SANPAOLO IMI BANK ROMANIA SA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

SANPAOLO IMI BANK ROMANIA SA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER 2006

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PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF SANPAOLO IMI BANK ROMÂNIA SA

1 We have audited the accompanying consolidated financial statements of Sanpaolo IMI Bank România SA and its subsidiary (the "Group") which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor' responsibility

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

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

4 In our opinion, the accompanying financial statements present fairly, in all material aspects, the consolidated financial position of the Group as of 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Audit SRL

PricewaterhouseCoopers Audit/SRL

Bucharest, 16 March 2007

SANPAOLO IMI BANK ROMANIA SA

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in RON unless otherwise stated)

	Note	Year ended 31 December 2006	Year ended 31 December 2005
Interest and similar income	5	73,349,952	53,035,044
Interest expense and similar charges	5	(28,051,334)	(18,775,690)
Net interest income		45,298,618	34,259,354
Fee and commission income	6	12,400,925	12,279,057
Fee and commission expense	6	(1,316,476)	(1,471,277)
Net fee and commission income		11,084,449	10,807,780
Net trading income	7	2,837,315	3,899,770
Gains less losses from investment securities		(341,425)	(636)
Impairment credit for loan losses	9	3,174,306	800,142
Other operating income	8	1,754,502	1,226,424
Operating expenses	10	(38,896,613)	(37,509,486)
Profit before income tax		24,911,152	13,483,348
Income tax expense	23	(3,018,617)	(104,823)
Profit for the year		21,892,535	13,378,525
Attributable to:			
Equity holders of the Bank		21,892,413	13,378,519
Minority interest		122	6

The financial statements on pages 1 to 53 were approved and signed on behalf of the Board of Directors on 28 February 2007 by:

Nicola Calabro
General Manager

Mihai Ardelean
Finance Manager

The accompanying notes on pages 5 to 52 form an integral part of these financial statements.

SANPAOLO IMI BANK ROMANIA SA

CONSOLIDATED BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in RON unless otherwise stated)

	Note	31 December 2006	31 December 2005
ASSETS			
Cash		19,965,994	13,431,110
Balances with Central Bank	11	339,061,436	175,550,932
Loans and advances to banks	12	72,387,952	5,039,417
Loans and advances to customers	14	563,441,206	400,970,566
Derivative financial instruments	13	-	175,629
Investment securities available-for-sale	15	24,489,987	84,642,988
Intangible assets	16	2,678,369	3,222,505
Property and equipment	17	65,919,401	43,645,665
Deferred income tax assets	23	952,465	413,034
Other assets	18	8,188,350	5,976,889
Total assets		1,097,085,160	733,068,735
LIABILITIES			
Liabilities			
Deposits from banks	19	182,203,519	95,866,091
Due to customers	20	510,605,065	375,754,334
Derivative financial instruments	13	48,605	-
Other borrowed funds	21	239,912,395	148,236,687
Other liabilities	22	14,379,450	21,824,850
Current income tax liability		570,455	436,048
Total liabilities		947,719,489	642,118,010
Equity			
Capital and reserves attributable to equity holders of the parent			
Share capital	24	180,174,800	144,140,040
Accumulated deficits		(42,351,707)	(60,769,409)
Other reserves	25	11,539,643	7,577,281
		149,362,736	90,947,912
Minority interest		2,935	2,813
Total equity		149,365,671	90,950,725
Total equity and liabilities		1,097,085,160	733,068,735

The financial statements on pages 1 to 52 were approved and signed on behalf of the Board of Directors on 28 February 2007 by:

Nicola Calabro
General Manager

Mihai Ardelean
Finance Manager

The accompanying notes on pages 5 to 52 form an integral part of these financial statements.

SANPAOLO IMI BANK ROMANIA SA

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in RON unless otherwise stated)

	Note	Year ended 2006	Year ended 2005
Net cash flow from operating activities			
Cash flows from operating activities			
Interest and commission receipts		73,051,512	52,672,979
Interest paid		(25,734,520)	(16,872,312)
Fee and commission receipts		15,504,732	13,682,675
Net trading and other income		6,507,602	15,177,050
Cash proceeds from sale of foreclosed assets		3,238,255	1,551,199
Recoveries on loans previously written off		1,852,186	3,539,895
Cash payments to employees and suppliers		(28,975,675)	(34,480,877)
Income taxes paid		(3,423,641)	(81,809)
Net cash flow from operating activities before changes in operating assets and liabilities		42,020,450	35,188,800
Change in operating assets			
Decrease/(increase) in treasury securities over 90 days		598,229	(5,871,395)
Increase in loans and advances to customers		(174,723,319)	(148,288,305)
Increase in other assets		5,852,112	(1,766,449)
Total changes in operating assets		(167,696,644)	(155,926,149)
Change in operating liabilities			
Increase/(decrease) in deposits from banks		86,337,428	(27,918,612)
Increase in amounts owed to depositors		134,574,624	163,508,088
Increase/(decrease)in other liabilities		(20,551,326)	1,651,369
Total changes used in operating liabilities		200,360,726	137,240,845
Net cash from operating activities		74,684,532	16,503,496
Cash flow from investing activities			
Purchase of equity investments		(9,000)	(5,905)
Purchase of property, equipment and intangible assets		(26,481,635)	(12,432,321)
Net cash used in investing activities		(26,490,635)	(12,438,226)
Cash flow from financing activities			
Increase of share capital		36,034,760	18,177,000
Proceeds from subordinated loan from Sanpaolo		77,164,271	103,563,044
Net cash from financing activities		113,199,031	121,740,044
Effect of exchange rate changes on cash and cash equivalents		16,290,996	(28,559,487)
Increase in cash and cash equivalents		177,683,924	97,245,827
Cash and cash equivalents at 1 January		253,731,458	156,485,631
Increase in cash and cash equivalents		177,683,924	97,245,827
Cash and cash equivalents at 31 December	26	431,415,382	253,731,458

The accompanying notes on pages 5 to 52 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006
(All amounts in RON unless otherwise stated)

	Attributable to equity holders of the Bank					
	Share capital	Other reserves	Accumulated deficits	Total attributable to equity holders of the Bank	Minority interest	Total equity
Balance at 31 December 2004	125,963,040	3,300,795	(69,828,642)	59,435,193	2,807	59,438,000
Profit for the year	-	-	13,378,519	13,378,519	6	13,378,525
Net change in available for sale investments net of tax (Note 25)	-	(42,800)	-	(42,800)	-	(42,800)
Total recognized income	-	(42,800)	13,378,519	13,335,719	6	13,335,725
Increase of share capital	18,177,000	-	-	18,177,000	-	18,177,000
Transfer (Note 25)	-	4,319,286	(4,319,286)	-	-	-
Balance at 31 December 2005	144,140,040	7,577,281	(60,769,409)	90,947,912	2,813	90,950,725
Profit for the year	-	-	21,892,413	21,892,413	122	21,892,535
Net change in available for sale investments net of tax (Note 25)	-	487,651	-	487,651	-	487,651
Total recognized income	-	487,651	21,892,413	22,380,064	122	22,380,186
Increase of share capital	36,034,760	-	-	36,034,760	-	36,034,760
Transfer (Note 25)	-	3,474,711	(3,474,711)	-	-	-
Balance at 31 December 2006	180,174,800	11,539,643	(42,351,707)	149,362,736	2,935	149,365,671

The accompanying notes on pages 5 to 52 form an integral part of these financial statements.

1. THE SANPAOLO IMI GROUP AND ITS OPERATIONS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2006 for Sanpaolo IMI Bank Romania SA (the "Bank") and its subsidiary West Leasing SA (together referred to as the "Group" or "Sanpaolo Imi Group").

Sanpaolo IMI Bank Romania SA (the "Bank") has been incorporated in Romania in December 1996, initially under the name of "West Bank" and is licensed by the National Bank of Romania to conduct banking activities. The Bank has changed its name from "West Bank" to "Sanpaolo IMI Bank Romania" after the approval by National Bank of Romania on 16th October 2003. The Bank is principally engaged in retail banking operations in Romania.

The Bank is a member of Sanpaolo IMI Group, through sub-holding company Sanpaolo Internazionale S.p.A (Padova, Italy). The ultimate parent as of 31 December 2006 was Sanpaolo Imi Group. Following the merger with Banca Intesa, effective 1 January 2007, the ultimate parent in Banca Intesa (Note 30).

As at 31 December 2006 the Bank had 25 branches and 13 representative offices (2005: 17 branches and 8 representative offices).

The Bank's registered office is located at the following address:
88, B-dul Revoluției, Arad, Romania

As for 2006 the number of employees was on average 476 (2005: 400).

The Board of Directors formulates policies for the operation of the Bank and monitors their implementation. The Board is composed of 7 members appointed by the General Meeting of Shareholders.

As at 31 December 2006 the Board of Directors of the Bank comprised the following members:

1. Giovanni Ravasio	president
2. Ioan Mihail Anca	member*
3. Daniele Bordina	member*
4. Nicola Calabró	member*
5. Marco Capellini	member
6. Francesco Cervetti	member
7. Gianfranco Pizzutto	member

*) Members of the Executive Committee

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the revaluation of available-for-sale investments and derivative transactions. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

The preparation of financial statements in accordance 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. 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.

(a) Standards, amendments to published standards and interpretations effective 1 January 2006

The standards, amendments to existing standards and interpretations are detailed below:

- IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 Amendment - Net Investment in a Foreign Operation;
- IAS 39 Amendment Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 Amendment – The Fair Value Option;
- IAS 39 and IFRS 4 Amendment Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6 Exploration for and Evaluation of Mineral Resources;
- IFRIC 4 Determining whether an Arrangement contains a Lease;
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6 – Liabilities arising from Participating in a Specific Market – Waste electrical and Electronic Equipment.

IAS 19 Amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements. As the Bank does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IAS 21 Amendment, IAS 39 – Cash flow hedge accounting of forecasted intra-group transactions, IFRS 1, IFRS 6, IFRIC 4, IFRIC 5 and IFRIC 6 are not relevant to the Bank's operating activities and therefore have no material effect on the Bank policies.

IAS 39 Amendment – The Fair Value Option. Prior to the amendment, the Bank applied the unrestricted version of the fair value option in IAS 39. The Bank does not apply this option in the financial statements.

IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts. These types of contract are now accounted for under IAS 39 and no longer accounted for under IFRS 4, as previously required under IFRS. The measurement and disclosure requirements under IAS 39 have not resulted in a material change to the Bank policies.

(b) Standards issued that are not yet effective but which will have a significant impact on the Bank's financial statements

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2006 or later periods but which the Bank has not early adopted. The adoption of IFRS will have a significant impact on the financial statements.

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Bank assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Standards and interpretations issued that are not yet effective but which will not have a significant impact on the Bank's financial statements

The Bank has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

- IFRS 8, Operating Segments (effective 1 January 2009);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective 1 May 2006);
- IFRIC 9, Reassessment of embedded derivative (effective 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2006);
- IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective 1 January 2009).

The application of these new interpretations will not have a material impact on the Bank's financial statements in the period of initial application.

2.2. Foreign currency translation

(a) Functional and presentation currency

Functional currency of the Group is the currency of the primary economic environment in which it operates. The financial statements are presented in RON which is the Group's functional and presentation currency.

(b) Transaction and balances

Transactions denominated in foreign currency are translated into the functional currency at the official exchange rate ruling at the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income at the time of settlement using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are expressed in RON as at the balance sheet date. At 31 December 2006 the exchange rate used for translating foreign currency balances was USD 1 = RON 2.5676 (2005: USD 1 = RON 3.1078) and EUR 1 = RON 3.3817 (2005: EUR 1 = RON 3.6771). Foreign currency gains and losses arising from the translation of monetary assets and liabilities are reflected in the statement of income for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.3. Accounting for the effect of hyperinflation

Prior to 1 January 2004 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for 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 no longer applies 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:

Year	Movement in CPI	Indices	Conversion Factor
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 corresponding amounts were stated in terms of the measuring unit current at 31 December 2003.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.5. 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 intends to sell other than an insignificant amount of HTM assets, the entire category would be tainted and reclassified as available for sale. During 2005 and 2006 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

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 and 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. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(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 which 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices for the treasury bills denominated in RON and for the Eurobonds. 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.

2.6. 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.

2.7. Derivative financial instruments and hedge accounting

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 flow 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 1.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. No embedded derivatives are at reporting date.
The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank did not designate any derivative transaction as a hedging instrument during the years 2006 and 2005 and did not use hedge accounting. The fair value gain or loss has been recognised by the Bank through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8. 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.

2.9. Fee and commission income

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

Fee and commission income consists mainly of fees and commissions received for the payments and receipts transacted through customer accounts, current account administration, trading of securities and foreign exchange.

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 financial statements of the Bank prepared in accordance with Romanian Accounting Regulations are the basis for profit distribution and other appropriations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

- delinquency in contractual payments of principal or interest;
- cash flow and financial difficulties experienced by the borrower;
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral; and
- downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods vary between four months and six 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, 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). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (three to five 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13. Property and equipment

Cost

Property and equipment are stated at cost, restated to the equivalent purchasing power of the Romanian Leu at 31 December 2003 for assets acquired prior to 1 January 2004, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Costs of repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired.

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 other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

	Useful lives in years
Buildings	10-50
Office equipment, fixtures and fittings	3-15
Other assets	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.

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 an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15. Assets held for sale

Assets held for sale represent foreclosed assets obtained through execution of bad loans collaterals and are initially recorded at fair value and subsequently measured at lower ao its carrying amount and fair value lee cost to sell.

2.16. Operational Leasing

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease
When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.17. Cash and cash equivalents

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

2.18. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.19. Financial guarantees contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

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

2.20. Other credit related commitments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21. 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.

2.22. Income taxes

(a) Current income tax

The Bank records profit tax upon net income from the financial statements 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.

(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 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.

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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for post-retirement benefits and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

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

2.23. Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings 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.

2.24. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. FINANCIAL RISK MANAGEMENT

3.1 Strategy in using financial instruments

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

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

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 product and industry sector are approved by the board.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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.

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 Interest rate risk

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

Interest rate risk is the risk that the present value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk affects the fair value of cash flows generated by assets and liabilities to the extent that a change in market interest rates affects the present value of such cash flows. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the sensitivity of the present value of all assets and liabilities to a change in interest rate.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below summarises the Group's exposure to interest rate risks at 31 December 2006. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
At 31 December 2006							
Assets							
Cash	19,965,994	-	-	-	-	-	19,965,994
Balance with Central Bank	339,061,436	-	-	-	-	-	339,061,436
Loans and advances to banks	72,387,952	-	-	-	-	-	72,387,952
Loans and advances to customers	29,771,025	47,130,064	213,785,668	78,151,379	194,603,070	-	563,441,206
Investment securities available – for - sale	-	399,878	398,570	23,322,313	-	369,226	24,489,987
Intangible assets	-	-	-	-	-	2,678,369	2,678,369
Property and equipment	-	-	-	-	-	65,919,401	65,919,401
Deferred income tax assets	-	-	952,465	-	-	-	952,465
Other assets	-	-	-	-	-	8,188,350	8,188,350
Total assets	461,186,407	47,529,942	215,136,703	101,473,692	194,603,070	77,155,346	1,097,085,160
Liabilities							
Deposits from banks	30,027,019	67,634,000	84,542,500	-	-	-	182,203,519
Due to customers	373,117,423	118,961,818	14,991,171	3,527,573	7,080	-	510,605,065
Derivative financial instruments	-	-	-	48,605	-	-	48,605
Other borrowed funds	-	91,305,900	30,246,995	67,634,000	50,725,500	-	239,912,395
Other liabilities	3,871,793	2,474,163	-	8,033,494	-	-	14,379,450
Current income tax liabilities	-	570,455	-	-	-	-	570,455
Total liabilities	407,016,235	280,946,336	129,780,666	79,243,672	50,732,580	-	947,719,489
Interest rate sensitivity gap	54,170,172	(233,416,934)	85,356,037	22,230,020	143,870,490		

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The tables below summarises the effective interest rate by major currencies for monetary financial instruments.

31 December 2006	EUR	USD	RON
	%	%	%
Assets			
Current accounts with Central Bank	0.7	0.7	1.7
Deposits with Central Bank	-	-	8.75
Loans and advances to banks available – for - sale	-	-	6.65
Investment securities	5.83	-	8.58
Loans and advances to customers			
Individuals			
– short term	8.6	10.86	15.48
– medium and long term	8.44	12.96	14.00
Companies			
– 1-3 months	10.9	11.9	14.3
– 3-12 months	11.00	14.00	13.80
– more than 12 months	11.5	15.00	13.50
Deposits from banks	4.35	6.28	7.27
Other borrowed funds	4.60	-	-
Due to customers			
– up to 30 days	2.14	4	3.99
– 1-3 months	2.85	4.42	7.53
– 3-9 months	2.82	3.16	6.83
– 9-12 months and over	2.93	4.09	6.46

The table below summarises the Group's exposure to interest rate risks at 31 December 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	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
Total assets	202,107,138	110,658,236	158,678,677	89,403,742	105,171,513	67,049,429	733,068,735
Total liabilities	318,609,465	128,263,036	47,438,555	92,214,406	55,156,500	436,048	642,118,010
Interest rate sensitivity gap	(116,502,327)	(17,604,800)	111,240,122	(2,810,664)	50,015,013		

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The tables below summarises the effective interest rate by major currencies for monetary financial instruments.

31 December 2005	EUR	USD	RON
	%	%	%
Assets			
Current accounts with Central Bank	0.70	0.80	2.00
Deposits with Central Bank	-	-	8.00
Loans and advances to banks available – for - sale	-	-	7.70
Investment securities	5.75	-	-
Loans and advances to customers			
Individuals			
– short term	9.21	-	25.78
– medium and long term	8.74	9.01	27.49
Companies			
– 1-3 months	9.45	7.38	24.53
– 3-12 months	8.41	9.23	21.52
– more than 12 months	7.78	9.23	20.58
Deposits from banks	2.42	3.57	7.50
Other borrowed funds	2.86	-	-
Due to customers			
– up to 30 days	1.97	1.79	7.13
– 1-3 months	2.71	2.28	7.52
– 3-9 months	2.79	2.13	9.12
– 9-12 months and over	2.15	2.92	11.91

3.4 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. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2006. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

	RON	EUR	USD	Other	Total
At 31 December 2006					
Assets					
Cash	15,520,461	3,653,678	534,703	257,152	19,965,994
Balances with Central Bank	102,206,293	236,855,143	-	-	339,061,436
Loans and advances to banks	67,588,641	3,491,950	683,040	624,321	72,387,952
Loans and advances to customers	222,345,369	335,954,806	3,071,386	2,069,645	563,441,206
Investments securities available -for - sale	17,211,411	7,278,576	-	-	24,489,987
Intangible assets	2,678,369	-	-	-	2,678,369
Property and equipment	65,919,401	-	-	-	65,919,401
Deferred income tax assets	952,465	-	-	-	952,465
Other assets	7,959,921	98,858	191	129,380	8,188,350
Total assets	502,382,331	587,333,011	4,289,320	3,080,498	1,097,085,160
Liabilities					
Deposits from banks	5,402,093	175,543,448	806,372	451,606	182,203,519
Due to customers	287,482,852	130,870,338	91,828,247	423,628	510,605,065
Derivative financial instruments	48,605	-	-	-	48,605
Other borrowed funds	-	239,912,395	-	-	239,912,395
Other liabilities	9,150,430	5,125,388	48,620	55,012	14,379,450
Current income tax liabilities	570,455	-	-	-	570,455
Total liabilities	302,654,435	551,451,569	92,683,239	930,246	947,719,489
Net on balance-sheet position	199,727,896	35,881,442	(88,393,919)	2,150,252	149,365,671
Net off balance sheet position	-	(42,399,122)	88,149,919	(1,683,520)	44,067,277
Net foreign exchange	199,727,896	(6,517,680)	(244,000)	466,732	193,432,948

Other currencies include mainly British Pound and Hungarian Forint.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below summarises the Group's exposure to foreign exchange rate risk at 31 December 2005:

	RON	EUR	USD	Other	Total
Total assets	302,013,010	419,122,617	10,195,075	1,738,033	733,068,735
Total liabilities	214,125,738	353,765,765	73,178,060	1,048,447	642,118,010
Net on balance-sheet position	87,887,272	65,356,852	(62,982,985)	689,586	90,950,725
Net off balance-sheet position	-	(58,003,380)	62,998,767	-	4,995,387
Net foreign exchange	87,887,272	7,353,742	15,782	689,586	95,946,112

3.5 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 maintains a daily equilibrium between maturing assets and maturing liabilities but does not maintain cash resources to meet all future liabilities, 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 liquidity mismatching in order to comply with National Bank of Romania's regulations and with other internationally defined regulations. The tendency in the last 6 months of 2006 was to increase the source of funds represented by deposits in the liquidity band 1 to 3 months (due to pricing policy offered by the Bank); therefore offering a better cover to liquidity risk.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Up to 1 month	1 month to 3 months	3 months to 1 year	Over 1 year	Total
Assets					
Cash	19,965,994	-	-	-	19,965,994
Balances with Central Bank	339,061,436	-	-	-	339,061,436
Loans and advances to banks	72,387,952	-	-	-	72,387,952
Loans and advances available –for – sale to customers	29,771,025	47,130,064	213,785,668	272,754,449	563,441,206
Investment securities	-	399,878	398,570	23,691,539	24,489,987
Intangibles	-	-	-	3,275,773	3,275,773
Property and equipment	-	-	-	65,321,997	65,321,997
Deferred income tax assets	-	-	952,465	-	952,465
Other assets	5,731,337	873,355	-	1,583,658	8,188,350
Total assets	466,917,744	48,403,297	215,136,703	366,627,416	1,097,085,160
Liabilities					
Deposits from banks	30,027,019	67,634,000	84,542,500	-	182,203,519
Due to customers	373,117,423	118,961,818	14,991,171	3,534,653	510,605,065
Derivative financial instruments	-	-	-	48,605	48,605
Other borrowed funds	-	91,305,900	30,246,995	118,359,500	239,912,395
Other liabilities	3,867,542	2,478,414	-	8,033,494	14,379,450
Current income tax liability	-	570,455	-	-	570,455
Total liabilities	407,011,984	280,950,587	129,780,666	129,976,252	947,719,489
Net liquidity gap	59,905,760	(232,547,290)	85,356,037	236,651,164	149,365,671

At 31 December 2005

	Up to 1 month	1 month to 3 months	3 months to 1 year	Over 1 year	Total
Total assets	219,331,255	110,931,452	155,251,710	247,554,318	733,068,735
Total liabilities	318,609,465	128,699,084	47,438,555	147,370,906	642,118,010
Net liquidity gap	(99,278,210)	(17,767,632)	107,813,155	100,183,412	90,950,725

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

	Carrying value		Fair value	
	2006	2005	2006	2005
Financial assets				
Loans and advances to banks	72,387,952	5,039,417	72,426,963	5,039,417
Loans and advances to customers	563,441,206	400,970,566	537,324,254	384,645,460
Financial liabilities				
Deposits from banks	182,203,519	95,866,091	183,152,974	95,885,489
Due to customers	510,605,065	375,754,334	512,811,823	378,455,134
Other borrowed funds	239,912,395	148,236,687	236,276,213	142,964,134

(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 impairment. 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, due to customers and other borrowed funds

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 and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly 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. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/- 2.5%, the provision would be estimated 8,964,410 RON higher and 8,960,270 RON lower.

(b) Fair value of derivatives

The fair value 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.

All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

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

(c) Provision for litigations

The Group follows the guidance of IFRS on recording of the provisions for contingencies. The provisions are recorded when there a probable cash outflow from the Group and that cash flow can be reliably estimated. In assessing the probability of the cash outflow the bank assesses the conditions existing at balance sheet date and uses the judgement and advise of internal and external lawyers which represent the Group in legal court cases. If the conditions are no longer met, the Group reverses the provisions. In assessing the probable cash outflows the Groups also involves its legal advisers and formal documentation from the legal files. The value of provision is also computed with reference to the timing of expected outflow. Where the timing is over 1 year, the Group records the provision at their present value discounted with the Group's cost of funds.

5. INTEREST INCOME

	2006	2005
Interest and similar income		
Loans and advances to customers	59,847,854	41,579,321
Current accounts and deposits to banks	11,585,058	8,479,920
Investment securities available for sale	1,917,040	2,975,803
	73,349,952	53,035,044
Interest expense and similar charges		
Due to customers	14,645,801	12,288,985
Deposits from banks	5,873,079	4,454,992
Other borrowed funds	7,532,454	2,031,713
	28,051,334	18,775,690

6. NET FEE AND COMMISSION INCOME

	2006	2005
Fee and commission income		
Transactions related fee and commission income	10,970,216	10,044,803
Other fee and commission income	1,430,709	2,234,254
	12,400,925	12,279,057
Fee and commission expense		
Transactions with banks	1,128,418	1,278,832
Other fees paid	188,058	192,445
	1,316,476	1,471,277

7. NET TRADING INCOME

	2006	2005
Foreign exchange		
- Translation gains less losses	(3,445,387)	(10,391,735)
- Transaction gains less losses	6,507,602	14,330,050
Interest rate swaps	(224,900)	(38,546)
	2,837,315	3,899,770

8. OTHER OPERATING INCOME

	2006	2005
Dividend income	1,275,853	521,567
Other income	478,649	704,857
	1,754,502	1,226,424

9. IMPAIRMENT CHARGE FOR LOAN LOSSES

	2006	2005
Impairment charge for loans to customers (Note 14)	(5,363,062)	(5,789,154)
Recoveries of loans previously written-off	7,961,034	4,968,377
Income from sale of foreclosed assets	576,334	1,620,919
	3,174,306	800,142

Included in recoveries of loans previously written off are amounts representing the Bank's estimate of recoverable amounts for the loan exposures written off balance sheet.

10. OPERATING EXPENSES

	2006	2005
Staff costs	19,192,018	16,202,166
State pension contribution	4,961,344	4,118,546
Release of provisions from litigations	(8,241,497)	(1,503,543)
Administrative expenses	6,708,733	4,916,769
Depreciation and amortisation (Notes 16 and 17)	4,752,035	3,648,648
Charge with provisions for letters of guarantee (Note 27)	1,196,041	144,509
Expenses with local tax and due	877,127	454,506
Advertising and marketing	786,120	453,759
Guarantee fund expenses	715,484	1,055,198
Software expenses	282,369	260,727
Loss on sale on property and equipment	121,462	740,164
Other	7,545,377	7,018,037
	38,896,613	37,509,486

During 2006, following a successful work out activity, the Bank settled out of court a litigation for which a provision had been set up in 2003. The settlement amount was less than the provision. Included in the release of provision from litigations are also several smaller amounts representing cases won by the Bank.

11. BALANCES WITH CENTRAL BANK

	31 December 2006	31 December 2005
Current account (Note 26)	314,611,578	155,550,932
Term deposits (Note 26)	24,449,858	20,000,000
	339,061,436	175,550,932

Current accounts are required to satisfy the mandatory reserves requirements of the National Bank of Romania. During 2006 the interest ranged from 1.5% to 1.9% (2005: from 1.5% to 6%) for reserves held in RON and was between 0.70% and 0.8% (2005: from 0.70% to 0.75%) for reserves held in EUR. The interest rates for term deposits with National Bank of Romania ranged during 2006 from 1% to 8% (2005: from 8% to 17%).

12. LOANS AND ADVANCES TO BANKS

	31 December 2006	31 December 2005
Current accounts	4,799,310	5,039,417
Placements with banks as sight and term deposits	67,588,642	-
Total due from banks	72,387,952	5,039,417

During 2006 interest on placements with banks ranged from 2% to 2.8% for USD (2005: from 2.21% to 4.50%), from 7% to 9.5% for RON (2005: from 1% to 17%) and from 1.4% to 2.8% for EUR (2005: from 1.80% to 3.00%).

A currency analysis and residual maturity profile of amounts due from banks is presented in Note 3.

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following derivative instruments for non-hedging purposes:

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies and interest rates. No exchange of principal takes place, except for certain currency swaps.

The interest rate swap is undertaken with the parent company and represents the only derivative transaction for the Group.

13. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Currency forwards 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.

	Contract/notional amount	Fair values Assets	Fair values Liabilities
At 31 December 2006			
Derivatives held for trading			
a) Foreign exchange derivatives			
Currency forwards – RON – currency	405,264,951	-	(19,357)
Currency forwards – Currency – currency	83,864,255	242,312	-
b) Interest rate derivatives			
Interest rate swaps	7,354,200	-	(48,605)
Total recognised derivative	-	242,312	(48,605)
At 31 December 2005			
Derivatives held for trading			
a) Foreign exchange derivatives			
Currency forwards – RON – currency	184,122,995	-	(449,112)
Currency forwards – Currency – currency	49,057,676	848,885	-
Interest rate derivatives			
Interest rate swaps	6,763,400	175,629	-
Total recognised derivative	-	1,024,514	(449,112)

14. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of customer

	31 December 2006	31 December 2005
Companies	476,346,683	344,976,583
Individuals	97,748,461	62,373,230
Gross loans	574,095,144	407,349,813
Less provision	(10,653,938)	(6,379,247)
Total loans	563,441,206	400,970,566

(b) Analysis by sector

	31 December 2006	% of total	31 December 2005	% of total
Trade	167,456,512	29	131,160,593	32
Industry	163,963,456	29	109,094,478	27
Individuals	97,748,462	17	61,935,916	15
Services	76,200,025	13	56,779,060	14
Constructions	44,013,790	8	26,957,625	7
Agriculture	21,424,811	4	19,440,416	5
Other	3,288,088	1	1,981,725	-
	574,095,144	100	407,349,813	100
Less provision for loans losses	(10,653,938)		(6,379,247)	
Total loans	563,441,206		400,970,566	

A currency analysis and residual maturity profile of loans and advances to customers is presented in Note 3.

(c) Allowance for loan losses

	31 December 2006	31 December 2005
At the beginning of the year	6,379,247	7,525,509
Write-offs	(1,088,371)	(6,935,416)
Charge for the year	5,363,062	5,789,154
At the end of the year	10,653,938	6,379,247

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The main source of income for the Group is represented by loans to customers. The interest rates charged for the year ended 31 December 2006 for loans and advances to customers ranged from 9% to 18.75% for RON (2005: from 27.49% to 20.58%), from 5% to 6.8% for USD (2005: from 9.23% to 7.38%) and from 7% to 9.5% for EUR (2005: from 9.45% to 7.78%).

15. INVESTMENT SECURITIES AVAILABLE FOR SALE

	31 December 2006	31 December 2005
Debt securities - listed	24,120,761	84,282,762
Equity investments - unlisted	369,226	360,226
	24,489,987	84,642,988

	Available for sale
At 1 January 2006	84,642,988
Additions	9,000
Disposals	(60,308,228)
Gains from changes in fair value	146,227
At 31 December 2006	24,489,987
At 1 January 2005	19,099,125
Additions	74,537,546
Disposals	(9,202,206)
Gain from changes in fair value	208,523
At 31 December 2005	84,642,988

Debt securities comprise treasury bills denominated in RON and Eurobonds issued by Romanian Ministry of Finance.

The Group has entered into economic hedge to mitigate the interest rate risk related to the Eurobonds redeemable on 2nd July 2010, by a swap agreement with Sanpaolo IMI S.p.A Torino, for same amount and maturity (see details in Note 13).

A currency analysis and residual maturity profile of the investment securities is presented in Note 3.

15. INVESTMENT SECURITIES AVAILABLE FOR SALE (CONTINUED)

Equity investments held by the Bank are detailed below:

Investment	Country of incorporation	Nature of business	Shareholding 31 December 2006	31 December 2005
BMFMS	Romania	commodity exchange	0.58%	0.58%
Casa Română de Compensație	Romania	clearing house BMFMS	0.38%	0.38%
TransFonD	Romania	settlement and clearing inter-banking transfer	2.47%	2.47%
Biroul de Credit	Romania		0.23%	0.23%

16. INTANGIBLE ASSETS

	Intangibles
Year ended 31 December 2005	
Opening net book amount	3,644,340
Additions	501,186
Disposals	(174,260)
Amortisation charge	(748,760)
Closing net book amount	3,222,506
At 31 December 2005	
Cost or valuation	5,716,283
Accumulated amortisation	(2,493,778)
Net book amount	3,222,505
Year ended 31 December 2006	
Opening net book amount	3,222,505
Additions	492,650
Transfer from fixed assets in progress	551,111
Disposals	(27,360)
Amortisation charge	(1,560,537)
Closing net book amount	2,678,369
At 31 December 2006	
Cost or valuation	6,732,683
Accumulated amortisation	(4,054,314)
Net book amount	2,678,369

Included in tangible assets are computer software licenses (FIBA) and Mastercard licenses.

17. PROPERTY AND EQUIPMENT

	Land and buildings	Other assets	Fixed assets in progress	Total
Year ended 31 December 2005				
Opening net book amount	22,076,286	4,600,869	7,763,004	34,440,159
Additions	6,960,767	4,004,751	1,320,917	12,286,435
Disposals	-	(181,040)	-	(181,040)
Depreciation charge	(754,083)	(2,145,806)	-	(2,899,889)
Closing net book amount	28,282,970	6,278,774	9,083,921	43,645,665
At 31 December 2005				
Cost or valuation	35,504,446	16,963,766	9,083,921	61,552,133
Accumulated depreciation	(7,221,476)	(10,684,992)	-	(17,906,468)
Net book amount	28,282,970	6,278,774	9,083,921	43,645,665
Year ended 31 December 2006				
Opening net book amount	28,282,970	6,278,774	9,083,921	43,645,665
Additions	12,172,705	4,300,504	26,683,304	43,156,513
Transfer from fix assets in progress	950,398	39,312	-	989,710
Disposals	(503,425)	(2,040,690)	(16,136,874)	(18,680,989)
Depreciation charge	(947,638)	(2,243,860)	-	(3,191,498)
Closing net book amount	39,955,010	6,334,040	19,630,351	65,919,401
At 31 December 2006				
Cost or valuation	48,123,429	18,977,789	19,630,351	86,731,569
Accumulated depreciation	(8,168,419)	(12,643,749)	-	(20,812,168)
Net book amount	39,955,010	6,334,040	19,630,351	65,919,401

Included within other assets are motor vehicles, furniture and fittings, household equipment, air conditioning equipment.

18. OTHER ASSETS

	31 December 2006	31 December 2005
Assets held for sale	1,013,906	1,449,446
Other assets and prepayments	6,740,522	3,800,597
Other debtors	433,922	726,846
Total other assets	8,188,350	5,976,889

Details on other debtors are presented below:

Other debtors (gross)	3,753,953	4,036,951
Less provision for doubtful debtors	(3,320,031)	(3,310,105)
Other debtors (net)	433,922	726,846

The provision for other debtors was made for the receivable recorded by the Group from a bankrupt company.

19. DEPOSITS FROM BANKS

	31 December 2006	31 December 2005
Sight deposits	23,730,891	95,866,091
Term deposits	158,472,628	-
	182,203,519	95,866,091

The interest rate during 2006 for term deposits ranged from 2% to 3.8% for USD (2005: from 2.4% to 4.77%), from 2% to 9% for RON (2005: from 1.5% to 16.5%) and from 1.8% to 3.5% for EUR (2005: from 2.07% to 3.70%).

20. DUE TO CUSTOMERS

	31 December 2006	31 December 2005
Term deposits - companies	206,663,547	170,827,345
Current accounts	194,789,024	108,534,248
Term deposits - individuals	76,185,957	80,477,331
Restricted deposits	32,966,537	15,915,410
Total deposits from customers	510,605,065	375,754,334

Included in restricted deposits were margin accounts for forward transactions outstanding as at 31st December 2006 in the amount of RON 6,156,465 (2005: 1,412,942).

The interest rate during 2006 for term deposits ranged from 15% to 9% for RON (2005: from 1.5% to 15.75%), from 2% to 4% for USD (2005: from 2% to 4.2%) and from 1.5% to 3.5% for EUR (2005: from 1.5% to 3.15%).

21. OTHER BORROWED FUNDS

	31 December 2006	31 December 2005
Loan from Sanpaolo IMI Group	239,912,395	148,236,687

The amount from Sanpaolo IMI Group comprises four loans granted to the Bank by SanPaolo IMI Bank Ireland and a subordinated loan granted by SanPaolo IMI Bank Ireland. Total amount granted is EUR 55,000,000 (2005: EUR 25,000,000) and subordinate loan of EUR 15,000,000 (2005: EUR 15,000,000).

The first loan disbursed on 20th April 2006 in the amount of EUR 10,000,000 is repayable in two tranches as follows: one tranche in amount of EUR 2,000,000 on 20th February 2007 and has an interest rate of EURIBOR 6 months + 0.6% p.a. and the second one in amount of EUR 8,000,000 with an interest of EURIBOR 6 months + 0.75 % p.a. on 20th October 2007.

The second loan disbursed on 27th June 2006, in the amount of EUR 10,000,000 with an interest of EURIBOR 6 months + 0.7% p.a. is repayable in one tranche on 12th July 2010.

The third one was disbursed on 20th July 2006 in the amount of EUR 10,000,000 with an interest of EURIBOR 6 months + 0.7% p.a. and is repayable in one tranche on 31th July 2010.

21. OTHER BORROWED FUNDS (CONTINUED)

The fourth loan was disbursed in two tranches as follows: on 20th February 2006 the amount of EUR 10,000,000 repayable on 20th February 2007 and with an interest of EURIBOR + 0.375% p.a. on 18th August 2006 the amount of EUR 15,000,000 repayable on 19th February 2007.

The subordinated Loan from SanPaolo IMI Bank Ireland was disbursed on 13th October 2005 in amount of EUR 15,000,000 and with an interest of EURIBOR 6 months + 1.46% p.a. and is repayable in one tranche on 17th October 2015.

Upon the insolvency of the borrower the lender's claims arising from this agreement will rank behind those of all other creditors of the Borrower and will rank ahead only of the shareholders of the Borrower.

22. OTHER LIABILITIES

	31 December 2006	31 December 2005
Provision for litigations	3,048,011	15,140,908
Provision for letters of guarantee (Note 27)	1,340,550	144,509
Taxes due to the state budget	238,022	74,598
Other liabilities	9,752,867	6,464,835
Total other liabilities	14,379,450	21,824,850

Provision for litigations

Provision at beginning of period	15,140,908	16,644,451
Release for the year (Note 8)	(12,092,897)	(1,503,543)
Provision at end of period	3,048,011	15,140,908

23. INCOME TAX EXPENSE

The income tax consists of current and deferred income tax as follows:

	31 December 2006	31 December 2005
Current tax	3,558,048	517,857
Deferred income tax charge	539,431	(413,034)
	3,018,617	104,823

	31 December 2006	31 December 2005
Profit before tax	24,911,152	13,483,348
Theoretical tax charge at the applicable statutory rate	3,985,784	2,156,515
Tax effect on items which are not deductible:		
– non-deductible expenses	3,336,538	2,291,792
– income which is exempt of taxation	(4,303,706)	(3,059,467)
Tax losses brought forward	-	(1,284,838)
Income tax expense for the year	3,018,617	104,823

The differences between regulations issued by the Romanian Ministry of Finance and the accounting rules applied in preparing these financial statements give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting and tax purposes.

Current income tax is calculated applying a rate of 16% (2005: 16%). Deferred income taxes are calculated on all temporary differences under the liability method using a profit tax rate of 16% (2005: 16%).

23. INCOME TAX EXPENSE (CONTINUED)

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

	31 December 2006	Tax recognised in income statement	31 December 2005
Tax effects of deductible temporary differences			
Loan origination fees	1,167,228	707,245	459,983
Loans impairment	248,890	248,890	-
Interest rate swap	7,777	35,877	(28,100)
Accruals	-	(436,443)	436,443
	1,423,896	555,570	868,326
Tax effects of taxable temporary differences			
IAS 29 restatement of fixed assets	162,014	(7,258)	169,272
Gain on fair value of investment securities available – for – sale	143,029	23,396	119,633
Other temporary differences	166,387	-	166,387
	471,430	16,139	455,291
Net tax effect of temporary differences	952,465	539,431	413,034
Total net deferred tax asset	952,465	539,431	413,034

As of 31 December 2005 the Group had tax loss carried forward in amount of RON 8,030,239. As of 31 December 2006, no tax losses were carried forward.

24. SHARE CAPITAL

	31 December 2006	31 December 2005
Registered share capital	140,000,000	103,965,240
Restatement in accordance with IAS 29	40,174,800	40,174,800
Total share capital	180,174,800	144,140,040

The share capital was made up as at 31 December 2006 of 14,000,000 shares (2005: 10,396,524 shares) with a nominal value of RON 10 each. All issued shares are fully paid and carry one vote.

During 2006, there was a share capital increase in amount of RON 36,034,760 subscribed in the same proportion as shareholding by existing shareholders of the Bank.
The capital structure as at 31 December 2006 and 31 December 2005 is as follows:

	31 December 2006		31 December 2005	
Shareholder	Number of shares	%	Number of shares	%
Sanpaolo Internazionale S.p.A	13,810,446	98.65	10,255,757	98.65
Simest S.p.A Italy	189,544	1.35	140,757	1.35
Carosiello Roberto	3	-	3	-
Sangalli Luigi	3	-	3	-
Paolo Bozzoli	4	-	4	-
	14,000,000	100.00	10,396,524	100.00

25. OTHER RESERVES

	31 December 2006	31 December 2005
General banking reserve	6,866,417	4,164,639
Statutory reserve	4,185,575	3,412,642
Revaluation reserve available – for - sale investments	487,651	-
Total reserves	11,539,643	7,577,281
General banking reserve		
At 1 January	4,164,639	306,901
Transfer from retained profits	2,701,777	3,857,738
At 31 December	6,866,416	4,164,639
Statutory reserve		
At 1 January	3,412,642	2,951,094
Transfer from retained profits	772,933	461,548
At 31 December	4,185,575	3,412,642
Revaluation reserve available – for – sale investments		
At 1 January	-	42,800
Net gains from changes in fair value	487,652	(42,800)
At 31 December	487,652	-

In accordance with the Romanian law on banks and banking activities, the Bank must distribute the profit as dividends or effect a transfer 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.

As at 31 December 2006, under Romanian banking legislation the Bank is required to create the following reserves from appropriation of profit:

(a) Statutory reserve, 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);

(b) General banking risks reserve, appropriated from the statutory gross profit at the rate of 1% of the balance of the assets carrying specific banking risks.

After reducing taxes and setting aside the legal and general reserves as discussed above, the remaining balance of net profit may be distributed to shareholders. Dividends may only be declared from current statutory profit.

26. ANALYSIS OF CASH AND CASH EQUIVALENTS

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

	31 December 2006	31 December 2005
Cash	19,965,994	13,431,110
Current account with Central Bank (Note 11)	314,611,578	155,550,932
Short term deposits with Central Bank (Note 11)	24,449,858	20,000,000
Treasury bills less than 3 months	-	59,709,999
Due from banks less than 3 months	72,387,952	5,039,417
Cash and cash equivalents	413,415,382	253,731,458

Current accounts with Central Bank represent mandatory reserve deposits. These are available for use in the Bank's day to day operations, provided that on a month average, the Bank maintains the minimum required by law.

27. COMMITMENTS AND CONTINGENCIES

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

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 are collateralised and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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.

27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, second, from these drawings subsequently not being repaid as due.

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 total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

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

	31 December 2006	31 December 2005
Letters of guarantee	124,348,370	18,944,335
Unused loan facilities and letters of credit	56,602,346	43,464,083
Letters of guarantee issued for other banks	10,166,060	-
Total	191,116,776	62,408,418

The letters of guarantee include letters of guarantee in amount of RON 92,224,201 (2005: nill) issued for credit risk in respect of loans granted by Sanpaolo Imi S.p.A. Vienna, Sanpaolo Imi Ireland, Banka Koper and Inter – Europa Bank to Romania customers (see Note 28).

Provision for letters of guarantee

	2006	2005
As at 1 January	144,509	-
Charge for the year (Note 10)	1,196,041	144,509
As at 31 December (Note 22)	1,340,550	144,509

Capital commitments

As at 31 December 2006 the Group had capital expenditure contracted for but not recognized in these financial statements of RON 174,058 in respect of software purchases. The Bank's management is confident that future net revenues and funding will be sufficient to cover these commitments.

27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The future operating lease payments committed are disclosed below:

	31 December 2006	31 December 2005
No later than 1 year	194,179	1,432,160
Later than 1 year and no later than 5 years	5,782,027	3,723,232
Later than 5 years	4,969,509	226,861

Assets pledged/restricted

The Bank had no collateral deposits in other banks (31 December 2005: nil).

	Asset		Related liability	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Balances with the Central Bank	314,611,578	155,550,932	-	-

Taxation risk

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (0.06% per day delay, respectively 0.5% per month). In Romania, the Bank's records are open to inspection by the tax authorities for up to 5 years. The Bank's management considers that the tax liabilities included in these financial statements are fairly stated.

28. RELATED PARTY TRANSACTIONS

The bank is a member of the Sanpaolo Imi Group. The Bank's immediate parent is Sanpaolo Imi Internazionale, Italy, the ultimate parent of which is Sanpaolo IMI S.p.A., a bank incorporated in Italy, which owns 100 % of the ordinary shares.

The related parties considered for the reporting purposes comprise Sanpaolo IMI Internazionale S.p.A., main shareholder of the bank, Sanpaolo IMI S.p.A. Torino, Sanpaolo IMI Ireland, Intereuropa Bank which are entities controlled by Sanpaolo IMI Group.

28. RELATED PARTY TRANSACTIONS (CONTINUED)

Related parties were also considered West Trade Center SA, an entity incorporated in Romania primarily for real estate activities, which has as main shareholder Sanpaolo IMI Internazionale S.p.A. and West Leasing SA which is majority owned by the Bank.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of banking transactions is entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions, acquisition of other services.

The volumes of related party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

	Parent company		Group companies		Management and employees	
	2006	2005	2006	2005	2006	2005
Revenues and expenses						
Interest revenues	733	251,951	79,615	326,950	949,211	636,788
Interest expenses	(490,079)	-	(8,545,349)	(1,175,337)	(51,510)	(187,863)
Balance sheet position						
Current accounts	-	-	-	-	1,795,831	1,577,738
Term deposits placed with banks	1,139,532	1,227,866	354,448	72,159	-	-
Term deposits due to individuals	-	-	-	-	4,076,078	3,851,604
Term deposits due to group Companies	-	-	153,080,793	-	-	-
Collateral deposits due to group	-	-	-	1,001	-	299,016
Loans from banks	-	-	239,912,395	148,236,687	-	-
Loans to individuals	-	-	-	-	8,321,768	6,197,730
Loans to group companies	-	-	642,644	-	-	-
Key management compensation	-	-	-	-	149,104	286,182
Commitments	-	-	92,224,201	-	-	-

29. PRINCIPAL SUBSIDIARIES

The details in respect of the consolidated subsidiary of the Bank are presented below:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
Subsidiaries:				
West Leasing SA	Leasing	99.88%	99.88%	Romania

The consolidated financial statements include the financial statements of the subsidiary which had at 31 December 2006 total assets of RON 2,449,807 (2005: 2,354,187).

30. EVENTS AFTER THE BALANCE SHEET DATE

As of 1 January 2007 the merger between Banca Intesa and Sanpaolo IMI took effect; thus, Banca Intesa is now the ultimate parent of Sanpaolo IMI Internazionale S.p.A., the majority shareholder of the Bank.