



ProCredit Bank

Romania



Annual Report 2006

Key Figures

EUR '000	2006	2005*	Change
Balance Sheet Data			
Total Assets	218,299	128,728	70%
Gross Loan Portfolio	157,278	89,046	77%
Business Loan Portfolio	124,819	73,867	69%
EUR < 10,000	59,976	42,426	41%
EUR > 10,000 < 50,000	38,857	20,679	88%
EUR > 50,000 < 150,000	14,238	7,439	91%
EUR > 150,000	11,748	3,324	253%
Agricultural Loan Portfolio	17,225	5,901	192%
Housing Loan Portfolio	10,610	8,243	29%
Other	4,625	1,035	347%
Allowance for Impairment on Loans	3,276	2,565	28%
Net Loan Portfolio	154,002	86,481	78%
Liabilities to Customers	116,858	67,742	73%
Liabilities to Banks and Financial Institutions	63,213	47,736	33%
Shareholders' Equity	19,510	12,670	54%
Income Statement			
Operating Income	18,626	12,573	48%
Operating Expenses	15,864	9,440	68%
Operating Profit Before Tax	1,618	832	94%
Net Profit	1,501	850	77%
Key Ratios			
Cost / Income Ratio	85.2%	75.1%	10%
ROE	9.8%	7.5%	2%
Capital Ratio	14.1%	12.6%	1%
Operational Statistics			
Number of Loans Outstanding	29,621	21,164	40%
Number of Loans Disbursed within the Year	22,318	16,842	33%
Number of Business and Agricultural Loans Outstanding	24,768	18,824	32%
Number of Deposit Accounts	87,986	58,981	50%
Number of Staff	795	502	58%
Number of Branches and Outlets	29	16	71%

* Some figures differ slightly from those in the 2005 annual report as they have been adjusted to reflect new calculation methods.

Mission Statement	4
Letter from the Board of Administrators	5
The Bank and its Shareholders	6
The ProCredit Group – Neighbourhood Banks for Ordinary People	8
ProCredit in Eastern Europe	11
The Year in Review	14
Management Business Review	16
Special Feature	26
Risk Management	28
Branch Network	30
Organisation, Staff and Staff Development	32
Business Ethics and Environmental Standards	35
Our Clients	36
Financial Statements	40
Contact Addresses	66

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

At ProCredit Bank, we believe in the value of consistently applying our unique approach to banking, taking pride in the way we have defined our focus in the Romanian banking market: We engage in socially responsible banking which is firmly oriented towards small-scale enterprises and low- and middle-income households. Reviewing the development of our bank and the overall market, there can be no doubt that in 2006 this focus and our commitment to providing excellent customer service to our clients served us well. It was also greatly appreciated by our customers, who currently number over 55,000, of whom more than 25,000 are loan clients.

In the space of only a few years, the Romanian banking system has moved beyond serving only a limited segment of the population consisting largely of enterprises and entrepreneurs. Today, almost all banks seek to increase their market shares, develop their branch networks and expand their loan portfolios, primarily through consumer and mortgage lending. With competition increasing, a policy of offering transparent products and services is often abandoned, giving way to attempts to make banking products appear more attractive than they really are, with significant risks for the maintenance of public trust in the overall banking system. In this environment, ProCredit Bank continued to outpace the market in 2006 – precisely because it consistently adheres to its business philosophy, which is based on transparency, responsible lending and excellent customer service, regardless of the volume of business that a client brings to the bank. In line with this philosophy, ProCredit Bank has broadened the scope of its lending activities to include agricultural and other rural clients, an effort which has been very successful, while continuing to serve deposit customers and entrepreneurs in urban areas.

2006 was another year of dynamic growth for ProCredit Bank. Total assets grew by 70% and the growth rates in lending and customer deposit operations were well above 70%. The size of the branch network nearly doubled, rising from 16 to 29 locations. The shareholders were gratified by the increase in the bank's profitability, given their commitment to maintaining an appropriate balance between the achievement of a sustainable return on their investment and the generation of sufficient funds for investments to ensure future growth.

Although the bank has experienced dynamic growth, we do not take our success for granted; we realise that it is a result of our having outstanding and hard-working staff, customers who trust us and appreciate the value of our services, and a unique business model. I would like to thank our staff for their dedication, enthusiasm and commitment to implementing our customer-oriented philosophy. Many of our employees advanced in their careers in 2006 and mastered the challenges of increased responsibility. By their efforts, all of our staff helped to ensure that our customers felt welcome and appreciated, thus creating the basis for the high degree of client satisfaction we enjoy and the many referrals we receive. Last but not least, I would like to thank our clients for choosing us to meet their banking needs.

Anja Lepp

Anja Lepp

Chairperson of the Board of Administrators

**Members of the
Board of Administrators
as at December 31, 2006:**

Anja Lepp
Ana Maria Mihaescu
Maria Teresa Zappia
Hans Joerg Krohn
Rüdiger Rurainsky
Reinhard Bollmann

**Members of the
Management Board as at
December 31, 2006:**

Michael Kowalski
Gabriel Stanescu
Ilinca Rosetti

The Bank and its Shareholders

ProCredit Bank S.A. was founded in 2002 as “Banca de Microfinantare Miro S.A.” (Miro Bank S.A.). In 2006 it consolidated its position in the Romanian market and became the country’s leading supplier of banking services and products for small and very small enterprises.

At the beginning of 2006, the bank’s share capital amounted to EUR 14,699,992 (held in local currency: RON 56,143,060). After a EUR 4,000,000 capital increase and the influence of exchange rate developments, ProCredit Bank ended 2006 with share capital of EUR 20,153,219 (RON 70,241,860).

Shareholder (as of Dec. 31, 2006)	Sector	Headquarters	Share	Paid-in Capital (in EUR million)
Commerzbank	Banking	Germany	21.03%	4.24
DEG	Banking	Germany	13.21%	2.66
EBRD	Banking	UK	16.53%	3.33
IFC	Banking	USA	12.05%	2.43
IPC	Consulting	Germany	4.96%	1.00
ProCredit Holding	Investment	Germany	32.22%	6.49
Total Capital			100%	20.15

* The registered share capital of the bank is divided into 7,024,186 ordinary shares; each share has a par value of RON 10, and each ranks pari passu with all other ordinary shares.

COMMERZBANK  **Commerzbank AG** was established in 1870 and following the takeover of Eurohypo AG, announced in November 2005, is now Germany’s second-largest bank and one of the leading commercial banks in Europe. With a strong international network comprising offices and shareholdings in more than 40 countries, Commerzbank is a universal bank providing retail, corporate, public-sector and investment banking services. It also offers financial products and services via a number of subsidiaries, such as online banking, leasing, asset management and real-estate investment.

DEG  **Deutsche Investitions- und Entwicklungsgesellschaft (DEG)**, a member of the KfW Bankengruppe (KfW banking group), is one of the largest European development finance institutions. For more than 40 years, it has been financing and structuring the investments of private companies in developing and emerging countries. DEG invests in profitable projects that contribute to sustainable development in all sectors of the economy. DEG’s aim is to establish and expand private enterprise structures in developing countries, and thus create the basis for sustainable economic growth and a lasting improvement in the living conditions of the local population. To date, DEG has worked with more than 1,300 companies. By providing EUR 7.7 billion in financing, it mobilised a total investment of EUR 50 billion.



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 the countries of Central and Eastern Europe and the Commonwealth of Independent States (CIS) committed to democracy, pluralism and market economics. The EBRD seeks to help its 29 countries of operations to implement structural and sectoral economic reforms, promoting competition, privatisation 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.



The International Finance Corporation (IFC) is the private sector arm of the World Bank Group and is headquartered in Washington, D.C. The mission of IFC is to promote sustainable private sector investment in developing and transition countries, helping to reduce poverty and improve people’s lives. IFC finances private sector investments in the developing world, mobilises capital in the international financial markets, helps clients improve social and environmental sustainability, and provides technical assistance and advice to governments and businesses. From its founding in 1956 through FY05, IFC has committed more than USD



49 billion of its own funds and arranged USD 24 billion in syndications for 3,319 companies in 140 developing countries. IFC's worldwide committed portfolio as of FY05 was USD 19.3 billion for its own account and USD 5.3 billion held for participants in loan syndications.

ipc Internationale Projekt Consult (IPC), a Frankfurt-based company, was founded in 1981. IPC has provided sound consulting and management services for meaningful development projects. The company has been particularly successful in its financial sector activities, a field in which IPC has been involved since 1984. IPC advises and manages banks in developing countries and transition economies, building their capacity to provide financial services to small enterprises. Over the last 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. IPC is the driving entrepreneurial force behind the

ProCredit group, providing management services for all ProCredit banks and seconding qualified personnel to ProCredit Holding.



ProCredit
HOLDING

ProCredit Holding AG is the parent company of the global group of ProCredit banks located in transition and developing countries operating in three continents. It was founded as Internationale Micro Investitionen AG (IMI) in 1998. The ProCredit group of banks aim to make a difference by providing banking services to people whom other banks either do not serve at all (usually on the grounds of cost or risk) or serve only inadequately. The holding company, working closely with Internationale Projekt Consult GmbH (IPC), guides the development of the ProCredit institutions, providing support in all key areas of banking operations and human resources management. The company currently has an equity base of more than EUR 200 million. Its shareholders consist of a sound mix of private and public investors.

The ProCredit Group – Neighbourhood Banks for Ordinary People



ProCredit Bank

The ProCredit group currently comprises 19 target group-oriented banks operating in as many countries. We focus on developing countries and transition economies in three regions: Eastern Europe, Latin America and Africa. The group has 470 branches staffed by 12,600 employees. Currently, ProCredit banks disburse more than 60,000 loans totalling more than EUR 185 million every month. By the end of 2006, the number of loans outstanding had grown to more than 740,000 (amounting to EUR 2.1 billion). The average loan amount outstanding is EUR 2,850 and the loan portfolio quality remains excellent with a ratio of loans in arrears (>30 days) to total loan portfolio of only 1.2%. Over 2006, the group's deposit base increased from EUR 1.3 billion to EUR 1.8 billion, with nearly one million new accounts having been opened.

The ProCredit group is led by the Frankfurt-based ProCredit Holding AG, founded by the consulting firm IPC in 1998. The staff of ProCredit Holding and IPC provide centralised support, supervision and management of all the ProCredit banks. ProCredit Holding is a private-public company, with international shareholders that include KfW, IFC, FMO, and the DOEN Foundation. In 2006, the shareholder group was joined by two new US-based private shareholders, TIAA-CREF and the Omidyar-Tufts Microfinance Fund.

But what do these facts and figures mean and what are these shareholders trying to achieve? ProCredit is building a global group of neighbourhood banks. But what is a neighbourhood bank? Wherever we are, we aim to be the accessible, trusted, socially responsible bank for the local small businesses and the ordinary people who live and work in the area. In our lending business, we focus on very small, small and medium-sized enterprises. At the same time ProCredit provides retail banking services to "ordinary" people, with a focus on low-income families. In this way we aim to be the long-term banking partner for target groups which most conventional commercial banks neglect. By providing socially responsible products we aim to contribute to the economic development of the countries in which we work.

In the developing countries and transition economies in which the ProCredit group operates, conventional commercial banks tend to neglect small and very small businesses because they are thought to keep inadequate records, have insufficient collateral and generate high administrative costs. However, these businesses are the main engine of economic growth and of job creation. Over the years, the ProCredit group and IPC, which developed the lending methodology used by the ProCredit group, have gained a profound understanding of both the problems faced by small businesses and the opportunities available to them, and have tailored the credit technology to reflect the realities of their operating environment. Thanks to this credit technology, which combines careful analysis of all credit risks with a high degree of standardisation and efficiency, the ProCredit institutions are able to reach a large number of small borrowers.

In contrast to ProCredit, other commercial banks give priority in their lending operations to corporate finance and consumer lending, especially the latter. Consumer finance is attractive because it usually does not require skilled staff or much financial analysis of the client, allowing banks focused on market share to grow quickly. However, this quest for market share can lead to irresponsible lending and overindebtedness on the part of the client. ProCredit never forgets that a loan is also a debt. We place great emphasis on the careful evaluation of a borrower's debt capacity and on building lasting relationships. In this way, ProCredit is characterised by a responsible, long-term attitude towards business development and client relationships.

Furthermore, ProCredit institutions strive to foster a savings culture. We aim to build public confidence in banks by setting new standards in customer service, transparency and business ethics. ProCredit deposit facilities are appropriate for a broad range of customers, especially low-income groups. We offer simple savings products with no minimum deposit requirement. Eighty percent of all deposit accounts have a balance of less than EUR 100. This illustrates our target group orientation and highlights the challenge of serving this target group of small savers who account for only 1% of our total deposit volume. In the spirit

of a neighbourhood bank, ProCredit banks place great emphasis on children's savings products and education campaigns as well as on sponsoring local community events. In addition to deposit facilities, clients are offered a full range of standard non-credit banking services.

The shareholders of the group aim to strike the right balance between their prime developmental goals: reaching as many small enterprises and small savers as possible, and achieving commercial success. For 2006, the return on equity for the group as a whole, expressed in hard currency after deduction of profit taxes, is expected to reach 13%. This level of profitability is required to support our rapid growth, to ensure our long-term sustainability and to generate a reasonable return for our shareholders.

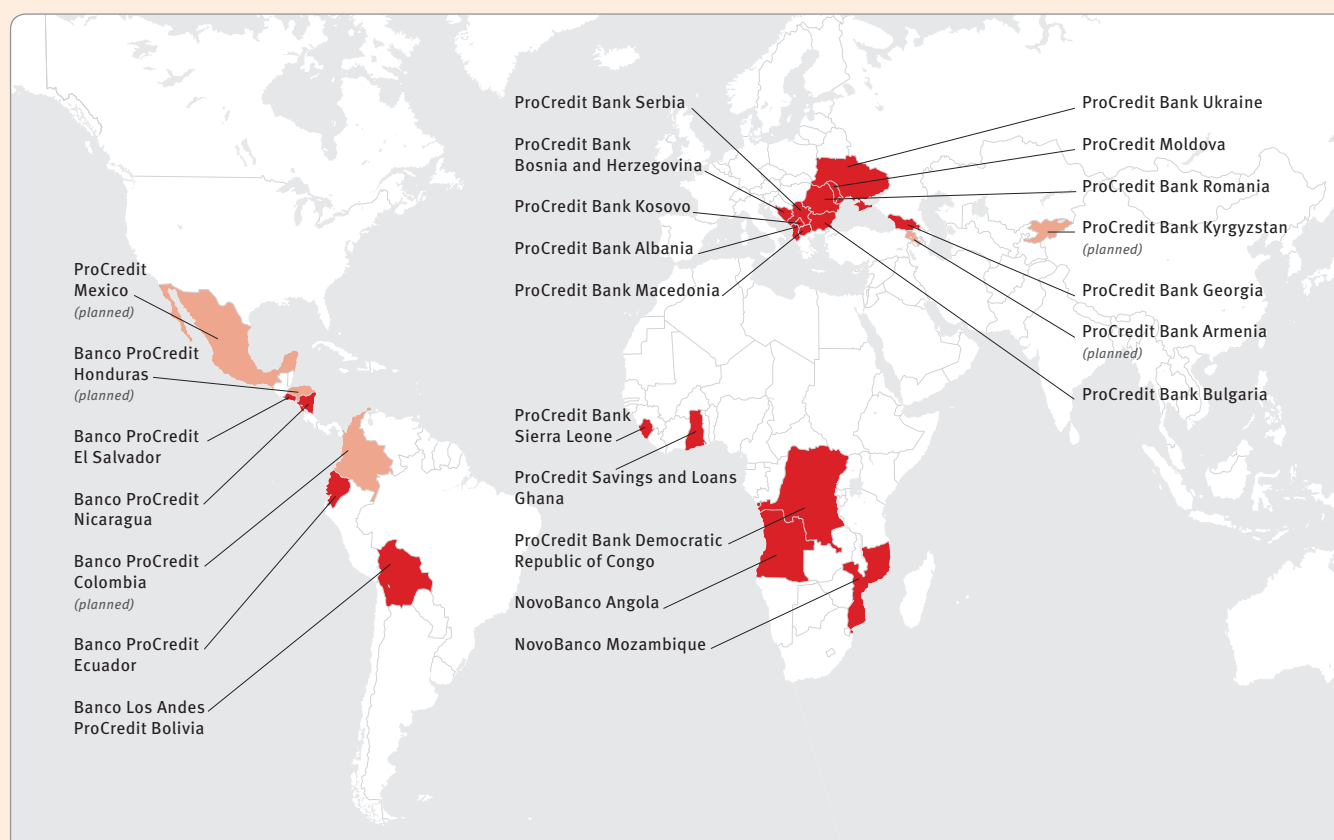
The neighbourhood bank concept is not limited to our target customers and how we reach them. It is also about our staff: how we work with one another and how we work with our customers. The neighbourhood bank approach requires a high degree of decentralised decision-making and therefore judgement and creativity from all staff, especially our branch managers. Our corporate values embed principles such as honest communication, transparency and professionalism into our

day-to-day business. Key to our success is therefore the selection and training of the right staff. We maintain a corporate culture that harnesses the creativity and entrepreneurial spirit of our staff, while fostering their deep sense of personal and social responsibility. This entails not only intensive training in technical and management skills, but also a continuous exchange of personnel between our member institutions in order to take full advantage of the opportunities for staff development which are created by their membership of a truly international group.

A central plank in our approach to training is the group's ProCredit Academy in Germany, which provides a three-year, part-time "ProCredit Banker" training programme for its high-potential local personnel. The programme includes intensive technical training and also exposes participants to a very multicultural learning environment and to subjects such as anthropology and the humanities. The programme provides an opportunity for our future leaders to develop their views of the world, as well as their communication and staff management skills. The continued success of ProCredit relies on a self-confident team of people who share a personal commitment to the target group and to the neighbourhood way of doing things.

The international group of ProCredit institutions; see also

www.procredit-holding.com





ProCredit in Eastern Europe

ProCredit operates in 10 countries across Eastern Europe. With more than 430,000 loans outstanding, it is the region's leading provider of banking services to very small, small and medium-sized businesses. Financial sectors and private sector lending are rapidly expanding in Eastern Europe, often through heavy investment in the form of foreign capital and the activities of strong western banks. In this context we are sometimes asked: can ProCredit really claim to be different and to be making a difference in the region? Our answer is a resounding “yes”. We stand out as banks deeply committed to small business lending over the long term, to building a responsible savings culture rather than blindly fuelling consumer spending, and to setting new standards of transparency and service for our customers.

Across the region, the focus of most banks, including the western banks, continues to be corporate finance and consumer lending. They neglect lending to small entrepreneurs and family businesses. Yet these businesses are the driving force behind economic growth and job creation across Eastern Europe, and have been since the collapse of Soviet influence and the large state-owned enterprises related to it. For most banks, it is simply easier to make money with consumer lending and loans to larger corporate clients, since small business lending requires decentralised decision-making and highly qualified staff who are able to assess risk quickly and reliably and maintain durable client relationships. The importance of ProCredit in transition economies should be no surprise: even in well-developed western markets only a few banks are dedicated to the long-term support of small business customers.

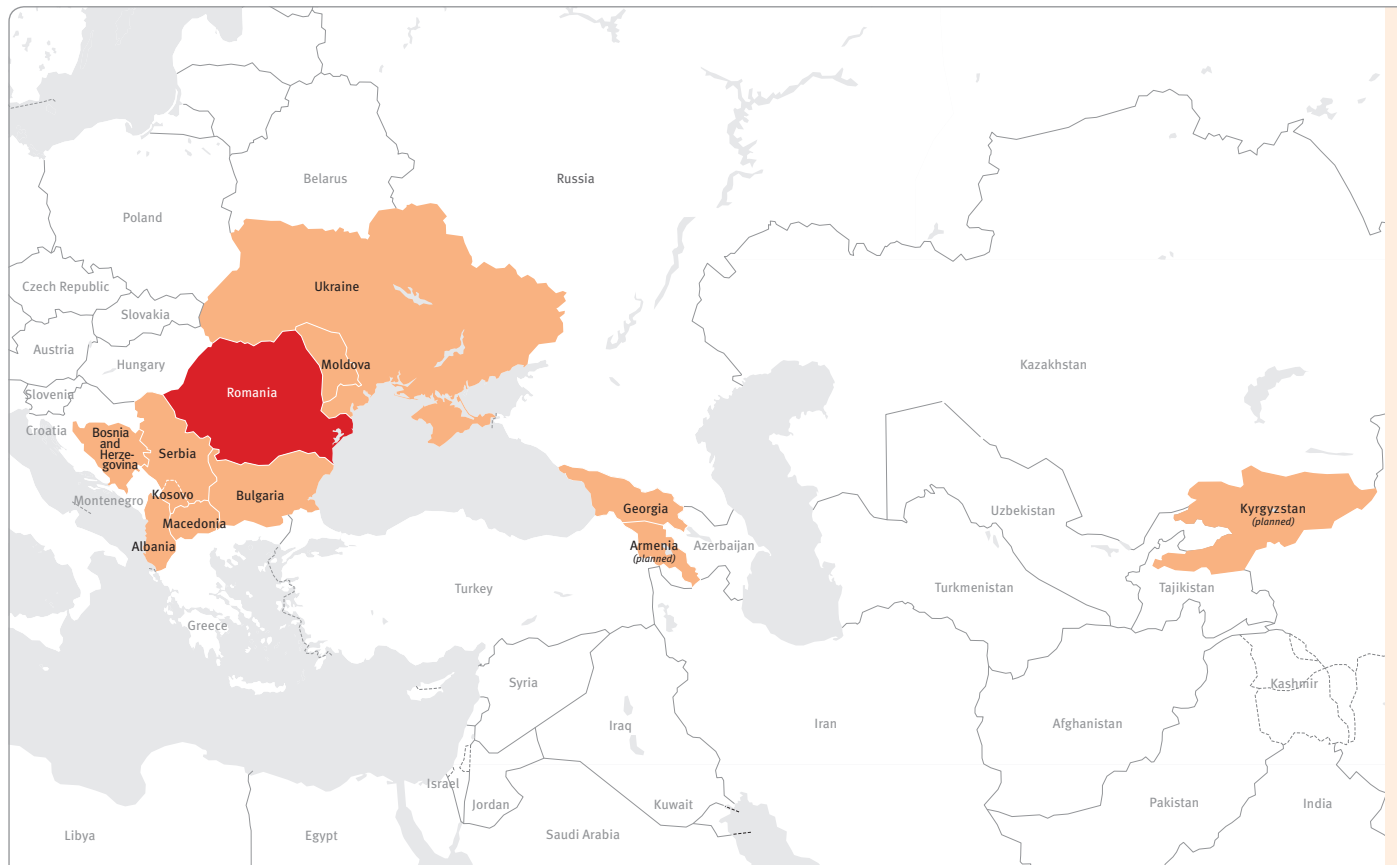
It is also no surprise that consumer lending, which is being so aggressively pursued by other banks in Eastern Europe, is not a business in which ProCredit actively engages. We believe that it tends to drive imports rather than domestic production. If pushed irresponsibly in the context of a market share gain game – with very little analysis of a customer's repayment capacity – it quickly leads to overindebtedness. This creates suffering for the individuals and families affected, and can threaten financial sector stability. The growing incidence of steeply rising default rates underpins this view. Our approach is to provide loans primarily to businesses and to do so based on a

careful, efficient analysis of a client's ability to repay. We aim to build lasting relationships and we never forget that a loan is also a debt. In this way, ProCredit is characterised by a responsible, long-term attitude towards business development.



Across the region we provide agricultural loans, supporting 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 low-income families renovate their homes and improve energy efficiency. ProCredit banks offer their business clients loans and other services, including plastic cards and fast, low-cost money transfers (“ProPay”), providing a truly integrated service for entrepreneurs that are active across the region.

In the face of rapid expansion in consumer lending, we make it a priority to create a “savings” culture, not just a “spending” culture – because savings are an important buffer against the vagaries of life. Through promotional events and direct, personal communication we encourage people – particularly those who do not yet have a banking relationship – to use banking services and to regularly set aside a certain portion of their earn-



ings. This outreach is combined with the offer of simple and reliable banking products, especially savings and deposit accounts.

In keeping with our mission to be accessible to clients wherever they are, the ProCredit group provides comprehensive coverage across the region with its 341 branches and more than 8,600 staff. Our clients can now drive from Tirana in Albania to Kiev in Ukraine and enjoy the same friendly service and open, welcoming branches all along the way. We place a strong emphasis on transparency in all ProCredit banks. We run information campaigns to ensure that all customers understand the pricing of our products as well as those of our competitors, since we find that aggressively growing markets create a lot of scope for misleading customers about the true price of banking services.

Our staff are the key element in our approach to being a stable, down-to-earth banking partner to clients across the region. The group has a strong commitment to staff training, professional development and cultivating an open, honest communication culture. Staff exchanges, cross-border training programmes and regional workshops are an important part of our approach. In the highly competitive Eastern European banking sectors, the well-trained, highly motivated ProCredit staff, who have built strong, long-term relationships with clients, are in high demand from competitor banks. However, the ProCredit work environment, the investment we make in our staff and the international opportunities that they enjoy, demonstrate that we have been very successful in retaining our best people, providing a firm base for our ongoing growth in the region.

Name	Highlights	Contact
ProCredit Bank Albania	Founded in March 1999 22 branches 28,581 loans / EUR 94.2 million in loans 143,679 deposit accounts / EUR 191.9 million 577 employees	Rruga Sami Frasheri Tirana Tel./Fax: +355 4 271 272 / 276 info@procreditbank.com.al www.procreditbank.com.al
ProCredit Bank Bosnia and Herzegovina	Founded in October 1997 26 branches 42,459 loans / EUR 117.4 million in loans 60,620 deposit accounts / EUR 90.4 million 595 employees	Emerika Bluma 8 71000 Sarajevo Tel./Fax: +387 33 250 950 / 250 971 info@procreditbank.ba www.procreditbank.ba
ProCredit Bank Bulgaria	Founded in October 2001 60 branches 49,728 loans / EUR 309.8 million in loans 136,223 deposit accounts / EUR 218.5 million 1,074 employees	131, Hristo Botev Blvd. Sofia Tel./Fax: +359 2 921 71 00 / 71 10 contact@procreditbank.bg www.procreditbank.bg
ProCredit Bank Georgia	Founded in May 1999 32 branches 58,967 loans / EUR 141.1 million in loans 335,064 deposit accounts / EUR 97.8 million 1,198 employees	D. Agmashenebeli Ave 154 Tbilisi Tel./Fax: +995 32-20 2222 / 0580 info@procreditbank.ge www.procreditbank.ge
ProCredit Bank Kosovo	Founded in January 2000 30 branches 52,016 loans / EUR 237.7 million in loans 229,995 deposit accounts / EUR 389.9 million 722 employees	Str. Skenderbeu 10 000 Prishtina/ Kosovo UNMIK Tel./Fax: +381 38-240 248 / 248777 info@procreditbank-kos.com www.procreditbank-kos.com
ProCredit Bank Macedonia	Founded in July 2003 24 branches 21,277 loans / EUR 73.4 million in loans 87,125 deposit accounts / EUR 74.2 million 537 employees	Jane Sandanski 109a 1000 Skopje Tel./Fax: +389 2 321 99 00 / 01 info@procreditbank.com.mk www.procreditbank.com.mk
ProCredit Moldova	Founded in December 1999 21 branches 14,096 loans / EUR 25.2 million in loans 259 employees	Stefan cel Mare si Sfânt, 65 Off. 900, 902, 904; Chisinau Tel./Fax: +373 22 270707/ 3488 office@procredit.md www.procredit.md
ProCredit Bank Romania	Founded in June 2002 29 branches 29,621 loans / EUR 157.3 million in loans 87,986 deposit accounts / EUR 116.9 million 795 employees	Calea Buzesti, no. 62-64, Sector 1 011017 Bucharest Tel./Fax: +40 21 2016000 / 2016002 headoffice@procreditbank.ro www.procreditbank.ro
ProCredit Bank Serbia	Founded in April 2001 52 branches 87,558 loans / EUR 306.2 million in loans 220,204 deposit accounts / EUR 256.2 million 1,421 employees	Bulevar despota Stefana 68c Belgrade Tel./Fax: +381 11 20 77 906/ 905 info@procreditbank.co.yu www.procreditbank.co.yu
ProCredit Bank Ukraine	Founded in January 2001 52 branches 49,270 loans / EUR 226.9 million in loans 81,985 deposit accounts / EUR 118.2 million 1,495 employees	107-A Pobedy Ave. Kyiv 03115 Tel./Fax: +380 44 590 10 41 / 01 info@procreditbank.com.ua www.procreditbank.com.ua

The Year in Review

January

- The Brasov Branch is relocated to larger, newly renovated premises.
- To accommodate the potential growth of its business in Timisoara, ProCredit Bank opens a second office there, the Timisoara Nord Agency.

February

- ProCredit Bank's first mobile branch – the “creditmobile” – is put into service. It is used initially to promote the bank's products and services in rural areas around Bucharest.

March

- On March 11, ProCredit Bank conducts a special event at all of its branches – “Kids' Savings Saturday” – which is dedicated to promoting financial education for children.
- Two new offices are added to ProCredit Bank's network: Braila Branch and Baia Mare Branch
- ProCredit Bank successfully launches its first public bond issue, valued at RON 35 million (approx. EUR 10 million). The issue is over-subscribed by 15%, demonstrating investors' confidence in the bank.
- Fitch Ratings awards the ProCredit Bank bond issue a rating of “BB+”.

April

- A EUR 4 million capital increase is carried out, boosting ProCredit Bank Romania's share capital to nearly EUR 20 million. The additional capital was provided by ProCredit Holding.
- “Not only side by side. Together!” – in parallel with its first image campaign, ProCredit Bank launches a new slogan. All printed materials and new advertising layouts will feature this slogan.
- ProCredit Bank receives the “2005 Premiere” award for launching the first chip card in Romania.
- Another city is added to the branch network: Tirgu Mures.

May

- ProCredit Bank launches the “TOTALAccount”, a savings account with a fixed interest rate for private individuals. The interest rate offered and the other terms and conditions of the new account are highlighted in a promo-



tional campaign which is designed to educate the public about the benefits of saving.

- The seventh ProCredit Bank location in Bucharest – the Vitan Agency – is officially opened.

June

- “For four years ... happiness in our customers' eyes” – Using this slogan, the bank launched its anniversary campaign promoting the Classic Term Deposit.

July

- All employees are invited to a party in Costinesti on the Black Sea to celebrate the bank's fourth anniversary.
- ProCredit Bank publishes the first issue of its in-house newsletter: “ProCredit Bank People”.

August

- The Suceava Branch is opened.



September

- The Horea Branch is opened, the third ProCredit Bank office in Cluj-Napoca.
- The bank begins operations in a new regional market: the Ramnicu Valcea Branch is officially opened.
- The “Transparency Campaign”, a special project developed by ProCredit Bank, is launched. Its overall objective is to provide current and potential clients with basic information about the most common banking products and services available in Romania. These comparisons are intended to educate clients about the costs and benefits of the products they are interested in using. This information should enable clients to demand that banks give them correct information.
- Three additional mobile branches – “credit-mobiles” – begin serving key rural regions in all parts of the country.

October

- In Constanta, ProCredit Bank opens a second office – the Tomis Agency.
- In Dabuleni, a small town near Craiova, ProCredit Bank opens a new branch, initiating the pilot phase of a project to “go rural” in its geographic expansion. The bank decided to open the branch because of the potential in the region and also because it already has a sizeable number of clients in the area who were initially served by the Craiova Branch (85 km away). These clients can now bank with ProCredit locally.
- ProCredit Bank declares October as “Savings Month”, with various special activities carried out to promote savings.
- ProCredit Bank receives Romania’s first-ever private sector local currency syndicated term loan, amounting to RON 150 million (approx. EUR 43 million). Citigroup Corporate and Investment Banking, the corporate banking division of Citigroup Romania S.A., is sole arranger of the facility. Other lenders participating are Alpha Bank, Bancpost, BCR, Eximbank, UniCredit and Volksbank.
- The prestigious weekly financial magazine “Capital” includes ProCredit Bank in its list of the “100 Best Companies to Work For”.
- ProCredit Bank provides support to the “Ion Creanga Children’s Theatre” in organising “100, 1,000, 1,000,000 Fairy Tales”, an international children’s theatre festival.

November

- The international rating agency Fitch Ratings confirms the bank’s BB+ long-term rating, continuing the rating established in 2005.
- Two new offices are opened in Bucharest – the Chitila Branch and the Rahova Agency.
- The volume of funds on deposit with ProCredit Bank reaches EUR 100 million and the 100,000th account is opened.

December

- ProCredit Bank participates in the organisation of the second Children’s Book Fair in Romania together with the “Step-by-Step” programme. Through this activity, the bank provides information to children, their parents and their grandparents about what banks do and why saving is beneficial.
- The Alexandria Branch is opened, adding a new city to the bank’s branch network.

Management Business Review



Management
from left to right:

Michael Kowalski
General Manager

Ilinca Rosetti
Executive Officer

Gabriel Stanescu
Deputy General Manager

Political and Economic Environment

On September 26, 2006 the European Commission announced that Romania had made sufficient progress in its efforts to meet EU accession criteria, enabling it to become a member of the European Union in January 2007. This victory was the result of continuous and detailed monitoring by international observers, controversial policy adjustments, major administrative efforts, and months of intensive work to improve transition mechanisms. This decision was of crucial significance: Romania's desire to join the European Union in 2007 has been the driving force behind its outstanding achievements in macroeconomic performance and the transformation of broad policy frameworks.

In the first half of 2006, real GDP grew by 7.4% year-on-year, up from 6.9% year-on-year in the first quarter and outpacing the 4.3% growth recorded in the last quarter of 2005. Given that the contribution of services to total value added exceeds 50%, robust growth in this sector translated into 3.65 percentage points of quarterly GDP growth during the first quarter of the year, rising to 4.13% for the first half of 2006. In November, the National Forecast Commission revised its estimates of economic growth in 2006 upwards from 6% to 7.1%, a figure which was subsequently surpassed.

Over the past two years, the Romanian government has implemented several measures which have had a significant impact on the revenue side of the budget. In January 2005, the flat income tax rate was reduced from 24% to 16%. Several amendments to the Fiscal Code were approved in July 2006 and will come into force on January 1, 2007. According to the provisions of the new Fiscal Code, the rates for two key taxes – the flat income tax and VAT – will remain unchanged, at 16% and 19% respectively. However, the tax burden for very small enterprises was eased. Enterprises in this category are currently subject to a 3% tax on their gross income; as from January 2007 this tax will be reduced to 2%, and gradually increased to 2.5% in 2008, and to 3% in 2009. Property tax, taxes on vehicles and some excise taxes were increased.

The National Bank of Romania (NBR) is committed to a tight monetary stance. It has succeeded in strengthening its new monetary policy framework and has capitalised on the growing public confidence in its anti-inflationary policies, which enhances the efficiency of monetary policy transmission mechanisms. A new cycle of monetary tightening was initiated in July 2006, when the reference rate was raised to 8.75% and the reserve requirement for banks' RON-denominated liabilities was raised from 16% to 20%, and from 30% to 40% for liabilities denominated in foreign currencies, thus restricting the scope for foreign-currency lending. The extent of the decline in the inflation rate came as somewhat of a surprise even for the most optimistic observers; indeed, at 4.87%, the inflation level recorded at the end of 2006 was within the range envisaged by the National Bank, although lower than forecasted in the overall projections for the end of the year.

Romania's accession to the European Union in January 2007 has been, and continues to be, a key factor influencing the country's economic performance. The convergence of local living standards with EU benchmarks is a crucial issue, given that GDP per capita in Romania is currently less than one-third of the average for the EU. The substantial structural imbalances in the Romanian economy make it essential for the government to continue to vigorously implement its planned reforms so that the economy will be able to absorb the impacts of accession. Thus, it can be assumed that Romania's membership of the EU will have favourable effects on the growth of income, output and foreign direct investment, provided that the government remains firmly committed to pushing ahead with its programme of market-oriented reforms.



Financial Sector Developments

Without doubt, 2006 was a record year for the Romanian financial sector in terms of the expansion of banks' branch networks, given the number of new banking locations established during the past twelve months and the frequency of openings. Three convergent factors were particularly important in producing this very widespread push to expand branch networks: first, a significant increase in the overall level of competition in the banking sector; second, the sheer potential of the market, about which there can be no doubt; and third, the banks' imperative to consolidate their market positions before Romania joins the European Union. During the first nine months of the year, 679 new banking locations were established and the number of staff employed in banking increased by more than 4,400. At the end of 2006, the Romanian banking sector consisted of 36 banks operating in more than 4,300 locations.

The ratio of banking system assets to GDP increased from 25.8% in December 2001 to 44.6% in June 2006. In mid-2006, the volume of banking assets stood at EUR 40.3 billion. The volume of bank capital reached EUR 4.8 billion and at the end of the year total banking assets exceeded the volume reported for the end of 2005 by more than EUR 16.8 billion. There was a notable shift in the ownership structure of the Romanian banking sector. According to the National Bank, 61.9% of the assets of the banking system are held by entities with majority foreign ownership, while 32.1% are held by entities with majority domestic private ownership, and 6% are held by institutions with majority state ownership. In 2006, the Romanian banking system continued to be dominated by foreign institutions and investors: foreign capital accounted for about 70% of the banks' total capital, and over 80% of the total foreign capital is of EU origin.

The effects of the restrictive interventions undertaken by the NBR in July 2006 have been substantial. At present, one of the strategic goals of the monetary authorities is to slow down consumer lending over time and promote a shift towards real estate lending. This strategy reflects what is seen as a gradual increase in the maturity of the real estate market, and also the perception

that the quality of risk monitoring for the credit market as a whole has improved. At the same time, there is increasing confidence in the local currency, as evidenced by the fact that almost 60% of the total outstanding credit volume is now denominated in RON.

The expansion of domestic credit may, however, increase the vulnerability of overall macroeconomic stability to short- and medium-term shocks since it fuels demand, which in turn intensifies inflationary pressures and external imbalances. In addition, in 2006 the general orientation of the banking sector towards consumer lending and a widespread unwillingness on the part of Romanian households to defer consumption also influenced citizens' savings behaviour. Despite the increase in savings interest rates, during the third quarter of 2006 financial institutions were able to attract only 5.1% more funds from the public than they had in the previous quarter. The ratio of deposit volume to credit volume in the banking system steadily decreased during the first three quarters of the year, declining to a level of 1.05 by the end of September. Due to recent developments in the market, large portfolios have been transferred abroad, influencing the accuracy of this ratio.

A notable initiative undertaken by the NBR to strengthen the soundness of the Romanian banking system is its programme to gradually introduce Basel II standards. Minimum capital requirements and risk management standards should reduce the risks created by undercapitalised banks. During the initial phases of the programme, necessary amendments to banking regulations were implemented and new approaches to risk management were introduced. The purpose of the concluding phase, which is scheduled to begin in January 2007, is to monitor the steps taken by commercial banks to comply with the new capital requirements. The adequacy of the banks' preparations for the implementation of the Basel II standards will be the key factor determining the readiness of the Romanian banking sector to be fully integrated into the EU financial system.



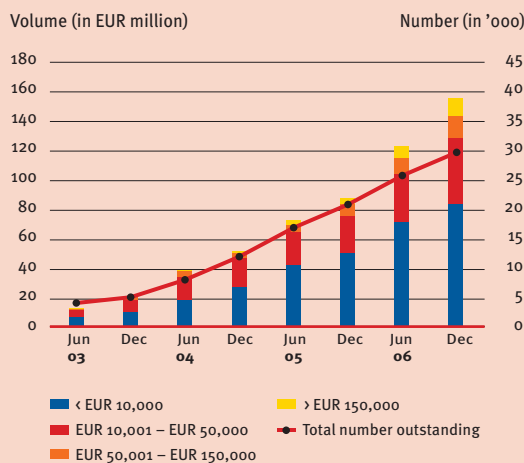


Lending Performance

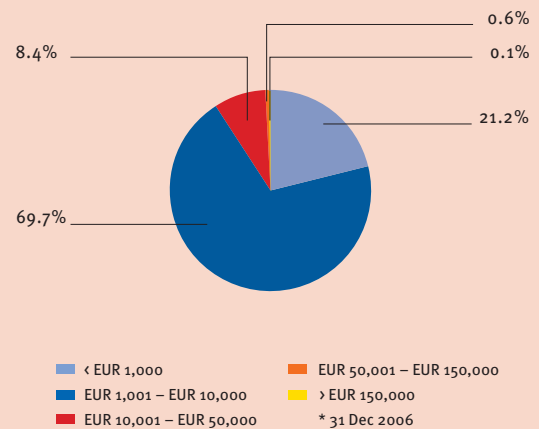
ProCredit Bank had a very successful year in 2006, achieving its goals in all areas of its lending business despite intensified competition over the course of the year in all segments of the market. At the end of December the bank's loan portfolio consisted of roughly 30,000 loans with a combined volume of EUR 157.3 million, representing a 40% increase in the number of loans, and a 77% growth in the outstanding volume, since the end of 2005.

The changes in the regulatory environment did not have a significant impact on our lending activities because ProCredit Bank has only a very marginal presence in the market for loans to private individuals (consumer lending). The fact that hard currency restrictions continued to apply did not impact our foreign-currency-denominated lending operations, the volume of which remained below the ceiling of 300% of equity imposed by the NBR. 77% of ProCredit Bank's loan portfolio is denominated in RON, a consequence of the bank's focus on small entrepreneurs; the bank seeks to avoid exposing these borrowers to longer-term exchange rate risks. A strategic goal of our institution is to ensure that loans denominated in foreign currencies do not account for a significant share of the portfolio. The increase in the average loan maturity during the year (3.9 years at the end of December) reflects the fact that loans were issued on a sub-

Loan Portfolio Development



Number of Loans Outstanding – Breakdown by Loan Size*



stantial scale to finance investments in fixed assets.

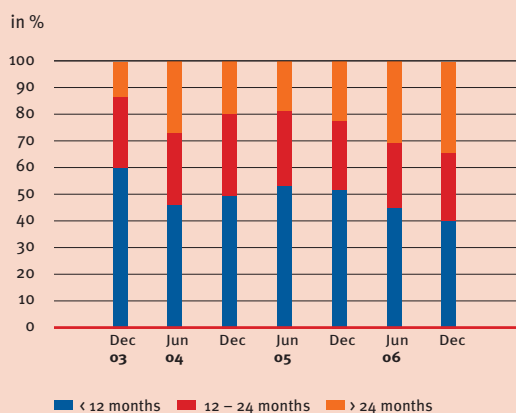
During the year the bank disbursed more than 22,300 loans that amounted to EUR 143 million. The most dynamic performance was achieved in the following three product groups: agricultural, very small and small business loans. In April 2006 we modified most of our credit products, improving the design of our loans up to EUR 10,000 and incorporating certain advantageous features of these products into our loans for small enterprises, i.e. the simplified collateral requirements and flexible rules regarding the use of the loan. Furthermore, by introducing the “Investment Loan”, which is designed exclusively to provide long-term financing to realise investment objectives (up to 10 years), we made an important addition to our product range, giving all of our clients – including very small businesses – the opportunity to obtain fixed asset loans with longer maturities.

The rapid development of operations in agricultural lending was attributable to three factors: the modifications made to the products aimed at small farmers (the “Farmer Loan” and the “Seasonal Loan”); the introduction of the “creditmobiles”; and the continuous expansion of our regional coverage in rural lending. The “creditmobiles” are vans driven by members of the bank’s credit staff who visit small farmers, providing them with information about

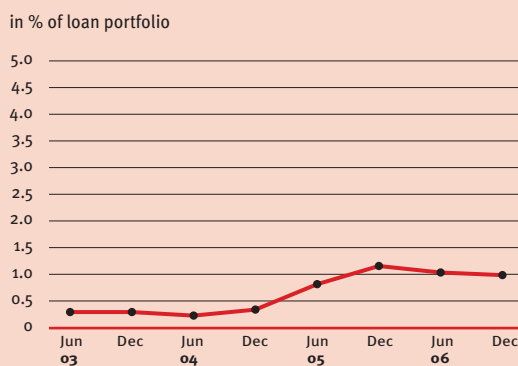
ProCreditBank’s products and filling in credit applications for people who are interested in taking out loans. The main goals of the “creditmobile” are to promote the bank’s products in new regions or in areas where we have not yet penetrated the agricultural credit market to any significant extent, and generally to enable us to better serve our clients in rural areas by sending these vehicles out on a fixed route each week to cover specific areas on a rotating basis. Thanks to the effectiveness of the steps we took to boost our business in the rural credit market, we were able to disburse more than 5,000 agricultural loans with a volume of some EUR 20 million during the year. In 2006 the agricultural loan portfolio increased by 154% as measured by the number of loans outstanding, and by 192% in volume terms.

The strong growth in our lending activities was supported by the commitment and professionalism of our employees. This enabled us to obtain good results in terms of loan portfolio quality and in the recovery of delinquent loans. The portfolio at risk (loans more than 30 days overdue) amounted to only 0.99% of the loan portfolio as of December 31, 2006. In line with the bank’s conservative provisioning policy, the reserve for loan losses covers 2.1% of the total loan portfolio. The level of net loan write-offs remained low, amounting to only 0.33% of the total portfolio. Loan reschedulings were not carried out on any significant scale in 2006.

Business Loan Portfolio – Breakdown by Maturity



Loan Portfolio Quality (arrears >30 days)



Net write-offs: in 2003: none in 2005: EUR 357,687
 in 2004: EUR 94,461 in 2006: EUR 502,438

Other Banking Services

In 2006, ProCredit Bank also experienced very dynamic growth in its other banking services, i.e. non-credit products. In 2006, the number of clients served in this area of operations rose to 55,371, and the total volume of funds in customer accounts increased by 73%, amounting to EUR 117 million at the end of the year. The number of customer accounts grew by 49%. This substantial increase was accompanied by a rise of more than 66% in the volume of the deposit portfolio. The significant increases in both the number of customer accounts and the volume of funds in such accounts reflects the consistent implementation of what we call the “neighbourhood bank concept”. At the heart of this concept is a firm commitment to excellent customer service and a focus on personal, face-to-face communication with clients.

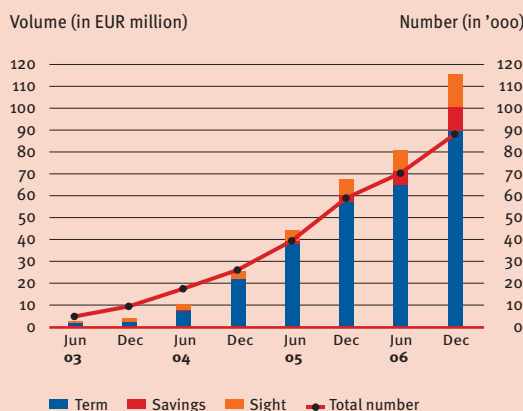
In 2006 ProCredit Bank took further steps to expand its range of services for private individuals. Starting in April 2006 a new savings account – the “Total Account” – was launched. As a result, we have experienced rapid growth in this area of our business: the total volume of funds held in savings accounts increased by 251%, from EUR 3 million to EUR 10.5 million. The number of savings accounts grew by almost 100% in 2006, demonstrating that trust in the bank and people’s confidence in the quality of our services grew substantially over the year. The fact that 85% of

our clients’ accounts have balances of less than EUR 1,000 underscores the bank’s unwavering commitment to its designated target group in this area of its business: medium- and low-income households in the neighbourhoods in which our branches are located account for the overwhelming majority of the customers who use our non-credit banking services.

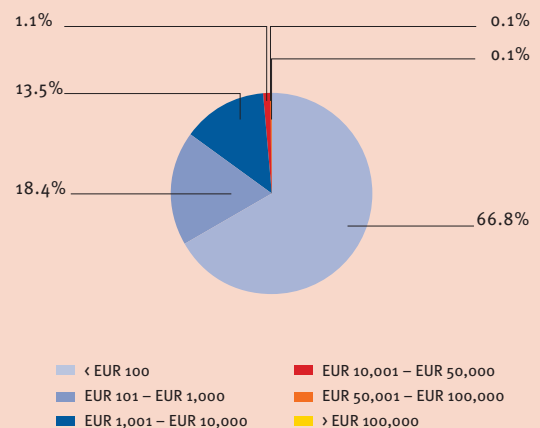
Increasing efficiency is one of the keys to success in our efforts to achieve our goal of providing high-quality services in all areas. Accordingly, in 2006 a centralised Payments Centre was established, and since all money transfers which are to be executed for our clients are now processed by specialised employees in the Payments Centre, we are now able to provide faster, better-quality service in this area. Thanks to these new arrangements for processing transfers, and due also to the introduction of a new and more efficient organisational structure at the branch level, the volume of money transfers grew from EUR 46 million in December 2005 to EUR 81 million in December 2006.

The way in which our employees deal with clients, and the way in which we approach our work as bankers, are what makes us different from other banks and what motivates clients to entrust their money to our institution. The successful development of the retail business over the past year shows that the efforts we put into direct promotion, i.e. into actively approaching clients and

Customer Deposits



Number of Customer Deposits – Breakdown by Size





helping them to understand the advantages of banking with ProCredit, were very worthwhile. In 2007 ProCredit Bank will continue to provide simple and transparent products and services. As our customers' "neighbourhood bank", we will remain focused on developing personal relationships with them and understanding their concerns. To this end, and to demonstrate our commitment to our customers and to the local communities we serve, we will continue to organise informational and educational events and to organise special projects which underscore our strong sense of social responsibility.

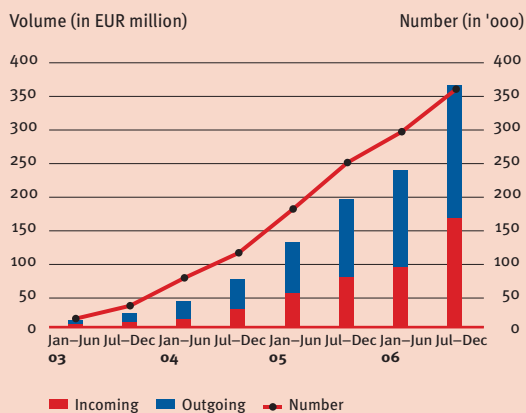
Financial Performance

The increase in business at the bank's existing locations, together with the boost given by the expansion of ProCredit Bank's branch network and regional coverage, resulted in a strong increase in total assets, which rose by 70% in 2006. The gross loan portfolio stood at EUR 157.3 million at year-end, representing an increase of 77% during 2006. At the same time, the bank reported a substantially higher volume of liquid assets, up by 47% from the level reported in 2005.

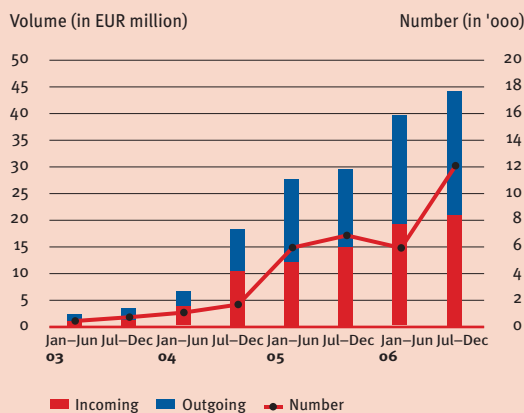
The bank continued to diversify its funding base and successfully managed its maturity and currency structure. In financing its asset growth, the bank drew upon various external funding sources. However, the mobilisation of customer deposits was the major priority during the year. During 2006, the total volume of funds entrusted to ProCredit Bank grew by more than 72%, rising by the end of the year to EUR 117 million, equal to 59% of total liabilities. 76% of customer funds was denominated in local currency, enabling the bank to finance the growth in local-currency lending internally. The branches in Bucharest contributed 68% of the total volume, which highlights the concentration of funds in the Romanian capital.

The IFI funding base decreased by 24%, while the institution increased its overall funding resources through customer deposits and its active and efficient presence on the local capital market.

Domestic Money Transfers



International Money Transfers



In March 2006 the bank successfully launched its first public bond issue, which was valued at RON 35 million and oversubscribed by 15%. ProCredit Bank also received a syndicated loan from Citibank. This was the first private local-currency syndicated loan ever issued in Romania, and, with an amount of RON 150 million, was also the largest credit facility ever granted to a small business bank in our region. This transaction underscores that the market acknowledges ProCredit Bank as the leading provider of financial services to small and very small businesses in Romania. It also demonstrates that the participating financial institutions understand the crucial role of small and very small businesses in the process of economic development in Romania and recognise that these clients have proven to be dynamic and reliable business partners for our bank.

The high growth rates on the asset side were accompanied by a consolidation of ProCredit Bank's income situation. The bank recorded its second profitable year, ending 2006 with a net profit of EUR 1.5 million, an increase of 77% over the 2005 amount. Revenues from lending operations (EUR 25 million) continued to be the major source of income for ProCredit Bank, accounting for 86% of total income. Net commission income amounted to EUR 2.3 million for the year, an increase of 105% over the figure for 2005. At EUR 18.6 million, the bank's operating income was up by 48% from the figure recorded in 2005 (EUR 12.6 million).

Operating expenses grew with the expansion of the branch network and staff increases during 2006. Personnel expenses were up by 80% and general administrative expenses increased by 60%. The cost-income ratio amounted to 85%, compared with 75% in 2005. Throughout 2006 the bank maintained a sufficiently high capital adequacy ratio; at the end of the year it stood at 14.1%.

Outlook

The pace of development and expansion in the Romanian financial sector was significant in 2006 due to the growing creditworthiness of the financial system and its increasing liquidity.

Furthermore, as has been widely acknowledged, there have recently been important improvements in risk management and in the regulatory and supervisory frameworks for the banking sector. The Romanian financial system as a whole is now more secure and has good potential for growth and development. But while EU accession offers great opportunities, it also poses great challenges for the financial system: Romania still has a long way to go before its level of financial intermediation, in terms of both the size of the financial sector and the range of services it provides, will be comparable to that found in Western European financial markets.

ProCredit Bank Romania remains committed to the key goals which it defined for itself when it launched its operations: it seeks to become a reliable financial partner for as many clients as possible who previously had no access to the financial system; to make a difference in its clients' lives and in the life of the communities in which it operates; and to give its employees the resources, training and encouragement required to do their jobs well and take pride in their work as members of the ProCredit team.

After almost doubling the size of its branch network in 2006, ProCredit Bank plans to further increase its geographical coverage, mirroring the broad trend towards expansion in the Romanian banking sector. The strategy for 2007 involves two elements: we plan to enter new markets with good development potential in which we do not yet have a presence, and at the same time we intend to raise our profile in cities where we already operate by adding new branches in highly visible, easily accessible locations.

We believe in down-to-earth banking, in respect and professionalism in all dealings with our clients, and in transparent communication. These values are not necessarily shared by all our competitors, and as a result, customers of other institutions are often given misleading and/or incomplete information on banking services; thus, they may not be aware of the full implications of their financial decisions. ProCredit Bank openly criticises this way of dealing with customers and works actively to combat it, seeking to ensure that existing and potential clients clearly understand the products and services it offers.



For ProCredit, this is all part of what it sees as a genuine developmental mission, namely to contribute to an overall increase in the level of financial education in Romania.

Our ability to properly communicate our corporate values to a steadily growing number of employees continues to be the key to achieving our strategic goals. Our success to date in this area is clearly reflected in the substantial growth and sound institutional development which have

characterised the evolution of ProCredit Bank Romania over the past few years. A strong commitment on the part of our employees to our approach and to our business philosophy – which at a practical level translates into a focus on transparency, clear communication and professional service – will allow ProCredit Bank to continue to achieve its operational targets and provide a solid foundation for our long-term success in the markets we serve.

Special Feature



A Campaign to Promote Increased Transparency in the Romanian Banking Market

Over the last few years in a continuously growing market, there has been a tremendous increase in competition among banks, which has resulted in a significantly increasing range of products and services. Beginning in 2005, the National Bank of Romania imposed new standards in an effort to limit the growth of lending to private individuals. Most banks tried to circumvent the restrictions created by the new standards by modifying the terms and conditions of their products, i.e. by introducing new maturity periods for loans and different interest rates, and especially by establishing new fees and commissions. In 2006 some banks introduced exotic new products, offering loans in Japanese yen and Swiss francs.

By launching new financial products and services and by modifying existing products and their terms and conditions, the banks started an aggressive competitive struggle to attract clients.

But for the most part these clients had had little prior experience in dealing with banks and were thus ill-equipped to understand and correctly interpret the mass of complex information being provided to them. Last but not least, increased competition among banks and the desire to boost market share created an environment in which banks found it difficult to resist the temptation to advertise products and services in a misleading way, highlighting their benefits while failing to reveal crucial details regarding costs. From day to day, the market became increasingly difficult to understand from the client's point of view.

This approach to increasing market share could jeopardise the good reputation of the Romanian banking sector as a whole, and ultimately it may have the effect of making people even more reluctant to use the services of banks. Numerous problems have been created by inaccurate and

misleading information. In many cases it has become impossible for potential borrowers to compare loans offered by different banks due to the complexity of the various terms and conditions – a situation which the clients find both irritating and puzzling.

What is the Transparency Campaign?

Given this environment, ProCredit Bank's Transparency Campaign was launched to increase people's trust in the banking system and to enable them to understand the real costs and benefits of the different products provided by banks. The purpose of the campaign was not to compare the products and services offered by various banks or to comment on specific product features. Rather, the aim was to provide basic information for the current and potential clients of banks in order to help them better understand the most common financial products and services offered by the country's financial institutions. This information would enable them to make sound comparisons by themselves and to feel confident that they had made the right decision when selecting a given product.

At the end of September 2006, ProCredit Bank Romania launched the Transparency Campaign. A press conference at ProCredit Bank's head office included a round table discussion to which many journalists were invited. The lively discussions between representatives of the press and ProCredit Bank's top management showed that there was great interest in the subject. Various articles were published about ProCredit Bank's project and Romanian newspapers reported extensively on the topic.

Two brochures were prepared. They were aimed at existing and potential clients of ProCredit Bank. One brochure contained information about the things a client should know when applying for a loan. The other provided the same type of information regarding the most common types of savings products.

ProCredit Bank's goal in carrying out the Transparency Campaign was to make Romanians aware of the real costs and benefits of the banking products or services they might be interested



in using, and to encourage people to ask for the pertinent information when choosing a banking institution, regardless of whether they are applying for a loan or wish to deposit funds or open another type of account.

Transparency – i.e. the provision of correct, complete and easy-to-understand information – concerning the real advantages and costs of products and services offered by banks will foster trust in the financial system, ultimately benefiting both banks and their clients.

After the campaign had been underway for a few months, it was clear – based not only on comments by clients, but also on the response by the press and the relevant authorities – that ProCredit Bank's initiative was being viewed in a very positive way by the market. The impact of the Transparency Campaign has shown that although ProCredit Bank is a small player in the Romanian financial market, it is able to contribute to increased transparency. This is mainly thanks to ProCredit's business philosophy, which is based on high ethical standards and strict adherence to its sound corporate values and to its strategy of building long-term relationships with its customers. And this approach to the banking business is particularly important for an institution that is committed to serving ordinary people.

Risk Management

During 2006 the bank continued to monitor all relevant risks and further refined its risk management tools. The core element of an effective risk management system is a well-developed “risk awareness culture” – a corporate culture in which embedded risks are recognised by each employee, the potential impacts of these risks are fully understood, and responsibility for addressing individual risks is assumed by the relevant staff members in accordance with their specified duties and tasks.

The bank’s prudent risk management policies are defined on a comprehensive, institution-wide basis by the management and, where appropriate, approved by the Board of Administrators. The structure that has been established within the bank to execute the various risk management functions has two parts: the Risk Department, which is responsible for co-ordination and the provision of information to support the relevant decision-makers; and the various risk committees, which serve as platforms for monitoring and decision-making.

The Risk Department operates under the direct supervision of the general manager, and thus it is an independent department within the bank which is not subordinate to any of the units responsible for the various lines of business. The Risk Department consists of two units:

- the Risk Management Unit, which is responsible for defining the various types of risk, for policies, procedures, models and methods, and for measurement, monitoring and reporting, and
- the Information Security Unit, which is responsible for designing, updating and implementing the bank’s information security policy.

The risk committees operate in accordance with the bank’s overall risk strategy and their powers are defined by the authority delegated to them by the Board of Administrators. The risk committees have an advisory role vis-à-vis ProCredit Bank’s management. The relevant operational areas are represented in each committee to ensure that a close link is maintained between the various business lines and the risk management function.

Risk Management Committee (RMC)

The main duty of the RMC is to ensure that the bank maintains an appropriate risk profile. Accordingly, the RMC advises on the policies, procedures and methods used in dealing with credit risk (credit and interbank exposure), market risk (interest rate and foreign exchange exposure), financial risk (liquidity risk, performance risk), and legal and compliance risk. The committee meets at least once per quarter.

Credit Risk Committee (CRC)

The CRC is a monitoring and decision-making committee whose main duty is to monitor developments and trends in the loan portfolio and to analyse them in relation to the risk profile established for credit risk and, whenever necessary, to approve remedial measures. The CRC also advises on collection and provisioning policy. The committee’s meetings are held once every two months, but it may be convened whenever deemed necessary.

Operational Risk Committee (OPRC)

At a minimum, the agenda for the ordinary meetings of the OPRC must include the following topics: operational risk exposure (as derived from the operational risk database) and alternative action plans for operational adjustments. The regular meetings of the OPRC are held once a month, but it may also be convened whenever required.

Asset and Liability Committee (ALCO)

One function of the ALCO is to monitor compliance with the risk profile defined for all risks other than credit and operational risk. If areas are identified which are not in compliance with the relevant risk profile, decisions on remedial action are taken. The ALCO meets on a monthly basis.

In addition to the monitoring carried out by the bank’s own risk committees, as outlined above, ProCredit Bank benefits from ongoing risk monitoring by ProCredit Holding. The holding compa-

ny's risk monitoring specialists draw on an extensive management information system which provides relevant data on all aspects of the ProCredit banks' activities.

Credit Risk

Credit risk is created as a result of the possibility that, depending on the specific type of contract involved, a borrower or counterparty will be unable or unwilling to discharge a payment obligation, resulting in an economic loss for the bank. The bank has in place a credit risk management system comprising a highly developed credit technology, efficient decision-making platforms, a defined credit risk profile and mechanisms that ensure continuous monitoring. The portfolio at risk (defined as loans with arrears of more than 30 days) was less than 1.2% for most of the year and stood at just under 1% at the end of December 2006.

Market Risk

The focus of market risk management is to reduce the impact on earnings and capital from adverse movements in interest rates and exchange rates. The bank monitors compliance with both structural limits and impact limits. Structural limits relate to the balance sheet structure as regards interest rate/currency sensitivity. Impact limits relate to the effect which changes in interest rates/FX rates might have on the bank's profitability.

Interest rate risk

Several different methods are used to measure and monitor interest rate risk, e.g. gap analysis and the duration model. Various scenarios are analysed by the ALCO in order to assess their potential impact on the bank's performance. At the end of 2006, the one-year repricing assets were equivalent to 67.4% of the similar repricing liabilities, implying a limited level of interest rate risk.

Foreign exchange risk

Like interest rate risk, foreign exchange risk is created by a structural mismatch in the banking book; thus, structural limits have been imposed with regard to the composition of both assets and liabilities in order to reduce the FX risk exposure. During the year under review, the bank's open foreign exchange positions remained in line with both internal and external limits.



Liquidity Risk

The main objective of liquidity management is to maintain a level of liquidity which is sufficient to ensure safe and sound operations. The bank's liquidity strategy consists of the following components:

- defining the liquidity risk profile and exposure limits;
- ensuring the availability of sufficient funds to carry out daily activities;
- ensuring the availability of a stable funding pool;
- ensuring that efficient decision-making and advisory bodies are in place – specifically, the Board of Administrators, the Credit Risk Committee and other risk committees, and the ALCO;
- monitoring performed on an ongoing basis;
- testing the stability of the deposit base; and
- ensuring that a crisis response strategy is in place.

As of the end of 2006, liquid assets, consisting of cash and placements with banks, including placements with the National Bank to meet reserve requirements, were equivalent to 27.9% of total liabilities and covered 47.4% of the bank's customer deposits.

Operational Risk

ProCredit Bank has developed specific instruments to facilitate monitoring and control of operational risk: an operational risk database and a dedicated committee. Special emphasis is placed on raising staff awareness of the importance of recognising and reporting operational loss events, and ensuring the highest possible degree of cooperation at all institutional levels in this regard.

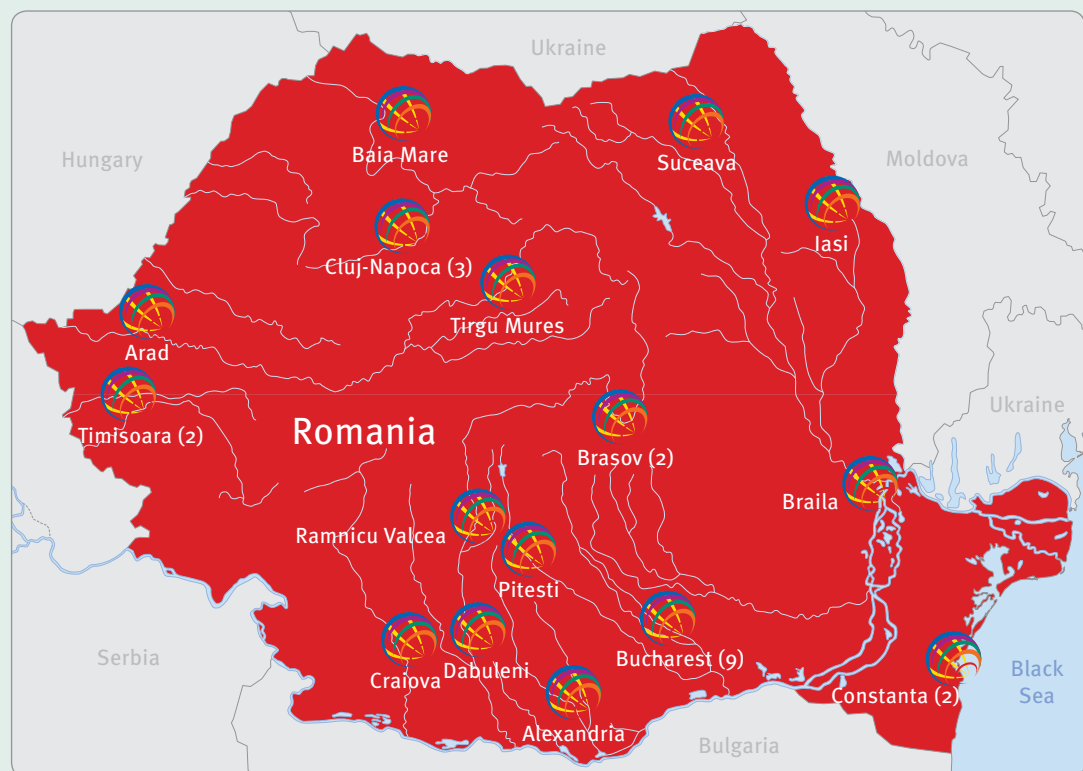
Branch Network

To support further growth and strengthen its position in the Romanian banking sector, ProCredit Bank continuously increased its presence in the market during the year under review. 2006 was our institution's most exciting year so far in terms of network expansion: 13 new outlets (seven branches and six agencies) were opened, boosting the total number of branches and agencies throughout Romania to 29 by the end of the year.

New markets in seven cities in which the bank did not previously have a presence (Baia Mare, Tirgu Mures, Braila, Suceava, Ramnicu Valcea, Dabuleni and Alexandria) were added to the ProCredit Bank map. The success which our bank enjoys in agricultural lending helped to shape the strategic orientation of the network expansion activities, which also encompassed rural areas; ProCredit Bank is one of the very few financial institutions in Romania which, in addition to offices in larger population centres, have also set up facilities in small towns such as Dabuleni (population 17,000).

Proximity to our clients is crucial for the development of our operations. Accordingly, four additional agencies and two branches were opened in the largest cities in which ProCredit Bank was already represented: Timisoara Nord Agency in Timisoara, Tomis Agency in Constanta; Horea Branch in Cluj; Chitila Branch, Vitan and Rahova Agencies in Bucharest. In addition, the main branch in Brasov, one of ProCredit Bank's oldest branches, was relocated to a better area, giving the facility a greater visibility and making it more accessible for clients. Prior to the move, the new branch premises were completely renovated, bringing them into line with the bank's corporate design standards.

In accordance with our overall approach to dealing with customers, which stresses high-quality, friendly service, we are confident that the design of our premises – which are bright and spacious – creates an atmosphere in which our customers feel welcome and in which our employees enjoy



*Tirgu Mures Branch**Horea Branch**Dabuleny Agency*

their work and are motivated to do their best. Thus, the design and overall appearance of our offices plays a key role in enabling us to develop long-lasting business relationships with our clients. ProCredit Bank Romania will continue to expand its network in 2007, with the total number of branches expected to increase to close to 40 by the end of the year.

*Ramnicu Valcea Branch*

Organisation, Staff and Staff Development

The way that both clients and employees are treated at ProCredit Bank is what makes us different from other banks, and our value-driven institutional culture is what inspires our staff and convinces our clients that we are the right bank for them. Accordingly, we invest a great deal of time and effort in ensuring that all of our employees actively adhere to – and truly “live” – our corporate values as a part of both their personal and their professional development.

During 2006, 387 new employees joined ProCredit Bank’s team, increasing the total number of staff to 795 by the end of December 2006, up by 58% over the total at the end of 2005. Also during the year, 46 employees were promoted to positions on the bank’s middle management team. The majority of the new employees were operational staff for the new branches and agencies opened during the year; the remainder were hired to add capacity at the head office and to provide high-quality support for the branches.

Staffing in 2006

Number of branches	29
Total number of new employees	387
Total number of employees	795
Total number of head office staff	108
Total number of branch staff	687
Total number of middle management staff	88
Total number of training days	7,500
Total training costs	EUR 285,000

We considerably increased head office support to the branches. Among the measures taken was the establishment within the HR Department of a Recruitment and Training Unit with responsibility for monitoring the planning and organisation of training activities. Moreover, in 2006 we inaugurated a special training measure to welcome new employees to the bank. In this seminar, which is offered as required, key information about the bank is presented – its history, information on its shareholders (with a special focus on ProCredit Holding), its mission and corporate vision, the Code of Conduct, and management’s plans for the future. This background enables new staff to be smoothly integrated into our team and feel at home in our institution. While ProCredit Bank’s employees grow and develop professionally as they acquire experience at the bank, both new employees and experienced staff members

attend regular training measures dealing with technical issues and with “soft skills”. In order to ensure that they meet the bank’s high standards and provide excellent client care, the front office staff regularly attend seminars on customer service. In addition, the bank provides training on other relevant topics such as anti-money laundering policies and measures, the importance and implications of internal controls, and key elements of marketing strategy.

We believe in the potential of our employees and support the development of that potential. At the same time we expect them to make a long-term commitment to the bank. Accordingly we offer our staff diverse opportunities for professional development and various career paths. During 2006, 38 of our most outstanding employees from both the lending business and the retail (non-credit) side of our operations were promoted to management positions at the branch or agency level, while 8 high-potential employees were invited to join the middle management team at our head office. Additionally, in May 2006, ProCredit Bank Romania introduced an incentive system designed to reward employees who have shown a high level of commitment to the institution during the previous year and whose behaviour towards both colleagues and customers has been exemplary. Staff members were nominated on the basis of recommendations made by their own colleagues, and all employees were eligible.



The final decision was taken by a special committee, which selected the four employees who were rewarded under this new incentive programme.

Training activities for middle management staff saw a considerable increase in intensity, both internally and externally. In the run-up to Romania's accession to the European Union, several training programmes were organised locally by different institutions. Our middle managers took part in these programmes, which provided information on the main changes in regulations and their impacts, and also on the accession-related measures planned at the national level. Internal training focused on developing the managerial skills of young, high-potential staff members who have been promoted to management positions at our bank; specifically, the emphasis was on promoting a value-based management style – the best form of “insurance” for long-term, sustainable institutional development consistent with our overall strategic orientation. Participation in the exchanges of information which take place at seminars and workshops organised at the level of ProCredit Holding gives our middle managers the opportunity to broaden their view of the banking business and to obtain new ideas and insights through discussions with colleagues from other ProCredit institutions.

At ProCredit Bank, our staff learn to appreciate not only how people of various nationalities differ, but also how much they have in common. This appreciation of both diversity and shared values is developed through intercultural communication in an atmosphere of mutual respect, in forums organised by an international banking group which actively promotes dialogue among its staff members at all levels. This appreciation is one of the most important personal attributes which employees can acquire over time in our institution. In January 2006 the ProCredit Academy, the training centre established by ProCredit Holding in Germany, opened its doors to the “crème de la crème” of the middle management staff of ProCredit banks worldwide. The Academy's activities supplement and support the efforts of the individual banks to develop management capacity in their institutions. The three participants from ProCredit Bank Romania – three of our best middle managers – successfully completed the first of the three years of intensive training sessions. The personal and professional growth which they have experienced as a result of their participation in the courses at the Academy has enabled them to bring new insights and skills to their work – much to the benefit of ProCredit Bank. In 2007 four more of our best employees will attend the ProCredit Academy. This will ensure that the benefits to our bank from their participation at the Academy will become increasingly visible, enhanced by the “multiplier effect”.





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. We have established six essential principles which guide the operations of 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 give our clients sound advice; their economic and financial situation, their potential and their capacities are assessed and are translated into appropriate “products”; promoting a culture of savings is important to us; we are committed to treating all customers and employees respectfully and fairly, irrespective 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:** Every employee takes responsibility for the quality of his/her work and strives to do his/her job even better;
- **A high degree of personal commitment:** This goes hand-in-hand with personal integrity and honesty – traits which are required of all employees in all ProCredit institutions.

These ProCredit 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 Code of Conduct, which translates the ProCredit group’s ethical principles into practical guidelines for all ProCredit staff. In order to ensure that staff fully understand all of the principles that have been defined, several training sessions were conducted during the year under review at which case studies were presented and grey areas discussed. We will continue to conduct such training sessions and increase their frequency in the future.

Another aspect of ensuring that our institution adheres to the highest ethical standards is our consistent application of international best-practice methods 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. The 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.

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 ensure that when loan applications are evaluated, compliance with ethical business practices is a key consideration. 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.



Our Clients



**Iulian Bucur,
Farmer**

“It was the first loan that I had taken out in 10 years!”

In February 2005, a friend recommended ProCredit Bank to Mr. Bucur. At that time he operated a farm. For many years, he had earned his living in agriculture. In addition to raising crops on his own land (55 ha), Mr. Bucur cultivated land belonging to other villagers. He farmed a total of 800 ha, which he used to grow various cereals: wheat, barley and maize.

When he first came to ProCredit Bank, he took out a loan to buy seeds and also fuel for the farm machinery which he owned. Since then, Mr. Bucur has applied for and received two more loans from ProCredit Bank, one in mid-2005 and the other in early 2006. He used the money to buy a seed drill, a tractor, a plough, some more land, and also construction materials for a storehouse.

His previous experience with banks had not been particularly pleasant. Mr. Bucur had tried to borrow money from two other institutions, only to see his applications rejected because of a lack

of collateral. In order to use the other sources of financing that were theoretically available to him, he would have had to prepare a feasibility study – something that he had never done before – and the fees charged would also have been quite high. Thus, before he became a customer of ProCredit Bank, he was limited to financing the business as best he could with his own funds.

“ProCredit Bank is the only bank that believed in me and gave me an opportunity to develop my business. The people there are nice and it is a real pleasure to do business with them.”

Mr. Bucur does not talk a lot; he is certainly not a man given to elegant turns of phrase. Living in the countryside, he has a down-to-earth approach to things, and what he knows best is farming and how to get the most out of the land. But at the same time he is very determined and knows precisely what he wants. In the future, he intends to apply for another loan from ProCredit Bank because he wants to buy two additional tractors and two ploughs for his farming business.



Manolea and Liliana Cioaca, “Our Small Doughnut Factory”

In 2002, when Liliana Cioaca lost her job as a cook in a restaurant, her husband, a lathe operator, quit his job, and they decided to start a business of their own. Their first idea was to open a stand at a marketplace in Craiova, the town where they lived. But since the competition was strong and it was doubtful whether the new business would be a success, the Cioacas decided to rent space for a greengrocer's shop at the same market. At that time, they did not own a car; they used a taxi to transport goods to the shop, and later they borrowed a car from one of their friends.

After operating the shop for some time, one of their customers told them about a bank that really supported small businesses – ProCredit Bank. In 2004 they applied for a loan of 80 million lei (approximately EUR 2,000). Mr. and Mrs. Cioaca obtained the loan to buy their first car (which they used to transport goods), a computer and equipment for producing carbonated drinks. Over the next three to four months, after taking a closer look at business opportunities in the local market, the Cioacas decided to close the green-grocery and invest in a small doughnut factory – not least because it would be the first business of this type in the area.

ProCredit Bank provided a loan for 100 million lei (approximately EUR 2,500) for this new venture. With this second loan they bought the equipment

they needed to produce doughnuts. But as they had had no previous experience in this field, they did not really know how to make them. Determined to build a thriving business, Mr. Cioaca tried different recipes and after several unsuccessful attempts found just the right combination of ingredients. Now, everyone knows the Cioacas and likes their products. In fact, their customers say that no one else in Craiova makes such delicious doughnuts.

“ProCredit Bank takes its mission very seriously. Thanks to its support, we are now better off. The bank trusted us and gave us financing when we were just starting out, and we appreciated its professionalism. I'm very satisfied with ProCredit Bank.”

Mr. and Mrs. Cioaca want to apply for a third loan to expand into a new area: they intend to open a pastry shop. In the near future they will buy a pastry oven with EUR 2,500 borrowed from ProCredit Bank.

“We also have other ideas for the future: to build a shop to produce and sell pastry, to rent additional premises, to re-open the green-grocer's shop, and to buy an ice cream machine. Both my wife and I want to develop our business, to diversify, and to continue to earn the loyalty of our customers. We are confident that ProCredit Bank will be there for us in the future as well!”



Ionel Bourceanu, Clothing Manufacturer

Mr. Bourceanu is proud of what he does, and when he talks about his business, his eyes light up with passion.

Together with his wife, he founded a family business in 1994 to produce clothing. At that time their idea was innovative for the Romanian market: they intended to produce branded sports outfits. Mr. Bourceanu continued to work as an insurance agent – work experience that helped him to develop sales and communication skills, which he later put to good use in his own business.

Until 1998, the business was operated in an apartment, with work going on day and night in three shifts. Because the competition in this field was intensifying – Chinese clothing was beginning to be sold on the Romanian market – they had to come up with a new idea. It was at this time that Mr. Bourceanu decided to quit his job and to actively involve himself in the family business. Shortly thereafter, the business changed its orientation and began producing protective clothing for companies, as well as t-shirts, uniforms and peaked caps with embroidery. Drawing upon his considerable sales experience and his understanding of the importance of focusing on customers' needs, Mr. Bourceanu developed a new marketing approach tailored to this new line of business.

In 2002 he established a new company called "HILL". To obtain the money required to open this new business, the family sold their apartment and moved into a rented one. As they no longer had any liquid funds, the only solution was to ask for advance payments from their customers. Mr.

Bourceanu tried to borrow money from a bank, but the loan application was rejected.

In 2003 he learned about ProCredit Bank (called "Miro Bank" at that time) through an advertisement. In June of that year, he applied for his first loan (EUR 25,000), which was used to buy an automatic embroidering machine that would enhance the quality of the company's products. Over the past four years, the company has obtained four more loans and one credit line from ProCredit Bank, using the funds for working capital and to finance the purchase of an additional automatic embroidery machine and vehicles.

By the end of 2006, Mr. Bourceanu owned a total of four workshops – two in Bucharest, one in Brasov and one in Ghimbav. He is very proud of what he has achieved with his company.

"I started with eight employees, and now I have 75 employees who are serving more than 1,200 customers. I am convinced that without ProCredit Bank I could never have built up my business the way I have, especially not in 2003 – 2004. There were times when I thought that I might fail because I lacked the funds needed for investments. I am confident that in the future ProCredit Bank will continue to be a reliable partner."

The thing about ProCredit Bank that Mr. Bourceanu appreciates most is its employees. He knows that people are the most important asset of any business. In his eyes, other advantages of the bank are the fact that it is a young, dynamic institution; that it provides clear, transparent information to its customers; and that it provides fast service.



**Ion Stefan Constantin,
Retired Engineer**

“What I found at ProCredit Bank is really special.”

A retired engineer who worked hard all his life, Mr. Constantin is 77 years old. But even at this age, he cannot simply stay home and sit around all day; he is very active. Every visit to ProCredit Bank is special for Mr. Constantin, and the staff at the bank find that time really flies when they are talking to him.

He was in the habit of making regular visits to the part of Bucharest in which ProCredit Bank’s Mosilor Agency is located. He became aware of the bank when this office opened at the beginning of 2005. At that time, he was receiving his monthly retirement pension through another bank. But after visiting the Mosilor Agency and meeting its staff, Mr. Constantin decided to deposit his money in ProCredit Bank, and, as he says, he does not regret his decision.

“First of all, I found a pleasant and a cordial atmosphere at ProCredit Bank. Also, the people I have met here are professionals, but at the same time they are very committed to the institution, and that shows in the way they do their jobs. It is a pleasure to talk to every single person in this branch. I know everybody and, more important, they definitely know me.”

Smiling, Mr. Constantin remembers that one of the ProCredit Bank client advisers showed him how to use his debit card at the ATM, and made him feel very much at ease.

“ProCredit Bank employees will gladly help anyone who needs assistance, without the least bit of arrogance.”

Mr. Constantin has four children and all the money he saves will go to them. His wish is to give them a good start in life, helping them out financially so that they can take advantage of educational and other opportunities later on.

“I am saving for my children, two of whom are under the age of 18. I am aware that I am responsible for their future, and I know that they will need a little assistance later on from their father.”

Everyone at ProCredit Bank is polite, and the staff make Mr. Constantin feel like the important and valued customer that he is. As a result, he enjoys going to the bank. Indeed, both Mr. Constantin and the bank’s employees look forward with great pleasure to his regular visits to the Mosilor Agency, when he comes to make his savings deposits.

Financial Statements

Prepared in accordance with International Financial Reporting Standards. For the year ended 31 December 2006.



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Independent Auditors' Report

The Shareholders'
ProCredit Bank SA

Report on the Financial Statements

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

The financial statements of the Bank as at 31 December 2005 were audited by other auditors whose report dated 19 May 2006 expressed a qualified opinion on those financial statements with regards to the fact that the Bank did not apply the provisions of IAS 29 "Financial reporting in hyperinflationary economies" until 31 December 2004 and that the financial statements prior to 1 January 2005 were prepared in USD or EUR in accordance with IAS 21 "The effects of changes in foreign exchange rates".

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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material 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

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.



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.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following:

- As presented in Note 2.c to the financial statements, the Bank's management reassessed the measurement currency during 2005 and has determined that the RON more appropriately reflects the Bank's composition of assets and liabilities as well as its main revenues and expenses show a greater emphasis on RON-based transactions. Consequently, on 1 January 2005 the functional currency has been changed from the EUR to RON. There is no impact on equity as of 31 December 2004 resulted from this change in the functional currency.
- As presented in Note 3.h to the financial statements, because of the inherent limitations related to the historical experience in obtaining local information for individually impaired loans, incurred loss information and complexity of methodologies applied, the loan impairment estimate as described above may differ significantly from the value that would have been obtained had the Bank obtained sufficient local historical experience on obtaining reliable information on incurred losses, timing and amounts of the expected future cash flows.


KPMG Romania S.R.L.
Bucharest, Romania
22 March 2007

Income Statement


For the year ended 31 December 2006

<i>in EUR</i>	Notes	2006	2005
Interest and similar income		25,594,949	17,650,942
Interest expense and similar charges		(9,892,848)	(6,287,002)
Net interest income	7	15,702,101	11,363,940
Fee and commission income		2,655,043	1,337,242
Fee and commission expense		(325,653)	(199,197)
Net fee and commission income	8	2,329,390	1,138,045
Net trading income	9	529,889	(44,980)
Other operating income		65,067	115,592
Operating income		18,626,447	12,572,597
Net impairment loss on financial assets	10	(1,144,590)	(2,300,607)
Operating expenses	11	(15,863,592)	(9,439,597)
Profit before income tax		1,618,265	832,393
Income tax expense / (revenue)	12	117,690	(17,443)
Profit for the year		1,500,575	849,836

The financial statements were approved by the Board of Administrators on 22 March 2007 and were signed on its behalf by:



Michael Kowalski
General Manager



Gabriel Stanescu
Deputy General Manager


The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 46 to 65.

Balance Sheet

As at 31 December 2006

<i>in EUR</i>	Notes	31 December 2006	31 December 2005
Assets			
Cash and balances with Central Bank	13	50,793,413	29,691,647
Loans and advances to banks	14	4,549,291	7,854,449
Loans and advances to customers	16	154,002,282	86,480,892
Investment securities, available-for-sale	15	7,295	25,610
Property and equipment	18	7,023,014	3,803,811
Intangible assets	17	911,659	411,465
Deferred tax asset	12	–	17,443
Other assets	19	1,011,995	442,220
Total assets		218,298,949	128,727,537
Liabilities			
Deposits from banks	20	1,434,446	10,087,816
Deposits from customers	21	116,857,729	67,741,923
Loans from banks and other financial institutions	22	61,778,502	37,648,434
Debt securities issued	23	12,161,821	–
Subordinated liabilities	25	5,116,908	–
Deferred tax liabilities	12	103,739	–
Other liabilities	24	1,335,776	579,725
Total liabilities		198,788,921	116,057,898
Equity			
Share capital	26	20,153,219	14,699,992
Reserves	27	1,922,005	873,210
Accumulated deficit		(2,629,135)	(2,891,116)
Translation reserve	3.a	63,939	(12,447)
Total equity		19,510,028	12,669,639
Total liabilities and equity		218,298,949	128,727,537

The financial statements were approved by the Board of Administrators on 22 March 2007 and were signed on its behalf by:



Michael Kowalski
General Manager



Gabriel Stanescu
Deputy General Manager

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 46 to 65.

Statement of Changes in Equity

For the year ended 31 December 2006

<i>in EUR</i>	Share capital	Reserves	Accumulated deficit	Translation reserve	Equity
Balance at 1 January 2005	13,628,150	-	(2,658,643)	-	10,969,507
Increase of share capital	-	-	-	-	-
Profit for the year	-	-	849,836	-	849,836
Transfer to reserves	-	873,210	(873,210)	-	-
Effect of translation (*)	1,071,842	-	(209,099)	(12,447)	850,296
Balance at 31 December 2005	14,699,992	873,210	(2,891,116)	(12,447)	12,669,639
Increase of share capital	4,169,146	-	-	-	4,169,146
Profit for the year	-	-	1,500,575	-	1,500,575
Transfer to reserves	-	974,140	(974,140)	-	-
Effect of translation (*)	1,284,081	74,655	(264,454)	76,386	1,170,668
Balance at 31 December 2006	20,153,219	1,922,005	(2,629,135)	63,939	19,510,028

(*) see note 3.a

The statement of changes in shareholders' equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 46 to 65.

Cash Flow Statement

For the year ended 31 December 2006

<i>in EUR</i>	Notes	2006	2005
Cash flows from operating activities			
Profit after income tax		1,500,575	849,836
Adjustments for:			
Depreciation and amortisation	10	1,622,073	938,899
Impairment on investment in subsidiaries	11	19,712	67,691
Impairment on loans and advances to customers	11	1,061,617	1,825,712
Loans written off	11	502,437	636,187
Gain on disposal of property and equipment		(370)	(32,257)
Accrued interest, deferred commission on debt securities	23	259,523	–
Deferred tax expense / (income)	12	117,690	(17,443)
Dividend income		(1,542)	–
Exchange rate differences		793,525	730,829
Operating profit before changes in operating assets and liabilities		5,875,240	4,999,454
Change in minimum compulsory reserve	13	(18,264,276)	(14,814,388)
Change in loans and advances to customers	16	(69,085,445)	(38,381,788)
Change in other assets	19	(569,775)	(236,831)
Change in deposits from banks	20	(8,653,370)	1,433,042
Change in deposits from customers	21	49,115,806	42,401,327
Change in other liabilities	24	756,051	215,328
Net cash used in operating activities		(40,825,769)	(4,383,856)
Cash flows from investing activities			
Purchase of property and equipment and intangible assets	17,18	(4,971,752)	(3,047,463)
Proceeds from sale of property and equipment		9,891	38,366
Proceeds from sale of investment securities		–	378,398
Dividends received		1,542	–
Purchase of investment securities		–	(3,246)
Net cash used in investing activities		(4,960,319)	(2,633,945)
Cash flows from financing activities			
Proceeds from issue of share capital		4,169,146	–
Net proceeds from borrowings	22	24,130,068	14,577,022
Proceeds from subordinated liabilities	25	5,116,908	–
Debt securities issued	23	11,902,298	–
Net cash from financing activities		45,318,420	14,577,022
Net increase / (decrease) in cash and cash equivalents			
Cash and cash equivalents at 31 December 2005	28	13,704,797	6,145,576
Net increase in cash and cash equivalents		(467,668)	7,559,221
Cash and cash equivalents at 31 December 2006	28	13,237,129	13,704,797
Cash flows from operating activities include:			
Interest receipts		24,119,788	16,428,485
Interest paid		(9,038,109)	(4,931,026)
Fees and commissions receipts		2,329,390	1,138,045
		17,411,069	12,635,504

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 46 to 65.

Notes to the Financial Statements

For the year ended 31 December 2006

All amounts expressed in EUR unless stated otherwise

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 micro and small enterprises operating in Romania.

The Bank operates through the Head Office located in Bucharest and through its network consisting of 18 branches (31 December 2005: 11) and 11 agencies (31 December 2005: 6) located in Romania.

The current registered office of the Bank is located at:

62 – 64 Buzesti Street,
Bucharest, Sector 1
Romania

The Bank's employees as at 31 December 2006 numbered 795 (31 December 2005: 502).

The Bank is managed by a Board of Administrators made up of 6 members, led by a President. The composition of the Board of Administrators was as follows:

Position	31 December 2006	31 December 2005
President	Anja Lepp	Michael Harold Taylor
Vice-president	Ana Maria Mihaescu	Claus-Peter Zeitingner
Member	Maria Teresa Zappia	Ana Maria Mihaescu
Member	Hans Joerg Krohn	Helmut Toellner
Member	Rüdiger Rurainsky	Rüdiger Rurainsky
Member	Reinhard Bollmann	Reinhard Bollmann

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"). 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 2006.

In estimating impairment losses for loans and advances the Bank has applied the internal methodology described in Note 3.h.vii to assess impairment for loans and advances to customers.

The form of presentation of the financial statements reflects the reporting format applicable under IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions.

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 IFRS. Accordingly, such adjustments have been made to the statutory accounts as have been con-

sidered 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 provisions;
- fair value adjustments required in accordance with IAS 39 ("Financial Instruments – Recognition and Measurement");
- provision for deferred taxation, where appropriate; and
- 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 Bank's management reassessed the measurement currency during 2005 and has determined that the RON more appropriately reflects the Bank's composition of assets and liabilities and that its main revenues and expenses show a greater emphasis on RON-based transactions. Consequently, on 1 January 2005 the functional currency was changed from the EUR to RON. This change was applied prospectively. There is no impact on equity as of 31 December 2004 resulting from this change in the functional currency.

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 counterparties.

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.

3. Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

Comparative information

In respect of comparative information, certain items from the financial statements as at 31 December 2005 have been reclassified to conform to current presentation.

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 Dec 2006	31 Dec 2005	Decrease
Euro (EUR)	1: RON 3.3817	1: RON 3.6771	8%
US Dollar (USD)	1: RON 2.5676	1: RON 3.1078	17%

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, accumulated deficit 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 to 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.

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 losses 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 2006 the current profit tax rate was 16% (31 December 2005: 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 2006 is 16% (31 December 2005: 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 acquired principally for the purpose of short term profit-taking or if so designated by management. As at 31 December 2006 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 receivables 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 2006 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 2006 available-for-sale financial assets comprise equity investments and investment in subsidiaries.

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 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

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. 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.

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.

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 a 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.

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.

Because of the inherent limitations related to the historical experience in obtaining local information for individually impaired loans, incurred loss information and complexity of methodologies applied, the loan impairment estimate as described above may differ significantly from the value that would have been obtained had the Bank obtained sufficient historical experience in obtaining reliable local information on incurred losses, timing and amounts of the expected future cash flows.

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.

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.

i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, balances held with the central bank 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 the 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.n).

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 labour, 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
Furniture and equipment	3 – 12 years
Motor vehicles	5 years

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

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.n).

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 five 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 are largely 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.

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 of, 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 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. On the basis of the Bank's Collective Labour Agreement, 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) Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Bank performed during the year ended 31 December 2006 banking transactions delivered only on the Romanian market. The management considers that the inherent risks and benefits specific to the banking activity are not significantly different between the categories of clients as well as between various geographical regions, and consequently does not believe identifying separate reportable segments is necessary and would provide any additional benefits. Please see Note 16 for the structure of the loan portfolio per industry.

r) Standards, interpretations and amendments to published International Financial Reporting Standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2007 or later periods but which the Bank has not early adopted. Management considered the following new standards, amendments and interpretations to existing standards:

- IFRS 7 ("Financial Instruments: Disclosures") effective from 1 January 2007. This standard will require increased disclosures in respect of the Group's financial instruments. It supersedes IAS 30 ("Disclosures in the Financial Statements of Banks and Similar Financial Institutions") and is applicable to all entities that prepare financial statements in accordance with IFRS. The Bank considers that the significant additional disclosures required will relate to its financial risk management objectives, policies and processes. The Bank is currently in the process of amending the reporting applications to enable the Bank to present the additional disclosure as required by IFRS 7.
- Amendment to IAS 1 ("Presentation of Financial Statements – Capital Disclosures") effective from 1 January 2007. As a

complementary amendment arising from IFRS 7 (see above), the Standard will require increased disclosure in respect to the Group's capital. This amendment will require significantly more disclosures regarding the capital structure of the Bank. The Bank is currently in the process of amending the reporting applications to enable the Bank to present the additional disclosure as required by IAS 1.

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Bank's 2007 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Bank's 2007 financial statements, with retrospective application required. The Bank has not yet determined the potential effect of the interpretation.
- IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Bank's 2007 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Bank's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Bank first applied the measurement criteria of IAS 36 and IAS 39 respectively. The changes brought by IFRIC 10 are not expected to have any impact on the 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, and the Bank's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Board of Administrators has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Administrators has established the Management Board and the Asset and Liability (ALCO), Credit Risk and Operational Risk committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All committees report regularly to the Management Board. 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 Board of Administrators 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 Administrators has delegated, through the Management Board, the responsibility for the management of credit risk to its Credit Risk Committee. A separate Credit Department, reporting to the Credit Risk Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit 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. Larger facilities require approval by the highest level Credit Committee or the Management Board as appropriate.
- Reviewing and assessing credit risk. The 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.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk grading 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 six grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the Management Board. Risk grades are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types.
- Regular reports are provided to Credit Risk Committee on the credit quality of portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each branch/agency is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Credit Risk Committee. 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.

ii. *Exposure to credit risk*

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005
Individually impaired						
Grade 5: impaired	-	-	-	-	-	-
Grade 6: impaired	268,121	-	-	-	733,012	674,125
Gross amount	268,121	-	-	-	733,012	674,125
Allowance for impairment	81,726	-	-	-	733,012	655,224
Carrying amount	186,395	-	-	-	-	18,901
Collectively impaired						
Grade 1-2: low risk	155,453,451	87,887,608	-	-	-	-
Grade 3-4: watch list	799,234	695,586	-	-	-	-
Grade 5: impaired	383,818	304,155	-	-	-	-
Grade 6: impaired	373,583	158,347	-	-	-	-
Gross amount	157,010,086	89,045,696	-	-	-	-
Allowance for impairment	3,194,199	2,564,804	-	-	-	-
Carrying amount	153,815,887	86,480,892	-	-	-	-
Past due but not impaired						
Carrying amount	-	-	-	-	-	-
Neither past due nor impaired						
Carrying amount	-	-	4,549,291	7,854,449	7,295	6,709
Total carrying amount	154,002,282	86,480,892	4,549,291	7,854,449	7,295	25,610

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 50,000. These loans are graded 5 and 6 in the loan loss provision methodology.

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.

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 occurrence of significant changes in the borrower / issuer's financial position such that the

borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2006 or 2005.

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown in Note 16.

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 and the options embedded in the Bank's products. Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. The Bank generally grants credits with floating interest rates, according to the Bank's policy, and also with indexed interest rates (which reprice based on reference interest rates like BUBOR, LIBOR, EURIBOR). On the deposit side, the Bank offers fixed interest rates (according to the Bank's current policy).

The interest rates related to the local currency and the major foreign currencies as at 31 December 2006 and 2005 were as follows:

Currencies	Interest rate	31 Dec 2006	31 Dec 2005
Leu (RON)	BUBOR 3 months	8.6%	7.6%
Euro (EUR)	EURIBOR 3 months	3.7%	2.5%
Euro (EUR)	EURIBOR 6 months	3.8%	2.6%
US Dollar (USD)	LIBOR 6 months	5.4%	4.7%

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 2006:

Range of interest rates	RON		USD		EUR	
Assets						
Current accounts with the National Bank of Romania	1.50%	1.90%	0.95%	1.00%	0.70%	0.80%
Loans and advances to banks	1.20%	9.25%	0.50%	6.80%	0.25%	5.10%
Loans and advances to customers, net	7.00%	36.00%	10.00%	20.00%	7.60%	24.00%
Liabilities						
Deposits from customers	2.00%	12.00%	1.00%	6.00%	1.25%	6.05%
Deposits from banks	1.17%	29.50%	6.00%	7.00%	4.50%	4.50%
Loans from banks and other financial institutions	10.59%	10.59%	7.20%	8.32%	4.50%	6.54%
Debt securities issued	8.50%	8.50%	-	-	-	-
Subordinated liabilities	-	-	-	-	9.09%	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 2005:

Range of interest rates	RON		USD		EUR	
Assets						
Current accounts with the National Bank of Romania	1.50%	6.00%	0.75%	0.95%	0.70%	0.70%
Deposits with banks	1.10%	16.2%	2.15%	6.00%	1.80%	7.00%
Loans and advances to customers	8.41%	38.00%	10.0%	24.00%	7.60%	24.00%
Liabilities						
Deposits from customers	2.00%	17.50%	1.00%	6.00%	1.25%	6.05%
Deposits from banks	1.15%	17.50%	2.50%	5.00%	2.30%	5.00%
Loans from banks and other financial institutions	-	-	7.26%	7.26%	3.99%	5.91%

A summary of the Bank's interest rate gap position on non-trading portfolios as at 31 December 2006 is as follows:

<i>in EUR</i>	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with Central Bank	42,105,576	–	–	–	–	8,687,837	50,793,413
Loans and advances to banks	4,220,900	–	–	–	–	328,391	4,549,291
Investment securities, available-for-sale	–	–	–	–	–	7,295	7,295
Loans and advances to customers	46,810,306	8,472,739	39,822,646	54,798,859	2,688,027	1,409,705	154,002,282
	93,136,782	8,472,739	39,822,646	54,798,859	2,688,027	10,433,228	209,352,281
Deposits from banks	295,709	1,113,689	–	–	–	25,048	1,434,446
Deposits from customers	37,600,119	31,096,854	27,231,702	2,936,463	–	17,992,591	116,857,729
Loans from banks and financial institutions	13,790,885	2,976,307	40,625,243	3,480,000	–	906,067	61,778,502
Debt securities issued	–	–	–	11,776,545	–	385,276	12,161,821
Subordinated liabilities	–	–	–	–	5,000,000	116,908	5,116,908
	51,686,713	35,186,850	67,856,945	18,193,008	5,000,000	19,425,890	197,349,406
Total interest sensitivity gap	41,450,069	(26,714,111)	(28,034,299)	36,605,851	(2,311,973)	(8,992,662)	12,002,875

A summary of the Bank's interest rate gap position on non-trading portfolios as at 31 December 2005 is as follows:

<i>in EUR</i>	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with Central Bank	23,841,299	–	–	–	–	5,850,348	29,691,647
Loans and advances to banks	7,845,872	–	–	–	–	8,577	7,854,449
Investment securities, available-for-sale	–	–	–	–	–	25,610	25,610
Loans and advances to customers	3,603,383	7,290,606	31,865,201	39,219,421	3,584,616	917,665	86,480,892
	35,290,554	7,290,606	31,865,201	39,219,421	3,584,616	6,802,200	124,052,598
Deposits from banks	8,049,822	2,000,000	–	–	–	37,994	10,087,816
Deposits from customers	20,906,860	12,928,257	23,540,883	982,784	–	9,383,139	67,741,923
Loans from banks and financial institutions	22,078,893	2,989,226	2,985,845	9,437,674	–	156,796	37,648,434
	51,035,575	17,917,483	26,526,728	10,420,458	–	9,577,929	115,478,173
Total interest sensitivity gap	(15,745,021)	(10,626,877)	5,338,473	28,798,963	3,584,616	(2,775,729)	8,574,425

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 Bank manages its exposure to movements in exchange rates by modifying its assets and liabilities mix. 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. In order to limit losses arising from adverse movements in exchange rates, the Bank is currently pursuing the policy of maintaining an overall foreign exchange position which ensures immunity against currency risk.

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2006 are presented below:

<i>in EUR</i>	RON	EUR	USD	Other	Total
Monetary assets					
Cash and balances with Central Bank	22,691,711	24,639,044	3,462,658	–	50,793,413
Loans and advances to banks	1,775,334	1,266,495	1,484,940	22,522	4,549,291
Investment securities, available-for-sale	7,295	–	–	–	7,295
Loans and advances to customers	118,127,576	33,501,605	2,373,101	–	154,002,282
Other assets	762,619	166,170	83,176	30	1,011,995
Total monetary assets	143,364,535	59,573,314	7,403,875	22,552	210,364,276
Monetary liabilities					
Deposits from banks	297,546	–	1,136,900	–	1,434,446
Deposits from customers	89,267,709	21,367,753	6,215,211	7,056	116,857,729
Loans from banks and other financial institutions	29,714,226	32,064,276	–	–	61,778,502
Debt securities issued	12,161,821	–	–	–	12,161,821
Other liabilities	1,286,607	49,051	118	–	1,335,776
Deferred tax liabilities	103,739	–	–	–	103,739
Subordinated liabilities	–	5,116,908	–	–	5,116,908
Total monetary liabilities	132,831,648	58,597,988	7,352,229	7,056	198,788,921
Net currency position	10,532,887	975,326	51,646	15,496	11,575,355

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2005 are presented below:

<i>in EUR</i>	RON	EUR	USD	Other	Total
Monetary assets					
Cash and balances with Central Bank	10,940,035	14,936,957	3,814,655	–	29,691,647
Loans and advances to banks	–	4,135,420	1,049,803	2,669,226	7,854,449
Investment securities, available-for-sale	6,709	–	18,901	–	25,610
Loans and advances to customers	56,202,753	25,075,424	5,202,715	–	86,480,892
Other assets	304,404	101,470	35,854	492	442,220
Total monetary assets	67,453,901	44,249,271	10,121,928	2,669,718	124,494,818
Monetary liabilities					
Deposits from banks	8,054,205	2,033,611	–	–	10,087,816
Deposits from customers	50,633,022	8,663,375	5,782,113	2,663,413	67,741,923
Loans from banks and other financial institutions	–	33,359,275	4,289,159	–	37,648,434
Other liabilities	529,093	36,159	14,473	–	579,725
Total monetary liabilities	59,216,320	44,092,420	10,085,745	2,663,413	116,057,898
Net currency position	8,237,581	156,851	36,183	6,305	8,436,920

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 maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding, and diversifying the funding base.

The Bank concluded with the European Bank of Reconstruction and Development loan agreements which compel the Bank to comply with a certain level of financial ratios (financial covenants). As some of these covenants were breached the total outstanding amounts of the respective loans were considered in liquidity risk as immediately due.

The financial assets and liabilities of the Bank analysed over the remaining period from the balance sheet date to contractual maturity are as at 31 December 2006 as follows:

<i>in EUR</i>	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets						
Cash and cash balances with Central Bank	50,793,413	–	–	–	–	50,793,413
Loans and advances to banks	4,549,291	–	–	–	–	4,549,291
Investment securities, available-for-sale	–	–	–	–	7,295	7,295
Loans and advances to customers	8,144,955	9,482,808	45,138,650	82,426,311	8,809,558	154,002,282
Other assets	769,953	130,677	111,179	186	–	1,011,995
Total financial assets	64,257,612	9,613,485	45,249,829	82,426,497	8,816,853	210,364,276
Financial liabilities						
Deposits from banks	297,546	1,136,900	–	–	–	1,434,446
Deposits from customers	54,578,768	31,688,837	27,547,310	3,042,814	–	116,857,729
Loans from banks and other financial institutions	12,929,546	2,996,890	12,307,263	33,544,803	–	61,778,502
Debt securities issued	–	371,892	–	11,789,929	–	12,161,822
Other liabilities	1,335,776	–	–	–	–	1,335,776
Subordinated liabilities	–	99,233	17,675	–	5,000,000	5,116,908
Total financial liabilities	69,141,636	36,293,752	39,872,248	48,377,546	5,000,000	198,685,182
Maturity surplus/ (shortfall)	(4,884,024)	(26,680,267)	5,377,581	34,048,951	3,816,853	11,679,094

The assets and liabilities of the Bank analysed over the remaining period from the balance sheet date to contractual maturity are as at 31 December 2005 as follows:

<i>in EUR</i>	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets						
Cash and cash balances with Central Bank	29,691,647	–	–	–	–	29,691,647
Loans and advances to banks	7,854,449	–	–	–	–	7,854,449
Investment securities, available-for-sale	–	18,901	–	–	6,709	25,610
Loans and advances to customers	4,521,048	7,290,606	31,865,201	39,219,421	3,584,616	86,480,892
Other assets	259,638	39,386	32,259	110,937	–	442,220
Total financial assets	42,326,782	7,348,893	31,897,460	39,330,358	3,591,325	124,494,818
Financial liabilities						
Deposits from banks	8,054,205	2,033,611	–	–	–	10,087,816
Deposits						
From customers	29,465,668	13,124,767	24,138,847	1,012,641	–	67,741,923
Loans from banks and financial institutions	20,698,274	16,907	20,508	16,912,745	–	37,648,434
Other liabilities	579,725	–	–	–	–	579,725
Subordinated liabilities	–	–	–	–	–	–
Total financial liabilities	58,797,872	15,175,285	24,159,355	17,925,386	–	116,057,898
Maturity surplus/ (shortfall)	(16,471,090)	(7,826,392)	7,738,105	21,404,972	3,591,325	8,436,920

f) Taxation risk

The Romanian Government has a number of agencies that are authorised to conduct audits (controls) of Romanian companies as well as of foreign companies doing business 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. In addition, the agencies conducting these controls appear to be subject to significantly less safeguards than is customary in many countries. It is likely that the Bank will continue to be subject to controls from time to time as new laws and regulations are issued.

g) Operating environment

As at 1 January 2007 Romania became a full member of the European Union.

The economy of Romania continues to display characteristics of an emerging market. These characteristics include, but are not limited to, a high current account deficit, the existence of a competitiveness gap between Romania and other EU countries, a relatively unsophisticated financial market, weak infrastructure, and fluctuations in the foreign currency exchange rates.

h) Operational risks

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 behaviour. 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 periodic 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.

Impairment losses on loans and advances

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.

6. Financial assets and liabilities

Accounting classifications and fair values

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value:

	Notes	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
31 December 2006									
Cash and balances with Central Bank	13	-	-	-	50,793,413	-	-	50,793,413	50,793,413
Loans and advances to banks	14	-	-	-	4,549,291	-	-	4,549,291	4,548,762
Loans and advances to customers	16	-	-	-	154,002,282	-	-	154,002,282	156,989,734
Investment securities, available for sale	15	-	-	-	-	7,295	-	7,295	7,295
Total financial assets		-	-	-	209,344,986	7,295	-	209,352,281	212,339,204
Deposits from banks	20	-	-	-	-	-	1,434,446	1,434,446	1,435,537
Deposits from customers	21	-	-	-	-	-	116,857,729	116,857,729	117,009,720
Loans from banks and other financial institutions	22	-	-	-	-	-	61,778,502	61,778,502	62,228,442
Debt securities issued	23	-	-	-	-	-	12,161,821	12,161,821	12,161,821
Subordinated liabilities	25	-	-	-	-	-	5,116,908	5,116,908	5,200,845
Total financial liabilities		-	-	-	-	-	197,349,406	197,349,406	198,036,365

	Notes	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
31 December 2005									
Cash and balances with Central Bank	13	-	-	-	29,691,647	-	-	29,691,647	29,691,647
Loans and advances to banks	14	-	-	-	7,854,449	-	-	7,854,449	7,854,449
Loans and advances to customers	16	-	-	-	86,480,892	-	-	86,480,892	89,346,339
Investment securities, available for sale	15	-	-	-	-	25,610	-	25,610	25,610
Total financial assets		-	-	-	124,026,988	25,610	-	124,052,598	126,918,045
Trading liabilities		-	-	-	-	-	-	-	-
Deposits from banks	20	-	-	-	-	-	10,087,816	10,087,816	10,094,019
Deposits from customers	21	-	-	-	-	-	67,741,923	67,741,923	67,917,857
Loans from banks and other financial institutions	22	-	-	-	-	-	37,648,434	37,648,434	37,430,352
Total financial liabilities		-	-	-	-	-	115,478,173	115,478,173	115,442,228

7. Net interest income

	2006	2005
Interest income		
Interest and similar income arising from:		
Cash and balances with		
Central Bank	374,088	213,421
Loans and advances to banks	228,741	405,692
Loans and advances to customers	24,992,120	17,030,504
Investment securities, available-for-sale	–	1,325
Total interest income	25,594,949	17,650,942
Interest expense		
Interest expense arising from:		
Deposits from banks	1,178,178	226,756
Deposits from customers	5,046,736	4,233,828
Loans from banks and other financial institutions	2,761,227	1,826,418
Debt securities issued	792,066	–
Subordinated liabilities	114,641	–
Total interest expense	9,892,848	6,287,002
Net interest income	15,702,101	11,363,940

8. Net fee and commission income

	2006	2005
Fee and commission income		
Fees and commission income arising from:		
Transactions	1,941,917	1,299,998
Loan administration and guarantee issuance	685,916	10,219
Other	27,210	27,025
Total fee and commission income	2,655,043	1,337,242
Fee and commission expense		
Inter-bank transaction fees	280,882	177,533
Loans and guarantees received from banks	28,499	8,578
Other	16,272	13,086
Total fee and commission expense	325,653	199,197
Net fee and commission income	2,329,390	1,138,045

9. Net trading income

	2006	2005
Net gain from transactions in foreign currency	571,928	602,475
Net loss from translation of foreign currency denominated assets and liabilities	(42,039)	(647,455)
Net trading income	529,889	(44,980)

10. Net impairment loss on financial assets

	2006	2005
Impairment charge on loans and advances to customers	2,558,256	2,461,899
Release of the impairment for loans and advances to customers from change of estimates	(1,028,550)	–
Release of the impairment for loans and advances to customers through usage	(468,089)	(636,187)
Loans written off	502,438	636,187
Recoveries from loans and advances to customers	(439,177)	(228,983)
Impairment charge on equity investments	19,712	67,691
Net charge of provision for impairment losses	1,144,590	2,300,607

11. Operating expenses

	2006	2005
Salaries and social security contributions	6,919,428	3,837,536
Operating lease expenses (Note 18)	1,941,331	1,186,632
Depreciation and amortisation (Note 17,18)	1,622,073	938,899
Advertising and promotion expenses	965,074	611,525
Consumables expenses	847,322	658,344
Post and telecommunication expenses	721,867	453,444
Travel expenses	463,390	228,291
Repairs and maintenance expenses	437,510	236,806
Other tax expenses	416,357	300,397
Electricity expenses	212,346	121,136
Insurance expenses	179,313	93,612
Protocol expenses	136,863	73,070
Training and recruiting expenses	108,213	50,891
Contribution to deposit guarantee fund	86,150	71,089
Other operating expenses	806,355	577,925
Total	15,863,592	9,439,597

12. Taxation

	2006	2005
Current tax expense	–	–
Deferred tax expense / (revenue)	117,690	(17,443)
Total income tax expense / (revenue)	117,690	(17,443)

Deferred taxes

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

	31 Dec 2006	31 Dec 2005
Property and equipment and intangible assets	20,460	12,643
Loans and advances to customers	29,711	–
Provision for impairment of loans	(153,910)	7,768
Other	–	(2,968)
Deferred tax asset / (liability)	(103,739)	17,443

13. Cash and balances with Central Bank

	31 Dec 2006	31 Dec 2005
Minimum compulsory reserve	42,105,575	23,841,299
Cash on hand	7,034,053	4,490,361
Other balances with Central Bank	1,653,785	1,359,987
Total	50,793,413	29,691,647

At 31 December 2006 the minimum compulsory reserve, held with the Central Bank, was established at 20% for RON and 40% for USD or EUR (31 December 2005: 16% for RON and 30% for USD or EUR) denominated funds attracted with residual maturity of less than two years. The balance of mandatory reserve can vary on a daily basis. The interest paid by the Central Bank for the reserve held by banks was 1.9% p.a. for RON denominated reserves, 0.8% p.a. for EUR denominated reserves and 1% p.a. for USD denominated reserves. The mandatory reserve can be used by the Bank's day to day activities providing the average balance for the month is maintained within the required formula.

14. Loans and advances to banks

	31 Dec 2006	31 Dec 2005
Current accounts with banks	380,171	159,664
Deposits with banks	4,169,120	7,694,785
Total	4,549,291	7,854,449

Current accounts held at other banks are at the immediate disposal of the Bank. The loans and advances to banks are unencumbered.

15. Investment securities, available-for-sale

	31 Dec 2006	31 Dec 2005
Equity investments available-for-sale		
Investment in subsidiaries	733,012	674,125
Less impairment loss on equity investments	(733,012)	(655,224)
	-	18,901
Other unlisted equity investments	7,295	6,709
Total	7,295	25,610

Investment in subsidiaries represents the 100% investment held by the Bank in Microenterprise Credit Romania SRL. This subsidiary is undergoing liquidation procedure. The Bank's management considers the investment not significant for consolidation. Other equity investment represents minority shareholdings.

16. Loans and advances to customers

	31 Dec 2006	31 Dec 2005
Loans and advances to customers	157,278,207	89,045,696
Less provision for impairment losses on loans and advances to customers	(3,275,925)	(2,564,804)
Total	154,002,282	86,480,892

The Bank's commercial lending is concentrated on micro and small size companies domiciled in Romania. Economic sector risk con-

centrations within the customer loan portfolio as at 31 December 2006 were as follows:

	31 Dec 2006	31 Dec 2005
Services	59,424,731	33,457,289
Trade	47,610,963	28,088,981
Industry	32,752,258	13,966,812
Individuals, mortgage loans	7,252,136	8,725,806
Individuals, consumer loans	3,086,355	-
Others	7,151,764	4,806,808
Total loans and advances to customers before provisions	157,278,207	89,045,696
Less provision for impairment losses on loans and advances to customers	(3,275,925)	(2,564,804)
Total	154,002,282	86,480,892

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

	31 Dec 2006	31 Dec 2005
Balance at the beginning of the year	2,564,804	723,910
Charge of impairment loss to income statement	2,558,256	2,529,590
Release of impairment loss to income statement	(1,496,639)	(636,187)
Exchange rate differences	(350,496)	(52,509)
Balance at the end of the year	3,275,925	2,564,804

17. Intangible assets

2006	Total
Cost	
At 1 January 2006	698,806
Additions	796,826
Effect of exchange rate	61,043
At 31 December 2006	1,556,675
Accumulated amortisation	
At 1 January 2006	287,341
Amortisation charge for the year	325,958
Effect of exchange rate	31,717
At 31 December 2006	645,016
Net book value at 31 December 2006	911,659

2005	Total
Cost	
At 1 January 2005	459,897
Additions	205,826
Effect of exchange rate	33,083
At 31 December 2005	698,806
Accumulated amortisation	
At 1 January 2005	155,882
Amortisation charge for the year	159,692
Effect of exchange rate	(28,233)
At 31 December 2005	287,341
Net book value at 31 December 2005	411,465

18. Property and equipment

	Leasehold improvements	Furniture and computer equipment	Motor vehicles	Construction in progress	Total
Cost					
At 1 January 2006	2,230,890	2,826,786	308,160	89,252	5,455,088
Additions	1,221,966	2,591,927	360,033	89,887	4,264,178
Disposals	(7,373)	(3,125)	(11,574)	(89,252)	(113,324)
Effect of exchange rate	284,767	246,927	24,995		558,612
At 31 December 2006	3,730,250	5,662,515	681,979	89,887	10,164,631
Accumulated depreciation					
At 1 January 2006	383,694	1,139,410	128,173	–	1,651,277
Depreciation charge for the year	426,673	764,071	105,370	–	1,296,114
Disposal	(4,178)	(1,117)	(7,326)	–	(12,621)
Effect of exchange rate	51,799	139,362	15,686	–	206,847
At 31 December 2006	857,988	2,041,726	241,903	–	3,141,617
Net book value					
at 31 December 2006	2,872,262	3,620,789	440,076	89,887	7,023,014

	Leasehold improvements	Furniture and computer equipment	Motor vehicles	Construction in progress	Total
Cost					
At 1 January 2005	769,110	1,398,033	200,553	99,634	2,467,330
Additions	1,421,393	1,342,922	87,704	89,252	2,941,271
Disposals		(237)	(11,321)	(99,634)	(111,192)
Effect of exchange rate	40,387	86,068	31,224		157,679
At 31 December 2005	2,230,890	2,826,786	308,160	89,252	5,455,088
Accumulated depreciation					
At 1 January 2005	139,955	582,916	70,303	–	793,174
Depreciation charge for the year	236,263	484,525	58,419	–	779,207
Disposal		(166)	(5,283)	–	(5,449)
Effect of exchange rate	7,476	72,135	4,734	–	84,345
At 31 December 2005	383,694	1,139,410	128,173	–	1,651,277
Net book value					
at 31 December 2005	1,847,202	1,687,376	179,987	89,252	3,803,811

Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 Dec 2006	31 Dec 2005
Less than one year	1,861,885	1,688,183
Between one and five years	5,588,553	3,087,486
More than five years	1,392,382	1,804,049
Total	8,842,820	6,579,718

19. Other assets

	31 Dec 2006	31 Dec 2005
Prepayments	330,414	128,426
Other debtors	12,410	88,690
Advances for fixed assets		
in progress	375,004	98,894
Other receivables	294,167	126,210
Total	1,011,995	442,220

20. Deposits from banks

	31 Dec 2006	31 Dec 2005
Term deposits	1,434,446	10,087,816
Total	1,434,446	10,087,816

21. Deposits from customers

	31 Dec 2006	31 Dec 2005
Individuals		
Term deposits	50,632,865	28,403,743
Current deposits	11,220,626	4,329,143
Corporate customers		
Term deposits	39,099,313	28,715,086
Current deposits	15,904,925	6,293,951
Total	116,857,729	67,741,923

22. Loans from banks and other financial institutions

	31 Dec 2006	31 Dec 2005
Commerzbank International (i)	3,019,326	3,006,133
Kreditanstalt für Wiederaufbau ("KfW") (ii)	9,674,964	9,437,674
German Romanian Fund (iii)	1,518,030	1,500,000
European Bank for Reconstruction and Development (iv)	14,830,575	16,409,115
International Finance Corporation	-	4,289,158
Deutsche Investitions- und Entwicklungsgesellschaft GmbH ("DEG") (v)	3,021,380	3,006,354
Citibank (vi)	29,714,227	-
Total	61,778,502	37,648,434

(i) Loan from Commerzbank International

In February 2004 the Bank concluded a loan agreement with Commerzbank in the amount of EUR 3,000,000 with the purpose of refinancing other loans. The loan was fully drawn as at 31 December 2006. The loan bears an interest rate of 6 months Euribor plus margin and is repayable in February 2007.

(ii) Loan from KfW

In June 2004 the Bank concluded a loan agreement with KfW amounting to EUR 1,480,000 with the purpose of refinancing other loans. The loan bears an interest rate of 6 months Euribor plus margin and is repayable starting from June 2008 in 2 equal semi-annual instalments. The loan was taken over in March 2006 by EFSE (European Fund for Southeast Europe), managed by Citibank.

In August 2005 the Bank concluded a loan agreement with KfW amounting to EUR 2,000,000 with the purpose of refinancing other loans. The loan bears an interest rate of 6 months Euribor plus margin and is repayable starting from June 2008 in 2 equal semi-annual instalments. The loan was taken over in March 2006 by EFSE (European Fund for Southeast Europe), managed by Citibank.

On December 2004 the Bank concluded with KfW a loan agreement amounting to EUR 6,000,000. The loan was fully drawn as at year end. The loan bears a fixed interest rate and is repayable in December 2007.

(iii) Loan from GRF

In October 2003 the Bank concluded with GRF a loan agreement amounting to EUR 1,500,000 with the purpose of granting micro-finance loans. The loan was fully drawn as at year end. The loan bears an interest rate of 3 months Euribor plus margin and is repayable in equal quarterly instalments of EUR 375,000 each starting from January 2007 until October 2007.

(iv) Loan from EBRD

In October 2003 the Bank concluded with the European Bank for Reconstruction and Development ("EBRD") a loan agreement amounting to EUR 5,000,000 with the purpose of granting micro-finance loans. The outstanding principal of the loan as at 31 December 2006 was EUR 2,500,000. The loan bears an interest rate of 6 months Euribor plus margin and is repayable in equal semi-annual instalments of EUR 833,333 each until June 2008.

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

(v) Loan from DEG

In April 2004 the Bank concluded a loan agreement with DEG amounting to EUR 3,000,000 with the purpose of refinancing other loans. The loan was fully drawn as at year end. The loan bears an interest rate of 6 months Euribor plus margin and is repayable in May 2007.

(vi) Loan from Citibank

In October 2006 the Bank concluded with Citibank a syndicated loan agreement amounting to RON 150,000,000. The drawn amount at the end of 2006 was RON 100,000,000 (EUR 29,570,926). The loan bears an interest rate of 6 months BUBOR plus margin and is repayable in equal semi-annual instalments of RON 16,666,667 each starting from April 2009 until October 2011.

The loan agreements with EBRD and DEG require the Bank to comply with certain financial ratios (financial covenants). As at 31 December 2006 the Bank did not comply with financial covenants required in the agreements with EBRD. As a consequence, the balances of these loans have been presented in the liquidity note as due as at year end.

23. Debt securities issued

	31 Dec 2006	31 Dec 2005
Principal (i)	11,902,298	-
Deferred commission	(125,753)	-
Accrued interest	385,276	-
Total	12,161,821	-

(i) In March 2006 the Bank issued bonds in the amount of RON 40,250,000 (EUR 11,902,298). The bonds bear a fixed interest rate of 8.5% and are repayable in February 2009. The coupons are paid semi-annually and the first coupon was paid in August 2006. The fair value of the debt securities issued is disclosed in Note 6.

24. Other liabilities

	31 Dec 2006	31 Dec 2005
Salaries and related contributions and taxes payable	723,156	390,872
Sundry creditors	612,620	188,853
Total	1,335,776	579,725

25. Subordinated liabilities

	31 Dec 2006	31 Dec 2005
Principal (i)	5,000,000	–
Accrued interest	116,908	–
Total	5,116,908	–

(i) In August 2006 the Bank received a EUR 3,000,000 subordinated loan from ProCredit Holding bearing a fixed interest rate. The loan is repayable in August 2016. In November 2006 the Bank received a EUR 2,000,000 subordinated loan from ProCredit Holding bearing a fixed interest rate. The loan is repayable in October 2016.

26. Issued capital

The issued capital of the Bank is represented by 7,024,186 shares (31 December 2005: 5,614,306 shares) of RON 10 each, equivalent to USD 14,600,000.02 and EUR 6,000,000.75 respectively at the dates of contribution. The shareholders of the Bank at 31 December 2006 and 31 December 2005 were as follows:

	2006		2005	
	Number of shares	%	Number of shares	%
ProCredit Holding AG	2,263,083	32.22	1,438,375	25.52
Commerzbank Aktiengesellschaft	1,476,925	21.03	1,124,752	20.03
European Bank for Reconstruction and Development	1,160,823	16.53	927,824	16.53
Deutsche Investitions- und Entwicklungsgesellschaft GmbH	927,824	13.21	927,824	16.53
International Finance Corporation	846,910	12.06	846,910	15.08
International Projekt Consult GmbH	348,621	4.96	348,621	6.21
Total	7,024,186	100.00	5,614,306	100.00

27. Reserves

	31 Dec 2006	31 Dec 2005
Statutory reserve (i)	96,097	43,657
General banking risk reserve (ii)	1,825,908	829,553
Total	1,922,005	873,210

(i) Statutory reserves represent accumulated transfers from retained earnings in accordance with local banking regulations that require 5% of the Bank's net 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 includes amounts set aside in accordance with local banking regulations for future losses and other unforeseen risks or contingencies, which are separately disclosed as appropriations of profit. The general banking risks reserve is appropriated from the statutory gross profit at the rate of 1% of the balance of the assets carrying specific banking risks.

The statutory reserves and the reserves for general banking risks are not distributable.

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:

	31 Dec 2006	31 Dec 2005
Cash and other balances with Central Bank (Note 13)	8,687,838	5,850,348
Loans and advances to banks (Note 14)	4,549,291	7,854,449
Total	13,237,129	13,704,797

29. Commitments and contingencies

i) Legal proceedings

As at 31 December 2006 there were no 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:

	31 Dec 2006	31 Dec 2005
Guarantees given	469,925	172,315
Commitments to extend credit	2,432,822	1,185,562
Total	2,902,747	1,357,877

The Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from the 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 2006 no provision has been established for risks arising from off-balance sheet commitments (31 December 2005: nil).

In accordance with the requirements of the Emergency Government Ordinance no. 23 / 22 March 2006, the Bank signed a stand-by liquidity agreement for one year with the Banking Deposits Guarantee Fund for a maximum amount of EUR 535,115. No amounts were drawn from this facility.

30. Related party transactions

Transactions with shareholders and other related parties from the group

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

The related parties and the nature of their relationship to the Bank is set forth below:

Name	Relationship
Commerzbank Aktiengesellschaft (and its subsidiaries)	Shareholder
Deutsche Investitions- und Entwicklungsgesellschaft	Shareholder
European Bank for Reconstruction and Development	Shareholder
International Finance Corporation	Shareholder
Internationale Projekt Consult	Shareholder
ProCredit Holding AG	Shareholder
ProCredit Bank Albania	Group bank
ProCredit Bank Bulgaria	Group bank
ProCredit Bank Bosnia & Herzegovina	Group bank
ProCredit Bank Congo	Group bank
ProCredit Bank Georgia	Group bank
ProCredit Bank Kosovo	Group bank
ProCredit Bank Macedonia	Group bank
ProCredit Bank Serbia and Montenegro	Group bank
ProCredit Bank Ukraine	Group bank
ProCredit Moldova	Group company
ProCredit Academy	Group company
ProLease Bulgaria	Group company
Microenterprise Credit Romania SRL	Subsidiary

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

During the year ended 31 December 2006 and the year ended 31 December 2005 the following transactions were carried out with the shareholders and other related parties from the group:

	31 Dec 2006	31 Dec 2005
Loans and advances	355,593	721,919
Other receivables	60,000	94,228
Total assets	415,593	816,147
Deposits	1,136,900	2,033,611
Borrowings	20,871,281	26,734,474
Other liabilities	11,281	-
Subordinated liabilities	5,116,908	-
Total liabilities	27,136,370	28,768,085

	2006	2005
Interest income	43,774	16,901
Net fees and commissions	(7,385)	(8,007)
Other revenue	27,497	59,643
Income	63,886	68,537
Interest expense	(1,746,846)	(1,543,073)
Other expense	(399,100)	(230,507)
Expense	(2,004,087)	(1,773,580)

Transactions with key management personnel

	31 Dec 2006	31 Dec 2005
Management salaries	591,775	475,837
Total expenses	591,775	475,837

At 31 December 2006 the Bank had not grant any loans and advances to key management personnel.

31. Reconciliation of profit under IFRS and Romanian accounting standards as stipulated in order 5/2005 issued by National Bank of Romania

	2006
Profit for the year under Romanian Accounting Standards	934,326
Adjustments for amortization of loans and advances to customers	(178,114)
Adjustments for net charge of provisions	972,501
Deferred tax expenses	(117,690)
Other items	(110,448)
Profit for the year under IFRS	1,500,575

The profit for the year under Romanian Accounting Standards as stipulated in Order 5/2005 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 5/2005 issued by National Bank of Romania

	31 Dec 2006
Equity under Romanian Accounting Standards	19,016,962
Loans-related adjustments	742,388
Fixed assets-related adjustments	(125,776)
Deferred tax	(127,222)
Other items	3,676
Equity under IFRS	19,510,028

The equity as at 31 December 2006 under Romanian Accounting Standards as stipulated in Order 5/2005 presented above may change due to issuance of the statutory financial statements pursuant to IFRS financial statements approval.

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