Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

30 September 2014

neweuropecapital

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Statistics

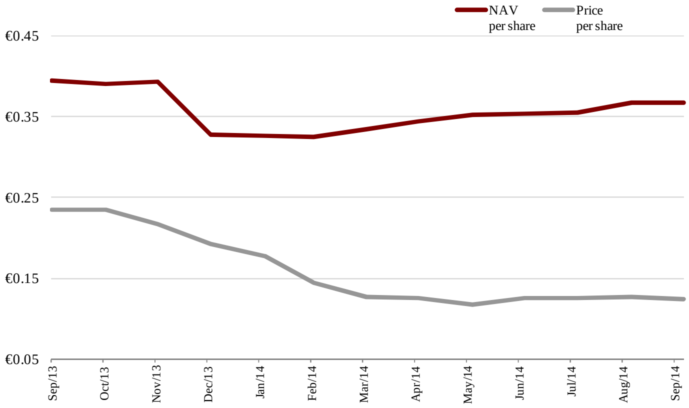
NAV per share (€)	0.3670
Share price (€)	0.1238
Total NAV (€m)	36.7
Mk Cap (€m)	12.4
# of shares (m)	100.0
NAV return since inception	-61.63%
12-month NAV CAGR	-6.84%
NAV annualized Return*	-10.37%
NAV annualized Volatility*	20.21%
Best month (NAV)	15.60%
Worst month (NAV)	-33.53%
# of months up (NAV)	55
# of months down (NAV)	50

**since inception*

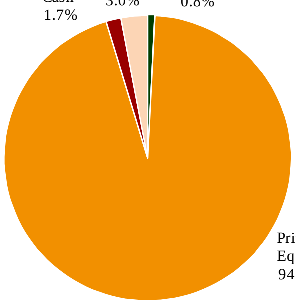
RC2 NAV returns

	2010	2011	2012	2013	2014
Jan	1.36%	-0.54%	0.12%	-31.58%	-0.65%
Feb	0.03%	0.24%	-9.69%	-0.51%	-0.34%
Mar	2.07%	2.48%	-0.50%	-0.62%	2.94%
Apr	15.60%	0.70%	-0.66%	0.29%	2.73%
May	-5.42%	0.55%	-4.98%	-33.53%	2.70%
Jun	-1.57%	0.25%	-1.47%	-0.85%	0.28%
Jul	0.53%	0.13%	-0.73%	-0.28%	0.44%
Aug	0.07%	-1.10%	0.61%	1.27%	3.23%
Sep	-0.62%	-1.25%	0.01%	-0.69%	0.03%
Oct	0.96%	2.63%	-0.82%	-0.72%	
Nov	-1.15%	-0.25%	-0.36%	0.43%	
Dec	-0.06%	-0.49%	0.29%	-16.44%	
YTD	11.07%	3.32%	-17.17%	-62.64%	11.82%

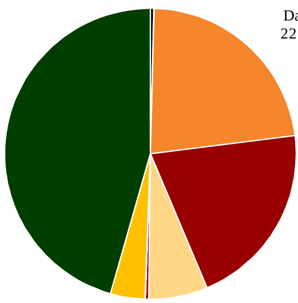
Share price / NAV per share (€)



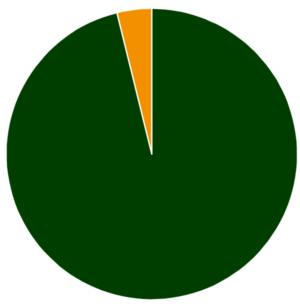
Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Portfolio Structure by Geography



Message from the Investment Manager and Advisers

Dear Shareholders

RC2's NAV per share increased by 3.7% over the quarter from €0.3539 at the end of June to €0.3670, mainly as a result of a 21.5% increase in the Albalact share price over the quarter.

Top Factoring achieved a particularly strong nine-month result, with gross operating revenues up by 31% compared to the previous year and EBITDA growing by 50% to €3.0m.

Albalact's nine month euro-denominated standalone sales continued to grow (by 11.6% year-on-year), helped by higher sales of fresh milk and yoghurt. The recurring EBITDA increased at a slower rate of 2.5%, from €4.1m to €4.2m, due to a reduction in the recurring EBITDA margin from 5.8% to 5.0%.

The Policolor group's nine months consolidated sales of €44.7m, were 4% lower than the same period of 2013 and 22% below budget. The year-on-year fall in sales was mainly due to lower sales of anhydrides, whilst paints and coatings sales increased by 3% and resins performed significantly (20%) above last year, due to the re-opening of Policolor's own resins plant in May. The group's nine month EBITDA of €3.9m was 2.4% lower than the corresponding period last year, and significantly lower than the budget, which had anticipated higher sales of anhydrides, resins and automotive and industrial paints. The Group's net debt amounted to €16.8m as of 30 September 2014, down from €19.7m at the end of the previous quarter. In August, Policolor signed the contract for the sale of its Bucharest site for €18.3m, to be received over three years. The deal should generate net proceeds of approximately €6.6m for Policolor over the coming three years, after deducting the costs of building a new factory on which to relocate Policolor's production (estimated at €8.0m), the demolition and environmental clean-up costs for the site (estimated at €1.0m), and the estimated capital gains tax on the sale (€2.7m).

At Mamaia Resort Hotels, revenues of €1.9m over the first nine months were up 10.1% year-on-year, but 7% below budget, mainly due to unusually unfavourable weather conditions in July. EBITDA of €0.5m was 12% lower than over the same period of 2013. However, the 2014 result includes €0.1m of refurbishment works which were expensed through the income statement to the extent permitted under Romanian law.

There has been no improvement in the status of East Point Holdings since it was written down to zero by the Fund as at December 2013.

In spite of a significant reduction in operating costs, Klas continued to perform poorly during the third quarter due to a dramatic fall in sales. A new manager was brought in in September with extensive experience in restructurings, who aims to continue the reduction of fixed costs whilst turning around the sales situation. In September, Klas sold its 46% stake in a regional bakery for €0.5m to shore up its cash position. This is the second shareholding in a regional bakery which Klas has sold this year.

At the end of the quarter, the Fund had cash and cash equivalents of approximately €0.8m, compared to €0.1m at the end of June. During the quarter, the Fund drew €1m of its bridge loan, bringing the total amount drawn to €6.75m. Accordingly, as at 30 September, the Fund's borrowings (excluding borrowings of investee companies) amounted to €7.1m, whilst overdue liabilities amounted to €1.7m.

Yours truly,

New Europe Capital

Policolor Group

Background

RC2 has a 40.0% shareholding in Policolor, the parent company of the Policolor Group ("Policolor" or the "Group"), which operates along the following business lines: coatings (architectural, automotive and industrial), resins and specialty chemicals. The Romanian company Policolor SA and its 100%-owned Bulgarian subsidiary Orgachim AD form the largest producer of coatings across Romania and Bulgaria. The Group also includes Orgachim Resins, the leading supplier of resins in south east Europe, and Ruse Chemicals, a producer of anhydrides. All the companies of the Group are unlisted.

Group Financial results

(EUR '000)	2012 *	2013*	2014 B	9M13**	9M14**	9M14B
Consolidated Income statement (according to IFRS)						
Total operating revenues	**58,663**	**55,711**	**71,095**	**46,469**	**44,710**	**57,661**
Total operating expenses	**(58,246)**	**(55,935)**	**(68,907)**	**(44,967)**	**(43,435)**	**(54,062)**
Operating profit	**417**	**(224)**	**2,188**	**1,501**	**1,275**	**3,599**
Operating margin	*0.7%*	*neg.*	*3.0%*	*3.2%*	*2.9%*	*6.2%*
EBITDA	**3,645**	**3,053**	**5,891**	**3,990**	**3,895**	**6,365**
EBITDA margin	*6.2%*	*5.5%*	*8.0%*	*8.6%*	*8.7%*	*11.0%*
Financial Profit/(Loss)	(1,126)	(983)	(788)	(658)	(666)	(542)
Profit before tax	**(709)**	**(1,207)**	**1,400**	**843**	**609**	**3,057**
Income tax	(219)	(178)		(307)	(118)	-
Profit after tax	**(928)**	**(1,385)**		**537**	**492**	**3,057**
Minority interest	260	106		(17)	-	
Profit for the year	**(668)**	**(1,279)**		**520**	**492**	
avg exchange rate (RON/EUR)	*4.450*	*4.450*	*4.420*	*4.408*	*4.448*	*4.420*

*Note: * audited, ** unaudited*

The Group's January to September 2014 consolidated sales were €44.7m, 22% below budget and 4% lower than the same period of 2013. The year-on-year fall in sales was mainly due to lower sales of anhydrides, whilst paints and coatings sales increased by 3%, and sales of resins performed significantly (20%) above last year, due to the re-opening of Policolor's own resins plant in May. The Group generated EBITDA of €3.9m, slightly (2.4%) below last year, but significantly lower than the budget.

The Group's net debt amounted to €16.8m as of 30 September 2014, down from €19.7m at the end of the previous quarter, due to a number of factors, including the seasonality of sales and collections, a more efficient cash management and the receipt of a €1.5m advance for the Bucharest land sale (please see below).

Operations

The slight increase in sales of paints and coatings was achieved in spite of the deepening depression affecting both the Romanian and Bulgarian construction sectors, which shrank by 15.6% year-on-year in Romania (the biggest fall in the EU) and by 0.3% in Bulgaria, according to the most recent official EU figures as of August 2014.

Orgachim Resins' net sales to third parties were up 30% year-on-year, but 50% below budget due to delays in re-starting the resins plant, and the time it takes for the plant's new products to be accepted by clients.

Due to unfavourable market conditions, Ruse Chemicals did not produce anhydrides during the first semester of 2014, but sold down its remaining anhydride stocks. The plant was re-started at the end of June, and by the end of September sales to third parties had already reached 74% of last year's sales over the first nine months, and 68% of the 2014 nine month budget, due to improved market conditions and a more favourable contract for the supply of the main raw material used by the plant.

Real estate

In August, Policolor signed the contract for the sale of its Bucharest site for €18.3m, to be received over the next three years. The deal should generate net proceeds of approximately €6.6m for Policolor over the coming three years, after deducting the costs of building a new factory on which to relocate Policolor's production (estimated at €8.0m), the demolition and environmental clean-up costs for the site (estimated at €1.0m), and the estimated capital gains tax on the sale (€2.7m).

Top Factoring

Background

Top Factoring ("Top Factoring") is a Romanian receivables collection company in which RC2 owns a 93% shareholding. The remaining 7% is owned by the Company's CEO. The debt purchase part of the business is undertaken by an SPV also 93%-owned by RC2 (Glasro Holdings Ltd) which sub-contracts the debt collection process to Top Factoring. Top Factoring and Glasro Holdings Ltd are together referred to as the "Group".

Group Financial Results

(EUR '000)	2012*	2013*	2014B	9M13**	9M14**	9M14B
Combined Group Income Statement						
Total Gross Operating Revenues	**8,787**	**9,753**	**12,615**	**6,841**	**8,984**	**8,579**
Debt portfolios (collections)	7,531	8,712	11,590	6,061	8,352	7,876
Agency contracts	1,256	1,041	1,026	780	632	703
Amortization and fair value adjustments of debt portfolios	(3,441)	(3,303)	(5,870)	(2,287)	(2,742)	(3,820)
Total Net Operating Revenues	**5,346**	**6,451**	**6,745**	**4,554**	**6,242**	**4,759**
Total Operating Expenses	**(3,689)**	**(3,947)**	**(4,564)**	**(2,588)**	**(3,287)**	**(3,317)**
Operating Profit	**1,658**	**2,504**	**2,181**	**1,966**	**2,955**	**1,442**
EBITDA	**1,745**	**2,612**	**2,323**	**2,047**	**3,061**	**1,542**
EBITDA margin	*32.6%*	*40.5%*	*34.4%*	*45.0%*	*49.0%*	*32.4%*
Financial Profit/(Loss)	(234)	(313)	(322)	(176)	(188)	(224)
Profit before Tax	**1,423**	**2,191**	**1,859**	**1,789**	**2,767**	**1,218**
Income Tax	(161)	(293)	(232)	(224)	(205)	(169)
Profit after Tax	**1,262**	**1,898**	**1,627**	**1,566**	**2,563**	**1,049**
Net margin	*23.6%*	*29.4%*	*24.1%*	*34.4%*	*41.1%*	*22.0%*
Avg exchange rate (RON/EUR)	*4.456*	*4.419*	*4.420*	*4.408*	*4.448*	*4.420*

Note: IFRS(audited, combined accounts), IFRS**(unaudited, combined accounts)*

The Group's 2014 nine-month gross operating revenues of approximately €9m were considerably up year-on-year (+31%) and 5% above the budget. Following the September quarterly impairment test, the Group booked a write-up of €280,000 due to better than expected collections on proprietary portfolios over the quarter. The Group has now booked a total of €1.6m of write-ups over the first nine months of 2014, contributing to an excellent Group EBITDA result of €3m, which is higher than the overall 2014 full year budget target of €2.3m.

Over the first the quarters of 2014, the debt purchase business line accounted for 90% of net operating revenues, of which banking portfolios contributed 83%. The agency business generated revenues of €0.6m, below both the budget (-10%) and the same period of last year (-19%), due to the shift in the business towards proprietary purchases.

Operations

During the first three quarters, the Group invested a total of €3.6m in debt portfolio acquisitions, of which 92% were invested in banking portfolios. The Group now owns 56 debt packages (of which fourteen are telecoms portfolios and forty two are banking) made up of 926,000 cases with a total face value of €266m.

Gross collections from proprietary portfolios increased from €6.1m over the first nine months of 2013 to €8.4m over the same period of 2014. The share of collections by the field and legal departments increased from 7.6% and 12%, respectively, during the first three quarters of 2013 to 10.4% and 20.4%, respectively, over the same period this year. The balance of 69.2% was collected by the call centre. This is important as it highlights the potential to recover more money from existing and future portfolios, by further collection actions once they have been processed by the call centre.

The Group saw an increased interest in big Romanian non-performing loan portfolios from international institutional investors, driving up acquisition prices.

Albalact

Background

Albalact SA ("Albalact" or the "Company") is a Romanian dairy company quoted on the RASDAQ section of the Bucharest Stock Exchange in which RC2 owns a 25.4% stake under its Private Equity Programme. A local entrepreneur (Mr Raul Ciurtin) and his family own 43%, with the 28.3% representing the free float and 3.3% representing treasury shares acquired within a buy-back program. On cancellation of these treasury shares, RC2's shareholding would increase to 26.3%. With Albalact's market capitalization increasing by 21.5% over the quarter, the value of RC2's shareholding increased from €8.1m as at 30 June 2014 to €9.8m as at 30 September 2014.

Financial results

(EUR '000)	2012*	2013*	2014B	9M13**	9M14**
Standalone Income Statement					
Sales Revenues	**77,164**	**90,829**		**69,852**	**77,979**
Other operating revenues	192	5,264		185	6,279
Total Operating Revenues	**77,356**	**96,093**	**114,280**	**70,037**	**84,258**
Total Operating Expenses	(74,946)	(93,275)	(110,768)	(68,188)	(81,153)
Operating Profit	**2,410**	**2,818**	**3,512**	**1,849**	**3,105**
Operating margin	*3.1%*	*2.9%*	*3.1%*	*2.6%*	*3.7%*
Recurring EBITDA	**5,655**	**5,894**		**4,087**	**4,189**
EBITDA from non-recurring sale of non-core assets	(429)	-		-	1,594
Total EBITDA	**5,225**	**5,894**	**6,966**	**4,087**	**5,783**
EBITDA margin	*6.8%*	*6.1%*	*6.1%*	*5.8%*	*6.9%*
Financial Profit/(Loss)	(450)	(591)	(584)	(374)	(33)
Profit before Tax	**1,960**	**2,227**	**2,927**	**1,474**	**3,073**
Income Tax	(317)	(326)	(468)	(243)	(279)
Profit after Tax	**1,643**	**1,901**	**2,459**	**1,232**	**2,794**
Net margin	*2.1%*	*2.0%*	*2.2%*	*1.8%*	*3.3%*
Avg exchange rate (RON/EUR)	*4.456*	*4.419*	*4.450*	*4.408*	*4.448*

*Note: * RAS (audited), ** RAS (unaudited)*

Albalact's euro-denominated nine month standalone sales grew by 11.6% year-on-year, helped by higher sales of fresh milk and yoghurt. The increase in sales is explained by the launch of new products as well as improved execution in traditional retail outlets and key accounts.

The recurring EBITDA increased by 2.5% year-on-year, from €4.1m to €4.2m, implying a reduction of the recurring EBITDA margin from 5.8% to 5.0%. The €1.6m gain from the sale of non-core assets relates to the transfer of Albalact's logistics activity to a newly set-up subsidiary in March 2014, and therefore will not be included in the consolidated accounts.

Operations

Fresh products (milk, sour cream and yoghurts) were the largest contributors to Albalact's nine month sales (80%), followed by butter (11%) and cheese (9%). Yoghurt sales increased by 39% year-on-year, bringing their share of total sales to 19%, up from 16% during the same period last year. Fresh milk sales increased by 14.2% year-on-year and accounted for 35% of the Company's turnover.

In line with the vote passed by shareholders in April 2014, the Company is in the process of selling its logistics division.

Prospects

According to a law which came into force on 24 October 2014, all companies listed on the RASDAQ section of the Bucharest Stock Exchange (BSE) are required to hold a shareholder meeting by February 2015 to determine whether they shall apply to be listed on the main market of the BSE, or on the Alternative Trading System (ATS) of the BSE, or to delist altogether, as the RASDAQ market is due to shut down. Accordingly, Albalact will have to hold a shareholder meeting to make a decision on this issue.

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the "Company") is the owner and operator of the Golden Tulip Mamaia Hotel (the "Hotel"), which is located at Mamaia, Romania's premium seaside resort next to Constanta. In March 2008, RC2 acquired 63% of the Company, with the remaining 37% being owned by a Romanian private individual.

Financial results and operations

(EUR '000)	2012*	2013*	2014B	9M13**	9M14**	9M14B
Income Statement						
Sales Revenues	**1,775**	**1,922**	**2,216**	**1,723**	**1,897**	**2,035**
Other operating revenues	42	9	17	54	89	4
Total Operating Revenues	**1,817**	**1,931**	**2,234**	**1,777**	**1,987**	**2,039**
Total Operating Expenses	-1,606	-1,714	-2,033	-1,425	-1,685	-1,670
Operating Profit	**210**	**217**	**201**	**352**	**301**	**369**
Operating margin	*11.6%*	*11.2%*	*9.0%*	*19.8%*	*15.2%*	*18.1%*
EBITDA	**455**	**422**	**474**	**509**	**450**	**555**
EBITDA margin	*25.0%*	*21.9%*	*21.2%*	*28.6%*	*22.6%*	*27.2%*
Financial Profit/(Loss)	-182	-114	-132	-174	-71	-99
Profit before Tax	**28**	**103**	**68**	**178**	**231**	**270**
Income Tax	-	-	-	-5	0	0
Profit after Tax	**28**	**103**	**68**	**174**	**231**	**270**
Net margin	*1.5%*	*5.4%*	*3.0%*	*9.8%*	*11.6%*	*13.2%*
Avg exchange rate (RON/EUR)	*4.456*	*4.419*	*4.420*	*4.408*	*4.448*	*4.420*

*Note: * RAS (audited), ** RAS (unaudited)*

Sales revenues over the first nine months of 2014 were €1.9m, up 10.1% year-on-year but 7% below budget, mainly due to the unseasonably wet weather conditions in July. Accommodation revenues increased by 6% year-on-year and accounted for 53% of the Hotel's revenues. 53% of these revenues were generated by agency bookings, 19% were generated from "walk-ins", and 16% by corporate contracts, with the balance of 12% being generated by booking websites. The Food & Beverage department generated revenues of €0.8m (up 3% year-on-year), or 43% of turnover.

EBITDA came in at €450,000, down 12% year-on-year, but this includes €100,000 of refurbishment works which were expensed through the income statement to the extent permitted under Romanian accounting rules. The Company has invested a total of €330,000 in renovation works so far this year, of which 80% was financed by a bank loan. The refurbishment works, including building a spa to boost revenues over the cold season, have resumed in October and are expected to be finalized by May 2015.

The occupancy rate was 29% over the first nine months, slightly down on the 30% achieved over the same period last year. However, the average net tariff was approximately €47, 15% higher than last year, probably a result of the refurbished rooms and public spaces. Whilst the occupancy rate over the summer months stood at 63%, down from 66% over the same period last year (mainly due to the poor weather conditions in July), the average net tariff was considerably higher (+17%), having increased from €44 to €51.

Management expects revenues of approximately €200,000 over the last quarter, in line with the budget.

Klas

Background

Klas DOO ("Klas" or the "Company"), the former bakery division of East Point Holdings Ltd ("EPH" or the "Group"), is now 52% owned by RC2, with the balance being owned by Darby, part of the Franklin Templeton investment group, and DEG, the German overseas development finance institution. RC2 had €1.1m of a shareholder loan to Klas outstanding as at 30th September.

Financial results and operations

(EUR '000)	2012A*	2013**	2014B	9M13**	9M14**	9M14B
Income Statement						
Net Sales	**16,826**	**14,593**	**13,811**	**11,301**	**8,154**	**10,358**
EBITDA	**(1,308)**	**(2,078)**	**(756)**	**(1,797)**	**(1,202)**	**(665)**
EBITDA margin	*-7.8%*	*-14.2%*	*-5.5%*	*-15.9%*	*-14.7%*	*-6.4%*
Profit after Tax	**(6,852)**	**(4,812)**	**(2,697)**	**(3,252)**	**(3,846)**	**(2,023)**
Net margin	*-40.7%*	*-33.0%*	*-19.5%*	*-28.8%*	*-47.2%*	*-19.5%*

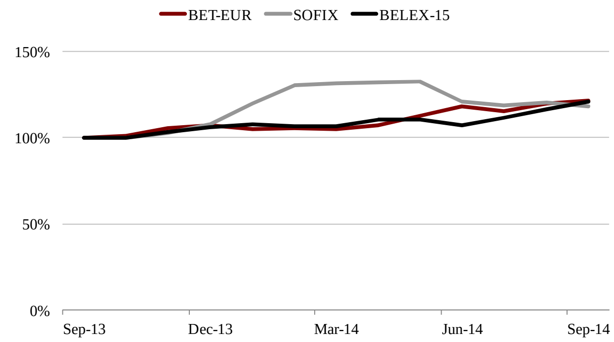
*Note: *audited; **unaudited management accounts*

The General Manager appointed in early 2014 managed to cut operating costs, reduce scrap in production, improve bread quality, and reduce returns from key accounts, but was not able to halt the dramatic fall in sales in the traditional trade channel, resulting in an overall 27.8% year-on-year fall in sales. Consequently, although the EBITDA loss fell from a negative €1.7m over the first nine months of 2013, to a negative €1.2m over the same period in 2014, a new General Manager was appointed in September with extensive experience in restructuring and turnarounds. The new manager plans to reduce headcount by a further 100 employees, bringing it to 340, and also plans to relocate all the remaining production lines to the main plant, in order to further decrease energy consumption and maintenance costs. The production consolidation is expected to generate around €0.3m of further savings annually. The new General Manager has also managed to regain a part of the lost sales in the traditional trade channel by reorganizing distribution routes and improving the logistics department, and plans to reorganize and strengthen the sales team in order to further recover traditional trade sales and improve the sales terms with key accounts.

In September, Klas sold its 46% stake in a regional bakery for €0.5m, in order to boost its cash position. The new management has also initiated a debt restructuring process with local banks, and is negotiating a new financing line in order to further boost its working capital position.

Capital Market Developments

BET-EUR, SOFIX and BELEX-15: 1 year performance



Commentary

Over the third quarter, the Romanian BET and the Serbian BELEX-15 indices gained 3%, and 13%, respectively, all in euro terms, whilst the Bulgarian SOFIX lost 2.1%.

Over the past year, the BET-EUR index has gained 21.6%, the SOFIX 18.3%, and the BELEX-15 21.1%, all in euro-terms. By comparison, over the last year, the MSCI Emerging Market Eastern Europe index lost 10.9%, the MSCI Emerging Market index gained 9.1%, while the FTSE100 index and the S&P index were up by 10% and 26%, respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	2.6%	6M14	1.7%	6M14	-1.1%	6M14
Inflation (y-o-y)	1.5%	Sep-14	-0.8%	Sep-14	2.1%	Sep-14
Ind. prod. growth (y-o-y)	1.9%	Aug-14	-1.9%	Aug-14	-12.8%	Aug-14
Trade balance (EUR bn)	-3.8	8M14	-1.9	8M14	-2.3	8M14
y-o-y	*1.0%*		*33.0%*		*-9.1%*	
FDI (EUR bn)	1.4	8M14	1.2	8M14	0.8	8M14
y-o-y change	*27.4%*		*4.0%*		*-1.8%*	
Total external debt/GDP	65.4%	Aug-14	94.3%	Aug-14	80.0%	Jul-14
Reserves to short-term debt	159.9%	Aug-14	170.5%	Aug-14	3556.2%	Jul-14
Loans-to-deposits	98.4%	Sep-14	92.9%	Sep-14	177.3%	Jul-14
Public sector debt-to-GDP	39.0%	Jul-14	23.0%	Aug-14	66.8%	Sep-14

Commentary

Romania

The EBRD has reaffirmed its expectations that Romania's GDP will grow by 2.6% in 2014, according to a report issued in September. Romania's industrial production increased by 1.9% year-on-year in August, better than the eurozone area where industrial production fell by 1.9% over the same month, according to Eurostat data.

Romania recorded a 1.5% year-on-year increase in prices in September, compared to a 0.7% increase at the end of the previous quarter, as the base effect of the VAT rate cut from 24% to 9% for bakery products implemented in September 2013 faded away. The CPI rate in September is below the 2.2% target set by the National Bank of Romania ("NBR") which prompted the NBR to lower its monetary policy rate from 3.5% to 3%, this being the historical minimum for this rate.

The Romanian leu fell 0.6% against the euro over the third quarter, but is still up 1.6% against the euro year-to-date.

Romania recorded a budget surplus of €94m over the first nine months of 2014, equivalent to 0.06% of GDP, as revenues increased by 5.5% whilst expenses fell by 0.3%. The increase in revenues is mainly explained by a special construction tax introduced this year. The budget surplus came at the expense of weak public investments which decreased by 15% year-on-year.

Presidential elections are due to be held in November which will probably trigger higher spending at the local public administration level in the last quarter. The Government is targeting a budget deficit of 2.2% of GDP for 2014.

Over January-August, Romania's trade deficit increased by 1% year-on-year. The negative evolution of the trade balance, together with a 76% increase in the income deficit, resulted in a current account deficit of €945m (compared to €489m over the same period of 2013). With equity investments amounting to €1.6bn and net intra-group loans of €-0.2bn, FDI flows amounted to €1.4bn, up 27.4% year-on-year.

Romania's total external debt was €96.8bn at the end of August, down 1.3% year-to-date and equivalent to 65% of GDP. The year-to-date decrease is the result of Romania re-paying €2.6bn of the €12.4bn loan it was granted by the IMF in March 2009. Romania still has to repay €2.5bn over September 2014–March 2016. The total public debt was 39.0% of GDP at the end of July, compared to 37.8% of GDP at the end of 2013, according to revised data.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €47.9bn at the end of September, down 2.5% year-to-date in RON terms. By contrast, the deposit base increased by 0.4% year-to-date in RON terms, amounting to €48.7bn at the end of September. The low interest rate environment promoted by the NBR led to increased lending in RON: the RON-denominated loan stock increased by 8% year-to-date, whilst loans in other currencies fell by 9%. Following the NBR's decision to allow banks to write off bad loans if they have been fully provisioned, the non-performing loan ("NPL") ratio calculation methodology has been restated as of the end of March 2014. The NPL ratio was 17.2% at the end of August, down from 20.4% at the end of March.

Bulgaria

The IMF has lowered its forecast for Bulgaria's GDP growth from 1.6% to 1.4% in 2014, stating that the country is vulnerable to potential disruptions of Russian gas supplies.

Industrial production fell by 1.9% year-on-year in August, the second consecutive month it has fallen.

Bulgaria recorded a 0.8% year-on-year fall in prices in September, compared to a 1.6% fall in December 2013.

Bulgaria's budget deficit over the first eight months of 2014 came in at €652m, or 1.6% of GDP, compared to a deficit of 0.3% of GDP over the same period in 2013. In late October, the interim government submitted to parliament its proposed 2014 budget revision, with the deficit expected to reach 3.6% of GDP, up from an initially planned 1.8%. The main reason for the increased budget deficit is higher payments to the Deposit Insurance Fund to bail out depositors of the troubled Corporate Commercial Bank.

Bulgaria's public sector debt was 23% of GDP at the end of August, up from 18.1% at the end of 2013, following the issue of a €1.5bn Eurobond with a 2024 maturity in June.

Over the first nine months of 2014, Bulgaria recorded a current account surplus of €0.8bn, or 2% of GDP, compared to a surplus of 3.1% over the same period in 2013. The fall in the current account surplus was mainly triggered by the worsening trade deficit. With exports falling by 2.9% year-on-year and imports growing by 0.2%, the trade deficit fell by 33% year-on-year, from €1.4 to €1.9m. FDI inflows were €1.2bn over the period, up 4% over the same period last year. Equity investments accounted for 27% of total FDI flows, with intra-group loans accounting for the balance of 73%.

The Bulgarian banking system's loans to non-financial institutions amounted to €28bn at the end of September, up 1.7% year-to-date, whilst the deposit base increased by 3.8% from €29.0 to €30.1bn. Overdue loans accounted for 22.8% of the loan stock at the end of September, having increased by 1.2% year-on-year.

Following the resignation of the socialist-led government in July, general elections were held in October. Two centre right parties (GERB and the Reformist Bloc), which together won a combined 42% of the vote, have recently formed a coalition government.

Serbia

As a result of severe flooding and its negative consequences on the agricultural and energy sectors, Serbia's GDP recorded a 1.1% fall in the second quarter, after a modest growth of 0.1% in the first quarter of 2014. Despite the expected growth in the third quarter, full year 2014 GDP is expected to shrink by 1%.

In August, industrial output dropped by 13.1% year-on-year, mainly as a result of a fall in the energy sector, as some of the largest Serbian coal mines are still partially incapacitated due to flooding earlier this year.

As a result of increases in food prices, the CPI rose sharply from 1.5% year-on-year in August to 2.1% year-on-year in September, although it remained below the targeted range of the National Bank of Serbia ("NBS") of 4% ± 1.5%. However, the NBS expects the CPI to return to within its target range by the end of the year, mainly due to increases in food prices.

During January–August 2014, exports reached €9.4bn (+6% year-on-year), while imports rose by a more modest 2.6% to €11.7bn. As a result, the trade deficit came in at €2.3bn, a 9.1% year-on-year fall.

In September, the Prime Minister announced a series of measures aimed at preventing a further widening of the budget deficit. These include 10%-20% cuts in public wages and pensions, a reduction of subsidies to public companies, cuts in procurement expenses, the refinancing of expensive loans, and improvements in tax collections. The government hopes these measures will generate around €400m of annual savings. Further measures planned for 2015 include closing down loss-making state-owned enterprises and certain public agencies and, most importantly, laying off all redundant staff from state-owned companies.

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