



**Romanian International Bank SA**

31 December 2006

Prepared in accordance with International  
Financial and Reporting Standards





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**Income statement**  
*for the year ended 31 December 2006*  
*(Presented in USD thousand)*

	Note	2006	2005
Interest and similar income	6	9,076	6,345
Interest expense and similar charges	6	(3,060)	(2,211)
		-----	-----
<b>Net interest income</b>		<b>6,016</b>	<b>4,134</b>
<b>Net charge on impairment losses on loans to customers</b>	10	<b>(312)</b>	<b>(661)</b>
Fee and commission income		2,396	1,401
Fee and commission expense		(351)	(376)
		-----	-----
<b>Net fee and commission income</b>	7	<b>2,045</b>	<b>1,025</b>
Net foreign exchange gain		1,888	1,784
Other operating income	8	700	194
Operating expenses	9	(8,786)	(6,863)
		-----	-----
<b>Loss from other operating activities</b>		<b>(6,198)</b>	<b>(4,885)</b>
		-----	-----
<b>Profit/(loss) before tax</b>		<b>1,551</b>	<b>(387)</b>
Income tax expense		-	-
		-----	-----
<b>Net profit/(loss) for the year</b>		<b>1,551</b>	<b>(387)</b>
		=====	=====

The financial statements were approved by the Board of Directors on 30 May 2007 and were signed on its behalf by:

Mr. Ion Nitu  
 President

Ms. Cornelia Barbu  
 Vice-President



## Balance sheet

at 31 December 2006

(Presented in USD thousand)

	Note	31 December 2006	31 December 2005
<b>Assets</b>			
Cash and cash equivalents	12	26,144	14,211
Placements with banks	13	17,333	7,296
Investment securities, available-for-sale	14	153	3,644
Loans to customers	15	66,976	39,577
Provision for impairment losses on loans	15	(522)	(334)
Property and equipment	16	7,691	4,650
Intangible assets	17	548	420
Other assets	18	188	535
<b>Total assets</b>		<b>118,511</b>	<b>69,999</b>
<b>Liabilities</b>			
Deposits from other banks	19	5,553	3,354
Deposits from customers	20	90,722	52,183
Other liabilities	21	3,583	1,859
Deferred tax	11	213	-
<b>Total liabilities</b>		<b>100,071</b>	<b>57,396</b>
<b>Shareholders' equity</b>			
Issued capital	22	38,159	31,526
Accumulated deficit		(22,606)	(19,240)
Revaluation reserve		1,502	-
Other reserves		1,243	293
Translation reserves		142	24
<b>Total shareholders' equity</b>	28	<b>18,440</b>	<b>12,603</b>
<b>Total liabilities and shareholders' equity</b>		<b>118,511</b>	<b>69,999</b>

The financial statements were approved by the Board of Directors on 30 May 2007 and were signed on its behalf by:

Mr. Ion Nitu  
President

Ms. Cornelia Barbu  
Vice-President



**Statement of changes in equity**  
*for the year ended 31 December 2006*  
*(Presented in USD thousand)*

	Share capital	Accumulated deficit	Revaluation reserve	Other reserve	General banking risks reserve	Translation reserves	Total
Balance at 1 January 2005	<u>31,278</u>	<u>(20,015)</u>	<u>-</u>	<u>170</u>	<u>292</u>	<u>(290)</u>	<u>11,435</u>
Issue of share capital	2,425	-	-	-	-	-	2,425
Net loss for the year	-	(387)	-	-	-	-	(387)
Statutory reserve transferred to accumulated loss	-	148	-	(148)	-	-	-
Translation differences *)	<u>(2,177)</u>	<u>1,014</u>	<u>-</u>	<u>(2)</u>	<u>(19)</u>	<u>314</u>	<u>(870)</u>
<b>Balance at 31 December 2005</b>	<u><u>31,526</u></u>	<u><u>(19,240)</u></u>	<u><u>-</u></u>	<u><u>20</u></u>	<u><u>273</u></u>	<u><u>24</u></u>	<u><u>12,603</u></u>
Net profit for the year	-	1,551	-	-	-	-	1,551
Increase in statutory reserve	-	-	-	60	-	-	60
Increase in general banking risks reserve	-	-	-	-	674	-	674
Fixed assets revaluation	-	-	1,502	-	-	-	1,502
Translation differences *)	<u>6,633</u>	<u>(4,916)</u>	<u>-</u>	<u>17</u>	<u>199</u>	<u>117</u>	<u>2,050</u>
<b>Balance at 31 December 2006</b>	<u><u>38,159</u></u>	<u><u>(22,605)</u></u>	<u><u>1,502</u></u>	<u><u>97</u></u>	<u><u>1,146</u></u>	<u><u>141</u></u>	<u><u>18,440</u></u>

\*) Please refer to Note 3 b) i)



## Cash flow statement

for the year ended 31 December 2006  
(Presented in USD thousand)

	Note	2006	2005
<b>Operating activities</b>			
<b>Profit/(loss) for the year</b>		<b>1,551</b>	<b>(387)</b>
<b>Adjustments for non-cash items:</b>			
Depreciation and amortization	16,17	769	588
Changes in provisions		140	(18)
Write-offs	10	940	1,334
Revenue from dividends received	8	(400)	-
Effect of translation from RON to USD		6,362	(1,706)
Other items		(170)	(375)
<b>Operating profit/(loss) before changes in operating assets and liabilities</b>		<b>9,192</b>	<b>(564)</b>
<b>(Increase)/decrease in operating assets:</b>			
Net increase in loans to customers		(18,270)	(19,138)
Decrease in placements with banks		23	(11)
Decrease in other assets		(875)	24
<b>Increase/(decrease) in operating liabilities:</b>			
Increase in deposits from customers		24,952	23,063
Increase in deposits and loans from other banks		1,365	3,577
Increase in other liabilities		1,996	751
<b>Cash flows from operating activities</b>		<b>18,383</b>	<b>7,702</b>
<b>Investing activities</b>			
Net purchase of property and equipment		(370)	(3,357)
Dividends received	8	400	-
<b>Cash flows used in investing activities</b>		<b>30</b>	<b>(3,357)</b>
<b>Financing activities</b>			
Increase in share capital		-	2,425
<b>Cash flows from financing activities</b>		<b>-</b>	<b>2,425</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>18,413</b>	<b>6,770</b>
<b>Cash and cash equivalents balances at beginning of year</b>		<b>24,893</b>	<b>18,123</b>
<b>Cash and cash equivalents balances at end of year</b>		<b>43,306</b>	<b>24,893</b>



## Cash flow statement (continued)

### Analysis of cash and cash equivalents

<i>In USD thousand</i>		31 December 2006	31 December 2005
<i>Cash and cash equivalents comprise:</i>			
Cash on hand and current accounts held with banks	12	3,410	3,875
Balances with the National Bank of Romania – less than 3 months		25,926	11,872
Placements with banks (less than 3 months)		13,970	5,612
Deposit certificates issued by the National Bank of Romania	14	-	3,501
Accrued interest on deposit certificates issued by the National Bank of Romania		-	33
<b>Total</b>		<b>43,306</b>	<b>24,893</b>

### Reconciliation of cash and cash equivalents to balance sheet

<i>In USD thousand</i>	Note	31 December 2006	31 December 2005
Cash on hand		3,410	3,875
Current account with the National Bank of Romania		22,734	10,336
<b><i>Cash and cash equivalents</i></b>	<b>12</b>	<b>26,144</b>	<b>14,211</b>
Placements with banks – including NBR (less than three months)		17,162	7,147
Placements with banks (more than three months)		146	141
Accrued interest on placements with banks		25	8
<b><i>Placements with banks</i></b>	<b>13</b>	<b>17,333</b>	<b>7,296</b>
Participations in Transfond SA, SNCDD, Biroul de Credit SA		153	110
Deposit certificates issued by the National Bank of Romania		-	3,501
Accrued interest		-	33
<b><i>Investment securities available for sale</i></b>	<b>14</b>	<b>153</b>	<b>3,644</b>
<b>Total</b>		<b>43,630</b>	<b>25,151</b>



## Notes to the financial statements

### 1. Reporting entity

The Romanian International Bank S.A. (“R.I.B.” or the “Bank”) is a bank domiciled in Romania, which was established in 1998. Currently, R.I.B. provides day-to-day banking services to corporate and individuals clients. These services include: deposit accounts, domestic and international payments, foreign exchange transactions, working capital finance, medium term lending facilities, bank guarantees, letters of credit, depository services.

The Bank operates through the Head Office located in Bucharest and through its network of 25 branches (31 December 2005: 17), located in Bucharest and in the country.

R.I.B.’s current registered office is located at 67, Unirii Boulevard, block G2A, pass I & II, Bucharest 3, Romania. The Bank’s number of employees at 31 December 2006 was 317 (31 December 2005: 287).

At 31 December 2006 and 2005, the Board of Directors of the Bank comprised the following:

No.	Position	31 December 2006	31 December 2005
1	President	Ion Nitu	Ion Nitu
2	Vice-president	Ion Ghica	Ion Ghica
3	Vice-president	Valeriu Mosoeanu	Valeriu Mosoeanu
4	Member	Cornelia Barbu	Cornelia Barbu
5	Member	Florin Danescu	Florin Danescu
6	Member	Elvira Moise	Elvira Moise
7	Member	Stanel Ghencea	Stanel Ghencea
8	Member	Popescu Marin	Popescu Marin
9	Member	Cristian Paunescu	-

### 2. Basis of preparation

#### a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The amortized cost of financial instruments and the estimation of impairment losses for loans to customers originated by the Bank have been accounted for as presented hereinafter.

These financial statements have been prepared on the basis of the IFRS in issue that are effective for the Bank’s IFRS annual reporting date, 31 December 2006.

In estimating impairment losses for loans and advances the Bank has applied the internal methodology described in Note 3.e. to assess impairment for loans and advances to customers.

The accounting policies adopted and applied by the Bank are consistent with those described in the financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 except for the changes arising from the application of the new and revised IFRS as presented hereinafter.

## Notes to the financial statements

### 2. Basis of preparation (continued)

#### a) Statement of compliance (continued)

##### *Differences between IFRS and statutory accounts*

The form of presentation of the financial statements reflects the reporting format applicable under IAS 30 (“Disclosures in the Financial Statements of Banks and Similar Financial Institutions”).

The accounts of the Bank are maintained in RON in accordance with Romanian accounting law and National Bank of Romania banking regulations (“statutory accounts”). These accounts have been restated to reflect the differences between the statutory accounts and the IFRS. Accordingly, such adjustments have been made to the statutory accounts as have been considered necessary to bring the financial statements into line, in all material respects, with IFRS.

The major changes from the statutory financial statements prepared under domestic law are:

- grouping of numerous detailed items into broader captions;
- restatement adjustments required in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies* (related to the Romanian economy being hyperinflationary until 31 December 2003 - refer to note 3.a.);
- fair value adjustments required in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*; and
- the necessary IFRS disclosure requirements.

#### b) Functional and presentation currency

The financial statements are prepared in Romanian Lei (“RON”), rounded to the nearest RON, which is the functional currency and presented in thousand USD.

#### c) Basis of measurement

The financial statements are prepared on a fair value basis for financial assets and liabilities held at fair value through profit and loss and available-for-sale instruments, except those for which a reliable measure of fair value is not available which are stated at amortized or historical cost.

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

## **Notes to the financial statements**

### **2. Basis of preparation (continued)**

#### **d) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 5.

## Notes to the financial statements

### 3. Significant accounting policies

#### a) Accounting for the effect of hyperinflation

According to IAS 29 – Financial Reporting in Hyperinflationary Economy (“IAS 29”) and IAS 21 – The Effects of Changes in Foreign Exchange Rates (“IAS 21”), the financial statements of an enterprise whose measurement currency is the currency of a hyperinflationary economy should be stated in terms of measuring unit current at the balance sheet date i.e. non monetary items are restated using a general price index from the date of acquisition or contribution.

IAS 29 suggests that economies should be regarded as hyperinflationary if, among other factors, the cumulative inflation rate over a period of three years exceeds 100%.

The continuously decreasing inflation rates and other factors related to the characteristics of the economic environment in Romania indicate that the economy whose functional currency was adopted by the Bank ceased to be hyperinflationary, effective for financial periods starting at 1 January 2004. Therefore, the provisions of IAS 29 have no longer been adopted in preparing these financial statements

Accordingly, the amounts expressed in measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these consolidated financial statements and do not represent appraised value, replacement cost, or any other measure of the current value of assets or the prices at which transactions would take place currently.

#### b) Foreign currency transactions

##### i) *Functional and presentation currency*

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The Bank’s management considers that the functional currency, as defined by IAS 21 “The effects of changes in Foreign Exchange Rates”, is the RON.

For the convenience of readers, the figures were presented in USD, following the requirement of IAS 21. According to IAS 21, since the functional currency is RON, for translation from RON to US dollar the following procedures were followed:

- assets and liabilities for all balance sheets presented (i.e., including comparatives) are translated from RON to USD at the closing rate existing at the date of each balance sheet presented: of 2.5676 RON/USD as at 31 December 2006 (3.1078 RON/USD as at 31 December 2005);
- income and expense items for each income statement (i.e. including comparatives) are translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates (i.e. average exchange rate in 2006: 2.8073 RON/USD; average exchange rate in 2005: 2.9128 RON/USD);

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### b) Foreign currency transactions (continued)

##### i) *Functional and presentation currency (continued)*

- equity items other than the net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the date of each balance sheet presented: of 2.5676 RON/USD as at 31 December 2006 (3.1078 RON/USD as at 31 December 2005);
- all exchange differences resulting from translation in accordance with above paragraphs are recognized directly in equity as translation reserves.

The restatement and presentation procedures used according to IAS 21 could result in distortion of the figures presented in USD compared with real values.

##### ii) *Transactions and balances*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the settlement date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RON at the foreign exchange rate ruling at that date. Foreign exchange differences arising on revaluation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RON at foreign exchange rates ruling at the dates the fair value was determined.

The exchange rates of major foreign currencies were as follows:

Currencies	31 December 2006	31 December 2005	% increase/ (decrease)
US Dollar (USD)	1: RON 2.5676	1: RON 3.1078	(17%)
Euro (EUR)	1: RON 3.3817	1: RON 3.6771	(8%)

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### c) Interest income and expenses

Interest income and expenses for financial instruments are recognized in the income statement at amortized cost using the linear method for loans to customers and the effective interest rate method for the other financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

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

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

The linear method is a method of calculating the amortized cost of loans to customers whereby up-front fees received between parties to the contract that should be integral part of the effective interest rate, are amortized linearly and recognized as interest income over the relevant period.

The linear amortization method used to determine the amortized cost for loans to customers represents the management's best estimate for the value of the corresponding amortization and the financial effect generated is not significantly different than that provided by the application of the effective interest method.

#### d) Fee and commission income and expense

Fees and commission income arise on financial services provided by the Bank including loan origination, commitment fees, card fees, cash management services.

Fee and commission directly attributable to the financial asset or liability origination, both income and expense, that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Loan commitments fees that are likely to be drawn down, are deferred, together with the related direct costs, and are recognized as an adjustment to the effective interest rate of the loan.

Other fee and commission income arising on the financial services provided by the Bank is recognized in the income statement on the accrual basis i.e. when the corresponding service is provided. Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### e) Dividend income

Dividend income is recognized in the income statement on the date that the dividend is declared. Income from equity investments and other non-fixed income investments is recognized as dividend income when it accrues.

#### f) Taxation

Income tax for the period comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior periods.

Deferred tax is provided for using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The tax rate used to calculate the deferred tax position at 31 December 2006 is 16% (2005: 16%). In accordance with changes in the fiscal legislation, the profit tax rate was reduced from 1 January 2005 onwards. For the year ended 31 December 2006 the current profit tax rate was 16% (2005: 16%).

#### g) Financial assets and financial instruments

##### i) *Classification*

The Bank classifies its financial instruments into the following categories:

##### (a) *Financial assets or financial liabilities at fair value through profit or loss*

This category has two sub-categories: financial assets or financial liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if so designated by management. Derivatives are also categorised as held for trading unless the derivative is a designated and effective hedging instrument. As at 31 December 2006 and 31 December 2005 the Bank did not classify any financial instruments into this category.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### g) Financial assets and financial instruments (continued)

##### i) *Classification (continued)*

###### (b) *Held-to-maturity investment*

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank's management has the positive intention and ability to hold to maturity. As at 31 December 2006 and 31 December 2005 the Bank did not classify any financial instruments into this category.

###### (c) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank intends to sell immediately or in the near term, those that the Bank, upon initial recognition, designates as at fair value through profit and loss, those that the Bank, upon initial recognition, designates as available for sale or those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans and receivables comprise loans and advances to banks and customers.

###### (d) *Available-for-sale financial assets*

Available-for-sale financial assets are those financial assets that are designated as available for sale or are not classified as (a) financial assets at fair value through profit or loss, (b) held-to-maturity investments or (c) loans and receivables. Available-for-sale financial assets comprise investment securities and debt securities.

##### ii) *Recognition*

The Bank initially recognises loans and advances, deposits; debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

##### iii) *Derecognition*

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets have expired or when the Bank has transferred substantially all risks and rewards of the ownership.

Financial liabilities are derecognised when its contractual obligations are discharged or cancelled or expire.

##### iv) *Offsetting*

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### g) Financial assets and financial instruments (continued)

##### v) *Measurement*

Financial instruments are initially recognized at fair value plus, in case of financial instruments not carried at fair value through profit or loss, directly attributable transaction costs.

Subsequent to initial recognition all financial assets, including derivatives, are measured at fair value, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

- loans and receivables, which are measured at amortized cost using the linear method. The linear amortization method used to determine the amortized cost represents the management's best estimate for the value of the corresponding amortization.
- held-to-maturity investments, which are measured at amortized cost using the effective interest method.
- equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

Subsequent to initial recognition, financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives, are measured at fair value.

##### vi) *Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a 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 cannot be 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.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### g) Financial assets and financial instruments (continued)

##### vii) *Identification and measurement of impairment*

###### *Assets carried at amortised cost*

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

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan, receivable or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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

###### *Loans to customers*

The Bank, based on its internal impairment assessment methodology, has included observable data on the following loss events that comes to its attention as objective evidence that loans to customers or groups of loans to customers are impaired:

- (a) significant financial difficulty of the borrower determined in accordance with the Bank's internal rating system;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments of the borrowers (individually and in the same group of borrowers);
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider such as the rescheduling of the interest or principal payments;

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### g) Financial assets and financial instruments (continued)

##### vii) *Identification and measurement of impairment (continued)*

###### *Assets carried at amortised cost*

The Bank first assesses whether objective evidence of impairment exists as described above, individually for loans to customers that are individually significant, and individually or collectively for loans that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the loans to customers in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans to customers that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, loans to customers are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (on the basis of the industry for corporate customers and loan type for retail customers).

Management considers that these characteristics chosen are the best estimate of similar credit risk characteristics relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans to customers that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans 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 period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The Bank has developed a methodology for assessing impairment on the loans to customers and applied it as at 31 December 2006. The methodology was limited by the lack of information regarding the timing and amounts of the expected future cash flows from the borrowers.

The Bank reviews on a regular basis the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience (for example, the historical loss experience used as basis for the collective assessment of impairment of loans may be adjusted to reflect such differences between loss estimates and actual loss experience).

Because of the inherent limitations mentioned above, that estimate may differ from the value that would have been obtained had the Bank obtained sufficient historical experience on obtaining reliable information on the timing and amounts of the expected future cash flows.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### g) Financial assets and financial instruments (continued)

##### vii) *Identification and measurement of impairment (continued)*

###### *Available for sale financial assets*

For financial assets classified as available-for-sale, when a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

###### *Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

###### *Assets other than financial assets*

The carrying amount of the Bank's assets, other than deferred tax assets, is reviewed at each balance sheet date to determine whether there is any objective indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

The Bank reviews the carrying amount of land and buildings at each balance sheet date. For the items of land and buildings where there is any objective evidence of impairment, the Bank considered the greater of the net selling price and value in use as the recoverable amount of such land and buildings.

Impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### g) Financial assets and financial instruments (continued)

##### *viii) Gains and losses on subsequent measurement*

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised, as follows.

- (a) A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.
- (b) A gain or loss on an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity except for impairment losses and foreign exchange gains and losses until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

#### h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with National Bank of Romania and nostro accounts with banks. For the purposes of the statement of cash flows, cash and cash equivalents comprise: cash balances on hand, cash deposited with National Bank of Romania, nostro accounts with banks, placements with National Bank of Romania and with other banks with less than 90 days original maturity, deposit certificates issued by the National Bank of Romania and accrued interest receivable on deposit certificates issued by National Bank of Romania.

#### i) Placements with banks

Placements with banks are classified as loans and receivables. Consequently, placements with banks are stated at amortized cost, less specific provision for impairment losses (refer to accounting policy 2i)

#### j) Investment securities

Debt securities such as treasury bills issued by the Government of Romania and certificates of deposits issued by central banks are classified as financial assets available-for-sale.

Equity investments are classified either as available-for-sale assets and are carried at the fair value or as non – current assets held for sale and carried at lower of carrying amount and fair value less costs to sell.. Where no reliable estimate of fair value is available, equity investments are stated at restated cost less impairment.

#### k) Loans and advances to banks and customers

Loans and advances to banks and customers are classified as loans and receivables. Loans are stated in the balance sheet at their amortised cost using linear method (refer to accounting policy 3.h) less provision for impairment losses to reflect the estimated recoverable amount (refer to accounting policy 3.g).

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### l) Property and equipment

##### *Recognition and measurement*

Items of property and equipment are measured at cost or revalued amount less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

##### *Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

##### *Depreciation*

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of items of property and equipment, and major components that are accounted for separately. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Equipment	3 – 20 years
Motor vehicles	5 years
Other tangible fixed assets	3 – 30 years

The residual value, if not insignificant, is reassessed annually.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### l) Property and equipment (continued)

##### *Revaluation model*

The Bank uses the revaluation model for the class of owned buildings. The revaluation model requires that the revaluations are done with a sufficient regularity. The first revaluation was performed as of 31 December 2006, by an independent property valuator, member of ANEVAR.

The accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under the heading of revaluation surplus. The increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. The revaluation surplus is presented net of the deferred tax impact (note 11).

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. The decrease shall be debited directly to equity under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

#### m) Intangible assets

##### *Computer software*

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life.

Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is five years.



## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### n) Employee benefits

##### *Short term service benefits*

Short-term employee benefits include wages, salaries, bonuses and social security contributions.. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

##### *Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

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

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

#### o) Provisions

A provision is recognised in the balance sheet when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### p) Standards, interpretations and amendments to published International Financial Reporting Standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2007 or later periods but which the Bank has not early adopted. Management considered the following new standards, amendments and interpretations to existing standards:

- IFRS 7 ("Financial Instruments: Disclosures") effective from 1 January 2007. This standard will require increased disclosures in respect of the Bank's financial instruments. It supersedes IAS 30 ("Disclosures in the Financial Statements of Banks and Similar Financial Institutions") and is applicable to all entities that prepare financial statements in accordance with IFRS. The Bank considers that the significant additional disclosures required will relate to its financial risk management objectives, policies and processes. The Bank is currently in the process of amending the reporting applications to present the additional disclosure as required by IFRS 7.
- Amendment to IAS 1 ("Presentation of Financial Statements – Capital Disclosures") effective from 1 January 2007. As a complementary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect to the Bank's capital. This amendment will require significantly more disclosures regarding the capital structure of the Bank. The Bank is currently in the process of amending the reporting applications to enable the Bank present the additional disclosure as required by IAS 1.
- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Bank's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Bank first applied the measurement criteria of IAS 36 and IAS 39 respectively. The impact of the changes brought by IFRIC 10 has not been estimated at this time.



## Notes to the financial statements

### 4. Risk management policies

#### a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- interest rate risk
- currency risk
- liquidity risk
- taxation risks
- operational risks

This section provides details of the Bank's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

#### *Risk management framework*

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has established the Management Board and the Asset and Liability (ALCO), Credit and Risk committees, which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees report regularly to the Management Board.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

## Notes to the financial statements

### 4. Risk management policies (continued)

#### b) Credit risk

The Bank is exposed to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or it issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process. The risk is mitigated through selecting counterparties of good credit standing and monitoring their activities and ratings and through the use of exposure limits and when appropriate, obtaining collateral.

The Bank's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The Bank is exposed to credit risk on various other financial assets, including debt investments; the current credit exposure in respect of these instruments is equal to the carrying amount of these in the balance sheet. In addition, the Bank is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued (see note 25).

In order to minimise this risk, procedures are in place to screen the customers before granting the loans and to monitor their ability to repay the principal and interest during the duration of the loans and to the establishment of exposure limits.

Concentrations of credit risk that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by individual counterparty and by type of customer in relation to the Bank's loans and advances (see note 15).

The Board of Directors has delegated the responsibility for the management and oversight of credit risk to its Risk Committee. The Risk Division, reporting to the Prime Vice-President, is responsible for the following credit risk activities:

- *Formulating credit policies*, in consultation with the Credit Committee, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements
- *Formulating the authorisation structure* (to be approved by the Board of Directors) for the approval and renewal of credit facilities. Authorisation limits are allocated to four levels of credit approvers. Larger facilities require approval by the Credit Committee or the Board of Directors as appropriate.
- *Reviewing and assessing credit risk*. Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being approved or recommended for approval by the Board of Directors and/or committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances).

## Notes to the financial statements

### 4. Risk management policies (continued)

#### b) Credit risk (continued)

- *Reviewing compliance* of business units (branches and agencies) with agreed exposure limits, including those for selected industries and product types.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk

Each branch/agency is required to implement Bank's credit policies and procedures. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of branches/agencies and Bank credit processes are undertaken by Internal Audit.

The major concentrations of credit risk arise by type of customer in relation to the Bank's loans, advances, credit commitments and guarantees issued.

Total on and off balance sheet economic sector risk concentrations are presented in the table below.

Concentrations of credit risk that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by individual counterparty and by type of customer in relation to the Bank's loans and advances, commitments to extend credit and guarantees issued.

<i>In USD thousand</i>	<b>31 December 2006</b>	<b>31 December 2005</b>
Ecological activities	3,500	2,327
Trade	18,308	10,853
Construction	6,481	2,328
Agriculture (processing industry)	2,230	2,008
Agriculture (production)	5,774	6,676
Leasing	6,275	3,519
Sundry services and other activities	15,460	8,147
Real estate services	3,283	3,195
Cards	4,101	3,380
Individuals	8,258	5,430
<b>TOTAL</b>	<b>73,670</b>	<b>47,863</b>

The amounts reflected in the table above represents the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts of credit risk shown, therefore, greatly exceed expected losses, which are included in the loan loss provision.

The Bank holds collateral against loans and advances to customers in the form of pledge over cash deposits, mortgage interests over property, guarantees and other pledge over equipments and/or receivables. Collateral generally is not held over loans and advances to banks.

## Notes to the financial statements

### 4. Risk management policies (continued)

#### c) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of the asset positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding, and diversifying the funding base.

The financial assets and liabilities of the Bank analysed over the remaining period from the balance sheet date to contractual maturity are as at 31 December 2006 as follows:

	Up to 3 months	3 Months to 1 Year	1 Year to 5 years	Over 5 Years	No fixed maturity	Total
<i>Presented in USD thousand</i>						
<b>Assets</b>						
Cash and cash equivalents	26,144	-	-	-	-	<b>26,144</b>
Placements with banks	17,188	-	-	-	145	<b>17,333</b>
Investment securities available for sale	-	-	-	-	153	<b>153</b>
Loans to customers	8,692	27,695	20,836	9,231	-	<b>66,454</b>
<b>Total assets</b>	<b>52,024</b>	<b>27,695</b>	<b>20,836</b>	<b>9,231</b>	<b>298</b>	<b>110,084</b>
<b>Liabilities</b>						
Customer deposits	74,163	16,235	324	-	-	<b>90,722</b>
Deposits from other banks	5,553	-	-	-	-	<b>5,553</b>
Other liabilities	2,408	17	6	490	875	<b>3,796</b>
<b>Total liabilities</b>	<b>82,124</b>	<b>16,252</b>	<b>330</b>	<b>490</b>	<b>875</b>	<b>100,071</b>
<b>Maturity surplus/ (shortfall)</b>	<b>(30,100)</b>	<b>11,443</b>	<b>20,506</b>	<b>8,741</b>	<b>(577)</b>	<b>10,013</b>

## Notes to the financial statements

### 4. Risk management policies (continued)

#### c) Liquidity risk (continued)

The financial assets and liabilities of the Bank analyzed over the remaining period from the balance sheet date to contractual maturity are at 31 December 2005 as follows:

	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Total
<i>Presented in USD thousand</i>						
<b>Assets</b>						
Cash and cash equivalents	14,211	-	-	-	-	<b>14,211</b>
Placements with banks	7,155	-	-	-	141	<b>7,296</b>
Investment securities, available-for-sale	3,534	-	-	-	110	<b>3,644</b>
Loans to customers	5,370	17,495	13,710	2,668	-	<b>39,243</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	<b>30,270</b>	<b>17,495</b>	<b>13,710</b>	<b>2,668</b>	<b>251</b>	<b>64,394</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Liabilities</b>						
Deposits from customers	46,083	5,970	130	-	-	<b>52,183</b>
Deposits from other banks	3,354	-	-	-	-	<b>3,354</b>
Other liabilities	1,859	-	-	-	-	<b>1,859</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	<b>51,296</b>	<b>5,970</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>57,396</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Maturity surplus/ (shortfall)</b>	<b>(21,026)</b>	<b>11,525</b>	<b>13,580</b>	<b>2,668</b>	<b>251</b>	<b>6,998</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

## Notes to the financial statements

### 4. Risk management policies (continued)

#### d) Interest rate risk

The Bank incurs interest rate risk principally in the form of exposure to adverse changes in the market interest rates to the extent that interest-earning assets and interest-earning liabilities mature or re-price at different times or in differing amounts. The main sources of interest rate risk are imperfect correlation between the maturity (for fixed interest rates) or re-pricing date (for floating interest rates) of the interest-bearing assets and liabilities, adverse evolution of the slope and shape of the yield curve (the unparallel evolution of the interest rate yields of the interest-earning assets and interest-earning liabilities), and imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, the Bank is slightly liability sensitive because its interest earning assets have a longer duration and re-price less frequently than interest-bearing liabilities. This means that in declining interest rate environments, margins earned will change as liabilities re-price.

However the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within re-pricing periods and among currencies.

The interest rates related to the local currency and the major foreign currencies as at 31 December 2006 and 31 December 2005 were as follows:

<b>Currencies</b>	<b>Interest rate</b>	<b>31 December 2006</b>	<b>31 December 2005</b>
Leu (RON)	BUBOR 3 months	8.6%	7.6%
Euro (EUR)	Euribor 3 months	3.7%	2.5%
Euro (EUR)	Euribor 6 months	3.8%	2.6%
US Dollar (USD)	Libor 6 months	5.4%	4.7%

The Bank minimizes this risk by setting the rates for most of its interest-bearing assets and liabilities at or about current market rates. The Bank attempts to maintain a net positive position for interest-bearing financial instruments. In order to avoid the re-pricing risk, the Bank grants credits and offers deposits with fixed interest rates (according to current pricings).

## Notes to the financial statements

### 4. Risk management policies (continued)

#### d) Interest rate risk (continued)

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during the financial year 2006:

	<b>RON</b>		<b>USD</b>		<b>EUR</b>	
	<b>Range</b>		<b>Range</b>		<b>Range</b>	
	Min.	Max.	Min.	Max.	Min.	Max.
	%	%	%	%	%	%
<b>Assets</b>						
Current account with the National Bank of Romania	1.50	1.90	0.95	1.00	0.70	0.80
Placements with banks	1.00	14.50	4.62	7.05	2.90	5.50
Investment securities, available-for-sale	3.85	4.83	-	-	-	-
Loans and advances to customers	10.00	27.00	8.00	12.00	9.00	13.00
<b>Liabilities</b>						
Deposits from banks	1.20	20.00	4.72	7.00	3.93	5.95
Deposits from customers	0.25	8.75	0.25	4.50	0.25	4.50

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during the financial year 2005:

	<b>RON</b>		<b>USD</b>		<b>EUR</b>	
	<b>Range</b>		<b>Range</b>		<b>Range</b>	
	Min.	Max.	Min.	Max.	Min.	Max.
	%	%	%	%	%	%
<b>Assets</b>						
Current account with the National Bank of Romania	1.50	6.00	0.75	0.95	-	-
Placements with banks	1.10	16.90	2.35	4.35	2.00	2.75
Investment securities, available-for-sale	3.85	7.92	-	-	-	-
Loans and advances to customers	12.00	27.00	9.00	12.00	8.00	13.00
<b>Liabilities</b>						
Deposits from banks	1.15	9.00	4.15	4.67	2.08	2.75
Deposits from customers	2.50	17.00	1.25	4.00	1.25	4.25
Loans from other banks	-	-	2.50	2.50	-	-

## Notes to the financial statements

### 4. Risk management policies (continued)

#### d) Interest rate risk (continued)

A summary of the Bank's interest rate gap position on the financial assets and liabilities as at 31 December 2006 is as follows:

<i>Presented in USD thousand</i>	<b>Up to 3 months</b>	<b>3 Months to 1 Year</b>	<b>1 Year to 5 years</b>	<b>Over 5 Years</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	26,144	-	-	-	<b>26,144</b>
Placements with banks	17,188	-	-	-	<b>17,333</b>
Loans to customers	8,692	27,695	20,836	9,231	<b>66,454</b>
<b>Total assets</b>	<b>52,024</b>	<b>27,695</b>	<b>20,836</b>	<b>9,231</b>	<b>109,931</b>
<b>Liabilities</b>					
Customer deposits	74,163	16,235	324	-	<b>90,722</b>
Deposits from other banks	5,553	-	-	-	<b>5,553</b>
Other liabilities	2,408	17	6	490	<b>3,796</b>
<b>Total liabilities</b>	<b>82,124</b>	<b>16,252</b>	<b>330</b>	<b>490</b>	<b>100,071</b>
<b>Total interest sensitivity gap</b>	<b>(30,100)</b>	<b>11,443</b>	<b>20,506</b>	<b>8,741</b>	<b>9,860</b>

A summary of the Bank's interest rate gap position on the financial assets and liabilities as at 31 December 2005 is as follows:

<i>Presented in USD thousand</i>	<b>Up to 3 Months</b>	<b>3 Months to 1 Year</b>	<b>1 Year to 5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	14,211	-	-	-	<b>14,211</b>
Placements with banks	7,155	-	-	-	<b>7,155</b>
Loans to customers	5,370	17,495	13,710	2,668	<b>39,243</b>
<b>Total assets</b>	<b>26,736</b>	<b>17,495</b>	<b>13,710</b>	<b>2,668</b>	<b>60,609</b>
<b>Liabilities</b>					
Deposits from customers	46,083	5,970	130	-	<b>52,183</b>
Deposits from other banks	3,354	-	-	-	<b>3,354</b>
Other liabilities	1,859	-	-	-	<b>1,859</b>
<b>Total liabilities</b>	<b>51,296</b>	<b>5,970</b>	<b>130</b>	<b>-</b>	<b>57,396</b>
<b>Total interest sensitivity gap</b>	<b>(24,560)</b>	<b>11,525</b>	<b>13,580</b>	<b>2,668</b>	<b>3,213</b>



## Notes to the financial statements

### 4. Risk management policies (continued)

#### e) Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies against RON. There is also a balance sheet risk that the net monetary liabilities in foreign currencies will take a higher value when translated into RON as a result of currency movements.

The principal foreign currencies held by the Bank are EUR and USD. The Bank manages its exposure to movements in exchange rates by modifying its assets and liabilities mix.

Open foreign exchange positions represent a source of foreign exchange risk. In order to avoid losses arising from adverse movements in exchange rates, the Bank has a policy of maintaining an overall closed foreign exchange position.

The net monetary assets and liabilities held in RON and in foreign currencies at 31 December 2006 are presented below:

	RON	USD	EUR	Other	Total
<i>Presented in USD thousand</i>					
<b>Assets</b>					
Cash and cash equivalents	12,878	3,823	9,140	303	26,144
Placements with banks	9,750	1,648	5,935	-	17,333
Loans to customers	56,063	3,059	7,331	1	66,454
Investment securities, available for sale	153	-	-	-	153
<b>Total assets</b>	<b>78,844</b>	<b>8,530</b>	<b>22,406</b>	<b>304</b>	<b>110,084</b>
<b>Liabilities</b>					
Deposits from other banks	3,233	1,000	1,320	-	5,553
Deposits from customers	63,224	6,686	20,662	150	90,722
Other liabilities	2,339	1,047	410	-	3,796
<b>Total liabilities</b>	<b>68,796</b>	<b>8,733</b>	<b>22,392</b>	<b>150</b>	<b>100,071</b>
<b>Net assets</b>	<b>10,048</b>	<b>(203)</b>	<b>14</b>	<b>154</b>	<b>10,013</b>

## Notes to the financial statements

#### 4. Risk management policies (continued)

##### e) Currency risk (continued)

The net monetary assets and liabilities held in RON and in foreign currencies at 31 December 2005 are presented below:

	<b>RON</b>	<b>USD</b>	<b>EUR</b>	<b>Other</b>	<b>Total</b>
<i>Presented in USD thousand</i>					
<b>Assets</b>					
Cash and cash equivalents	6,385	5,814	1,635	377	<b>14,211</b>
Placements with banks	4,115	1,642	1,539	-	<b>7,296</b>
Investment securities, available-for-sale	28,587	4,393	6,263	-	<b>39,243</b>
Loans to customers	3,644	-	-	-	<b>3,644</b>
<b>Total assets</b>	<b>42,731</b>	<b>11,849</b>	<b>9,437</b>	<b>377</b>	<b>64,394</b>
<b>Liabilities</b>					
Deposits from customers	2,254	1,100	-	-	<b>3,354</b>
Loans from other banks	36,532	6,551	8,966	134	<b>52,183</b>
Deposits from other banks	943	534	382	-	<b>1,859</b>
Other liabilities					
<b>Total liabilities</b>	<b>39,729</b>	<b>8,185</b>	<b>9,348</b>	<b>134</b>	<b>57,396</b>
<b>Net assets</b>	<b>3,002</b>	<b>3,664</b>	<b>89</b>	<b>243</b>	<b>6,998</b>

## Notes to the financial statements

### 4. Risk management policies (continued)

#### f) Taxation risk

The Romanian Government has a number of agencies that are authorised to conduct audits (controls) of Romanian companies as well as of foreign companies doing business in Romania.

These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. In addition, the agencies conducting these controls appears to be subject to significantly less safeguard than is customary in many countries. It is likely that the Bank will continue to be subject to controls from time to time as new laws and regulations are issued. In certain circumstances the tax authorities can be aggressive and arbitrary in assessing tax penalties and interest. At the balance sheet date, the penalties paid by the Bank have been insignificant. In Romania, tax periods remain open to tax audits for a period of 5 years from the end of the period.

#### g) Operating environment

As at 1 January 2007 Romania became a full member of the European Union.

The economy of Romania continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, a low level of liquidity in the public and private debt and equity markets and fluctuations in the foreign currency exchange rates.

#### h) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified



## Notes to the financial statements

### 4. Risk management policies (continued)

#### h) Operational risks (continued)

- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

The Internal Audit Department monitors the compliance with Bank's standards by periodical reviews. The results of the internal audit reports are discussed with the management of the units involved and a summary is received by the Audit Committee and the Board of Directors. The Risk Division is responsible for monitoring the operational risks and preparing reports to be submitted to the Board of Directors and other bodies involved.

### 5. Critical accounting estimates and judgments

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

#### *Impairment losses on loans to customers*

In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating that there is objective evidence of impairment that has an impact on the estimated future cash flows from an individual loan or from portfolio of loans. Management uses estimates based on historical loss experience for loans with similar credit risk characteristics; in the same time the calculation of the present value of future cash flows requires judgment by the management. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows for both individual and collective assessment differs by +/-5 percent, the provision for impairment losses on loans would be estimated USD 22 thousand higher or USD 22 thousand lower.

#### *Fair value of financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The management uses its judgment to select the valuation method and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Bank uses discounted cash flow analysis for the financial assets at fair value through profit and loss and for available-for-sale financial instruments that were not traded in active markets.

As of 31 December 2006, the Bank had only investment securities in non-listed companies (see note 14) for which the fair value was considered to approximate the carrying amount.



## Notes to the financial statements

### 6. Net interest income

	2006	2005
<i>Presented in USD thousand</i>		
<b>Interest and similar income</b>		
Interest and similar income arising from:		
Current accounts and placements with banks	523	582
Discount certificates NBR	52	117
Loans to customers	8,501	5,646
	<hr/>	<hr/>
<b>Total interest and similar income</b>	<b>9,076</b>	<b>6,345</b>
	<hr/>	<hr/>
<b>Interest expense and similar charges</b>		
Interest expense and similar charges arising from:		
Current accounts and term deposits from customers	2,907	2,165
Current accounts, deposits placed by banks	153	24
Subordinated debt	-	22
	<hr/>	<hr/>
<b>Total interest expense and similar charges</b>	<b>3,060</b>	<b>2,211</b>
	<hr/>	<hr/>
<b>Net interest income</b>	<b>6,016</b>	<b>4,134</b>
	<hr/> <hr/>	<hr/> <hr/>

### 7. Net fee and commission income

	2006	2005
<i>Presented in USD thousand</i>		
Loan administration fees	625	111
Other commission income	78	56
Income on customers' transactions	1,693	1,234
Commissions expense for inter-banking operations	(351)	(375)
	<hr/>	<hr/>
<b>Net fee and commission income</b>	<b>2,045</b>	<b>1,026</b>
	<hr/> <hr/>	<hr/> <hr/>



## Notes to the financial statements

### 8. Other operating income

	2006	2005
<i>Presented in USD thousand</i>		
Dividends from Transfond S.A.	400	-
Deferred tax income	68	-
Sundry income	232	194
	<hr/>	<hr/>
<b>Total</b>	<b>700</b>	<b>194</b>
	<hr/> <hr/>	<hr/> <hr/>

The other operating income in amount of USD 232 thousand (31 December 2005: 194 USD thousand) includes income from renting the values boxes, income from sundry operations and net release of impairment losses on other assets.

### 9. Operating expenses

	2006	2005
<i>Presented in USD thousand</i>		
Salaries and other personnel costs	4,243	3,150
Depreciation and amortization	769	588
Administrative expenses	3,659	3,117
Other operating costs	115	8
	<hr/>	<hr/>
<b>Total</b>	<b>8,786</b>	<b>6,863</b>
	<hr/> <hr/>	<hr/> <hr/>

### 10. Net charge on impairment losses

	2006	2005
<i>Presented in USD thousand</i>		
Net release of impairment losses on loans (see note 15)	115	(21)
Write-offs	940	1,334
Recoveries from receivables previously written off	(743)	(652)
	<hr/>	<hr/>
<b>Net charge on impairment losses</b>	<b>312</b>	<b>661</b>
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the financial statements

### 11. Deferred tax

Deferred tax assets and deferred tax liabilities at 31 December 2006 are attributable to the items detailed in the table below:

	<b>31 December 2006 Assets</b>	<b>31 December 2006 Liabilities</b>	<b>31 December 2006 Net</b>
<i>Presented in USD thousand</i>			
Provision for impairment losses	(427)	-	(427)
Property and equipment (other than buildings owned)	-	1,510	1,510
Depreciation of property and equipment	(1,613)	-	(1,613)
Revaluation of buildings owned	-	1,788	1,788
Other items	-	68	68
<b>Total</b>			<b>1,326</b>
<b>Tax value of loss carried forward</b>			<b>-</b>
<b>Net temporary differences</b>			<b>1,326</b>
<b>Deferred tax liability at 16%</b>			<b>213</b>

Deferred tax assets and deferred tax liabilities at 31 December 2005 are attributable to the items detailed in the table below:

	<b>31 December 2005 Assets</b>	<b>31 December 2005 Liabilities</b>	<b>31 December 2005 Net</b>
<i>Presented in USD thousand</i>			
Provision for impairment losses	-	151	151
Other items	(56)	7	(49)
Property, equipment and intangible assets	(2,329)	2,413	84
<b>Total</b>			<b>186</b>
<b>Tax value of loss carried forward</b>			<b>(186)</b>
<b>Net temporary differences</b>			<b>-</b>
<b>Deferred tax at 16%</b>			<b>-</b>



## Notes to the financial statements

### 12. Cash and cash equivalents

	<b>31 December 2006</b>	<b>31 December 2005</b>
<i>Presented in USD thousand</i>		
Cash on hand	3,128	3,581
Current accounts held with other banks	282	294
Balances with the National Bank of Romania	22,734	10,336
<b>Total</b>	<b>26,144</b>	<b>14,211</b>

At 31 December 2006 the balances with the National Bank of Romania of USD 22,734 thousand (31 December 2005: USD 10,336 thousand) represent the minimum reserve requirements; these funds are not available for the Bank's daily business. At 31 December 2006 the reserve was set up at 20% (31 December 2005: 16% per annum) for RON and 40% (31 December 2005: 30%) for USD and EURO denominated funds attracted with residual maturity of less than 2 years.

Current accounts held with other banks are at immediate disposal of the Bank and unencumbered.



## Notes to the financial statements

### 13. Placements with banks

	31 December 2006	31 December 2005
<i>Presented in USD thousand</i>		
<b><i>Sight deposits</i></b>		
Bancpost S.A.	1,500	-
Banca Transilvania S.A.	395	-
Carpatica Bank S.A.	1,947	2,574
Banca Firenze Romania	395	-
Alpha Bank Romania S.A.	-	1,500
OTP Bank Romania S.A.	2,648	1,538
Piraeus Bank Romania S.A.	1,947	-
SANPAOLO IMI BANK ROMANIA	2,634	-
Unicredit Romania S.A.	2,504	-
<b><i>Total sight deposits</i></b>	<b><u>13,970</u></b>	<b><u>5,612</u></b>
<b><i>Term deposits</i></b>		
National Bank of Romania	3,192	1,535
<b><i>Total term deposits</i></b>	<b><u>3,192</u></b>	<b><u>1,535</u></b>
<b><i>Collateral deposits</i></b>		
Midland Bank PLC	146	141
<b><i>Total collateral deposits</i></b>	<b><u>146</u></b>	<b><u>141</u></b>
<b>Total principal</b>	<b><u>17,308</u></b>	<b><u>7,288</u></b>
Accrued interest	25	8
<b>Total placements with banks</b>	<b><u>17,333</u></b>	<b><u>7,296</u></b>

As at 31 December 2006 the sight and term deposits are unencumbered with the exception of a term deposit placed with Midland Bank PIC of USD 146 thousand, deposit pledged for covering the payments through the EUROPAY cards issued by the Bank.

## Notes to the financial statements

### 14. Investment securities, available-for-sale

The Bank held the following investment securities available-for-sale at the year-end:

Name	Nature of business	Amount of participation <i>Presented in USD thousand</i>	31 December 2006 Shareholding	Amount of participation <i>Presented in USD thousand</i>	31 December 2005 Shareholding
Transfond SA	Settlement and clearing interbanking transfers	130	2.38000%	107	2.38000%
SNCDD	Settlement and clearing OTC market	1	0.31900%	2	0.31900%
Biroul de Credit SA	Credit rating for individuals	1	0.09869%	1	0.09869%
MasterCard International	Cards processing	21	0.00046%	-	-
<b>Total equity Investments</b>		<b>153</b>		<b>110</b>	
Deposit certificates issued by the National Bank of Romania		-		3,534	
<b>Total investment securities</b>		<b>153</b>		<b>3,644</b>	

The unquoted equity securities classified as available-for-sale are stated at their restated cost and periodically tested for impairment. The Bank's management believes that their carrying values are not materially different from their fair value.



## Notes to the financial statements

### 15. Loans to customers

The Bank's commercial lending is concentrated on companies and individuals domiciled in Romania. Economic sector risk concentrations within the customer loan portfolio as at 31 December 2006 and 31 December 2005 were as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
<i>Presented in USD thousand</i>		
Ecological activities	3,490	2,240
Trade	16,729	9,106
Construction	5,577	2,114
Agriculture (processing industry)	1,946	1,921
Agriculture (production)	6,032	3,295
Leasing	5,701	4,973
Sundry services and other activities	13,963	6,045
Real estate services	3,224	2,949
Cards	2,056	1,504
Individuals	8,258	5,430
<b>Total loans to customers before provisions</b>	<b>66,976</b>	<b>39,577</b>
Less provision for impairment losses on loans	(522)	(334)
<b>Net loans to customers</b>	<b>66,454</b>	<b>39,243</b>

The provision for impairment losses on loans to customers can be further analyzed as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
<i>Presented in USD thousand</i>		
Balance at beginning of the year	334	366
Effect of exchange differences	73	(11)
Net release for the period	115	(21)
<b>Balance at end of the year</b>	<b>522</b>	<b>334</b>

## Notes to the financial statements

### 16. Property and equipment

<i>Presented in USD thousand</i>	<b>Buildings and leasehold improvements</b>	<b>Equipment, fixtures and fittings</b>	<b>Assets in the course of construction</b>	<b>Vehicles</b>	<b>Total</b>
<b><u>Cost</u></b>					
At 1 January 2005	3,076	2,114	39	332	5,561
Additions	2,640	339	3,682	111	6,772
Disposals	-	-	(3,152)	-	(3,152)
Effect of change in exchange rate	(365)	(158)	(30)	(28)	(581)
<b>At 31 December 2005</b>	<b>5,351</b>	<b>2,295</b>	<b>539</b>	<b>415</b>	<b>8,600</b>
At 1 January 2006	5,351	2,295	539	415	8,600
Additions	492	561	933	227	2,213
Disposals / transfers	(1,344)	(240)	(1,280)	(36)	(2,900)
Revaluation	1,615	-	-	-	1,615
Effect of change in exchange rate ROL/USD	1,047	513	81	105	1,746
<b>At 31 December 2006</b>	<b>7,161</b>	<b>3,129</b>	<b>273</b>	<b>711</b>	<b>11,274</b>
<b><u>Accumulated depreciation</u></b>					
At 1 January 2005	2,003	1,423	-	253	3,679
Charge for the year	203	317	-	28	548
Disposals	-	-	-	-	-
Effect of change in exchange rate ROL/USD	(148)	(112)	-	(17)	(277)
<b>At 31 December 2005</b>	<b>2,058</b>	<b>1,628</b>	<b>-</b>	<b>264</b>	<b>3,950</b>
At 1 January 2006	2,058	1,628	-	264	3,950
Charge for the year	311	274	-	63	648
Disposals	(1,344)	(239)	-	(36)	(1,619)
Revaluation	(173)	-	-	-	(173)
Effect of change in exchange rate	338	346	-	58	742
<b>At 31 December 2006</b>	<b>1,190</b>	<b>2,009</b>	<b>-</b>	<b>349</b>	<b>3,548</b>
<b><u>Provision for impairment losses</u></b>					
At 31 December 2005	-	-	-	-	-
At 31 December 2006	-	35	-	-	35
<b><u>Carrying amounts</u></b>					
At 1 January 2005	1,073	691	39	79	1,882
<b>At 31 December 2005</b>	<b>3,293</b>	<b>667</b>	<b>539</b>	<b>151</b>	<b>4,650</b>
At 1 January 2006	3,293	667	539	151	4,650
<b>At 31 December 2006</b>	<b>5,971</b>	<b>1,085</b>	<b>273</b>	<b>362</b>	<b>7,691</b>

## Notes to the financial statements

### 17. Intangible assets

	Intangible assets	Intangible assets in progress	Total
<i>Presented in USD thousand</i>			
<b>Cost</b>			
At 1 January 2005	325	-	325
Additions	25	389	414
Disposals	-	-	-
Effect of change in exchange rate ROL/USD	(22)	(24)	(46)
<b>At 31 December 2005</b>	<b>328</b>	<b>365</b>	<b>693</b>
At 1 January 2006	328	365	693
Additions	528	127	655
Disposals	(14)	(496)	(510)
Effect of change in exchange rate RON/USD	117	42	159
<b>At 31 December 2006</b>	<b>959</b>	<b>38</b>	<b>997</b>
<b>Accumulated amortization</b>			
At 1 January 2005	252	-	252
Charge for the year	40	-	40
Disposals	-	-	-
Effect of change in exchange rate ROL/USD	(19)	-	(19)
<b>At 31 December 2005</b>	<b>273</b>	<b>-</b>	<b>273</b>
At 1 January 2006	273	-	273
Charge for the year	121	-	121
Disposals	(13)	-	(13)
Effect of change in exchange rate RON/USD	68	-	68
<b>At 31 December 2006</b>	<b>449</b>	<b>-</b>	<b>449</b>
<b>Carrying amount</b>			
At 1 January 2005	73	-	73
<b>At 31 December 2005</b>	<b>55</b>	<b>365</b>	<b>420</b>
At 1 January 2006	55	365	420
<b>At 31 December 2006</b>	<b>510</b>	<b>38</b>	<b>548</b>



## Notes to the financial statements

### 18. Other assets

	31 December 2006	31 December 2005
<i>Presented in USD thousand</i>		
Prepaid expenses	75	54
Sundry debtors	48	437
Other assets	65	44
<b>Total other assets</b>	<b>188</b>	<b>535</b>

### 19. Deposits from other banks

As at 31 December 2006 and 31 December 2005, the deposits from other banks were:

	31 December 2006	31 December 2005
<i>Presented in USD thousand</i>		
Banca Comerciala Carpatica S.A.	1,317	-
Banca Transilvania S.A.	896	-
Casa de Economii si Consemnatiuni	2,337	-
Banca C.R. Firenze Romania S.A.	-	643
OTP Bank Romania S.A.	-	2,709
Romexterra Bank S.A.	1,000	-
<b>Total</b>	<b>5,550</b>	<b>3,352</b>
Accrued interest	3	2
<b>Total deposits from other banks</b>	<b>5,553</b>	<b>3,354</b>



## Notes to the financial statements

### 20. Deposits from customers

	31 December 2006	31 December 2005
<i>Presented in USD thousand</i>		
<b><i>Payable on demand</i></b>		
Current accounts	20,047	12,804
Sight deposits	255	-
	<hr/>	<hr/>
<b><i>Total payable on demand</i></b>	<b>20,302</b>	<b>12,804</b>
<b><i>Term deposits and savings</i></b>		
Term deposits up to one month	37,265	23,230
Term deposits for three months	14,512	9,257
Term deposits for six months	10,225	1,930
Term deposits for one year	3,815	2,629
Deposits for issuing of letters of guarantees	560	219
Collateral deposits	3,264	1,752
Other deposits	135	60
	<hr/>	<hr/>
<b><i>Total payable on term</i></b>	<b>69,776</b>	<b>39,077</b>
	<hr/>	<hr/>
<b>Total</b>	<b>90,078</b>	<b>51,881</b>
	<hr/>	<hr/>
Accrued interest	644	302
	<hr/>	<hr/>
<b>Total deposits from other banks</b>	<b>90,722</b>	<b>52,183</b>
	<hr/> <hr/>	<hr/> <hr/>



## Notes to the financial statements

### 21. Other liabilities

	31 December 2006	31 December 2005
<i>Presented in USD thousand</i>		
Amounts in course of settlement	2,048	847
Other liabilities	1,535	1,012
<b>Total</b>	<b>3,583</b>	<b>1,859</b>

### 22. Share capital

The statutory issued capital of the Bank is represented by 543,285,257 (2005: 543,285,257) ordinary shares of RON 0.10 each. The shareholders of the Bank at 31 December 2006 and 31 December 2005 were as follows:

	31 December 2006 %	31 December 2005 %
Daniel Kendrick Roberts, US citizen	89.27	89.27
Florina Liviana Roberts, US citizen	0.15	0.15
Tiberiu Bica Postelnicu, Romanian citizen	7.97	7.97
Ion Nitu, Romanian citizen	1.00	1.00
Eduard Alin Nitu, Romanian citizen	1.00	1.00
Ion Ghica, Romanian citizen	0.57	0.57
Sonia Ghica, Romanian citizen	0.02	0.02
Valeriu Mosoeanu, Romanian citizen	0.02	0.02
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

### 23. Reserves

As at 31 December 2006 and 2005, the Bank recorded the following reserves:

- i) Revaluation reserves*, which includes the revaluation surplus from the revaluation of owned buildings performed as at 31 December 2006. The revaluation surplus is calculated net of the deferred tax impact.
- ii) Other reserves*, which includes statutory reserves in accordance with local banking regulations that require 5% of the Bank's net profit to be transferred to a non-distributable statutory reserve until such time this reserve represent 20% of the Bank's share capital.

## Notes to the financial statements

### 23. Reserves (continued)

- iii) *The general banking risks reserve*, which includes amounts set aside in accordance with local banking regulations for future losses and other unforeseen risks or contingencies. The general banking risks reserve is appropriated from the statutory gross profit at a rate of 1% of the balance of the assets carrying specific banking risks.

The statutory reserves and the general banking risks reserves are not distributable.

### 24. Related party transactions

The Bank engaged in transactions with the management, shareholders or companies related to the shareholders of the Bank by attracting deposits from them with the market interest rate for the respective periods and necessary internal approvals. In 2005, the Bank attracted a subordinated loan from the main shareholder of the Bank, which was used for share capital increase by the end of the year.

Loans to employees and directors are granted at preferential rates being in compliance with stipulations of NBR norms regarding the surveillance of solvability and big exposures of the credit institutions no 12/2003.

During the years ended 31 December 2006 and 31 December 2005, the following transactions were carried out with the management and several shareholders of the Bank:

<i>Presented in USD thousand</i>	<b>2006</b>	<b>2005</b>
Current accounts	253	51
Term deposits	1,051	557
Loan attracted	-	-
	<hr/>	<hr/>
<b><i>Outstanding payables</i></b>	<b>1,304</b>	<b>608</b>
Loans granted	23	33
Current accounts	-	2
<b><i>Outstanding receivables</i></b>	<b>23</b>	<b>35</b>
Interest expense on current accounts and deposits	63	(31)
Interest expense on loan attracted	-	-
<b><i>Total expenses with related parties</i></b>	<b>63</b>	<b>(31)</b>
		)
Interest income on credits granted	7	4
<b><i>Total income with related parties</i></b>	<b>7</b>	<b>4</b>
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## Notes to the financial statements

### 25. Fair value of financial instruments

Fair value is the amount for which an instrument could be exchanged between knowledgeable and willing parties in an arms length transaction. It represents a general approximation of possible value and may never be effectively realized.

The following is a summary of the carrying amounts and fair values of each class of assets and liabilities that are not presented on the Bank's balance sheet as at 31 December 2006 at their fair value.

<i>Presented in USD thousand</i>	<b>Carrying amount</b>	<b>Fair value</b>
<b>Assets</b>		
Placements with other banks	17,333	17,326
Investment securities	153	153
Loans to customers (net)	66,454	69,446
<b>Liabilities</b>		
Deposits from other banks	5,553	5,559
Deposits from customers	90,722	90,925

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

*Placements with banks:* The Bank's short-term placements with banks include current accounts and deposits with banks. The fair value of floating rate placements and overnight deposits is their carrying amount. Fixed interest bearing deposits mature in less than three months and it is assumed that their fair values are not significantly different from its carrying value and are convertible into cash or are settled without significant transaction costs.

*Loans to customers:* These are net of provisions for impairment losses. For loans that have floating rate interest cash flows or maturing within one year it is assumed that their fair value is not significantly different from carrying value. The estimated fair value of loans with fixed rate interest cash flows and with changes in credit status since inception are estimated based on discounted cash flows at current market rates. Loan repayments are assumed to occur at contractual repayment dates.

*Investment securities:* These include available-for-sale equity investments and deposit certificates issued by the National Bank of Romania. The fair value of debt securities was calculated using the discounted cash flow techniques. Future cash flows are based on the contractual repayment schedule and the discount rate is the average yield obtained from the inter-banking market at the balance sheet date. Assets available-for-sale comprises of unlisted equity instruments without quoted prices and it was impossible to reliably estimate a fair value with alternative methods.

*Deposits from customers:* For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. For deposits maturing within one-year, it is assumed that their fair value is not significantly different from carrying value. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities.

*Deposits from other banks:* The Bank's placements from other banks include current accounts and short term deposits from banks. The fair value of floating rate placements and overnight deposits is their carrying amount.

## Notes to the financial statements

## 26. Commitments and contingencies

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and overdraft facilities and letters of guarantees. As at 31 December 2006 the contractual amounts of loan commitments amounted to USD 5,965 thousand (31 December 2005: USD 7,791 thousand) and for the letters of guarantee amounted to USD 1,437 thousand (31 December 2005: USD 496 thousand). The amounts reflected in the commitments to extend credit assume that amounts are fully advanced.

## 27. Reconciliation of loss under IFRS and Romanian Accounting Standards as stipulated in Order 5/2005 issued by National Bank of Romania

	2006	2005
<i>Presented in USD thousand</i>		
Net profit/(loss) under Romanian Accounting Standards	1,734	(183)
Depreciation and amortisation	(40)	(119)
Change in provisions for impairment losses on loans	(217)	(137)
Other items	74	52
	<hr/>	<hr/>
Net profit/ (loss) under IFRS	<b>1,551</b>	<b>(387)</b>
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## 28. Reconciliation of equity under IFRS and Romanian Accounting Standards as stipulated in Order 5/2005 issued by National Bank of Romania

	2006	2005
<i>Presented in USD thousand</i>		
<b>Equity under Romanian Accounting Standards</b>	18,815	6
		12,76
Loans related adjustments	(427)	(159)
Fixed assets related adjustments	(104)	(84)
Adjustments related to investments	68	56
Adjustments related to deferred tax	68	-
Other items	20	24
	<hr/>	<hr/>
<b>Equity under IFRS</b>	<b>18,440</b>	<b>12,603</b>
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