



**ProCredit Bank**

Romania



*Annual Report*  
**2009**

## Key Figures

	EUR '000		Change
	2009	2008	
<b>Balance Sheet Data</b>			
Total Assets	259,274	293,253	-11.6%
Gross Loan Portfolio	180,914	215,763	-16.2%
Business Loan Portfolio	133,163	163,219	-18.4%
EUR < 10,000	55,102	72,514	-24.0%
EUR > 10,000 < 50,000	40,552	53,586	-24.3%
EUR > 50,000 < 150,000	18,287	19,978	-8.5%
EUR > 150,000	19,222	17,141	12.1%
Agricultural Loan Portfolio	36,997	36,785	0.6%
Housing Improvement Loan Portfolio	6,633	9,998	-33.7%
Other	4,121	5,761	-28.5%
Allowance for Impairment on Loans	6,490	5,716	13.5%
Net Loan Portfolio	174,424	210,047	-17.0%
Liabilities to Customers	133,564	151,355	-11.8%
Liabilities to Banks and Financial Institutions (excluding PCH)	94,337	95,428	-1.1%
Shareholders' Equity	21,159	24,741	-14.5%
<b>Income Statement</b>			
Operating Income	18,610	25,058	-25.7%
Operating Expenses	25,246	27,043	-6.6%
Operating Profit Before Tax	-6,636	-1,984	234.4%
Net Profit	-5,193	-1,962	164.7%
<b>Key Ratios</b>			
Cost/Income Ratio	111.5%	96.6%	
ROE	-22.6%	-8.9%	
Capital Ratio	13.4%	16.3%	
<b>Operational Statistics</b>			
Number of Loans Outstanding	35,533	41,671	-14.7%
Number of Loans Disbursed within the Year	12,608	19,879	-36.6%
Number of Business and Agricultural Loans Outstanding	30,132	34,821	-13.5%
Number of Deposit Accounts	136,576	142,379	-4.1%
Number of Staff	1,006	1,121	-10.3%
Number of Branches and Outlets	43	40	7.5%

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## Mission Statement

*ProCredit Bank Romania is a development-oriented full-service bank. We offer excellent customer service and a wide range of banking products. In our credit operations, we focus on lending to very small, small and medium-sized enterprises, as we are convinced that these businesses create the largest number of jobs and make a vital contribution to the economies in which they operate.*

*Unlike other banks, our bank does not promote consumer loans. Instead we focus on responsible banking, by building a savings culture and long-term partnerships with our customers.*

*Our shareholders expect a sustainable return on investment, but are not primarily interested in short-term profit maximisation. We invest extensively in the training of our staff in order to create an enjoyable and efficient working atmosphere, and to provide the friendliest and most competent service possible for our customers.*



## Letter from the Board of Administrators

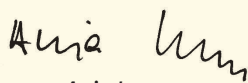
After years of vigorous growth, in 2009 Romania's economy faced its most difficult year since the change-over to a market-based system following the 1989 revolution. A prolonged period of growth, fuelled by a speculative real estate bubble and consumption driven by bank lending, caused the country's economic engine to overheat. After the onset of the global financial crisis, when the economy began paying the price for the excesses of the preceding years, the engine ground to a halt.

One of the largest countries in Eastern Europe and a member of both the EU and NATO, Romania has a dynamic workforce and a very good geographic location, as well as many natural resources. Thus, in recent years it has attracted a great deal of attention from foreign investors. Large volumes of hard-currency funds flowed into the country, both through foreign direct investment and via banks and other financial institutions. Foreign providers of capital were guided by the hope that they would be involved in the making of a new "tiger" economy, and by the desire to earn a hefty – and quick – return on their investments. But the turn the economy took in 2009 has reminded us all that too much of a good thing can be bad, and that the word "development" is rather meaningless without the word "sustainable".

Our bank successfully weathered this crisis thanks to the strength of its commitment over the years to prudent and responsible lending and its equally firm commitment to transparency in all its dealings with customers. Nonetheless, we were certainly affected by the implosion of the Romanian economy – year-on-year real GDP growth plummeted from +7.1% at the end of 2008 to -7.1% at the end of 2009.<sup>1</sup> The gross loan portfolio declined by 16%, and while the deposit base was stable overall, it became more diversified: at the end of 2009 the top ten depositors accounted for 6% of total deposits, down from nearly 20% at the beginning of the year. The bank reported a total loss for 2009 of EUR 5.2 million, 95% of which was incurred during the first half of the year, which saw a significant increase in both provisioning expenses and the cost of funds.

Our institution has emerged stronger from this crisis, and ProCredit Bank is well-positioned to take advantage of the opportunities which inevitably arise after an unsustainable economic expansion has come to an end. Due to our responsible approach to lending, and our strong relationships with our clients, our year-end portfolio at risk (PAR – the volume of loans in arrears by more than 30 days) was 3.47% of the gross loan portfolio, which represents a very solid achievement for a bank operating in Romania in 2009. Thanks to our relatively low arrears level, we can look to the coming year with renewed confidence: ProCredit Bank is well prepared to increase its lending, and its provision of other banking services, to Romania's small and medium-sized enterprises – the businesses upon which the country's future development so much depends.

Leaving this very challenging year behind, we look forward to working with our staff and shareholders to make 2010 a successful year for our bank. We are confident that ProCredit will make further progress towards its goal of becoming one of the country's leading banks for small enterprises, and that it will continue to be a strong, reliable banking partner for the many private individuals who value our responsible approach to our business. On behalf of the Board of Administrators, I would like to extend my sincere thanks to our customers for their loyalty, and to our staff and management for their hard work and continuing dedication to our institution.



Anja Lepp

Chairperson of the Board of Administrators

**Members of the  
Board of Administrators as of  
December 31, 2009:**

Anja Lepp  
Ana Maria Mihaescu  
Maria Guadalupe de la Mata  
Munoz  
Dietrich Ohse  
Hanns Martin Hagen  
Ivaylo Iliev Blagoev  
Roger Bardo Rihmland

**Bank's Managers as of  
December 31, 2009:**

Gian Marco Felice  
(General Manager)  
Asmus Rotne  
(Deputy General Manager)

<sup>1</sup> Romanian National Institute of Statistics, [www.insse.ro](http://www.insse.ro)

## The Bank and its Shareholders

ProCredit Bank Romania is a member of the ProCredit group, which is led by its Frankfurt-based parent company, ProCredit Holding. ProCredit Holding holds 32.2% of the shares.

ProCredit Bank Romania was founded in May 2002 as Banca de Microfinantare MIRO SA by an alliance of international development-oriented investors. Their goal was to establish a new kind of financial institution that would meet the demand of small and very small businesses in a socially responsible way. The primary aim was not short-term profit maximisation but rather to deepen the financial sector and contribute to long-term economic development while also achieving a sustainable return on investment.

The founding shareholders of ProCredit Bank Romania were IFC, Deutsche Investitions- und Entwicklungsgesellschaft (DEG), the European Bank for Reconstruction and Development (EBRD), ProCredit Holding, Commerzbank, and the Netherlands Development Finance Company (FMO). Over the years, ProCredit Holding has consolidated the ownership and management structure of all the ProCredit banks to create a truly global group with a clear shareholder structure and to bring to each ProCredit institution all the best practice standards, synergies and benefits that this implies.

Today's shareholder structure of ProCredit Bank Romania is outlined below. Its current share capital is EUR 27.8 million.

Shareholder (as of Dec. 31, 2009)	Sector	Headquarters	Share	Paid-in Capital (in EUR)
ProCredit Holding	Investment	Germany	32.22%	8,971,220
Commerzbank	Banking	Germany	21.03%	5,855,016
EBRD	Banking	UK	16.53%	4,601,976
KfW	Banking	Germany	13.21%	3,677,982
IFC	Banking	USA	12.06%	3,357,230
IPC	Consulting	Germany	4.96%	1,381,107
<b>Total Capital</b>			<b>100%</b>	<b>27,844,531</b>



**ProCredit**  
HOLDING

**ProCredit Holding** is the parent company of a global group of 22 ProCredit banks. ProCredit Holding was founded as Internationale Micro Investitionen AG (IMI) in 1998 by the pioneering development finance consultancy company IPC.

ProCredit Holding is committed to expanding access to financial services in developing countries and transition economies by building a group of banks that are the leading providers of fair, transparent financial services for very small, small and medium-sized businesses as well as the general population in their countries of operation. In addition to meeting the equity needs of its subsidiaries, ProCredit Holding guides the development of the ProCredit banks and supports them in all key areas of activity, including banking operations, human resources and risk management. It ensures that ProCredit corporate values, international best practice procedures and Basel II risk

management principles are implemented group-wide in line with standards also set by the German supervisory authorities.


IPC is the leading shareholder and strategic investor in ProCredit Holding. IPC has been the driving entrepreneurial force behind the ProCredit group since the foundation of the banks.

ProCredit Holding is a public-private partnership. In addition to IPC and IPC Invest (the investment vehicle of the staff of IPC and ProCredit), the other private shareholders of ProCredit Holding include the Dutch DOEN Foundation, the US pension fund TIAA-CREF, the US Omidyar-Tufts Microfinance Fund and the Swiss investment fund responsAbility. The public shareholders of ProCredit Holding include KfW (the German promotional bank), IFC (the private sector arm of the World Bank), FMO (the Dutch development bank), BIO (the Belgian Investment Company for Developing Countries) and



Proparco (the French Investment and Promotions company for Economic Cooperation).

ProCredit Holding has an investment grade rating (BBB-) from Fitch Ratings Agency. As of the end of 2009, the equity base of the ProCredit group is EUR 388 million. The total assets of the ProCredit group are EUR 4.9 billion.

**COMMERZBANK**  **Commerzbank** is one of Germany's leading banks for private and corporate customers. Following the merger of Dresdner Bank and Commerzbank in May 2009, its customers will in future have access to around 1,200 branches, the largest branch network of any German private bank. The new Commerzbank has approximately 15 million private and corporate customers worldwide, who can now enjoy an even broader and more attractive range of Commerzbank products and advisory services.

The new Commerzbank promises to be an even stronger and more reliable partner for corporate customers, particularly export-dependent small and medium-sized firms (SMEs). It also manages major corporate customers and institutions in Europe as well as multinational enterprises. In addition, the new Commerzbank is also strengthening its position as a leading export financier, supporting its customers in Germany and around the world.

Commerzbank AG is the parent company of a global financial services group. The group's operating business is organised into six segments providing each other with mutually beneficial synergies: Private Customers, Mittelstandsbank (SME bank), Central & Eastern Europe, Corporates & Markets, Asset Based Finance and Portfolio Restructuring Unit.

Today some 30% of German foreign trade is channelled through the new Commerzbank, the leading export financier for the German industry. The bank is directly represented in 46 countries as well as through a network of more than 6,000 banking relationships worldwide.

Commerzbank is well positioned in Central and Eastern Europe, serving more than 3.7 million customers in the region. In Poland the bank holds a 70% stake in BRE Bank, Poland's third-largest financial institution. In Ukraine it is the majority shareholder of Bank Forum – a universal bank with a nationwide network. Currently Commerzbank operates in more than ten countries in the region.



**The European Bank for Reconstruction and Development (EBRD)** was established in 1991.

It aims to foster the transition towards open, market-oriented economies and to promote private and entrepreneurial initiative in countries from Central Europe to Central Asia that are committed to democracy, pluralism and market economics. The EBRD seeks to help its countries of operations to implement structural and sectoral economic reforms, promoting competition, privatization and entrepreneurship. In fulfilling its role as a catalyst of change, the Bank encourages cofinancing and foreign direct investment from the private and public sectors, helps to mobilise domestic capital, and provides technical cooperation in relevant areas.



**KfW Entwicklungsbank (KfW Development Bank):** On behalf

of the German Federal Government, KfW Entwicklungsbank finances investments and accompanying advisory services in developing and transition countries. Its aim is to build up and expand the social and economic infrastructure of the respective countries, and to advance sound financial systems while protecting resources and ensuring a healthy environment.

KfW Entwicklungsbank is a leader in supporting microfinance and is involved in target group-oriented financial institutions around the world. It is part of KfW Bankengruppe (KfW Banking Group), which has a balance sheet total of EUR 400.1

billion (as of December 31, 2009). KfW Bankengruppe is one of the ten biggest banks in Germany and is AAA-rated by Moody's, Standard & Poor's and Fitch Ratings.



**IFC**, a member of the World Bank Group,

creates opportunity for people to escape poverty and improve their lives. We foster sustainable economic growth in developing countries by supporting private sector development, mobilizing private capital, and providing advisory and risk mitigation services to businesses and governments. Our new investments totaled USD 14.5 billion in fiscal 2009, helping channel capital into developing countries during the financial crisis. For more information, visit [www.ifc.org](http://www.ifc.org).



**IPC – Internationale Projekt Consult GmbH**, a Frankfurt-

based company, was founded in 1981. Since then, IPC has provided sound consulting and management services for meaningful development projects. The company has been particularly successful in its activities in the financial sector, a field in which IPC has been involved since 1984. IPC advises banks in developing countries and transition economies on how to build their capacity to provide financial services to very small, small and medium-sized enterprises. For more than two decades, IPC has set new standards in the establishment of target group-oriented financial institutions. It founded ProCredit Holding, and remains that company's leading shareholder and strategic investor. From the very beginning, IPC has been the driving entrepreneurial force behind the ProCredit group. Moreover, by providing advisory assistance to the ProCredit banks in the first few years of their operations, it has helped the group to build sound and stable financial institutions in countries around the world. IPC's advisory services for the ProCredit banks cover management consulting, institution building, branch network expansion, and staff training, and recently it also began supporting them in a new area: the development and introduction of credit products for private households and SMEs to finance energy-efficiency measures and the use of renewable energy technologies.



## Special Feature



### Standing by our customers in times of economic crisis

Years of excessive growth, speculation driven by a real estate bubble, easy credit and plenty of foreign direct investment created a volatile mix of unstable elements in the Romanian economy. The situation was aggravated by underinvestment in infrastructure, poor governance and rampant corruption. The collapse of Lehman Brothers provided the spark that caused it all to explode.

In this very difficult environment our customers are trying to manage their businesses prudently, and we work very closely with each one of them. ProCredit Bank provides sound advice and seeks to support its clients in this process. Thanks to its responsible approach to lending, the bank is in a better position than many other financial institutions in Romania to weather the financial and economic storm, and thus to help its clients get through the crisis as well.

Many customers were taken by surprise by the force and suddenness of the economic shocks and

sought our advice on how best to manage their finances. Thus, we organised special presentations and other events for our clients in order to intensify our dialogue with them. Our targeted financial education activities for children, pensioners, and people working in various professions (e.g. accountants, doctors, lawyers and teachers) were always well-received and highly appreciated. They gave clients access to concise, relevant information and provided a single forum in which they could get answers to all of their questions.

We also worked intensively with our depositors to underscore our commitment to responsible banking and explain precisely what this means in the current situation. Moreover, in talking to all of our clients, we highlighted not only the risks created by this crisis, but also the opportunities it presents – for example, in the form of lower investment costs, better returns on savings and reduced operating costs. The year 2009 will be remembered as one of the worst for the Romanian



banking sector, and certainly as one of ProCredit Bank's most difficult years. Nonetheless, by being open and transparent and by pro-actively addressing our customers' concerns, we succeeded in retaining their trust. Our deposit portfolio remained stable and the response to our savings campaigns throughout the year was good.

A crisis can also have beneficial impacts, provided that people and institutions can learn from it. After years of irresponsible behaviour on the part of many banks and consumers, hopefully a basic lesson can be learnt: there is no such thing as a free

lunch. The crisis is a painful reminder that only hard work, responsible behaviour and a long-term perspective can provide the basis for sustainable wealth creation and social stability.

It is in times of uncertainty that values can serve as a guide. At ProCredit Bank, the values that we lived by before the crisis are the same values that we hold today. Experience has shown that responsibility, prudence and transparency are the best insurance in these difficult times, both for us and for our customers.



## Management Business Review



**Gian Marco Felice**  
General Manager  
(second from left)

**Asmus Rotne**  
Deputy General Manager  
(second from right)

**Marius Sindile**  
Division Director  
(left)

**Dana Enache**  
Division Director  
(right)

## Political and Economic Environment

Romania's sharp economic downturn, which began in October 2008, continued throughout 2009, making it one of the worst years on record in terms of the country's economic performance. While annual real GDP growth averaged 6.5%<sup>1</sup> in 2007 and 2008, in 2009 a decline of 7.1%<sup>2</sup> is expected. Romania was one of the worst performers in Eastern Europe in 2009 with regard to GDP growth. And it did not help that it went into the crisis with a weak government and a pending presidential election which was already having a divisive effect.

The parliamentary elections in late 2008 left the country with a government which did not have a clear political direction. The spending spree in the run-up to the elections created a substantial budget deficit in 2008 (5.5% of GDP),<sup>3</sup> which widened further in early 2009 (expected share of GDP by year-end: 7.9%),<sup>4</sup> forcing the government to request support from the International Monetary Fund (IMF). In order to maintain overall macroeconomic stability, and particularly to support the RON, the IMF (together with the EU) granted Romania a EUR 19.95 billion bailout package, which allowed the central bank to cover the balance of payments deficit and keep the RON/EUR exchange rate stable at a level of around 4.3.

The IMF imposed a limit for the budget deficit of 4.5% of GDP,<sup>5</sup> which was difficult for the prime minister, Emil Boc, to comply with, given the sharp drop in tax revenues and the government's lack of spending discipline. Nonetheless, the international community supported the country until the government went into crisis during the run-up to the presidential election, which was held in November. In late 2009 the situation looked very difficult, with the IMF threatening to withhold the remainder of its loan. However, the outcome of the presidential election, which was won by the incumbent, Traian Basescu, in a highly disputed victory, allowed a new government to be formed, again with Emil Boc as prime minister, but this time with a different coalition of parties. The IMF renewed its support conditional upon the implementation of tough measures to curb the budget deficit.

The macroeconomic situation deteriorated sharply in 2009 due to the collapse of the real es-

tate sector which had built up in previous years. Thanks to real estate speculation, coupled with a high level of debt-financed consumption, the economy had been artificially boosted, producing spectacular year-on-year growth rates as high as 9%, which was achieved in the third quarter of 2008. This also boosted inflation, which had risen to 6.3% by the end of 2008.<sup>6</sup> (Although inflationary pressures remained strong in early 2009, annual inflation had declined to 4.74% by year-end).<sup>7</sup> However, the boom turned to bust as the credit crunch forced banks to restrict lending, in effect depriving the economic engine of fuel. All parts of the real economy suffered during the ensuing recession, and at year-end there were no clear signs of an impending recovery.

## Financial Sector Developments<sup>8</sup>

Despite the economic crisis, two new banks were licensed in 2009, bringing the total number of commercial banks and branches of foreign banks to 44,<sup>9</sup> and at year-end 187<sup>10</sup> foreign institutions (2008: 167<sup>11</sup>) were also serving local customers directly under the EU's "European Passport" for financial services providers. As of September 30, 2009, total banking assets amounted to RON 330 billion (EUR 76.8 billion), down by 1.6% from the end of 2008, and the top five banks controlled 52.4% of total assets (end-2008: 54.3%). Foreign-held capital accounted for 76.1% of the financial sector's total equity.

<sup>1</sup> Romanian National Institute of Statistics, [www.insse.ro](http://www.insse.ro)

<sup>2</sup> *ibid.*

<sup>3</sup> Romanian Ministry of Finance, press release, May 6, 2009

<sup>4</sup> International Monetary Fund, [www.imf.org](http://www.imf.org)

<sup>5</sup> Romanian Ministry of Finance, press release, May 6, 2009

<sup>6</sup> Romanian National Institute of Statistics, [www.insse.ro](http://www.insse.ro)

<sup>7</sup> *ibid.*

<sup>8</sup> Unless otherwise indicated, all data are as at December 31, 2009, and are drawn from the presentation "The Romanian banking system – present situation and outlook" by the Prime Vice-Governor of the National Bank of Romania, as posted on [www.bnr.ro](http://www.bnr.ro)

<sup>9</sup> [www.bnr.ro](http://www.bnr.ro), Supervision Directorate/NBR registers

<sup>10</sup> *ibid.*

<sup>11</sup> *ibid.*

The main attraction for the foreign-owned institutions that had entered the market was Romania's size and its relatively low loans-to-GDP ratio, estimated at 41% for 2008.<sup>12</sup> Cheap short-term credit lines from their parent companies were these institutions' main funding source, and by the end of 2009 external financing denominated in foreign currency accounted for almost one-third of the sector's total liabilities, and around one-half of this financing was short-term.<sup>13</sup> Between September 2007 and September 2008 the foreign-owned institutions reported an impressive 48% increase in lending to the private sector.

The lending boom ended abruptly in 2009 when the crisis hit Romania. Amid concerns regarding macroeconomic fundamentals, its country rating had been lowered in late 2008 to sub-investment grade by all the major rating agencies.<sup>14</sup> Given the difficulties most of the foreign banks' parent companies faced in their domestic markets, they greatly reduced funding for their institutions in Romania, which had to intensify their deposit mobilisation efforts. This led to a price war to attract scarce liquidity. For example, interest rates for corporate clients rose as high as 17.1% in RON and 5.9% in EUR.<sup>15</sup> Total customer deposits increased slightly over the year, rising by 11% to RON 167.7 billion (EUR 39.7 billion).<sup>16</sup>

The persistent inflation and high current account deficit inherited from 2008 made it even more difficult for the National Bank of Romania to maintain sufficient liquidity in the banking system. It was able to loosen the monetary reins only after the IMF agreement was signed and the top 10 banks had pledged to maintain their lending exposures. The central bank subsequently lowered its monetary policy rate by 2.50 percentage points and reduced the mandatory reserve requirement by 15 percentage points for foreign currencies and by 3 percentage points for RON.<sup>17</sup>

Once the liquidity concerns had been addressed, credit risks took centre stage. Due to the sharp decline in GDP, many Romanian businesses were operating in an economic depression. Accordingly, banks focused on asset quality. Over the year, the total loan portfolio decreased by 5% to EUR 47.1 billion.<sup>18</sup> Lending to the private sector also decreased, with disbursements to private individuals and legal entities declining by 1.30% and

3.40%,<sup>19</sup> respectively, and the total volume of disbursements dropping to RON 120 billion (EUR 28.4 billion). Loans classified as "doubtful" and "loss" rose by 150% in 2009, reaching 15.3%<sup>20</sup> of the total loan portfolio at year-end. The hardest-hit sectors were those that had been the most dynamic during the boom period: construction, transport and real estate.

### ProCredit Performance

In 2009, as in previous years, ProCredit Bank remained true to its core values, retaining its simple, down-to-earth approach. During the boom, we did not finance speculative real estate deals, nor did we engage in aggressive consumer lending or issue mortgage loans linked to exotic currencies. The wisdom of this course was reflected in our portfolio quality: with the PAR over 30 days amounting to 3.49% and the PAR over 90 days at 1.81% at year-end, we showed that our responsible approach to lending paid off during the crisis.

That said, the small businesses on which we focus in our lending activities were certainly affected by the crisis. In order to better support borrowers who had encountered repayment problems, we created a new Portfolio Management Unit in the Credit Department. It deals specifically with clients who need help to enable them to meet their obligations. We understand how important it is for a bank like ours to really get to know its borrowers and their businesses, and have developed

<sup>12</sup> Unless otherwise indicated, all data are as at December 31, 2009, and are drawn from the presentation "The Romanian banking system – present situation and outlook" by the Prime Vice-Governor of the National Bank of Romania, as posted on [www.bnr.ro](http://www.bnr.ro)

<sup>13</sup> NBR Financial Stability Report for 2009

<sup>14</sup> [www.mediafax.ro/economic/perspectivale-ratingurilor-romaniei-ar-putea-fi-imbunatatite-in-partea-a-doua-a-anului-4426926](http://www.mediafax.ro/economic/perspectivale-ratingurilor-romaniei-ar-putea-fi-imbunatatite-in-partea-a-doua-a-anului-4426926); "Outlook for Romania's ratings could improve in the second part of the year"; May 20, 2009

<sup>15</sup> NBR Monthly Bulletin for September 2009, [www.bnr.ro](http://www.bnr.ro)

<sup>16</sup> NBR Monthly Bulletin for December 2009, [www.bnr.ro](http://www.bnr.ro)

<sup>17</sup> NBR Monetary Policy press statements, Nov. 16, 2009, as posted on [www.bnr.ro](http://www.bnr.ro)

<sup>18</sup> NBR Monthly Bulletin for December 2009, [www.bnr.ro](http://www.bnr.ro)

<sup>19</sup> NBR Monthly Bulletin for September 2009, [www.bnr.ro](http://www.bnr.ro)

<sup>20</sup> NBR Monthly Bulletin for December 2009, [www.bnr.ro](http://www.bnr.ro)



close relationships with our credit clients, many of whom have been loyal ProCredit customers for years. Thus, we were able to maintain an open, transparent dialogue with them at all times. In cases where it was not possible to support busi-

nesses that were in arrears, other measures had to be taken. In 2009 the bank significantly strengthened its Legal Recovery Unit, trebling the number of staff available to deal with foreclosures.

In addition, we took action during the first six months of the year to mitigate the adverse effects of the massive disruptions in the Romanian capital market that had taken place in October 2008. As a result of these disruptions, the local-currency money market became dysfunctional, and the bank took steps during the first two quarters of 2009 to decrease its cost of funds. This involved a careful re-design of the entire funding structure, supported by enhanced risk management. Overall, 95% of our losses in 2009 were generated during the first six months, which shows that we reacted quickly to the crisis and took effective measures to improve our performance, paving the way for a full recovery in the years to come.

The crisis has highlighted the importance of responsible banking. As the worst excesses of Romania's speculative bubble are corrected, a new "business model" will emerge in which sustainable development, rather than quick profits, are the top priority for companies as well as banks. Accordingly, ProCredit Bank is well positioned to become a market leader in the Romania which will emerge from the crisis, and our credibility in the eyes of both our clients and the general public will be further strengthened.

## Lending

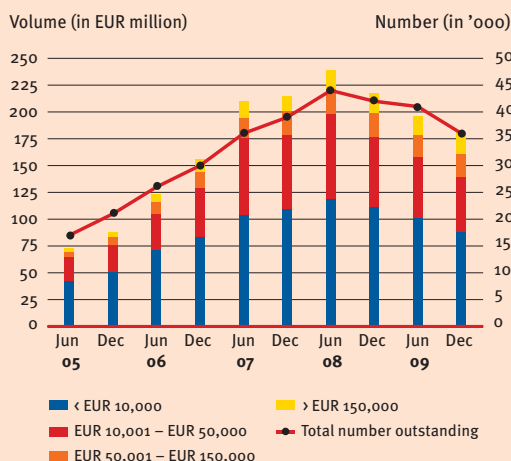
In 2009 our loan portfolio declined by 16%, to EUR 181 million. At year-end, 35,533 loans were

outstanding, a drop of 15%. The decline was exacerbated by the depreciation of the RON. The share of the portfolio denominated in local currency decreased from 75% to 61%, as clients preferred the lower interest level in euro-denominated lending and shied away from local-currency loans with variable rates, as these fluctuated strongly. We maintained our policy of offering mainly local-currency loans to businesses operating in local currency, but our ability to offer fixed interest rates in RON was constrained: the capital markets remained paralysed and we were unable to obtain local-currency loans at fixed rates to fund lending. Finally, in the last quarter of the year, the loan portfolio stabilised.

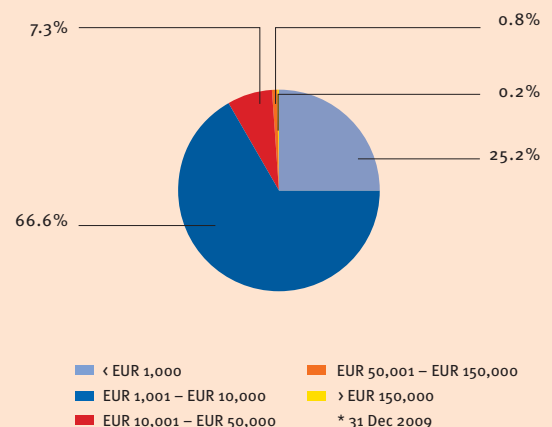
We disbursed 12,608 loans totalling EUR 73.3 million, down by 44% from the volume in 2008. There were two reasons for this decrease: businesses were reluctant to invest, given their lowered growth expectations, and arrears levels were higher, necessitating the allocation of increased internal resources to address this problem.

The portfolio at risk, defined as loans in arrears by over 90 days, increased from 0.70% of the loan portfolio in December 2008 to 1.81% in December 2009. As loan recovery efforts intensified, the bank benefited from its loan officers' close contact with borrowers. We created a specialised team of loan officers to work with the clients in arrears, and in some cases were able

### Loan Portfolio Development



### Number of Loans Outstanding – Breakdown by Loan Size\*





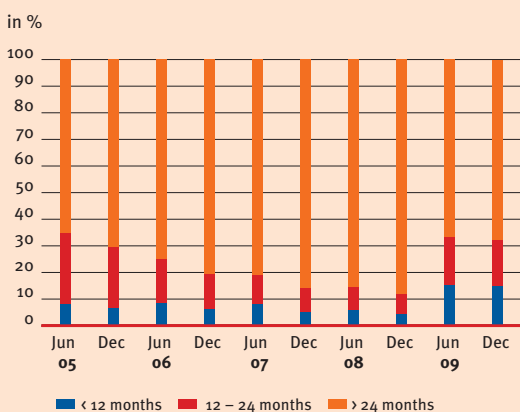
to adapt repayment plans to customers' changed cash flows. Thanks to close contact with our customers, our portfolio quality remained significantly better than that of the banking sector as a whole.<sup>21</sup> At EUR 2 million, net write-offs amounted to 1.1% of the total portfolio. Loan-loss provisions were equal to 3.59% of the total portfolio and to 103% of the portfolio at risk.

Small and very small business loans up to EUR 50,000 made up the segment most affected by

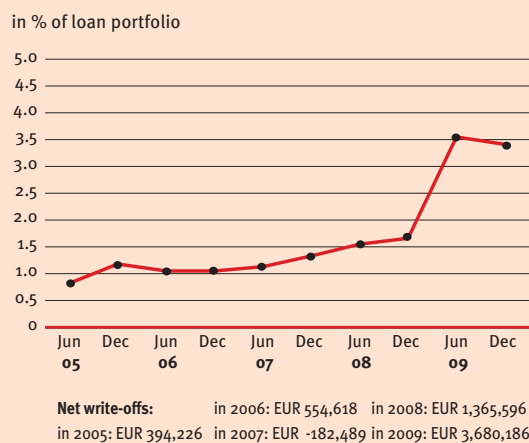
the crisis. The volume in this range decreased by 27% (-EUR 32.8 million), and its share in the bank's total portfolio dropped from 57% to 50%. The strong impact of the crisis on very small businesses in Romania was also reflected in the

<sup>21</sup> NBR data; www.bnr.ro (loans classified as doubtful and loss: 11.85% for the banking sector, 7.65% for ProCredit Bank)

**Business Loan Portfolio – Breakdown by Maturity**



**Loan Portfolio Quality (arrears >30 days)**



higher arrears rates in this segment. We fared better in the segment of small business loans (EUR 50,000 – 150,000), where the portfolio was stable, amounting to EUR 22 million (12% of the total portfolio), and in the medium-loan segment (>EUR 150,000), which grew by EUR 2.3 million (+12%, reaching EUR 22 million (12% of the total portfolio)).

ProCredit remains one of the market leaders in lending to small agricultural enterprises in Romania, whose development is still constrained by a lack of targeted banking services. Overall, the agricultural sector is undergoing profound changes as a result of Romania's entry into the EU, which created both new opportunities for development, via increased exports and access to financial support under EU programmes, and increased competitive pressure. The agricultural portfolio is largely denominated in RON and grew in local-currency terms, rising by RON 9.6 million (+6.6%); the volume in EUR remained at its 2008 level: EUR 37 million. The share of agricultural loans in the total portfolio rose from 17% to 20%. We disbursed more than 6,000 loans in this segment in 2009, and were serving 9,440 agricultural clients at year-end.

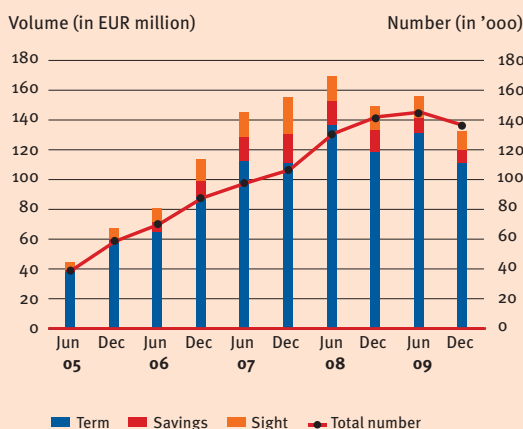
Consumer lending, to which we have always had a defensive approach, declined by 26%. The share of consumer loans in the portfolio was only about 1% at year-end.

## Deposits and Other Banking Services

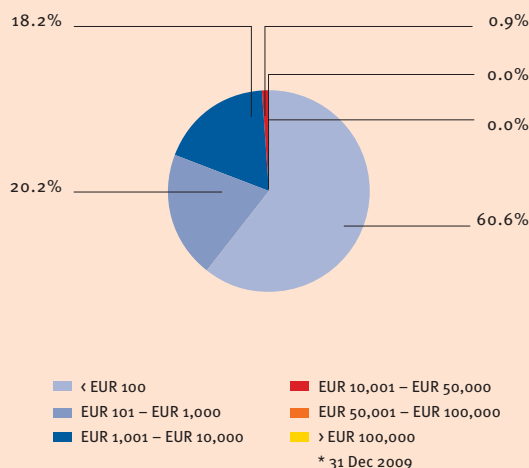
In line with the decrease in the loan portfolio, total customer funds declined by EUR 17.8 million to EUR 133.6 million, 12% less than in 2008. The total number of accounts stood at 136,576 (-4%). The bank had ample liquidity throughout the period, and the decline in customer funds in 2009 was attributable primarily to its policy of allowing the portfolio of term deposits held by large institutional investors, and also some of the deposits of this type held by large retail customers, to decrease.

As a result, the average balance in term deposit accounts (TDAs) decreased from EUR 3,200 to EUR 2,800. At year-end, the total volume of TDAs stood at EUR 110.8 million (down by 4.9% from 2008), representing 84% of total customer funds (2008: EUR 116.3 million; 79.3%). At EUR 12.1 million (down by 22.3% from 2008), current accounts contributed 9.2% of total customer funds, while savings accounts, at EUR 8.9 million (down by 40% from 2008), made up 6.8%. Whereas the number of current accounts remained approximately constant in 2009, at around 80,000, the number of savings accounts decreased by 14% to 20,000 and the number of TDAs increased by 10% to 39,900, in line with the bank's goal of diversifying its deposit base. The increase in the number of TDAs held by small depositors was achieved through active direct promotion and

### Customer Deposits



### Number of Customer Deposits – Breakdown by Size\*



branch-level marketing efforts. The fact that so many new clients chose to save with ProCredit Bank in such a turbulent year in the financial sector is testimony to the high level of trust which the bank enjoys among Romanian citizens.

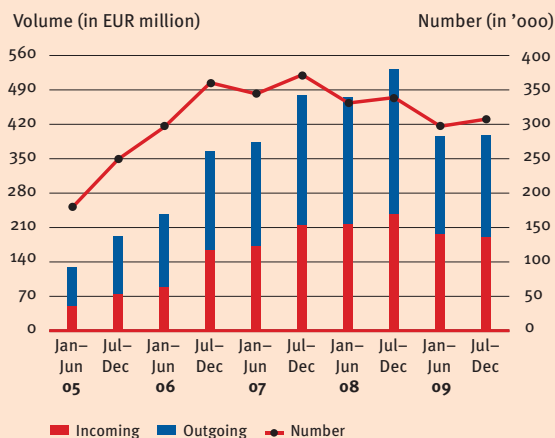
In the second half of the year, we introduced retail banking packages, enabling clients who use several retail products to benefit from lower total monthly fees. The two main packages, which are aimed at salary earners and pensioners, were well received, and by year-end 5,649 had been sold. The number of pensioners receiving their pensions via accounts with ProCredit grew by 53%, rising to 4,886.

The bank continued to expand its ATM network, which at year-end consisted of 58 units (43 on-site and 15 off-site), up from 44 in 2008 (40 on-site and 4 off-site). The ongoing expansion of the off-site network will make it easier for clients to access their funds, while also enhancing our visibility and boosting fee income. The number of debit cards was stable during 2009, with 21,012 in circulation at year-end. The share of active cards rose from 44% to 54%.

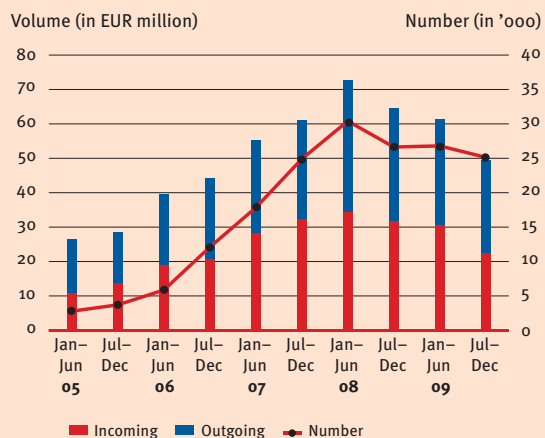
In the autumn of 2009 we introduced an innovative new product for SMEs called InfoPayment. For a monthly fee, clients receive automatic notifications via SMS or e-mail when cheques or promissory notes are due to be debited from their



**Domestic Money Transfers**



**International Money Transfers\***



\* incl. WesternUnion transfers



accounts. By year-end, 1,050 clients had already signed up to use the new product.

The total number of domestic transfers decreased by 5% to 605,000, and the transaction volume fell by 14.4% to EUR 793.4 million. A similar decline was registered for international transfers: the total number fell by 3.2% to 12,346, while the volume decreased by 8% to EUR 113.1 million.

ProCredit Bank had introduced Internet banking in the spring of 2008. Usage increased strongly in 2009, with the share of domestic transfers carried out via the e-banking service rising from 20.32% to 35%.

### Financial Results

In 2009 ProCredit Bank experienced its most challenging year since it was founded. During the first two quarters, we had to contend with an increase in the cost of funds due to unfavourable market

conditions as well as tough competition for deposits, and a rise in loan-loss provisions. 95% of the losses for 2009 were incurred during the first six months. In the last two quarters we returned to profitability, thanks to lower overheads and improved arrears management.

Total assets declined by 12% to EUR 259 million, due mainly to the 16% decrease in the loan portfolio. We maintained a comfortable level of liquid assets, which accounted for 29% of total assets at year-end.

We reduced the level of concentration in our deposit base and focused on deposits held by private individuals, which remained stable despite a very conservative pricing policy. At year-end, customer deposits represented 51% of total liabilities and the deposit-to-loan ratio was 74%. The decrease in customer funds, by 12% to EUR 133.6 million, was driven mainly by the decrease in large institutional clients' deposits, which was a reflection of our lower funding needs. The bonds issued in 2005

were redeemed and we paid back our loans from financial institutions using liquidity reserves. There was no need to secure additional funds; the only funding agreements concluded were with IFC and Developing World Markets, and they served to improve the currency structure of the balance sheet and to facilitate the management of interest rate risk.

On October 31 our shareholders conducted a EUR 3 million capital increase, after which the respective shareholdings were as follows: ProCredit Holding – 32.22%; Commerzbank – 21.03%; EBRD – 16.53%; KfW – 13.21%; IFC – 12.06%; and IPC – 4.96%. The losses incurred during the first three quarters were partially covered by the new injection of capital. Due to the capital increase, and the profit generated in the fourth quarter, we had a capital adequacy ratio of 13.35% at year-end (2008: 16.26%), well above the regulatory requirement of 8%.

Interest income accounted for 187% of total operating income, but was down by 9%, due primarily to the contraction of the loan portfolio. In 2009 the bank registered operational losses because interest expenses remained constant although liabilities decreased. This was in turn due to the increase in the cost of funds, which rose significantly owing to heightened competition for local deposits and the global increase in interest rates, particularly during the first two quarters.

Net fee and commission income decreased by 42%. Overall operating income fell by 25.7% to EUR 18.6 million, while total operating expenses decreased by only 6.6%, to EUR 25.2 million. The 13% reduction in administrative expenses achieved in 2009 did not bear fruit until the fourth quarter, when the bank became profitable again on a monthly basis. The cost-income ratio rose to 112% (2008: 97%), due mainly to the level of interest expenses. The net financial result for 2009 was a loss of EUR 5.2 million. Consequently, the return on equity fell to -22.6% (2008: -8.9%).

Loan-loss allowances increased by 45%, reaching EUR 4 million. Reflecting our conservative provisioning policy, the ratio of provisions to the PAR >30 days was a very comfortable 103% at year-end.

## Outlook

After a year of economic turmoil and political uncertainty, it appears that Romania will enjoy greater stability in 2010. On the other hand, it remains to be seen whether the new government will be able to deal effectively with the possible social and political impacts of its planned budget cuts.

The austerity measures will presumably include discharging around 100,000 state employees, which will boost unemployment and further reduce consumption, and thus certainly not help to promote economic recovery. Default rates for commercial banks' loans to private individuals are expected to rise further, leading to a second wave of write-offs on top of those undertaken in 2009 for loans to legal entities.

Against this background, we believe that ProCredit Bank will be in a comparatively good position to take advantage of opportunities for growth in 2010, as we have low arrears and virtually no exposure in the consumer loan sector. We will focus on expanding our business with our core target group of SMEs and on increasing lending to larger enterprises and institutional clients.

No new branches are planned for the coming year, and a shift from very small loans towards slightly larger exposures is expected to drive our business forward in 2010. This shift will be supported by enhancing our staff's client acquisition skills; by improving loan officers' risk analysis capabilities; and by investing in new products, such as an e-banking platform for larger companies and institutions and specifically tailored credit facilities for SMEs.

By rigorously controlling costs and focusing on our priorities for the development of the bank's business, we expect to be able to report a profit for 2010. While it will presumably be small compared to the loss made in 2009, we believe that we can realistically expect to record a positive result in line with the one achieved in the last quarter of the year. As economic activity picks up in 2011 and beyond, we anticipate that our return on equity will return to its historical levels and that profitability will improve further.

## Risk Management



With its simple and transparent business model, easy-to-understand products and strong commitment to responsible banking, ProCredit Bank Romania has always had a conservative approach to dealing with the financial and other risks associated with its operations. Our prudent approach to risk management was further enhanced in 2009 as we brought our strategies and policies into line with the new risk policies of the ProCredit group, while maintaining full compliance with local regulatory standards. The new policies for ProCredit institutions are based on the risk management standards established by the German Federal Financial Supervisory Authority (BaFin).

The Board of Administrators bears ultimate responsibility for risk management. It reviews and approves risk policies and strategies, the risk profile of the bank and assessments of its risk-bearing capacity, as well as the organisational structure, which plays a key role in risk management. In allocating tasks and responsibilities within the organisation, we ensure a strict segregation of duties between front- and back-office staff for all risk relevant operations all the way up to the level of the Executive Committee. In their capacity as the bank's management board, the members of this body are responsible for establishing and

implementing an effective and efficient internal control system and, consequently, for overseeing all risk management processes.

The Risk Department is responsible for identifying, assessing, measuring, monitoring and controlling the risks which arise from the bank's activities and from external events. To ensure that all significant risk areas are addressed, a number of specialised bodies have been established. These include the Risk Management Committee and its subcommittees: the Assets and Liabilities Management Subcommittee (ALCO), the Credit Risk Management Subcommittee, the Operational Risk Management Subcommittee and the Subcommittee for the Prevention of Money Laundering and for Combating the Financing of Terrorism. The Risk Management Committee reports directly to the Board of Administrators.

The bank's risk position is summarised in monthly risk reports. These are presented to and discussed with the bank's management and the Board of Administrators, and they are also submitted to the Group Risk Management Department of ProCredit Holding. This enables the bank to benefit from the valuable guidance of the holding company's risk management experts, who are able to draw upon

group-wide experience and know-how in this key area. Limits are defined for all significant risks and appropriate escalation mechanisms are implemented.

In addition to a state of the art approach to risk management, ProCredit Bank places great emphasis on open communication, staff loyalty and adherence to its corporate values. We are confident that our strong focus on these three areas, together with our well-documented and clearly defined processes and procedures, contributes significantly to the mitigation of risks.

## Credit Risk

In our risk management activities, we have always accorded a very high priority to maintaining the quality of our loan portfolio. Nonetheless, as the effects of the economic and financial crisis began to be felt more and more strongly by our clients, our arrears rates showed a steady increase. As a result, the volume of both write-offs and loan-loss provisions steadily rose as well, reflecting our conservative provisioning policy.

level of portfolio quality despite the marked deterioration in its operating environment, testifies to the soundness of its lending procedures. The bank utilises a highly developed credit technology whose principal features can be summed up as follows: the debt capacity of all loan applicants is rigorously analysed by a well-trained loan officer in a process involving numerous cross-checks; all credit analyses are carefully documented; lending decisions are taken by an independent credit committee; loan officers build long-term, personal relationships with their clients and maintain regular contact with them, monitoring loans over the entire maturity period; and loan repayment is also strictly monitored by the branch management and at head-office level. In 2009, the bank strengthened its recovery capacity, developed new procedures for restructuring loans, and created a specialised Credit Risk Department. As of the end of December 2009, the bank had a restructured impaired loan portfolio amounting to EUR 1.4 million (0.78% of the GLP), for which it had set aside provisions of EUR 742,000. The bank will continue its efforts to keep arrears under control by working intensively with customers to enable them to meet their repayment obligations.

IFRS results (EUR)	2008	Q1 09	QII 09	QIII 09	2009
PAR (% of GLP) <sup>1</sup>	1.63%	2.96%	3.57%	4.42%	3.49%

<sup>1</sup> PAR = portfolio at risk, i.e. loans in arrears by more than 30 days, at end of period expressed as a percentage of the end-of-period gross loan portfolio (GLP)

Net write-offs amounted to EUR 2 million, or 1.1% of the total loan portfolio as at December 31, 2009. The allowance for loan impairment was equal to 103% of the PAR, and to 3.59% of the gross loan portfolio. As regards portfolio quality, ProCredit Bank's performance continued to be substantially better than that of the banking sector as a whole:

In its lending operations, the bank primarily serves small and very small businesses, and its borrowers operate in a variety of sectors. Thus, its loan portfolio is highly diversified. Reflecting the focus on small enterprises, loans of less than EUR 10,000 accounted for 80.2% of the total number of loans outstanding at the end of 2009 (2008: 90.6%), and the average outstanding amount was EUR 5,091. At 6% of the total loan portfolio. The exposure to the 10 largest

RAS (Romanian Accounting Standards) results	QIV 08	Q1 09	QII 09	QIII 09	QIV 09
PAR <sup>2</sup> ProCredit Bank	2.23%	3.65%	4.90%	6.5%	9.7%
PAR <sup>3</sup> banking sector	6.5%	9.40%	11.8%	14.2%	15.3%

<sup>2</sup> Covers "doubtful" and "loss" loans as defined by the classification rules of the National Bank of Romania (NBR)

<sup>3</sup> Same definition of PAR as above; based on NBR Monthly Bulletins (2008 - 2009); www.bnro.ro

The fact that ProCredit Bank kept arrears at levels significantly below the average for the Romanian banking sector, thus maintaining a relatively high

borrowers remained small. Looking ahead, the bank should benefit from not having a significant exposure to the areas that have been severely affected by the crisis, namely the retail loan sector (consumer loans and credit cards), the real estate market, and vehicle leasing.

## Market Risk

The bank has a low exposure to market risk because we focus on our core business activities and do not engage in speculative activities. Our treasury operations are undertaken exclusively in order to support our core business.

### *Currency Risk*

ProCredit Bank has a low level of currency risk. It monitors its foreign-currency exposure on a daily basis and closes its positions within predefined limits. The year-end open currency position was equivalent to 9.2% of total year-end capital.

### *Interest Rate Risk*

We aim to ensure that the bank's assets and liabilities remain balanced across all maturities. Interest rate risk is managed primarily by using maturity gap and duration analysis. The fact that a large proportion of our loans have rather short maturities allows us to reprice the loan portfolio on a regular basis. At the end of 2009, one-year repricing assets equalled 88.2% of the one-year repricing liabilities.

The bank runs stress tests to measure interest rate risk. Based on the year-end financials for 2009, an interest rate increase by 200 basis points in RON and by 200 basis points in EUR would result in a 5% decline in the economic value of our equity, which is much lower than the 20% limit under Basel II guidelines.

## Liquidity Risk

The ALCO monitors liquidity risk on a weekly basis. Potential liquidity gaps and surpluses are projected on a regular basis using stress tests. As of the end of 2009, liquid assets were equivalent to 31.8% of total liabilities and covered a comfortable 56.8% of customer funds. The deposit portfolio continued to be highly diversified, with the share of the 10 largest depositors in total customer funds decreasing from 15.4% in 2008 to 6.2% in 2009.

The loan portfolio remained a dependable source of liquidity, generating a constant inflow of funds

from our borrowers' regular instalment payments. Nonetheless, we were granted a EUR 10 million standby credit line by ProCredit Holding, both to enable us to meet regulatory requirements and as an expression of the group's strong support.

Throughout 2009, the bank continued its efforts to increase the extent of loan portfolio coverage by customer deposits. At year-end, customer funds were equivalent to 73.8% of the loan portfolio (2008: 69.7%).

The bank maintained a strong liquidity position throughout the year. This was underscored by the fact that in February, in the midst of the liquidity crunch in the Romanian banking sector, we redeemed all of our outstanding local currency bonds, paying out the equivalent of over EUR 10 million.

## Operational Risk

ProCredit Bank's system for managing operational risks is based on best practices in this area. Segregation of duties between units and departments as well as the "four-eyes principle" are implemented wherever appropriate. This approach, combined with our well-defined processes and procedures, contributes significantly to operational risk mitigation.

ProCredit defines operational risk as the risk of losses from inadequate or failed internal processes, from human error or fraud, from system error, or from external events. The Operational Risk Management Subcommittee is responsible for actively monitoring and addressing operational risk. The Risk Event Database (RED), together with yearly operational and fraud risk assessments, is the main tool used for identifying, assessing and compiling data on operational risk. Monthly reports are generated on the basis of the information in the database, and are used to design measures for risk mitigation.

The bank has developed contingency plans to address the risk of losses resulting from disruption of operations due to external events beyond the bank's control. In addition, the Internal Audit Department evaluates the control mechanisms



which are in place to facilitate operational risk management.

One of the key goals of operational risk management is to initiate and facilitate activities to create operational risk awareness within the organisation, including annual training for all employees. We will continue such measures, as they are crucial to our efforts to limit the bank's exposure to operational risk.

### Capital Adequacy

Throughout the year the bank's capital was sufficient to cover all risks, and at the end of 2009

our capital adequacy ratio (CAR) exceeded both the local requirement (8%) and the Basel II standard (12%), which has also been adopted by the ProCredit group. The year-end regulatory CAR was 13.4% (2008: 1.63%). Our shareholders demonstrated their strong support for the bank by carrying out a capital increase of EUR 3 million on October 30. Additionally, in November Fitch Ratings affirmed our rating of "BB+".



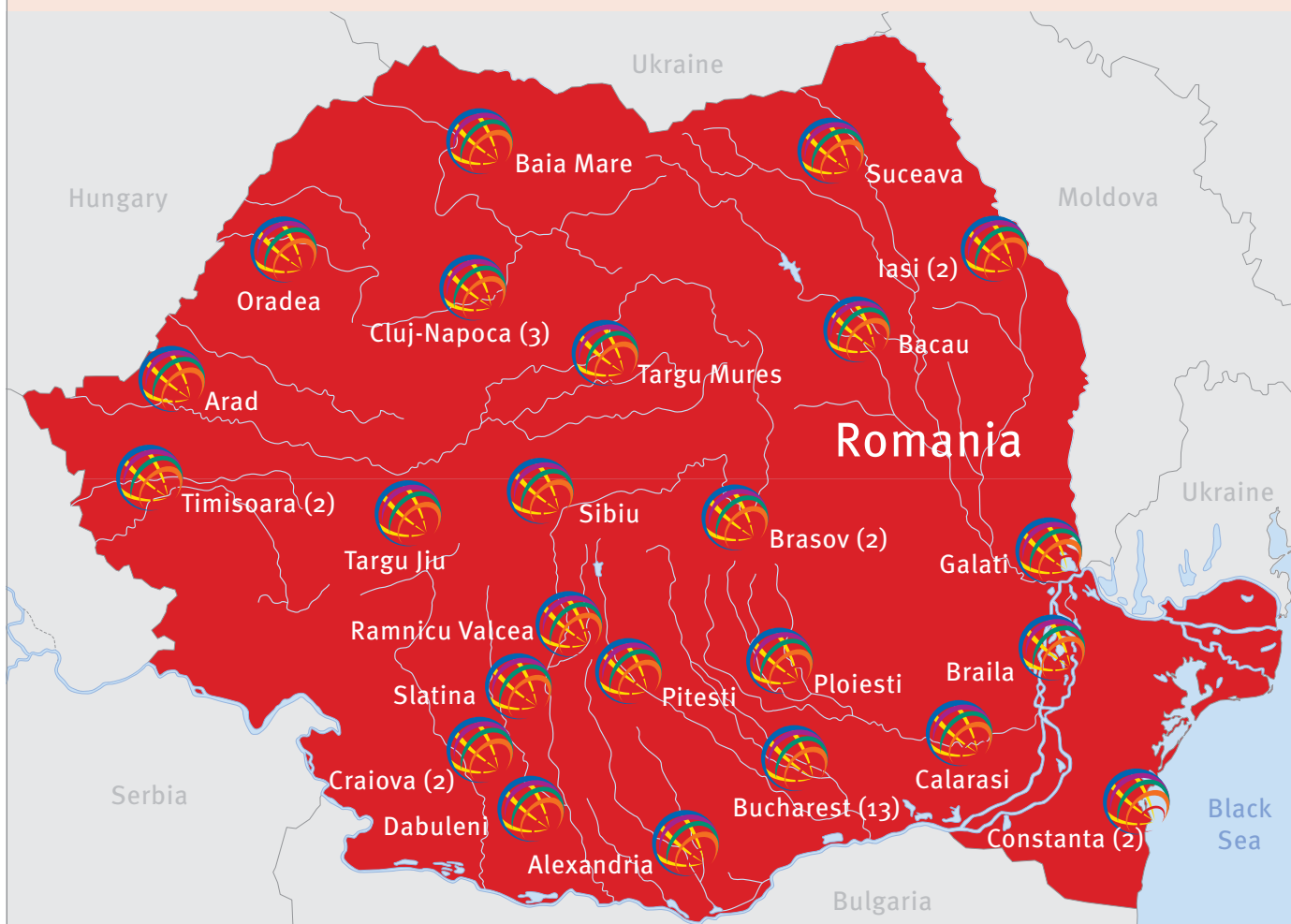
## Branch Network

In 2009, our strategic goal was to consolidate our presence in the cities in which we already operate, without necessarily expanding our existing branch network. Our priority was to provide our customers with a more pleasant environment in which to conduct their banking business. This meant ensuring that our existing branches were easily accessible and, in some cases, making them more attractive and inviting. This involved relocating and refurbishing a number of offices.

In the first quarter we inaugurated three new locations where preparations for the launch of operations had been underway at the end of 2008. We opened one branch in Tirgu-Jiu, a city we had not previously served, and two retail agencies in Galati and Craiova. Retail agencies – smaller offices that provide non-credit services – are usually established in cities where clients are already served by a larger, full-service branch, and where the demand for deposit and account services warrants an increased presence.

At year-end we were operating through 29 branches and 14 retail agencies in 24 cities. Our aim in 2009 was to better serve existing customers and increase efficiency in both credit and deposit operations while also expanding the client base. Accordingly, in the cities where we had several branches, we decided to consolidate lending operations in a single branch and focus exclusively on banking services in the other offices.

Three of our largest branches were moved to new, more spacious premises at better locations. These branches, which are located in Cluj, Iasi and Bucharest, are now better able to meet clients' needs. While they continue to operate in key districts, these offices are now at more visible and accessible locations, thus enabling us to provide better coverage of the main areas of these three important cities. In addition, we refurbished a number of branches: we installed new light boxes in nine of our existing branches, and at seven others we carried out extensive interior





renovations or put in additional cashiers' booths. Furthermore, we installed 16 additional ATMs, 13 at off-site locations.

In 2010 we plan to refurbish and relocate more of our existing branches. As in 2009, we will strive to ensure that all our offices are easily accessi-

ble and provide an attractive setting in which to serve our customers, while also offering a pleasant working environment for our employees.



## Organisation, Staff and Staff Development



Despite the unfavourable economic environment, which also impacted the bank's results, our commitment to our business model and value-driven approach to banking was stronger than ever in 2009. Thanks to the energy and resources we have invested over the years in selecting, training and developing our team of motivated young professionals, they have shown that they can meet the challenges we face in these difficult times. Our culture of open and transparent communication helps keep staff aware of constraints that can affect our performance, while at the same time ensuring that goals and priorities are clearly understood. Moreover, our socially responsible approach towards clients continues to provide the impetus for innovative solutions and the identification of new business opportunities in line with our corporate mission.

In order to further improve efficiency and service quality, we analysed our internal processes and the deployment of human resources in all areas. This led to a consolidation of the regional operating structure and the implementation of new regional positions in areas such as legal support, sales and lending. These moves enabled us to develop a more tailored approach to serving the individual regions, while also improving coordination and the exchange of know-how among the regions and within the regional teams. In ad-

dition, the bank's organisational structure was enhanced through the creation of new head office departments to achieve a better segregation of duties and improve control mechanisms.

While we filled as many of the newly created positions as possible through an internal selection process, we continued recruiting new staff to ensure the availability of sufficient personnel with the appropriate skills and experience. As a result, in 2009 we hired and trained almost 100 new employees, and at year-end the total number of staff stood at 1,006. At the same time, 58 highly experienced employees were selected to take on responsibilities at the regional level. Additionally, nearly 80 of our most skilled and promising staff members were promoted to senior supervisory or managerial positions, while more than 200 employees assumed new responsibilities within the organisation.

Ever since the bank was founded, we have continuously reviewed and improved our internal training programmes to ensure that our staff are kept abreast of all important changes and developments both within the institution and in our operating environment. In 2009, our employees benefited from a total of 1500 training days conducted either locally or at the level of the ProCredit group. Our commitment to promoting staff development

on a long-term basis was reflected in the size of the bank's training budget, which amounted to RON 2.15 million (EUR 0.5 million).

We start investing in our employees from their very first day with the institution, when they participate in a mandatory induction course. Its purpose is to ensure that all new employees are acquainted with the mission, corporate values and history of the ProCredit group, as well as the principles that guide our business operations and our approach to risk management. Based on the specific requirements of the positions for which they have been hired, the new employees then receive tailored classroom and practical training.

The training needs of our existing and potential middle managers are covered by local seminars as well as international training programmes conducted by ProCredit Holding. In 2009, 40 employees, including both middle managers and specialist staff, attended international seminars at group level. Participation in these measures also enabled them to exchange knowledge and experience with ProCredit colleagues from many other countries. In addition, 30 of our middle managers took part in the management training programmes offered by the group at the Regional Academy for Eastern Europe in Macedonia and at the ProCredit Academy in Germany.

In accordance with initiatives at the group level, our plans for 2010 include the introduction of mathematics training for all employees and a number of improvements to the bank's salary structure to ensure that it is fully transparent.

At ProCredit Bank we have always believed that in order to be successful in terms of outreach and the long-term sustainability of our business model, it is not enough to merely have employees with the right technical skills. In addition, our staff must have good communication skills and good judgement, and be able to make sound decisions that reflect our values and support our commitment to responsible banking. It is precisely those qualities that we cultivate in our staff through our extensive training and professional development measures, and we are confident that our ongoing efforts in this area are laying the groundwork for the continued successful development of our institution.





## Business Ethics and Environmental Standards

Part of the overall mission of the ProCredit group is to set standards in the financial sectors in which we operate. We want to make a difference not only in terms of the target groups we serve and the quality of the financial services we provide, but also with regard to business ethics. Our strong **corporate values** play a key role in this respect. Six essential principles guide the operations of the ProCredit institutions:

- **Transparency:** We adhere to the principle of providing transparent information both to our customers and the general public and to our employees, and our conduct is straightforward and open;
- **A culture of open communication:** We are open, fair and constructive in our communication with each other, and deal with conflicts at work in a professional manner, working together to find solutions;
- **Social responsibility and tolerance:** We offer our clients sound advice and assess their economic and financial situation, business potential and repayment capacity so that they can benefit from the most appropriate loan products. Promoting a savings culture is an important part of our mission, and we are committed to treating all customers and employees with fairness and respect, regardless of their origin, colour, language, gender or religious or political beliefs;
- **Service orientation:** Every client is served in a friendly, competent and courteous manner. Our employees are committed to providing excellent service to all customers, regardless of their background or the size of their business;
- **High professional standards:** Our employees take personal responsibility for the quality of their work and always strive to grow as professionals;
- **A high degree of personal commitment:** This goes hand-in-hand with integrity and honesty – traits which are required of all employees in the ProCredit group.

These six values represent the backbone of our corporate culture and are discussed and actively applied in our day-to-day operations. Moreover, they are reflected in the ProCredit Code of Conduct, which transforms the group's ethical principles into practical guidelines for all staff. To make sure that new employees fully understand all of

the principles that have been defined, induction training includes sessions dedicated to the Code of Conduct and its significance for all members of our team. Regular refresher training sessions help to ensure that employees remain committed to our high ethical standards and are kept abreast of new issues and developments which have an ethical dimension for our institution. These events allow existing staff to analyse recent case studies and discuss any grey areas.

Another aspect of ensuring that our institution adheres to the highest ethical standards is our consistent application of best practice systems and procedures to protect ourselves from being used as a vehicle for money laundering or other illegal activities such as the financing of terrorist activities. An important focus here is to “know your customer”, and, in line with this principle, to carry out sound reporting and comply with the applicable regulations. Updated anti-money laundering and fraud prevention policies are being introduced across the group to ensure compliance with German regulatory standards.

We also set standards regarding the impact of our lending operations on the environment. ProCredit Bank Romania has implemented an environmental management system based on continuous assessment of the loan portfolio according to environmental criteria, an in-depth analysis of all economic activities which potentially involve environmental risks, and the rejection of loan applications from enterprises engaged in activities which are deemed environmentally hazardous and appear on our institution's exclusion list. By incorporating environmental issues into the loan approval process, ProCredit Bank Romania is also able to raise its clients' overall level of environmental awareness. We also ensure that requests for loans are evaluated in terms of the applicant's compliance with ethical business practices. No loans are issued to enterprises or individuals if it is suspected that they are making use of unsafe or morally objectionable forms of labour, in particular child labour.



## The ProCredit Group: Responsible Banks for Small Businesses and Ordinary People

The ProCredit group comprises 22 financial institutions whose business focus is on providing responsible banking services in transition economies and developing countries. We aim to provide accessible, reliable services to small businesses and the ordinary people who live and work in the neighbourhoods in which we operate. At the end of 2009 our 19,600 employees, working in more than 830 branches, were serving 3.1 million customers in Eastern Europe, Latin America and Africa.

The first ProCredit banks were founded more than a decade ago with the aim of making a significant development impact by promoting the growth of small businesses. We sought to achieve this by providing loans tailored to their requirements and offering attractive deposit facilities that would enable and encourage low-income individuals and families to save. The group has grown strongly over the years, and today we are one of the leading providers of banking services to small business clients in most of the countries in which we operate.

Our development mission and socially responsible approach remain as relevant today as they have always been. Indeed, their importance has been underscored by the widespread macroeconomic decline which most of our countries of operation experienced in 2009. The challenges this has created for individual clients as well as for national economies are significant. While the impact has differed from country to country and from region to region, it is clear that our customers need a reliable banking partner now more than ever. Many small businesses have adjusted to the new environment and are beginning to invest again, and ordinary people are regaining their trust in banks. That is why we will continue to apply the principles that have defined the ProCredit group since its foundation.

Our mission is to provide credit in a responsible manner to very small, small and medium-sized enterprises, as we are convinced that these businesses create the largest number of jobs and make a vital contribution to the local economy. Unlike most other banks operating in our markets, we avoid aggressive consumer lending and all speculative lines of business. Instead, the

ProCredit banks work in close contact with their clients to gain a full understanding of the problems small businesses face and the opportunities that are available to them.

Our credit technology, developed over many years with the support of the German consulting company IPC, relies on the careful individual analysis of all credit risks. By making the effort to know our clients well and maintain long-term working relationships based on trust and understanding, we are well positioned to support them not only when the economy is buoyant, but also during a downturn and recovery. In 2009, the ability of our loan officers to proactively make appropriate adaptations to payment plans where necessary to reflect clients' new and more challenging sales environments has played an important role in maintaining good loan portfolio quality.

We not only extend loans, but also offer our enterprise clients a broad range of other banking services such as cash management, domestic and international money transfers, payroll services, POS terminals and payment and credit cards. These services are geared towards assisting our business clients to operate more efficiently and more formally and thus help to strengthen the real economy and the banking sector as a whole.

Furthermore, our targeted efforts to foster a savings culture in our countries of operation have enabled us to build a stable deposit base. ProCredit deposit facilities are appropriate for a broad range of lower- and middle-income customers. We place particular emphasis on working with the owners, employees and families associated with our core target group of very small, small and medium-sized businesses. ProCredit banks offer simple savings products and place great emphasis on promoting children's savings accounts and on running financial literacy campaigns in the broader community. In addition to deposit facilities, we offer our clients a full range of standard retail banking services. Despite considerable public nervousness about the safety of banks and intense competition in the deposit market, the ProCredit institutions managed to steadily increase their overall retail deposit base in 2009, increasing the number of deposit

accounts by some 300,000 and securing a very comfortable liquidity position for the group.

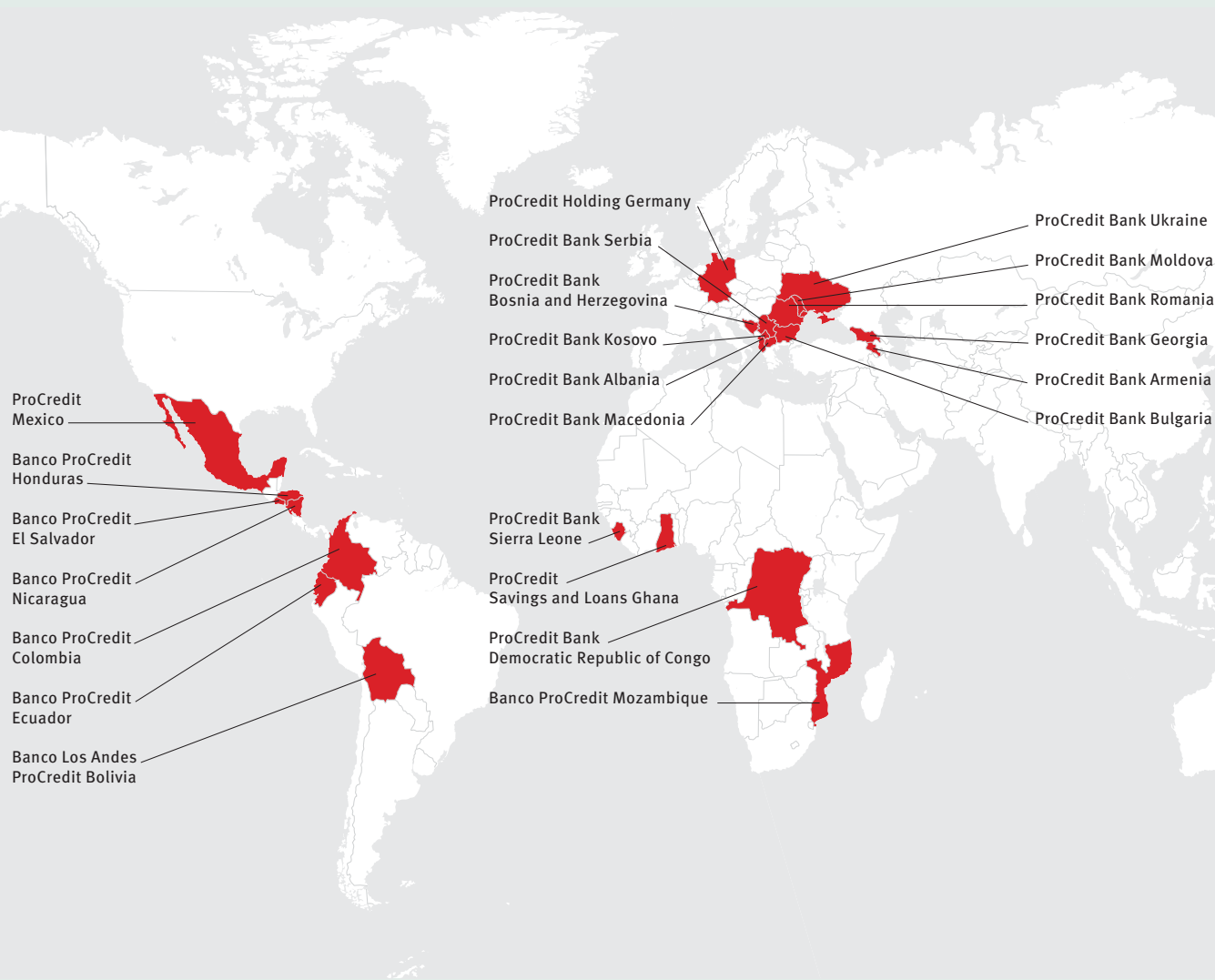
The ProCredit group has a simple business model: providing banking services to a diverse range of enterprises and mobilising deposits from the ordinary people who live and work around our branches. As a result, our banks have a transparent, low-risk profile. We do not rely heavily on capital market funding and have no exposure to complex financial products. Furthermore, our staff are well trained, flexible and able to provide competent advice to clients, guiding them through difficult times as well as good times. Despite the turmoil of the global financial markets, the performance of the ProCredit group has been remarkably stable: we ended 2009 with a good

liquidity position, comfortable capital adequacy, PAR over 30 days of 2.68%, and a modest profit. Given the very difficult macroeconomic situation in many of our countries of operation, this was a strong performance.

Our shareholders have always taken a conservative, long-term view of business development, aiming to strike the right balance between a shared developmental goal – reaching as many small enterprises and small savers as possible – and achieving commercial success.

Strong shareholders provide a solid foundation for the ProCredit group. It is led by ProCredit Holding AG, a German-based company that was founded by IPC in 1998. ProCredit Holding is a

*The international group of ProCredit institutions; see also [www.procredit-holding.com](http://www.procredit-holding.com)*





public-private partnership. The private shareholders include: IPC and IPC Invest, an investment vehicle set up by IPC and ProCredit staff members; the Dutch DOEN Foundation; the US pension fund TIAA-CREF; the US Omidyar-Tufts Microfinance Fund; and the Swiss investment fund responsAbility. The public shareholders include the German KfW Bankengruppe (KfW banking group); IFC, the private sector arm of the World Bank; the Dutch development bank FMO; the Belgian Investment Company for Developing Countries (BIO) and Proparco, the French Investment and Promotions Company for Economic Co-operation. The group also receives strong support from the EBRD and Commerzbank, our minority shareholders in Eastern Europe, and from the Inter-American Development Bank (IDB) in Latin America. With the strong support of its shareholders and other partners, the ProCredit group ended the year with a total capital adequacy ratio of 16% – a figure that reflects their confidence in the group.

ProCredit Holding is not only a source of equity for its subsidiaries, but also a guide for the development of the ProCredit banks, providing the personnel for their senior management and of-

fering support in all key areas of activity. The holding company ensures the implementation of ProCredit corporate values, best practice banking operations and Basel II risk management principles across the group. The group's business is run in accordance with the rigorous regulatory standards imposed by the German banking supervisory authority (BaFin).

ProCredit Holding and the ProCredit group place a strong emphasis on human resource management. Our "neighbourhood bank" concept is not limited to our target customers and how we reach them; it also concerns the way in which we work with our staff and how we encourage them to work with their customers. The strength of our relationships with our customers will continue to be central to working with them effectively in 2010 and achieving steady business results.

A responsible approach to neighbourhood banking requires a decentralised decision-making process and a high level of judgment and adaptability from all staff members, especially our branch managers. Our corporate values embed principles such as open communication, transparency and professionalism into our day-to-

day business. Key to our success is therefore the recruitment and training of dedicated staff. We maintain a corporate culture that promotes the professional development of our employees while fostering a deep sense of personal and social responsibility. This entails not only intensive training in technical and management skills, but also frequent staff exchanges between our member institutions. In this way, we take full advantage of the opportunities for staff development that are created by the existence of a truly international group.

A central plank in our approach to training is the ProCredit Academy in Germany, which provides a part-time “ProCredit Banker” training programme over a period of three years for high-potential staff from each of the ProCredit institutions. The curriculum includes intensive technical training and also exposes participants to subjects such as anthropology, history, philosophy and ethics in an open and multicultural learning environment. Our goal in covering such varied topics is to give our future managers the opportunity to develop their knowledge and views of the world. At the same time, we aim to improve their communication and staff management skills. The first ProCredit Academy participants graduated in September 2008. The group also operates three Regional Academies in Latin America, Africa and Eastern Europe to support the professional development of middle managers at the local level.

The group’s strategy for 2010 will reflect the prevailing conditions of the countries in which we

work. We will further expand our business as the “house bank” of choice for small and very small enterprises, offering tailored loans and other banking services. In our lending activities, we will increase the minimum loan size for enterprise clients to EUR/USD 1,000-2,000 in most countries since we have found that below this limit there is broad access to loans from consumer finance providers, a situation which prevents us from maintaining loyal client relationships and keeping arrears levels at a sustainable level in that particular segment. It follows that for these client groups we would rather offer deposit accounts and other banking services. Furthermore, we believe that our development impact can be more significant if we focus on issuing slightly larger loans to businesses with the greatest capacity for job creation. Our other priorities in the coming year will be to focus on loan portfolio quality and on further improving the efficiency of our banking services.

Strong investment in our staff will also remain a key priority since it is their skills which enable us to build strong, broad-based relationships with our clients, which are a particularly important factor of success in volatile macroeconomic conditions. As a group of responsible banks for ordinary people with prudent policies and well-trained staff to ensure our steady performance, we look forward to consolidating our position as a “house bank” for small businesses, their employees, and the ordinary people who live and work in the neighbourhoods around our branches.



## ProCredit in Eastern Europe

ProCredit operates in 11 countries across Eastern Europe. It is a leading provider of banking services to very small, small and medium-sized businesses in the region. It prides itself on the high standard of transparent, professional services it provides to all its clients – the ordinary people who live and work in the vicinity of the 539 ProCredit branches across the region.

2009 proved to be a very challenging year for Eastern Europe. The region had enjoyed several years of sustained economic growth, in part fuelled by the rapid expansion of banking sectors dominated by Western European banks. The effects of the global financial crisis and the ensuing global recession were bound to be felt across the region. In nearly all the countries in which we operate, banking sector growth stalled and there was a strong GDP decline in 2009. The nature and severity of the impact differed from country to country. At one extreme was Ukraine, in which GDP is estimated to have declined by more than 15%, whilst other countries such as Kosovo and Albania experienced a less severe recession.

As a rule for banking sectors across Eastern Europe, though, 2009 was a year dominated by concerns first about liquidity and then about non-performing loans. The performance of the ProCredit group in Eastern Europe this year as regards liquidity and loan portfolio quality highlights both the important development role that the ProCredit banks play in the region and their relatively low risk profile.

The ProCredit banks in Eastern Europe quickly built a comfortable liquidity buffer in 2009, despite the strong withdrawals of customer funds that most of our markets experienced in the last quarter of 2008. This reflected the trust and confidence of our retail deposit clients.

ProCredit has focused for many years on promoting a savings culture amongst its clients. Setting money aside can help protect savers against the uncertainties of life, and since the ratio of deposits to GDP in Eastern European countries is well below Western European levels, we believe that mobilising savings is an important development priority. Accordingly, ProCredit banks fund most of their lending activities from local savings. The ratio of deposits to loans in the ProCredit banks

in the region is close to 90%. Thus, in 2009 we did not have to rely on unpredictable capital markets for funds.

And our experience in 2009 confirmed that our clients appreciate the transparent, responsible approach we take. We offer simple and reliable retail banking services, including flexible savings and deposit accounts to accommodate depositors' long- and short-term needs. Our belief in transparent, direct communication is particularly important in fostering clients' trust in these difficult times. We understand that our clients want to know in simple language how to save safely; they also want to access their money when they need it. Thanks to the trust that the public has placed in ProCredit, the group reported solid growth in customer deposits in 2009, although we did not participate in the very aggressive pricing campaigns that many other banks undertook to shore up their liquidity positions. All the ProCredit institutions in Eastern Europe ended the year with a comfortable liquidity position, most without a significant increase in the average cost of funds.

ProCredit banks were also in a strong position to manage loan portfolio growth and quality. They had never participated in the aggressive consumer and corporate lending in which other banks had engaged, and which is now creating significant loan portfolio problems in the region. We had always maintained that consumer loans have only limited development impact and risk creating overindebtedness if aggressively advertised and disbursed without adequate analysis of clients' ability to repay a loan – and this is precisely the approach that financial institutions usually took to consumer lending in much of Eastern Europe in recent years.

Instead, at ProCredit we focus on providing responsible banking services to small entrepreneurs and family businesses. We aim to be their banking partner of choice, able to understand their needs and offer sound, professional advice. We believe that these businesses are still an important driving force behind economic growth and job creation across Eastern Europe. We continued lending strongly to small businesses throughout 2009, although other banks significantly scaled back their lending activities. The only segment in which we slowed lending was



that of very small “microenterprise loans” with volumes of less than EUR 2,000. In this segment, we found many families to indeed be overindebted due to excessive use of consumer loans, and businesses to be less viable than in the past. Looking ahead, we plan to stop serving this segment of the market and focus above all on small and medium-sized clients taking loans in the size range from EUR 2,000 – EUR 150,000.

Our approach is to provide business loans based on a careful, individual analysis of each client’s ability to meet his or her obligations. We have decentralised decision-making systems in place and a body of highly qualified staff who are able to conduct an efficient and reliable risk assessment even in more volatile economic conditions. ProCredit is guided by a responsible, long-term attitude towards business development. We aim to build lasting relationships with our clients and do not forget that a loan is also a debt.

These values are particularly pertinent when managing potential arrears in cases where clients have to adapt to lower-than-expected sales. In anticipation of the difficulties we felt would emerge in 2009, we introduced more conservative lending policies and more intensive arrears management procedures in response to greater credit risk. Our staff focused on working closely

with our clients to help them understand and respond to changing conditions. This approach meant that our Eastern European banks ended the year with a PAR (>30 days) of 2.81% and a PAR (>90 days) of 1.93%. Only in our two most difficult markets, Ukraine and Bosnia, did the PAR (>30 days) rise above 5% during the year. Relative to the banking sectors as a whole, this was a significant achievement.

Our lending activities aim in particular to foster local production and service industries, and include the provision of agricultural loans. We are keen to support a sector that has been particularly neglected by other banks and that is vital for employment and social cohesion outside the main urban areas. We also provide housing improvement loans to help families renovate their homes and improve energy efficiency.

Given our focus on quality rather than quantity, the group did not increase the number of branches significantly in 2009, and the number of staff was also reduced. In 2010 we expect the macroeconomic situation in Eastern Europe to continue to be difficult. Our focus will still be on the quality of our staff and on deepening our relationships with our clients. Only our newer banks, in Armenia and Moldova, are likely to add branches. In all countries, we aim to consolidate



our position as the most reliable banking partner for small and medium-sized enterprises.

Our staff is the key element in our approach to being a stable, down-to-earth and personal banking partner. The ProCredit group has a strong commitment to staff training, professional development and the cultivation of an open, honest communication culture. Staff exchanges, cross-border training programmes and regional workshops are an important part of our approach. We have an Eastern European Academy, located near Skopje in Macedonia, which is dedicated to the training of ProCredit middle managers. The Academy is an important channel for rapid and consistent

communication region-wide and one that helps us adapt quickly to face new challenges: More than 200 managers have already graduated from the six-week intensive course since the facility was founded. A language centre at the Academy also provides residential English courses, maximising the potential for international exchange within the group. Like all prudent banks, we will continue to focus on efficient cost management in 2010 and beyond. Investment in our staff is, however, an ongoing commitment and will remain a central plank in the ProCredit Bank approach. A qualified, motivated and professional team lies at the root of our lasting success across Eastern Europe.

Name	Highlights*	Contact
<b>ProCredit Bank Albania</b>	Founded in October 1998 42 branches 39,443 loans / EUR 153.6 million in loans 192,840 deposit accounts / EUR 246.5 million 867 employees	Legal address: Sami Frasheri St., Tirana Mailing address: Dritan Hoxha St., Tirana P.O. Box 2395 Tel./Fax: +355 4 2 271 272 / 276 info@procreditbank.com.al www.procreditbank.com.al
<b>ProCredit Bank Armenia</b>	Founded in December 2007 9 branches 3,847 loans / EUR 23.5 million in loans 15,479 deposit accounts / EUR 13.0 million 239 employees	31/99 Moskovyan St. 0002 Yerevan Tel./Fax: + 374 10 514 860 / 853 info@procreditbank.am www.procreditbank.am
<b>ProCredit Bank Bosnia and Herzegovina</b>	Founded in October 1997 26 branches 39,762 loans / EUR 119.7 million in loans 105,106 deposit accounts / EUR 124.1 million 662 employees	8 Emerika Bluma 71000 Sarajevo Tel./Fax: +387 33 250 950 / 971 info@procreditbank.ba www.procreditbank.ba
<b>ProCredit Bank Bulgaria</b>	Founded in October 2001 86 branches 55,504 loans / EUR 550.8 million in loans 227,104 deposit accounts / EUR 334.7 million 1,797 employees	26 Todor Aleksandrov Blvd. 1303 Sofia Tel./Fax: +359 2 813 5100 / 5110 contact@procreditbank.bg www.procreditbank.bg
<b>ProCredit Bank Georgia</b>	Founded in May 1999 59 branches 63,993 loans / EUR 220.9 million in loans 400,215 deposit accounts / EUR 159.0 million 1,680 employees	154 D. Agmashenebeli Ave. 0112 Tbilisi Tel./Fax: +995 32 20 2222 / 24 3753 info@procreditbank.ge www.procreditbank.ge
<b>ProCredit Bank Kosovo</b>	Founded in January 2000 62 branches 99,336 loans / EUR 471.7 million in loans 399,539 deposit accounts / EUR 638.3 million 1,177 employees	16 "Mother Tereze" Boulevard 10000 Prishtina Tel./Fax: +381 38 555 777 / 248 777 info@procreditbank-kos.com www.procreditbank-kos.com
<b>ProCredit Bank Macedonia</b>	Founded in July 2003 41 branches 31,999 loans / EUR 135.8 million in loans 134,603 deposit accounts / EUR 142.3 million 689 employees	109a Jane Sandanski Blvd. 1000 Skopje Tel./Fax: +389 2 321 99 00 / 01 info@procreditbank.com.mk www.procreditbank.com.mk
<b>ProCredit Moldova</b>	Founded in December 1999 1 branch 7,108 loans / EUR 13.0 million in loans 85 employees	65 Stefan cel Mare Ave. office 900, Chisinau Tel./Fax: +373 22 836555 / 273488 office@procredit.md www.procredit.md
<b>ProCredit Bank Moldova</b>	Founded in December 2007 27 branches 6,715 loans / EUR 22.4 million in loans 22,646 deposit accounts / EUR 12.7 million 533 employees	65 Stefan cel Mare Ave. office 901, Chisinau Tel./Fax: +373 22 836555 / 273488 office@procreditbank.md www.procreditbank.md
<b>ProCredit Bank Romania</b>	Founded in May 2002 43 branches 35,533 loans / EUR 180.5 million in loans 136,576 deposit accounts / EUR 133.3 million 1,006 employees	62-64 Buzesti St., Sector 1 011017 Bucharest Tel./Fax: +40 21 201 6000 / 305 5663 headoffice@procreditbank.ro www.procreditbank.ro
<b>ProCredit Bank Serbia</b>	Founded in April 2001 79 branches 118,249 loans / EUR 472.9 million in loans 450,656 deposit accounts / EUR 345.7 million 1,864 employees	17 Milutina Milankovica 11070 Belgrade Tel./Fax: +381 11 20 77 906 / 905 info@procreditbank.rs www.procreditbank.rs
<b>ProCredit Bank Ukraine</b>	Founded in January 2001 64 branches 25,510 loans / EUR 188.3 million in loans 121,435 deposit accounts / EUR 104.7 million 1,417 employees	107a Peremohy Ave. 03115 Kyiv Tel./Fax: +380 44 590 10 17 / 01 info@procreditbank.com.ua www.procreditbank.com.ua

\* The figures in this section have been compiled on the basis of the financial and operational reporting performed in accordance with group-wide standards; they may differ from the figures reported in the bank's local statements.

## Our Clients



### Florica Soare, Handbag Producer

In 1990, after the fall of the communist regime, Florica Soare lost her job as a clerk in a state institution and was forced to start her own business. With the support of her husband, Gheorghe, who found himself in the same situation, she opened a travel agency, and later switched to selling clothing and footwear. In 1999 she began producing handbags, and at present her company, Duoflor Exim, is one of the few handbag manufacturers in Romania. The handbags are produced in a small workshop behind the couple's house in Afumati, a village near Bucharest. The company also operates two wholesale outlets in the city.

When Mrs. Soare started out 10 years ago, she had just one employee, and today she has 10 in her workshop and another two in her wholesale stores. Demand has been consistently strong and her sales have grown steadily, but her customers have not always paid promptly. Thus, in early 2008 Mrs. Soare found that she needed to take out a loan to finance the purchase of materials.

Based on the recommendation of one of her business partners, she talked to the staff at ProCredit Bank's Colentina branch in Bucharest about financing, and in May 2008 she took out a loan from the bank for EUR 8,200, which she used to buy raw materials. This working capital enabled her to keep turning out handbags and fill her customers' orders on time, and Mrs. Soare's business started expanding even faster. Currently, she produces

almost 3,000 handbags per month and hopes to exceed this figure in the near future.

In addition to the two wholesale outlets in Bucharest, Mrs. Soare now also has a "mobile store" – a minivan she uses to sell her company's merchandise at specialised fairs throughout Romania. She is convinced the effort is worthwhile:

*"It is a lot of work, but when I see ladies in the street carrying our handbags, I feel an immense satisfaction,"*

she says.

Given ProCredit Bank's flexibility and the speed with which it disbursed her first loan, as well as the openness and honesty of the staff, Mrs. Soare recently decided to apply for a credit line (EUR 7,200). She is now also using current accounts at the bank for all of Duoflor Exim's incoming and outgoing payments.

*"I like the ProCredit Bank people and the way they do business. Each time I go to the bank, I feel like I'm part of a family,"*

she comments.

Mrs. Soare definitely intends to continue her business relationship with ProCredit Bank. Her plans for the future include opening a boarding house, and she is confident that the bank will support her in carrying out this project as well.

## Mircea Codrut Hodosan, Farmer and Operator of an Agricultural Production Company



Mircea Codrut Hodosan, 36, has been a farmer for over 15 years. He is the sole owner of HS Tehnosilveg, a successful agricultural enterprise in Timis county in western Romania which he founded in 1996. Mr. Hodosan first heard about ProCredit Bank through a direct promotion aimed at local farmers which was conducted by the Timisoara branch in late 2003. Soon thereafter he took out a loan from the bank for EUR 10,000, which he used for working capital. He has been a customer ever since.

In 2006 and 2007, Mr. Hodosan obtained EU funds through S.A.P.A.R.D. (Special pre-Accession Programme for Agriculture and Rural Development) to further expand his business. However, he needed co-financing to carry out the project, and obtained the required funds from ProCredit Bank, which provided two loans totalling EUR 363,000.

In 2009 Mr. Hodosan wished to undertake another ambitious expansion project, for which he needed two medium-sized tractors, a truck tractor and other equipment. The total investment involved was substantial: EUR 885,000. He applied for EU funds from E.A.F.R.D. (European Agriculture Fund for Rural Development, which provides grants to agricultural producers, but there is a delay between the approval of the grant and the actual receipt of the funds by applicants. During this period, they must cover all costs themselves which are entailed in implementing the

approved business plan. Moreover, the E.A.F.R.D. funds cover only 50% of the net investment, i.e. the total investment less taxes, or EUR 320,000 in Mr. Hodosan's case. Since all of HS Tehnosilveg's earnings were being reinvested, he needed co-financing to carry out the project. Once again, he turned to ProCredit Bank, taking out one of its AgrolInvest loans with a maturity of 10 years. These special credit facilities are designed to support projects for which the EU is providing funding.

*"I had no other financing options, as I had reinvested all my profits in the farm. But I did not even consider seeking assistance elsewhere, as ProCredit Bank promptly offered a tailor-made solution,"* recalls Mr. Hodosan.

After working with ProCredit for over five years, Mr. Hodosan says he is very satisfied with his relationship with the bank:

*"I turned to ProCredit when I needed support the most, and, as always, they were there for me. Now I have the necessary agricultural machinery to develop my business."*

Although he is still implementing his current project, Mr. Hodosan is confident that ProCredit Bank will provide him with the financing support he needs to continue growing his business.



## Constantin Daniel Stanciu, Owner of a Beverage Distribution Company

In 1992, when he was 17, Constantin Daniel Stanciu started working for his father, who ran a small cooking oil distribution business from a small shop behind the family's house in Bucharest. In 1994, they were able to buy their first truck and establish Danni Trans Com, a beverage distributor. The company grew steadily, and Mr. Stanciu, 34, now owns two more companies in addition to Danni Trans Com: Danni Trans Intl., which transports goods, and Danni Trans Distribution, which specialises in merchandise handling. Mr. Stanciu is married with two children, and his wife helps him run the latter two companies.

Mr. Stanciu became a customer of ProCredit Bank in April 2004. He had been looking for a bank that focused on SMEs and had been favourably impressed with what he had heard about ProCredit. He talked to the staff at one of the bank's Bucharest branches about financing, and ended up taking out a loan for EUR 70,000, which he used for working capital and to purchase a truck and trailer. At the end of 2004, he obtained a second loan from ProCredit Bank, this time for EUR 160,000 to cover part of the cost of building a new warehouse near Bucharest. Since then, he has received 10 more loans for various purposes with amounts ranging between EUR 37,000 and EUR 400,000, as well as several credit lines. In addition to ProCredit's SME loans, Mr. Stanciu's companies also use the bank's deposit and account services.

What started out as a small family business has gradually developed into a group of three well-established companies which currently have a total of 71 employees. Talking about the oldest and largest of the three firms, Danni Trans Com, Mr. Stanciu outlines some key reasons for its success:

*"Thanks to our distribution agreements with very strong companies and our good relationships with them, we can offer a wide range of brands and products at very good prices. As a result, we now distribute beverages to outlets in many parts of the city."*

Danni Trans Com has a solid position in the market and good growth potential. And Mr. Stanciu recognises ProCredit's contribution to the company's development:

*"With ProCredit Bank's support, my company has been able to steadily increase its market share."*

He plans to continue using ProCredit as his companies' "house bank" because he appreciates the quality of its customer care, its efficient service, and the friendliness of its staff. Mr. Stanciu is not only a satisfied business customer of the bank: he and his family use ProCredit for their private banking transactions as well.



## Cicilia Tabaras, Pensioner and Deposit Customer

Cicilia Tabaras is a 75-year old pensioner living in Ploiesti. This former primary school teacher understands the importance of saving for the future, and she has done so all her life. Ms. Tabaras has always put her savings in a bank account because she knows that that is the safest place for her money.

Ms. Tabaras has been a ProCredit Bank customer since the day the bank's branch in Ploiesti opened. She first heard about ProCredit from a family friend who was already a customer and recommended the bank to her. Ms. Tabaras was not particularly satisfied with the bank she was using and knew that ProCredit would soon be establishing a branch in Ploiesti, so she decided to visit the new office as soon as it opened.

*"I wanted to have my pension paid into a bank account, but was looking for a special kind of bank.*

*When I walked into the brand-new ProCredit branch, I was greeted by friendly, smiling people. They patiently explained all the bank's products to me. I really appreciated that,"*

she recalls.

On that day in November 2007, Ms. Tabaras opened a pension account as well as a Savings Plan account into which she makes regular monthly payments. In early 2008 she opened term deposits in both leu and euros. She also set

up a regular savings account, to which she deposits all of her spare cash to build a reserve for unexpected expenses.

Ms. Tabaras now keeps all her savings at ProCredit, and for her, the attentiveness of the staff is one of the bank's major selling points. As she explains:

*"I like it at ProCredit Bank because the employees are ready to assist me from the moment I enter the branch, and they have never kept me waiting too long."*

A satisfied savings customer, Ms. Tabaras has recommended the bank to others:

*"I urged all my neighbours to put their savings in accounts at ProCredit Bank. I told them they would love the bank and its staff, and I was right,"* she says.

Ms. Tabaras will remain a loyal ProCredit customer, and not only because she knows the bank is a sound, reliable financial institution. Just as important in her eyes is the fact that the young employees of the Ploiesti branch seem almost like a family to her. They really care about their customers and take a genuine interest in them, and that shows in the way they approach client relationships.

## Financial Statements

For the year ended 31 December 2009.

Prepared in accordance with International Financial Reporting Standards.



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### Independent Auditors' Report

The Shareholders'  
ProCredit Bank SA

#### Report on the Financial Statements

- 1 We have audited the accompanying financial statements of ProCredit Bank SA ("the Bank"), which comprises the statement of financial position as at 31 December 2009 and the statement of comprehensive income, the statement of changes in equity and the 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, which have been presented together to report the financial position, results of operations, and changes in cash flows for the Bank in accordance with International Financial Reporting Standards as endorsed by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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*Opinion*

- 6 In our opinion, the financial statements presents fairly, in all material respects, the financial position of the Bank as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

*Other Aspects*

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

A handwritten signature of the KPMG firm, written in blue ink, appearing as 'KPMG'.

KPMG Romania S.R.L.  
Bucharest, Romania  
16 April 2010

## Statement of Comprehensive Income

For the year ended 31 December 2009

<i>in EUR</i>	Note	2009	2008
Interest income		42,288,683	46,155,121
Interest expense		(23,455,301)	(23,514,697)
<b>Net interest income</b>	7	<b>18,833,382</b>	<b>22,640,424</b>
Fee and commission income		2,937,534	4,756,337
Fee and commission expense		(418,438)	(424,228)
<b>Net fee and commission income</b>	8	<b>2,519,096</b>	<b>4,332,109</b>
Net trading income	9	918,290	920,155
Other operating income		372,321	102,851
<b>Operating income</b>		<b>22,643,089</b>	<b>27,995,539</b>
Net impairment loss on financial assets	10	(4,032,600)	(2,937,174)
Personnel expenses	12	(12,317,761)	(12,907,185)
Operating lease expenses		(4,347,170)	(3,925,258)
Depreciation and amortisation	18, 19	(2,591,752)	(2,578,760)
Other operating expenses	11	(5,989,751)	(7,631,534)
<b>Operating expenses</b>		<b>(29,279,034)</b>	<b>(29,979,911)</b>
<b>Loss before income tax</b>		<b>(6,635,945)</b>	<b>(1,984,372)</b>
Income tax revenue	13	1,443,009	22,190
<b>Loss for the year</b>		<b>(5,192,936)</b>	<b>(1,962,182)</b>
<b>Other comprehensive income, net of income tax</b>			
Effect of translation (*)		(1,462,128)	(1,645,375)
Revaluation reserve		-	558
<b>Other comprehensive income for the year, net of income tax</b>		<b>(1,462,128)</b>	<b>(1,644,817)</b>
<b>Total comprehensive income for the year</b>		<b>(6,655,064)</b>	<b>(3,606,999)</b>

(\*) see note 3.a

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 50 to 73.

The financial statements were approved by the Board of Administration on 16 April 2010 and were signed on its behalf by:



Gian Marco Felice  
General Manager



Asmus Rotne  
Deputy General Manager

## Statement of Financial Position

As at 31 December 2009

<i>in EUR</i>	Note	2009	2008
<b>Assets</b>			
Cash and balances with National Bank of Romania	14	64,880,319	73,029,253
Loans and advances to banks	15	1,535,027	1,185,371
Loans and advances to customers	17	174,423,600	210,047,145
Treasury bills, available-for-sale		9,411,905	–
Investment securities, available-for-sale	16	87,460	92,793
Property and equipment	19	5,565,270	6,216,966
Intangible assets	18	563,159	629,942
Deferred tax assets	13	1,237,293	–
Other assets	20	1,569,930	2,051,178
<b>Total assets</b>		<b>259,273,963</b>	<b>293,252,648</b>
<b>Liabilities</b>			
Deposits from customers	21	133,563,751	151,354,517
Loans from banks and other financial institutions	22	94,337,308	95,428,028
Debt securities issued	25	–	10,420,000
Subordinated liabilities	24	8,928,206	8,930,328
Deferred tax liabilities	13	–	221,555
Other liabilities	23	1,285,365	2,156,923
<b>Total liabilities</b>		<b>238,114,630</b>	<b>268,511,351</b>
<b>Equity</b>			
Share capital and share premium	26	27,844,530	26,299,449
Reserves	27	1,607,067	1,705,058
Accumulated deficit		(8,281,092)	(3,408,067)
Translation reserve	3.a	(11,172)	144,857
<b>Total equity</b>		<b>21,159,333</b>	<b>24,741,297</b>
<b>Total liabilities and equity</b>		<b>259,273,963</b>	<b>293,252,648</b>

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 50 to 73.

The financial statements were approved by the Board of Administration on 16 April 2010 and were signed on its behalf by



Gian Marco Felice  
General Manager



Asmus Rotne  
Deputy General Manager

## Statement of Changes in Equity

For the years ended 31 December 2009 and 2008

<i>in EUR</i>	Share Capital	Share premium	Reserves	Accumulated deficit	Translation reserve	Total equity
<b>Balance at 1 January 2008</b>	<b>18,877,664</b>	<b>-</b>	<b>1,868,564</b>	<b>(1,524,517)</b>	<b>(71,554)</b>	<b>19,150,157</b>
<b>Total comprehensive income for the year</b>						
Loss for the year	-	-	-	(1,962,182)	-	(1,962,182)
<b>Other comprehensive income, net of income tax</b>						
Effect of translation (*)	(1,776,354)	-	(164,064)	78,632	216,411	(1,645,375)
Change in revaluation reserve	-	-	558	-	-	558
Total other comprehensive income, net of income tax	(1,776,354)	-	(163,506)	78,632	216,411	(1,644,817)
<b>Total comprehensive income for the year</b>	<b>(1,776,354)</b>	<b>-</b>	<b>(163,506)</b>	<b>(1,883,550)</b>	<b>216,411</b>	<b>(3,606,999)</b>
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners.</b>						
Contributions from shareholders	8,878,514	319,625	-	-	-	9,198,139
<b>Total contributions by owners</b>	<b>8,878,514</b>	<b>319,625</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,198,139</b>
<b>Balance at 31 December 2008</b>	<b>25,979,824</b>	<b>319,625</b>	<b>1,705,058</b>	<b>(3,408,067)</b>	<b>144,857</b>	<b>24,741,297</b>
<b>Balance at 1 January 2009</b>	<b>25,979,823</b>	<b>319,626</b>	<b>1,705,058</b>	<b>(3,408,067)</b>	<b>144,857</b>	<b>24,741,297</b>
<b>Total Comprehensive income for the year</b>						
Loss for the year	-	-	-	(5,192,936)	-	(5,192,936)
<b>Other comprehensive income, net of income tax</b>						
Effect of translation (*)	(1,509,649)	(18,370)	(97,991)	319,911	(156,029)	(1,462,128)
Total other comprehensive income, net of income tax	(1,509,649)	(18,370)	(97,991)	319,911	(156,029)	(1,462,128)
<b>Total comprehensive income for the year</b>	<b>(1,509,649)</b>	<b>(18,370)</b>	<b>(97,991)</b>	<b>(4,873,025)</b>	<b>(156,029)</b>	<b>(6,655,064)</b>
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Contributions from shareholders	3,073,100	-	-	-	-	3,073,100
<b>Total contributions by owners</b>	<b>3,073,100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,073,100</b>
<b>Balance at 31 December 2009</b>	<b>27,543,274</b>	<b>301,256</b>	<b>1,607,067</b>	<b>(8,281,092)</b>	<b>(11,172)</b>	<b>21,159,333</b>

(\*) see note 3.a

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 50 to 73.

## Statement of Cash Flows

For the year ended 31 December

<i>in EUR</i>	Note	2009	2008
<b>Cash flows from operating activities</b>			
Loss for the year		(5,192,936)	(1,962,182)
Adjustments for:			
Depreciation and amortisation	18, 19	2,591,752	2,578,760
Net impairment on loans and advances to customers	10	2,061,684	940,165
Loans written-off	10	3,252,915	1,926,696
Loss on disposal of property and equipment	19	88,540	29,421
Accrued interest, deferred commission on debt securities		(2,039,759)	(73,111)
Income tax revenue	13	(1,443,008)	(22,190)
Dividend income		(2,864)	(3,335)
Exchange rate differences		(1,060,767)	(2,155,282)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>(1,744,443)</b>	<b>1,258,942</b>
Change in minimum compulsory reserve	14	21,194,904	(6,814,787)
Change in loans and advances to customers		30,370,679	(4,016,109)
Change in other assets	20	481,247	(1,197,049)
Change in deposits from banks		-	(15,270,837)
Change in deposits from customers		(17,141,505)	(8,657,030)
Change in other liabilities	23	(871,557)	766,848
<b>Net cash used in/ (from) operating activities</b>		<b>32,289,325</b>	<b>(33,930,023)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment and intangible assets	18, 19	(2,355,313)	(2,629,633)
Proceeds from sale of property and equipment		-	5,424
Dividends received		2,864	3,335
Proceeds from disposal of participations		-	1,631
<b>Net cash used in investing activities</b>		<b>(2,352,449)</b>	<b>(2,619,243)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		3,054,730	9,198,139
Proceeds from borrowings		19,955,537	44,033,424
Repayment of borrowing		(19,719,613)	(13,921,103)
Repayment of debt securities issued		(10,420,000)	-
<b>Net cash used in/ (from) financing activities</b>		<b>(7,129,346)</b>	<b>39,310,460</b>
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at 31 December		13,701,426	10,940,233
Net increase in cash and cash equivalents		22,807,530	2,761,193
<b>Cash and cash equivalents at 31 December</b>	28	<b>36,508,956</b>	<b>13,701,426</b>
<b>Cash flows from operating activities include:</b>			
Interest received		42,288,683	46,155,121
Interest paid		(23,455,301)	(23,514,697)
Fees and commissions received		2,937,534	4,756,337
Fees and commissions paid		(418,438)	(424,228)
		<b>21,352,478</b>	<b>26,972,533</b>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 50 to 73.

## Notes to the Financial Statements

For the year ended 31 December 2009

### 1. Reporting entity

ProCredit Bank S.A. (the "Bank" or "ProCredit") is domiciled in Romania. The Bank was established in Romania in July 2002 (up to November 2004 the Bank was known as Microfinance Bank MIRO S.A.), and is licensed by the National Bank of Romania to conduct banking activities.

The Bank provides day-to-day banking services to corporate and individual clients. These include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance and overdrafts, medium term facilities and mortgage loans. The principal activity of the Bank is to finance very small and small enterprises operating in Romania.

The Bank operates through the Head Office located in Bucharest and through its network consisting of 29 branches (31 December 2008: 26) and 14 agencies (31 December 2008: 14) located in Romania.

The current registered office of the Bank is located at:

62 – 64 Buzesti Street,  
Bucharest, Sector 1  
Romania

The Bank's number of employees as at 31 December 2009 was of 1,006 (31 December 2008: 1,121).

The Bank is managed by a Board of Administration made up of 7 members; lead by a Chairman, and by the Bank's Manager, Mr. Gian Marco Felice as General Manager. The composition of the Board of Administration was as follows:

Position	31 December 2009	31 December 2008
Chairperson	Dr. Anja Lepp	Dr. Anja Lepp
Vice-Chairperson	Ana Maria Mihaescu	Ana Maria Mihaescu
Member	Ivaylo Blagoev	Ivaylo Blagoev
Member	Hanns M. Hagen	Hanns Martin Hagen
Member	Roger Bardo Rihmland	Thomas Nikola Debelic
Member	Dr. Dietrich Ohse	Dr. Dietrich Ohse
Member	Guadalupe de la Mata	–

### 2. Basis of preparation

#### a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union.

These financial statements have been prepared on the basis of the IFRS in issue that are effective for the Bank's IFRS annual reporting date, 31 December 2009.

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

The accounts of the Bank are maintained in historical RON in accordance with Romanian accounting law and National Bank of Romania banking regulations ("statutory accounts").

These accounts have been restated to reflect the differences between the statutory accounts and the IFRS. Accordingly, such adjustments have been made to the statutory accounts as have been considered necessary to bring the financial statements into line, in all material respects, with IFRS.

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

- grouping of numerous detailed items into broader captions;
- different methodology for the calculation of loan loss impairment provisions;
- deferred taxation, where appropriate;
- the necessary IFRS disclosure requirements.

#### b) Basis of measurement

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

Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost, revalued amount or historical cost. Non-current assets held for sale are stated at the lower of carrying amount and fair value less cost to sell.

#### c) Functional and presentation currency

These financial statements are prepared in Romanian Lei ("RON"), which is the Bank's functional currency and presented in Euro ("EUR").

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

#### d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4 and 5.

#### e) Changes in accounting policies

Effective 1 January 2009 the Bank has changed its accounting policy regarding presentation of the financial statements.

The Bank applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income; in respect of the statement of comprehensive income the Bank elected the single statement approach.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

## f) Other accounting developments

### Disclosures pertaining to fair values and liquidity risk for financial instruments

The Bank has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments. Relevant revised disclosure in respect of fair values of financial instruments is included in note 5.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Revised disclosures in respect of liquidity risk are included in note 4.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

Revised disclosures in respect of liquidity risk are included in Note 4.

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as described in Note 2.e), which addresses changes in accounting policies.

#### a) Foreign currency

##### i. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

The exchange rates of major foreign currencies were:

Currency	31 December 2009	31 December 2008	Increase %
Euro (EUR)	1: RON 4.2282	1: RON 3.9852	6.09
US Dollar (USD)	1: RON 2.9361	1: RON 2.8342	3.59

##### ii. Translation from functional to presentation currency

All assets and liabilities for all balance sheets presented (including comparatives) have been translated from the functional currency to the presentation currency at the closing rate existing at the date of each balance sheet presented. Income and expense for all periods presented (including comparatives) have been translated using an average rate for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Share capital, retained earnings and all other reserves are translated at closing rates. All exchange differences resulting from translation have been recognised directly as a separate component in equity as translation reserve.

The restatement and presentation procedures used according with IAS 21 - The Effects of Changes in Foreign Exchange Rates, could result in distortion of the figures presented in EUR compared with real values.

#### b) Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Interest income and expense presented in the income statement include interest on financial assets and liabilities at amortised cost on an effective interest rate basis and interest on available-for-sale investment securities calculated on effective interest basis.

#### c) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, foreign currency transactions fees, fees for guarantees given and opening of letter of credit fees are recognised as the related services are performed on an accrual basis.

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

#### d) Net trading income

Net trading income comprises gains less loss related to foreign exchange operations.

#### e) Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of other operating income based on the underlying classification of the equity instrument.

Dividends are treated as an appropriation of profit in the period they are declared and approved by the General Assembly of Shareholders. The only profit available for distribution is the profit for the year recorded in the Romanian statutory accounts, which differs from the profit in these financial statements, prepared in accordance with IFRS, due to the differences between the applicable Romanian Accounting Regulations and IFRS.

#### f) Lease payments made

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

#### g) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. For the year ended 31 December 2009 the current profit tax rate was 16% (31 December 2008: 16%).

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The tax rate used to calculate the deferred tax position for the Bank at 31 December 2009 is 16% (31 December 2008: 16%).

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

#### h) Financial assets and liabilities

##### i. Classification

The Bank classifies its financial instruments in the following categories:

*Financial assets or financial liabilities at fair value through profit or loss.* This category has two sub-categories: financial assets or financial liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial instrument is classified in this category if it is:

- (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (iii) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

As at 31 December 2009 the Bank had no financial instruments classified at fair value through profit and loss.

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

*Held-to-maturity 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. As at 31 December 2009 the Bank had no financial instruments classified as held-to-maturity investments.

*Available-for-sale financial assets* are those financial assets that are designated as available for sale or are not classified as loans and advances, held-to-maturity investments or financial assets at fair value through profit or loss. As at 31 December 2009 available-for-sale financial assets comprise of unlisted equity investments and treasury bills.

##### ii. Recognition

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

##### iii. Derecognition

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

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

#### *iv. Offsetting*

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

#### *v. Amortised cost measurement*

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

#### *vi. Fair value measurement*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all available factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. Where a fair value cannot be reliably estimated, unquoted equity instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment (further described in Note 3h vii).

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

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in

profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

#### **i) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances on hand, balances held with National Bank of Romania and cash balances in ATM.

For the purposes of the statement of cash flows, cash and cash equivalents include cash balances on hand, unrestricted balances held with central bank, and cash balances in ATM, current accounts with banks and placements with other banks with less than 90 days original maturity and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

#### **j) Property and equipment**

##### *i. Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses (refer to accounting policy no. 3.l).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

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

#### ii. Subsequent costs

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

#### iii. Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

Buildings	40 years
Leasehold improvements	5 – 10 years
urniture and equipment	3 – 12 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

During December 2008 a revaluation of the Bank's building was carried on by an independent valuer. The revaluation was done at fair value at the balance sheet date. In estimating the fair value, the valuer used the absolute value method (determine the value by estimating the expected future earnings from owning the asset discounted to their present value).

#### k) Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses (refer to accounting policy no. 3.l).

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development.

The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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

#### l) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amounts of an asset or its cash-generating unit exceed its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### m) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's sources of debt funding.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

#### n) Provisions

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

#### o) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities. The Bank has no financial guarantees as at 31 December 2009.

## p) Employee benefits

### i. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Short-term employee benefits include wages, salaries, bonuses and social security contributions. Short-term employee benefits are recognised as expense when services are rendered. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### ii. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

The Bank, in the normal course of business makes payments to the Romanian State funds on behalf of its Romanian employees for pension, health care and unemployment benefit.

All employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognised as an expense in the income statement as incurred. The Bank does not have any further obligations. The Bank does not operate any independent pension scheme and, consequently, has no obligation in respect of pensions.

### iii. Defined benefit plans

The Bank and thus does not operate any defined benefit plan, thus has no obligation related to contributions to any such plan.

### iv. Other long-term employee benefits

The Bank's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The Bank has no contractual obligation to pay any long-term benefit calculated taking into account the past service.

### v. Termination benefits

The Bank is not committed, without realistic possibility of withdrawal, to any formal detailed plan to terminate employment before the normal retirement date.

## q) Standards and interpretations not yet adopted

A number of standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. None of these will have an impact on the financial statements of the Bank, with the exception of:

- IFRS 9 Financial Instruments, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and

the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss. This standard was not yet adopted by the European Union.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

## 4. Financial risk management

### a) Introduction and overview

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

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

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk.

#### *Risk management framework*

The Bank's approach to risk management, including the internal control system and internal audit, is in line with the Bank's risk profile. The Bank's risk profile is determined by the business conducted and Bank's operating environment.

The risk management policies of ProCredit Bank S.A. establish the Bank's risk philosophy and strategy, compliant with the regulations issued by the Romanian banking supervisory authority. The risk management policies and strategies are the following:

- Credit Risk Management Policy and Strategy;
- Counterparty Risk Management Policy and Strategy;
- Liquidity Risk Management Policy and Strategy;
- Foreign Currency Risk Management Policy and Strategy;
- Interest Rate Risk Management Policy and Strategy;
- Operational Risk Management Policy and Strategy;
- Reputational Risk Management Policy and Strategy.

These documents set forth minimum standards for risk management and they were approved by the Board of Administrators ("BoA").

The BoA has overall responsibility for the establishment and oversight of the Bank's risk management framework. The BoA has established the Risk Management Committee and its subcommittees: Assets and Liabilities Management Subcommittee (ALCO), Credit Risk Management Subcommittee, Operational Risk Management Subcommittee and Subcommittee for Preventing and Combating the Money Laundering and Terrorism Activities Funding (AML&CFT), which are responsible for implementing the Bank's risk management policies and for the management of risks in their specified areas. All subcommittees report regularly to the Risk Management Committee which informs the BoA.

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

The Bank's Audit Committee reports to BoA and is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

## b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities.

### i. Management of credit risk

The Board of Administration has delegated, through the ROF (Internal Regulation Framework), the responsibility to the management of the Bank to develop and implement the Credit Procedures and to set up separate departments of Credit, Credit Risk and Credit Control, responsible for oversight of the Bank's credit risk, including:

- *Formulating credit procedures* in consultation with business units, covering collateral requirements, credit risk assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to five levels of credit committees for very small and small enterprises and three levels of credit committees for medium enterprises. Larger facilities require approval by the highest level Credit Committee or the BoA as appropriate.
- *Reviewing and assessing credit risk.* Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.

The Credit Risk Management Policy and Strategy sets up limits for the credit risk exposure through the risk profile indicators and through limits for concentrations of exposure to counterparties, geographic divisions, industries and products (for loans and advances).

In addition the Credit Risk Management Subcommittee monitors

- *the Bank's risk grading* (based on days in arrears: 0-30, 31-90, 91-180, >180) in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default. BoA has approved the split of loan portfolio based on days in arrears in the provisioning policy.
- *the risk classification of credit exposures to medium-sized enterprises.* This risk classification is an instrument supporting the credit assessment for a proposed credit exposure and the ongoing assessment of the risk associated with outstanding exposures. The classification takes into account quantitative and qualitative information of the client which eventually results in a grade between 1 and 8.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries and product types.
- *Regular reports* are provided to Credit Risk Management Subcommittee on the credit quality of portfolios and appropriate corrective action is taken.

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

Regular audits of branches/agencies and Bank credit processes are undertaken by Internal Audit. The Credit Control Department also conducts reviews in order to assess the compliance with lending procedures at the level of each branch, to assess the quality of risk assessments for very small, small and private individual exposures and to assess the quality of the loan portfolio at branch level.

The Bank monitors the quality of the loan portfolio on an ongoing basis, using a portfolio at risk definition that includes all exposures with payments overdue by more than 30 days as the basic measure of current portfolio quality. The Bank chooses this measure because the vast majority of all loans have fixed instalments with monthly payment of principal and interest. Exceptions are credit lines, overdraft facilities, seasonal agricultural loans and investment loans, which have a grace period of six months. At 31 December 2009 portfolio at risk stood at 3.5% (as compared to 1.6% in 2008).

The Bank's primary exposure to credit risk arises through its lending activity. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued (see Note 29).

Concentrations of credit risk that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by individual counterparty and by type of customer in relation to the Bank's loans and advances to customers (see Note 17).

## ii. Exposure to credit risk

<i>in EUR</i>	Loans and advances to customers		Loans and advances to banks		Investments securities	
Assets at amortised cost	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
<b>Individually impaired</b>						
31-90 days in arrears	1,610,127	88,580	-	-	-	-
91-180 days in arrears	345,413	106,164	-	-	-	-
over 180 days in arrears	710,517	0	-	-	-	-
<b>Gross amount</b>	<b>2,666,057</b>	<b>194,744</b>	-	-	-	-
Allowance for impairment	(428,766)	(4,447)	-	-	-	-
<b>Carrying amount</b>	<b>2,237,291</b>	<b>190,297</b>	-	-	-	-
<b>Collectively impaired</b>						
0-30 days in arrears	173,528,285	212,253,810	-	-	-	-
31-90 days in arrears	2,498,272	1,966,630	-	-	-	-
91-180 days in arrears	1,674,517	1,265,318	-	-	-	-
over 180 days in arrears	546,429	82,541	-	-	-	-
<b>Gross amount</b>	<b>178,247,503</b>	<b>215,568,299</b>	-	-	-	-
Allowance for impairment	(6,061,194)	(5,711,451)	-	-	-	-
<b>Carrying amount</b>	<b>172,186,309</b>	<b>209,856,848</b>	-	-	-	-
Past due but not impaired	-	-	-	-	-	-
Carrying amount	-	-	-	-	-	-
Neither past due nor impaired	-	-	1,535,027	1,185,371	87,460	92,793
Carrying amount	-	-	1,535,027	1,185,371	87,460	92,793
<b>Carrying amount - amortised cost</b>	<b>174,423,600</b>	<b>210,047,145</b>	<b>1,535,027</b>	<b>1,185,371</b>	<b>87,460</b>	<b>92,793</b>
<b>Available for sale assets</b>						
Neither past due nor impaired	-	-	-	-	-	-
Carrying amount	-	-	-	-	9,411,905	-
Carrying amount – fair value	-	-	-	-	9,411,905	-
<b>Total carrying amount</b>	<b>174,423,600</b>	<b>210,047,145</b>	<b>1,535,027</b>	<b>1,185,371</b>	<b>9,499,365</b>	<b>92,793</b>

*Impaired loans and securities*

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreements. Where contractual interest or principal payments are past due by over 30 days the loans are considered impaired and assessed individually for exposures higher than EUR 30,000. These loans are graded 2-4 in the Bank's loan loss provision methodology. However, if a loan was restructured and the restructuring led to a decrease of the interest rate, all loans granted to the respective client will be classified as impaired, regardless of the arrears level.

*Past due but not impaired loans*

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

*Allowances for impairment*

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment (refer to Note 3 (h) (vii) and Note 5).

*Write-off policy*

The Bank writes-off a loan / security balance (and any related allowances for impairment losses) when it determines that the loans / securities are uncollectible. This determination is reached after considering information such as the number of days in arrears.

A loan is considered uncollectible when it has more than 180 days in arrears for loans with principal outstanding amounts plus accrued interests less unamortized fee (amortized cost) below equivalent EUR 10,000 or if it has more than 360 days in arrears for loans with amortized cost greater than equivalent EUR 10,000 but up to EUR 30,000. For loans with amortized cost higher than EUR 30,000 the write off would be performed after 360 days of arrears. For these loans in case of pending court transactions, i.e. if it is probable that the loan will be finally recovered via the execution of collateral the item will be kept on the balance sheet. Credit Risk Department (in case the legal execution did not start) or Legal Recovery (in case the legal execution was initiated) will make the proposal for writing off (for loans whose amortized cost > EUR 30,000 equivalent) to Bank's Managers who will decide upon it.

*Collateral*

The Bank holds collateral against loans and advances to customers in the form of pledge over cash deposits, mortgage interests over property, guarantees and other pledge over equipments and/or receivables. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired, except for mortgage interests over property which are reassessed yearly.

Collateral generally is not held over loans and advances to banks. According to the Counterparty Risk Management Policy and Strategy, the only type of eligible collateral for these exposures is cash deposits. Collateral usually is not held against investment securities, and the Bank did not have such exposures as of 31 December 2009 or 2008.

An estimate of the total value of collateral and other security enhancements held against financial assets is shown below:

<i>in EUR</i>	Loans and advances to customers		Loans and advances to banks	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
<b>Against individually impaired</b>				
Mortgages	1,202,001	317,809	-	-
Personal guarantees	1,424,541	303,215	-	-
Inventories	189,621	-	-	-
Others	-	-	-	-
<b>Against collectively impaired</b>				
Mortgages	145,533,854	172,373,789	-	-
Personal guarantees	273,356,788	297,877,904	-	-
Inventories	42,173,862	55,491,369	-	-
Others	288,860	115,495	-	-
<b>Total</b>	<b>464,169,527</b>	<b>526,479,581</b>	<b>-</b>	<b>-</b>

The Bank's credit portfolio risk is naturally limited by the credit strategy resulting from the business model; in particular the focus on small and very small loans and denominated mostly in RON show the distribution of loan portfolio by loan destination for 31 December 2009:

<i>in EUR</i>	Working capital	Agriculture	Housing	Consumer	Other	Total
Less than EUR 10,000	35,265,329	20,969,838	4,732,846	653,315	984,479	62,605,807
EUR 10,000 to 30,000	35,857,501	7,408,653	1,545,586	945,140	323,069	46,079,949
EUR 30,000 to 150,000	35,993,492	5,942,314	1,117,707	257,997	213,677	43,525,187
More than EUR 150,000	20,420,283	1,391,686	246,278	154,410	-	22,212,657
<b>Total</b>	<b>127,536,605</b>	<b>35,712,491</b>	<b>7,642,417</b>	<b>2,010,862</b>	<b>1,521,225</b>	<b>174,423,600</b>

The Bank's credit portfolio risk is naturally limited by the credit strategy resulting from the business model; in particular the focus on small and very small loans and denominated mostly in RON show the distribution of loan portfolio by loan destination for 31 December 2008.

<i>in EUR</i>	Working capital	Agriculture	Housing	Consumer	Other	Total
Less than EUR 10,000	47,711,568	21,519,437	7,437,323	1,327,927	974,330	78,970,585
EUR 10,000 to 30,000	52,452,251	8,857,638	2,112,458	1,169,845	426,584	65,018,776
EUR 30,000 to 150,000	39,981,487	4,012,634	1,441,128	262,660	196,329	45,894,238
More than EUR 150,000	18,572,320	1,161,497	268,115	161,614	-	20,163,546
<b>Total</b>	<b>158,717,626</b>	<b>35,551,206</b>	<b>11,259,024</b>	<b>2,922,046</b>	<b>1,597,243</b>	<b>210,047,145</b>

The prerequisite for the identification of major credit risks is an awareness of the overall credit exposure to each borrower. For this purpose, full information about any related parties is collected prior to lending.

Limits for large-scale loans limit our maximum exposure toward single clients. As a rule, the sum of the large exposures (exposures exceeding 10% of bank's tier I + II capital) may not exceed 150% of the Bank's tier I + II capital. All in all, this results in a comparatively low need for individual impairment.

The structure of the loan portfolio is regularly reviewed within the Bank in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors)

and if necessary limit the exposure toward certain sectors of the economy.

#### c) Interest rate risk

The Bank incurs interest rate risk from its financial intermediation activity, principally in the form of exposure to adverse changes in the market interest rates. The main sources of interest rate risk are imperfect correlation between the maturity (for fixed interest rates) or re-pricing date (for floating interest rates) of the interest-bearing assets and liabilities, adverse evolution of the slope and shape of

the yield curve (the unparallel evolution of the interest rate yields of the interest-earning assets and interest-earning liabilities), imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics.

The Bank does not aim to earn profits through maturity transformation or other forms of speculation in the interest rate market. Rather, the Bank seeks to ensure that the balance sheet structure is as balanced as possible across all maturities.

The Bank counteracts the loan portfolio risks associated with interest rate fluctuations through variable interest for its borrowings.

In quantitative terms, the Bank currently limits the risks associated with interest rate fluctuations by stipulating that the maximum weighted modified duration gap (Macaulay modified duration) of the assets and liabilities must be less than 1 (and greater than -1) while aiming at a modified duration gap of zero. In addition, a parallel shift in the yield curve of one currency by a shock calculated as the 99th percentile of the 5 year historical distribution of market/internal interest rates may not lead to a loss in economic value of more than 20% of the regulatory capital and to a loss in profit and loss over three months of more than 2%.

The Bank developed scenarios for normal cases and worst cases according to Basel II requirements. An overview of the scenario results as of the end of the year is presented in the following table:

	31 Dec 2009	31 Dec 2008
<i>in EUR</i>		
200 bp parallel increase	(876,046)	(842,733)
200 bp parallel decrease	876,046	831,051
100 bp parallel increase	(438,023)	(418,489)
100 bp parallel decrease	438,023	417,869

The interest rates related to the local currency and the major foreign currencies as at 31 December 2009 and 2008 were as follows:

Currencies	Interest rate	31 Dec 2009	31 Dec 2008
Leu (RON)	BUBOR 3 months	10.82%	15.5%
Leu (RON)	BUBOR 6 months	10.62%	15.5%
Euro (EUR)	Euribor 3 months	0.71%	2.9%
Euro (EUR)	Euribor 6 months	0.99%	3.0%
US Dollar (USD)	Libor 3 months	0.25%	1.4%
US Dollar (USD)	Libor 6 months	0.43%	1.8%

#### Range of interest rates

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during financial year 2009:

Range of interest rates	RON		USD		EUR	
<b>Assets</b>						
Current accounts with the National Bank of Romania	3.36%	5.90%	0.89%	1.29%	1.26%	2.80%
Loans and advances to banks	4.00%	14.00%	0.10%	1.85%	0.05%	6.00%
Loans and advances to customers, net	7.00%	35.00%	11.00%	19.00%	2.23%	25.00%
Treasury bills	9.85%	12.50%	–	–	–	–
<b>Liabilities</b>						
Deposits from customers	1.00%	19.30%	0.15%	6.00%	0.25%	10.50%
Loans from banks and other financial institutions	9.81%	24.50%	–	–	1.86%	5.33%
Subordinated liabilities	–	–	–	–	9.00%	9.16%

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during financial year 2008:

Range of interest rates	RON		USD		EUR	
<b>Assets</b>						
Current accounts with the National Bank of Romania	2.60%	5.60%	0.80%	1.30%	1.25%	2.80%
Loans and advances to banks	2.00%	37.00%	2.00%	7.68%	0.80%	9.25%
Loans and advances to customers, net	6.25%	35.00%	10.80%	19.00%	5.25%	22.50%
<b>Liabilities</b>						
Deposits from customers	2.00%	19.00%	1.25%	7.80%	1.00%	6.00%
Deposits from banks	7.60%	13.95%	–	–	4.20%	7.80%
Loans from banks and other financial institutions	8.38%	19.95%	–	–	4.50%	7.33%
Debt securities issued	8.50%	8.50%	–	–	–	–
Subordinated liabilities	–	–	–	–	9.00%	9.16%

A summary of the Bank's interest rate gap position on non-trading portfolios as at 31 December 2009 is as follows:

<i>in EUR</i>	Up to 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with NBR	58,183,178	–	–	–	–	6,697,141	64,880,319
Loans and advances to banks	1,517,169	–	–	–	–	17,858	1,535,027
Investment securities, available-for-sale	–	–	–	–	–	87,460	87,460
Loans and advances to customers	6,746,134	9,231,569	49,426,969	92,120,499	17,691,295	(792,866)	174,423,600
Treasury bills	9,411,905	–	–	–	–	–	9,411,905
	<b>75,858,386</b>	<b>9,231,569</b>	<b>49,426,969</b>	<b>92,120,499</b>	<b>17,691,295</b>	<b>6,009,593</b>	<b>250,338,311</b>
Deposits from customers	69,762,939	44,783,417	17,571,983	78,950	–	1,366,462	133,563,751
Loans from banks and financial institutions	23,650,726	–	62,525,507	7,955,537	–	205,538	94,337,308
Debt securities issued	–	–	–	–	–	–	–
Subordinated liabilities	–	–	–	–	8,750,000	178,206	8,928,206
	<b>93,413,665</b>	<b>44,783,417</b>	<b>80,097,490</b>	<b>8,034,487</b>	<b>8,750,000</b>	<b>1,750,206</b>	<b>236,829,265</b>
<b>Total interest sensitivity gap</b>	<b>(17,555,279)</b>	<b>(35,551,848)</b>	<b>(30,670,521)</b>	<b>84,086,012</b>	<b>8,941,295</b>	<b>4,259,387</b>	<b>13,509,046</b>

A summary of the Bank's interest rate gap position on non-trading portfolios as at 31 December 2008 is as follows:

<i>in EUR</i>	Up to 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with NBR	65,542,814	–	–	–	–	7,486,439	73,029,253
Loans and advances to banks	821,118	–	–	–	–	364,253	1,185,371
Investment securities, available-for-sale	–	–	–	–	–	92,793	92,793
Loans and advances to customers	86,357,132	9,510,975	45,858,671	71,535,357	3,765,230	(6,980,220)	210,047,145
	<b>152,721,064</b>	<b>9,510,975</b>	<b>45,858,671</b>	<b>71,535,357</b>	<b>3,765,230</b>	<b>963,265</b>	<b>284,354,562</b>
Deposits from customers	82,104,977	42,160,253	24,684,944	495,353	–	1,908,990	151,354,517
Loans from banks and financial institutions	–	17,577,537	76,769,265	–	–	1,081,226	95,428,028
Debt securities issued	–	10,099,869	–	–	–	320,131	10,420,000
Subordinated liabilities	–	–	–	–	8,750,000	180,328	8,930,328
	<b>82,104,977</b>	<b>69,837,659</b>	<b>101,454,209</b>	<b>495,353</b>	<b>8,750,000</b>	<b>3,490,675</b>	<b>266,132,873</b>
<b>Total interest sensitivity gap</b>	<b>70,616,087</b>	<b>(60,326,684)</b>	<b>(55,595,538)</b>	<b>71,040,004</b>	<b>(4,984,770)</b>	<b>(2,527,410)</b>	<b>18,221,689</b>

#### d) Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies against RON. There is also a balance sheet risk that the net monetary liabilities in foreign currencies will take a higher value when translated into RON as a result of currency movements. The principal foreign currencies held by the Bank are EUR and USD. On the Romanian market, exchange rates have a high volatility; therefore open foreign exchange positions represent a source of currency risk. The Bank carries out operations in both the local currency and hard currencies (EUR and RON) and monitors its foreign currency exposure on a daily basis and closes out its positions within individually defined limits.

The establishment of foreign currency positions for speculative purposes is not permitted. Currently the Bank does not use derivative instruments for hedging purposes. The strategy is to avoid to the maximum extent possible the foreign exchange risk.

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2009 are presented below:

<i>in EUR</i>	RON	EUR	USD	Other	Total
<b>Monetary assets</b>					
Cash and balances with Central Bank	27,214,698	36,842,600	823,021	–	64,880,319
Loans and advances to banks	29,393	991,202	491,833	22,600	1,535,027
Investment securities, available-for-sale	4,297	83,163	–	–	87,460
Loans and advances to customers	104,953,034	69,161,890	308,631	45	174,423,600
Treasury bills	9,411,905	–	–	–	9,411,905
Other assets	1,433,736	104,904	31,289	–	1,569,930
<b>Total monetary assets</b>	<b>143,047,064</b>	<b>107,183,759</b>	<b>1,654,774</b>	<b>22,645</b>	<b>251,908,242</b>
<b>Monetary liabilities</b>					
Deposits from banks	–	–	–	–	–
Deposits from customers	89,655,337	42,053,343	1,819,240	35,830	133,563,751
Loans from banks and other financial institutions	40,319,478	54,017,830	–	–	94,337,308
Debt securities issued	–	–	–	–	–
Other liabilities	1,278,646	6,719	–	–	1,285,365
Deferred tax liabilities	–	–	–	–	–
Subordinated liabilities	–	8,928,206	–	–	8,928,206
<b>Total monetary liabilities</b>	<b>131,253,461</b>	<b>105,006,098</b>	<b>1,819,240</b>	<b>35,830</b>	<b>238,114,630</b>
<b>Net currency position</b>	<b>11,793,603</b>	<b>2,177,661</b>	<b>(164,466)</b>	<b>(13,185)</b>	<b>13,793,612</b>

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2008 are presented below:

<i>in EUR</i>	RON	EUR	USD	Other	Total
<b>Monetary assets</b>					
Cash and balances with Central Bank	27,215,614	43,935,438	1,878,201	–	73,029,253
Loans and advances to banks	7,768	1,014,892	141,244	21,466	1,185,370
Investment securities, available-for-sale	4,559	88,234	–	–	92,793
Loans and advances to customers	156,953,406	52,613,033	480,706	–	210,047,145
Other assets	1,598,693	357,134	94,590	761	2,051,178
<b>Total monetary assets</b>	<b>185,780,040</b>	<b>98,008,731</b>	<b>2,594,741</b>	<b>22,227</b>	<b>286,405,739</b>
<b>Monetary liabilities</b>					
Deposits from banks	–	–	–	–	–
Deposits from customers	99,132,318	49,480,438	2,732,361	9,400	151,354,517
Loans from banks and other financial institutions	57,036,793	38,391,235	–	–	95,428,028
Debt securities issued	10,420,000	–	–	–	10,420,000
Other liabilities	1,902,673	254,250	–	–	2,156,923
Deferred tax liabilities	221,555	–	–	–	221,555
Subordinated liabilities	–	8,930,328	–	–	8,930,328
<b>Total monetary liabilities</b>	<b>168,713,339</b>	<b>97,056,251</b>	<b>2,732,361</b>	<b>9,400</b>	<b>268,511,351</b>
<b>Net currency position</b>	<b>17,066,701</b>	<b>952,480</b>	<b>(137,620)</b>	<b>12,827</b>	<b>17,894,388</b>

The Bank measures the foreign exchange risk based on the ratio net open position/own funds (including the off balance sheet position), measured at 6.29% as at 31 December 2009 (31 December 2008: 0.16%).

#### e) Liquidity risk

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

The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturi-

ties. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding, and diversifying the funding base. BoA established through the Liquidity Risk Management Policy and Strategy the main responsibilities in respect of liquidity risk management. The daily management of liquidity falls under the responsibility of the Treasury Department who insures that the bank has enough intraday funds in order to perform its operations. The short term liquidity management falls under the responsibility of the Assets and Liabilities Management Subcommittee, while the medium and long term liquidity management is performed by the management of the bank. The bank has a funding plan in line with the business plan objectives and a liquidity crisis strategy establishing specific measures to address a potential liquidity crisis.

The maturity analysis of monetary assets and liabilities at 31 December 2009 are presented below:

<i>in EUR</i>	Carrying amount	Gross amount	Up to 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years
<b>Financial assets</b>							
Cash and cash with Central Bank	64,880,319	64,949,234	64,949,234	–	–	–	–
Loans and advances banks	1,535,027	1,535,027	1,535,027	–	–	–	–
Investment securities, available-for-sale	87,460	87,460	–	–	–	–	87,460
Loans and advances to customers	174,423,600	240,744,818	7,300,756	6,266,672	39,402,278	143,509,047	44,266,065
Treasury bills	9,411,905	9,460,290	9,460,290	–	–	–	–
<b>Total financial assets</b>	<b>250,338,311</b>	<b>316,776,829</b>	<b>83,245,307</b>	<b>6,266,672</b>	<b>39,402,278</b>	<b>143,509,047</b>	<b>44,353,525</b>
<b>Financial liabilities</b>							
Deposits from customers	133,563,751	136,147,661	71,000,619	46,229,587	18,858,207	59,247	–
Loans from banks and other financial institutions	94,337,308	104,473,552	24,160,439	2,096,138	35,675,134	42,541,842	–
Subordinated liabilities	8,928,206	14,736,262	–	239,687	912,831	4,833,744	8,750,000
Committed undrawn (loans to customers)	4,157,832	4,157,832	374,872	504,023	2,559,201	395,609	324,127
<b>Total financial liabilities</b>	<b>240,987,097</b>	<b>259,515,307</b>	<b>95,535,930</b>	<b>49,069,435</b>	<b>58,005,373</b>	<b>47,830,442</b>	<b>9,074,127</b>
<b>Maturity surplus/ (shortfall)</b>	<b>9,351,214</b>	<b>57,261,522</b>	<b>(12,290,623)</b>	<b>(42,802,763)</b>	<b>(18,603,095)</b>	<b>95,678,605</b>	<b>35,279,398</b>

The maturity analysis of monetary assets and liabilities at 31 December 2008 are presented below:

<i>in EUR</i>	Carrying amount	Gross amount	Up to 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years
<b>Financial assets</b>							
Cash and cash with Central Bank	73,029,253	73,029,253	73,029,253	–	–	–	–
Loans and advances banks	1,185,371	1,185,871	1,185,871	–	–	–	–
Investment securities, available-for-sale	92,793	92,793	–	–	–	–	92,793
Loans and advances to customers	210,047,145	296,602,623	10,006,133	18,988,920	84,718,472	157,392,210	25,496,888
<b>Total financial assets</b>	<b>284,354,562</b>	<b>370,910,540</b>	<b>84,221,257</b>	<b>18,988,920</b>	<b>84,718,472</b>	<b>157,392,210</b>	<b>25,589,681</b>
<b>Financial liabilities</b>							
Deposits from banks	–	–	–	–	–	–	–
Deposits from customers	151,354,517	154,196,149	83,289,182	43,670,762	26,640,288	595,917	–
Loans from banks and other financial institutions	95,428,028	119,217,345	–	1,247,489	27,965,319	90,004,537	–
Debt securities issued	10,420,000	10,532,642	–	10,532,642	–	–	–
Subordinated liabilities	8,930,328	15,365,307	–	139,690	667,561	3,221,364	11,336,692
Committed undrawn (loans to customers)	6,052,664	6,052,664	459,763.00	1,675,983	2,988,128	446,058	482,732
<b>Total financial liabilities</b>	<b>272,185,537</b>	<b>305,364,107</b>	<b>83,748,945</b>	<b>57,266,566</b>	<b>58,261,296</b>	<b>94,267,876</b>	<b>11,819,424</b>
<b>Maturity surplus/ (shortfall)</b>	<b>12,169,025</b>	<b>65,546,433</b>	<b>472,312</b>	<b>(38,277,646)</b>	<b>26,457,176</b>	<b>63,124,334</b>	<b>13,770,257</b>

#### f) Taxation risk

On 1 January 2007 Romania became a member of the European Union (“EU”) and therefore has to apply detailed and complex rules on the basis of the EU Treaties, Regulations and Directives. The Company has to conform to EU legislation from 1 January 2007 and, therefore, it has prepared to apply the changes arising from the EU legislation. These changes have been implemented, however the tax authorities have up to 5 years to audit the way these changes were implemented.

Interpretation of the text and practical implementation procedures of the newly enforced EU tax regulations could vary, and there is a risk that certain transactions, for example, could be viewed differ-

ently by the tax authorities as compared to the Company’s treatment.

Furthermore, the Romanian Government has a number of agencies that are authorized to conduct audits (controls) of companies operating in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. It is likely that the Bank will continue to be subject to regular controls as new laws and regulations are issued.

## g) Capital management

### Regulatory capital

The Bank's regulator, NBR (National Bank of Romania), sets and monitors capital requirements. In implementing current capital requirements NBR requires the Bank to maintain a prescribed ratio of total capital to total risk – weighted assets (8%).

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, legal, statutory and other reserves, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes;
- Tier 2 capitals, which includes qualifying subordinated liabilities, other long term debt, fair value reserves for fixed assets and other regulatory adjustments.

Various limits are applied to elements of the capital base. Qualifying tier 2 capital cannot exceed tier 1 capital; qualifying term subordinated loan and preference shares capital may not exceed 50 percent of tier 1 capital.

The Bank complied with all externally imposed capital requirements throughout the period.

The Bank's regulatory capital position at 31 December 2009 was as follows:

<i>in EUR</i>	2009 Basel II	2008 Basel II
<b>Tier 1 capital</b>		
Ordinary share capital	28,037,508	26,504,193
Share premium	301,257	319,626
Accumulated Loss	(11,664,457)	(1,986,542)
Less intangible assets	(513,650)	(577,585)
Other regulatory adjustments (equity investments)	(28,886)	(2,781)
<b>Total</b>	<b>16,131,772</b>	<b>24,256,911</b>
<b>Tier 2 capital</b>		
Revaluation reserve (fixed assets)	527	–
Qualifying subordinated liabilities	8,065,886	8,750,000
<b>Total</b>	<b>8,066,413</b>	<b>8,750,000</b>
<b>Total regulatory capital</b>	<b>24,198,185</b>	<b>33,006,911</b>
<b>Capital request</b>	<b>14,503,285</b>	<b>16,237,611</b>

Source: statutory financial statements for the year ended 31 December 2009

### Capital allocation

The allocation of capital between specific operations and activities is driven by the principle that no activity or operation should take more risk than it can bear. This rule is put into operations using an “economic capital” or “value at risk” model. At all times, the predefined, economic Tier 1 and Tier 2 capital has to be available to cover potential losses.

## h) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such as those arising

from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

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

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

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodical reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

## 5. Use of estimates and judgements

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

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see note 4).

### Key sources of estimation uncertainty

#### *Impairment losses on loans and advances*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(h)(vii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

The Bank reviews its loan portfolios to assess impairment at least on a semi-annual basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements 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.

Hence, the Bank has estimated the impairment loss provision for loans and advances to customers based on the internal methodology and assessed that no further provision for impairment losses is required except as already provided for in the financial statements.

#### Critical accounting judgements in applying the Bank's accounting policies

##### *Fair value of Financial Instruments*

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

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank determined the fair value of the treasury bills issued by the Ministry of Public Finance of Romania, classified as available-for-sale financial instruments, using bid quotations in an active market (e.g. Reuters) at the balance sheet date.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the

reporting date, that would have been determined by market participants acting at arm's length.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The fair value of financial instruments that are not traded in an active market (for example, unlisted treasury securities, bonds and certificates of deposit) is determined by using valuation techniques. The management uses its judgement to select the valuation method and make assumptions that are mainly based on market conditions existing at each balance sheet date.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

In determining fair values, the Bank uses averages of reasonably possible alternative inputs. When alternative assumptions are available within a wide range, judgements exercised in selecting the most appropriate point in the range include evaluation of the quality of the sources of inputs (for example, the experience and expertise of the brokers providing different quotes within a range, giving greater weight to a quote from the original broker of the instrument who has the most detailed information about the instrument) and the availability of corroborating evidence in respect of some inputs within the range.

The carrying amount of available-for-sale investment securities would be an estimated RON 402 thousand lower and RON 491 thousand higher were the discount rate used in the discounted cash flow analysis to differ by +/- 10% from management's estimate.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

31 December 2009	Level 1	Level 2	Level 3
Investment securities	–	9,411,905	–
	–	<b>9,411,905</b>	–

31 December 2008	Level 1	Level 2	Level 3
Investment securities	–	–	–
	–	–	–

The table below analyses the financial instruments disclosed at fair value in note 6, by valuation method:

<i>in EUR</i>	Quoted market prices in active markets	Valuation techniques – observable inputs	Valuation techniques – significant un-observable inputs	Total
<b>31 December 2009</b>				
Cash and balances with Central Bank	–	64,880,319	–	64,880,319
Loans and advances to banks	–	1,535,027	–	1,535,027
Loans and advances to customers	–	177,795,883	–	177,795,883
Treasury bills, available for sale	–	9,411,905	–	9,411,905
Investment securities, available for sale	–	87,460	–	87,460
<b>Total financial assets</b>	–	<b>253,710,594</b>	–	<b>253,710,594</b>
Deposits from customers	–	134,482,826	–	134,482,826
Loans from banks and other financial institutions	–	94,337,308	–	94,337,308
Subordinated liabilities	–	8,928,206	–	8,928,206
<b>Total financial liabilities</b>	–	<b>237,748,340</b>	–	<b>237,748,340</b>
<b>31 December 2008</b>				
Cash and balances with Central Bank	–	73,029,253	–	73,029,253
Loans and advances to banks	–	1,185,560	–	1,185,560
Loans and advances to customers	–	210,075,907	–	210,075,907
Investment securities, available for sale	–	92,793	–	92,793
<b>Total financial assets</b>	–	<b>284,383,513</b>	–	<b>284,383,513</b>
Deposits from customers	–	151,699,098	–	151,699,098
Loans from banks and other financial institutions	–	108,724,686	–	108,724,686
Debt securities issued	10,340,138	–	–	10,340,138
Subordinated liabilities	–	8,930,328	–	8,930,328
<b>Total financial liabilities</b>	<b>10,340,138</b>	<b>269,354,112</b>	–	<b>279,694,250</b>

Although the Bank believes that its estimates of fair value disclosed in note 6 are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. As the Bank does not account for any financial instruments at fair value, except treasury bills, changing one or more of the assumptions used to reasonably possible alternative assumptions (other

than those relating to the treasury bills), would have no effects in the profit and loss or directly in equity but only in the disclosures made in the note 6 to these financial statements.

## 6. Financial assets and liabilities

### Accounting classifications and fair values

<i>in EUR</i>	Note	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
<b>31 December 2009</b>									
Cash and balances with Central Bank	14	–	–	–	64,880,319	–	–	64,880,319	64,880,319
Loans and advances to banks	15	–	–	–	1,535,027	–	–	1,535,027	1,535,027
Loans and advances to customers	17	–	–	–	174,423,600	–	–	174,423,600	177,795,883
Treasury bills, available for sale	–	–	–	–	–	9,411,905	–	9,411,905	9,411,905
Investment securities, available for sale	16	–	–	–	–	87,460	–	87,460	87,460
<b>Total financial assets</b>		–	–	–	<b>240,838,946</b>	<b>9,499,365</b>	–	<b>250,338,311</b>	<b>253,710,594</b>
Deposits from banks		–	–	–	–	–	–	–	–
Deposits from customers	21	–	–	–	–	–	133,563,751	133,563,751	134,482,826
Loans from banks and other financial institutions	22	–	–	–	–	–	94,337,308	94,337,308	94,337,308
Debt securities issued	25	–	–	–	–	–	–	–	–
Subordinated liabilities	24	–	–	–	–	–	8,928,206	8,928,206	8,928,206
<b>Total financial liabilities</b>		–	–	–	–	–	<b>236,829,265</b>	<b>236,829,265</b>	<b>237,748,340</b>

<i>in EUR</i>	Note	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
<b>31 December 2008</b>									
Cash and balances with Central Bank	14	–	–	–	73,029,253	–	–	73,029,253	73,029,253
Loans and advances to banks	15	–	–	–	1,185,371	–	–	1,185,371	1,185,560
Loans and advances to customers	17	–	–	–	210,047,145	–	–	210,047,145	210,075,907
Investment securities, available for sale		–	–	–	–	92,793	–	92,793	92,793
<b>Total financial assets</b>		–	–	–	<b>284,261,769</b>	<b>92,793</b>	–	<b>284,354,562</b>	<b>284,383,513</b>
Deposits from banks		–	–	–	–	–	–	–	–
Deposits from customers		–	–	–	–	–	151,354,517	151,354,517	151,699,098
Loans from banks and other financial institutions	22	–	–	–	–	–	95,428,028	95,428,028	108,724,686
Debt securities issued	25	–	–	–	–	–	10,420,000	10,420,000	10,340,138
Subordinated liabilities	24	–	–	–	–	–	8,930,328	8,930,328	8,930,328
<b>Total financial liabilities</b>		–	–	–	–	–	<b>266,132,873</b>	<b>266,132,873</b>	<b>279,694,250</b>

## 7. Net interest income

<i>in EUR</i>	2009	2008
<b>Interest income</b>		
Interest and similar income arising from:		
Cash and balances with National Bank of Romania	1,703,205	1,485,422
Loans and advances to banks	367,488	547,238
Loans and advances to customers, out of which:	39,520,699	44,122,461
Impaired loans and advances to customers	54,123	24,567
Treasury bills, available-for-sale	697,291	–
<b>Total interest income</b>	<b>42,288,683</b>	<b>46,155,121</b>
<b>Interest expense</b>		
Interest expense arising from:		
Deposits from banks	5,119,977	1,083,403
Deposits from customers	12,933,895	11,604,217
Loans from banks and other financial institutions	4,457,298	9,034,044
Debt securities issued	105,940	985,884
Subordinated liabilities	838,191	807,149
<b>Total interest expense</b>	<b>23,455,301</b>	<b>23,514,697</b>
<b>Net interest income</b>	<b>18,833,382</b>	<b>22,640,424</b>

## 8. Net fee and commission income

<i>in EUR</i>	2009	2008
<b>Fee and commission income</b>		
Fees and commission income arising from:		
Transactions	1,993,721	3,544,613
Loan administration and guarantee issuance	907,436	1,158,022
Other	36,377	53,702
<b>Total fee and commission income</b>	<b>2,937,534</b>	<b>4,756,337</b>
<b>Fee and commission expense</b>		
Fee and commission expense arising from:		
Inter-bank transaction fees	364,657	401,026
Loans and guarantees received from banks	2,768	7,146
Other	51,013	16,056
<b>Total fee and commission expense</b>	<b>418,438</b>	<b>424,228</b>
<b>Net fee and commission income</b>	<b>2,519,096</b>	<b>4,332,109</b>

## 9. Net trading income

<i>in EUR</i>	2009	2008
Net gain from transactions in foreign currency		
	1,195,134	1,161,332
Net loss from translation of foreign currency denominated assets and liabilities		
	(276,844)	(241,177)
<b>Net trading income</b>	<b>918,290</b>	<b>920,155</b>

**10. Net impairment loss on financial assets**

<i>in EUR</i>	2009	2008
Impairment charge on loans and advances to customers	26,638,180	4,526,063
Release of the impairment for loans and advances to customers from change in estimates	(21,323,580)	(2,204,864)
Release of the impairment for loans and advances to customers through usage	(1,810,598)	(1,381,034)
Loans written-off expense	3,252,915	1,926,696
Recoveries from loans and advances to customers	(1,282,000)	(92,484)
Other impairment loss for financial assets	(1,442,317)	162,797
<b>Net charge of provision for impairment losses on financial assets</b>	<b>4,032,600</b>	<b>2,937,174</b>

**11. Other operating expenses**

<i>in EUR</i>	2009	2008
Advertising and promotion expenses	368,242	933,593
Consumables expenses	424,800	708,734
Post and telecommunication expenses	856,384	923,929
Travel expenses	402,629	721,441
Repairs and maintenance expenses	608,815	657,767
Other tax expenses	1,286,789	1,735,836
Electricity expenses	313,977	325,397
Insurance expenses	214,638	245,708
Representation expenses	73,609	274,619
Other operating expenses	1,439,868	1,104,510
<b>Total</b>	<b>5,989,751</b>	<b>7,631,534</b>

**12. Personnel expenses**

<i>in EUR</i>	2009	2008
Salaries and social security contributions	12,071,586	12,597,650
Training and recruiting expenses	246,175	309,535
<b>Total</b>	<b>12,317,761</b>	<b>12,907,185</b>

**13. Taxation**

<i>in EUR</i>	2009	2008
Current tax expense	-	-
Deferred tax revenue	1,443,009	22,190
<b>Income tax revenue</b>	<b>1,443,009</b>	<b>22,190</b>

**Deferred taxes**

The deferred tax assets and liabilities are attributable to the items detailed in the table below:

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
Property and equipment and intangible assets	18,404	20,726
Loans and advances to customers	824,251	321,119
Provision for impairment of loans	(1,362,208)	(357,719)
Other liabilities	-	2,098
Banking risk reserve (i)	(233,338)	(247,566)
Fiscal loss	1,990,184	39,787
<b>Deferred tax asset/ (liability)</b>	<b>1,237,293</b>	<b>(221,555)</b>

**Reconciliation of effective tax rate**

<i>in EUR</i>	2009	2008
<b>Loss before income tax</b>	<b>(6,635,945)</b>	<b>(1,984,372)</b>
<b>Taxation at statutory rate of 16% (2008: 16%)</b>	<b>(1,061,751)</b>	<b>(317,500)</b>
Non-deductible expenses	291,796	127,901
Non-taxable revenues	(270,708)	(17,973)
Origination and reversal of temporary differences	1,237,293	(2,429)
Tax effect of other non-temporary differences	(1,639,639)	187,810
<b>Taxation in the income statement</b>	<b>(1,443,009)</b>	<b>(22,190)</b>

**14. Cash and balances with National Bank of Romania**

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
Minimum compulsory reserve	39,318,295	60,513,197
Cash on hand and cash in ATMs	6,697,141	7,439,279
Other balances with National Bank of Romania	18,864,883	5,076,777
<b>Total</b>	<b>64,880,319</b>	<b>73,029,253</b>

The cash held with the central bank (i.e. Balances with the National Bank of Romania) ensures compliance with the minimum reserve requirements. These funds are not available for the Bank's daily business. At 31 December 2009 the minimum mandatory reserves rates established by the National Bank of Romania for raised funds with maturity lower than 2 years and for funds raised with residual maturity greater than 2 years, which foresee contractual clauses regarding reimbursements, withdrawals, anticipated transfers, are as follows: 15% for funds raised denominated in RON and 25% for funds raised denominated in foreign currency (31 December 2008: 18% for funds raised denominated in RON and 40% for funds raised denominated in foreign currency).

**15. Loans and advances to banks**

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
Current accounts with banks	1,151,216	364,128
Deposits with banks	383,811	821,243
<b>Total</b>	<b>1,535,027</b>	<b>1,185,371</b>

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

**16. Investment securities, available-for-sale**

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
Unlisted equity investments	87,460	92,793
<b>Total</b>	<b>87,460</b>	<b>92,793</b>

## 17. Loans and advances to customers

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
Loans and advances to customers	180,913,560	215,763,043
Out of which:		
Accrued interest on impaired loans	16,683	11,461
Less provision for impairment losses on loans and advances to customers	(6,489,960)	(5,715,898)
<b>Total</b>	<b>174,423,600</b>	<b>210,047,145</b>

The Bank's commercial lending is concentrated on micro and small size companies domiciled in Romania. Economic sector risk concentrations within the customer loan portfolio were as follows:

<i>in EUR</i>	2009	2008
Services	55,994,623	72,365,598
Trade	60,497,459	70,946,019
Industry	52,980,088	56,143,290
Individuals, mortgage loans	3,239,437	4,196,719
Individuals, consumer loans	2,264,041	3,027,679
Others	5,937,912	9,083,738
<b>Total loans and advances to customers before provisions</b>	<b>180,913,560</b>	<b>215,763,043</b>
Less provision for impairment losses on loans and advances to customers	(6,489,960)	(5,715,898)
<b>Total</b>	<b>174,423,600</b>	<b>210,047,145</b>

The provision for impairment losses on loans and advances to customers can be further analysed as follows:

<i>in EUR</i>	2009	2008
<b>Collective allowances</b>		
Balance at the beginning of the year	5,711,451	5,218,238
Charge of impairment loss to income statement for collectively impaired loans and advances	26,035,858	4,522,890
Release of impairment loss to income statement for collectively impaired loans and advances	(22,951,337)	(3,491,220)
Exchange rate differences	(2,734,778)	(538,457)
<b>Balance at the end of the year</b>	<b>6,061,194</b>	<b>5,711,451</b>
<b>Specific allowances</b>		
Balance at the beginning of the year	4,447	103,556
Charge of impairment loss to income statement for individually impaired loans and advances	602,322	3,173
Release of impairment loss to income statement for individually impaired loans and advances	(182,841)	(94,678)
Exchange rate differences	4,838	(7,604)
<b>Balance at the end of the year</b>	<b>428,766</b>	<b>4,447</b>

## 18. Intangible assets

<i>in EUR</i>	Total
<b>Cost</b>	
At 1 January 2009	2,145,039
Additions	688,687
Effect of exchange rate	(123,278)
At 31 December 2009	2,710,448
<b>Accumulated amortisation</b>	
At 1 January 2009	1,515,097
Amortisation charge for the year	719,267
Effect of exchange rate	(87,075)
At 31 December 2009	2,147,289
<b>Net book value</b>	
<b>At 31 December 2009</b>	<b>563,158</b>
<b>Cost</b>	
At 1 January 2008	1,736,846
Additions	571,627
Effect of exchange rate	(163,434)
At 31 December 2008	2,145,039
<b>Accumulated amortisation</b>	
At 1 January 2008	1,072,007
Amortisation charge for the year	587,322
Effect of exchange rate	(144,232)
At 31 December 2008	1,515,097
<b>Net book value</b>	
<b>At 31 December 2008</b>	<b>629,942</b>

## 19. Property and equipment

<i>in EUR</i>	Leasehold improvements	Furniture and computer equipment	Motor vehicles	Construction in progress	Total
<b>Cost</b>					
At 1 January 2009	4,869,840	6,161,983	781,831	347,812	12,161,466
Additions	1,024,733	753,268	206,391	10,056	1,994,448
Disposals	(285,233)	(371,972)	(118,173)	(327,822)	(1,103,200)
Effect of exchange rate	(279,876)	(354,137)	(44,933)	(19,990)	(698,936)
At 31 December 2009	5,329,464	6,189,142	825,116	10,056	12,353,778
<b>Accumulated depreciation</b>					
At 1 January 2009	1,857,364	3,658,465	428,669	-	5,944,498
Depreciation charge for the year	767,030	985,108	120,348	-	1,872,486
Disposal	(247,037)	(342,488)	(97,313)	-	(686,838)
Effect of exchange rate	(106,745)	(210,257)	(24,636)	-	(341,638)
At 31 December 2009	2,270,612	4,090,828	427,068	-	6,788,508
<b>Net book value</b>					
At 31 December 2009	3,058,852	2,098,314	398,048	10,056	5,565,270

<i>in EUR</i>	Leasehold improvements	Furniture and computer equipment	Motor vehicles	Construction in progress	Total
<b>Cost</b>					
At 1 January 2008	4,457,367	6,277,859	773,322	119,880	11,628,428
Additions	952,580	779,181	98,313	347,812	2,177,886
Disposals	(55,631)	(304,323)	(17,036)	(119,880)	(496,869)
Accumulated depreciation reversed at reevaluation	(65,607)	-	-	-	(65,607)
Increase from reevaluation	558	-	-	-	558
Effect of exchange rate	(419,429)	(590,734)	(72,768)	-	(1,082,931)
At 31 December 2008	4,869,838	6,161,983	781,831	347,812	12,161,464
<b>Accumulated depreciation</b>					
At 1 January 2008	1,460,328	3,150,186	357,937	-	4,968,451
Depreciation charge for the year	655,688	1,214,301	121,449	-	1,991,438
Disposal	(55,630)	(268,922)	(17,036)	-	(341,588)
Accumulated depreciation reversed at revaluation	(65,607)	-	-	-	(65,607)
Effect of exchange rate	(137,415)	(437,100)	(33,681)	-	(608,196)
At 31 December 2008	1,857,364	3,658,465	428,669	-	5,944,498
<b>Net book value</b>					
At 31 December 2008	3,012,474	2,503,518	353,162	347,812	6,216,966

## Operating leases

Non-cancellable operating lease rentals are payable as follows:

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
Less than one year	3,709,581	3,705,255
Between one and five years	5,357,752	9,703,482
More than five years	1,198,938	3,030,002
<b>Total</b>	<b>10,266,271</b>	<b>16,438,739</b>

## 20. Other assets

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
Prepayments	394,545	568,157
Sundry debtors	67,266	42,331
Advances for fixed assets in progress	375,919	633,593
Other receivables	732,200	807,098
<b>Total</b>	<b>1,569,930</b>	<b>2,051,178</b>

## 21. Deposits from customers

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
<b>Individuals</b>		
Term deposits	100,208,168	94,998,371
Current deposits	9,826,998	17,075,603
Collateral deposit	278,652	60,476
<b>Corporate customers</b>		
Term deposits	11,143,980	25,183,756
Current deposits	11,732,146	13,882,728
Collateral deposit	373,807	153,583
<b>Total</b>	<b>133,563,751</b>	<b>151,354,517</b>

## 22. Loans from banks and other financial institutions

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
European Fund for Southeast Europe (EFSE) (v)	8,736,661	9,341,930
European Bank for Reconstruction and Development (EBRD) (ii)	36,675,898	28,490,201
International Finance Corporation (IFC) (iii)	7,006,034	8,842,189
Citibank Romania S.A. (iv)	24,081,024	38,838,834
Kreditanstalt für Wiederaufbau (KfW) (i)	9,942,046	9,914,874
Pettelaar Effectenbewaarbedrijf N.V. (vi)	7,895,645	–
<b>Total</b>	<b>94,337,308</b>	<b>95,428,028</b>

### (i) Loan from KfW

In May 2008 the Bank concluded a loan agreement with KfW amounting to EUR 10,000,000 with purpose of refinancing other loans. The loan bears an interest rate of 6 months Euribor plus margin and is repayable in equal semi-annual instalments of EUR 1,428,571 each starting from June 2010 till June 2013.

### (ii) Loan from EBRD

In May 2005 the Bank concluded with European Bank for Reconstruction and Development (“EBRD”) amounting to EUR 12,390,000 with the purpose of granting loans to Small and Medium Enterprises (SMEs). The loan bears an interest rate of 6 months Euribor plus margin and was repayable starting from June 2007 in equal semi-annually instalments of EUR 2,065,000 each until December 2009. The loan was fully repaid in December 2009.

In October 2008 the Bank signed with EBRD a loan agreement amounting to EUR 37,000,000 to be drawn in two tranches. The first tranche was drawn in November 2008 in the amount of EUR 25,000,000. The second tranche EUR 12,000,000 was drawn in January 2009. The outstanding principal of the loan as for 31 December 2009 was EUR 37,000,000. The loan bears an interest rate of 6 months Euribor plus margin and is repayable starting from June 2010 until June 2012.

### (iii) Loan from International Finance Corporation (IFC)

In June 2007 the Bank concluded with International Finance Corporation a loan agreement amounting to RON 34,050,000 (EUR 8,544,113 equivalent). In May 2009 the Bank concluded with International Finance Corporation a new agreement regarding to shift the loan from RON 34,050,000 to EUR 8,179,787. The loan bears an interest rate of 6 months Euribor plus margin and is repayable starting from July 2009 until July 2012.

### (iv) Loan from Citibank Romania SA

In October 2006 the Bank concluded with Citibank Romania SA a syndicated loan agreement amounting to RON 150,000,000. The outstanding amount the end of 2009 was RON 100,000,000 (EUR 23,650,726 equivalent). The drawn amount the end of 2008 was RON 150,000,000 (EUR 37,639,265 equivalent). The loan bears an interest rate of 6 months BUBOR plus margin and is repayable in equal semi-annual instalments of RON 25,000,000 (EUR 6,273,211 equivalent) each starting from April 2009 until October 2011.

As at 31 December 2009 the Bank did not comply with one financial covenant from the syndicated loan agreement. The loan has been reclassified as due immediately in the liquidity note (please also refer to note 33).

### (v) European Fund for Southeast Europe (“EFSE”)

In May 2008 the Bank concluded with European Fund for Southeast Europe a loan agreement amounting to RON 36,000,000 (EUR 9,033,424 equivalent). The loan bears an interest rate of 6 months

ROBOR plus margin and is repayable in equal semi-annual instalments of RON 6,000,000 (EUR 1,505,571 equivalent) each starting from September 2010 until March 2013.

### (vi) Loan from Pettelaar Effectenbewaarbedrijf N.V.

In December 2009 the Bank concluded with Pettelaar Effectenbewaarbedrijf N.V. a loan agreement amounting to RON 33,637,600. The loan bears a quarterly revisable interest rate linked to the average interest rates on the customer’s deposits and is repayable starting from March 2010 until December 2012.

## 23. Other liabilities

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
Salaries and related contributions and taxes payables	930,463	1,032,169
Sundry creditors	354,902	1,124,754
<b>Total</b>	<b>1,285,365</b>	<b>2,156,923</b>

## 24. Subordinated liabilities

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
Principal (i)	8,750,000	8,750,000
Accrued interest	178,206	180,328
<b>Total</b>	<b>8,928,206</b>	<b>8,930,328</b>

(i) The Bank received the following fixed interest subordinated loans from from ProCredit Holding AG:

- EUR 3,000,000, in August 2006;
- EUR 2,000,000, in November 2006;
- EUR 3,750,000, in April 2007.

These loans are repayable as follows: EUR 5,000,000 in 2016 and EUR 3,750,000 in 2017.

## 25. Debt securities issued

In March 2006 the Bank issued corporate bonds in nominal value of RON 40,250,000. The interest rate was 8.5% p.a. and was paid semi-annually. The final maturity was 15 February 2009. The bonds were publicly listed on the Bucharest Stock Exchange since 12 February 2007 (symbol PRCR09).

In February 2009 the Bank fully reimbursed the coupon and nominal value of the corporate bonds presented above.

## 26. Issued capital

The issued capital of the Bank is represented by 11,854,819 shares (31 December 2008: 10,562,451 shares) of RON 10 each, equivalent to USD 14,600,000.02 and EUR 19,000,001.75 respectively at the dates of contribution. The shareholders of the Bank at 31 December 2009 and 31 December 2008 were as follows:

Shareholders	No of shares	2009		2008	
		%	No of shares	%	No of shares
ProCredit Holding AG (i)	3,819,500	32.22	4,472,376	42.34	4,472,376
Commerzbank Aktiengesellschaft	2,492,775	21.03	2,221,022	21.03	2,221,022
European Bank for Reconstruction and Development	1,959,293	16.53	1,745,698	16.53	1,745,698
Kreditanstalt für Wiederaufbau (i)	1,565,902	13.21	927,824	8.78	927,824
International Finance Corporation (i)	1,429,342	12.06	846,910	8.02	846,910
International Projekt Consult GmbH	588,007	4.96	348,621	3.30	348,621
<b>Total</b>	<b>11,854,819</b>	<b>100.00</b>	<b>10,562,451</b>	<b>100.00</b>	<b>10,562,451</b>

(i) In October 2009, ProCredit Holding AG sold part of its shares to Kreditanstalt für Wiederaufbau and International Finance Corporation.

## 27. Reserves

in EUR	31 Dec 2009	31 Dec 2008
Statutory reserve (i)	148,176	157,212
General banking risk reserve (ii)	1,458,363	1,547,288
Revaluation reserve	528	558
<b>Total</b>	<b>1,607,067</b>	<b>1,705,058</b>

(i) Statutory reserves represent accumulated transfers from retained earnings in accordance with local banking regulations that require 5% of the Bank's statutory profit to be transferred to a non-distributable statutory reserve until such time as this reserve represents 20% of the Bank's share capital.

(ii) The general banking risks reserve include amounts set aside in accordance with local banking regulations for future losses and other unforeseen risks or contingencies, are separately disclosed as appropriations of profit. The general banking risks reserve was appropriated from the statutory gross profit at the rate of 1% of the balance of the assets carrying specific banking risks until the end of 2006 as required by local legislation.

## 28. 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:

in EUR	31 Dec 2009	31 Dec 2008
Cash and other balances		
with NBR (Note 14)	25,562,024	12,516,056
Loans and advances		
to banks (Note 15)	1,535,027	1,185,371
Treasury bills	9,411,905	–
<b>Total</b>	<b>36,508,956</b>	<b>13,701,427</b>

## 29. Commitments and contingencies

### i) Legal proceedings

As at 31 December 2009 and 31 December 2008 there were no significant legal proceedings outstanding against the Bank.

### ii) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk than a direct borrowing.

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

The following table indicates the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted:

in EUR	31 Dec 2009	31 Dec 2008
Guarantees given	892,783	772,850
Commitments to extend credit	4,157,832	6,052,664
<b>Total</b>	<b>5,050,615</b>	<b>6,825,514</b>

The Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank. At 31 December 2009 no provision has been established for risks arising from off balance sheet commitments (31 December 2008: nil).

### 30. Related party transactions

#### Transactions with shareholders and other related parties from the group

The Bank entered into a number of banking transactions with the related parties in the normal course of business. These transactions were carried out in the normal course of the business on commercial terms and conditions and at market rate.

The list of related parties and description of the nature of relationship is as follows:

Name	Relationship
Commerzbank Aktiengesellschaft (and its subsidiaries)	Shareholder
International Finance Corporation	Shareholder
ProCredit Holding AG	Shareholder
ProCredit Bank Albania	Bank of the group
ProCredit Bank Bulgaria	Bank of the group
ProCredit Bank Georgia	Bank of the group
ProCredit Bank Kosovo	Bank of the group
ProCredit Bank Macedonia	Bank of the group
ProCredit Bank Ukraine	Bank of the group
ProCredit Moldova	Group company
ProCredit Academy	Group company
ProLease Bulgaria	Group company

The parent and ultimate controlling party of the Bank is ProCredit Holding Germany.

During the year ended 31 December 2009 and the year ended 31 December 2008 the following transactions were carried out with the shareholders and other related parties from the group:

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
Loans and advances	990,741	291,972
Other receivable	2,277	229,167
<b>Total assets</b>	<b>993,018</b>	<b>521,139</b>
Deposits	-	2,000,205
Borrowings	16,948,080	18,757,063
Other liabilities	3,808	250,825
Subordinated liabilities	8,928,206	8,930,328
<b>Total liabilities</b>	<b>25,880,094</b>	<b>29,938,421</b>
Interest income	9,501	24,038
Net fees and commissions	(29,739)	(61,059)
Other revenue	21,025	7,257
<b>Income</b>	<b>(787)</b>	<b>(29,764)</b>
Interest expense	(2,857,737)	(2,534,238)
Other expense	(551,662)	(449,732)
<b>Expense</b>	<b>(3,409,399)</b>	<b>(2,983,970)</b>

#### Transactions with key management personnel

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
Management salaries (i)	311,833	269,320
<b>Total expenses</b>	<b>311,833</b>	<b>269,320</b>

(i) Included in the key management personnel are the members of executive committee of the Bank.

#### 31. Reconciliation of profit under IFRS and Romanian Accounting Standards as stipulated in Order No. 13/2008 issued by the National Bank of Romania on the approval of accounting regulations compliant with EU Directives and applicable to credit institutions

<i>in EUR</i>	2009	2008
<b>Loss for the year under Romanian Accounting Standards (i)</b>	<b>(9,771,055)</b>	<b>(1,860,864)</b>
Adjustments for impairment provisions on loans and advances to customers	3,302,232	(142,515)
Deferred tax income	1,443,008	22,190
Other items	(167,121)	19,007
<b>Loss for the year under IFRS</b>	<b>(5,192,936)</b>	<b>(1,962,182)</b>

(i) The loss for the year under Romanian Accounting Standards as stipulated in Order No. 13/2008 issued by the National Bank of Romania Governor on the approval of accounting regulations compliant with EU Directives and applicable to credit institutions presented above may change due to issuance of the statutory financial statements pursuant to IFRS financial statements approval.

#### 32. Reconciliation of equity under IFRS and Romanian Accounting Standards as stipulated in Order No. 13/2008 issued by the National Bank of Romania on the approval of accounting regulations compliant with EU Directives and applicable to credit institutions

<i>in EUR</i>	31 Dec 2009	31 Dec 2008
<b>Equity under Romanian Accounting Standards (i)</b>	<b>16,674,834</b>	<b>24,837,277</b>
Loans related adjustments	3,362,223	228,750
Fixed assets related adjustments	(115,017)	(129,536)
Deferred tax asset / (liability)	1,237,293	(221,555)
Other items	-	26,361
<b>Equity under IFRS</b>	<b>21,159,333</b>	<b>24,741,297</b>

(i) The equity as at 31 December 2009 under Romanian Accounting Standards as stipulated in Order No. 13/2008 issued by the National Bank of Romania Governor on the approval of accounting regulations compliant with EU Directives and applicable to credit institutions presented above may change due to issuance of the statutory financial statements pursuant to IFRS financial statements approval.

### 33. Subsequent events

Under the contractual relationship of the Bank with the syndicate whose agent is Citibank, starting in April 2010, the parties have agreed to the signing of an addendum which states that loans to customers, outstanding in a period longer than 60 days due date is up 3.5% of total gross loans granted. As of 31 December 2009, this financial covenant, amounting to 2% was not met by the Bank. The Bank agreed on 7 April 2010 to repay RON 35,000,000 in advance.







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