INTESA SANPAOLO BANK
Romania

**BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.**

# FINANCIAL STATEMENTS
**31 December 2012**

**prepared in accordance with International Financial Reporting Standards as endorsed by the European Union**

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STATEMENT

Pursuant to art.30 of Accounting Law no.82/1991

The yearly financial statements as at 31/12/2012 were prepared for:
Legal person: BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A. ("the Bank")
County: 02--ARAD
Address: ARAD, B-DUL REVOLUTIEI, No. 88, TEL.0257-308200
Trade Register no.: J02/82/1996
Type: 34—joint stock companies
Main activity (NACE code and description): 6419—other monetary intermediation activities
Fiscal Identification Code: 8145422

The General Manager of the Bank, Ezio Salvai, takes responsibility for the preparation of the annual financial statements as at 31 December 2012 and confirms the following:

a) the accounting policies used in the preparation of the annual financial statements comply with the applicable accounting regulations (respectively International Financial Reporting Standards as endorsed by European Union);

b) the annual financial statements present fairly the financial position, financial performance as well as the other information regarding the activity performed.

c) The Bank is a going concern.

B.C. INTESA SANPAOLO ROMANIA S.A.
INTESA SANPAOLO
3

Signature

**KPMG Audit SRL**
Victoria Business Park
DN1, Soseaua Bucuresti-Ploiesti nr. 69-71
Sector 1

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Bucharest 013685
Romania

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# Independent Auditors' Report

To the shareholders of
Banca Comerciala Intesa Sanpaolo Romania S.A.

## Report on the Financial Statements

We have audited the accompanying financial statements of Banca Comerciala Intesa Sanpaolo Romania S.A. ("the Bank"), which comprise the statement of financial position as at 31 December 2012, the income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, initialized by us for identification purposes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

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

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

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



Fiscal registration code
RO12997279
Trade Registry
no.J40/4439/2000
Share Capital 2,000 RON

CF

KPMG

*Opinion*

In our opinion, the financial statements of Banca Comerciala Intesa Sanpaolo Romania S.A. present fairly, in all material respects, the financial position of the Bank as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

*Other Matters*

The financial statements prepared by the Bank as at 31 December 2011 and for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union were audited by other auditors, whose report dated 7 March 2012 expressed an unmodified opinion.

As at 30 September 2012, Banca Comerciala Intesa Sanpaolo Romania S.A. ("the absorbing bank") merged with Banca CR Firenze Romania S.A. ("the absorbed bank").
The financial statements prepared by Banca CR Firenze Romania S.A. as at 31 December 2011 and for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union were audited by other auditors, whose report dated 16 March 2012 expressed an unmodified opinion.

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

**Report on conformity of the Administrators' Report with the financial statements**

In accordance with the Order of the National Bank of Romania no 27/2010 and related amendments, article no. 16 point (1) e) we have read the Administrators' Report presented from page 1 to 12. The Administrators' Report is not a part of the financial statements. In the Administrators' Report we have not identified any financial information which is not in accordance, in all material respects, with the information presented in the accompanying financial statements.

**For and on behalf of KPMG Audit S.R.L.:**

CFurtună

**Furtuna Cezar-Gabriel**

Camera Auditorilor Financiari din România
Furtună Cezar Gabriel
Nr. 1526

registered with the Chamber of Financial Auditors of Romania under no 1526/20.11.2003

KPMG Audit SRL

**KPMG AUDIT S.R.L.**

registered with the Chamber of Financial Auditors of Romania under no 9/2001

Bucharest, 26 February 2013

BANCA COMERCIALA INTESA SANPAOLO ROMANIA S.A.
INCOME STATEMENT
for the year ended 31 December
*(All amounts are presented in RON, unless otherwise stated)*

Semnat pentru identificare KPMG 26. FEB. 2013 Initialised for identification

| | Note | 2012 RON | 2011 RON |
|---|---|---|---|
| Interest income | | 303,748,965 | 309,826,830 |
| Interest expense | | (147,091,476) | (145,069,219) |
| **Net interest income** | 6 | **156,657,489** | **164,757,611** |
| Fee and commission income | | 30,689,857 | 28,931,994 |
| Fee and commission expense | | (9,057,589) | (9,282,790) |
| **Net fee and commission income** | 7 | **21,632,268** | **19,649,204** |
| Net trading income | 8 | 29,880,593 | 18,776,313 |
| Other operating income | | 948,851 | 3,053,948 |
| **Net other operating income** | | **30,829,444** | **21,830,261** |
| ***Total operating income*** | | **209,119,201** | **206,237,076** |
| Impairment allowance on loans and advances to customers | 15 | (154,607,181) | (191,231,388) |
| Net loss from disposal of assets | | (345,489) | (2,073,502) |
| ***Release of provisions for risks and charges*** | | ***1,444,119*** | ***476,786*** |
| Personnel expenses | 9 | (76,599,176) | (81,154,389) |
| Depreciation, amortization and impairment of tangible and intangible assets and investment property | 17,18 | (24,014,365) | (18,029,434) |
| Other operating expenses | 10 | (60,494,262) | (62,293,752) |
| ***Total operating expenses*** | | ***(161,107,803)*** | ***(161,477,575)*** |
| **Loss before tax** | | **(105,497,153)** | **(148,068,603)** |
| Income tax revenue | 11 | 47,335 | 13,376,108 |
| **Loss for the year** | | **(105,449,818)** | **(134,692,496)** |

The financial statements were approved by the Board of Directors on 26 February 2013 and were signed on its behalf by:

B.C. INTESA SANPAOLO ROMANIA S.A. INTESA SANPAOLO

Ezio Salvai
General Manager

Catello de Simone
Deputy General Manager

Carmen Baschir
Chief of Accounting Department

Notes from pages 7 to 67 are an integral part of these financial statements

*(aAllamounts are presented in RON, unless otherwise stated)*

| | 2012<br>RON | 2011<br>RON |
|---|---|---|
| **Loss for the year** | **(105,449,818)** | **(134,692,496)** |
| **Other comprehensive income, net of income tax** | | |
| Net gain/(loss) on available-for-sale financial assets | 822,240 | (252,680) |
| **Total comprehensive (loss) income for the year, net of tax** | **(104,627,578)** | **(134,945,176)** |

The financial statements were approved by the Board of Directors on 26 February 2013 and were signed on its behalf by:

Ezio Salvai
General Manager

B.C. INTESA SANPAOLO ROMANIA S.A.
INTESA SANPAOLO

Catello de Simone
Deputy General Manager

Carmen Baschir
Chief of Accounting Department

Semnat pentru identificare
Initialised for identification
KPMG
26. FEB. 2013

*(All amounts are presented in RON, unless otherwise stated)*

Semnat pentru identificare KPMG 26. FEB. 2013 Initialised for identification

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | RON | RON |
| **ASSETS** | | | |
| Cash and balances with central bank | 12 | 807,395,944 | 704,843,394 |
| Derivatives held for risk management | 14 | 315,880 | 195,818 |
| Placements with banks | 13 | 47,551,813 | 100,912,865 |
| Loans and advances to customers | 15 | 3,549,268,781 | 3,496,716,271 |
| Securities available for sale | 16 | 494,571,470 | 472,084,920 |
| Equity investments | 16 | 8,915,186 | 8,745,616 |
| Property and equipment | 17 | 89,010,156 | 133,385,718 |
| Intangible assets | 18 | 13,105,511 | 9,924,236 |
| Investment property | 19 | 22,468,481 | 25,654,245 |
| Deferred tax assets | 20 | 15,911,575 | 15,868,874 |
| Other assets | 21 | 17,157,099 | 14,132,394 |
| **TOTAL ASSETS** | | **5,065,671,896** | **4,956,810,106** |
| **LIABILITIES** | | | |
| Derivatives held for risk management | 14 | 366,468 | 48,138 |
| Deposits from banks | 22 | 575,405,791 | 654,874,580 |
| Borrowings from banks | 24 | 1,036,599,873 | 1,012,329,424 |
| Deposits from customers | 23 | 2,496,387,038 | 2,163,283,002 |
| Subordinated loans | 25 | 31,055,582 | 95,586,908 |
| Provisions | 26 | 19,368,325 | 19,376,562 |
| Deferred tax liabilities | 20 | 151,984 | - |
| Other liabilities | 27 | 17,291,354 | 17,638,426 |
| **TOTAL LIABILITIES** | | **4,176,626,415** | **3,963,137,040** |
| **EQUITY** | | | |
| Share capital and share premium | 28 | 1,178,443,100 | 1,149,002,165 |
| Accumulated losses | | (317,546,505) | (184,064,156) |
| Reserves | 28 | 28,148,886 | 28,735,057 |
| **TOTAL EQUITY** | | **889,045,481** | **993,673,066** |
| **TOTAL LIABILITIES AND EQUITY** | | **5,065,671,896** | **4,956,810,106** |

The financial statements were approved by the Board of Directors on 26 February 2013 and were signed on its behalf by:

B.C. INTESA SANPAOLO ROMANIA S.A. INTESA SANPAOLO 3

Ezio Salvai
General Manager

Catello de Simone
Deputy General Manager

Carmen Baschir
Chief of Accounting Department

# STATEMENT OF CHANGES IN EQUITY
## for the year ended 31 December 2012

*(All amounts are presented in RON, unless otherwise stated)*

| | | Attributable to equity holders of the Bank | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Share capital | Share premium | Accumulated losses | Reserves related to AFS financial assets | Other reserves | Total |
| **Balance at 1 January 2011** | 28 | 459,373,375 | 251,628,890 | (49,371,660) | 228,355 | 28,743,502 | 690,602,362 |
| **Comprehensive income** | | | | | | | |
| Loss for the year | | - | - | (134,692,496) | - | - | (134,692,496) |
| Loss on available for sale financial assets | | - | - | - | (252,680) | - | (252,680) |
| **Total comprehensive income** | | | | (134,692,496) | (252,680) | | (134,945,176) |
| Other increases | | - | - | - | - | 15,880 | 15,880 |
| **Transactions with shareholders, recorded directly in equity** | | | | | | | |
| Share capital increases | | 438,000,000 | - | - | - | - | 438,000,000 |
| **Balance at 31 December 2011** | | 897,373,275 | 251,628,890 | (184,064,156) | (24,325) | 28,759,382 | 993,673,066 |
| **Balance at 1 January 2012** | | 897,373,275 | 251,628,890 | (184,064,156) | (24,325) | 28,759,382 | 993,673,066 |
| **Comprehensive income** | | | | | | | |
| Loss for the year | | - | - | (105,449,818) | - | - | (105,449,818) |
| Gain on available for sale financial assets | | - | - | - | 822,240 | - | 822,240 |
| **Total comprehensive income** | | | | (105,449,818) | 822,240 | | (104,627,578) |
| **Transactions with shareholders, recorded directly in equity** | | | | | | | |
| Share capital increases at merger | | 72,528,300 | - | - | - | - | 72,528,300 |
| Transfer of retained earnings and other reserves at merger | | - | - | (28,032,531) | - | (1,408,711) | (29,440,942) |
| Elimination of share capital and other equity items at merger | | (43,087,365) | - | - | - | - | (43,087,365) |
| **Balance at 31 December 2012** | | 926,814,210 | 251,628,890 | (317,546,505) | 797,915 | 27,350,971 | 889,045,481 |

Ezio Salvai
General Manager

Carmen Baschir
Chief of Accounting Department

Catello De Simone
Deputy General Manager

INTESA SANPAOLO ROMANIA S.A.

Semnat pentru identificare
Initialised for identification
KPMG
26. FEB. 2013

Notes from pages 7 to 67 are an integral part of these financial statements

*(All amounts are presented in RON, unless otherwise stated)*

| | Note | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before taxation | | (105,497,153) | (148,068,603) |
| **Adjustments for:** | | | |
| Depreciation and amortisation and impairment of tangible, intangible assets and investment property | 17, 18 | 24,014,365 | 18,029.434 |
| Net loss on impairment of financial assets | 15 | 154,607,181 | 191,231,388 |
| Change in fair value of financial assets at fair value through profit and loss | | 198,268 | (285,706) |
| Other non-cash adjustments | | (325,413) | (831,449) |
| **Operating profit before changes in operating assets and liabilities** | | **72,997,248** | **60,075,064** |
| **Changes in operating assets:** | | | |
| Increase in securities available for sale | | (21,504,867) | (220,556,934) |
| Increase in loans and advances to customers | | (207,159,691) | (408,854,803) |
| Increase/ (decrease) in other assets | | (3,024,704) | 3,444,555 |
| **Decrease in operating liabilities:** | | 315,374,364 | 70,608,691 |
| Decrease in deposits from banks | | (17,526,346) | (393,095,028) |
| Increase in deposits from customers | | 333,104,036 | 459,280,862 |
| (Decrease) / increase in other liabilities | | (203,326) | 4,422,857 |
| **Net cash from / (used in) operating activities** | | **156,682,350** | **(495,283,427)** |
| **Cash flows from investing activities** | | | |
| Income from sale of tangible assets | | 4,490,653 | 1,026,611 |
| Acquisition of tangible and intangible assets | | (9,779,212) | (28,199,674) |
| Acquisition of equity investments | | (169,570) | - |
| Dividends received | | 170,598 | 247,630 |
| **Net cash flows used in investing activities** | | **(5,287,531)** | **(26,925,433)** |
| **Cash flows from financing activities** | | | |
| Repayment of borrowing from banks | | (36,591,820) | (33,849,192) |
| Proceeds from borrowing from banks | | - | 212,745,000 |
| Repayments of subordinated loans | | (65,611,500) | - |
| Cash contribution to share capital | | - | 438,000,000 |
| **Net cash flows from/ (used in) financing activities** | | **(102,203,320)** | **616,895,808** |
| Net increase of cash and cash equivalents | | 49,191,498 | 94,686,948 |
| **Cash and cash equivalents at 1 January** | | **805,756,259** | **711,069,311** |
| **Cash and cash equivalents at 31 December** | 29 | **854,947,757** | **805,756,259** |

**Cash flows from operating activities include:**

| | | |
|---|---|---|
| Interest received | 316,623,277 | 343,525,356 |
| Interest paid | (161,077,568) | (130,459,760) |

Ezio Salvaj
General Manager

INTESA SANPAOLO

Catello De Simone
Deputy General Manager

Carmen Baschir
Chief of Accounting Department

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KPMG
26. FEB. 2013
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***(all amounts are presented in RON, unless otherwise stated)***

## 1. REPORTING ENTITY

Banca Comerciala Intesa Sanpaolo Romania S.A. ("the Bank") was established in Romania in December 1996, originally under the name "West Bank" and is accredited by the National Bank of Romania to perform banking activities. The bank changed its name from "West Bank" to "Sanpaolo IMI Bank Romania" after approval by the National Bank of Romania on 16 October 2003 and finally in " Intesa Sanpaolo Romania Commercial Bank " after approval by the National Bank of Romania on 14 January 2008.

According to the decision of the Extraordinary General Meetings of Banca Comerciala Intesa Sanpaolo Romania S.A. and Banca CR Firenze Romania S.A. the Bank Shareholders dated 18 June 2012, at 30 September 2012 took place the merger of the banks in the form prescribed in Article 238 paragraph (1) letter a) of the Companies Law 31/1990 with subsequent amendments and, therefore, Banca CR Firenze Romania SA as absorbed company was incorporated in Banca Comerciala Intesa Sanpaolo Romania SA as the absorbing company. The merger balance sheet was prepared on 31 December 2011. Following evaluation of the two companies was established the exchange ratio at 31 December 2011, according to which 1 share of Banca CR Firenze Romania SA worth 0.5049854 shares of Banca Comerciala Intesa Sanpaolo Romania SA. The merger took place with the approval of the National Bank of Romania and Trade Registry.

Following the merger, the share capital increased by 72,528,300 RON from 814,111,110 RON to 886,639,410 RON by issuing a number of 7,252,830 new shares, with the nominal value of 10 RON / share, which were allocated by Cassa di Risparmio di Firenze SpA and Intesa Sanpaolo Holding International SA, as shareholders of Banca CR Firenze Romania S.A.

The merger was recorded in the accounting of Banca Comerciala Intesa Sanpaolo Romania S.A. based on the going concern principle of Banca CR Firenze Romania S.A., and retained earnings arising from the merger was determined based on financial statements prepared in accordance with International Financial Reporting Standards as endorsed by the European Union as follows: equity of Banca CR Firenze Romania S.A., in amount of 69,718,146 RON at 31 December 2011 from which it was deducted the value of legal reserve in amount of 10,155,101 RON and the nominal value of new ordinary shares issued 72,528,300 RON, resulting a negative value of 12,965,255 RON. The accounting policies related to the merger by absorption mentioned above are presented in Note 3 a.

The ultimate holder of the Bank and the parent company is Intesa Sanpaolo SpA, based in Italy.

The Bank's main activity is to provide banking services to companies and individuals. These include opening deposit, local and abroad payments, foreign exchange operations, credit lines, medium term facilities, letters of guarantee, letters of credit and financing micro enterprises and small and medium enterprises which are operating in Romania etc.

As at 31 December 2012, the Bank had 51 branches and 35 agencies (2011: 53 branches and 39 agencies). The headquarter of the Bank is located at the following address: Revolution Boulevard no. 88, Arad, Romania.

In 2012, the average number of employees was 867 (2011: 870).

The Board of Directors of the Bank comprises 5 members elected by the General Meeting of Shareholders.

As at 31 December 2012, the Board of Directors of the Bank comprises the following members:

| | |
|---|---|
| 1. Giovanni Ravasio | president |
| 2. Ezio Salvai | member* |
| 3. Giampiero Trevisan | member |
| 4. Massimo Pierdichi | member |
| 5. Marina Tabacco | member |

***(all amounts are presented in RON, unless otherwise stated)***

## 1. REPORTING ENTITY (CONTINUED)

As at 31 December 2011, the Board of Directors of the Bank comprised the following members:

| | |
|---|---|
| 1. Giovanni Ravasio | president |
| 2. Daniele Bordina | member |
| 3. Ezio Salvai | member * |
| 4. Ioan Mihail Anca | member |
| 5. Adriana Saitta | member |
| 6. Giampiero Trevisan | member |
| 7. Riccardo Poli | member |

**) Member of the Management Committee*



## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### 2.1. Statement of Compliance

As at 31 December 2012 and 31 December 2011 the financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS).

According with provisions of Order 27/2010 issued by National Bank of Romania, starting with 1 January 2012 the Bank applies IFRS as endorsed by European Union as statutory financial reporting framework. Transition from financial statements prepared based on Romanian Accounting standards in place until 31 December 2011 to IFRS was based on the information from financial statements as at 31 December 2011 prepared by the Bank in accordance with IFRS as endorsed by the European Union. The IFRSs relevant for the Bank were the same as those endorsed by the European Union for both years, therefore there is no effect on the Bank's accounting policies from the change of financial reporting framework applied.

Bank holds equities in its subsidiary Intesa Sanpaolo Leasing Romania IFN S.A.
The Bank is exempted to prepare consolidated financial statements according to IAS 27 Consolidated Financial Statements, paragraph 10, and according to the letter received from the National Bank of Romania no III/5698/07.01.2010.

According to IAS 27, a parent need not present consolidated financial statements if and only if:

(a) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;

(b) the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market, and;

(d) the ultimate or any immediate parent of the producers consolidated financial statements available for public use that comply with International Financial Reporting Standards.

The Bank fulfils the above criteria through the membership to Intesa Sanpaolo Spa which prepares and publishes financial statements in accordance with International Financial Reporting Standards.

### 2.2. Basis of measurement

The Bank's accounting records are maintained in RON, according to accounting legislation in Romania, as well as banking regulations in force issued by the National Bank of Romania.

The financial statements have been prepared on a fair value basis for derivative instruments, the financial assets and liabilities at fair value through profit or loss and financial instruments available for sale, except those for which fair value cannot be determined reliably.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

### 2.2 Basis of measurement (continued)

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

### 2.3 Functional and presentation currency

Management believes that functional currency as defined by IAS 21 ("Effects of exchange rate changes") is RON. The financial statements are presented in RON.

### 2.4 Use of estimates and judgements

Preparation of financial statements in accordance with IFRS as endorsed by the European Union requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors considered being eloquent in the actual circumstances and the result of these factors form the basis of judgments used in determining the carrying amount of assets and liabilities for which there are no other sources available evaluation. Actual results may differ from these estimates.

Estimates and judgments are reviewed periodically. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods affected, if the revision affects both current period and future periods. Information about the significant estimates and judgments in applying accounting policies that have a significant effect on the amounts recognized in the financial statements are disclosed in Notes 4 and 5.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These significant accounting policies adopted and applied by the Bank as set out below have been applied consistently to all periods presented in these financial statements.

In respect of comparative information, certain items from the financial statements as at 31 December 2011 have been reclassified to conform to current presentation.

***a) Business combination with entities under common control***

Business combinations arising from transfers of interest in entities that are under the control of the shareholder that controls the both entities are accounted for as of the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements.

In preparing the Bank's first financial statements in accordance with IFRSs as endorsed by the European Union, the following methods have been applied:

- Statement of financial position as at 31 December 2012 is presented for Banca Comerciala Intesa Sanpaolo S.A., while balance sheet as at 31 December 2011 represent the sum of balance sheet of the merged banks (Banca Comerciala Intesa Sanpaolo Romania S.A. and Banca CR Firenze Romania S.A), out of which intra-group amounts were eliminated;
- Statement of comprehensive income for the year ended 31 December 2012 is presented for Banca Comerciala Intesa Sanpaolo S.A. and Banca CR Firenze Romania S.A., while the income statement for the year ended 31 December 2011 represent the sum of the Statements of comprehensive income of the merged banks (Banca Comerciala Intesa Sanpaolo Romania S.A. and Banca CR Firenze Romania S.A), out of which intra-group transactions were eliminated.

***(all amounts are presented in RON, unless otherwise stated)***

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### b) *Foreign currency*

***Foreign currency transactions***

transactions in foreign currencies are translated to the functional currency of the bank at exchange rates at the dates of the transaction. monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated to the functional currency at the exchange rate at that date. foreign exchange differences arising on translation are **RECOGNISED 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 the functional currency at exchange rates at the dates the fair value was determined.

The exchange rates of major foreign currencies were:

| **Currencies** | **31 December 2012** | **31 December 2011** | **%** |
|---|---|---|---|
| Euro (EUR) | 1: RON 4.4287 | 1: RON 4.3197 | +2,52% |
| US Dollar (USD) | 1: RON 3.3575 | 1: RON 3.3393 | +0,55% |

### c) *Accounting for the effect of hyperinflation*

Romania has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy are restated in terms of the measuring unit current at the end of reporting period (i.e. non-monetary items are restated using a general price index from the date of acquisition or contribution). As the characteristics of the economic environment of Romania indicate that hyperinflation has ceased, effective from 1 January 2004 the Bank no longer applied the provisions of IAS 29.

Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these financial statements.

### d) *Interest incomes and expenses*

Interest income and expense are recognised in the income statement using the effective interest rate method. 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 the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Interest income on impaired loans is recognized based on the interest rate utilized in the discounting of cash-flows used for the purpose of computing the impairment losses.

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

The calculation of the effective interest rate includes all fees and commissions, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### e) *Fees and commission*

Fees and commission income and expenses that are directly attributable to the financial asset or liability origination are included in the measurement of the effective interest rate.

Other fee and commission income arising on the financial services provided by the Bank is recognized as the related service is provided.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

### f) *Dividends*

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of other operating income in the Income Statement.

Dividends are treated as an appropriation of profit in the period they are declared and approved by the Shareholders General Assembly.

### g) *Lease payments made*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

### *h) Net trading income*

This comprises gains less losses related to trading assets and liabilities and derivatives held for risk management, and includes all realised and unrealised fair value changes and foreign exchange differences.

### i) *Income tax*

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

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

Deferred tax is provided using the statement of financial position method, providing for 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 is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

The tax rate used to calculate the current and deferred tax position at 31 December 2012 is 16% (31 December 2011: 16%).

### j) *Financial assets and liabilities*

*i) 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### j) *Financial assets and liabilities (continued)*

*ii) Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

When the Bank sells a financial asset and simultaneously signs a repurchase agreement of the asset (or a similar asset) at a fixed price and at a time set ("repo"), the contract is recorded as a loan from banks and asset to which it relates continues to be recognized in the balance Bank.

The Bank enters into a transaction that transfers assets recognized on the balance sheet, but retains either all risks or rewards of the transferred assets or a part thereof. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or most significant risks and rewards include, for example, securities lending or sale transactions with repurchase clause.

For transactions in which the Bank neither retains nor transfers substantially the risks and rewards of ownership of a financial asset, the asset is derecognizes if it was lost control over it.

The rights and obligations retained after the transfer are recognized separately as assets and liability, respectively. In transfers where control over the asset is retained, the Bank continues to recognize the asset to the extent that remains involved, the degree of involvement is determined by the degree to which the Bank is exposed to changes in value of the asset transferred.

The Bank derecognises a financial liability when its obligations are discharged or cancelled or expire.

The Bank uses the specific identification method to determine the gain or loss on derecognition.

*iii) Offsetting*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off the recognized amounts and intends 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.

*iv) Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method, of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

*v) Fair value measurement*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The fair value of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *j) Financial assets and liabilities (continued)*

the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all available factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of fair value of financial instruments at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is evidence by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

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.

*vi) Identification and measurement of impairment*

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets not carried at fair value through profit or loss 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.

***Assets carried at amortized cost***

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised 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 recognised 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 recognised, the previously recognised impairment loss is reversed either directly or by adjusting an allowance account. The amount of the reversal is recognised in profit or loss.

***Loans and advances 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 and advances to customers or groups of loans to customers are impaired:

(a) significant financial difficulty of the borrower such as breach of contract, default or delinquency in interest or principal payments of the borrowers (individually and in the same group of borrowers);

(b) 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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***j) Financial assets and liabilities (continued)***

***Loans and advances to customers (continued)***

*vi) Identification and measurement of impairment (continued)*

the interest or principal payments;

(c) is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(d) observable data indicating that there are economic or social conditions that can influence adversely the industry in which the borrower operates and that affect these borrowers.

The Bank first assesses whether objective evidence of impairment exists as described above individually for loans and advances 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 individually assessed loans and advances to customers, whether significant or not, it includes the loans and advances to customers in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans and advances to customers that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralised 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 and advances to customers are grouped on the basis of similar credit risk (size, debt service on the reporting date, type of customer, sector, and type of product) characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Future cash flows in a group of loans to customers that are collectively evaluated for impairment are estimated on the basis of historical probability of default and estimations regarding loss given default for loans with credit risk characteristics similar to those in the group. Historical probability of default 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 management estimates are based on the visible effects of current loans conditions. Significant changes in financial markets may generate significant adjustments on loss rates.

***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 recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from equity and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

Impairment losses recognized 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 recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized 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

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***j) Financial assets and liabilities (continued)***

***Financial assets carried at cost (continued)***

*vi) Identification and measurement of impairment (continued)*

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.

*vii) Designation at fair value through profit or loss*

The Bank designates financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

***k) Cash and cash equivalents***

Cash and cash equivalents include notes and coins on hand, balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

***Trading assets and liabilities***

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

As at 31 December 2012 and 31 December 2011 the Bank does not have trading assets and liabilities.

***l) Derivatives held for risk management purposes***

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities or hedging instruments. Derivatives held for risk management purposes are initially recognised at fair value. After their initial recognition, derivatives are subsequently measured at their fair values without any deduction for transactions costs to be incurred on sale or disposal. The changes in the fair value of such instruments are recognised immediately in profit or loss as a component of Net foreign exchange gain.

***m) Loans and advances***

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method as described in the Note 3.d. above, except when the Bank chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (j) (vii) see above. Loans and advances are presented net of impairment allowance (see accounting policy (j) (vi) see above).

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *n) Investment securities*

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted depending on their classification as either held-to-maturity or available-for-sale.

*i) Held-to-maturity*

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification: sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; sales or reclassifications after the Bank has collected substantially all of the asset's original principal; sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

*ii) Available-for-sale*

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised, as other operating income, in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

### *o) Property and equipment*

*i) Recognition and measurement*

Items of property and equipment are stated at their cost or revaluated amount less accumulated depreciation value and impairment losses.

*ii) Subsequent costs*

The Bank recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

The cost of replacing a 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 carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

*iii) Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *p) Property and equipment (continued)*

The estimated useful lives for the current and comparative periods are as follows:

| | Economic useful life in years |
|---|---|
| Buildings | 10-50 |
| Office equipment, lighting and accessories | 3-15 |
| Other assets | 5 |

Improvements in rented premises are depreciated over the rental agreements periods for the Bank's premises.

### *q) Intangible assets*

*Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (no more than 5 years).

Costs associated with developing or maintaining computer software programs are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives (no more than 5 years), from the date that is available for use.

Subsequent expenditure on software 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.

### *r) Investment property*

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Bank accounts for investment property using the cost model.

### *s) Impairment of non-financial assets*

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***s) Impairment of non-financial assets (continued)***

date for any indications that the loss has decreased or no longer exists. An impairment loss is 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 amortisation, if no impairment loss had been recognised.

***t) Deposits from customers***

Deposits from customers are initially measured at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest method.

***u) Borrowings and other liabilities evidenced by paper***

Borrowings such as loans from banks and other financial institutions and other liabilities evidenced by paper such as subordinated loans or bonds issued are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs occurred. Borrowings and other liabilities evidenced by paper are subsequently stated at amortised cost.

***v) Provisions***

A provision is recognised in the statement of financial position 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. A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

***w) Financial guarantees and loan commitments***

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantee or loan commitments are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

***x) Employee benefits***

*i) Short term service benefits*

Short-term employee benefits include wages, salaries, bonuses and social security contributions. Short-term employee benefits are recognised as expense when services are rendered.

*ii) Defined contribution plans*

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 and the subsidiaries in Romania are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognised 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***x) Employee benefits (continued)***

*iii) Termination benefits*

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, than they are discounted to their present value.

***y) Segment reporting***

During 2012, the Bank performed banking transactions delivered mostly on the Romanian market. The management considers that the inherent risks and benefits specific to the banking activity are not significantly different between the categories of clients as well as between various geographical regions, and consequently does not believe identifying separate reportable segments is necessary and would provide any additional benefits. Please see note 4 for the structure of loans portfolio per industry.

***z) New standards and interpretations not yet adopted***

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these financial statements:

- Amendments to IFRS 7, "Disclosures - Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods; to be applied retrospectively). The Amendments contain new disclosure requirements for financial assets and liabilities that are: offset in the statement of financial position; or subject to master netting arrangements or similar agreements. The Bank does not expect the amendments to have any impact on the financial statements as it has not entered into master netting arrangements.

- IFRS 11, "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early). IFRS 11, "Joint Arrangements", supersedes and replaces IAS 31, "Interest in Joint Ventures". IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows: a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement an a joint venture is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement. IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in its consolidated financial statements. The Bank does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

- IFRS 12, "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively; earlier application is permitted). IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*z) New standards and interpretations not yet adopted (continued)*

associates and unconsolidated structured entities. The Bank does not expect the new standard will have a material impact on the financial statements.

- IFRS 13, "Fair Value Measurement" (effective prospectively for annual periods beginning on or after 1 January 2013; earlier application are permitted). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that se significant unobservable input, the effect of the measurements on profit or loss or other comprehensive income. The Bank is not able to prepare an analysis of the impact will have on the financial statements until the date of initial application.

- Amendments to IAS 1, "Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively; earlier application is permitted). The amendments: a) require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections; b) change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used. The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application.

- Amendments to IAS 12, "Deferred Tax: Recovery of Underlying Assets" (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Earlier application is permitted). The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted. The amendments are not relevant to the Bank's financial statements, since the Bank does not have any investment properties measured using the fair value model in IAS 40.

- IAS 19, "Employee Benefits" (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively; transitional provisions apply; earlier application is permitted). The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation. The amendments are not relevant to the Bank's financial statements, since the Bank does not have any defined benefit plans.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*z) New standards and interpretations not yet adopted (continued)*

- IAS 28, "Investments in Associates and Joint Ventures" (amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively; earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 are also applied early.) There are limited amendments made to IAS 28: a) associates and joint ventures held for sale. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture; b) changes in interests held in associates and joint ventures. Previously, IAS 28 and IAS 31 specified that the cessation of significant influence or joint control triggered re-measurement of any retained stake in all cases, even if significant influence was succeeded by joint control.

  IAS 28 now requires that in such scenarios the retained interest in the investment is not re-measured. The Bank does not expect the amendments to standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.

- Amendments to IAS 32, "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively; earlier application is permitted, however the additional disclosures required by amendments to IFRS 7, "Disclosures – Offsetting Financial Assets and Financial Liabilities" must also be made). The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The amendments clarify that an entity currently has a legally enforceable right to set-off if that right is: not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Bank does not expect the amendments to have any impact on the financial statements since it has not entered into master netting arrangements.

- IFRS 9 Financial Instruments – Effective for annual periods beginning on or after 1 January 2015; to be applied prospectively; earlier application is permitted. This Standard replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost or financial assets measured at fair value. A financial asset is measured at amortized cost if the following two conditions are met: the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. Gains and losses on re-measurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date. It is expected that the new Standard, when initially applied, will have a significant impact on the financial statements, since the classification and the measurement of the Bank's financial assets are expected to change. However, the Bank is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application. The Bank has not yet decided on the date that it will initially apply the new Standard. This standard had not yet been adopted by the European Union.

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## 4. FINANCIAL RISK MANAGEMENT

### (a) Introduction

This note provides details of the Bank's exposure to risk and describes the methods used by management to control the risks. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk (interest rate risk, currency risk). The bank is also exposed to reputational risk, strategic risk, operational risk and risk related to taxation.

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

**Risk management structure**

The Board of Directors is the last responsible for identifying and controlling risks, yet there are separate and independent bodies responsible for managing and monitoring risks. The Bank conducts its entire business on the principles of corporate governance. The Board of Directors and the Executive Management are independent and separate structures.

**Board of directors**

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

**Management Committee**

The management committee has the responsibility to monitor the overall risk process within the bank.

**Credit Committee**

Credit Committee (CC) is a permanent decisional committee, acting within delegations and competencies established by the Board of Directors. Credit Committee is the highest deliberative body in lending activities - within the limits set by the Board of Directors of the Bank and except the competence of the Asset Quality Committee - and has the right to sub-delegation.

**Assets Quality Committee**

Assets Quality Committee ("AQC") is a permanent decisional committee, acting within delegations and competencies established by the Board of Directors, aiming on taking measures to prevent and reduce losses stemming from lending activity. AQC is the highest deliberative body in all other aspects of crediting that is not in the competence of the loan and has the right to sub-delegation.

**Financial Risk Committee**

The main objective of the Financial Risk Committee is to protect the Bank's own funds and their allocation, to align the Bank's assets and liabilities taking into account the pricing structure and maturity profile in accordance with law, rules and regulations of the National Bank of Romania, internal Bank's structures and its parent company as they were adopted by the Bank. Financial Risk Committee ensures continuous monitoring and control of the Bank's exposure to market risk, liquidity risk and interest rate risk, risk related to shares, property risk and currency risk.

**Operational Risk Committee**

Operational Risk Committee proposes approves and verifies aspects of operational risk issuing opinions where is required by law, by parent company or by corporate bodies. Regarding operational risk issues, the main objective of the Committee is to assist the Board of Directors in reviewing the overall

## 4. FINANCIAL RISK MANAGEMENT

### (a) Introduction (continued)

operational risk profile of the Bank. Operational risk is the risk of loss due to inadequacy or error process, human resources and internal systems or due to external events. Operational risk also includes legal risk and compliance risk (if associated with legal or administrative sanctions). Legal compliance risk component is also included in the category of operational risk.

### (b) Credit Risk

Credit risk is defined as the current or future risk to earnings and capital adversely affected as a result of failure by the debtor of its contractual obligations or failure in meeting the objectives.

**Credit risk identification system**

Credit risk identification, monitoring, control and administration are activities performed both at the level of the territorial units and Head Office.

The main purpose of the monitoring process of the credit portfolio is to supervise its quality by an early identification (either manual or automatic) of those risk factors, negative symptoms or detrimental events which may affect the creditworthiness of the counterparty, its debt repayment capacity and, as the case may be, the value of the guarantees/ collaterals/ their enforceability.

The frequency of monitoring activities shall be determined depending on the risk profile of the counterparty, the availability and accuracy of information.

The persons assigned to the task within the territorial units and/or the specialized staff of the structures with competencies in credit management, have the obligation to analyze and watch the manner in which loan drawings are used, the compliance with the conditions considered in their approval, throughout the loan period, monitoring the reimbursing modality, as well as the status of the reimbursement sources etc. and immediately notifying of any anomaly to the Head Office competent structures, in line with the specific provisions implemented by the Bank.

The monitoring process consists of three different streams:

- Daily monitoring (identification of risk exposures);
- Periodic monitoring activities (at least once a month);
- Portfolio monitoring.

***Daily Monitoring***

During the last quarter of 2012, the Bank implemented a specific process dedicated to the identification and adequate management of exposures with increased level of risk, which is carried out with a support of a specific IT application called "Clients with risk".

The daily relationship with the counterparty and the continuous support provided by the early warning system (supported by the IT application "Clients with risk") implemented by the Bank are the basis of the identification of risky exposures in the Banca Comerciala Intesa Sanpaolo Romania S.A. portfolio. The commercial units that manage the crediting relationship with the counterparties are responsible for the detection of negative events (negative symptoms/ detrimental events).

Potential problems or future critical situations can only be detected by a regular and systematic monitoring of daily transactions and by knowledge of the client, as well as by a detailed analysis of the most frequent symptoms which indicate an abnormality.

When negative symptoms or detrimental events are identified, a detailed counterparty analysis is necessary for the above mentioned clients that could result in the classification of the counterparty exposure to "problem" or "nonperforming" category, as per stipulations of the dedicated process for risky and nonperforming exposures management.

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Credit Risk (continued)

Portfolio performance evaluation is done on a daily basis (using information from the previous day), based on negative symptoms detectable in the Bank's database and information available in the morning through the Credit Risk Bureau. Based on this evaluation, customers are classified into two categories, namely, high risk or low risk based on the score obtained by correlating all available information on internal and external database.

This evaluation process materializes into concrete action customized as automatic notification, based on email, of the persons involved in connection with measures that need to be taken.

***Periodic monitoring***

Based on the results of the monitoring and control activities carried out concerning creditworthiness of the client, his payment behaviour, as recorded in specific documents implemented by the competent structures of the Bank, the commercial units make proposals of measures, which are submitted to the approval of the hierarchical superior and/or to other competent authorities in this respect.
After their approval, the measures established shall be communicated in writing to the counterparty with a view to their application.

***Portfolio Monitoring***

This phase of the monitoring process is the responsibility of the Risk Management Department and it is conducted under specific regulations developed by this structure.

The monitoring activities of the Bank portfolio take into consideration at least:

- ✓ The quality of the Bank's portfolio of assets (special attention is paid to the portfolio of nonperforming loans);
- ✓ The qualitative evolution of the portfolio of assets in comparison to the approved budget and business plan;
- ✓ The concentration risk (depending on the type of product, field of activity, market, currency for granting credit facilities, the group of clients interrelated etc).
- ✓ Determining the necessary allowance for impairment for identified related to loans risks

**Collection and workout process**

The main target of the collection and recovery process is to ensure a proper and timely management of those counterparties which, due to their characteristics or external reasons, may present various degrees of financial and/or economic difficulties with subsequent potential/ actual deterioration of their creditworthiness.
Counterparty's creditworthiness assessment is performed, which could result in the classification of the counterparty exposure to "problem" or "nonperforming" category thus allowing evaluating the best strategy in order to:

- minimize the risk of losses for credit facilities which are still performing;
- maximize the recovery of outstanding exposure for nonperforming loans.

The timely management of these exposures is of highly importance, especially when the debtor is in judicial procedures (e.g. insolvency, forced execution). The decisional process takes into account the maximization of recovery with minimum effort (timing, costs etc).
The Credit Recovery Department supervise, and monitor the whole process in order to ensure the efficiency of the defined/approved strategies. The recovery process is mainly based on the following actions:

## 4. RISK MANAGEMENT (CONTINUED)

### (b) Credit Risk (continued)

1. Individual evaluation by analyzing debtors, exposures and related guarantees; based on the evaluation results, the percentage of the recovery will be estimated
2. Making decision about the strategy to be implemented.

The CWO subordinated structures will perform the following main activities in order to optimize the recovery process:

1. Implement a set of strategies for non-performing clients depending on classification status:
   - renegotiate of the contractual terms for loans classified as past due and substandard;
   - collect residual amounts for doubtful clients;
2. Implement the mechanism of the collateral marketing, as defined
3. Assess the opportunity to partially sell of the overdue portfolio which meets the eligibility criteria identified for such operations.

Bank adopted in 2012 the following rules for classification of its debtors in accordance with IFRS standards as endorsed by the European Union and aligned with main shareholder requirements and the Bank of Italy:

- **Nonperforming Loans**. This definition applies to exposures that fall under the following classification:
  - **Doubtful:** Balance and off-balance sheet exposures (loans, letters of guarantees, derivatives etc.) to borrowers being effectively insolvent (although not yet legally) or in comparable status, regardless of any loss forecasts made by the Bank. Irrespective, therefore, of whether any (real/tangible or personal) guarantees that may have been established to cover the exposures.
  - **Substandard:** Balance and off-balance sheet exposures (loans, letters of guarantees, derivatives etc.) to borrowers experiencing temporary objective financial or economic difficulties that are likely to be overcome in a reasonable period of time. Irrespective of whether any (real/tangible or personal) guarantees that have been established to cover the exposures.
  - **Restructured:** Balance and off-balance sheet exposures (loans, letters of guarantees, derivatives etc.) where the Bank (or a pool of banks) renegotiates the original terms of a debt due to deterioration of the creditworthiness of the debtor (for example by granting a payment moratorium or by decreasing the debt or the interests). If such renegotiation results in a loss, the exposure will be classified as restructured.
  - **Past due:** Balance and off-balance sheet exposures (loans, letters of guarantees, derivatives, etc) other than those classified as doubtful, substandard or restructured that, as at reporting date, are past due for over 90 days.

- **Performing loans**. Balance and off-balance sheet exposures (loans, securities, derivatives etc.) other than those classified as doubtful, substandard, restructured or past due.

Performing loans could be divided in two sub-categories, respectively:

- *Performing –Standard*: This refers to all the exposures without any anomalies attached, or with anomalies that do not require management in accordance with the principles defined for the classification of Problem Loans. From a portfolio management point of view, these exposures fall under the responsibility of the commercial structure responsible and are managed in accordance with normal/ordinary credit granting and monitoring processes.
- *Problem Loan (watch list)*. It refers to the expense granted to customers (private, corporate, other entities etc) which, due to inherent characteristics or because of external factors, show signs of varying degrees of difficulty, with possible deterioration of the credit quality.

## 4. RISK MANAGEMENT (CONTINUED)

### (b) Credit Risk (continued)

Problem Loans include credit with potential problems that have not yet incurred, but could lead to breach of contract unless timely resolved.

With reference to legal entities, this status generally includes those exposures for which rescheduling/renegotiation either was proposed or is being proposed in order to reorganise the company and recover the balance.

**Impairment methodology**

The Bank reviewed in 2012 the methodologies for determining IFRS collective provision and has established clear roles and responsibilities for the individual impairment allowance.

As such, performing loans are collectively assessed based on groups of assets with similar characteristics, as follows:

a) Dimension
  - Companies
  - Small and medium enterprise
  - Economic and micro entities
  - Retail

b) Days past due, at the reporting date
  - 0 , for customers with days past due equal to 0 days
  - 1 , for customers with days past due between 1 and 15 days included
  - 2 , for customers with days past due between 16 and 30 days included
  - 3 , for customers with days past due between 31 and 60 days included
  - 4 , for customers with days past due between 61 and 90 days included
  - 5, for customers with days past due higher than 90 days.

c) Customer type
  - Private individuals
  - Legal entities

d) Activity
  - Agriculture,
  - Commerce,
  - Industry,
  - Real estate,
  - Services and
  - Other activities

e) Product type
  - Mortgage/Real Estate,
  - Consumer Loans,
  - Revolving, Non Revolving,
  - Agricultural Loans,
  - Investment loans and other,
  - Letters of Guarantee/Letters of Credit,
  - Others



Nonperforming loans are individually assessed case by case or based on a portfolio approach, as follows:

- Past Due: the exposures classified with this status, independently of the amount, will be subject to monthly individual assessment on portfolio basis (flat-rate adjustments) in accordance with the tables provided by the Risk Management Department, on the basis of the historical series of status changes and recoveries.

## 4. RISK MANAGEMENT (CONTINUED)

### (b) Credit Risk (continued)

- Substandard: the exposures within a defined threshold will be subject to monthly individual assessment on portfolio basis (flat rate adjustments) in accordance with the tables provided by the Risk Management Department, on the basis of the historical series of status changes and recoveries.

The threshold value is established at EUR 75,000 and may be reviewed from time to time by the AQC, together with the Bank's Loan and Risk Management departments. In any event such threshold will not exceed that established by the Parent Company.

The exposures above the pre-established threshold are subject to an individual evaluation performed by the Credit Recovery Department in accordance with the prevailing management prerogatives and after discussion with the commercial unit, and decided by the same credit function or higher decision-making bodies, in accordance with prevailing management prerogatives. The recovery forecasts are made at classification, and subsequently every 6 (six) months, and in any case, for any relevant event that may occur during the period (i.e. significant changes of the financing period etc).

The assessments are based on an attentive and in-depth qualitative and quantitative analysis:

(i) of the economic, asset and financial situation of the counterparty in addition to

(ii) exogenous factors such as trends in the reference sector.

An analytical assessment is made for each individual credit on the basis of the risk implied by the technical form of the outstanding, the degree of dependence on any mitigating factors, and if significant, the financial effects of the time realistically estimated as necessary for its recovery.

A recovery forecast is made on the basis of the evaluation of the significance of the guarantees/collaterals in place, the type of utilisation, the counterparty's solvency and its current and prospective profitability.

- Restructured: the same criteria used for the individual evaluation of substandard loans are generally applied to restructured loans since the risk of failing to fulfil the obligations continues to exist, despite the renegotiation through restructuring agreements.
- Doubtful: all the positions classified as doubtful, both under management of the Credit Recovery Department or under external management are valued using the individual assessment.

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## 4. RISK MANAGEMENT (CONTINUED)

### (b) Credit Risk (continued)

| | Loans to customers | | Placements with banks | | Treasury bills | |
|---|---|---|---|---|---|---|
| | **31 December 2012** | **31 December 2011** | **31 December 2012** | **31 December 2011** | **31 December 2012** | **31 December 2011** |
| **Total net exposure** | 3,549,268,781 | 3,496,716,271 | 779,215,560 | 739,949,102 | 494,292,231 | 471,805,781 |
| Non-performing loans, individually impaired | | | | | | |
| Doubtful | 1,004,961,878 | 544,985,948 | | | | |
| Substandard | 273,699,713 | 297,288,057 | | | | |
| Restructured exposures | 3,262,807 | 6,831,715 | | | | |
| Past due | 27,013,806 | 82,430,326 | | | | |
| **Gross exposure** | **1,308,938,203** | **931,536,045** | | | | |
| Impairment allowance | (602,945,193) | (372,394,445) | | | | |
| **Net exposure** | **705,993,010** | **559,141,600** | | | | |
| *out of which rescheduled as defined by NBR* | *253,467,740* | *191,148,168* | | | | |
| Collectively impaired loans | | | | | | |
| Doubtful credits | 238,792,622 | 123,208,147 | | | | |
| Performing – Standard | 2,670,738,348 | 2,866,544,875 | | | | |
| **Gross exposure** | **2,909,530,970** | **2,989,753,022** | | | | |
| Impairment allowance | (66,255,198) | (52,178,351) | | | | |
| **Net exposure** | **2,843,275,771** | **2,937,574,671** | | | | |
| *out of which rescheduled as defined by NBR* | *161,333,984* | *224,446,409* | | | | |
| Paste due, performing loans | | | | | | |
| < 30 days | 200,005,914 | 176,601,984 | | | | |
| 31 - 60 days | 58,302,234 | 44,590,270 | | | | |
| 61 - 90 days | 55,214,148 | 83,578,144 | | | | |
| >91 days | 19,401,527 | 1,908 | | | | |
| **Net exposure** | 332,923,823 | 304,772,306 | | | | |
| *out of which rescheduled as defined by NBR* | *22,159,318* | *45,348,438* | | | | |

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## 4. RISK MANAGEMENT (CONTINUED)

| | Loans to customers | | Placements with banks | | Treasury Bills | |
|---|---|---|---|---|---|---|
| **(b) Credit Risk (continued)** | **31 December 2012** | **31 December 2011** | **31 December 2012** | **31 December 2011** | **31 December 2012** | **31 December 2011** |
| Performing loans with no overdue | | | | | | |
| Doubtful loans | 53,255,225 | 20,066 | | | | |
| Performing – Standard | 2,457,096,720 | 2,632,782,478 | 779,215,560 | 739,949,102 | 494,292,231 | 471,805,781 |
| **Total performing** | **2,510,351,945** | **2,632,802,544** | **779,215,560** | **739,949,102** | **494,292,231** | **471,805,781** |
| *out of which rescheduled as defined by NBR* | *139,174,666* | | | | | |

### Impaired loans and advances

The Bank classified loans and advances as being impaired where there is proper evidence that a loss event has occurred after the initial recognition and that loss event has an impact on the estimated future cash flows of the asset.

### Overdue and not-individually impaired exposures

Overdue and not-impaired exposures are those exposures for which there is interest and instalment overdue and payment rates, for which the Bank believes that there is no sufficient evidence to lead to prominence them as nonperforming because of the delay in number of days, of the outstanding amount towards the total exposure and economic and financial situation of the client.

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## 4. RISK MANAGEMENT (CONTINUED)

### (b) Credit Risk (continued)

**Collaterals held and other techniques to reduce credit risk**

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Performing loans** | | |
| Mortgages | 3,375,784,837 | 3,479,839,630 |
| Pledge on equipments | 384,391,552 | 403,908,253 |
| Pledge on goods, merchandize etc. | 222,177,938 | 160,266,875 |
| Other express, irrevocable and unconditional personal guarantees issued by FNGCIMM SA | 96,961,092 | - |
| Guarantees received from the public institutions of Romania – credits - 0% level of risk, "prima casa" | 80,006,615 | 53,979,253 |
| Pledge on vehicles | 57,643,256 | 65,098,608 |
| Letters of guarantee | 47,990,436 | 111,389,830 |
| Other express, irrevocable and unconditional personal guarantees issued by FGC of Romania | 38,616,491 | - |
| Pledge – collateral deposits | 16,942,650 | 29,151,165 |
| **Total** | **4,320,514,867** | **4,303,633,614** |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Non-performing loans** | | |
| Mortgages | 1,151,184,919 | 884,199,897 |
| Pledge on goods, merchandize etc. | 63,656,782 | 51,249,753 |
| Pledge on equipments | 46,353,512 | 54,608,451 |
| Other express, irrevocable and unconditional personal guarantees issued by FNGCIMM SA | 15,677,832 | - |
| Pledge on vehicles | 4,372,942 | 11,418,217 |
| Other express, irrevocable and unconditional personal guarantees issued by FGC of Romania | 3,417,036 | - |
| Letters of guarantee | 2,657,221 | 3,520,556 |
| Pledge – collateral deposits | 1,000,074 | 634,070 |
| **Total** | **1,288,320,318** | **1,005,630,944** |

*(all amounts are presented in RON, unless otherwise stated)*

## 4. RISK MANAGEMENT (CONTINUED)

### (b) Credit Risk (continued)

**Loans secured by mortgages**

The table below stratifies credit exposures on mortgages and advances to retail customers and corporate on loan-to-value intervals (LTV). LTV is calculated as the ratio of the gross amount of the loan - or committed amount for loan commitments - and the collateral value. Gross amounts exclude any adjustments for impairment.
Evaluation of collaterals excludes any adjustments for obtaining and selling of collateral. Guarantee value for mortgage loans are based on the value of revaluated collateral in accordance with market changes.

| | Loan to value rate (LTV) | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| Corporate | 50% | 173,285,860 | 176,221,193 |
| | 51% -70% | 173,444,013 | 238,640,531 |
| | 71% - 90% | 186,955,328 | 290,514,030 |
| | 91% - 100% | 83,658,364 | 108,842,938 |
| | >100% | 302,377,147 | 331,028,993 |
| | **Total** | **919,720,712** | **1,145,247,684** |

| | Loan to value rate (LTV) | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| Retail | 50% | 26,577,285 | 27,908,900 |
| | 51% -70% | 37,166,923 | 38,995,839 |
| | 71% - 90% | 146,424,159 | 129,839,534 |
| | 91% - 100% | 13,279,710 | 11,194,376 |
| | >100% | 168,602,953 | 116,881,895 |
| | **Total** | **392,051,030** | **324,820,544** |

In addition to assessing the quality of corporate customers, the Bank revaluates with a frequency of once a year, respectively once every 3 years for residential mortgage collaterals.

*(all amounts are presented in RON, unless otherwise stated)*

## 4. RISK MANAGEMENT (CONTINUED)

### (b) Credit risk (continued)

**Concentration risk**

| | Loans and advances to customers | | Placements with Banks | | Treasury Bills | |
|---|---|---|---|---|---|---|
| *Concentration by sector* | 31 December 2012 | 31 December 2011 | 31 December 2012 | 31 December 2011 | 31 December 2012 | 31 December 2011 |
| Agriculture | 363,713,852 | 315,002,672 | - | - | - | - |
| Other activities | 17,644,884 | 13,891,685 | - | - | - | - |
| Commerce | 548,310,649 | 611,971,474 | - | - | - | - |
| Construction | 343,800,120 | 324,939,796 | - | - | - | - |
| Processing and conservation | 42,391,413 | 45,555,150 | | | | |
| Manufacturing(gas, electric energy) | 91,614,652 | 94,234,685 | | | | |
| Extraction (oil, gravel) | 12,454,733 | 13,655,354 | | | | |
| Furniture, shoes, equipment manufacturing | 487,681,526 | 481,507,388 | | | | |
| Other industrial activities | 132,419,973 | 132,575,222 | | | | |
| Transportation | 80,966,290 | 87,501,057 | | | | |
| Hotels | 81,891,092 | 82,247,632 | | | | |
| Real estate | 246,018,734 | 255,921,458 | | | | |
| Leasing | 60,266,967 | 57,701,249 | | | | |
| Car and ships repairs | 5,873,192 | 7,323,909 | | | | |
| Other services | 259,983,818 | 298,686,769 | | | | |
| Individuals | 774,236,886 | 674,000,771 | - | - | - | - |
| Banks | - | - | 779,215,560 | 739,949,102 | - | - |
| State | - | - | - | - | 494,571,470 | 472,084,920 |
| **Total net exposure** | **3,549,268,781** | **3,496,716,271** | **779,215,560** | **739,949,102** | **494,571,470** | **472,084,920** |

*(all amounts are presented in RON, unless otherwise stated)*

## 4. RISK MANAGEMENT (CONTINUED)

### (b) Credit risk (continued)

The portfolio, of securities which is held and classified AFS (available for sale) is described below.

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Government securities and treasury bills: | | |
| Category BBB+ and lower | 494,571,470 | 472,084,920 |

The table below describes the exposures arising from financial derivatives. Overall transactions with the derivatives of the Group are fully secured by cash.

| 31 December 2012 | Banking institutions Notional | Banking institutions Fair value | Other Notional | Other Fair value |
|---|---|---|---|---|
| Financial derivatives acquired | 123,462,322 | 61,165 | 228,067,610 | 254,714 |
| Financial derivatives sold | 428,454,295 | 253,232 | 91,567,585 | 113,236 |
| **31 December 2011** | | | | |
| Financial derivatives acquired | 292,715,487 | 119,729 | 124,392,077 | 76,089 |
| Financial derivatives sold | 167,813,983 | 28,725 | 36,696,200 | 19,413 |

### (c) Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

**Liquidity risk management**

Liquidity risk arises because of the possibility that the bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on regular basis. The bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high liquid assets which could be used to secure additional funding if required.

The Bank maintains a portfolio of eligible assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has EUR 270,000,000 money market limit with Intesa Sanpaolo S.p.A. Milan and a committed back-up line of credit in amount of EUR 50,000,000 from Intesa Sanpaolo S.p.A. Milan that it can access to meet liquidity needs in case of a liquidity crisis. In accordance with the Bank's policy the liquidity position is assessed and managed under a variety of scenarios, giving consideration to stress factors relating to both the market in general and specifically to the Bank.

**Exposure to liquidity risk**

The key ratio used by the Bank for the management of Liquidity Risk is the ratio between net liquid assets and customer accounts. For this purpose net liquid assets are considered as cash and cash equivalents, securities for which there is an active and liquid market less any deposits from banks, debt securities, loans and other liabilities due the following month.

***(all amounts are presented in RON, unless otherwise stated)***

## 4. RISK MANAGEMENT (continued)

### (c) Liquidity risk (continued)

Rate of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

| | **2012** | **2011*** |
|---|---|---|
| As at 31 December | 51.87% | 56.26% |
| Average for the period | 42.39% | 41.77% |
| Maximum for the period | 57.65% | 57.28% |
| Minimum for the period | 28.12% | 16.29% |

** Percentages for 2011 are calculated for Banca Comerciala Intesa Sanpaolo Romania S.A*

Level of liquidity ratios calculated according to National Bank of Romania requirements are given below as follows:

| | **2012*** | | | | | **2011** |
|---|---|---|---|---|---|---|
| | **<=1 month** | **1-3 months** | **3-6 months** | **6-12 months** | **>12 months** | |
| As at 31 December | 1.23 | 1.89 | 4.66 | 3.54 | 2.66 | 1.21 |
| Maximum for the period | 1.57 | 8.07 | 14.99 | 16.59 | 2.66 | 1.21 |
| Minimum for the period | 1.19 | 1.75 | 2.4 | 3.54 | 1.98 | 1.04 |

**Starting with January 2012 total liquidity indicator is no longer calculated and was replaced by another, calculated for each time interval separately, as in the table above.*

***(all amounts are presented in RON, unless otherwise stated)***

## 4. RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (continued)

### ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

| 31 December 2012 | Book Value | <1 month | 1-3 months | 3 months – 1 year | 1-5 years | > 5 years |
|---|---|---|---|---|---|---|
| Derivative assets | 315,880 | 310,181 | 5,699 | - | - | - |
| Cash, balances with the Central Bank | 807,395,944 | 807,395,944 | - | - | - | - |
| Loans and advances to banks | 47,551,813 | 47,551,813 | - | - | - | - |
| Loans and advances to customers | 3,549,268,781 | 627,703,024 | 226,915,895 | 919,493,572 | 865,077,162 | 910,079,128 |
| Treasury bills | 494,571,470 | 494,571,470 | - | - | - | - |
| Other assets | 17,157,099 | 17,157,099 | - | - | - | - |
| **Total assets** | **4,916,260,987** | **1,994,689,531** | **226,921,594** | **919,493,572** | **865,077,162** | **910,079,128** |

| 31 December 2012 | Book value | <1 month | 1-3 months | 3 months – 1 year | 1-5 years | > 5 years |
|---|---|---|---|---|---|---|
| Derivative liabilities | 366,468 | 263,902 | 102,566 | | | |
| Deposits from banks | 1,612,005,664 | 372,577,459 | 266,543,700 | 382,045,970 | 590,838,535 | 0 |
| Deposits from customers | 2,496,387,038 | 1,583,610,070 | 327,882,696 | 561,705,991 | 18,370,146 | 4,818,135 |
| Subordinated loan | 31,055,582 | - | - | - | 31,055,582 | - |
| Other liabilities | 17,291,354 | 17,291,354 | - | - | - | - |
| **Total liabilities** | **4,157,106,106** | **1,973,742,785** | **594,528,962** | **943,751,961** | **640,264,263** | **4,818,135** |
| **Net position** | **759,154,881** | **20,946,746** | **(367,607,368)** | **(24,258,389)** | **224,812,899** | **905,260,993** |

The maturity deficit of 1-3 months is impacted by the loan from Societe Europeenne de Banque SA Luxembourg in amount of 50,000,000 EUR. The maturity date of this loan was rescheduled until 28 February 2019 (see note 32).

***(all amounts are presented in RON, unless otherwise stated)***

## 4. RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (continued)

| ***Future interest related to financial liabilities*** | **Total** | **<1 month** | **1-3 months** | **3 months – 1 year** | **1-5 years** | **> 5 years** |
|---|---|---|---|---|---|---|
| Deposits and loans from banks | 110,759,331 | 110,759,331 | - | - | - | - |
| Deposits from clients | 23,090,909 | 23,090,909 | - | - | - | - |

| **31 December 2011** | **Book value** | **<1 month** | **1-3 months** | **3 months – 1 year** | **1-5 years** | **> 5 years** |
|---|---|---|---|---|---|---|
| Derivatives | 195,818 | 138,764 | 57,054 | - | - | - |
| Cash, deposits with the central bank | 704,843,394 | 704,843,394 | - | - | - | - |
| Placements with the banks | 100,912,865 | 100,912,865 | - | - | - | - |
| Loans and advances to customers | 3,496,716,271 | 540,369,737 | 548,838,770 | 862,145,731 | 703,952,656 | 841,409,377 |
| Treasury bills | 472,084,920 | 472,084,920 | - | - | - | - |
| Other assets | 14,132,395 | 14,132,395 | - | - | - | - |
| **Total assets** | **4,788,885,663** | **1,832,482,075** | **548,895,824** | **862,145,731** | **703,952,656** | **841,409,377** |

| **31 December 2011** | **Book value** | **<1 month** | **1-3 months** | **3 months – 1 year** | **1-5 years** | **> 5 years** |
|---|---|---|---|---|---|---|
| Derivatives | 48,138 | 48,138 | - | - | - | - |
| Deposits from banks | 1,667,204,004 | 239,415,991 | 110,155,862 | 285,876,962 | 880,002,089 | 151,753,100 |
| Deposits from customers | 2,163,283,002 | 1,293,836,363 | 387,799,474 | 464,623,760 | 12,022,949 | 5,000,455 |
| Subordinated loans | 95,586,908 | - | - | - | 95,586,908 | - |
| Other liabilities | 17,638,428 | 17,638,428 | - | - | - | - |
| **Total liabilities** | **3,943,760,480** | **1,550,938,920** | **497,955,336** | **750,500,722** | **987,611,946** | **156,753,555** |
| | | | | | | |
| **Net position** | **845,125,183** | **281,543,155** | **50,940,488** | **111,645,009** | **(283,659,290)** | **684,655,821** |

Information on future interest related to financial liabilities as at 31 December 2011 is not available.

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Initialised for identification

***(all amounts are presented in RON, unless otherwise stated)***

## 4. RISK MANAGEMENT (CONTINUED)

### (d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank does not hold Trading Portfolios. The market risk for the Banking Book is monitored based on a Value-at-Risk (VaR) methodology regarding Foreign Exchange risk and sensitivity analysis for the Interest Rate risk. Interest rate risk exposure related to activities out of the trading portfolio. Interest rate risk arises from the possibility that changes in interest rates affect future cash flows or fair values of financial instruments. Bank has set limits on interest rate differences in the banking portfolio. In accordance with Bank policies, positions are monitored on a regular basis and daily gaps are checked.

The following table shows the interest rate risk of the Bank based on sensitivity ratio to interest rate for + / - 50 basis points for 2011 and for 2012, we used a new shock of + / -100 basis points.

| | **+100 basis pt.** | **-100 basis pt.** | **+50 basis pt.** | **-50 basis pt.** |
|---|---|---|---|---|
| *Sensitivity of projected net interest income (in RON)* | | | | |
| 2012 | | | | |
| At 31 December | 9,009,352 | (4,613,322) | 4,518,226 | (3,407,502) |
| Average for the period | 5,313,896 | (3,787,750) | 2,667,149 | (2,427,707) |
| Maximum for the period | 9,115,925 | (1,529,339) | 4,570,865 | (1,403,308) |
| Minimum for the period | 2,767,580 | (7,363,713) | 1,393,368 | (3,602,402) |
| 2011* | | | | |
| At 31 December | 17,943,643 | (18,054,056) | 8,983,838 | (9,009,063) |
| Average for the period | 5,625,122 | (5,671,066) | 2,814,410 | (2,833,658) |
| Maximum for the period | 17,943,643 | (3,022,342) | 8,983,838 | (1,511,171) |
| Minimum for the period | 2,969,845 | (18,054,056) | 1,484,923 | (9,009,063) |

** Data for 2011 was calculated only for Banca Comerciala Intesa Sanpaolo Romania S.A.*

The table below presents annual interest rates obtained or provided by the Bank for the interest bearing assets and liabilities during the financial year 2012 (in percentages):

| **2012** | **RON Range of interest rates** | | **USD Range of interest rates** | | **EUR Range of interest rates** | |
|---|---|---|---|---|---|---|
| **Assets** | **Min** | **Max** | **Min** | **Max** | **Min** | **Max** |
| Current accounts with the National Bank of Romania | 0.93 | 1.43 | 0.24 | 0.5 | 0.56 | 0.78 |
| Placements with banks | 1.25 | 9 | 0.5 | 0.5 | - | - |
| Loans and advances to customers | 3 | 23 | 3.75 | 5.49 | 2.69 | 11.99 |
| **Liabilities** | | | | | | |
| Deposits from customers | 1 | 8.5 | 1 | 3.95 | 0.11 | 5.25 |
| Deposits from banks | 0.5 | 7.3 | 0.6 | 0.75 | 0.06 | 3.04 |
| Subordinated debts | - | - | - | - | 1.878 | 3.235 |
| Borrowings from banks | - | - | - | - | 0.472 | 5.982 |

***(all amounts are presented in RON, unless otherwise stated)***

## 4. RISK MANAGEMENT (CONTINUED)

### (d) Market risk (continued)

The loans from banks annual interest rates are described in Note 24.
The table below presents annual interest rates obtained or provided by the Bank for interest bearing assets and liabilities during the financial year 2012 (in percentages):

| 2011 | RON Range of interest rates | | USD Range of interest rates | | EUR Range of interest rates | |
|---|---|---|---|---|---|---|
| **Assets** | **Min** | **Max** | **Min** | **Max** | **Min** | **Max** |
| Current accounts with the National Bank of Romania | 1.29 | 1.86 | 0.33 | 0.65 | 0.65 | 0.84 |
| Placements with banks | 2 | 9.5 | - | - | - | - |
| Loans and advances to customers | 6.17 | 23 | 1.32 | 6.03 | 1.55 | 12.36 |
| **Liabilities** | | | | | | |
| Deposits from customers | 1.5 | 7.25 | - | - | 1 | 4 |
| Deposits from banks | 1.5 | 7.25 | 0.1 | 0.6 | 0.4 | 3.58 |
| Subordinated debts | - | - | - | - | 2.671 | 3.089 |
| Loans from banks | - | - | - | - | 1.263 | 5.608 |

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*(all amounts are presented in RON, unless otherwise stated)*

## 4. RISK MANAGEMENT (CONTINUED)

### (d) Market risk (continued)

The table below represents the statement of cash flows (notional and interest) relating to interest bearing assets and liabilities allocated to time bands depending on the time of re-pricing. If assets / liabilities bearing variable interest are awarded on the basis of notional proper time period re-pricing and cash flows resulting from the application of spread are distributed on time to maturity bands according to the repayment schedule. If assets / liabilities bearing fixed interest and notional interest flows are spread over time bands according to the repayment schedule.

| **31 December 2012** | **Book value** | **Overnight** | **< 3 months** | **3-12 months** | **1-5 years** | **> 5 years** |
|---|---|---|---|---|---|---|
| Cash and current accounts with central bank | 1,131,978,666 | 1,131,978,666 | - | - | - | - |
| Loans and advances to banks | 47,623,245 | - | 47,623,245 | - | | - |
| Loans and advances to customers | 3,829,342,217 | 102,954 | 3,054,266,330 | 90,694,527 | 278,149,673 | 406,128,732 |
| Securities | 526,153,624 | - | 186,498,380 | 194,001,014 | 145,654,230 | - |
| **Total assets** | **5,535,097,752** | **1,132,081,620** | **3,288,387,955** | **284,695,541** | **423,803,903** | **406,128,732** |
| Deposits and borrowings from banks | 1,619,121,077 | - | 1,266,984,054 | 315,041,590 | 37,095,433 | - |
| Deposits from customers | 2,542,257,961 | 10,837,584 | 1,921,096,707 | 592,749,033 | 12,756,501 | 4,818,135 |
| **Total liabilities** | **4,161,379,038** | **10,837,584** | **3,188,080,761** | **907,790,623** | **49,851,934** | **4,818,135** |
| **Net position** | **1,373,718,714** | **1,121,244,036** | **100,307,194** | **(623,095,082)** | **373,951,969** | **401,310,597** |

| **31 December 2011** | **Book value** | **Overnight** | **< 3 months** | **3-12 months** | **1-5 years** | **> 5 years** |
|---|---|---|---|---|---|---|
| Cash and current accounts with central bank | 713,841,562 | 713,841,562 | - | - | - | - |
| Loans and advances to banks | 15,920,246 | - | 15,920,246 | - | - | - |
| Loans and advances to customers | 3,781,394,906 | 14,303,401 | 2,895,200,404 | 257,732,902 | 246,756,127 | 67,402,072 |
| Securities | 494,595,592 | - | 24,188,708 | 170,907,362 | 99,499,522 | - |
| **Total assets** | **5,005,752,306** | **728,144,963** | **2,935,309,358** | **428,640,264** | **346,255,649** | **67,402,072** |
| Deposits and borrowings from banks | 1,922,861,491 | 88,257,442 | 1,093,127,946 | 443,074,987 | 292,684,136 | 5,716,980 |
| Deposits from customers | 2,195,112,189 | 24,861,001 | 1,653,408,130 | 508,080,742 | 3,757,128 | 5,005,189 |
| **Total liabilities** | **4,117,973,680** | **113,118,443** | **2,746,536,076** | **951,155,729** | **296,441,264** | **10,722,169** |
| **Net position** | **887,778,626** | **615,026,520** | **188,773,282** | **(52,251,5465)** | **49,814,385** | **56,679,903** |

***(all amounts are presented in RON, unless otherwise stated)***

## 4. RISK MANAGEMENT (CONTINUED)

### (d) Market risk (continued)

The Bank's policy is to maintain foreign currency position in balance covering the operational needs resulted from the ordinary activities of bank's customers. The Bank monitors on a daily frequency total foreign currency position of the Bank and VaR. At the reporting date, net currency exposures are as follows:

| **31 December 2012** | **RON** | **EUR** | **USD** | **Others** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and current accounts with banks | 291,711,475 | 511,454,026 | 2,525,594 | 1,704,849 | 807,395,944 |
| Placements with banks | 25,700,400 | 19,360,689 | 643,808 | 1,846,916 | 47,551,813 |
| Investment securities | 471,945,197 | 22,626,273 | | | 494,571,470 |
| Loans and advances to customers | 1,096,426,506 | 2,429,626,412 | 9,404,295 | 13,811,568 | 3,549,268,781 |
| **Total assets** | **1,885,783,578** | **2,983,067,400** | **12,573,697** | **17,363,333** | **4,898,788,008** |
| **Liabilities** | | | | | |
| Deposits from banks | 199,236,908 | 362,593,827 | 352,538 | 13,222,519 | 575,405,792 |
| Borrowings from banks | - | 1,036,599,873 | - | - | 1,036,599,873 |
| Subordinated debts | - | 31,055,582 | - | - | 31,055,582 |
| Deposits from customers | 1,089,106,908 | 1,344,663,594 | 59,536,071 | 3,080,466 | 2,496,387,039 |
| **Total liabilities** | **1,288,343,816** | **2,774,912,876** | **59,888,609** | **16,302,985** | **4,139,448,286** |
| **Net Foreign Currency position** | **597,439,762** | **208,154,524** | **(47,314,912)** | **1,060,348** | **759,339,722** |

| **31 December 2011** | **RON** | **EUR** | **USD** | **Others** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and current accounts with banks | 184,065,262 | 370,468,124 | 2,063,033 | 1,623,531 | **558,219,950** |
| Placements with banks | 145,369,787 | 9,082,708 | 713,900 | 1,598,946 | **156,765,340** |
| Investment securities | 363,736,817 | 21,376,273 | - | - | **385,113,090** |
| Loans and advances to customers | 892,922,681 | 2,127,205,729 | 6,815,983 | 15,182,171 | **3,042,126,564** |
| **Total Assets** | **1,586,094,546** | **2,528,132,834** | **9,592,916** | **18,404,648** | **4,142,224,943** |
| **Liabilities** | | | | | |
| Deposits from banks | 42,727,533 | 378,339,524 | 26,714 | 10,940,546 | **432,034,317** |
| Borrowings from banks | - | 1,064,581,051 | - | - | **1,064,581,051** |
| Deposits from customers | 1,074,501,576 | 749,679,224 | 33,418,774 | 1,942,838 | **1,859,542,412** |
| **Total liabilities** | **1,117,229,109** | **2,192,599,799** | **33,445,488** | **12,883,384** | **3,356,157,780** |
| **Net Foreign Currency position** | **468,865,438** | **335,533,035** | **- 23,852,572** | **5,521,264** | **786,067,163** |

**Foreign currency position as at 31 December 2011 is computed only for Banca Comerciala Intesa Sanpaolo Romania S.A.*

## 4. RISK MANAGEMENT (CONTINUED)

### (e) Operational Risk

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

The Board of Directors has delegated the responsibility of operational risk to Operational Risk Committee, which is responsible for the development and implementation of controls to deal with operational risk. This responsibility is supported by the development of general Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with legal regulations;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced by the bank, and the adequacy of controls and procedures to address the risks identified;
- reporting requirements of operational losses and proposed remedial action;
- development of emergency plans;
- training and professional development;
- ethical and business standards, and
- mitigation, including insurance even this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. Internal audit results are discussed in Operational Risk Committee and the Audit Committee, and management of the Bank.

### (f) Taxation risk

The Romanian tax legislation provides for detailed and complex rules and has suffered various changes in the recent years. Interpretation of the text and practical implementation procedures of tax legislation could vary, and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Bank's treatment. Furthermore, the recent conversion to IFRS of the Romanian banks raised additional tax implications that are not yet fully clarified in the legislation and might generate potential tax risks.

The Romanian Government has a number of agencies that are authorized to conduct audits of companies operating in Romania. These audits 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. It is likely that the Bank will continue to be subject to regular controls as new laws and regulations are issued.

### (g) Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

*(all amounts are presented in RON, unless otherwise stated)*

## 4. RISK MANAGEMENT (CONTINUED)

### (e) Capital management (continued)

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

| Regulatory capital | Actual 2012 | **Required 2012 | Actual 2011 | **Required 2011 |
|---|---|---|---|---|
| *Total capital | 513,547,769 | 260,441,890 | 706,542,762 | 269,285,912 |
| Risk weighted assets | 3,255,523,629 | | 3,366,073,900 | |
| Tier 1 capital ratio | 15,77% | | 20,99% | |
| Total capital ratio | 15,77% | | 20,99% | |

*Numbers for 2011 are calculated based on figures from the financial statements prepared in accordance with NBR Order No. 13/2008.*

Regulatory capital consists of tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, legal reserves net of taxes and deductions for items such as intangible assets, holdings in other credit and financial institutions amounting to more than 10% of their capital and subordinated claims in other credit and financial institutions in which holdings exceed 10% of their capital. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt, reserves to valuation differences in property, plant and equipment transferred to additional own funds, and deductions for holdings in other credit and financial institutions amounting to more than 10% of their capital and subordinated claims in other credit and financial institutions in which holdings exceed 10% of their capital.

Certain adjustments are made to IFRS–based results and reserves, as prescribed by the National Bank of Romania.

*The Capital is calculated according to the National Bank of Romania Regulation no. 18/2006 on IFRS data.

**Represents the capital requirement for credit risk, market risk and operational risk calculated according to the NBR Regulation no. 13/2006 with subsequent changes, on IFRS data.

### (h) Operating environment

Economic environment in which the Bank operates, remained unfavorable. Growth in real Gross Domestic Product (GDP) fell to 0.2% from 2.2% in 2011, amid weak agricultural crops, the slowdown in industry and construction coupled with a demand from the population still tenuous. These factors led inherently and maintain relatively high levels of non-performing loans formation, both individual customers segment, and companies. Both demand and supply of credit remained weak in 2012, given that the banking system and foreign shareholders have withdrawn some funding lines in previous years local subsidiaries. This created a pressure on domestic sources of funding, pushing up interest rates passive. Consumer confidence has been affected by the turmoil in the political arena. In the context of the large banks have chosen to move to a more rigid about problem loans, depreciation expense adjustments related to loans to customers remained high. In the first nine months of 2012, the banking system has accumulated a loss of 100 million lei (22.7 million).

Internationally, 2012 has emerged as a point of inflection. Project of the European single currency and the European banking system were under immense pressure, international investors betting that the EUR will succumb under the pressure of the sovereign debt crisis. The European Central Bank has adopted unconventional measures offering loans with maturities of three years to all banks in the euro zone, ending liquidity crisis.

## 4. RISK MANAGEMENT (CONTINUED)

### (h) Operating environment (continued)

Although a disaster scenario was avoided, some challenges remain before the European banking system and recovery of the profitability (especially by deleveraging and downsizing balance) is in progress.

Until now no large European banking group has not abandoned in Romania, although some players have announced such plans. Given that most European financial groups shifting their attention and resources to home markets, competition for funds locally will remain strong. This could lead to a further narrowing of interest margins and a decline in operating income.

Management believes that all necessary measures to support the sustainability and growth of the Bank in the current business by:

- Constant monitoring of liquidity positions and excessive dependence on categories of sources;
- Short-term forecasting of net liquidity positions;
- Obtaining shareholders' engagement on their continued support for the Bank's operations in Romania;
- Review the terms and conditions of funding agreements and consideration of the imposed obligations implications and risks identified such as maturity dates, or any other terms or clauses that may have been violated or may be violated near future.

*Exposure to sovereign debt of Euro zone countries*

During the year 2012 were maintained concerns regarding credit risk of certain Euro zone countries, leading to speculation on the long term sustainability of the Euro zone. Worsening recession that has registered for a number of countries, political and economic consequences generated as fiscal austerity programs, and other actions by governments and uncertainties regarding the continuity of certain financial institutions in these countries have led to an increase in volatility yields for government exposures. Recently, some measures taken by the European Central Bank and the European Commission have a positive effect on the degree of confidence of markets. However, the situation in these countries is still sensitive. As at 31 December 2012 and 31 December 2011, the Bank did not record exposure to Euro zone countries classified as having a high credit risk.

## 5. USE OF ESTIMATES AND JUDGEMENTS

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

Use of judgments and estimates has the greatest importance:

### (a) Impairment

Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 3 letter (j) (vii).

The specific component of the total allowances for impairment applies of financial assets assessed individually for impairment and is based upon Bank's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, the Bank makes judgments about a debtor's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Committee on Quality Assets.

The Bank reviews its loans and advances individually significant at each of reporting date, to assess whether to record an impairment loss in the income statement. In particular, management's assessments

## 5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

**a) Impairment (continued)**

are needed for coordinating estimating future cash flows when determining the impairment loss. These estimates are based on assumptions about several factors and actual results may differ, resulting in future changes of adjustments.

Individual assessment is required in all cases where there is objective evidence of impairment. For loans recognized at amortized value (cost amortized) the loss is measured as the difference between the exposure (at amortized cost) and net present value of future cash flows discounted at the effective interest rate.

If the value of recoveries from non performing loans would happen with a delay of 2 years as compared to the Bank's estimates, adjustment for impairment losses related to loans and advances to customers would be increased by RON 44 million.

Collective assessment is mandatory in all cases where there were no objective evidence of impairment identified is achieved by a group of financial assets after similar credit risk characteristics and their evaluation using historical loss rates associated with information on loss experience in these groups of active and relevant observable data.

A collective component of the total allowances for impairment applies is established as follows:

- Individual adjustments for impairments identified in homogeneous groups of loans and other receivables that are not individually analyzed to determine the level of impairment because they are not individually significant;
- Collective adjustments for losses incurred but unidentified, loans and receivables, whether or not individually significant, for which there were no individual adjustments for impairment.

Collective adjustment for homogeneous groups of loans is determined using statistical methods and estimation of the adjustment is made on the basis of historical data on default behavior of borrowers and history / forecast of losses for impaired positions combined so to reflect the terms of product structure, their economic effects on the reporting date.

Collective adjustment for significant active groups, but have not been individually assessed for impairment applies refers to the loan portfolio expected loss.

In assessing collective impairment adjustment, the Bank takes into account factors such as credit quality, portfolio size, concentration levels and economic factors.

In order to estimate the necessary adjustment, hypotheses are developed to define how expected losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. Accuracy in determining the total adjustments for impairment applies depends, therefore, estimates of future cash flows of counterparties individually assessed and the assumptions and parameters used in determining collective adjustments.

Adjustments for impairment applied for loans and receivables are presented in more detail in Note 15.

Investments in equity instruments of participation and were valued at their book value, since it was not possible to determine an impairment test or assessment to market value / fair value.

Assessment to determine whether an investment in sovereign debt (see Note 4 (b)) is impaired can be very complex, but only because the bank holds investments in government securities Romanian, test them for impairment applies is excluded. To evaluate these instruments, please see point b) fair value.

The loan impairment assessment considers the visible effects on current market conditions on the individual/ collective assessment of loans and advances to customers' impairment. The Bank has estimated the impairment loss provision for loans and advances to customers based on the internal methodology harmonized with Group policies and assessed that no further provision for impairment

## 5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

### a) Impairment (continued)

losses are required except as already provided for in the financial statements. Because of the uncertainties on the local financial markets regarding assets valuation and operating environment of the borrowers, that Bank's estimate could be revised after the date of the approval of the financial statements.

### (a) Fair value

Determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in note 3 (j) (vi).

For financial instruments for which no market price is available, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, market factors, the pricing assumptions and other risks specific analysis tool.
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques which contain variable information obtained from market perceptible. When using valuation techniques (e.g. models) to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are adjusted to ensure that outputs reflect actual data and comparative market prices. To the extent that this is practical, models use only perceptible information, however, areas such as credit risk (both own and counterparty), fluctuations and correlations require management attention to be estimated. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly - i.e. as prices – or indirectly - i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques used refers to the net present value and discounted cash flows. Assumptions and input parameters used in valuation techniques include risk-free rate and the reference interest and exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants.

The Bank uses widely recognized valuation models for determining the fair value of financial instruments simple (interest rate instruments and foreign exchange instruments) that use only observable market data and require a little reasoning to estimate. Observable prices and model input parameters are provided by dedicated structure within the Group.

For the treasury bills, the Bank uses to official listings nationwide through a single dedicated system, this is also the depository of such securities issued in dematerialized form in the Romanian national market.

All financial instruments recorded at fair value are classified into three categories as follows:

Level 1 - Quoted market prices
Level 2 - Valuation techniques (noticed on the market)
Level 3 - Valuation techniques (market unnoticed)

*(all amounts are presented in RON, unless otherwise stated)*

## 5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

### (b) Fair value (continued)

On 31 December 2012, the Bank owned the following financial instruments measured at fair value:

| Assets measured at fair value | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Derivatives | **315,880** | - | 315,880 | - |
| Securities, available for sale | **494.292.331** | - | 494.292.331 | - |
| **Liabilities measured at fair value** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Derivatives | **366,468** | - | 366,468 | - |

**At 31 December 2011:**

| **Assets measured at fair value** | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| Derivatives | **195,818** | - | 195,818 | - |
| Securities, available for sale | **471,805,781** | - | 471,805,781 | - |
| **Liabilities measured at fair value** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Derivatives | **48,138** | - | 48,138 | - |

In 2012 and 2011 there were no transfers between Level 1 fair value measurements and Level 2.

**Financial assets and liabilities**

Please find below a comparison by class of the carrying amounts and fair values of financial instruments that banks are not recorded at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

The following paragraphs describe the methodologies and assumptions used to determine fair values of those financial instruments that are not already recorded at fair value in the financial statements:

*Assets for which fair value approximates accounting value*

For financial assets and liabilities that are due in the short term (under one year), it is assumed that the carrying amounts approximate their fair value. This assumption applies to term deposits and savings accounts without a specific maturity.

*Fixed rate financial instruments*

The fair value of financial assets and liabilities with fixed rate at amortized cost are estimated by comparing market interest rates after they were first recognized with current market rates for similar financial instruments.

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## 5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

### (b) Fair value (continued)

The following table summarizes the carrying amounts and fair values of those assets and liabilities that are not listed in the bank's balance sheet at their fair value. Bid prices are used to estimate the fair values of assets and the prices offered are applied for liabilities.

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| **Financial assets** | | | | |
| Cash, current accounts with the central bank | 807,395,944 | 807,395,944 | 704,843,394 | 704,843,394 |
| Placements with banks | 47,551,813 | 47,551,813 | 100,912,865 | 100,912,865 |
| Loans and advances to customers | 3,549,268,781 | 3,549,268,781 | 3,496,716,271 | 3,496,716,271 |
| **Total** | **4,404,216,538** | **4,404,216,538** | **4,302,472,530** | **4,302,472,530** |
| **Financial liabilities** | | | | |
| Deposits from banks | 575,405,791 | 575,405,791 | 654,874,580 | 654,874,580 |
| Deposits to customers | 2,496,387,038 | 2,496,387,038 | 2,163,283,002 | 2,163,283,002 |
| Borrowings from banks | 1,067,655,455 | 1,067,655,455 | 1,107,916,332 | 1,107,916,332 |
| **Total** | **4,139,448,284** | **4,139,448,284** | **3,926,073,914** | **3,926,073,914** |

Due to concentration of the main exposure in the re-pricing bucket below 3 months, the Bank does not consider that fair value of loans and advances to customers and deposits from customers would be significantly different from their book value.

*(all amounts are presented in RON, unless otherwise stated)*

## 6. NET INTEREST INCOME

| | 2012 | 2011 |
|---|---|---|
| **Interest income:** | | |
| Not impaired loans | 253,543,811 | 254,640,689 |
| Impaired loans | 93,318,572 | 17,417,302 |
| Correction of interest on impaired loans | (83,666,741) | - |
| Current accounts and deposits with banks | 8,677,071 | 10,882,261 |
| Financial investments – available for sale | 31,876,252 | 26,886,578 |
| **Total interest income** | **303,748,965** | **309,826,830** |
| **Interest expense:** | | |
| Deposits from customers | (97,138,039) | (81,787,097) |
| Due to banks | (13,352,284) | (26,141,777) |
| Other borrowed funds | (34,312,806) | (34,119,934) |
| Subordinated loans | (1,275,599) | (2,675,987) |
| Other | (1,012,747) | (344,424) |
| **Total interest expense** | **(147,091,476)** | **(145,069,219)** |
| **Net interest income** | **156,657,489** | **164,757,611** |

Comparative information on correction of interest on impaired loans (“unwinding”) is not available.

## 7. NET FEE AND COMMISSION INCOME

| | 2012 | 2011 |
|---|---|---|
| **Fee and commission income** | | |
| Income from transactions fees | 22,243,274 | 21,575,877 |
| Income from commissions on loans | 8,397,448 | 7,137,017 |
| Other commission income | 49,135 | 219,100 |
| **Total fee and commission income** | **30,689,857** | **28,931,994** |
| **Fee and commission expense** | | |
| Expenses with transaction fees | (6,082,377) | (5,451,965) |
| Inter-banking transactions fees | (200,568) | (307,101) |
| Fees for cash acquisition | (2,774,644) | (3,523,724) |
| **Total fee and commission expense** | **(9,057,589)** | **(9,282,790)** |
| **Net fee and commission income** | **21,632,268** | **19,649,204** |

## 8. NET TRADING INCOME

| | 2012 | 2011 |
|---|---|---|
| Gain from foreign exchange differences | 18,334,160 | 1,041,929 |
| Revenue from transactions with foreign exchange derivatives | 10,502,287 | 17,734,384 |
| Revenue from disposal of available for sale financial assets | 1,044,146 | - |
| | **29,880,593** | **18,776,313** |

*(all amounts are presented in RON, unless otherwise stated)*

## 9. PERSONNEL EXPENSES

| | 2012 | 2011 |
|---|---|---|
| Wages and salaries | 59,297,043 | 63,166,830 |
| Compulsory social security contributions | 15,625,816 | 15,833,395 |
| Other personnel expenses | 1,676,317 | 2,154,164 |
| | **76,599,176** | **81,154,389** |

Other personnel expenses include meal tickets.

**Share-based payment**

In 2012 the Bank purchased a total of 39,014 shares Intesa Sanpaolo SPA Italia which has to be assigned for managers as remuneration according to the policy and rules approved by the Group.

Until the final allocation of shares to managers, the Bank will own the shares.

According to group policy the cost of shares was covered by the Bank through a provision for staff bonuses during 2011.

## 10. OTHER OPERATING EXPENSES

| | 2012 | 2011 |
|---|---|---|
| Administrative expenses | 43,817,990 | 44,009,644 |
| Local taxes expenses | 2,949,695 | 2,644,233 |
| Software licensing | 4,629,510 | 4,216,067 |
| Advertising and marketing | 1,577,823 | 1,280,170 |
| Guarantee fund expenses | 4,522,952 | 3,726,108 |
| Consultancy and professional services | 2,842,008 | 2,712,688 |
| Others | 154,284 | 3,704,842 |
| | **60,494,262** | **62,293,752** |

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## 10. OTHER OPERATING EXPENSES (CONTINUED)

Administrative expenses are detailed below:

| | 2012 | 2011 |
|---|---|---|
| Rental expenses | 21,701,366 | 22,671,811 |
| Inventories and consumables | 344,144 | 425,458 |
| Heating, electricity and others | 3,215,661 | 2,794,995 |
| IT & C expenses | 1,773,480 | 2,025,221 |
| Postage, telephone and other expenses | 2,832,082 | 3,443,218 |
| Travel expenses | 1,680,000 | 1,603,428 |
| Security services expenses | 1,627,128 | 1,696,145 |
| Expenditure on staff trainings | 123,287 | 138,564 |
| Insurance expenses | 424,710 | 596,086 |
| Cleaning service expenses | 1,090,674 | 1,070,965 |
| Card service expenses | 2,115,310 | 1,321,750 |
| Protocol expenses | 683,438 | 621,193 |
| Legal service expenses | 870,538 | 424,554 |
| Expense with forms, stationery and other printed material | 1,436,410 | 1,464,619 |
| Transportation services | 1,055,837 | 968,440 |
| Others | 2,843,925 | 2,743,197 |
| | **43,817,990** | **44,009,644** |

A result of a detailed analysis of operating results and the achievement of operational performance targets over the past two years have been closed 8 units (including 4 in the year 2012 and another 4 in the year 2011) which failed to and meet performance targets and / or losses obtained after approval from the Board of Directors of the Bank.

The Bank recorded provisions covering the total costs for closure of these units. The costs of closing these branches include penalties paid to owners for unilateral termination of leases, lease improvements of the object sunk low in records.

## 11. INCOME TAX REVENUE

| | 2012 | 2011 |
|---|---|---|
| **Expense / (income) with current tax** | - | - |
| **Expense / (income) with deferred tax** | | |
| Allowance for impairment on loans to customers | 6,538,217 | 16,879,581 |
| Tax credit for losses | (1,893,781) | (30,575,056) |
| Temporary differences | (4,691,771) | 659,046 |
| Restatement of tangible assets | - | (401,833) |
| Others | - | 62,154 |
| **Deferred tax revenue** | **(47,335)** | **(13,376,108)** |
| **Total income tax** | **(47,335)** | **(13,376,108)** |

***(all amounts are presented in RON, unless otherwise stated)***

## 11. INCOME TAX REVENUE (CONTINUED)

Reconciliation of effective tax rate:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Loss before tax | | (105,497,153) | | (148,068,603) |
| Theoretical taxation at statutory rate | 16.00% | (16,879,545) | 16.00% | (23,690,977) |
| Tax exempt income | -2.28% | 2,408,182 | - | - |
| Fiscal depreciation | 0.43% | (458,628) | - | - |
| Non-taxable income | 7.26% | (7,663,253) | 15.51% | (22,962,124) |
| Non-deductible expenses | -9.84% | 10,375,775 | -22.50% | 33,309,078 |
| Temporary differences | 4.45% | (4,691,771) | -0.64% | (952,406) |
| Recognition of previously unrecognized tax losses | -15.98% | 16,861,905 | -0.62% | 920,321 |
| **Income tax** | **0.04%** | **(47,335)** | **9.03%** | **(13,376,108)** |

## 12. CASH AND BALANCES WITH CENTRAL BANK

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Cash | 75,732,197 | 65,807,157 |
| Current accounts at National Bank of Romania | 731,663,747 | 639,036,237 |
| | **807,395,944** | **704,843,394** |

Current accounts include reserves in the National Bank of Romania. Minimum reserve level set by the National Bank of Romania for renewable attracted with the maturity of less than two years and for attracted sources with residual maturity greater than two years, which provide contractual clauses relating to refunds, withdrawals, transfer of 15% was anticipated sources deposits in lei and 20% of bank currency as well at 31 December 2012 as 31 December 2011. The Bank may use the minimum reserve requirement in daily operational activities, subject to specified levels for average monthly balances. In 2012, interest rates ranged between 1.43% and 0.93% (2011: between 1.86% and 1.29%) for reservations in GBP and was kept between 0.79% and 0.58% (2011: between 0.88% and 0.69%) for reserves stored in EUR. In 2012 interest rates for term deposits in RON at National Bank of Romania were 1.25% (2011: between 2.25% and 6.25%).

***(all amounts are presented in RON, unless otherwise stated)***

## 13. PLACEMENTS WITH BANKS

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Current accounts | 27,548,480 | 15,892,548 |
| Overnight deposits and term deposits | 20,003,333 | 85,020,317 |
| **Total placements with banks** | **47,551,813** | **100,912,865** |

In 2012, interest on bank deposits ranged between 1.25% and 9.00% for RON (2011: between 1.50% and 7.50%) and there were no placements with banks in other currencies during the year. Placements with banks are not pledged in favor of third parties.

## 14. DERIVATIVES HELD FOR RISK MANAGEMENT

The fair values of derivatives held are presented below:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Currency swaps | 61,165 | 253,232 | 119,729 | 28,724 |
| Currency forwards | 254,715 | 113,236 | 76,089 | 19,414 |
| **Total** | **315,880** | **366,468** | **195,818** | **48,138** |

*(all amounts are presented in RON, unless otherwise stated)*

## 15. LOANS AND ADVANCES TO CUSTOMERS

| | Gross Value | Impairment allowance | Net value | Gross Value | Impairment allowance | Net value |
|---|---|---|---|---|---|---|
| | | | 31 December 2012 | | | 31 December 2011 |
| **Retail loans** | | | | | | |
| Consumer loans collateralized by mortgage | 383,322,265 | (14,996,991) | 368,325,274 | 375,781,076 | (17,997,910) | 357,783,166 |
| Equipments loans | 1,666,370 | (1,298) | 1,665,072 | 2,903,111 | (450,953) | 2,452,158 |
| Loans for real estate investments | 388,546,803 | (4,052,275) | 384,494,528 | 310,178,695 | (11,016,126) | 299,162,569 |
| Cash loans | 15,081,040 | (245,740) | 14,835,300 | 10,609,315 | (912,462) | 9,696,853 |
| Other loans to customers | 62,199 | (29,445) | 32,754 | 66,745 | (29,626) | 37,119 |
| Commissions to recover | 208,070 | (120,351) | 87,719 | 62,916 | (33,577) | 29,339 |
| **Corporate loans** | | | | | | |
| Loans to financial institutions | 8,018,638 | (4,675,014) | 3,343,624 | 18,667,924 | (5,102,363) | 13,565,561 |
| Consumer loans | 5,288 | (165) | 5,123 | 13,885 | (230) | 13,655 |
| Equipments loans | 330,937,121 | (57,995,397) | 272,941,724 | 296,441,230 | (24,985,413) | 271,455,817 |
| Loans for real estate investments | 945,500,874 | (170,951,352) | 774,549,522 | 865,863,366 | (105,859,761) | 760,003,605 |
| Cash loans | 1,553,599,228 | (318,639,298) | 1,234,959,930 | 1,472,458,654 | (197,058,527) | 1,275,400,127 |
| Other loans to customers | 585,921,702 | (93,173,763) | 492,747,939 | 564,202,362 | (58,069,554) | 506,132,808 |
| Commissions to recover | 5,599,575 | (4,319,303) | 1,280,272 | 4,039,788 | (3,056,294) | 983,494 |
| **Total** | **4,218,469,173** | **(669,200,392)** | **3,549,268,781** | **3,921,289,067** | **(424,572,796)** | **3,496,716,271** |

## 15. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

| | 2012 | 2011 |
|---|---|---|
| At 1 January | 424,572,797 | 226,723,597 |
| Charge for the year | 497,682,009 | 452,995,602 |
| Releases during the period | (342,034,845) | (269,426,237) |
| Written-offs/ (Recoveries) | (1,039,983) | 7,662,023 |
| Adjustments for interest on impaired loans | 83,666,741 | - |
| Effect of exchange rate | 6,353,673 | 6,617,811 |
| **At 31 December, out of which:** | **669,200,392** | **424,572,796** |
| **Individual impairment allowance** | **602,945,194** | **372,394,445** |
| **Collective impairment allowance** | **66,255,198** | **52,178,351** |

## 16. SECURITIES AVAILABLE FOR SALE

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Debt securities | 494,292,331 | 471,805,781 |
| Equity investments, available for sale | 279,139 | 279,139 |
| **Total** | **494,571,470** | **472,084,920** |

### a. Debt securities

Debt securities comprise treasury bills, bonds denominated in RON and Eurobonds issued by Ministry of Public Finance of Romania. Some of the securities are subject to repurchase agreements transactions with National Bank of Romania (note 23). Other securities are free of charge.

AFS Equity investments held by the Bank are detailed below:

| Investment | Country of incorporation | Nature of business | Shareholding 31 December 2012 | Shareholding 31 December 2011 |
|---|---|---|---|---|
| Sibex Sibiu Stock Exchange | Romania | commodity exchange | 26,880 | 26,880 |
| Romanian Clearing House | Romania | clearing house BMFMS | 40,500 | 40,500 |
| TransFonD | Romania | settlement and clearing inter-banking transfer | 193,803 | 193,803 |
| Credit bureau | Romania | | 17,956 | 17,956 |
| **Total** | | | **279,139** | **279,139** |

***(all amounts are presented in RON, unless otherwise stated)***

## 16. SECURITIES AVAILABLE FOR SALE (CONTINUED)

### b. Equity investments

| | 2012 | 2011 |
|---|---|---|
| Intesa Sanpaolo Leasing IFN S.A. (i) | 8,745,616 | 8,745,612 |
| Intesa Sanpaolo SPA (ii) | 169,570 | - |
| **Total** | **8,915,186** | **8,745,612** |

(i) Banca Comerciala Intesa Sanpaolo Romania holds 99,49% of the share capital of INTESA SANPAOLO LEASING ROMANIA I.F.N S.A., a Romanian company located at S-PARK Loc BUCURESTI str TIPOGRAFILOR nr 11-15, registered at the Romanian Registry of Commerce under J40/14030/2005 with fiscal number RO17863812.

In January 2011, the Bank has acquired from CIB Lizing Zrt a number of 17 shares in Intesa Sanpaolo Leasing Romania IFN S.A. at the price of RON 4. This increase of the contribution has been approved on January 25, 2011 by the Board of Administration of Intesa Sanpaolo Romania S.A..

Following this event, as of 31 December 2011, Intesa Sanpaolo Romania SA holds a total number of 597 (99,49%) shares in Intesa Sanpaolo Leasing Romania IFN S.A., each with a nominal value of RON 1,800 per share and CIB Lizing Zrt holds 3 shares (0,51%) at a nominal value of RON 1,800 per share. On 31 December 2012 the net assets of Intesa Sanpaolo Leasing Romania IFN SA are in amount of 2,819,842 RON (31 December 2011: 4,291,493 RON).

(ii) During 2012, Banca CR Firenze Romania S.A. acquired a number of 39,014 shares from Intesa Sanpaolo SPA, with a value of 169,570 RON.

*(all amounts are presented in RON, unless otherwise stated)*

## 17. PROPERTY AND EQUIPMENT

| | Land and buildings | Computer Hardware | Other assets | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2011 | 96,244,375 | 11,180,609 | 32,534,023 | **139,959,007** |
| Additions | 23,772,599 | 2,917,095 | 920,636 | **27,610,330** |
| Disposals | (5,965,391) | (1,811,766) | (2,753,076) | **(10,530,233)** |
| **At 31 December 2011** | **114,051,583** | **12,285,938** | **30,701,583** | **157,039,104** |
| At 1 January 2012 | 114,051,583 | 12,285,938 | 30,701,583 | **157,039,104** |
| Additions | 59,221 | 1,289,054 | 916,900 | **2,265,175** |
| Disposals | (7,228,359) | (1,718,848) | (2,302,817) | **(11,250,024)** |
| **At 31 December2012** | **106,882,445** | **11,856,144** | **29,315,666** | **148,054,255** |
| **Depreciation:** | | | | |
| At 1 January 2011 | 20,995,044 | 9,320,655 | 15,866,865 | **46,182,564** |
| Disposals | (2,728,813) | (1,804,809) | (2,380,693) | **(6,914,315)** |
| Depreciation charge for the year | 4,905,157 | 1,921,693 | 3,212,533 | **10,039,383** |
| Impairment losses | - | - | - | **-** |
| **At 31 December 2011** | **23,171,388** | **9,437,539** | **16,698,705** | **49,307,632** |
| **Depreciation:** | | | | |
| At 1 January 2012 | 23,171,388 | 9,437,539 | 16,698,705 | **49,307,632** |
| Disposals | (1,473,607) | (1,549,747) | (870,338) | **(3,893,692)** |
| | 4,299,737 | 1,919,100 | 2,586,293 | **8,805,130** |
| Impairment losses | 4,825,029 | - | - | **4,825,029** |
| **At 31 December 2012** | **30,822,547** | **9,806,892** | **18,414,660** | **59,044,099** |
| **Net book value:** | | | | |
| **At 31 December 2011** | **90,880,196** | **2,848,399** | **14,002,878** | **107,731,473** |
| **At 31 December 2012** | **76,059,898** | **2,049,252** | **10,901,006** | **89,010,156** |

Other assets include motor vehicles, furniture and fittings, household equipment, air conditioning equipment.
All tangible assets are unencumbered and are secured to the net carrying amount at the concluding date of the insurance.

Gross value of property and equipment fully depreciated and still in use is 19,070,080 RON (31 December 2011: 22,601,187 RON).

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## 18. INTANGIBLE ASSETS

| | Computer software | Other intangible assets | TOTAL |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2011 | 30,313,416 | 83,512 | **30,396,928** |
| Additions | 2,914,510 | - | **2,914,510** |
| Disposals | (967,697) | (71,743) | **(1,039,440)** |
| **At 31 December 2011** | **32,260,229** | **11,769** | **32,271,998** |
| At 1 January 2012 | 32,260,229 | 11,769 | **32,271,998** |
| Additions | 7,514,037 | - | **7,514,037** |
| Disposals | (1,007,282) | - | **(1,007,282)** |
| **At 31 December 2012** | **38,766,984** | **11,769** | **38,778,753** |
| **Amortization:** | | | |
| At 1 January 2011 | 18,550,981 | 83,044 | **18,634,025** |
| Disposals | (967,696) | (71,647) | **(1,039,343)** |
| Amortization charge for the year | 4,752,709 | 371 | **4,753,080** |
| **At 31 December 2011** | **22,335,994** | **11,769** | **22,347,762** |
| At 1 January 2012 | 22,335,994 | 11,769 | **22,347,762** |
| Disposals | (1,007,255) | - | **(1,007,255)** |
| Amortization charge for the year | 4,332,734 | - | **4,332,734** |
| **At 31 December 2012** | **25,661,473** | **11,769** | **25,673,241** |
| **Net book value:** | | | |
| **At 31 December 2011** | **9,924,235** | **-** | **9,924,236** |
| **At 31 December 2012** | **13,105,511** | **-** | **13,105,511** |

Intangible assets include licenses for the software used by the Bank.

The remaining average amortization period is 2.5 years.

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## 19. INVESTMENT PROPERTY

| | Amount |
|---|---|
| **Cost:** | |
| At 1 January 2011 | 12,374,013 |
| Additions | 19,350,000 |
| Disposals | |
| **At 31 December 2011** | **31,724,013** |
| At 1 January 2012 | 31,724,013 |
| Additions | 2,865,708 |
| Disposals | - |
| **At 31 December2012** | **34,589,721** |
| **Depreciation:** | |
| At 1 January 2011 | 178,796 |
| Impairment losses | 5,282,300 |
| Depreciation charge for the year | 608,672 |
| **At 31 December 2011** | **6,069,768** |
| At 1 January 2012 | 6,069,768 |
| Impairment losses | 5,150,951 |
| Depreciation charge for the year | 900,521 |
| **At 31 December 2012** | **12,121,240** |
| **Net book value:** | |
| **At 31 December 2011** | **25,654,245** |
| **At 31 December 2012** | **22,468,481** |

Investment property is held by the Bank following the takeover of assets held as collaterals for non performing loans. Their fair value is based on a valuation performed by ANEVAR experts.

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## 20. DEFFERD TAX

Current tax is calculated by applying the rate of 16% (2011: 16%). Deferred income taxes are calculated based on all temporary differences under the liability method using a tax rate of 16% (2011: 16%). Assets and liabilities related to deferred tax are attributable to the following items:

| | 31 December 2012 | | | 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Asset** | **Liability** | **Net** | **Asset** | **Liability** | **Net** |
| Allowance for impairment on loans and advances to customers | | (66,247,527) | (66,247,527) | | (59,709,311) | (59,709,310) |
| Fair value of securities available for sale | | (151,984) | (151,984) | 4,632 | | 4,632 |
| Fiscal credit for losses | 76,514,925 | | 76,514,925 | 74,621,146 | | 74,621,146 |
| Deductible temporary differences | 5,644,177 | | 5,644,177 | 952,406 | | 952,406 |
| **Assets / (liabilities) related to deferred tax** | **82,159,102** | **(66,399,511)** | **15,911,575** | **75,578,184** | **(59,709,311)** | **15,864,874** |
| **Assets / (liabilities) related to deferred tax** | | | **(151,984)** | | | **-** |

The possibility of recovery of assets representing deferred tax is evaluated by the Bank in accordance with the budget for 2013 - 2014 it is estimated only recover tax losses of 478,218,281 RON from amount of 715,862,845 RON, total tax loss recorded by the Bank as at 31 December 2012.

According to the Fiscal Code beginning with 2009, the annual tax loss can be reported and recovered from income tax derived in the next seven consecutive years. Detail of the limitation period tax loss for the bank which recognize deferred tax is presented below:

| **Fiscal period** | **Prescription year** |
|---|---|
| 4,540,980 | 2012 |
| 10,601,683 | 2013 |
| 327,985,931 | 2016 |
| 18,369,510 | 2017 |
| 116,720,177 | 2018 |

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## 21. OTHER ASSETS

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Deposits paid for rent, electricity | 1,814,809 | 1,881,456 |
| Expenses paid in advance | 3,690,368 | 1,575,061 |
| Sundry debtors | 5,838,972 | 4,744,867 |
| Inventory | 688,366 | 939,650 |
| Foreign currency spots | 4,155,336 | - |
| Other | 969,248 | 4,991,360 |
| **Total** | **17,157,099** | **14,132,394** |

## 22. DEPOSITS FROM BANKS

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Sight deposits | 154,023,069 | 95,293,580 |
| Term deposits | 295,556,649 | 550,080,470 |
| Amounts in transit | 18,068,388 | 9,500,530 |
| Repurchase agreements | 107,757,685 | - |
| **Total** | **575,405,791** | **654,874,580** |

The main part of time deposits from customers were in RON and EURO. Interest rate during the year 2012 for deposits ranged between 1.00% and 6.60% for RON (2011: between 1.50% and 6.80%) for deposits in EUR ranged between 0.35% and 3.04% (2011: between 0.90% and 3.58).

Between 31 December 2012 and 7 January 2013 were perform repurchase agreements with the National Bank of Romania with an interest rate of 5.25%. Amount redeemed at maturity was RON 107,851,959.

## 23. DEPOSITS FROM CUSTOMERS

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Current accounts | 328,954,911 | 280,391,598 |
| Sight deposits | 260,951,670 | 250,547,760 |
| Term deposits | 1,858,122,486 | 1,580,260,606 |
| Collateral deposits | 48,357,971 | 52,083,038 |
| **Total** | **2,496,387,038** | **2,163,283,002** |

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## 24. BORROWINGS FROM BANKS

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Loans from Intesa Sanpaolo Group | 1,036,599,873 | 1,012,329,424 |
| **Total** | **1,036,599,873** | **1,012,329,424** |

The amount from Intesa Sanpaolo Group comprises loans received from Intesa Sanpaolo Bank Ireland, Societe Europeenne de Banque SA Luxemburg and a subordinated loan granted by Intesa Sanpaolo Bank Ireland PLC. Total amount granted is EUR 233,000,000 (2011: EUR 233,000,000).

There are no restrictions to demand early reimbursement.

The first loan was received on 29 June 2007 in the amount of EUR 20,000,000 is repayable in one installment on 29 June 2015.

The second loan was received on 29 June 2007, in the amount of EUR 20,000,000 is repayable in one installment on 27 June 2014.

The third loan was received on 15 November 2007 in the amount of EUR 20,000,000 is repayable in one installment on 08 November 2013.

The fourth loan was received on 24 December 2007 in the amount of EUR 30,000,000 is repayable in one installment on 17 December 2013.

The fifth loan was received on 23 October 2008 in the amount of EUR 20,000,000 with is repayable in one installment on 20 October 2014.

The sixth loan was received on 27 October 2008 in the amount of EUR 20,000,000 is repayable in one installment on 20 October 2014.

The seventh loan was received on 31 January 2011 in the amount of EUR 50,000,000 is repayable in one installment on 28 February 2013.

The eights loan was received on 26 august 2011 in the amount of EUR 20,000,000 is repayable in one installment on 26 august 2014.

The nine loan was received on 17 October 2011 in the amount of EUR 30,000,000 is repayable in one installment on 17 October 2017.

The tenth loan was received on 30 October 2007 by Firenze CR Bank in the amount of EUR 3,000,000, is repayable in one installment on 17 October 2017.

Weighted average interest rate for these loans is 2.83% p.a. (2011: 3.86 % p.a.).

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## 25. SUBORDINATED LOANS

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Subscribed loan from Cassa di risparmio di Firenze | 31,055,582 | 30,348,891 |
| Subscribed loan from Intesa Sanpaolo Irlanda | - | 65,238,017 |
| **Total** | **31,055,582** | **95,586,908** |

The subordinated loan from Intesa Sanpaolo Ireland was received on 17 October 2005 in the amount of EUR 15,000,000 and was reimbursed on 17 April 2012.
The subscribed loan from Cassa di Risparmio di Firenze was received on 7 May 2007 in the amount of EUR 7,000,000 and has the maturity on 27 April 2017.
In case of insolvency of the debtor, creditor claims arising from subordinated loan agreement will take precedence over any other creditor of the debtor and will have priority only to the shareholders of the debtor.

## 26. PROVISIONS

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Provision for risk and charges | 2,039,076 | 3,470,688 |
| Provision for litigation | 1,730,000 | 1,846,350 |
| Provision for letters of guarantee off balance sheet exposure | 4,120,035 | 4,769,133 |
| Provisions for personnel expenses | 11,479,214 | 8,708,615 |
| Provisions for closing branches | - | 301,775 |
| Provisions for merger | - | 280,000 |
| **Total** | **19,368,325** | **19,376,562** |

Provision for risk and charges includes the provision made for audit services (RON 60,746), the provision made for additional building taxes and related penalties possibly owed to local tax authorities budgets, starting with year 2009 and until year 2014, the prescription date (RON 1,200,000) and provision for other expenses (RON 778,330).
The movement in provisions during 2012 is as follows:

| | Letter of guarantees | Closure of branches | Litigations | Personnel | Merger | Other | Total |
|---|---|---|---|---|---|---|---|
| **At 1 January 2012** | **4,769,133** | **301,775** | **1,846,350** | **8,708,615** | **280,000** | **3,470,689** | **19,376,562** |
| Arising during the year | 38,157,651 | - | 100,000 | 7,887,261 | - | 1,429,957 | **47,574,868** |
| Utilized | (38,900,567) | (301,775) | (216,350) | (4,601,680) | (280,000) | (1,433,033) | **(45,733,406)** |
| Unused amounts reversed | | - | - | (514,983) | - | (1,428,535) | **(1,943,518)** |
| Exchange rate differences | 93,819 | - | - | - | - | - | **93,819** |
| **At 31 December 2012** | **4,120,036** | - | **1,730,000** | **11,479,214** | - | **2,039,076** | **19,368,325** |

During 2012 the Bank transferred an amount of 1,546,175 RON provisions to other liabilities (see note 27).

*(all amounts are presented in RON, unless otherwise stated)*

## 27. OTHER LIABILITIES

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Taxes due to the State Budget | 1,238,820 | 1,315,533 |
| Salary to be paid | 6,715,381 | 5,493,930 |
| Expense accruals | 534,599 | 242,421 |
| Commission for LG's | 3,461,872 | 2,563,958 |
| Open spot foreign currency position | - | 1,945,095 |
| MoneyGram creditors | 2,125,917 | 1,342,245 |
| Other liabilities (note 26) | 3,214,765 | 4,735,244 |
| **Total** | **17,291,354** | **17,638,426** |

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## 28. SHARE CAPITAL AND RESERVES

### SHARE CAPITAL

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Registered share capital | 886,639,410 | 857,198,475 |
| Share capital premiums | 251,628,890 | 251,628,890 |
| Restatement in accordance with IAS 29 | 40,174,800 | 40,174,800 |
| **Total share capital and share premium** | **1,178,443,100** | **1,149,002,165** |

Movement in the number of shares is shown in the table below:

| | 2012 (RON) | 2011 B.C Intesa Sanpaolo Romania S.A | 2011 Banca CR Firenze Romania SA |
|---|---|---|---|
| Number of shares owned by Intesa Sanpaolo group | | | |
| At the beginning of the period | 81,411,111 | 37,611,111 | 14,362,455 |
| Issue of new shares | - | 43,800,000 | - |
| Shares issued at the merger | 7,252,830 | - | - |
| **At the end of the period** | **88,663,941** | **81,411,111** | **14,362,455** |

For 2011 the movement in the number of shares is shown separately: share capital of Intesa Sanpaolo Bank Romania was increased during 2011 by issuing new shares with a nominal value of 10 RON / share. As at 31 December 2011, share capital was represented by 81,411,111 shares with a nominal value of 10 RON / share. Banca CR Firenze Romania S.A.'s share capital has been increased during 2011, it consisted of 14,362,455 shares with a nominal value of 3 lei / share. Following the merger in 2012 they issued a total of 7,252,830 shares worth 10 / share so at 31.12.2012 the share capital of the Bank from the merger is represented by 88,663,941 shares with a nominal value of 10 / action.

All issued shares are fully paid and confers the right to one vote each.

***(all amounts are presented in RON, unless otherwise stated)***

## 28. SHARE CAPITAL AND RESERVES (CONTINUED)

Shareholding structure as of 31 December, 2012 is shown in the table below:

| **Shareholder** | **31 December 2012** Number of shares | % |
|---|---|---|
| Intesa Sanpaolo S.p.A Italia | 81,096,905 | 91.47 |
| Intesa Sanpaolo Holding | 314,211 | 0.35 |
| Cassa di Risparmio di Firenze | 7,252,825 | 8.18 |
| **Total** | **88,663,941** | **100.00** |

### RESERVES

| | Available-for-sale reserve | Statutory reserve | Other capital reserve | Total |
|---|---|---|---|---|
| **At 1 January 2011** | 228,355 | 15,723,724 | 13,019,778 | 28,971,857 |
| Increase | - | - | 15,880 | 15,880 |
| Net loss on available-for-sale financial assets | (252,680) | - | - | (252,680) |
| **At 31 December 2011** | **(24,325)** | **15,723,724** | **13,035,658** | **28,735,057** |
| **At 1 January 2012** | (24,325) | 15,723,724 | 13,035,658 | 28,735,057 |
| Increase | - | - | (1,408,411) | (1,408,411) |
| Net gains on available-for-sale financial assets | 822,240 | - | - | 822,240 |
| **At 31 December 2012** | **797,915** | **15,723,724** | **11,627,247** | **28,148,886** |

The other capital reserve at 31 December 2012 includes: general reserve for credit risk (829,845 RON) and funds for general banking risks (10,162,589 RON) and other reserves (634,813 RON). General reserve for general banking risks was set beginning with financial year of 2004 until the end of financial year 2007, the accounting profit determined before the deduction of income tax - gross profit in shares and limits provided by law. General credit risk reserve was established up to 2% of the outstanding loans by the end of fiscal year 2003.

## 29. CASH AND CASH EQUIVALENTS

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Cash | 75,732,197 | 65,807,157 |
| Current account to National Bank of Romania | 731,663,747 | 639,036,237 |
| Current accounts | 27,548,479 | 15,892,548 |
| Overnight deposits and term deposits | 20,003,334 | 85,020,317 |
| **Total** | **854,947,757** | **805,756,259** |

Current accounts with central banks include mandatory reserve deposits. These are available to the Bank for daily operations, with the condition that the Bank to maintain minimum required by law for monthly average.

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## 30. COMMITMENTS AND CONTINGENCIES

The Bank issues guarantees and letters of credit on behalf of its customers. The market and credit risk on these financial instruments, as well as the operating risk is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank.

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

| | 2012 | 2011 |
|---|---|---|
| Letters of guarantee | 454,019,935 | 417,477,325 |
| Unused loan facilities and letters of credit | 603,794,140 | 365,775,118 |
| Letters of guarantee issued for other banks | 241,449,322 | 106,016,284 |
| **Total** | **1,299,263,397** | **889,268,727** |

The letters of guarantee include letters of guarantee in amount of 71,179,661 RON (2011: 79,867,897 RON) issued for credit risk regarding the loans granted by, Intesa Sanpaolo Ireland, Banka Koper, Intesa Mediocredito SPA Milano and Intesa Sanpaolo Spa to Romanian customers.

The future operating lease payments committed are disclosed below:

| | 2012 | 2011 |
|---|---|---|
| No later than 1 year | 15,199,342 | 20,523,974 |
| Later than 1 year and no later than 5 years | 27,794,336 | 33,528,633 |
| Later than 5 years | 3,819,051 | 11,586,617 |

Future minimum rental under non-cancellable operating leases as at 31 December are as follows:

| | 2012 | 2011 |
|---|---|---|
| No later than 1 year | 527,373 | 635,073 |
| Later than 1 year and no later than 5 years | 1,037,010 | 1,838,024 |
| Later than 5 years | 580,351 | - |

## 31. RELATED PARTY TRANSACTIONS

The Bank is a member of the Intesa Sanpaolo Group. The Bank's immediate parent is Intesa Sanpaolo SpA, a bank incorporated in Italy, which directly owns 91.47 % of the ordinary shares.

The related parties considered for reporting purposes include Intesa Sanpaolo S.p.A., Societe Europeenne de Banque S.A., Intesa Sanpaolo Bank Ireland, Central-European International Bank, Intesa Sanpaolo Banka DD Sarajevo, Intesa Sanpaolo Branch Tokyo, Banka Koper, Intesa Sanpaolo Card, Banca CR Firenze Romania, VUB Banka Bratislava, Vseobecna Uverova Banka AS Branch Praga, Intesa Mediocredito SpA Milano, Intesa Sanpaolo Holding International S.A. Luxembourg, Intesa Sanpaolo Leasing Romania which are all entities controlled by the Intesa Sanpaolo Group. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Through the business activities are conducted certain banking transactions with related parties.

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## 31. RELATED PARTY TRANSACTIONS (CONTINUED)

These include loans, deposits and foreign currency transactions, acquisition of other services.
The volumes of related party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

**Transactions with key personnel of the Bank**

| | Balance as at 31 December 2012 | Income 2012 | Balance as at 31 December 2011 | Income 2011 |
|---|---|---|---|---|
| Key management personnel of the Bank: | | | | |
| Current account | 406,487 | 4,932 | 185,484 | 16,227 |
| Deposits | 4,257,285 | 94,074 | 3,976,436 | 78,882 |

The transactions with „key management personnel" represent only transactions related to current accounts and deposits, without any other benefits.

**Transactions with other related parties**

| | Interest from related parties | Interest to related parties | Amounts owed by related parties Balance as at 31 December | Amounts owed to related parties Balance as at 31 December |
|---|---|---|---|---|
| Entities with significant influence over the Bank: | | | | |
| 2012 | 10,512 | 45,695,145 | 11,716,147 | 1,452,328,648 |
| 2011 | 116,971 | 34,529,832 | 4,733,107 | 1,437,086,958 |

**Transactions with subsidiaries**

| | Interest from related parties | Interest duet o related parties | Amounts due from related parties 31 December | Amounts due to related parties 31 December |
|---|---|---|---|---|
| Intesa Sanpaolo Leasing Romania IFN SA: | | | | |
| 2012 | 2,198,543 | 11,652 | 56,093,271 | 368,121 |
| 2011 | 1,471,698 | 18,579 | 40,440,048 | 1,926,796 |

*(all amounts are presented in RON, unless otherwise stated)*

## 31. RELATED PARTY TRANSACTIONS (CONTINUED)

### Terms and conditions of transactions with related parties

The above mentioned balances arose from the ordinary course of business. The interest charged to and by related parties is at normal commercial rates. All amounts are expected to be settled in cash. Outstanding balances at year end are unsecured. There have been no guarantees provided or received for any related party receivable or payable. For year ended 31 December 2012 the Bank didn't book a provision for doubtful debts relating to amounts owed by related parties. (2011: Nil).

| | **2012** | **2011** |
|---|---|---|
| Management remuneration | 2,716,245 | 2,729,235 |
| **Total** | **2,716,245** | **2,729,235** |

## 32. SUBSEQUENT EVENTS

The loan in amount of 50,000,000 EUR contracted from Societe Europeenne de Banque Luxembourg SA with the maturity date on 28 February 2013 is negotiated to be extended until 28 February 2019.

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