

EMPORIKI BANK ROMANIA SA

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Emporiki Bank Romania SA

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Emporiki Bank Romania SA ("the Bank") which comprise the statement of financial position as of 31 December 2009 and the income statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Bank as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

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

PricewaterhouseCoopers Audit SRL

PricewaterhouseCoopers Audit SRL



22 February 2010

EMPORIKI BANK SA ROMANIA

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EMPORIKI BANK SA ROMANIA

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

AS AT 31 DECEMBER 2009

(all amounts are in EUR, unless stated otherwise)

Statement of Financial Position (Balance Sheet)

	<u>Note</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Assets			
Cash and balances with Central Bank	13	25,100,263	59,215,497
Loans and advances to banks	14	24,598,416	2,067,705
Investment securities, available for sale	15	10,606,005	235,022
Loans and advances to customers	16	111,836,925	110,070,379
Other assets	17	697,095	836,259
Intangible assets	18	724,635	889,673
Property and equipment	19	<u>8,655,498</u>	<u>9,716,237</u>
Total assets		<u>182,218,837</u>	<u>183,030,772</u>
Liabilities			
Deposits from banks	20	77,434,681	90,197,206
Deposits from customers	21	78,359,849	51,445,356
Current income tax liabilities		5,720	-
Other liabilities	22	1,670,121	2,257,182
Subordinated debt	23	<u>5,933,852</u>	<u>-</u>
Total liabilities		<u>163,404,223</u>	<u>143,899,744</u>
Equity			
Share capital	24	53,712,422	56,987,570
Other reserves	25	570,659	605,455
Revaluation reserve	25	185,465	(149,794)
Translation reserve	25	(39,504)	589,681
Accumulated deficit		<u>(35,614,428)</u>	<u>(18,901,884)</u>
Total equity		<u>18,814,614</u>	<u>39,131,028</u>
Total equity and liabilities		<u>182,218,837</u>	<u>183,030,772</u>

The accounting policies and notes on pages 7 to 79 form an integral part of these financial statements.

EMPORIKI BANK SA ROMANIA

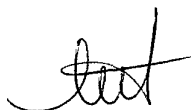
INCOME STATEMENT

31 DECEMBER 2009

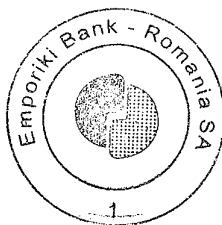
(all amounts are in EUR, unless stated otherwise)

	<u>Note</u>	<u>Year ended 31 December 2009</u>	<u>Year ended 31 December 2008</u>
Interest and similar income	5	12,642,362	11,980,506
Interest and similar expense	5	<u>(7,609,667)</u>	<u>(5,764,642)</u>
Net interest income		5,032,695	6,215,864
Loan impairment charges	10	<u>(8,403,130)</u>	<u>(1,449,012)</u>
Net interest income after loan impairment charges		(3,370,435)	4,766,852
Fee and commission income	6	1,686,673	1,330,823
Fee and commission expense	6	<u>(379,463)</u>	<u>(340,727)</u>
Net fee and commission income		1,307,210	990,096
Net trading income	7	1,997,755	2,020,103
Dividend Income	8	112,663	126,550
Other operating income	9	28,032	27,119
Personnel expenses	11	(9,653,043)	(8,661,265)
General and administrative expenses	11	(6,791,890)	(6,260,208)
Depreciation and amortisation expenses	11	(1,647,594)	(777,826)
Losses from disposal of fixed assets	11	<u>(330,584)</u>	<u>-</u>
Loss for the year before income tax		(18,347,886)	(7,768,580)
Income tax expense	12	<u>(6,765)</u>	<u>-</u>
Loss for the year		<u>(18,354,651)</u>	<u>(7,768,580)</u>

The financial statements set out on pages 1 to 79, were approved by the Board of Directors on 16 February 2010 and signed on its behalf by:



Mrs. Mihaela Turbureanu
Deputy General Manager




Mr. Benoit Sarraute
Deputy General Manager

The accounting policies and notes on pages 7 to 79 form an integral part of these financial statements.

EMPORIKI BANK SA ROMANIA

STATEMENT OF COMPREHENSIVE INCOME

31 DECEMBER 2009

(all amounts are in EUR, unless stated otherwise)

Statement of Comprehensive Income

	Year ended <u>31 December 2009</u>	Year ended <u>31 December 2008</u>
Loss for the year	(18,354,651)	(7,768,580)
Exchange differences on translation to presentation currency	(2,288,413)	(1,155,186)
Net gains / (losses) on available-for-sale financial assets	<u>326,650</u>	<u>(149,794)</u>
Total comprehensive income for the year	<u>(20,316,414)</u>	<u>(9,073,560)</u>

The accounting policies and notes on pages 7 to 79 form an integral part of these financial statements.

EMPORIKI BANK SA ROMANIA

STATEMENT OF CHANGES IN EQUITY

31 DECEMBER 2009

(all amounts are in EUR, unless stated otherwise)

Statement of Changes in Equity

	<u>Share capital</u>	<u>Other reserves</u>	<u>Revaluation reserve</u>	<u>Translation reserve</u>	<u>Accumulated deficit</u>	<u>Total Equity</u>
Balance at						
31 December 2007	<u>29,871,006</u>	<u>668,345</u>	<u>-</u>	<u>67,259</u>	<u>(12,329,393)</u>	<u>18,277,217</u>
Net loss for the year	-	-	-	-	<u>(7,768,580)</u>	<u>(7,768,580)</u>
Total recognised loss	-	-	-	-	<u>(7,768,580)</u>	<u>(7,768,580)</u>
Net gain on available for sale financial assets	-	-	<u>(149,794)</u>	-	-	<u>(149,794)</u>
Effect of translation	<u>(2,810,807)</u>	<u>(62,890)</u>	<u>-</u>	<u>522,422</u>	<u>1,196,089</u>	<u>(1,155,186)</u>
Total comprehensive income	<u>(2,810,807)</u>	<u>(62,890)</u>	<u>(149,794)</u>	<u>522,422</u>	<u>(6,572,491)</u>	<u>(9,073,560)</u>
Share Capital Increase	<u>29,927,371</u>	-	-	-	-	<u>29,927,371</u>
Balance at						
31 December 2008	<u>56,987,570</u>	<u>605,455</u>	<u>(149,794)</u>	<u>589,681</u>	<u>(18,901,884)</u>	<u>39,131,028</u>
Net loss for the year	-	-	-	-	<u>(18,354,651)</u>	<u>(18,354,651)</u>
Total recognised loss	-	-	-	-	<u>(18,354,651)</u>	<u>(18,354,651)</u>
Net gain on available for sale financial assets	-	-	<u>326,650</u>	-	-	<u>326,650</u>
Effect of translation	<u>(3,275,148)</u>	<u>(34,796)</u>	<u>8,609</u>	<u>(629,185)</u>	<u>1,642,107</u>	<u>(2,288,413)</u>
Total comprehensive income	<u>(3,275,148)</u>	<u>(34,796)</u>	<u>335,259</u>	<u>(629,185)</u>	<u>(16,712,544)</u>	<u>(20,316,414)</u>
Balance at						
31 December 2009	<u>53,712,422</u>	<u>570,659</u>	<u>185,465</u>	<u>(39,504)</u>	<u>(35,614,428)</u>	<u>18,814,614</u>

The accounting policies and notes on pages 7 to 79 form an integral part of these financial statements.

EMPORIKI BANK SA ROMANIA

STATEMENT OF CASH FLOWS

31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

	<u>Note</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Cash flows from operating activities			
Interest received		11,897,080	12,066,126
Interest paid		(7,343,886)	(4,344,336)
Dividends received		112,663	126,550
Fee and commission received		1,686,673	1,330,823
Fee and commission paid		(379,463)	(340,727)
Net trading and other income		2,025,787	2,048,031
Cash payments to employees and suppliers		(16,444,933)	(14,922,285)
Income taxes paid		<u>(6,765)</u>	<u>-</u>
Net cash used in operating activities before changes in operating assets and liabilities		(8,452,845)	(4,035,818)
Change in operating assets			
Decrease in balanches with Central Bank		7,915	17,194
(Increase) / decrease in securities		(10,160,579)	797
(Increase) in loans and advances to customers		(15,982,104)	(36,791,821)
Decrease / (increase) in other assets		<u>91,102</u>	<u>(364,900)</u>
Total changes in operating assets		(26,043,666)	(37,138,730)
Change in operating liabilities			
(Decrease) / increase in deposits from banks		(6,505,415)	53,796,176
Increase / (decrease) in amounts owed to depositors		28,553,102	(13,608,869)
(Decrease) / increase in other liabilities		(455,548)	329,689
Increase subordinated debt		<u>5,912,727</u>	<u>-</u>
Total changes in operating liabilities		27,504,866	40,516,996
Cash flows used in operating activities		(6,991,645)	(657,552)
Cash flows from investing activities			
Sale of equity investments, net		-	11,276
Purchase of intangible assets		(124,953)	(697,352)
Purchase of property and equipment		<u>(906,399)</u>	<u>(2,659,322)</u>
Cash flows used in investing activities		<u>(1,031,352)</u>	<u>(3,345,398)</u>

The accounting policies and notes on pages 7 to 79 form an integral part of these financial statements.

EMPORIKI BANK SA ROMANIA

STATEMENT OF CASH FLOWS

31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

	<u>Note</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Cash flows from financing activities			
Share capital contributed in cash		_____ -	<u>29,927,371</u>
Cash flows from financing activities		===== -	<u>29,927,371</u>
Effect of translation to the presentation currency		<u>(3,561,527)</u>	<u>(1,155,186)</u>
Increase / (Decrease) in cash		(11,584,524)	24,769,235
Cash and cash equivalents at 1 January		<u>61,283,202</u>	<u>36,513,967</u>
Cash and cash equivalents at 31 December	26	<u>49,698,678</u>	<u>61,283,202</u>

The accounting policies and notes on pages 7 to 79 form an integral part of these financial statements.

EMPORIKI BANK SA ROMANIA

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

1 EMPORIKI BANK ROMANIA SA AND ITS OPERATIONS

Emporiki Bank Romania SA (the "Bank") is registered in Romania since 1996 and is licensed by the National Bank of Romania to conduct banking activities. Emporiki Bank SA, Greece, ("the Parent Company") is the main shareholder of the Bank, with a 99.35 % holding of the share capital. The Bank is principally engaged in wholesale and retail banking operations in Romania. The Bank operates through its Head Office located in Bucharest, 33 branches and 1 agency, out of which 15 branches are located in Bucharest and 19 in other major cities.

The Bank's corporate banking activities are deposit taking, cash management, lending and foreign trade finance. It offers the traditional range of banking services and products associated with foreign trade transactions including payment orders, documentary collections, and issuance of guarantees.

The address of its registered office is as follows:

Emporiki Bank Romania SA
19, Berzei Street
Sector 1
Bucharest

As of 31 December 2009 the Bank employed 398 persons (31 December 2008: 444).

The Board of Directors ("BoD") formulates policies for the operation of the Bank and monitors their implementation. The Bank is managed by a Board of Directors made up of 5 members. The composition of the Board of Directors as at 31 December 2009 and 31 December 2008 is as follows:

<u>Position</u>	<u>2009</u>	<u>2008</u>
President	Francois Alfred Marie Pinchon	-
Vice-president	Bruno Marie Charrier	Bruno Marie Charrier
Member	Aikaterini Beritsi	Francois Alfred Marie Pinchon
Member	Christos Katsanis	Panagiotis Zafeiropoulos
Member	Terzis Georgios	Aikaterini Beritsi

The position of the Board of Directors President was vacant from August 22, 2008 when former President Mr. Panagiotis Varelas resigned until January 15, 2009 when the new President Mr. Ionut Costea was approved by NBR. In May 18, 2009 Mr. Ionut Costea resigned from the position of Board of Directors President and was appointed Mr. Francois Alfred Marie Pinchon, previously approved by the National Bank of Romania as member of the Board of Directors on 20 December 2007.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

The Bank's financial statements for the year 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. Additional information required by national regulations is included where appropriate.

The financial statements comprise the income statement and statement of comprehensive income showing as two statements, the statement of financial positions, the statement of changes in equity, the cash flows statement and the notes.

The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets and all derivative contracts which have been measured at fair value.

The Bank classifies its expenses by the nature of expense method.

The financial statements are presented in EUR, which is the Bank's presentational currency.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 3.

The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 6 shows in which item of the statement of financial position cash and cash equivalents are included.

The cash flows from operating activities are determined by using the direct method. Interest received or paid are classified as operating cash flows (IAS 7p33). The Bank's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Standards, amendments and interpretations effective on or after 1 January 2009

• IFRS 2, 'Share-based payment' – Vesting conditions and cancellations

The IASB published an amendment to IFRS 2, 'Share-based payment', in January 2008. The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the company. These changes clarify that vesting conditions are solely service and performance conditions. As a result of the amended definition of vesting conditions, non-vesting conditions should now be considered when estimating the fair value of the equity instrument granted. In addition, the standard describes the posting type if the vesting conditions and non-vesting conditions are not fulfilled. There is no material impact on the financial statements by applying the amendment of IFRS 2 at the date of the statement of financial position.

• Amendments to IFRS 7, 'Financial instruments: Disclosures'

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Bank.

• IFRS 8, 'Operating segments'

IFRS 8 was issued in November 2006 and excluding early adoption would first be required to be applied to the Bank's accounting period beginning on 1 January 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments.

The Bank is not within the scope of IFRS 8 (or IAS 14) and hence this change has no impact on the Bank's financial statements.

• IAS 1 (revised), 'Presentation of financial statements'

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

- **IAS 23, 'Borrowing costs'**

A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. The application of the IAS 23 amendment does not have a material impact on the result or items of the statement of financial position.

- **IAS 32 and IAS 1, 'Puttable financial instruments and obligations arising on liquidation'**

The IASB amended IAS 32 in February 2008. It now requires some financial instruments that meet the definition of a financial liability to be classified as equity. Puttable financial instruments that represent a residual interest in the net assets of the entity are now classified as equity provided that specified conditions are met. Similar to those requirements is the exception to the definition of a financial liability for instruments that entitle the holder to a pro rata share of the net assets of an entity only on liquidation. The adoption of the IAS 32 amendment does not have any material effects for the Bank.

- **IFRIC 16, 'Hedges of a net investment in a foreign operation'**

This interpretation clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Bank. This interpretation does not have a material impact on the Bank's financial statements.

- **IFRIC 13, 'Customer loyalty programmes'**

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement. The consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Bank's operations because it does not operate any loyalty programmes.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Standards, amendments and interpretations issued but not yet effective

• **IFRS 1 and IAS 27, 'Cost of an investment in a subsidiary, jointly-controlled entity or associate'**

The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor. This amendment will not be relevant to the Bank.

• **IFRS 3, 'Business combinations'**

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Bank will apply IFRS 3 (revised) prospectively to any business combinations from 1 January 2010.

• **IAS 27, 'Consolidated and separate financial statements'**

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Bank will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Bank.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **IAS 39, 'Financial instruments: Recognition and measurement – Eligible hedged items'**

The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to the Bank's financial statements since it does not apply hedge accounting.

- **IFRIC17, 'Distribution to non-cash assets to owners'**

IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the financial statements of the Bank.

- **IFRIC18, 'Transfers of assets from customers'**

IFRIC 18 was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The Bank is not impacted by applying IFRIC 18.

- **Improvements to IFRS**

'Improvements to IFRS' were issued in May 2008 and April 2009. They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

• IFRS 9, 'Financial instruments part 1: Classification and measurement'

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

(c) Early adoption of standards

The Bank did not early-adopt new or amended standards in 2009.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured in the national currency of Romania, Romanian Lei ("RON"), the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in EUR ("presentation currency").

The reason for using a presentation currency different from the functional currency is to meet the expectations of the shareholders, of existing and potential providers of external financing and other counterparties.

(b) Transactions and balances

Monetary assets and liabilities are translated into the functional currency at the official exchange rate of the National Bank of Romania ("NBR") at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the NBR are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2009 the exchange rate used for translating foreign currency balances was USD 1 = 2.9361 RON (2008: USD 1 = RON 2.8342), EUR 1 = 4.2282 RON (2008: EUR 1 = RON 3.9852) and RUB = 0.0977 RON (2008: RUB 1 = 0.0964 RON).

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equities classified as available for sale financial assets, are included in the fair value reserve in equity.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Translation from functional to presentation currency

All assets and liabilities have been translated from the functional currency to the presentation currency at the closing rate existing at the date of each balance sheet presented. Income and expense items have been translated using an average rate for the presented period. Share capital, retained earnings and all other reserves are translated at closing rates. Finally, all exchange differences resulting from translation have been recognized directly as a separate component in equity.

2.3. Accounting for the effect of hyperinflation

Prior to 1 January 2004 balances and transactions were restated to reflect the changes in the general purchasing power of the RON in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment in Romania indicate that hyperinflation has ceased, effective from 1 January 2004 the Bank has 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.

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

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

The main guidelines followed in restating the corresponding figures were:

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

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Monetary assets and liabilities held at 31 December 2003 were not restated because they were already expressed in terms of the monetary unit current at 31 December 2003.

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

All items in the statement of income and cash flows were restated by applying the change in the general price index from the dates when the items were initially transacted to 31 December 2003.

Gain or losses that arose as a result of holding monetary assets and liabilities for the reporting period ended 31 December 2003 were included in the statement of income as a monetary gain or loss.

2.4. Financial assets

(a) Classification

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

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

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The Bank currently does not have any financial assets designated at fair value through profit or loss at inception. Derivatives are also categorised as held for trading unless they are designated as hedges. The Bank does not use hedge accounting. During 2008 and 2009 the Bank did not hold any other securities in this category.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(iii) *Held-to-maturity ("HTM")*

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank will sell other than an insignificant amount of HTM assets, the entire category would be tainted and reclassified as available for sale. During 2008 and 2009 the Bank did not held any HTM securities in its portfolio.

(iv) *Available-for-sale ("AFS")*

AFS investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(b) Recognition, de-recognition and initial measurement

Regular purchases and sales of financial assets FVTPL, HTM and AFS are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transactions costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership and/or has transferred control of the financial assets. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsequent measurement

AFS financial assets and financial assets FVTPL are subsequently carried at fair value. Loans and receivables and HTM investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the FVTPL category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of AFS financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on AFS equity instruments are recognised in the income statement when the entity's right to receive payment is established.

(d) Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions and discounted cash flow analysis.

2.5. Offsetting financial instruments

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

2.6. Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flows models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (ie, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on day one. Changes in the fair value of all derivative instruments are recognised immediately in the income statement. The Bank does not apply hedge accounting.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7. Interest income and expense

Interest income and expense are recognised in the statement of income for all instruments measured at amortised cost using the effective interest method. Interest income includes coupons earned on fixed income investment securities and accrued discount and premium on treasury securities. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

2.8. Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitments fees for loans which are probable of being drawn down, are deferred and recognised as adjustments to the effective yield on the loan.

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

2.9. Dividends income

The Bank recognises as income from dividends from the participations held to other entities when the Bank's right to receive payment is established (after the financial statements are approved by the General Assembly of each entity).

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10. Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Annual General Meeting of shareholders. The statutory accounting reports of the Bank prepared in accordance with Romanian Accounting Regulations is the basis for profit distribution and other appropriations.

2.11. Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- classification of the borrower in the doubtful category (as a result of registering a debt service of more than 180 days of overdue for the mortgage portfolio, and more than 90 days for the rest of facilities);
- classification in the worst financial performance category [i.e. E category], established according to the local regulator requirements;
- significant financial difficulty of the debtor (incapability to pay suppliers, debts to the state budget etc.);
- existence of a rescheduling granted to the debtor, resulting from an incapability to pay according with the previously agreed repayment schedule;
- high probability of insolvency or insolvency procedure declared by the borrower;
- existence of the probability that the borrower will enter bankruptcy or other financial reorganization.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The estimated period between a losses occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan 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 calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (e.g. on the basis of the industry and product types, and for retail if the exposure is insured for credit risk). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude).

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.12. Intangible assets

Acquired computer software licenses 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 which is typically three years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as 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.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives which is typically three years.

2.13. Property and equipment

Property and equipment are stated at cost, restated to the equivalent purchasing power of the Romanian Leu at 31 December 2003 for assets acquired prior to 1 January 2004, less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation

Land is not depreciated. Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Property	50
Office equipment, fixtures and fittings	3 – 20
Vehicles	5

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition: cash; non-restricted balances with central banks, including minimum mandatory reserves; treasury bills and other eligible bills; loans and advances to banks and short-term government securities.

2.16. Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial guarantees are initially recognised in the off balance sheet of the Bank at the initial amount. Amortisation is calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

2.18. Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments and letters of credit. Specific provisions are raised against other credit related commitments when the Bank has a present obligation as a result of a past event, when it is probable that there will be an outflow of resources and when the outflow can be reliably measured.

2.19. Income taxes

(a) Current income tax

The Bank records profit tax based on net income derived from the financial statements prepared in accordance with Romanian Accounting Regulations and profit tax legislation. Romanian profits tax legislation is based on a fiscal year ending on 31 December. In recording both the current and deferred income tax charge for the year ended, the Bank has computed the annual income tax charge based on Romanian profits tax legislation enacted (or substantially enacted) at the balance sheet date.

Beginning 2009, profit taxpayers (Romanian companies as well as foreign companies operating in Romania through permanent establishments and legal persons set up in accordance with European legislation with the registered office in Romania) are obliged to pay the annual minimum tax. The minimum tax is determined based on the revenues reported on 31 December of the previous year, using some predefined thresholds.

(b) Deferred income tax

Differences between financial reporting under International Financial Reporting Standards and Romanian fiscal regulations give rise to material differences between the carrying value of certain assets and liabilities and income and expenses for financial reporting and income tax purposes.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities and tax losses carried forward. The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

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

2.20. Pension obligations and other post retirement benefits

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. Substantially all employees of the Bank are members of the State pension plan.

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

2.21. Borrowings & Subordinated debt

Borrowings and subordinated debt are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings and subordinated debt are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

In the financial statements prepared in accordance with Romanian Accounting Regulations the subordinated debt is included in the Bank's own funds.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22. Finance lease liabilities

Where the Bank is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Bank, the assets leased are capitalised in property and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Bank is not reasonably certain that it will obtain ownership by the end of the lease term.

2.23. Operating Leases

The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.24. Financial Leases

Finance leases are capitalised at lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the financial balance outstanding. The interest element of the finance cost is charged to the income statement over the leased period so as to produce a constant periodic rate of interest in the remaining balance of the liability of each period.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT

3.1 Strategy in using financial instruments

By their nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Bank also provides guarantees and other commitments such as letters of credit.

3.2 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided where there is objective evidence that the Bank will not be able to collect all amounts due. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in evidence that is different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by industry sector are approved by the Board.

Credit risk is considered for both retail and wholesale customers as well as for credit institutions and central administration entities being evaluated and administered in separate units.

The exposure to any to banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures, as well as daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Financial instruments that are exchanged with other credit institutions are monitored daily and measured against the limits.

The credit risk assumed by the bank when dealing with other credit institutions or exposing towards central administrations is effectively used to mitigate other risks (liquidity, concentration).

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The exposure to credit risk from retail and wholesale, is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

For each transaction, besides an operational way out, the value of the collateral offered to the Bank has to cover the risk in the respective transaction.

Collateral is established under the rationale that even where a borrower fails to honor its obligations, the Bank still expects to collect the amount estimated by it. Therefore the value of the collateral, in terms of both size and quality, is appraised in an accurate and realistic manner in order to prevent overvaluation and eventual losses.

Moreover, subject to a precautionary standpoint, the bank discounts the market values of the collaterals when assessing the risk coverage in order to estimate the recoverable amount in case of collateral execution, as follows:

- Cash collateral deposits held with Emporiki Bank Romania S.A → 100%
- Irrevocable and unconditional guarantees of the Romanian state or the National Bank of Romania → 100%
- Treasury bills and bonds of the Romanian states → 100%
- Irrevocable and unconditional guarantees of the states or the central banks in class A countries or from the European Communities → 100%
- Treasury bills and bonds of the state administrations in class A countries or from the European Communities → 100%
- Certificates of Deposits or similar instruments issued by the Bank and kept by itself → 100%
- Express, irrevocable and unconditional guarantees of the multilateral development banks or of the European Investment Bank → 80%
- Titles issued by multilateral development banks or by the European Investment Bank → 80%
- Express, irrevocable and unconditional guarantees issued by local administrations in Romania → 80%
- Express, Irrevocable and unconditional guarantees of the Romanian credit institutions → 80%
- Express, irrevocable and unconditional guarantees issued by local and regional administrations in class A countries → 80%
- Express, irrevocable and unconditional guarantees of banks in class A countries → 80%

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

- Express, irrevocable and unconditional personal guarantees issued by Loan Guarantee Funds in Romania → 50%
- Credit risk insurance policies → 80% / 60% / 0% based on the quality of the insurer
- Pledge upon equipment and machinery → 75% / 70%
- First rank mortgage on residential properties → 75%
- First rank mortgage on commercial and industrial real estate including also land with any destination → 60%
- Pledge on shares that are transacted on the market → 20%
- Pledge on easily disposable non perishable goods stored in warehouses on the basis of titles → 50%
- Pledge on stocks of goods or raw materials and export shipping documents → 50%
- Assignment of payment instruments → 0%

Following the financial crisis effects, the Bank performed individual assessments of the corporate clients in terms of financial situation and collaterals. These resulted in measures to provide more/stronger collateral, smaller limits or even exit strategies, being applied to clients with weak performance.

Maximum exposure to credit risk before collateral held or other credit enhancement

	<u>31 December 2009</u>	<u>31 December 2008</u>
Credit risk exposures relating to on-balance sheet assets as follows:	<u>183,885,591</u>	<u>171,588,602</u>
Cash and balances with Central Bank	<u>25,100,263</u>	<u>59,215,497</u>
Investment securities, available for sale:	<u>10,606,005</u>	<u>235,022</u>
Bonds	270,169	134,930
Treasury Bills of the Romanian state	10,241,497	-
Participations	94,340	100,092
Loans and advances to banks	24,598,416	2,067,705
Loans to individuals:	<u>39,210,594</u>	<u>19,557,821</u>
Overdrafts	233,710	145,391
Credit Cards	116,324	129,753
Consumer Loans	23,337,351	8,983,048
Mortgages	15,523,209	10,299,629
Loans to corporate entities:	<u>72,626,330</u>	<u>90,512,557</u>

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>31 December 2009</u>	<u>31 December 2008</u>
Large Corporate Customers	49,409,943	65,630,286
Small and medium size enterprises (SMEs)	23,216,387	24,882,271
Credit Risk exposures relating to off-balance sheet items are as follows:		
Commitments to extend credit	<u>43,291,199</u>	<u>74,670,887</u>
Revocable commitments	15,683,097	13,365,500
Documentary and commercial letters of credit	23,050,810	56,904,449
Guarantees given	-	105,462
	<u>4,557,292</u>	<u>4,295,476</u>
Total	<u>227,176,790</u>	<u>246,259,489</u>

The above table represents the basic asset structure for 2009 and 2008. As apparent from the above, the assets are more than 63% represented by loans and advances to customers, with a very simple and straight forward approach of maintaining a minimum exposure to credit risk by a strong collateralization of the portfolio. In this regards, considering only the loans to individuals and legal entities we have a coverage of more than 150% with mortgages (starting from the market value of collaterals available as of 31 December 2009).

The table below presents the loans and advances by credit risk category.

	<u>31 December 2009</u>		<u>31 December 2008</u>	
	<u>Loans and advances to customers</u>	<u>Loans and advances to banks</u>	<u>Loans and advances to customers</u>	<u>Loans and advances to banks</u>
Neither past due nor impaired	89,826,739	24,598,416	73,897,837	2,067,705
Past due but not impaired	5,440,643	-	2,590,455	-
Impaired	<u>28,313,526</u>	<u>-</u>	<u>36,991,637</u>	<u>-</u>
Gross	123,580,908	24,598,416	113,479,929	2,067,705
Less: allowance for impairment	<u>(11,743,983)</u>	<u>-</u>	<u>(3,409,550)</u>	<u>-</u>
Net	<u>111,836,925</u>	<u>24,598,416</u>	<u>110,070,379</u>	<u>2,067,705</u>

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

For the purpose of credit risk monitoring and impairment provisioning, the Bank splits the portfolio in the following internal categories: collectively not impaired, collectively impaired and individually impaired. The above mentioned split is based on an EUR 500,000 threshold if no overdue days are registered for a facility and EUR 150,000 if there are delinquencies for more than 30 days registered, for the individual reviewed cases and on the existence of impairment evidence [i.e. debt service in the reimbursement of facilities, the existence of a poor scoring on the quantitative side etc.] for the collective impairment. Based on these the above categories include the following:

- Neither past due nor impaired
- Loans past due but not impaired
- Impaired

Regarding the maintenance of the loan vs. collateral ratio, the Bank has several levers which it uses to control the ratio. The most important is strict monitoring of the collateral value, with annual reviews of the facilities and collaterals that are granted to legal entities, focusing on those which are active in the real estate sector and on those who seem to have debt coverage issues. These are coupled with cross collateralized comfort guarantees that decrease the loan to value ratio and increase the recovery possibility. The table below provides information about the types of collateral obtained by the Bank and their relative weight in the overall collateral accepted.

Type of collateral	<u>31 December 2009</u>	<u>31 December 2008</u>
	(%)	(%)
Guarantees received from public administration and assimilate	0.0	0.0
Guarantees received from other financial institutions	3.4	2.3
Mortgages	44.7	47.5
Inventory	7.3	13.0
Other	<u>44.6</u>	<u>37.2</u>
Total	<u>100.0</u>	<u>100.0</u>

The other category includes collaterals such as pledges on insurance proceeds, personal / corporate guarantees and others.

The split of loan portfolio of the Bank by industry is detailed in Note 16.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Loans and advances neither past due nor impaired

The Bank uses a scoring system for the initial evaluation and for the follow-up of loans. This takes into consideration both qualitative and quantitative indicators of the counterparties financial health and produces a five scale rating (Standard, Watch, Substandard, Doubtful, Loss) which is then used as a statutory provisioning basis. The same scale is used to measure the financial performance and debt service of the company for objective evidence of impairment.

Details are provided in the table below:

31 December 2009

	Individual (retail) customer				Corporate entities		Total Loans and advances
	<u>Overdraft</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Mortgage loans</u>	<u>Large corporate loans</u>	<u>SME's</u>	
Grades:							
1 Standard	167,947	97,357	18,902,031	13,382,923	20,761,161	6,960,660	60,272,079
2 Watch	6,485	1	1,201,868	633,162	11,680,119	5,659,074	19,180,709
3 Substandard	19,903	1,043	934,115	24,294	1,782,945	4,589,947	7,352,247
4 Doubtful	10,124	-	440,278	55,104	480,626	1,747,342	2,733,474
5 Loss	-	-	29,152	-	151,870	107,208	288,230
Total	<u>204,459</u>	<u>98,401</u>	<u>21,507,444</u>	<u>14,095,483</u>	<u>34,856,721</u>	<u>19,064,231</u>	<u>89,826,739</u>

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

31 December 2008

	Individual (retail) customer				Corporate entities		Total Loans and advances
	<u>Overdraft</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Mortgage loans</u>	<u>Large corporate loans</u>	<u>SME's</u>	
Grades:							
1 Standard	145,436	77,704	8,028,559	8,901,507	43,151,097	13,291,152	73,595,455
2 Watch	-	3,462	41,556	182,122	-	-	227,140
3 Substandard	-	1,242	6,111	67,889	-	-	75,242
4 Doubtful	-	-	-	-	-	-	-
5 Loss	-	-	-	-	-	-	-
Total	<u>145,436</u>	<u>82,408</u>	<u>8,076,226</u>	<u>9,151,518</u>	<u>43,151,097</u>	<u>13,291,152</u>	<u>73,897,837</u>

89% of neither past due nor impaired loans are in the first two credit risk categories as of 31 December 2009 (31 December 2008: 99%). The remaining neither past due nor impaired loans are in lower grade categories.

b) Loans and advances past due but not impaired

31 December 2009

	Individual (retail customers)				
	<u>Overdrafts</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Mortgage loans</u>	<u>Total</u>
Past due up to 30 days	41,315	14,485	1,722,314	981,384	2,759,498
Past due up to 30-60 days	566	4,352	319,256	151,524	475,698
Past due up to 60-90 days	-	3,043	147,362	217,102	367,507
Past due up to 90-180 days	-	-	-	27,654	27,654
Total	<u>41,881</u>	<u>21,880</u>	<u>2,188,932</u>	<u>1,377,664</u>	<u>3,630,357</u>
Fair value of collateral	<u>-</u>	<u>-</u>	<u>2,055,889</u>	<u>2,144,219</u>	<u>4,200,108</u>

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Corporate Entities		
	<u>Large corporate customers</u>	<u>SMEs</u>	<u>Total</u>
Past due up to 30 days	245,623	856,020	1,101,643
Past due up to 30-60 days	540,310	116,766	657,076
Past due up to 60-90 days	51,567	-	51,567
Total	<u>837,500</u>	<u>972,786</u>	<u>1,810,286</u>
Fair value of collateral	<u>1,269,145</u>	<u>2,779,454</u>	<u>4,048,599</u>

	Individual (retail customers)				
	<u>Overdrafts</u>	<u>Credit cards</u>	<u>Consumer loans</u>	<u>Mortgage loans</u>	<u>Total</u>
Past due up to 30 days	6,351	41,784	620,642	850,700	1,519,477
Total	<u>6,351</u>	<u>41,784</u>	<u>620,642</u>	<u>850,700</u>	<u>1,519,477</u>
Fair value of collateral	<u>-</u>	<u>-</u>	<u>2,645,467</u>	<u>1,263,103</u>	<u>3,908,570</u>

Corporate Entities		<u>Large corporate customers</u>	<u>SMEs</u>	<u>Total</u>
Past due up to 30 days		-	1,070,978	1,070,978
Total		<u>-</u>	<u>1,070,978</u>	<u>1,070,978</u>
Fair value of collateral		<u>-</u>	<u>2,613,137</u>	<u>2,613,137</u>

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Loans and advances impaired

(i) Collectively impaired

31 December 2009

	<u>Overdrafts</u>	Individual (retail customers)			<u>Total</u>
		<u>Credit cards</u>	<u>Consumer loans</u>	<u>Mortgage loans</u>	
Loan receivable	3,106	19,895	631,730	267,308	922,039
Fair value of collateral	-	-	625,519	334,538	960,057

Corporate Entities

	Large corporate customers			<u>SMEs</u>	<u>Total</u>
Loan receivable		64,265	990,416		1,054,681
Fair value of collateral		-	837,519		837,519

31 December 2008

	<u>Overdrafts</u>	Individual (retail customers)			<u>Total</u>
		<u>Credit cards</u>	<u>Consumer loans</u>	<u>Mortgage loans</u>	
Loan receivable	6,674	18,576	428,812	436,362	890,424
Fair value of collateral	-	-	705,285	847,668	1,552,953

Corporate Entities

	Large corporate customers			<u>SMEs</u>	<u>Total</u>
Loan receivable		6,993,953	8,943,773		15,937,726
Fair value of collateral		23,232,822	22,000,385		45,233,207

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

In 2009 the Bank has readjusted its impairment methodologies as part of the regular risk reassessment process. One concern was the need for an adjustment related to the Bank's newer products and its target clientele.

The note above presents some loan categories that are impaired while the fair value of collateral is higher than the exposure. This is due to the fact that the provision takes into account the time required to sell the asset.

(ii) Individually impaired

31 December 2009

	<u>Large corporate customers</u>	<u>Corporate Entities</u>	
		<u>SMEs</u>	<u>Total</u>
Loan receivable	21,335,385	5,001,420	26,336,805
Fair value of collateral	18,334,549	5,606,471	23,941,020

31 December 2008

	<u>Large corporate customers</u>	<u>Corporate Entities</u>	
		<u>SMEs</u>	<u>Total</u>
Loan receivable	17,973,256	2,190,231	20,163,487
Fair value of collateral	31,233,351	4,000,000	35,233,351

Only high quality collateral is considered for the purpose of coverage calculations [i.e. mortgage upon real estates, cash collateral, pledge over equipments and/or vehicles]. With respect to mortgage loans, the reported fair value of collateral takes into account only properties on which the Bank holds a mortgage.

For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. The criteria used by the Bank to determine that there is objective evidence of impairment include:

- classification of the borrower in the doubtful category (as a result of registering a debt service of more than 180 days of overdue for the mortgage portfolio, and more than 90 days for the rest of facilities);

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

- classification in the worst financial performance category [i.e. E category], established according to the local regulator requirements;
- significant financial difficulty of the debtor (incapability to pay suppliers, debts to the state budget etc.);
- existence of a rescheduling granted to the debtor, resulting from an incapability to pay according with the previously agreed repayment schedule;
- high probability of insolvency or insolvency procedure declared by the borrower;
- existence of the probability that the borrower will enter bankruptcy or other financial reorganization.

For collectively assessed accounts, the portfolio of SME and large corporate customers which do not show a delay of more than three months in credit reimbursements, as well as the portfolios of individuals with a delay of less than 90 days (or less than 180 days for mortgage portfolio), will be considered not to exhibit evidence of impairment.

Loans and advances renegotiated

Renegotiated loans and advance contracts include extended loans facilities, extended and rescheduled payment arrangements, and may occur due to new or extended customer need of finance, following expansion of business projects combined with possible need of rescheduling arrangements.

Whenever a loan is subject to renegotiation, the Bank management performs a specific analysis for each of the loans. The loans are renegotiated within the terms of credit and risk policies of the Bank and the respective loans are kept under continuous review in order to manage the associated risks.

For cases of extended and rescheduled payment arrangements, the debtor agrees to pay it's overdue debts(if any) before the rescheduling. There were no renegotiations during 2008; the balance of the loans renegotiated during 2009 was equivalent to EUR 24,597,050.

Repossessed collateral

The Bank has repossessed collateral for debts worth EUR 40,775, in 2009 and finalized collateral execution yielding EUR 14,433 for an older debt. The bank had no recoveries during 2008.

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AS AT 31 DECEMBER 2009

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans.

Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.3 Market risk

The Bank monitors on a daily basis the market risks relating to its portfolio, as a result of changes in foreign currency rates.

The common measure used and monitored-in cooperation with the parent bank “Emporiki Bank of Greece S.A.” - to assess market risk is ‘value-at-risk’ (VaR).

The parent Bank uses in-house monitoring systems, assessing on a daily consolidated basis the Maximum Potential Loss which may result under normal conditions from the trading portfolio.

Emporiki Bank of Greece S.A., in order to monitor effectively the Risk faced by “Emporiki Bank Romania S.A.”, uses “back testing” to confirm the effectiveness of the “VaR” model.

The limits applicable to the Market Risk are:

(i) VaR limit

The Value at Risk limits are established in accordance with the measurements of VAR, a daily VaR of EUR 8,000 is not to be exceeded.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Stop Loss limits

The stop-loss limit for a certain activity (i.e. foreign exchange), is set at EUR 10,000 from the open position on that particular activity or at 10% of the acquisition value for AFS portfolio activities.

Currently, the Bank does not have a fully implemented procedure or system to perform sensitivity analysis on market risks. However, with the development of the assets and liabilities management and of the Financial risk unit of the Risk Management and Permanent Control Division stress tests can be conducted on the market risks' impact on the Banks activities.

Sensitivity analysis calculated in accordance with IFRS 7

	Effect on	<u>31 December 2009</u>
	<u>Income Statement</u>	<u>Comprehensive income</u>
Interest rate (± 200 b.p.)	± 250,059	± 136,292
Foreign exchange (± 20%)	± 46,127	-

	<u>31 December 2008</u>
	Effect on
	Income Statement and Comprehensive Income
Interest rate (± 200 b.p.)	± 390,172
Foreign exchange (± 20%)	± 610,011

At 31 December 2009, if market interest rates had been 200 basis points higher/ lower and with all other variables held constant, profit for the year would have been EUR 250,059 (2008: EUR 390,172) lower/ higher and comprehensive income would have been EUR 136,292 (2009: EUR nil) lower/ higher. Note that the Bank has refined its method of calculation of interest rate sensitivity in 2009 compared with 2008. The 2009 interest rate sensitivity analysis was performed on an interest rate gap model by applying a reasonably possible shift of 200 basis points. In 2008, interest rate sensitivity was calculated by applying a reasonably possible shift of 200 basis points to the interest rate sensitive assets and liabilities in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The impact of a 200 basis points shift on comprehensive income in 2009 is quite significant and is due to the impact of such a shift on the fair value of fixed rate treasury bills classified as available for sale. The treasury bills have a short maturity (maximum one year) and the Bank reinvests redemption proceeds upon maturity. In substance therefore these treasury bills act like variable rate instruments. Treating these instruments as variable rate instruments in the above calculation would result in a 200 basis point increase/ decrease in market interest rates having a impact of reducing/ increasing profit for the year by EUR 385,015 but having a negligible impact on comprehensive income.

At 31 December 2009, if RON had strengthened/ weakened by 20% against other relevant currencies (all other variables held constant) profit for the year would have been EUR 46,127 (2008: EUR 610,011) higher/ lower when taking into account the impact of derivatives used to economically hedge the Bank's foreign exchange risk.

3.3.1 Interest rate risk

Interest sensitivity of assets, liabilities and off balance sheet items – repricing analysis

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Assets and Liabilities Committee of the Bank sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is regularly monitored.

The tables below summarises the Bank's exposure to interest rate risks as at 31 December 2009 and 31 December 2008. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

The Bank uses for the purpose of mitigating some of its interest risk with (and other risks) investments in state issued treasury bills short to medium tenors.

EMPORIKI BANK SA ROMANIA

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non interest bearing	Total
31 December 2009							
Cash and balances with the Central Bank	25,100,263	-	-	-	-	-	25,100,263
Loans and advances to banks	24,598,416	-	-	-	-	-	24,598,416
Investment securities, available for sale	321,265	1,164,680	9,025,721	-	-	94,340	10,606,005
Loans and advances to customers	12,008,350	60,555,204	37,254,988	12,038	2,006,345	-	111,836,925
Other financial assets	-	-	-	-	-	439,215	439,215
Total financial assets	<u>62,028,294</u>	<u>61,719,884</u>	<u>46,280,709</u>	<u>12,038</u>	<u>2,006,344</u>	<u>533,555</u>	<u>172,580,823</u>

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non interest bearing	Total
31 December 2009							
Deposits from banks	37,934,681	39,500,000	-	-	-	-	77,434,681
Due to customers	42,027,382	16,772,820	17,073,434	-	-	2,486,213	78,359,849
Current Income tax liabilities	-	-	-	-	-	5,720	5,720
Other financial liabilities	-	-	-	-	-	615,468	615,468
Subordinated debt	<u>5,933,852</u>	-	-	-	-	-	<u>5,933,852</u>
Total financial liabilities	<u>85,895,915</u>	<u>56,272,820</u>	<u>17,073,434</u>	<u>-</u>	<u>-</u>	<u>3,107,401</u>	<u>162,349,570</u>
Total interest sensitivity gap	<u>(23,867,621)</u>	<u>5,447,064</u>	<u>29,207,274</u>	<u>12,038</u>	<u>2,006,344</u>		

EMPORIKI BANK SA ROMANIA

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>Up to 1 month</u>	<u>1 month to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Non interest bearing</u>	<u>Total</u>
31 December 2008							
Cash and balances with the Central Bank	59,215,497	-	-	-	-	-	59,215,497
Loans and advances to banks	2,067,705	-	-	-	-	-	2,067,705
Investment securities, available for sale	3,019	-	-	131,911	-	100,092	235,022
Loans to customers	68,106,704	16,274,332	20,572,120	68,355	5,048,868	-	110,070,379
Other financial assets	-	-	-	-	-	513,459	513,459
Total financial assets	<u>129,392,925</u>	<u>16,274,332</u>	<u>20,572,120</u>	<u>200,266</u>	<u>5,048,868</u>	<u>613,551</u>	<u>172,102,062</u>
	<u>Up to 1 month</u>	<u>1 month to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Non interest bearing</u>	<u>Total</u>
31 December 2008							
Deposits from banks	35,124,350	55,027,795	-	-	45,060	-	90,197,205
Due to customers	45,591,207	2,936,073	1,347,637	9,149	1,561,290	-	51,445,356
Other financial liabilities	-	-	-	-	-	663,333	663,333
Total financial liabilities	<u>80,715,557</u>	<u>57,963,868</u>	<u>1,347,637</u>	<u>9,149</u>	<u>1,606,350</u>	<u>663,333</u>	<u>142,305,894</u>
Total interest sensitivity gap	<u>48,677,368</u>	<u>(41,689,536)</u>	<u>19,224,483</u>	<u>191,117</u>	<u>3,442,518</u>		

Interest rate risk

Interest rate levels, the cost of funding and the net margins are monitored by the Treasury Division. In case of adverse movements of the market, contractual levels of interest are changed for contracts having embedded protections.

The table below summarises the effective interest rate by major currencies for monetary financial instruments:

EMPORIKI BANK SA ROMANIA

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AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	As at 31 December 2009				As at 31 December 2008			
	Currency				Currency			
	<u>RON</u> (%)	<u>USD</u> (%)	<u>EUR</u> (%)	<u>Other</u> (%)	<u>RON</u> (%)	<u>USD</u> (%)	<u>EUR</u> (%)	<u>Other</u> (%)
Assets								
Loans and advances to banks								
– current accounts & sight deposits	8.98	-	0.33	-	13.17	1.52	4.74	0.92
Loans and advances to banks								
– term deposits	8.76	-	0.38	-	-	-	-	-
Investment securities, AFS	9.85	-	-	8.28	-	-	-	3.41
Loans and advances to customers	14.68	7.10	6.61	5.20	15.67	8.83	8.47	8.43
Liabilities								
Deposits from banks	10.63	-	3.43	-	10.41	-	5.16	-
Due to customers – term deposits	12.32	2.53	3.90	1.51	8.46	2.46	3.46	2.78
Due to customers								
– current accounts & sight deposits	4.38	0.29	0.86	0.23	1.49	0.20	1.45	0.23
Subordinated debt	12.80	-	-	-	-	-	-	-

3.3.2 Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. As required in order to balance the structure of assets and liabilities in each currency, as well as, considering the fluctuations of the foreign exchange rates, the Bank takes positions in foreign currencies.

The Bank monitors on a daily basis a market risks relating to its portfolio, as a result of changes in foreign currency rates using VaR model as described in note 3.3.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2009 and 31 December 2008. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2009	<u>RON</u>	<u>EUR</u>	<u>USD</u>	<u>Other</u>	<u>Total</u>
Assets					
Cash and balances with the Central Bank	7,139,161	17,661,389	151,521	148,192	25,100,263
Loans and advances to banks	19,895,455	4,027,180	294,866	380,915	24,598,416
Investments securities, available for sale	10,335,836	-	-	270,169	10,606,005
Loans and advances to customers	22,680,161	87,066,785	2,087,497	2,482	111,836,925
Other financial assets	431,493	7,684	38	-	439,215
Total financial assets	<u>60,482,106</u>	<u>108,763,038</u>	<u>2,533,922</u>	<u>801,758</u>	<u>172,580,824</u>
Liabilities					
Deposits from banks	6,399	77,377,739	50,543	-	77,434,681
Due to customers	42,639,844	32,746,890	2,503,754	469,361	78,359,849
Current Income tax liabilities	5,720	-	-	-	5,720
Other financial liabilities	125,837	382,319	58,184	49,128	615,468
Subordinated debt	5,933,852	-	-	-	5,933,852
Total financial liabilities	<u>48,711,652</u>	<u>110,506,948</u>	<u>2,612,481</u>	<u>518,489</u>	<u>162,349,570</u>
Net on-balance sheet position	<u>11,770,454</u>	<u>(1,743,910)</u>	<u>(78,559)</u>	<u>283,269</u>	
Net off balance sheet receivables from currency operations	-	1,585,000	76,385	(15,094)	
Credit commitments	1,414,743	14,105,292	163,061	-	
Revocable credit commitments	2,307,984	20,742,826	-	-	
Net off-balance sheet position	<u>3,722,727</u>	<u>36,433,118</u>	<u>239,446</u>	<u>(15,094)</u>	
	<u>RON</u>	<u>EUR</u>	<u>USD</u>	<u>Other</u>	<u>Total</u>
At 31 December 2008					
Assets					
Cash and balances with the Central Bank	15,390,157	43,257,942	454,795	112,603	59,215,497
Loans and advances to banks	-	1,336,200	568,372	163,133	2,067,705
Investments securities, available for sale	100,092	-	-	134,930	235,022
Loans and advances to customers	45,358,971	62,713,711	1,985,512	12,185	110,070,379
Other financial assets	502,792	10,628	39	-	513,459
Total financial assets	<u>61,352,012</u>	<u>107,318,481</u>	<u>3,008,718</u>	<u>422,851</u>	<u>172,102,062</u>

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>RON</u>	<u>EUR</u>	<u>USD</u>	<u>Other</u>	<u>Total</u>
Liabilities					
Deposits from banks	6,744	89,940,515	249,947	-	90,197,206
Due to customers	28,441,802	19,849,500	2,876,760	277,294	51,445,356
Other financial liabilities	<u>404,717</u>	<u>163,880</u>	<u>94,736</u>	<u>-</u>	<u>663,333</u>
Total financial liabilities	<u>28,853,263</u>	<u>109,953,895</u>	<u>3,221,443</u>	<u>277,294</u>	<u>142,305,895</u>
Net on-balance sheet position	<u>32,498,749</u>	<u>(2,635,414)</u>	<u>(212,725)</u>	<u>145,557</u>	
Net off-balance sheet receivables					
from currency operations	-	1,290,000	186,790	30,271	
Credit commitments	4,563,098	8,298,187	504,216	-	
Revocable Credit commitments	2,875,486	54,028,963	-	-	
Net foreign currency position	<u>7,438,584</u>	<u>63,617,150</u>	<u>691,006</u>	<u>30,271</u>	

3.4 Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Treasury Division continuously monitors the liquidity developments and the projections based on budgeted and realized cash flows and informs the Assets and Liabilities Committee at least monthly. The goal of the liquidity management framework is to accommodate the Bank's budgeted targets and provide appropriate solutions for meeting funding needs.

The Bank prepares cash flow projections on a regular basis for measuring and managing its net refinancing risk. Projections cover not only the assets and liabilities as they exist in the balance sheet at a particular time but also the cash flow from planned future activities. In addition, a statement of assets and liabilities prepared in the order of liquidity level of various items is used for monitoring the operations. Day – to – day liquidity management is performed, at Treasury Division level, in accordance with the limits agreed by the management and with awareness of both short term needs and long term liquidity requirements.

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Treasury Division has also the responsibility for monitoring the daily liquidity needs of the Bank. This includes monitoring of daily cash flows for every currency taking into consideration the following elements:

- Maturity of deposit placed/took in relation with both customer and financial institutions;
- Inflows/outflows from payments (including those with State Budget);
- Inflows/outflows from securities transactions;
- Inflows/outflows from derivatives transactions;
- Inflows/outflows from cash transactions;
- Inflows/outflows from foreign exchange transactions;
- Inflows/outflows from loans;
- Nostro account balances;
- The level of reserve requirements and
- Any other item with relevant liquidity impact.

Funding approach

Sources of liquidity are regularly reviewed by the Treasury Division, so as to maintain a well balanced proportion by currency, term and product. The tools for liquidity management are:

- Taking/placing deposits on inter-bank market (including the Central Bank);
- Purchases and sales of securities;
- Repo/Reverse Repo with bonds/t-bills on the secondary market; and
- Foreign Exchange Forwards and Swaps.

Liquidity tables based on contractual undiscounted cash flows**Non-derivative cash flows**

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
As at 31 December 2009						
Liabilities						
Deposits from banks	1,093,626	317,891	12,606,862	46,639,971	23,737,475	84,395,825
Due to customers	39,002,152	19,404,643	19,264,780	-	-	77,671,575
Other financial liabilities	615,468	-	-	-	-	615,468
Subordinated debt	<u>63,512</u>	<u>127,024</u>	<u>571,608</u>	<u>3,048,579</u>	<u>9,723,405</u>	<u>13,534,128</u>
Total financial liabilities	<u>40,774,758</u>	<u>19,849,558</u>	<u>32,443,250</u>	<u>49,688,550</u>	<u>33,460,880</u>	<u>176,216,996</u>

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
As at 31 December 2008						
Liabilities						
Deposits from banks	2,679,104	31,928,218	14,346,068	34,660,635	20,879,150	104,493,177
Due to customers	47,065,523	2,982,467	1,417,688	-	-	51,465,678
Other financial liabilities	<u>663,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>663,333</u>
Total financial liabilities	<u>50,407,960</u>	<u>34,910,685</u>	<u>15,763,756</u>	<u>34,660,635</u>	<u>20,879,150</u>	<u>156,622,188</u>

The table analyses the Bank's financial liabilities as at 31 December 2009 and 31 December 2008 into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Derivative cash flows

There are open derivatives at 31 December 2009. As at 31 December 2009 the Bank had derivatives settled on a gross basis which included currency forwards and swaps. The cash outflows for currency forwards and swaps occurred in one month from the balance sheet date and amounted to EUR 2,567,118.

Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below.

	<u>No later than 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
31 December 2009				
Loan commitments	15,683,097	-	-	15,683,097
Revocable commitments	23,050,810	-	-	23,050,810
Letter of guarantees	2,204,102	2,353,190	-	4,557,292
31 December 2008				
Loan commitments	11,739,257	1,125,750	500,493	13,365,500
Revocable commitments	29,292,610	27,611,839	-	56,904,449
Letter of guarantees	1,358,501	2,936,975	-	4,295,476

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NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity tables based on expected discounted cash flow:

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
At 31 December 2009						
Assets						
Cash and balances with the Central Bank	25,100,263	-	-	-	-	25,100,263
Loans and advances to banks	24,598,416	-	-	-	-	24,598,416
Investment securities, available for sale	321,265	1,164,680	9,025,721	-	94,339	10,606,005
Loans and advances to customers	7,132,896	19,271,543	16,325,270	17,202,205	51,905,011	111,836,925
Other financial assets	<u>439,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>439,215</u>
Total financial assets	<u>57,592,055</u>	<u>20,436,223</u>	<u>25,350,991</u>	<u>17,202,205</u>	<u>51,999,350</u>	<u>172,580.824</u>
Liabilities						
Deposits from banks	934,681	-	11,200,000	42,800,000	22,500,000	77,434,681
Due to customers	40,448,524	19,151,261	18,756,110	3,954	-	78,359,849
Current Income tax liabilities	5,720	-	-	-	-	5,720
Other financial liabilities	771,854	-	-	-	-	771,854
Subordinated debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,933,852</u>	<u>5,933,852</u>
Total financial liabilities	<u>42,160,779</u>	<u>19,151,261</u>	<u>29,956,110</u>	<u>42,803,954</u>	<u>28,433,852</u>	<u>162,505,956</u>
Net liquidity gap	<u>15,431,276</u>	<u>1,284,961</u>	<u>(4,605,120)</u>	<u>(25,601,748)</u>	<u>23,565,498</u>	<u>10,074,868</u>

EMPORIKI BANK SA ROMANIA

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
At 31 December 2008						
Assets						
Cash and balances with the Central Bank	59,215,497	-	-	-	-	59,215,497
Loans and advances to banks	2,067,705	-	-	-	-	2,067,705
Investment securities, available for sale	3,019	-	-	131,911	100,092	235,022
Loans and advances to customers	3,466,639	20,522,059	37,526,523	10,413,846	38,141,312	110,070,379
Other financial assets	<u>513,459</u>	-	-	-	-	<u>513,459</u>
Total financial assets	<u>65,266,319</u>	<u>20,522,059</u>	<u>37,526,523</u>	<u>10,545,757</u>	<u>38,241,404</u>	<u>172,102,062</u>
Liabilities						
Deposits from banks	11,152,145	31,400,000	3,000,000	27,100,000	17,545,060	90,197,206
Due to customers	47,152,498	2,936,073	1,347,637	9,148	-	51,445,356
Other financial liabilities	<u>663,333</u>	-	-	-	-	<u>663,333</u>
Total financial liabilities	<u>58,967,977</u>	<u>34,336,073</u>	<u>4,347,637</u>	<u>27,109,148</u>	<u>17,545,060</u>	<u>142,305,895</u>
Net liquidity gap	<u>6,298,342</u>	<u>(13,814,014)</u>	<u>33,178,885</u>	<u>(16,563,391)</u>	<u>20,696,344</u>	

The Bank has a capital adequacy ratio of 17,77% (2008: 30.05%) and also a stand-by financing line available from the Emporiki Bank of Greece SA of EUR 20 million and not used as at 31 December 2009 (31 December 2008: EUR 20,000,000).

3.5 Capital management

The Bank's objective when managing capital is to comply with the capital requirement set by the regulators.

In regard of the capital management the Bank does not have in place a very complex capital allocation and risk management system on each business line (for example RAROC or Earnings at risk).

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The capital risk management is currently performed through monitoring of the capital adequacy ratio calculated according to Basel I principles, and for the next financial period the bank expects to calculate the ratios according to Basel II. From a strategic point of view the exposures are undertaken towards counterparties with a good rating and under conditions of a good collateral coverage so as the capital required by the respective exposures is as low as possible. Capital level and capital adequacy ratio is monitored on a monthly basis to identify any substantial deterioration triggering the need to review the portfolio of exposures and to claim if necessary a capital increase.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December. During the two years presented the Bank complied with all of the externally imposed capital requirements to which the Bank are subject.

	<u>31 December 2009</u>	<u>31 December 2008</u>
Tier 1 Capital	16,037,879	38,481,314
Tier 2 Capital	<u>7,494,005</u>	<u>1,903,460</u>
Total regulatory capital	<u>23,531,884</u>	<u>40,384,774</u>
Risk-weighted assets		
On-balance sheet	125,241,051	117,131,648
Off-balance sheet	<u>7,199,916</u>	<u>4,543,512</u>
Total risk-weighted assets	<u>132,440,967</u>	<u>121,675,160</u>
Solvency Ratio	17.77%	30.05%

3.6 Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>Carrying value</u>		<u>Fair value</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Financial assets				
Loans and advances				
to banks	24,598,416	2,067,705	24,598,416	2,067,705
Loans and advances				
to customers	111,836,925	110,070,379	92,841,011	102,428,489
Financial liabilities				
Deposits from banks	77,434,681	90,197,206	77,063,464	91,383,500
Due to customers	78,359,849	51,445,356	76,404,979	51,303,433
Subordinated debt	5,933,852	-	5,721,138	-

(a) *Loans and advances to banks*

Due from other banks includes inter-bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(b) *Loans and advances to customers*

Loans and advances are net of provisions for incurred losses. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(c) *Deposits from banks and deposits from customers*

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.7 Assets measured at fair value

The Bank presents in the balance sheet at fair value only available for sale assets and derivatives (presented within Other assets). The structure of the available for sale assets is formed by treasury bills acquired starting with 2009 year, Rossiyskiy bonds and equity securities (Transfond S.A., Biroul de Credit S.A., MasterCard Inc. and Fenix S.R.L.).

Assets Measured At Fair Value

	<u>31 December 2009</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale financial assets			
Treasury Bills	10,241,497	-	-
Bonds	-	270,169	-
Equity securities	-	-	94,340
Derivatives	-	8.531	-
Total	<u>10,241,497</u>	<u>278,700</u>	<u>94,340</u>

	<u>31 December 2008</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Available-for-sale financial assets			
Bonds	-	134,930	-
Equity securities	-	-	100,092
Total	<u>-</u>	<u>134,930</u>	<u>100,092</u>

Reconciliation Of Level 3 Items

	<u>31 December 2009</u>	
	<u>Equity securities</u>	<u>Total assets</u>
At 1 January 2009	100,092	100,092
Exchange rate differences	<u>(5,752)</u>	<u>(5,752)</u>
Closing balance	94,340	94,340

NOTES TO THE FINANCIAL STATEMENTS

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3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	<u>31 December 2008</u>	
	<u>Equity securities</u>	<u>Total assets</u>
At 1 January 2008	111,368	111,368
Exchange rate differences	<u>(11,276)</u>	<u>(11,276)</u>
Closing balance	100,092	100,092

4 CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a half yearly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. To the extent that the net present value of estimated cash flows differs by +/-5% the provision estimate would be approximately EUR 281 thousand lower or EUR 862 thousand higher.

(b) Impairment of available for-sale: equity investments and debt instruments

Equity investments: the Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Debt instruments: the Bank considers if the impairments observed are prolonged and significant based on similar judgements as for equity. The Bank recorded in previous years these kind of impairments in the statement of profit and loss.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

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

In 2008, the Bank considered that the decrease in fair value of debt instruments resulted from the financial market evolution and booked the changes in the equity (Note 14), since the Bank did not consider that there had been any deterioration in the credit quality of the issuer.

(c) Fair value of derivatives

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

(d) No recognition of deferred tax asset

Deferred tax asset is not recognized in the financial statements due to uncertainty about availability of sufficient profits in the foreseeable future to utilise that deferred tax asset.

5 NET INTEREST INCOME

	<u>31 December 2009</u>	<u>31 December 2008</u>
Interest and similar income		
Loans and advances to customers	10,235,546	9,595,461
Interest related commissions	194,182	551.116
Current accounts and deposits to banks	1,970,207	1,817,510
Investment securities	<u>242,427</u>	<u>16,419</u>
	<u>12,642,362</u>	<u>11,980.506</u>
Net interest income for individually impaired loans	<u>967,761</u>	<u>1,515,930</u>

Included in the above is interest income for individually impaired loans of EUR 1,340,089 (2008: EUR 1,577,097)

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5 NET INTEREST INCOME (CONTINUED)

	<u>31 December 2009</u>	<u>31 December 2008</u>
Interest and similar expense		
Deposits from banks	2,865,151	3,383,153
Customer deposits	4,723,390	2,381,489
Interest on subordinated debt	<u>21,125</u>	<u>-</u>
	<u>7,609,667</u>	<u>5,764,642</u>

Included within interest expense is EUR 2,861,332 (2008: EUR 2,302,515) with respect to interest expense on money market deposits taken from related parties, as disclosed in Note 26.

6 NET FEE AND COMMISSION INCOME

	<u>31 December 2009</u>	<u>31 December 2008</u>
Fee and commission income		
Transactions related fee and commission income	1,080,395	1,113,541
Other fee and commission loans related	514,110	155,079
Other fee and commission income from services delivered	<u>92,168</u>	<u>62,203</u>
	<u>1,686,673</u>	<u>1,330,823</u>
Fee and commission expense		
Customer transactions	12,706	49,558
Transactions with other banks	<u>366,757</u>	<u>291,169</u>
	<u>379,463</u>	<u>340,727</u>

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7 NET TRADING INCOME

	<u>31 December 2009</u>	<u>31 December 2008</u>
Foreign exchange		
Transaction gains less losses	1,971,001	2,165,104
Translation gains less losses	<u>26,754</u>	<u>(145,001)</u>
	<u>1,997,755</u>	<u>2,020,103</u>

8 DIVIDEND INCOME

	<u>31 December 2009</u>	<u>31 December 2008</u>
Income from dividends	112,663	126,550

During 2009 Emporiki Bank Romania SA received dividends of EUR 112,663 out of which EUR 111,577 from Transfond SA, EUR 749 from Biroul de Credite SA, and EUR 337 from MasterCard International. The respective participations are presented in Note 15.

9 OTHER OPERATING INCOME

	<u>31 December 2009</u>	<u>31 December 2008</u>
Other income	28,032	27,119

10 LOAN IMPAIRMENT CHARGE

	<u>31 December 2009</u>	<u>31 December 2008</u>
Impairment charge for credit loss (Note 16)	(8,403,130)	(1,449,012)

EMPORIKI BANK SA ROMANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT 31 DECEMBER 2009****(all amounts expressed in EUR unless stated otherwise)**

11 OTHER OPERATING EXPENSES

	<u>31 December 2009</u>	<u>31 December 2008</u>
Staff costs	7,507,946	6,804,342
State pension contribution	1,394,313	1,207,000
Other contributions	<u>750,784</u>	<u>649,923</u>
Personnel expenses	<u>9,653,043</u>	<u>8,661,265</u>
Telecommunication & Postage Expenses	739,685	674,926
Utilities	401,085	348,977
Maintenance and other repairs	476,540	317,945
Purchase of Small Inventory	205,759	275,587
Consumables	176,406	202,233
Travel and transportation	166,453	285,699
Services from third parties	1,025,899	1,074,090
Rent expenses	2,608,788	2,280,465
Advertising expense	77,752	98,589
Taxes other than income tax, including contributions	234,761	194,571
Insurance	131,166	110,965
Other expenses	480,268	396,161
Provision for Operational risk charges	<u>67,329</u>	<u>-</u>
General and administrative expenses	<u>6,791,890</u>	<u>6,260,208</u>
Depreciation and amortisation (Notes 18 and 19)	<u>1,647,594</u>	<u>777,826</u>
Losses from disposals of fixed assets	<u>330,584</u>	<u>-</u>
	<u>18,423,111</u>	<u>15,699,299</u>

Banks operating in Romania are required to make contributions to the Customer's Deposits Guarantee Fund ("the Fund"), which is established by Government Ordinance at 0.2% (2008: 0.2 %) of the balance of individuals' and SME's deposits at 31 December of the preceding year. The contribution is included in "Services from third parties " and was EUR 90,965 for 2009 (2008: EUR 58,181).

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

12 INCOME TAX

The Bank has no current or deferred tax expense / (credit).

A reconciliation between the actual and the expected taxation charge is provided below:

	<u>31 December 2009</u>	<u>31 December 2008</u>
Loss before tax	(18,347,886)	(7,768,580)
Tax calculated at 16%	(2,935,662)	(1,242,973)
Tax effects of:		
- income not subject to tax	(1,055,952)	(1,011,020)
- non-deductible expense	1,587,237	1,469,190
Tax effect of tax loss brought/(carried) forward and unrecognized deferred tax asset	<u>2,404,377</u>	<u>784,803</u>
Income tax expense/(release) for the period	<u>6,765</u>	<u>-</u>

The income tax expense of EUR 6,765 represents the annual minimum tax based on the revenues reported on 31 December of the previous year, using some predefined thresholds.

Differences between IFRS and Romanian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences, recorded at the rate of 16% (2008: 16%), gives rise to unrecognized deferred tax asset of EUR 4,314,774 (2008: EUR 1,748,546). This deferred tax asset is mainly computed in respect of carried forward tax losses, temporary difference between the carrying amount of property and equipment, loans impairment losses and impairment of available for sale securities.

The Bank did not recognize this deferred tax asset due to uncertainty about availability of sufficient profits in the foreseeable future to utilise that deferred tax asset.

The Bank has unrecognised deferred tax asset in respect of unused tax loss carry forwards of EUR 32,931,612 (2008: EUR 8,273,902). The tax loss carried forward of EUR 32,931,612 will expire as follows:

Fiscal Year loss:

2007 fiscal year loss of EUR 725,862 will expire in 2012;
 2008 fiscal year loss of EUR 5,253,939 will expire in 2013;
 2009 fiscal year loss of EUR 26,951,811 will expire in 2016.

EMPORIKI BANK SA ROMANIA**NOTES TO THE FINANCIAL STATEMENTS****AS AT 31 DECEMBER 2009****(all amounts expressed in EUR unless stated otherwise)**

13 CASH AND BALANCES WITH THE CENTRAL BANK

	<u>31 December 2009</u>	<u>31 December 2008</u>
Cash in hand	3,699,755	5,254,842
Current account with the Central Bank	21,400,508	45,178,160
Placement with the Central Bank	<u>-</u>	<u>8,782,495</u>
	<u>25,100,263</u>	<u>59,215,497</u>

In accordance with the local regulations in force, the Bank holds mandatory reserves with the Central Bank. The mandatory reserves are required to be held either in US Dollars or in EUR in respect of foreign currency deposits, the Bank choosing to hold it in EUR for all currency denominated resources attracted, and in RON for the RON deposits, calculated according to a prescribed formula. The formula is based upon a set percentage of each type of deposit taken by the Bank. This reserve is a minimum average deposit with a holding period of one month, based on resources attracted in the previous month. The cash balance held with the central bank at the reporting date met these requirements. The percentage rates in place at 31 December 2009 were 15% for RON attracted sources (2008: 18%) and for foreign currency 25% (2008: 40%). Also, for the attracted sources with residual maturity over 2 years and without reimbursement in advance contractual clause, the Central Bank eliminated the necessity of minimum mandatory reserve.

The balance of mandatory reserves can vary on a daily basis, and at 31 December 2009, the total EUR equivalent of the RON and EUR denominated reserves is 21,400,508 (31 December 2008: EUR 45,178,160). The interest rates paid by the Central Bank for mandatory reserves held by banks are 3.38 % for RON denominated reserves, and 1.27 % for EUR denominated reserves as at 31 December 2009. (4.20 % for RON denominated reserves and 2.37 % for EUR denominated reserves as at 31 December 2008).

14 LOANS AND ADVANCES TO BANKS

	<u>31 December 2009</u>	<u>31 December 2008</u>
Current accounts	8,960,070	2,067,705
Placements with other banks	<u>15,638,346</u>	<u>-</u>
	<u>24,598,416</u>	<u>2,067,705</u>

EMPORIKI BANK SA ROMANIA

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

15 INVESTMENT SECURITIES AVAILABLE FOR SALE

The movement in AFS portfolio (gross amount) is detailed below:

	<u>31 December 2009</u>	<u>31 December 2008</u>
At beginning of the year	535,605	611,017
Additions	10,054,932	-
Translation gain / loss	<u>(25,095)</u>	<u>(75,412)</u>
At the end of the year	<u>10,565,442</u>	<u>535,605</u>
Revaluation impact recognised in AFS reserve	185,465	(149,794)
Less impairment for Snap Euronotes	<u>(144,902)</u>	<u>(150,790)</u>
	<u>10,606,005</u>	<u>235,022</u>

	<u>31 December 2009</u>	<u>31 December 2008</u>
<i>Unlisted Equity investments available for sale (i)</i>	94,340	100,092
Treasury bills	10,054,932	-
Snap Euro notes (ii)	416,170	435,513
Revaluation impact	185,465	(149,794)
Less impairment for Snap Euro notes	<u>(144,902)</u>	<u>(150,790)</u>
	<u>10,606,005</u>	<u>235,022</u>

<i>Impairment for Snap Euro notes</i>		
At the beginning of year	150,790	173,683
Translation differences	<u>(5,888)</u>	<u>(22,893)</u>
At the end of year	<u>144,902</u>	<u>150,790</u>

The revaluation impact of EUR 185,465 is composed from a negative effect on the fair value of Snap Euro notes recorded in 2008 of EUR (141,185), followed by a positive one in 2009 year of 140,085 and also a positive impact over the Treasury bills in value of EUR 186,565.

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AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

15 INVESTMENT SECURITIES AVAILABLE FOR SALE (CONTINUED)

- (i) The Bank held the following unlisted equity investments available-for-sale as at 31 December 2009 and 31 December 2008:

<u>Name</u>	<u>Nature of business</u>	<u>31 December 2009</u> <u>shareholding</u> (%)		<u>31 December 2008</u> <u>shareholding</u> (%)	
Transfond SA	Settlement and clearing interbanking transfers	93,054	2.47	98,728	2.47
FENIX (Hellas) – Agentie de asigurari SRL	Insurance broker	262	0.18	278	0.18
Biroul de Credite SA	Credit rating for individuals	<u>1,023</u>	0.10	<u>1,085</u>	0.10
Total		<u>94,339</u>		<u>100,092</u>	

The unlisted equity securities classified as available-for-sale are stated at cost. The participations held by the Bank to Transfond represents a mandatory requirement for all commercial banks that operate in Romania and cannot be sold on the market .

- (ii) Snap Euro notes were issued in 2000 as a result of restructuring of a loan granted to Rossiyskiy Kredit Bank, a Russian financial institution. Under the restructuring agreement, Snap Euro notes were issued in the amount of RUR 17,879,400 equivalent (EUR equivalent 432,494).

The Snap Euro notes are repayable in the year 2010 (RUR denominated amounts), based on a final lump sum denominated in RUR. The Snap Euro notes have an interest rate of 3.3% p.a.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

16 LOANS AND ADVANCES TO CUSTOMERS

	<u>31 December 2009</u>	<u>(%)</u>	<u>31 December 2008</u>	<u>(%)</u>
<i>Analysis by type of customer</i>				
Gross loans and advances				
Retail				
- Mortgage loans	15,740,456	13%	10,438,580	9%
- Consumer loans	24,328,107	20%	9,160,567	8%
- Cards	389,619	0%	301,229	0%
Corporate				
- services	14,509,807	12%	23,364,218	21%
- leasing	2,356,107	2%	1,831,156	2%
- trade	17,689,196	14%	19,804,274	17%
- other industries	28,611,895	23%	34,778,929	31%
- construction	7,273,101	6%	7,172,651	6%
- food	1,712,421	1%	1,799,419	2%
- other	10,970,199	9%	4,828,906	4%
Total portfolio before allowance	123,580,908	100%	113,479,929	100%
Impairment of Retail Loans	(1,247,587)		(342,555)	
Impairment of Corporate Loans	(10,496,396)		(3,066,995)	
Less allowance for impairment on loans and advances	<u>(11,743,983)</u>		<u>(3,409,550)</u>	
	<u>111,836,925</u>		<u>110,070,379</u>	
Current	42,729,709		61,428,548	
Non-current	69,107,215		48,641,831	

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(a) Allowance for impairment on loans and advances

The movements in the allowance for impairment on loans and advances are as follows:

	31 December 2009		31 December 2008	
	<u>Corporate</u>	<u>Retail</u>	<u>Corporate</u>	<u>Retail</u>
At beginning of the year	3,066,995	342,555	2,008,191	100,132
Loan impairment charges	7,480,397	922,733	1,205,665	243,347
Translation differences	<u>(50,996)</u>	<u>(17,701)</u>	<u>(146,861)</u>	<u>(924)</u>
At end of the year	<u>10,496,396</u>	<u>1,247,587</u>	<u>3,066,995</u>	<u>342,555</u>

(b) Geographic sector risk concentrations

All corporate loans were extended to companies operating in Romania and the largest part of the individual loans is given to Romanian residents.

17 OTHER ASSETS

	<u>31 December 2009</u>	<u>31 December 2008</u>
Sundry debtors	527,448	582,546
Other prepayments	161,116	253,713
Derivative assets	8,531	-
	<u>697,095</u>	<u>836,259</u>
Other financial assets	439,215	513,459
Other non financial assets	<u>257,880</u>	<u>322,800</u>
	<u>697,095</u>	<u>836,259</u>

Derivative assets represent the fair value of swap foreign exchange agreements outstanding as at 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

17 OTHER ASSETS (CONTINUED)

The Bank uses as derivative instruments for economic hedging purposes currency forward and currency swaps. Currency forwards and swaps represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out below:

	<u>31 December 2009</u>	<u>31 December 2008</u>
Contract/notional amount	2,567,118	-
Fair value - asset	8,531	-

NOTES TO THE FINANCIAL STATEMENTS

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18 INTANGIBLE ASSETS

	<u>Software</u>	<u>Software under development</u>	<u>Total</u>
Year ended 31 December 2008			
Opening net book amount	178,157	152,275	330,432
Additions	455,539	870,625	1,326,164
Disposals	-	(608,204)	(608,204)
Amortisation charge	(138,110)	-	(138,110)
Exchange rate adjustments	<u>(6,281)</u>	<u>14,328</u>	<u>20,609</u>
Closing net book amount	<u>489,305</u>	<u>400,368</u>	<u>889,673</u>
At 31 December 2008			
Cost	1,537,017	400,368	1,937,385
Accumulated amortisation	<u>(1,047,711)</u>	<u>-</u>	<u>(1,047,711)</u>
Net book amount	<u>489,305</u>	<u>400,368</u>	<u>889,673</u>
Year ended 31 December 2009			
Opening net book amount	489,305	400,368	889,673
Additions	258,529	142,042	400,572
Disposals	(12,875)	261,638)	274,514)
Amortisation charge	(238,860)	-	(238,860)
Exchange rate adjustments	<u>(28,663)</u>	<u>(23,573)</u>	<u>(52,236)</u>
Closing net book amount	<u>467,436</u>	<u>257,199</u>	<u>724,635</u>
At 31 December 2009			
Cost	1,685,863	257,199	1,943,062
Accumulated amortisation	<u>(1,218,427)</u>	<u>-</u>	<u>(1,218,427)</u>
Net book amount	<u>467,436</u>	<u>257,199</u>	<u>724,635</u>

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NOTES TO THE FINANCIAL STATEMENTS

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19 PROPERTY AND EQUIPMENT

	<u>Land and buildings</u>	<u>Furniture and equipment</u>	<u>Assets in course of construction</u>	<u>Total</u>
Year ended 31 December 2008				
Opening net book amount	3,571,050	1,664,580	2,461,001	7,696,631
Additions	1,400,247	1,048,909	5,765,009	8,214,165
Disposals	-	(13,261)	(4,865,885)	(4,879,146)
Depreciation charge	(179,208)	(460,508)	-	(639,716)
Exchange rate adjustments	<u>(322,427)</u>	<u>(121,679)</u>	<u>(231,591)</u>	<u>(675,697)</u>
Closing net book amount	<u>4,469,662</u>	<u>2,118,041</u>	<u>3,128,534</u>	<u>9,716,237</u>
At 31 December 2008				
Cost	5,072,801	3,713,741	3,128,534	11,915,076
Accumulated depreciation	<u>(603,139)</u>	<u>(1,595,700)</u>	-	<u>(2,198,839)</u>
Net book amount	<u>4,469,662</u>	<u>2,118,041</u>	<u>3,128,534</u>	<u>9,716,237</u>
Year ended 31 December 2009				
Opening net book amount	4,469,662	2,118,041	3,128,534	9,716,237
Additions	2,497,423	1,442,895	1,071,639	5,011,957
Disposals	(96,988)	(220,720)	(3,776,678)	(4,094,386)
Depreciation charge	(797,266)	(611,468)	-	(1,408,734)
Exchange rate adjustments	<u>(258,802)</u>	<u>(122,846)</u>	<u>(187,929)</u>	<u>(569,576)</u>
Closing net book amount	<u>5,814,029</u>	<u>2,605,902</u>	<u>235,566</u>	<u>8,655,498</u>
At 31 December 2009				
Cost	7,147,073	4,604,481	235,566	11,987,121
Accumulated depreciation	<u>(1,333,044)</u>	<u>(1,998,579)</u>	-	<u>(3,331,623)</u>
Net book amount	<u>5,814,029</u>	<u>2,605,902</u>	<u>235,566</u>	<u>8,655,498</u>

The disposals of assets in course of construction represents the additions to buildings and other tangible fixed assets categories. The movement from assets in course of construction to buildings represents in fact the finalisation of the construction works of the leased premises for the branches network development. The transfers from assets in course of constructions to furniture and equipment are fixed assets put in function.

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NOTES TO THE FINANCIAL STATEMENTS

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20 DEPOSITS FROM BANKS

	<u>31 December 2009</u>	<u>31 December 2008</u>
Current accounts and sight deposits	722,856	1,108,346
Term deposits from other banks	<u>76,711,825</u>	<u>89,088,860</u>
	<u>77,434,681</u>	<u>90,197,206</u>
Current	12,134,681	45,552,146
Non-current	65,300,000	44,645,060

21 DUE TO CUSTOMERS

	<u>31 December 2009</u>	<u>31 December 2008</u>
Current accounts	15,297,548	15,084,866
Saving accounts	2,241,362	-
Sight deposits	7,139,899	6,138,206
Term deposits	51,194,457	28,657,905
Restricted deposits	<u>2,486,583</u>	<u>1,564,379</u>
	<u>78,359,849</u>	<u>51,445,356</u>
Current	78,355,895	51,436,207
Non-current	3,953	9,149

Restricted deposits represent collateral deposits made by customers in respect of credit commitments or other transactions.

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22 OTHER LIABILITIES

	<u>31 December 2009</u>	<u>31 December 2008</u>
Amounts in course of settlement	228,042	444,549
Other liabilities	771,854	1,353,742
Social contributions and other taxes payable	274,561	380,373
Provision for credit commitments (Note 27)	-	68,849
Provision for operational risk	67,329	-
Lease liabilities	<u>328,335</u>	<u>9,669</u>
	<u>1,670,121</u>	<u>2,257,182</u>
Other financial liabilities	615,468	663,333
Other non financial liabilities	1,670,121	2,257,182

23 SUBORDINATED DEBT

	<u>31 December 2009</u>	<u>31 December 2008</u>
Subordinated debt	5,933,852	-
Current	21,171	-
Non-current	5,912,682	-

Emporiki Bank of Greece S.A. granted to the Bank a subordinated loan in amount of RON 25,000,000, with a tenor of 10 years and a floating interest rate ROBOR 1M plus a margin equal 1.91% per annum.

For accounting purposes the Bank presents the subordinated debt as a liability. However, from regulatory point of view the subordinated debt in the amount of RON 25,000,000 is treated as part of the Bank's own funds.

EMPORIKI BANK SA ROMANIA

NOTES TO THE FINANCIAL STATEMENTS

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24 SHARE CAPITAL

	<u>31 December 2009</u>	<u>31 December 2008</u>
Court registered share capital	46,378,583	49,206,545
Restatement in accordance with IAS 29	<u>7,333,839</u>	<u>7,781,025</u>
	<u>53,712,422</u>	<u>56,987,570</u>

During 2009 there was no capital increase. The decrease of the share capital is due to the exchange rate difference recorded at the end of 2009 (4.2282) compared to 2008 year (3.9851). The share capital is booked in the local currency and is presented in the IFRS financial statements in EUR.

The statutory share capital of the Bank represents 114,919 shares (31 December 2008: 114,919 shares) of RON 1,706 (31 December 2008: 1,706 each). The shareholders of the Bank at 31 December 2009 and 31 December 2008 were as follows:

	<u>31 December 2009</u>		<u>31 December 2008</u>	
	(Shares)	(%)	(Shares)	(%)
Emporiki Bank S.A. (Greece)	114,177	99.35	114,177	99.35
John S. Andropoulos	341	0.30	341	0.30
Athena Hellenic Engineering, Industrial and Touristic Company	341	0.30	341	0.30
Emporiki Bank (Bulgaria) AD	<u>60</u>	<u>0.05</u>	<u>60</u>	<u>0.05</u>
	<u>114,919</u>	<u>100.00</u>	<u>114,919</u>	<u>100.00</u>

25 RESERVES

In accordance with the Romanian legislation, the Bank must allocate the statutory profit as dividends or transfer it to retained earnings (reserves) on the basis of the financial statements prepared under Romanian Accounting Regulations ("RAR"). Amounts transferred to reserves must be used for the purposes designated when the transfer is made. Beginning from 1 January 2004, under Romanian banking legislation the Bank is required to create the following reserves from appropriation of the profit of the year calculated under RAR:

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25 RESERVES (CONTINUED)

	<u>31 December 2009</u>	<u>31 December 2008</u>
General banking risk reserve	310,069	328,977
Statutory reserve	244,365	259,265
Other reserves	16,225	17,213
Revaluation reserve	185,465	(149,794)
Translation reserve	<u>(39,504)</u>	<u>589,681</u>
	<u>716,620</u>	<u>1,045,342</u>

Movements in reserves were as follows:

(a) General banking reserve

	<u>2009</u>	<u>2008</u>
At 1 January	328,976	363,148
Exchange differences	<u>(18,907)</u>	<u>(34,171)</u>
At 31 December	<u>310,069</u>	<u>328,977</u>

The general banking reserve is appropriated from the statutory gross profit at the rate of 1% of the balance of the assets carrying specific banking risks.

(b) Statutory reserve

	<u>2009</u>	<u>2008</u>
At 1 January	259,265	286,196
Exchange differences	(14,900)	(26,931)
Transfer from retained profits	<u>-</u>	<u>-</u>
At 31 December	<u>244,365</u>	<u>259,265</u>

The statutory reserve is appropriated at the rate of 5% of the gross statutory profit, until the total reserve equals maximum 20% of the issued and fully paid up share capital (all based on figures from the statutory financial statements prepared in accordance with RAR).

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NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

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25 RESERVES (CONTINUED)

(c) Other reserves

	<u>2009</u>	<u>2008</u>
At 1 January	17,213	19,001
Exchange differences	<u>(988)</u>	<u>(1,788)</u>
At 31 December	<u>16,225</u>	<u>17,213</u>

After reducing taxes and setting aside the reserves as discussed above, the remaining balance of the statutory net profit may be distributed to shareholders. Dividends may only be distributed from the statutory net profit determined in accordance with RAR, and available after covering the loss from the previous years.

(d) (d) Revaluation reserve

	<u>2009</u>	<u>2008</u>
At 1 January	(149,794)	-
Exchange differences	8,609	-
Increase / decrease of the AFS fair value	<u>326,650</u>	<u>(149,794)</u>
At 31 December	<u>185,465</u>	<u>(149,794)</u>

(e) Translation reserve

	<u>2009</u>	<u>2008</u>
At 1 January	589,681	67,259
Increase / decrease of the translation reserve	<u>(629,185)</u>	<u>522,422</u>
At 31 December	<u>(39,504)</u>	<u>589,681</u>

As per policy from the note 2.2. c) all exchange differences resulting from the translation of balance sheet and income statement items, from the functional currency (RON) to the presentation currency (EUR), have been recognized directly as a separate component in equity, amounting to EUR (39,503) (2008: EUR 589,681).

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NOTES TO THE FINANCIAL STATEMENTS

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26 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days original maturity:

	<u>31 December 2009</u>	<u>31 December 2008</u>
Cash (Note 13)	3,699,754	5,254,842
Balances with Central Bank (Note 13)	21,400,508	53,960,655
Current accounts and placements with banks (Note 14)	<u>24,598,416</u>	<u>2,067,705</u>
	<u>49,698,678</u>	<u>61,283,202</u>

27 CONTINGENCIES AND COMMITMENTS

Legal proceedings

As at 31 December 2009 there were a no major legal proceedings outstanding against the Bank.

Capital commitments

As at 31 December 2009 the Bank had capital expenditure contracted for but not recognized in these financial statements of EUR 284,260 in respect of leasehold improvements and equipment purchases (31 December 2008: EUR 753,045). The Bank's management is confident that future net revenues and funding will be sufficient to cover these commitments.

Where the Bank is the lessee, the future minimum lease payments under non cancellable operating leases for properties are as follows:

	<u>31 December 2009</u>	<u>31 December 2008</u>
No later than 1 year	2,131,416	2,817,053
Later than 1 year and no later than 5 years	6,029,025	8,525,833
Later than 5 years	<u>3,922,264</u>	<u>6,192,306</u>
	<u>12,082,705</u>	<u>17,535,192</u>

During 2009 the Bank didn't conclude new rental agreements and in the same time cancelled a part of the existing ones. Considering the present macroeconomic context generated by the financial crisis, the Bank initiated a renegotiation process of the lease contracts with the owners of the rented locations. The result of this process was a decrease of the monthly rental cost for a limited period of time.

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(all amounts expressed in EUR unless stated otherwise)

27 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers.

	<u>31 December 2009</u>	<u>31 December 2008</u>
Commitments to extend credit	15,683,097	13,365,500
Revocable Commitments to extend credit	23,050,810	56,904,449
Documentary and commercial letters of credit	-	105,462
Guarantees given	<u>4,557,292</u>	<u>4,295,476</u>
	<u>43,291,199</u>	<u>74,670,887</u>

The revocable commitments to extend credit agreements are related to the corporate business line.

Provision for credit related commitments:

	<u>31 December 2009</u>	<u>31 December 2008</u>
At the beginning of the year	68,849	53,751
Charge / (Release) for the year	(64,892)	20,156
Translation difference	<u>(3,957)</u>	<u>(5,058)</u>
At the end of the year	<u>-</u>	<u>68,849</u>

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AS AT 31 DECEMBER 2009

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27 CONTINGENCIES AND COMMITMENTS (CONTINUED)

The Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees 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.

A credit line agreement from Emporiki Bank of Greece of EUR 20 million (granting period November 2009 – October 2010) was available as at 31 December 2009. The credit line has an interest rate (EURIBOR for the relevant period + 2.76% margin) for the relevant currency and a fee for undrawn amounts of 0.602%.

Taxation risk

The taxation system in Romania is subject to varying interpretations and to constant changes, which may be retroactive. In certain circumstances the tax authorities can be aggressive and arbitrary in assessing tax penalties and interest. Although the actual tax due on a transaction may be minimal, penalties can be significant as they may be calculated based on the value of the transaction and can be as high as 0.01% per day. In Romania, tax periods remain open to tax audits for a period of 5 years from the end of the period. The last tax audit of the Bank was conducted in 2009 for the period 2004 until 2008. The management of the Bank is unaware of any specific tax risks. To minimise the Bank's exposure to taxation risk, the Bank's management makes use of professional advisory services on a regular basis.

28 CONCENTRATION OF ASSETS DUE FROM THE GOVERNMENT AND CENTRAL BANK

	<u>31 December 2009</u>	<u>31 December 2008</u>
Balances with the Central Bank	21,400,508	45,178,160
Placement with the Central Bank	-	8,782,495
Government treasury bills	<u>10,241,497</u>	<u>-</u>
	<u>31,642,005</u>	<u>53,960,655</u>

The assets above represent 17% (31 December 2008: 29%) of the Bank's total assets.

The concentration of the of assets in relation with Central Bank decreased considerably during 2009 due to the changes in the calculation methodology of the mandatory minimum reserves elaborated by the Central Bank.

EMPORIKI BANK SA ROMANIA

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

29 RELATED PARTY TRANSACTIONS

The Bank is owned by Emporiki Bank of Greece S.A. which owns 99.35% of the ordinary shares. In August 2006 Credit Agricole successfully closed a deal for acquisition of 82.48 % of Emporiki Bank of Greece S.A. As a result the ultimate parent of Emporiki Bank of Greece S.A. is Credit Agricole S.A..

The nature of the related party relationship for those related parties with whom the Bank entered into significant transactions or had significant balances outstanding at 31 December 2009 are detailed below. Transactions were entered into with related parties during the course of business at market rates.

The following transactions were carried out with its shareholders, Emporiki Bank S.A. (Greece), Emporiki Bank Bulgaria S.A. and Credit Agricole S.A.

Related parties transactions – parent

	<u>31 December 2009</u>	<u>31 December 2008</u>
Assets		
Loans and advances to banks – Current accounts	223,913	383,502
Loans and advances to banks - Sight deposits	<u>3,500,022</u>	<u>-</u>
	<u>3,723,935</u>	<u>383,502</u>
Liabilities		
Deposits from banks – Current accounts	56,941	33,820
Deposits from banks - Term deposits	76,711,825	85,365,252
Deposits from banks – Collateral deposits	-	45,060
Subordinated debts	5,933,852	-
Other liabilities - Sundry creditors	<u>4,463</u>	<u>-</u>
	<u>82,707,081</u>	<u>85,444,132</u>
Income statement		
Interest and similar income	36,224	71,741
Interest and similar expense	(2,861,332)	(2,302,515)
Fee and commission income	-	1,493
Fee and commission expense	(246,640)	(127,213)
General and administrative expenses	(4,452)	-

EMPORIKI BANK SA ROMANIA

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

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29 RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties transactions – other related group entities

	<u>31 December 2009</u>	<u>31 December 2008</u>
Liabilities		
Deposits from banks – Current accounts	665,914	824,526
Other liabilities - Accrued expenses	-	127,481
Other liabilities - Sundry creditors	<u>4,935</u>	<u>-</u>
	<u>670,849</u>	<u>952,007</u>
Income statement		
Fee and commission income	483,118	118,333
Personnel expenses	(4,923)	(180,260)

Related Parties – Key management

	<u>31 December 2009</u>	<u>31 December 2008</u>
<i>Assets</i>		
Loans and advances to customers	2,742	3,303
<i>Liabilities</i>		
Due to customers - Current accounts	6,984	34,289
Due to customers - Saving accounts	14,813	-
<i>Income statement</i>		
Interest and similar income	384	442
Interest and similar expense	(874)	(34)
Management remuneration	(561,334)	(532,808)

The value presented as management remuneration represents the total costs for the Bank with wages, social contributions, medical insurance, rental expenses and flight tickets for non residents managers. The Bank does not offer other benefits to the management.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

30 OPERATING ENVIRONMENT OF THE BANK

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

Additionally, the banking sector in Romania is particularly impacted by currency fluctuations and macroeconomic conditions. Furthermore, the need for further developments in the bankruptcy laws, in formalized procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Romania.

The prospects for future economic stability in Romania are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal and regulatory developments.

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Romania for many types of collateral, especially real estate, has been severely affected by the recent volatility in global financial markets resulting in there being a low level of liquidity for certain types of assets. As a result, the actual realisable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances could affect the ability of the Bank to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Bank may also be adversely affected by the financial and economic environment which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in their impairment assessments.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2009

(all amounts expressed in EUR unless stated otherwise)

31 OPERATING ENVIRONMENT OF THE BANK

Management is unable to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and interest rates. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

The shareholders of the Bank have undertaken to provide funding support, if necessary, in order to address the impact of the financial crisis.

31 SUBSEQUENT EVENTS

On 9 February 2010, Emporiki Bank Romania S.A. received a share capital increase of RON 78,517,500 equivalent of EUR 19,000,000 from the main shareholder Emporiki Bank of Greece S.A.

In order to optimize the management of the inter-bank deposits, considering the existing market conditions, a reschedule of the funding was made in January 2010. The previous funding of EUR 76,500,000 provided by Emporiki Bank of Greece, was consolidated and replaced with a new deposit having the same amount, but with maturity of ten years and floating interest rate.

In February 2010, the Bank continues to invest in treasury bills denominated in the local currency, acquiring another RON 39,290,523 on short and medium term.

Mr. Pierre Martin was approved by the National Bank of Romania as General Manager of Emporiki Bank Romania S.A. on 28 January 2010.