608,468** | **9,982** | **40,051** | **43,842** | **1,007,896** | **4,829,932** | **37,445** | **4,867,377** |
| **At 31 December 2005** | **2,119,693** | **789,067** | **4,360** | **47,588** | - | **875,520** | **3,836,228** | **25,496** | **3,861,724** |
| Net gains on available-for-sale financial investments | - | - | 13,970 | - | - | - | 13,970 | 146 | 14,116 |
| Foreign currency translation | - | (1,448) | - | (37,925) | - | - | (39,373) | (391) | (39,764) |
| Actuarial gains /(losses) | - | - | - | - | 11,369 | - | 11,369 | - | 11,369 |
| Deferred tax | - | - | (1,359) | - | (1,476) | - | (2,835) | (24) | (2,859) |
| Total income and expense for the year recognized directly in equity | - | **(1,448)** | **12,611** | **(37,925)** | **9,893** | - | **(16,869)** | **(269)** | **(17,138)** |
| Profit for the year | - | 756,306 | - | - | - | - | 756,306 | 12,376 | 768,682 |
| **Total income and expense for the year** | - | **754,858** | **12,611** | **(37,925)** | **9,893** | - | **739,437** | **12,107** | **751,544** |
| Distribution to reserves | - | (132,376) | - | - | - | 132,376 | - | - | - |
| Distribution of dividends (Note 14) | - | (359,935) | - | - | - | - | (359,935) | (4,333) | (364,268) |
| **At 31 December 2006** | **2,119,693** | **1,051,614** | **16,971** | **9,663** | **9,893** | **1,007,896** | **4,215,730** | **33,270** | **4,249,000** |

(i) Amount RON 40,911 thousand also includes actuarial gains on pension and other elements in amounts of RON (1,271) thousand.

## 30. ISSUED CAPITAL AND RESERVES (continued)

### Bank

| RON Thousand | Issued capital | Retained earnings | Available-for-sale reserve | Actuarial gain/(loss) | Other capital reserve | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2006** | **2,119,693** | **835,406** | **17,460** | **8,987** | **993,756** | **3,975,302** |
| Net gains on available-for-sale financial investments | - | - | (8,246) | - | - | (8,246) |
| Actuarial gain / ( losses) | - | - | - | 42,118 | - | 42,118 |
| Deferred tax | - | - | 1,319 | (6,739) | - | (5,420) |
| **Total income and expense for the year recognized directly in equity** | **-** | **-** | **(6,927)** | **35,379** | **-** | **28,452** |
| Profit for the year | - | 887,488 | - | - | - | 887,488 |
| **Total income and expense for the year** | **-** | **887,488** | **(6,927)** | **35,379** | **-** | **915,940** |
| Distribution of dividends (Note 14) | - | (367,927) | - | - | - | (367,927) |
| **At 31 December 2007** | **2,119,693** | **1,354,967** | **10,533** | **44,366** | **993,756** | **4,523,315** |
| **At 31 December 2005** | **2,119,693** | **649,164** | **5,325** | **-** | **873,064** | **3,647,246** |
| Net gains on available-for-sale financial investments | - | - | 14,446 | - | - | 14,446 |
| Actuarial gain / ( losses) | - | - | - | 10,699 | - | 10,699 |
| Deferred tax | - | - | (2,311) | (1,712) | - | (4,023) |
| **Total income and expense for the year recognized directly in equity** | **-** | **-** | **12,135** | **8,987** | **-** | 21,122 |
| Profit for the year | - | 666,869 | - | - | - | 666,869 |
| **Total income and expense for the year** | **-** | **666,869** | **12,135** | **8,987** | **-** | **687,991** |
| Distribution to reserves | - | (120,692) | - | - | 120,692 | - |
| Distribution of dividends (Note 14) | - | (359,935) | - | - | - | (359,935) |
| **At 31 December 2006** | **2,119,693** | **835,406** | **17,460** | **8,987** | **993,756** | **3,975,302** |

## 31. RECONCILIATION OF STATUTORY PROFIT AND RETAINED EARNINGS WITH IFRS BALANCES

**GROUP 2007**

| RON Thousand | Net profit | Retained earnings | Share capital | Other reserves |
|---|---|---|---|---|
| Bank - statutory | 491,880 | 2,659,432 | 792,469 | 993,757 |
| Subsidiaries - statutory, net of consolidation adjustments | 76,662 | 292,869 | - | 41,041 |
| Loans allowance | (266,288) | (266,288) | - | - |
| Loans - amortized cost | 57,122 | 57,122 | - | - |
| Fair value through profit or loss | (13,206) | (13,206) | - | - |
| Property and equipment | (1,635) | (552,031) | - | (29,220) |
| Equity investments | - | (3,416) | - | - |
| Insurance business | 4,704 | 4,704 | - | - |
| Borrowings - amortized cost | (12,411) | (12,411) | - | - |
| Retirement benefit | 11,689 | 11,689 | - | - |
| Accruals | (72,381) | (72,381) | - | - |
| Reintegration of loans previously written-off | 778,293 | 778,293 | - | - |
| Share capital restatement for hyperinflation | - | (1,327,224) | 1,327,224 | - |
| Available-for-sale reserve | - | - | - | 14,997 |
| Actuarial gains/losses | - | - | - | 44,786 |
| Translation reserve | - | - | - | 41,729 |
| Deferred tax | (77,936) | (77,936) | - | (5,319) |
| Other | (5,848) | (5,848) | - | - |
| Accumulated adjustments | - | 180,964 | - | - |
| Intragroup elimination dividends | (45,864) | (45,864) | - | - |
| **Total BCR Group** | **924,781** | **1,608,468** | **2,119,693** | **1,101,771** |
| Minority interest | 8,602 | 37,613 | - | (168) |
| **Total** | **933,383** | **1,646,081** | **2,119,693** | **1,101,603** |

**Bank 2007**

| RON Thousand | Net profit | Retained earnings | Share capital | Other reserves |
|---|---|---|---|---|
| **Statutory** | **491,880** | **2,659,432** | **792,469** | **993,757** |
| Loans – allowance for impairment losses | (266,288) | (266,288) | - | - |
| Loans – amortized cost | 57,122 | 57,122 | - | - |
| Fair value through profit and loss | (13,116) | (13,116) | - | - |
| Property and equipment | (1,635) | (552,031) | - | - |
| Equity investments | - | (3,416) | - | - |
| Retirement benefit | 11,689 | 11,689 | - | - |
| Finance lease liability | (1,080) | (1,080) | - | - |
| Borrowings - amortized cost | (12,411) | (12,411) | - | - |
| Accruals | (72,381) | (72,381) | - | - |
| Reintegration of loans previously written-off | 778,293 | 778,293 | - | - |
| Share capital restatement for hyperinflation | - | (1,327,224) | 1,327,224 | - |
| Available-for-sale reserve | - | - | - | 12,538 |
| Actuarial gains/losses | - | - | - | 52,821 |
| Deferred tax | (75,464) | (75,464) | - | (10,461) |
| Other | (9,121) | (9,121) | - | - |
| Accumulated adjustments | - | 180,963 | - | - |
| **Total** | **887,488** | **1,354,967** | **2,119,693** | **1,048,655** |

## 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which a financial instrument could be exchanged in a current transaction between willing parties, other than forced sale or liquidation. The fair value is best evidenced by a quoted market price, if such exists.

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments.

### Financial assets

Loans originated by the Bank and leases are measured at amortized cost using the effective interest rates less any impairment reserve. The interest rate of approximately 95% of these assets is variable based on current market rates, and consequently, the carrying amounts of these assets approximate their fair value.

For deposits with banks, amortized cost is estimated to approximate fair value due to their short–term nature, interest rates reflecting current market conditions and no significant transaction costs. The amortized cost of treasury securities was not materially different from their quoted prices.

The remeasured cost net of any reserve for impairment of investments that are not listed at a stock exchange is estimated to approximate their fair value.

Due to the fact that for most of the loans and leases the Group applies variable interest rates, the amortized cost of loans is estimated to approximate their fair value.

### Financial liabilities

The amortized cost of customer deposits and borrowings is considered to approximate their respective fair values, since these items have predominantly short re-pricing terms, carry interest rates reflecting current market conditions and are settled without significant transaction costs.

**Group 2007**

| RON Thousand | Quoted market price | Valuation techniques - market observable inputs | TOTAL |
|---|---|---|---|
| **Financial assets** | | | |
| Financial assets designated at fair value through profit or loss | 456,035 | 14,029 | 470,064 |
| Financial investments - available for sale | 238,100 | 1,447,470 | 1,685,570 |

**Group 2006**

| RON Thousand | Quoted market price | Valuation techniques - market observable inputs | TOTAL |
|---|---|---|---|
| **Financial assets** | | | |
| Financial assets designated at fair value through profit or loss | 499,109 | 12,929 | 512,038 |
| Financial investments - available for sale | 165,841 | 678,961 | 844,802 |

## 32. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

**Bank 2007**

| RON Thousand | Quoted market price | Valuation techniques - market observable inputs | TOTAL |
|---|---|---|---|
| Financial assets | | | |
| Financial assets designated at fair value through profit or loss | 455,679 | 14,029 | 469,708 |
| Financial investments - available for sale | 145,029 | 1,902,713 | 2,047,742 |

**Bank 2006**

| RON Thousand | Quoted market price | Valuation techniques - market observable inputs | TOTAL |
|---|---|---|---|
| **Financial assets** | | | |
| Financial assets designated at fair value through profit or loss | 500,267 | 12,929 | 513,196 |
| Financial investments - available for sale | 61,660 | 1,035,118 | 1,096,778 |

## 33. ADDITIONAL CASH FLOW INFORMATION

### Cash and cash equivalents

| | Group | | Bank | |
|---|---|---|---|---|
| RON Thousand | 2007 | 2006 | 2007 | 2006 |
| Cash on hand (Note 15) | 1,235,734 | 898,494 | 1,230,010 | 895,065 |
| Current account with the central banks (Note 15) | 16,067,603 | 12,645,796 | 15,951,763 | 12,538,154 |
| Due from banks | 2,398,014 | 3,880,920 | 2,397,537 | 3,757,189 |
| Securities | - | 64,737 | - | 51,855 |
| | **19,701,351** | **17,489,947** | **19,579,310** | **17,242,263** |

### Change in operating assets

| | Group | | Bank | |
|---|---|---|---|---|
| RON Thousand | 2007 | 2006 | 2007 | 2006 |
| Net change in due from banks | (227,150) | (250,511) | 8,152 | (39,376) |
| Net change in reverse repurchase agreements | 2,464 | (2,464) | 2,464 | (2,464) |
| Net change in financial assets designated at fair value through profit or loss | (22,763) | 234,505 | (8,367) | 231,043 |
| Net change in loans and advances to customers | (12,284,909) | (9,574,216) | (11,421,889) | (8,740,594) |
| Net change in other assets | (249,713) | (161,325) | (262,271) | (31,684) |
| | **(12,782,071)** | **(9,754,011)** | **(11,681,911)** | **(8,583,075)** |

### Change in operating liabilities

| | Group | | Bank | |
|---|---|---|---|---|
| RON Thousand | 2007 | 2006 | 2007 | 2006 |
| Net change in deposits with banks | 12,973,722 | 1,786,683 | 13,996,455 | 676,581 |
| Net change in repurchase agreements | (301,839) | 120,839 | (301,839) | 120,839 |
| Net change in due to customers | 5,051,846 | 4,896,739 | 5,286,080 | 4,900,376 |
| Net change in other liabilities | 644,546 | 326,469 | 543,507 | 191,490 |
| | **18,368,275** | **7,130,730** | **19,524,203** | **5,889,286** |

### Non-cash items included in profit before tax

| | Group | | Bank | |
|---|---|---|---|---|
| RON Thousand | 2007 | 2006 | 2007 | 2006 |
| Depreciation of property and equipment | 131,634 | 129,832 | 124,961 | 123,227 |
| Amortization of intangible assets | 40,411 | 32,671 | 38,840 | 31,093 |
| Provisions | 164,444 | 328,417 | 159,677 | 320,617 |
| Impairment losses on buildings | - | 31,649 | - | 31,649 |
| Provision for litigations | 3,407 | 497 | 3,439 | 497 |
| Employees participation to profit and bonuses | - | 34,100 | - | 34,100 |
| Fair value adjustment for available-for-sale investments | - | 15,380 | - | 15,520 |
| Retirement benefit provision | 19,671 | 56,427 | 19,579 | 56,376 |
| Provisions for lay-offs | 72,381 | - | 72,381 | - |
| Provision for pension | 572 | - | - | - |
| Dividend income | - | (6,962) | - | (42,114) |
| Underwriting provisions net of ceded business | 212,957 | - | - | - |
| Other non-monetary adjustments | 616,435 | (186,530) | 564,604 | (152,640) |
| | **1,261,912** | **435,481** | **983,481** | **418,325** |

### Payments made against provisions

| | Group | | Bank | |
|---|---|---|---|---|
| RON Thousand | 2007 | 2006 | 2007 | 2006 |
| Provision for retirement benefits (Note 29) | (31,277) | (2,868) | (31,272) | (2,864) |
| Provision for early retirement | (43,022) | - | (43,022) | - |
| Provision for litigations and off-balance sheet items | (68) | - | - | - |
| Underwriting provisions net of ceded business | (76,940) | - | - | - |
| | **(151,307)** | **(2,868)** | **(74,294)** | **(2,864)** |

## 34. INTEREST RATE SENSITIVITY

The tables below provide information on the extent of the Group's and the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market interest rate before maturity, being the next re-pricing date. It is the policy of Group's directors to manage Bank exposure to fluctuations in net interest income arising from changes in interest rates by the degree of re-pricing mismatch in the balance sheet.

**Group 2006**

| RON Thousand | Less than 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Not sensitive | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with central banks | 13,544,290 | - | - | - | - | - | 13,544,290 |
| Due from banks | 3,730,980 | 214,868 | 373,935 | 17,859 | 171,479 | - | 4,509,121 |
| Reverse repurchase agreements | - | - | - | - | 2,464 | - | 2,464 |
| Financial assets designated at fair value through profit or loss | - | 1,235 | 40,241 | - | 410,319 | 60,243 | 512,038 |
| Loans and advances to customers | 23,615,508 | 14,409 | 548,510 | 39,670 | 1,200,209 | - | 25,418,306 |
| Financial investments – available-for- sale | 53,669 | 35,757 | 80,237 | 1,949 | 551,825 | 121,365 | 844,802 |
| Financial investments – held-to-maturity | - | 3,756 | 6,420 | 1,894 | 3,106 | - | 15,176 |
| Investments of insurance business | - | - | - | - | - | 165,479 | 165,479 |
| Property and equipment | - | - | - | - | - | 1,666,802 | 1,666,802 |
| Intangible assets | - | - | - | - | - | 178,384 | 178,384 |
| Deferred tax assets | - | - | - | - | - | 51,560 | 51,560 |
| Other assets | 271,558 | - | - | - | - | 255,770 | 527,328 |
| **Total assets** | **41,216,005** | **270,025** | **1,049,343** | **61,372** | **2,339,402** | **2,499,603** | **47,435,750** |
| **Liabilities** | | | | | | | |
| Due to banks | 3,729,914 | 2,139,873 | 2,406,805 | 101,182 | 4,524,919 | - | 12,902,693 |
| Repurchase agreements | - | 151,932 | - | - | 149,907 | - | 301,839 |
| Due to customers | 18,201,791 | 4,022,026 | 882,413 | 897,215 | 587,727 | - | 24,591,172 |
| Debt issued and other borrowed funds | 1,731,033 | 379,874 | 86,885 | 86,774 | 1,922,725 | - | 4,207,291 |
| Current tax liabilities | - | - | - | - | - | 8,462 | 8,462 |
| Deferred tax liabilities | - | - | - | - | - | 5,053 | 5,053 |
| Other liabilities | 247,077 | - | - | - | - | 518,920 | 765,997 |
| Provisions | - | - | - | - | - | 404,243 | 404,243 |
| **Total liabilities** | **23,909,815** | **6,693,705** | **3,376,103** | **1,085,171** | **7,185,278** | **936,678** | **43,186,750** |
| **Net** | **17,306,190** | **(6,423,680)** | **(2,326,760)** | **(1,023,799)** | **(4,845,876)** | **1,562,925** | **4,249,000** |

## 34. INTEREST RATE SENSITIVITY (continued)

**Bank 2006**

| RON Thousand | Lass than 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Not sensitive | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and balances with central banks | 13,433,219 | - | - | - | - | - | 13,433,219 |
| Due from banks | 3,716,677 | 122,226 | 10,145 | 17,859 | - | - | 3,866,907 |
| Reverse repurchase agreements | - | - | - | - | 2,464 | - | 2,464 |
| Financial assets designated at fair value through profit or loss | - | 2,526 | 40,177 | - | 410,250 | 60,243 | 513,196 |
| Loans and advances to customers | 23,613,444 | 41,904 | 60,190 | 39,670 | 43,969 | - | 23,799,177 |
| Financial investments – available-for- sale | 52,867 | 24,689 | 53,060 | 1,949 | 481,431 | 482,782 | 1,096,778 |
| Financial investments – held-to-maturity | - | 3,754 | 6,421 | 1,894 | 3,074 | - | 15,143 |
| Property and equipment | - | - | - | - | - | 1,551,751 | 1,551,751 |
| Intangible assets | - | - | - | - | - | 175,692 | 175,692 |
| Deferred tax assets | - | - | - | - | - | 46,293 | 46,293 |
| Other assets | 254,057 | - | - | - | - | 100,012 | 354,069 |
| **Total assets** | **41,070,264** | **195,099** | **169,993** | **61,372** | **941,188** | **2,416,773** | **44,854,689** |
| **Liabilities** | | | | | | | |
| Due to banks | 3,718,925 | 1,899,513 | 2,050,049 | 101,182 | 3,266,612 | - | 11,036,281 |
| Repurchase agreements | - | 151,932 | - | - | 149,907 | - | 301,839 |
| Due to customers | 18,042,237 | 4,057,255 | 898,387 | 897,215 | 581,971 | - | 24,477,065 |
| Debt issued and other borrowed funds | 1,731,033 | 377,698 | 86,886 | 86,774 | 1,968,543 | - | 4,250,934 |
| Other liabilities | 231,449 | - | - | - | - | 419,824 | 651,273 |
| Provisions | - | - | - | - | - | 161,995 | 161,995 |
| **Total liabilities** | **23,723,644** | **6,486,398** | **3,035,322** | **1,085,171** | **5,967,033** | **581,819** | **40,879,387** |
| **Net** | **17,346,620** | **(6,291,299)** | **(2,865,329)** | **(1,023,799)** | **(5,025,845)** | **1,834,954** | **3,975,302** |

## 34. INTEREST RATE SENSITIVITY (continued)

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all the other variables held constant of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes of interest rates on the net interest inoome for one year, based on the floating rate non-trading financial assets and liabilities held at 31 December 2007. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets. The sensitivity of equity is analised by maturity of the asset. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yeald curve, while the analysis by maturity band displays the sensitivity to non-parallel changes.

**2007 – RON million**

| Currency | Decrease in basis points | Sensitivity of net interest income | Sensitivity of equity |
|---|---|---|---|
| RON | (50) | 14.91 | 12.52 |
| EUR | (25) | (18.15) | (15.25) |
| USD | (150) | 10.40 | 8.74 |
| Others | (50) | (0.05) | (0.04) |

| Currency | Increase in basis points | Sensitivity of net interest income | Sensitivity of equity |
|---|---|---|---|
| RON | 150 | (44.73) | (37.57) |
| EUR | 15 | 10.89 | 9.15 |
| USD | 25 | (1.73) | (1.45) |
| Others | 50 | 0.05 | 0.04 |

## 35. CONTINGENT LIABILITIES AND COMMITMENTS

| | Group | | Bank | |
|---|---|---|---|---|
| RON Thousand | 2007 | 2006 | 2007 | 2006 |
| Contingent liabilities | 4,057,018 | 4,157,996 | 3,898,046 | 4,044,758 |
| Commitments | 6,033,023 | 5,066,730 | 5,926,813 | 4,924,677 |
| | **10,090,041** | **9,224,726** | **9,824,859** | **8,969,435** |

**Contingent liabilities**
The Bank issues letters of credit, guarantees (including standby letters of credit) and commits to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods.

**Undrawn loan commitments**
Undrawn loan commitments represent contractual commitments to grant loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent until the customers maintain specific standards. The Bank monitors the maturity of credit commitments as longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

**Legal claims**
Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. The Bank has several unresolved legal

## 35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

claims for which the provisions were made in accordance with IAS 37 requirements in amount of RON thousand 5,076 as at 31 December 2007 (31 December 2006: RON thousand 1,637) for the Bank, and in amount of RON thousand 5,808 (31 December 2006: RON thousand 2,469) for the Group (Note 28).

## 36. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2007 are detailed below. Transactions were entered into with related parties during the course of business at market rates.

### Transactions with shareholders

The following transactions were carried out with its shareholders, Erste Bank der oesterreichischen Sparkassen AG, SIF Banat-Crisana SA, SIF Moldova SA, SIF Muntenia SA, SIF Oltenia SA, SIF Transilvania SA, at market rates.

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| **Assets** | | | | |
| Due from banks | 5,447 | 44,718 | 5,447 | 44,718 |
| Investments securities available-for-sale | 74,844 | 55,721 | 74,844 | 55,721 |
| **Total assets** | **80,291** | **100,439** | **80,291** | **100,439** |
| **Liabilities** | | | | |
| Deposits from customers | 17,294 | 99,927 | 17,294 | 99,927 |
| Loans from banks and other financial institutions | 17,540,714 | 6,159,032 | 15,468,988 | 5,247,825 |
| Other liabilities | 244,593 | 28,595 | 227,300 | 26,870 |
| **Total liabilities** | **17,802,601** | **6,287,554** | **15,713,582** | **5,374,622** |
| **Income** | | | | |
| Interest and dividend income | 787 | 234 | 787 | 234 |
| Commission income | 41 | 86 | 41 | 86 |
| Other operating income | 36,558 | 160 | 1,333 | 160 |
| **Total income** | **37,386** | **480** | **2,161** | **480** |
| **Expense** | | | | |
| Interest expense | 233,056 | 95,940 | 167,235 | 81,814 |
| Commission expense | 42 | - | 42 | - |
| Other | 7,899 | - | 7,899 | - |
| **Total expense** | **240,997** | **95,940** | **175,176** | **81,814** |

## 36. RELATED PARTY DISCLOSURES (continued)

**Transactions with fellow subsidiaries members of Erste Bank Group :**

| RON Thousand | Group 2007 | Bank 2007 |
|---|---|---|
| **Assets** | | |
| Due from banks | 759 | 759 |
| Other assets | 1 | 1 |
| **Total** | **760** | **760** |
| **Liabilities** | | |
| Loans from banks and other financial institutions | 49,081 | 49,081 |
| Deposits from customers | 12,064 | 12,064 |
| **Total** | **61,145** | **61,145** |
| **Income** | | |
| Interest income | 27 | 27 |
| **Total income** | **27** | **27** |
| **Expense** | | |
| Other operating expenses | 2,050 | 2,050 |
| **Total expense** | **2,050** | **2,050** |

**Transactions with management**

The Group entered into a number of banking transactions with the management of the Bank in the normal course of business.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. This includes the members of the Supervisory Board, Executive Committee and Asset/Liability Management Committee of the Bank.

These transactions were carried out on commercial terms and conditions and at market rates. The following transactions were carried out with the management:

| RON Thousand | Group | | Bank | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Assets** | | | | |
| Loans and advances to customers | - | 598 | - | 598 |
| **Total** | **0** | **598** | **0** | **598** |
| **Liabilities** | | | | |
| Deposits from customers | 2,869 | 20,042 | 2,869 | 20,042 |
| **Total** | **2,869** | **20,042** | **2,869** | **20,042** |
| Interest and commission income | 650 | 64 | 650 | 64 |
| Interest and other expenses | 11 | 777 | 11 | 777 |

## 36. RELATED PARTY DISCLOSURES (continued)

### Transactions with subsidiaries

The Bank holds investments in subsidiaries with whom it entered into a number of banking transactions in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates. The following transactions were carried out with subsidiaries:

| | Bank | |
|---|---|---|
| **RON Thousand** | **2007** | **2006** |
| **Assets** | | |
| Due from banks | 104,488 | 167,527 |
| Loans and advances to customers | 37,249 | 216,374 |
| Investments securities available for sale | - | 1,267 |
| Other assets | 49,953 | 3,159 |
| **Total** | **191,690** | **388,327** |
| **Liabilities** | | |
| Deposits from banks | 2,331 | 2,474 |
| Deposits from customers | 395,183 | 213,125 |
| Debt issued and other borrowed funds | 37,335 | 45,817 |
| Other liabilities and provisions | 7,206 | 21,918 |
| **Total** | **442,055** | **283,334** |
| **Income** | | |
| Interest income | 18,599 | 30,370 |
| Commission income | 3,042 | 2,710 |
| Other income | 26,980 | 6 |
| **Total income** | **48,621** | **33,086** |
| **Expense** | | |
| Interest expense | 10,917 | 8,175 |
| Commission expense | 439 | 230 |
| Other expenses | 158 | 23,943 |
| **Total expense** | **11,514** | **32,348** |

## 37. RISK MANAGEMENT

### 37.1 Introduction

Risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits, approval authorities (pouvoirs), separation of responsibilities and other controls. The Bank is exposed to credit risk, liquidity risk and market risk, as well as to operational risk. The Group is also exposed to insurance risk through its subsidiaries BCR Asigurari (general insurance) and BCR Asigurari de Viata (life insurance).

Consistency in risk management is ensured through an integrated and methodologically coherent approach to all risks, along with regular monitoring that enables risk management to proactively manage their own portfolios and, when necessary, take timely corrective actions.

### 37.2. Risk management structure and responsibilities

**Supervisory Board**

The Supervisory Board approves and reviews the Bank's risk profile and the Bank's strategy in respect of risk management.

**The Risk Committee of the Supervisory Board**

The Risk Committee of the Supervisory Board is responsible for approval of the implementation of the main lending and risk policies, procedures and internal rules, approval of the delegation of the credit authorities (pouvoirs), as well as approval of the implementation of the Management Board's approvals for granting loans with a value exceeding the credit authorities delegated.

**Management Board**

The Management Board is responsible for the implementation of the risk strategies approved by the Supervisory Board, the maintenance of a proper risk exposure reporting, as well as the maintenance of the risk limits, including for crises situation.

**The Risk Committee of the Management Board**

The Risk Committee of the Management Board develops appropriate policies and procedures for identification, assessment, monitoring and control of the significant risks, propose the risk exposure limits according to the Bank complexity and financial status, informs the Supervisory Board about the issues and significant trends which might occur and could influence the Bank's risk profile.

**Risks Functional Line**

Risk management activities are consolidated under the Risks Functional Line, which consists of four divisions: Retail Risk Management, Corporate Risk Management, Workout and Risk Controlling.

**Internal Audit**

Risk Management processes throughout the Bank are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit and Compliance Committee.

### 37.3 Risk Management activities

In order to manage the risks that could affect its activity and financial performance, the Bank undertakes the necessary steps to identify the risk sources, to asses and monitor the Bank's exposures, to set up risk limits for different counterparties such as countries, sovereigns, banks, financial institutions affiliated to the banking groups, corporate customers/groups of clients, VaR limits, liquidity limits, etc.

The significant risks are identified and assessed for the whole Bank at all organizational levels, for all the Bank transactions and activities.
For the identification and assessment of the significant risks, internal factors are taken into account, such as the complexity of the organizational structure, the types of activities, the staff quality and staff migration, as well as the external factors such as economic environment, the legislative changes, the competition in the banking sector and technological progress.

## 37. RISK MANAGEMENT (CONTINUED)

### 37.3 Risk Management activities (continued)

In order to have an appropriate management of the significant risks, the Bank uses:

• **a system of procedures for transactions authorization**, which consists of competences / authority limits (pouvoirs) for granting loans and other related credit products;

• **a system for setting up risk limits** in compliance with the Bank's global risk profile, capital adequacy, liquidity, loan portfolio quality etc;

• **a system of reporting the risk exposure** and the other issues / aspects related to risks;

• **a system of procedures for unexpected situations/crises** regarding significant risks, including measures necessary to be undertaken by the Bank;

• **a system of procedures that prevents an inadequate information usage**, in order to avoid the Bank's reputation damage, the disclosure of secret and confidential information and the usage of information for the staff's personal benefits;

• **staff recruitment** and salaries criteria, which presume high standards in respect of qualification, expertise and integrity;

• **staff training programs.**

The Bank undertakes the necessary steps in order to ensure and maintain an adequate information system for the identification, measurement, monitoring and reporting of the significant risks, for the whole Bank' and for each department or business unit.

The Bank set up an **appropriate separation of responsibilities** for all the Bank's organizational levels in order to avoid the conflict of interest in front office, risk management and back office activities.

### 37.4. Integration into the Erste Bank Group standards

In 2007, the Bank took the necessary steps to align its risk management standards to the standards of the Erste Bank Group (EBG) and the Basel II Agreement, based on several projects started in collaboration with EBG:

- The Basel II Project, which will insure the implementation of the advanced methods regulated by this international agreement in the risk management field;
- The Risk Management Project, which led to the implementation of the group's risk management principles.

The implementation of these standards presupposed the consolidation of the management of corporate and retail credit risks, market risks, operational risks, country and banking risks, as well as the assessment of collaterals and workout etc. under the Risk & Financial Functional Line.

Under these terms, risk management specialists were clearly delimited from an organizational point of view from the personnel with responsibilities in the business development field. This clear-cut delimitation from the Front Office area represented the fundament for the implementation of the group principle concerning the two votes necessary for the approval of exposures towards the clients (1st vote is granted by the Front Office personnel, whereas the 2nd vote is granted by the risk management personnel); a new pouvoirs system was implemented for these purposes.

The main objectives of these new risk management group standards are two: supporting business lines to reach their projected business targets by ensuring the taking of quick and efficient crediting decisions and protecting the Bank against banking risks using advanced risk management methods and principles.

## 37. RISK MANAGEMENT (CONTINUED)

### 37.5. Credit risks

Credit risk arises from all transactions that give rise to actual, contingent or potential claims against Bank's customers. Credit risk consists of default risk –this is the risk that counterparties fail to meet their contractual payment obligations; country risk - is the risk that the Bank can suffer, in any given country, due to nationalization, expropriation of assets, government repudiation of indebtedness etc.; and settlement risk - is the risk that the settlement or clearance of transactions will fail.

In respect of credit risk, risk limits are set up for different segments of customers: banks, countries, sovereigns, financial institutions affiliated to banking groups, factoring companies, corporate clients / groups. The Bank set up approval competences (pouvoirs) for each type of customers/groups of customers (corporate, retail, banks etc.), which is the maximum limit for the approval of loans and other credit type products.

The Bank grants loans to the corporate customers that can generate appropriate cash-flows, with a good reputation in the business environment, that have a proper credit rating and to the retail customers which have stable incomes and are trustworthy as regards the fulfillment of the contract obligations towards the Bank.

In the loans approval process the Bank is mainly interested in the first credit repayment source, which is the customer capacity to generate cash-flows (for corporate customers) and to gain stable incomes (for retail customers).

In order to asses the performances and financial status of its customers, the Bank uses scoring systems, ratings, methods of analyzing the financial performances (SABINE for corporate and micros, CARLA for banks and financial institutions).

In order to avoid the concentration of credit risk on a small number of clients, the bank monitors the dispersion of credit risk towards client categories, branches, geographical regions, activity sectors and banking products.

#### 37.5.1 Maximum credit exposure without taking into account any collateral or other credit enhancements

| RON Thousand | Group | | Bank | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| ASSETS | | | | |
| Cash and balances with central bank (excluding cash on hand) | 16,067,603 | 12,645,796 | 15,951,763 | 12,538,154 |
| Due from banks | 3,252,888 | 4,509,121 | 2,499,103 | 3,866,907 |
| Financial assets held for trading | 2,995 | - | 20 | - |
| Reverse repurchase agreements | - | 2,464 | - | 2,464 |
| Financial assets designated at fair value through profit or loss | 470,064 | 512,038 | 469,708 | 513,196 |
| Loans and advances to customers/* | 37,538,771 | 25,418,306 | 35,061,389 | 23,799,177 |
| Financial investments – available-for-sale | 1,685,570 | 844,802 | 2,047,742 | 1,096,778 |
| Financial investments – held-to-maturity | 10,615 | 15,176 | 2,941 | 15,143 |
| Other assets | 826,313 | 527,328 | 638,478 | 354,069 |
| **Total on-balance sheet** | **59,854,819** | **44,475,031** | **56,671,144** | **42,185,888** |
| Contingent liabilities | 4,057,018 | 4,157,996 | 3,898,046 | 4,044,758 |
| Commitments | 6,033,023 | 5,066,730 | 5,926,813 | 4,924,677 |
| **Total off-balance sheet** | **10,090,041** | **9,224,726** | **9,824,859** | **8,969,435** |
| **Total credit risk exposure** | **69,944,860** | **53,699,757** | **66,496,003** | **51,155,323** |

/* net loans = loans – credit provisions

#### 37.5. 2 Risk concentration of the maximum exposure to credit risk

The maximum credit exposure to a client as of 31.12.2007 was RON 737.993 thousands (2006 RON 744.353 thousands) before taking into account the risk weighted assets, and RON 727.930 thousands (2006 RON 617.724 thousands) after.

## 37. RISK MANAGEMENT (CONTINUED)

### 37.5.3 Risk concentration of the maximum credit exposure by geographical regions

The Bank's financial assets, before taking into account any collateral held or other credit enhancements are distributed by the following geographical regions (*):

| RON Thousand | Group | | Bank | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Europe | 68,041,478 | 52,706,069 | 65,349,603 | 50,946,093 |
| United Kingdom and Ireland | 943,166 | 172,071 | 927,344 | 199,958 |
| Netherlands | 96,811 | 739 | 96,811 | 739 |
| North America | 100,624 | 5,319 | 99,737 | 3,478 |
| South America | 4,327 | 5,138 | 283 | 134 |
| Asia | 757,885 | 802,185 | 21,687 | 4,677 |
| Pacific | 32 | 3,143 | - | - |
| Africa | 537 | 5,093 | 537 | 244 |
| **TOTAL** | **69,944,860** | **53,699,757** | **66,496,002** | **51,155,323** |

where:

Europe: Croatia, Czech Republic, Denmark, Greece, Hungary, Rep. of Moldova, Poland, Romania, Slovenia, Sweden, Switzerland, Spain, Portugal, Austria, Belgium, Norway, France, Germany, Italy, Hungary

North America: USA, Canada
South America: Brasil, Chile
Africa: Morocco, Egypt, Tunisia

*) there are no trading activities in 2006 and 2007, only banking activities.

## 37. RISK MANAGEMENT (CONTINUED)

### 37.5.4 Credit exposure by economic sectors

An industry analysis of the Bank's financial assets, before and after taking into account collaterals held or other credit enhancements, is as follows:

**Group**

| RON Thousand | 2007 | | 2006 |
|---|---|---|---|
| | Gross maximum exposure | Net maximum exposure | Gross maximum exposure *) |
| Agriculture and forestry | 1,526,216 | 171,605 | 1,572,338 |
| Mining | 580,153 | 57,059 | 626,530 |
| Manufacturing | 10,244,789 | 1,172,994 | 9,203,559 |
| Energy and water supply | 690,933 | 23,425 | 772,138 |
| Construction | 2,706,097 | 203,822 | 1,470,908 |
| Trade | 5,805,363 | 505,086 | 4,526,741 |
| Hotels and restaurants | 639,741 | 24,222 | 395,550 |
| Transport and communication | 1,409,697 | 39,121 | 994,171 |
| Banking and insurance | 18,506,260 | 17,426,350 | 17,361,202 |
| Real estate and other business activities | 1,961,971 | 106,198 | 747,531 |
| Public administration | 7,889,389 | 3,880,065 | 2,688,676 |
| Health and social work | 108,893 | 6,198 | 59,121 |
| Other service activities | 405,128 | 3,363 | 214,774 |
| Private households | 16,701,117 | 9,937,453 | 12,418,380 |
| Other | 769,113 | 570,108 | 648,138 |
| **TOTAL** | **69,944,860** | **34,127,069** | **53,699,757** |

* net maximum exposure not available at 31 December 2006

## 37. RISK MANAGEMENT (CONTINUED)

### 37.5.4 Credit exposure on economic sectors (continued)

**Bank**

| RON Thousand | 2007 | | 2006 |
|---|---|---|---|
| | Gross maximum exposure | Net maximum exposure | Gross maximum exposure *) |
| Agriculture and forestry | 1,449,123 | 160,579 | 1,571,104 |
| Mining | 494,054 | 4,368 | 535,674 |
| Manufacturing | 9,223,767 | 766,270 | 8,934,122 |
| Energy and water supply | 568,746 | 17,378 | 761,428 |
| Construction | 2,062,273 | 74,005 | 1,369,409 |
| Trade | 4,704,142 | 222,504 | 4,234,939 |
| Hotels and restaurants | 576,058 | 23,791 | 395,202 |
| Transport and communication | 1,023,342 | 28,560 | 911,385 |
| Banking and insurance | 19,425,542 | 18,603,195 | 16,405,061 |
| Real estate and other business activities | 1,815,796 | 62,444 | 736,236 |
| Public administration | 5,849,811 | 2,120,742 | 2,639,624 |
| Health and social work | 79,767 | 2,002 | 58,992 |
| Other service activities | 525,109 | 269,480 | 199,867 |
| Private households | 17,487,831 | 9,929,576 | 12,401,758 |
| Other | 1,210,643 | 425,544 | 523 |
| **TOTAL** | **66,496,003** | **32,710,439** | **51,155,323** |

* net maximum exposure not available at 31 December 2006

**Collateral and other credit enhancements**

Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral accepted by the Bank are as follows:

- for commercial lending-charges over real estate properties, inventory and trade receivables;
- for retail lending-mortgages over residential properties.
- for real estate lending: mortgage on land and existing constructions and real movable collateral on shares or social parts (in case of loans for the real estate projects unrolled by the specialized companies within real estate projects/especial founded for the unrolling for this projects);

The Bank monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement.

## 37. RISK MANAGEMENT (CONTINUED)

### 37.5.5 Credit quality per class of financial assets

**Group**

| | Neither past due nor impaired | | | | |
|---|---|---|---|---|---|
| **Ron thousand** | **Low Risk 2007** | **Management attention 2007** | **Sub-standard 2007** | **Past due or individually impaired 2007** | **Total 2007** |
| Due from banks | 1,553,570 | 1,245,604 | 403,132 | 50,582 | 3,252,888 |
| Financial assets designated at fair value through profit or loss | 364,365 | 105,699 | - | - | 470,064 |
| **Loans and advances to customers*** | | | | | |
| Corporate lending | 11,322,007 | 5,203,174 | 1,498,805 | 303,961 | 18,327,947 |
| Small business lending (SME and micros) | 1,129,993 | 7,852,185 | 2,299,697 | 274,375 | 11,556,250 |
| Consumer lending | 8,490,271 | 7,621,123 | 103,196 | 486,528 | 16,701,118 |
| Residential mortgages | 456,934 | 1,091,594 | 366,528 | 46,916 | 1,961,972 |
| Other | 602,903 | 277,985 | 39,712 | 21,661 | 942,261 |
| | **22,002,108** | **22,046,061** | **4,307,938** | **1,133,441** | **49,489,548** |
| **Financial investments** | | | | | |
| Treasury bills | 154,471 | - | - | - | 154,471 |
| Quoted - Other debt securities | 92,151 | - | - | - | 92,151 |
| Unquoted - Debt securities | 1,155,756 | 84,236 | - | - | 1,239,992 |
| | **1,402,378** | **84,236** | **-** | **-** | **1,486,614** |
| **Total** | **25,322,421** | **23,481,600** | **4,711,070** | **1,184,023** | **54,699,114** |

* Loans and advances to customers and undrawn credit and loans commitments, promissory notes and guarantees/liabilities out of assets pledged as collateral security

The bank uses the following classification of the portfolio to assess the quality:

- Low risk clients - clients which have a debt service between 0 and 15 days
- Management attention clients – Clients which have a debt service between 16-30days
- Sub-standard clients – Clients which have a debt service between 31-90 days
- Past due or individually impaired cleitns - Non-performing clients which have a debt service over 90 days

## 37. RISK MANAGEMENT (CONTINUED)

### 37.5.5 Credit quality per class of financial assets (continued)

**Group**

| Ron thousand | Neither past due nor impaired: Low Risk 2006 | Neither past due nor impaired: Management attention 2006 | Neither past due nor impaired: Sub-standard 2006 | Past due or individually impaired 2006 | Total 2006 |
|---|---|---|---|---|---|
| Due from banks | 3,300,095 | 1,191,079 | 7,434 | 10,513 | 4,509,121 |
| Financial assets designated at fair value through profit or loss | 358,073 | 153,965 | - | - | 512,038 |
| **Loans and advances to customers*** | | | | | |
| Corporate lending | 6,012,477 | 3,851,784 | 331,501 | 175,527 | 10,371,289 |
| Small business lending (SME and micros) | 1,449,733 | 6,247,852 | 1,146,796 | 483,854 | 9,328,235 |
| Consumer lending | 5,362,486 | 2,042,422 | 137,897 | 239,926 | 7,782,731 |
| Residential mortgages | 118,360 | 1,937,714 | 74,397 | 16,909 | 2,147,380 |
| Other | 595,263 | 114,978 | 20,290 | 10,145 | 740,676 |
| | **13,538,319** | **14,194,750** | **1,710,881** | **926,361** | **30,370,311** |
| **Financial investments** | | | | | |
| Treasury bills | 359,449 | 11,784 | - | - | 371,233 |
| Quoted - Other debt securities | 687,552 | 53,136 | - | - | 740,688 |
| | **1,047,001** | **64,920** | **-** | **-** | **1,111,921** |
| **Total** | **18,243,488** | **15,604,714** | **1,718,315** | **936,874** | **36,503,391** |

* Loans and advances to customers and guarantees/liabilities out of assets pladged as collateral security

The bank uses the following classification of the portfolio to assess the quality:

- Low risk clients - clients which have a debt service between 0 and 15 days
- Management attention clients – Clients which have a debt service between 16-30days
- Sub-standard clients – Clients which have a debt service between 31-90 days
- Past due or individually impaired cleitns - Non-performing clients which have a debt service over 90 days

## 37. RISK MANAGEMENT (CONTINUED)

### 37.5.5 Credit quality per class of financial assets (continued)

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of assets:

**Bank**

| | Neither past due nor impaired | | | | |
|---|---|---|---|---|---|
| **Ron thousand** | **Low Risk 2007** | **Management attention 2007** | **Sub-standard 2007** | **Past due or individually impaired 2007** | **Total 2007** |
| Due from banks | 1,471,500 | 1,027,603 | - | - | 2,499,103 |
| Financial assets designated at fair value through profit or loss | 364,365 | 105,343 | - | - | 469,708 |
| **Loans and advances to customers*** | | | | | |
| Corporate lending | 7,774,450 | 4,765,464 | 898,940 | 86,645 | 13,525,499 |
| Small business lending (SME and micros) | 1,129,993 | 7,852,185 | 2,299,697 | 274,375 | 11,556,250 |
| Consumer lending | 7,599,471 | 4,794,346 | 527,089 | 411,563 | 13,332,469 |
| Residential mortgages | 422,393 | 2,855,668 | 144,408 | 36,102 | 3,458,571 |
| Other | 602,903 | 277,985 | 39,712 | 21,661 | 942,261 |
| | **17,529,210** | **20,545,648** | **3,909,846** | **830,346** | **42,815,050** |
| **Financial investments** | | | | | |
| Quoted - Government debt securities | 148,936 | - | - | - | 148,936 |
| Quoted - Other debt securities | - | - | - | - | - |
| Unquoted - Debt securities | 1,155,756 | 80,272 | - | - | 1,236,028 |
| | **1,304,692** | **80,272** | **-** | **-** | **1,384,964** |
| **Total** | **20,669,767** | **21,758,866** | **3,909,846** | **830,346** | **47,168,825** |

* Loans and advances to customers and undrawn credit and loan commitments

Non-performing loans (NPL) : according to EBG standards, NPL means overdues more than 90 days (contaminated exposure)

## 37. RISK MANAGEMENT (CONTINUED)

### 37.5.5 Credit quality per class of financial assets (continued)

**Bank**

| Ron thousand | Neither past due nor impaired | | | | |
|---|---|---|---|---|---|
| | Low Risk 2006 | Management attention 2006 | Sub-standard 2006 | Past due or individually impaired 2006 | Total 2006 |
| Due from banks | 2,675,828 | 1,191,079 | - | - | 3,866,907 |
| Financial assets designated at fair value through profit or loss | 358,073 | 155,123 | - | - | 513,196 |
| **Loans and advances to customers*** | | | | | |
| Corporate lending | 5,702,854 | 3,191,622 | 331,501 | 64,252 | 9,290,229 |
| Small business lending (SME and micros) | 1,186,977 | 6,215,565 | 888,000 | 380,196 | 8,670,738 |
| Consumer lending** | 5,346,085 | 2,042,422 | 137,897 | 239,926 | 7,766,330 |
| Residential mortgages | 118,360 | 1,937,714 | 74,397 | 16,909 | 2,147,380 |
| Other | 595,263 | 114,978 | 20,290 | 10,145 | 740,676 |
| | **12,949,539** | **13,502,301** | **1,452,085** | **711,428** | **28,615,353** |
| **Financial investments** | | | | | |
| **Treasury bills** | 15,143 | - | - | - | 15,143 |
| **Unquoted - Debt securities** | 587,872 | 26,126 | - | - | 613,998 |
| | **603,015** | **26,126** | **-** | **-** | **629,141** |
| **Total** | **16,586,455** | **14,874,629** | **1,452,085** | **711,428** | **33,624,597** |

* Loans and advances to customers and guarantees/liabilities out of assets pladged as collateral security

**In 2006, the bank had an insurance policy covering the consumer lending, which was cancelled in 2007

**37. RISK MANAGEMENT (continued)**

**37.5.6 Loan Portfolio on time bands**

The exposure from loans, RON and foreign currency, on maturity bands, RON equivalent, as at 31 December 2007 *):

| RON Thousand | TOTAL | | Exposure contaminated with the debt service | | | | | |
|---|---|---|---|---|---|---|---|---|
| | LOANS | | 1 - 30 days | | 31- 90 days | | NPL (more than 90 days) | NPL / Total loans |
| | Amount | % | Amount | % in Total loans | Amount | % in Total loans | Amount | |
| GLC** | 3,654,900 | 21.4 | 62,898 | | - | | - | 0.0% |
| LC** | 3,902,900 | 22.9 | 338,131 | | 59,468 | | 77,294 | 2.0% |
| SME** | 6,919,900 | 40.6 | 463,142 | | 155,198 | | 121,273 | 1.8% |
| Municipalities | 1,931,600 | 11.3 | 5,792 | | 2,784 | | 630 | 0.0% |
| Real estate financing | 633,900 | 3.7 | 74,232 | | 23,560 | | - | 0.0% |
| **I. Corporate clients, out of which:** | **17,043,200** | **100.0** | **944,195** | **5.5%** | **241,010** | **1.4%** | **199,197** | **1.2%** |
| Individuals | 16,579,000 | 97.3 | 1,173,032 | | 421,934 | | 443,900 | 2.7% |
| Micro | 3,219,000 | 18.9 | 159,425 | | 78,084 | | 120,236 | 3.7% |
| **II. Retail loans, out of which:** | **19,798,000** | **116.2** | **1,332,457** | **6.7%** | **500,018** | **2.5%** | **564,136** | **2.8%** |
| **III. Other customers** | **47,000.0** | **0.3** | **0.0** | **0.0%** | **0.0** | **0.0%** | **0.0** | **0.0%** |
| **Total loans (I+II+III)** | **36,888,200** | **100.0** | **2,276,652** | **6.2%** | **741,028** | **2.0%** | **763,333** | **2.1%** |

*) not available for 2006 because BCR had a different client segmentation before implementing EBG standards.
**) GLC – Group Large Corporates
LC – Large Corporates
SME – Small and Medium Enterprises

**37.5.7 Carrying amount per class of financial assets whose terms have been renegotiated**

| RON Thousand | 2007 | 2006 |
|---|---|---|
| Loans and advances to customers | | |
| Corporate lending | 27,293.1 | 28,000.5 |
| Small business lending | 1,263.6 | - |
| **Total renegotiated financial assets** | **28,556.7** | **28,000.5** |

The Bank considers that financial assets whose terms have been renegotiated are the exposures from loans, interests and undrawn loan commitments, for the customers that are under the insolvency law, and for which a restructuring plan is approved.

**37.5.8 Impairment assessment**

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of

**37. RISK MANAGEMENT (continued)**

**37.5.8 Impairment assessment (continued)**

the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

*Individually assessed allowances*
The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

**37.6 Liquidity risk**

**37.6.1 Liquidity risk management**

Liquidity risk arises from the potential inability to meet all payments obligations when they come due. The Bank manages the liquidity risk with the purpose of maintaining an adequate liquidity, so as to cover at all times its financial commitments on all time bands, as well as to maximize the net interest income.

Tha Bank pays careful attention to liquidity risk management by setting fundamental objectives such as ensuring the necessary funds to cover, at any time, all financial obligations assumed by the Bank, and setting an appropriate balance sheet structure, for minimizing any potentially negative effects. In this respect, the Bank concentrates its efforts on identifying the liquidity risk sources, evaluating its risk exposures and setting appropriate limits to mitigate the possible consequences of liquidity risk.

The Bank assesses its liquidity by:
- Analyzing the structure of assets, in terms of their liquidity and marketability;
- Analyzing liabilities (in terms of their volatility) and off-balance sheet elements (implying potential ins/outs of funds);
- Analyzing main currencies liquidity, both individually and aggregated.

In order to evaluate and control the liquidity risk of the bank's portfolio, the Bank employs the following instruments:
- Asset and Liability Management (ALM), focused on suitably determining the appropriate balance sheet structure, by correlating resources and placements in terms of their structure and maturity;
- Computing and monitoring the liquidity ratios by maturity ranges, based on the future cash-flows analysis, in terms of on- and off-balance sheet assets and liabilities;
- Establishing minimum limits for the liquidity ratios;
- GAP analysis (aggregated and separated, for RON and foreign currencies);
- Monthly computation of certain liquidity ratios.

For every financial year tha Bank prepares:
- A strategy for managing liquidity under normal circumstances encompassing the main objectives of the bank, with the purpose to maintain an adequate portfolio liquidity, by re-evaluating it in line with the business environment requirements;

**37.6 Liquidity risk (continued)**

37.6.1 Liquidity risk management (continued)

- A strategy for managing liquidity in crisis situations, comprising the measures required to successfully overcome a potential crisis.

The table below presents the evolution of the ratio of liquid assets to customers (banking and non-banking customers) liabilities:

| | 2007 | 2006 |
|---|---|---|
| | (%) | (%) |
| December | 36.45 | 42.76 |
| Average | 37.24 | 37.48 |
| Max | 41.3 | 42.76 |
| Min | 34.75 | 34.18 |

### 37.6.2 Liquidity analysis of assets and liabilities

The tables below show an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

**Group 2007**

| RON Thousand | Less than 3 days | Less than 3 months | 3 to 12 months | less than 12 months | 1 to 5 years | Over 5 years | Over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 17,303,337 | - | - | 17,303,337 | - | - | - | 17,303,337 |
| Due from banks | 2,411,892 | 246,185 | 407,751 | 3,065,828 | 187,060 | - | 187,060 | 3,252,888 |
| Financial assets held for trading | 2,993 | - | - | 2,993 | - | 2 | 2 | 2,995 |
| Financial assets designated at fair value through profit or loss | - | - | 27 | 27 | 215,831 | 254,206 | 470,037 | 470,064 |
| Loans and advances to customers | 1,680,172 | 2,039,875 | 5,744,957 | 9,465,004 | 6,970,990 | 21,102,777 | 28,073,767 | 37,538,771 |
| Financial investments – available-for- sale | 520,690 | 1,579 | 359,003 | 881,272 | 674,153 | 130,145 | 804,298 | 1,685,570 |
| Financial investments – held-to- maturity | 4,507 | 1,192 | 4,736 | 10,435 | 180 | - | 180 | 10,615 |
| Investment of insurance companies | 71,085 | 52,495 | 181,419 | 304,999 | 48,029 | 60,170 | 108,199 | 413,198 |
| Property and equipment | - | - | - | - | - | 1,644,367 | 1,644,367 | 1,644,367 |
| Intangible assets | - | - | - | - | - | 208,669 | 208,669 | 208,669 |
| Deferred tax assets | - | - | 1,840 | 1,840 | - | 236 | 236 | 2,076 |
| Other assets | 814,792 | 4,514 | 4,734 | 824,040 | 2,024 | 249 | 2,273 | 826,313 |
| **Total assets** | **22,809,468** | **2,345,840** | **6,704,467** | **31,859,775** | **8,098,267** | **23,400,821** | **31,499,088** | **63,358,863** |
| **Liabilities** | | | | | | | | |
| Due to banks | 1,213,529 | 2,911,011 | 9,171,153 | 13,295,693 | 9,094,847 | 144,932 | 9,239,779 | 22,535,473 |
| Due to customers | 8,739,240 | 18,488,453 | 2,223,943 | 29,451,636 | 657,066 | 22,952 | 680,018 | 30,131,654 |
| Debt issued and other borrowed funds | 673,729 | 681,577 | 2,223,415 | 3,578,721 | 263,543 | - | 263,543 | 3,842,264 |
| Current tax liabilities | 3,741 | - | 5,610 | 9,351 | - | - | - | 9,351 |
| Deferred tax liabilities | 215 | - | - | 215 | - | 40,978 | 40,978 | 41,193 |
| Other liabilities | 1,393,111 | 3,240 | 11,880 | 1,408,231 | 3,745 | 558 | 4,303 | 1,412,534 |
| Provisions | 295,027 | 50,751 | 152,616 | 498,394 | 20,377 | 253 | 20,630 | 519,024 |
| **Total liabilities** | **12,318,586** | **22,135,032** | **13,788,617** | **48,242,235** | **10,039,578** | **209,673** | **10,249,251** | **58,491,486** |
| **Net** | **10,490,881** | **(19,789,191)** | **(7,084,150)** | **(16,382,460)** | **(1,941,311)** | **23,191,146** | **21,249,835** | **4,867,376** |

**37.6 Liquidity risk (continued)**

**37.6.2 Liquidity analysis of assets and liabilities (continued)**

**Group 2006**

| RON Thousand | Less than 3 days | Less than 3 months | 3 to 12 months | less than 12 months | 1 to 5 years | Over 5 years | Over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 13,544,290 | - | - | 13,544,290 | - | - | - | 13,544,290 |
| Due from banks | 62,702 | 3,863,066 | 391,800 | 4,317,568 | 191,479 | 74 | 191,553 | 4,509,121 |
| Reverse repurchase agreements | - | - | - | - | 2,464 | - | 2,464 | 2,464 |
| Financial assets designated at fair value through profit or loss | - | - | 92,417 | 92,417 | 177,594 | 242,027 | 419,621 | 512,038 |
| Loans and advances to customers | 2,356 | 2,851,268 | 5,986,853 | 8,840,477 | 9,163,666 | 7,414,163 | 16,577,829 | 25,418,306 |
| Financial investments – available-for- sale | 803 | 63,934 | 69,268 | 134,005 | 535,467 | 175,330 | 710,797 | 844,802 |
| Financial investments – held-to-maturity | - | 3,755 | 8,315 | 12,070 | 3,074 | 32 | 3,106 | 15,176 |
| Investment of insurance companies | - | 15,155 | 12,493 | 27,648 | 53,591 | 84,240 | 137,831 | 165,479 |
| Property and equipment | - | - | - | - | - | 1,666,802 | 1,666,802 | 1,666,802 |
| Intangible assets | - | - | - | - | - | 178,384 | 178,384 | 178,384 |
| Deferred tax assets | - | - | - | - | - | 51,560 | 51,560 | 51,560 |
| Other assets | 527,328 | - | - | 527,328 | - | - | - | 527,328 |
| **Total assets** | **14,137,479** | **6,797,178** | **6,561,146** | **27,495,803** | **10,127,335** | **9,812,612** | **19,939,947** | **47,435,750** |
| **Liabilities** | | | | | | | | |
| Due to banks | 42,697 | 3,983,084 | 3,008,696 | 7,034,477 | 5,615,978 | 252,238 | 5,868,216 | 12,902,693 |
| Repurchase agreements | - | 151,932 | - | 151,932 | 149,907 | - | 149,907 | 301,839 |
| Due to customers | 6,654,876 | 15,504,477 | 1,822,517 | 23,981,870 | 581,923 | 27,379 | 609,302 | 24,591,172 |
| Debt issued and other borrowed funds | - | 1,628,819 | 661,453 | 2,290,272 | 1,917,019 | - | 1,917,019 | 4,207,291 |
| Current tax liabilities | - | 8,462 | | 8,462 | - | - | - | 8,462 |
| Deferred tax liabilities | - | - | - | - | - | 5,053 | 5,053 | 5,053 |
| Other liabilities | 762,676 | - | 3,321 | 765,997 | - | - | - | 765,997 |
| Provisions | 202,198 | 79,338 | 108,617 | 390,153 | 13,766 | 324 | 14,090 | 404,243 |
| **Total liabilities** | **7,662,447** | **21,356,112** | **5,604,604** | **34,623,163** | **8,278,593** | **284,994** | **8,563,587** | **43,186,750** |
| **Net** | **6,475,032** | **(14,558,934)** | **956,542** | **(7,127,360)** | **1,848,742** | **9,527,618** | **11,376,360** | **4,249,000** |

### 37.6 Liquidity risk (continued)

### 37.6.2 Liquidity analysis of assets and liabilities (continued)

**Bank 2007**

| RON Thousand | Less than 3 days | Less than 3 months | 3 to 12 months | Less than 12 months | 1 to 5 years | Over 5 years | Over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 17,181,773 | - | - | 17,181,773 | - | - | - | 17,181,773 |
| Due from banks | 2,334,572 | 76,847 | 3,701 | 2,415,120 | 57,289 | 26,694 | 83,983 | 2,499,103 |
| Financial assets held for trading | 20 | - | - | 20 | - | - | - | 20 |
| Financial assets designated at fair value through profit or loss | - | - | - | - | 215,831 | 253,877 | 469,708 | 469,708 |
| Loans and advances to customers | 1,413,846 | 1,747,166 | 4,720,375 | 7,881,387 | 6,050,226 | 21,129,776 | 27,180,002 | 35,061,389 |
| Financial investments – available-for-sale | 520,690 | 1,054 | 322,857 | 844,601 | 609,614 | 593,527 | 1,203,141 | 2,047,742 |
| Financial investments – held-to-maturity | - | - | 2,941 | 2,941 | - | - | - | 2,941 |
| Property and equipment | - | - | - | - | - | 1,531,658 | 1,531,658 | 1,531,658 |
| Intangible assets | - | - | - | - | - | 178,338 | 178,338 | 178,338 |
| Deferred tax assets | - | - | - | - | - | - | - | - |
| Other assets | 638,478 | - | - | 638,478 | - | - | - | 638,478 |
| **Total assets** | **22,089,379** | **1,825,067** | **5,049,874** | **28,964,320** | **6,932,960** | **23,713,870** | **30,646,830** | **59,611,150** |
| **Liabilities** | | | | | | | | |
| Due to banks | 919,768 | 2,665,963 | 8,141,641 | 11,727,372 | 7,729,692 | 144,846 | 7,874,538 | 19,601,910 |
| Due to customers | 9,067,922 | 18,288,226 | 2,225,319 | 29,581,467 | 647,356 | 22,956 | 670,312 | 30,251,779 |
| Debt issued and other borrowed funds | 673,729 | 681,577 | 2,260,750 | 3,616,056 | 263,543 | - | 263,543 | 3,879,599 |
| Deferred tax assets | - | - | - | - | - | 34,591 | 34,591 | 34,591 |
| Other liabilities | 1,178,979 | - | - | 1,178,979 | - | - | - | 1,178,979 |
| Provisions | 140,982 | - | - | 140,982 | - | - | - | 140,982 |
| **Total liabilities** | **11,981,376** | **21,635,766** | **12,627,710** | **46,244,852** | **8,640,590** | **202,393** | **8,842,983** | **55,087,835** |
| **Net** | **10,108,005** | **(19,810,699)** | **(7,577,836)** | **(17,280,530)** | **(1,707,631)** | **23,511,475** | **21,803,845** | **4,523,315** |

### 37.6 Liquidity risk (continued)

#### 37.6.2 Liquidity analysis of assets and liabilities (continued)

Bank 2006

| RON Thousand | Less than 3 days | Less than 3 months | 3 to 12 months | Less than 12 months | 1 to 5 years | Over 5 years | Over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 13,433,219 | - | - | 13,433,219 | - | - | - | 13,433,219 |
| Due from banks | 39,563 | 3,753,133 | 28,010 | 3,820,706 | 20,000 | 26,201 | 46,201 | 3,866,907 |
| Repurchase agreements | - | - | - | - | 2,464 | - | 2,464 | 2,464 |
| Financial assets designated at fair value through profit or loss | - | 1,291 | 92,353 | 93,644 | 177,594 | 241,958 | 419,552 | 513,196 |
| Loans and advances to customers | 292 | 2,878,762 | 5,498,534 | 8,377,588 | 8,339,191 | 7,082,398 | 15,421,589 | 23,799,177 |
| Financial investments – available-for-sale | - | 52,867 | 42,091 | 94,958 | 465,073 | 536,747 | 1,001,820 | 1,096,778 |
| Financial investments – held-to-maturity | - | 3,754 | 8,315 | 12,069 | 3,074 | - | 3,074 | 15,143 |
| Property and equipment | - | - | - | - | - | 1,551,751 | 1,551,751 | 1,551,751 |
| Intangible assets | - | - | - | - | - | 175,692 | 175,692 | 175,692 |
| Deferred tax assets | - | - | - | - | - | 46,293 | 46,293 | 46,293 |
| Other assets | 354,069 | - | - | 354,069 | - | - | - | 354,069 |
| **Total assets** | **13,827,143** | **6,689,807** | **5,669,303** | **26,186,253** | **9,007,396** | **9,661,040** | **18,668,436** | **44,854,689** |
| **Liabilities** | | | | | | | | |
| Due to banks | 31,708 | 3,742,724 | 2,651,940 | 6,426,372 | 4,401,657 | 208,252 | 4,609,909 | 11,036,281 |
| Repurchase agreements | - | 151,932 | - | 151,932 | 149,907 | - | 149,907 | 301,839 |
| Due to customers | 6,495,322 | 15,539,706 | 1,838,491 | 23,873,519 | 574,042 | 29,504 | 603,546 | 24,477,065 |
| Debt issued and other borrowed funds | - | 1,626,643 | 661,454 | 2,288,097 | 1,962,837 | - | 1,962,837 | 4,250,934 |
| Other liabilities | 651,273 | - | - | 651,273 | - | - | - | 651,273 |
| Provisions | 161,995 | - | - | 161,995 | - | - | - | 161,995 |
| **Total liabilities** | **7,340,298** | **21,061,005** | **5,151,885** | **33,553,188** | **7,088,443** | **237,756** | **7,326,199** | **40,879,387** |
| **Net** | **6,486,845** | **(14,371,198)** | **517,418** | **(7,366,935)** | **1,918,953** | **9,423,284** | **11,342,237** | **3,975,302** |

### 37.6 Liquidity risk (continued)

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

The tables below summarise the maturity profile of the financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were given immediately. However, the Group and the Bank expect that many customers will not request repayment on the earliest date the Group or the Bank could be required to pay and the tables do not reflect the expected cash-flows indicated by the Group's and the Bank's deposit retention history.

**Group 2007**

| RON Thousand | Less than 3 days | Less than 3 months | 3 to 12 months | Less than 12 months | 1 to 5 years | Over 5 years | Over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| Due to banks | 1,213,758 | 2,927,430 | 9,429,797 | 13,570,985 | 10,326,007 | 177,631 | 10,503,638 | 24,074,623 |
| Due to customers | 8,741,351 | 18,565,475 | 2,270,271 | 29,577,096 | 722,767 | 26,777 | 749,544 | 30,326,641 |
| Debt issued and other borrowed funds | 673,908 | 687,021 | 2,287,241 | 3,648,171 | 389,505 | - | 389,505 | 4,037,676 |
| Current tax liabilities | 3,741 | - | 5,610 | 9,351 | - | - | - | 9,351 |
| Deferred tax liabilities | 215 | - | - | 215 | - | 40,978 | 40,978 | 41,193 |
| Other liabilities | 1,465,505 | 3,240 | 11,880 | 1,480,625 | 3,745 | 558 | 4,303 | 1,484,928 |
| Provisions | 222,626 | 50,751 | 152,616 | 425,994 | 20,377 | 253 | 20,630 | 446,624 |
| Total undiscounted financial liabilities | **12,321,104** | **22,233,917** | **14,157,415** | **48,712,436** | **11,462,402** | **246,197** | **11,708,599** | **60,421,035** |

**Group 2006**

| RON Thousand | **Less than 3 days** | **Less than 3 months** | **3 to 12 months** | **Less than 12 months** | **1 to 5 years** | **Over 5 years** | **Over 12 months** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Due to banks | 42,704 | 4,154,435 | 3,082,040 | 7,279,179 | 6,423,016 | 301,429 | 6,724,445 | 14,003,625 |
| Due to customers | 6,656,543 | 15,571,193 | 1,861,729 | 24,089,465 | 642,020 | 32,092 | 674,111 | 24,763,576 |
| Debt issued and other borrowed funds | - | 1,642,385 | 661,700 | 2,304,085 | 2,033,338 | - | 2,033,338 | 4,337,423 |
| Current tax liabilities | - | 8,462 | - | 8,462 | - | - | - | 8,462 |
| Deferred tax liabilities | - | - | - | - | - | 5,053 | 5,053 | 5,053 |
| Other liabilities | 762,676 | - | 3,321 | 765,997 | - | - | - | 765,997 |
| Provisions | 202,198 | 79,338 | 108,617 | 390,153 | 13,766 | 324 | 14,090 | 404,243 |
| Total undiscounted financial liabilities | **7,664,121** | **21,455,813** | **5,717,406** | **34,837,341** | **9,112,140** | **338,898** | **9,451,038** | **44,288,379** |

**37.6 Liquidity risk (continued)**

**37.6.3 Analysis of financial liabilities by remaining contractual maturities (continued)**

**Bank 2007**

| RON Thousand | Less than 3 days | Less than 3 months | 3 to 12 months | less than 12 months | 1 to 5 years | Over 5 years | Over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | |
| Due to banks | 919,941 | 2,681,000 | 8,371,251 | 11,972,191 | 8,776,053 | 177,525 | 8,953,578 | 20,925,770 |
| Due to customers | 9,070,112 | 18,363,947 | 2,271,676 | 29,705,736 | 712,086 | 26,782 | 738,868 | 30,444,603 |
| Debt issued and other borrowed funds | 673,908 | 687,021 | 2,326,067 | 3,686,997 | 387,643 | - | 387,643 | 4,074,639 |
| Deferred tax liabilities | - | - | - | - | - | 34,591 | 34,591 | 34,591 |
| Other liabilities | 1,251,376 | - | - | 1,251,376 | - | - | - | 1,251,376 |
| Provisions | 68,581 | - | - | 68,581 | - | - | - | 68,581 |
| **Total undiscounted financial liabilities** | 11,983,918 | 21,731,968 | 12,968,994 | 46,684,881 | 9,875,782 | 238,898 | 10,114,680 | 56,799,560 |

**Bank 2006**

| RON Thousand | Less than 3 days | Less than 3 months | 3 to 12 months | less than 12 months | 1 to 5 years | Over 5 years | Over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | |
| Due to banks | 31,713 | 3,912,904 | 2,716,587 | 6,661,204 | 5,066,606 | 248,865 | 5,315,471 | 11,976,675 |
| Due to customers | 6,496,949 | 15,606,574 | 1,878,046 | 23,981,570 | 633,325 | 34,582 | 667,907 | 24,649,477 |
| Debt issued and other borrowed funds | - | 1,640,191 | 661,701 | 2,301,892 | 2,077,581 | - | 2,077,581 | 4,379,472 |
| Other liabilities | 651,273 | - | - | 651,273 | - | - | - | 651,273 |
| Provisions | 161,995 | - | - | 161,995 | - | - | - | 161,995 |
| **Total undiscounted financial liabilities** | **7,341,930** | **21,159,668** | **5,256,334** | **33,757,933** | **7,777,512** | **283,447** | **8,060,959** | **41,818,892** |

**37.6.4 Analysis of contingent liabilities and commitments by remaining contractual maturities**

The tables below show the contractual expiry by maturity of the **contingent liabilities and commitments.**

Group 2007

| RON Thousand | Less than 3 days | Less than 3 months | 3 to 12 months | less than 12 months | 1 to 5 years | Over 5 years | Over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| Contingent liabilities | - | 1,341,194 | 983,415 | 2,324,610 | 1,470,497 | 261,912 | 1,732,408 | 4,057,018 |
| Commitments | - | 1,661,540 | 1,144,316 | 2,805,856 | 814,072 | 2,413,095 | 3,227,167 | 6,033,023 |
| Total | - | 3,002,734 | 2,127,732 | 5,130,466 | 2,284,568 | 2,675,007 | 4,959,575 | 10,090,041 |

Group 2006

| RON Thousand | Less than 3 days | Less than 3 months | 3 to 12 months | less than 12 months | 1 to 5 years | Over 5 years | Over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| Contingent liabilities | - | 1,433,818 | 538,488 | 1,972,306 | 1,961,883 | 223,807 | 2,185,690 | 4,157,996 |
| Commitments | - | 611,165 | 1,335,022 | 1,946,188 | 683,038 | 2,437,505 | 3,120,542 | 5,066,730 |
| Total | - | 2,044,984 | 1,873,510 | 3,918,493 | 2,644,921 | 2,661,311 | 5,306,233 | 9,224,726 |

### 37.6 Liquidity risk (continued)

#### 37.6.4 Analysis of contingent liabilities and commitments by remaining contractual maturities (continued)

Bank 2007

| RON Thousand | Less than 3 days | Less than 3 months | 3 to 12 months | less than 12 months | 1 to 5 years | Over 5 years | Over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| Contingent liabilities | - | 1,288,640 | 944,881 | 2,233,521 | 1,412,876 | 251,649 | 1,664,525 | 3,898,046 |
| Commitments | - | 1,632,289 | 1,124,171 | 2,756,460 | 799,740 | 2,370,613 | 3,170,353 | 5,926,813 |
| Total | - | 2,920,929 | 2,069,052 | 4,989,981 | 2,212,616 | 6,622,262 | 4,834,878 | 9,824,859 |

Bank 2006

| RON Thousand | Less than 3 days | Less than 3 months | 3 to 12 months | less than 12 months | 1 to 5 years | Over 5 years | Over 12 months | Total |
|---|---|---|---|---|---|---|---|---|
| Contingent liabilities | - | 1,394,770 | 523,822 | 1,981,592 | 1,908,453 | 217,711 | 2,126,165 | 4,044,757 |
| Commitments | - | 594,031 | 1,297,593 | 1,891,624 | 663,888 | 2,369,166 | 3,033,054 | 4,924,677 |
| Total | - | 1,988,800 | 1,821,415 | 3,810,216 | 2,572,341 | 2,586,878 | 5,159,219 | 8,969,435 |

### 37.7 Currency risk

**Group 2007**

| RON Thousand | RON | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central banks | 7,054,322 | 10,196,170 | 29,436 | 23,409 | 17,303,337 |
| Due from banks | 1,696,010 | 673,526 | 825,079 | 58,273 | 3,252,888 |
| Financial assets held for trading | 16 | 2,979 | - | - | 2,995 |
| Financial assets designated at fair value through profit or loss | 102,589 | 367,475 | - | - | 470,064 |
| Loans and advances to customers | 17,936,237 | 18,094,623 | 1,434,461 | 73,450 | 37,538,771 |
| Financial investments – available-for-sale | 1,311,158 | 335,519 | 38,893 | - | 1,685,570 |
| Financial investments – held-to-maturity | 10 | - | 2,941 | 7,664 | 10,615 |
| Investments of insurance companies | 360,802 | 48,635 | 3,745 | 16 | 413,198 |
| Property and equipment | 1,642,589 | 487 | - | 1,291 | 1,644,367 |
| Intangible assets | 207,077 | 631 | - | 961 | 208,669 |
| Deferred tax assets | 236 | 1,840 | - | - | 2,076 |
| Other assets | 615,620 | 178,339 | 28,311 | 4,043 | 826,313 |
| **Total assets** | **30,926,666** | **29,900,224** | **2,362,866** | **169,107** | **63,358,863** |
| **Liabilities** | | | | | |
| Due to banks | 4,721,810 | 16,209,189 | 1,590,568 | 13,906 | 22,535,473 |
| Due to customers | 21,845,819 | 6,676,592 | 1,458,852 | 150,384 | 30,131,647 |
| Debt issued and other borrowed funds | 1,362,043 | 2,406,765 | 73,456 | - | 3,842,264 |
| Current tax liabilities | 4,298 | 4,888 | - | 165 | 9,351 |
| Deferred tax liabilities | 41,167 | - | - | 26 | 41,193 |
| Other liabilities | 830,948 | 418,982 | 158,044 | 4,560 | 1,412,534 |
| Provisions | 510,768 | 8,204 | - | 52 | 519,024 |
| **Total liabilities** | **29,316,853** | **25,724,620** | **3,280,920** | **169,093** | **58,491,486** |
| **Net** | **1,609,813** | **4,175,604** | **(918,054)** | **14** | **4,867,377** |

**37.7 Currency risk (continued)**

**Group 2006**

| RON Thousand | RON | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central banks | 5,822,867 | 6,304,442 | 1,402,299 | 14,682 | 13,544,290 |
| Due from banks | 2,360,277 | 732,448 | 1,266,466 | 149,930 | 4,509,121 |
| Reverse repurchase agreements | 2,464 | - | - | - | 2,464 |
| Financial assets designated at fair value through profit or loss | 101,788 | 410,250 | - | - | 512,038 |
| Loans and advances to customers | 13,951,781 | 10,057,547 | 1,360,988 | 47,990 | 25,418,306 |
| Financial investments - available-for-sale | 720,921 | 102,386 | 17,310 | 4,185 | 844,802 |
| Financial investments - held-to-maturity | - | - | 15,176 | - | 15,176 |
| Investments of insurance companies | 164,223 | 1,256 | - | - | 165,479 |
| Property and equipment | 1,665,280 | 876 | - | 646 | 1,666,802 |
| Intangible assets | 176,886 | 623 | - | 875 | 178,384 |
| Deferred tax assets | 47,310 | 4,250 | - | - | 51,560 |
| Other assets | 417,283 | 72,805 | 34,389 | 2,851 | 527,328 |
| **Total assets** | **25,431,080** | **17,686,883** | **4,096,628** | **221,159** | **47,435,750** |
| **Liabilities** | | | | | |
| Due to banks | 899,221 | 10,344,380 | 1,640,024 | 19,068 | 12,902,693 |
| Repurchase agreements | 925 | 151,006 | 149,908 | - | 301,839 |
| Due to customers | 17,523,997 | 4,966,288 | 1,930,495 | 170,392 | 24,591,172 |
| Debt issued and other borrowed funds | 1,727,997 | 2,370,271 | 109,023 | - | 4,207,291 |
| Current tax liabilities | 8,462 | - | - | - | 8,462 |
| Deferred tax liabilities | 5,053 | - | - | - | 5,053 |
| Other liabilities | 619,341 | 78,863 | 64,511 | 3,282 | 765,997 |
| Provisions | 400,940 | 26 | - | 3,277 | 404,243 |
| **Total liabilities** | **21,185,936** | **17,910,834** | **3,893,961** | **196,019** | **43,186,750** |
| **Net** | **4,245,144** | **(223,951)** | **202,667** | **25,140** | **4,249,000** |

**Bank 2007**

| RON Thousand | RON | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central banks | 7,020,917 | 10,118,657 | 23,228 | 18,971 | 17,181,773 |
| Due from banks | 1,707,637 | 518,656 | 230,588 | 42,222 | 2,499,103 |
| Financial assets held for trading | 13 | 7 | - | - | 20 |
| Financial assets designated at fair value through profit or loss | 102,233 | 367,475 | - | - | 469,708 |
| Loans and advances to customers | 17,718,540 | 16,051,943 | 1,288,675 | 2,231 | 35,061,389 |
| Financial investments - available-for-sale | 1,766,047 | 257,268 | 24,427 | - | 2,047,742 |
| Financial investments - held-to-maturity | - | - | 2,941 | - | 2,941 |
| Investments of insurance companies | - | - | - | - | - |
| Property and equipment | 1,531,658 | - | - | - | 1,531,658 |
| Intangible assets | 178,338 | - | - | - | 178,338 |
| Deferred tax assets | - | - | - | - | - |
| Other assets | 473,028 | 144,864 | 20,112 | 474 | 638,478 |
| **Total assets** | **30,498,411** | **27,458,870** | **1,589,971** | **63,898** | **59,611,150** |
| **Liabilities** | | | | | |
| Due to banks | 4,620,133 | 13,979,517 | 1,000,682 | 1,578 | 19,601,910 |
| Repurchase agreements | - | - | - | - | - |
| Due to customers | 22,056,391 | 6,619,125 | 1,435,202 | 141,056 | 30,251,774 |
| Debt issued and other borrowed funds | 1,374,125 | 2,432,018 | 73,456 | - | 3,879,599 |
| Deferred tax liabilities | 34,591 | - | - | - | 34,591 |
| Other liabilities | 719,246 | 413,530 | 43,853 | 2,350 | 1,178,979 |
| Provisions | 139,871 | 1,111 | - | - | 140,982 |
| **Total liabilities** | **28,944,357** | **23,445,301** | **2,553,193** | **144,984** | **55,087,835** |
| **Net** | **1,554,054** | **4,013,569** | **(963,222)** | **(81,086)** | **4,523,315** |

**37.7 Currency risk (continued)**

**Bank 2006**

| RON Thousand | RON | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central banks | 5,784,585 | 6,238,001 | 1,400,178 | 10,455 | 13,433,219 |
| Due from banks | 2,363,259 | 734,319 | 630,499 | 138,830 | 3,866,907 |
| Reverse repurchase agreements | 2,464 | - | - | - | 2,464 |
| Financial assets designated at fair value through profit or loss | 102,946 | 410,250 | - | - | 513,196 |
| Loans and advances to customers | 13,793,843 | 8,801,481 | 1,202,153 | 1,700 | 23,799,177 |
| Financial investments - available-for-sale | 830,261 | 240,984 | 25,533 | - | 1,096,778 |
| Financial investments - held-to-maturity | - | - | 15,143 | - | 15,143 |
| Property and equipment | 1,551,751 | - | - | - | 1,551,751 |
| Intangible assets | 175,692 | - | - | - | 175,692 |
| Deferred tax assets | 46,293 | - | - | - | 46,293 |
| Other assets | 305,821 | 24,268 | 23,551 | 429 | 354,069 |
| **Total assets** | **24,956,915** | **16,449,303** | **3,297,057** | **151,414** | **44,854,689** |
| **Liabilities** | | | | | |
| Due to banks | 868,128 | 9,047,151 | 1,119,072 | 1,930 | 11,036,281 |
| Repurchase agreements | 925 | 151,006 | 149,908 | - | 301,839 |
| Due to customers | 17,578,933 | 4,860,031 | 1,890,951 | 147,150 | 24,477,065 |
| Debt issued and other borrowed funds | 1,737,823 | 2,404,088 | 109,023 | - | 4,250,934 |
| Other liabilities | 484,030 | 111,885 | 53,020 | 2,338 | 651,273 |
| Provisions | 161,969 | 26 | - | - | 161,995 |
| **Total liabilities** | **20,831,808** | **16,574,187** | **3,321,974** | **151,418** | **40,879,387** |
| **Net** | **4,125,107** | **(124,884)** | **(24,917)** | **(4)** | **3,975,302** |

### 37.8 Market Risk

Market risk arises from the uncertainty concerning changing in the market prices and rates, equity prices, foreign exchange rates and commodity prices, the correlations among them and their levels of volatility.

In terms of market risk, the Bank has as prime objective the setting of an appropriate structure of its assets and liabilities, enabling it to avoid important negative impact on the Bank's activity and financial performance, should the interest rates, foreign exchange rates and market prices change.

The Bank focuses on identifying the causes of market risks, evaluating its exposure to such risks and taking the necessary measures to mitigate them.

Regarding the market risk, in 2007 there were important organizational changes as well as changes of systems, and implicitly of methodology, due to the process of BCR's integration into EBG (for example the VaR system used in 2006 was replaced with KVaR+ according to EBG standards).

Due to these changes, some of the figures provided for December 2006 and for December 2007 are not comparable.

During 2007 the Bank did not have trading book activities and maintained low total FX positions.

The evolution of the FX positions, as percentage of the own funds, calculated in accordance with norms issued by the national Bank of Romania, was:

### 37.8 Market Risk (continued)

| FX Exposure | | 2006 % of own funds | 2007 % of own funds |
|---|---|---|---|
| EUR | avg | 0.95% | 0.85% |
| | max | 2.11% | 2.78% |
| USD | avg | 0.14% | 0.15% |
| | max | 0.34% | 0.28% |
| Others | avg | N/A | N/A |
| | max | N/A | N/A |
| **Total** | **avg** | **0.95%** | **0.99%** |
| | **max** | **2.95%** | **3.90%** |

The evolution of the VaR of the total FX position was:

| 1 day, 99%, RON VaR | | 2006 | 2007 |
|---|---|---|---|
| VaR of the total FX position | avg | 540,127 | 341,053 |
| | max | 1,351,740 | 1,455,726 |

The table below presents the VaR figures, in the new structure, as of year-end 2007 only (for 2006 these figures are not available) due to changes in methodology as explained above.

| 1 day, 99%, RON VaR | | IR | FX | Price | Total |
|---|---|---|---|---|---|
| Treasury | FX+MM | 5,535,125 | 9,283,460 | - | 9,580,221 |
| | Eq (* | - | - | - | - |
| | FI – TB (* | - | - | - | - |
| | FI - BB | 6,468,862 | - | - | 6,468,862 |
| **Total Treasury** | | **4,974,702** | **9,283,460** | **-** | **9,744,636** |
| Capital Markets | FI + BVB | 625,323 | - | 7,673,956 | 7,787,769 |
| | Participations | - | - | 831,993 | 831,993 |
| **Total Capital Markets** | | **625,323** | **-** | **7,843,535** | **7,957,347** |
| **Total BSM** | | **18,056,603** | **-** | **-** | **18,056,603** |

(* in 2007 the Bank did not have trading book activities

The figures in the previous table were computed using the new VaR system, KVaR+ and using the historical simulation method.

The parameters of the VaR computation are: holding period = 1 day, confidence level = 99%, lambda = 1, length of risk factors time series = 730 days (this being the standard across Erste Bank Group).

In 2008 a new, more complex, system of market risk limits will be implemented and the Bank will start trading book activities:

- **Limits for the Trading Book**

Exposure (delta) limits on FX positions:

1 Day, 99% - VaR limit on the FX position
PVBP limit for positions on the domestic (RON denominated) FI market
1 Day, 99% - VaR limit on the domestic (RON denominated) FI market

**37.8 Market Risk (continued)**

Exposure (delta) limits on the Equity position:
1 Day, 99% - VaR limit on Equity position

- **Limits for the Banking Book**

PVBP limits for MM
1 Day, 99% - VaR limit on total MM position

PVBP limits for FI market (HTM, AFS)
1 Day, 99% - VaR limit on the FI market (HTM, AFS)

- **A Global VaR limit:**

1 Day, 99% - VaR limit on Trading Book plus MM

The Bank developed specific norms for transactions with derivatives, used both as products offered to customers for risk mitigation and for hedging against the market risk exposure of its own portfolio.

The Bank does not have significant financial assets and liabilities with fixed interest rate and therefore it is not exposed to the market risk.

37.9 **Operational risk**

Operational risk represents the risk to register losses or do not make the estimated profit generated both by the internal factors (inadequate spreading out of some internal activities, human factor, inadequate systems etc.) and external factors (economical conditions, changes in the banking field, technological progress etc).

The Bank administers operational risks by approaching the main operational risk categories (e.g. internal fraud, external fraud, the requirements relating to personnel additions and the security of the working environment, erroneous practices related to the clientele, products and activities, etc.) and ensuring the appropriate frame for the identification, assessment, notification, monitoring and reporting of this significant risk.

*
* *

The Bank remains committed to the objective of increasing shareholder value by developing and growing business that is consistent with risk appetite, and through building more effective risk management capabilities. Responsibility for risk management resides at all levels within the Group, from the Executive down through the organization to each business manager and risk specialist. The Bank is seeking an appropriate balance in its business, and continuing to build the risk management capabilities that will help to deliver growth plans in a controlled environment.

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

**37.10 Insurance risk**

The Group is exposed to insurance risk through its subsidiaries BCR Asigurari (general insurance) and BCR Asigurari de Viata (life insurance).

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long term claims.

### 37.10 Insurance risk (continued)

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of the underwriting strategy and guidelines as well as the use of reinsurance arrangements.

The majority of reinsurance business ceded is placed on a quota share basis with retention limits varying by product line. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the balance sheet as reinsurance assets.

Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

The Group's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Group substantially dependent upon any single reinsurance contract. There is no single counterparty exposure that exceeds 5% of total reinsurance assets at the balance sheet date.

The business of the Group comprises both life and general insurance contracts.

***(1) Life insurance contracts***

The Group principally writes life insurance contracts (where the life of the policyholder is insured against death or permanent disability, usually for a predetermined amount) and health insurance contracts. The Group has just started these products and they have not had a material impact on the current year's financial statements.

The Group's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, a regular review of actual claims experience and product pricing. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims.

***(2) General insurance contracts***

The Group principally issues the following types of general insurance contracts: motor (MTPL and Casco); household, property and commercial; and business interruption.

The risk from these contracts is mitigated through the diversification of the risk of loss to a large portfolio of insurance contracts and geographical areas. The Group also has limited its exposure by imposing maximum claim levels equal to the insured amounts.

## 38. CAPITAL ADEQUACY

### 38.1 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with the capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business ad to maximize shareholders' value.
The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

### 38.2 Capital adequacy

The solvency ratio according to Basel II requirements as at 31.12.2007 was of 9.00%.

In addition to the above ratio the Bank and the BCR Group also monitor the adequacy of their capital using ratios established by the Bank for International Settlements ("BIS") in July 1988, based upon financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

### 38. Capital adequacy (continued)

Based upon financial information prepared in accordance with IFRS the Tier 1 and the Tier 1 plus Tier 2 capital adequacy ratios at 31 December 2007 were:

- 9.03% and 10.15%, respectively (31 December 2006: 11.15% and 12.40%, respectively) for the Bank
- 9.76% and 10.90%, respectively (31 December 2006: 11.06% and 12.31%, respectively) for the Group.

Under BIS guidelines assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, and 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Premises and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance-sheet credit related commitments and forwards are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital consists of shareholders' equity less reserve for banking risks. Tier 2 capital includes the Bank and the Group's eligible long-term debt, general credit risk reserves up to 1.25% of the risk-weighted assets and revaluation reserves.

| | Group | | Bank | |
|---|---|---|---|---|
| **RON Thousand** | **2007** | **2006** | **2007** | **2006** |
| Tier 1 capital | 4,128,510 | 3,588,712 | 3,553,879 | 3,337,783 |
| Tier 2 capital | 4,610,476 | 3,994,303 | 3,997,026 | 3,711,934 |
| Risk weighted assets | 42,285,690 | 32,437,913 | 39,371,135 | 29,934,513 |
| BIS Capital ratios | | | | |
| Tier 1 capital | 9.76% | 11.06% | 9.03% | 11.15% |
| Tier 1+ Tier 2 capital | 10.90% | 12.31% | 10.15% | 12.40% |

### 39. SUBSEQUENT EVENTS

**Increase of shareholding in subsidiary**

In January 2008, the Bank acquired a number of 550,728 shares of BCR Asigurari de Viata SA from minority shareholders, companies and individuals, and as a result, the Bank's investment in this subsidiary increased from 68.33% to 93.44%.

**Dividends proposed for approval at Annual General Meeting (not recognized as a liability as at 31 December).**

Equity dividend on ordinary shares: RON 369,912 Thousand.