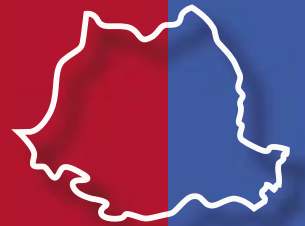




Annual Report 2004

Romania





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Key Figures

EUR '000	2004	2003	Change
Balance Sheet Data			
Total Assets	68,401	25,850	165%
Gross Loan Portfolio	50,776	20,658	146%
Business Loan Portfolio	38,369	15,002	156%
< EUR 10,000	21,919	7,543	191%
> EUR 10,000 < EUR 50,000	12,083	4,660	159%
> EUR 50,000 < EUR 150,000	3,585	2,072	73%
> EUR 150,000	783	728	8%
Housing Loan Portfolio	12,371	5,469	126%
Other Loan Portfolio	36	186	-81%
Loan Loss Reserves	707	421	68%
Accrued Interest	546	203	169%
Net Loan Portfolio	50,069	20,237	147%
Customer Funds	25,075	4,102	511%
Borrowings and Deposits from Financial Institutions	31,511	12,802	146%
Shareholders' Equity	10,970	8,760	25%
Income Statement			
Operating Income	5,659	2,056	175%
Operating Expenses	-5,240	-2,767	89%
Operating Profit Before Tax	-717	-888	-119%
Net Profit	-717	-888	-19%
Key Ratios			
Cost/Income Ratio	92.59%	134.57%	
ROE	-7.27%	-10.88%	
Capital Ratio	21.25%	37.88%	
Fixed Assets to Equity	14.35%	11.69%	
Operational Statistics			
Number of Loans Outstanding	12,245	5,010	144%
Number of Business Loans Outstanding	10,461	4,172	151%
Number of Deposit Accounts	26,111	9,535	174%
Number of Staff	261	170	54%
Number of Branches and Outlets	10	8	25%

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 micro, 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. Our bank explicitly avoids all speculative lines of business and issues large loans only in exceptional cases, thus minimising the risk associated with such activities.

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



Our institution, ProCredit Bank Romania, has just concluded a very successful year. The bank took a big step forward in 2004 – both in operational and in financial terms. For almost all major business indicators, the forecasts were not only met, but exceeded.

The first half of 2004 was dedicated to increasing efficiency and strengthening the existing organisational structure. The bank consistently increased productivity (as mea-

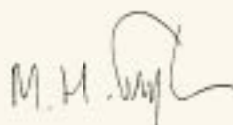
sured in terms of the number of loans disbursed per month) and managed to catch up with the productivity figures of other Eastern European ProCredit Banks. The main drivers for the productivity increase were micro loans, our core focus, where ongoing strong demand indicates that there is further market potential. ProCredit Bank aims to become the preferred service provider for micro entrepreneurs in Romania, and the institution made good progress towards this goal in the year under review.

However, if ProCredit Bank is to fulfil its development mission on a sustainable basis, the bank must generate reasonable profits. And indeed, thanks to its success in micro lending combined with an increased level of overall efficiency, the bank achieved operational profitability as from July 2004. It can thus be said to have successfully completed its start-up phase.

In the second half of 2004, the bank invested more intensively in its capacity to manage growth, focusing on its staff and premises. The organisational structure in the head office was strengthened, and additional specialised business departments were set up. The largest and most striking investment was certainly the new head office building, located in the centre of Bucharest, together with a new branch located on the same premises. Both were officially inaugurated in early December. The gala event also served as an opportunity to launch the name “ProCredit” – and thus to connect the new premises with the bank’s new image as part of a network backed by international shareholders. Emphasis was placed on the shareholders’ reputation, mission and commitment, not only in Romania, but in 18 other

countries around the globe as well. We are confident that the bank’s new image as a member institution of a strong network will inspire even greater confidence among our existing customers, and will increase awareness of the brand among the Romanian public at large, allowing us to serve ever broader sections of the population.

While the results achieved in 2004 are impressive, and prove that ProCredit Bank is a much-welcomed addition to the financial sector in Romania, it is when looking beyond mere figures that we feel the greatest satisfaction: The bank is growing increasingly successful in attracting small-scale local deposits, which in turn allows it to achieve much greater outreach in lending to micro entrepreneurs across the country, who are thus becoming ever more integrated into the formal financial system. We will focus all our energies on continuing to build on this success in 2005.



Mike Taylor

Chairman of the Board

**Members of the
Board of Administrators
as at December 31, 2004:**

*Michael Taylor
Dr. Claus-Peter Zeitinger
Reinhard Bollmann
Ana Maria Mihaescu
Dr. Helmut Toellner
Ruediger Rurainsky*

Letter from the Management

2004 was a year of strong growth for ProCredit Bank Romania, as is reflected in our excellent operational and financial results. More than 10,000 loans with a combined volume of over EUR 50 million were disbursed to individual entrepreneurs and businesses; this translated into loan portfolio growth of almost 150% over the course of the year. Customers hold more than 26,000 accounts and are served through a network of 10 branches.

The growth was facilitated by a strong increase in customer deposits and by support from the bank's shareholders, who provided long-term funding in the form of credit facilities. The management greatly appreciates their commitment and their reliable support, and is confident that it has made good use of the funds entrusted to the bank, both in financial terms and in terms of developmental criteria.

However, after the first two years of operation, in which building and expanding the bank's branch network had priority, the main focus in the first half of 2004 was consolidation. Increasing the number and volume of loans and customer deposits was given priority over further network expansion. The efforts made in this connection, and the necessary restructuring process, brought about a turnaround in operational profitability starting in July 2004. For the first time the bank achieved the critical minimum loan portfolio volume needed to cover its administrative costs.

The re-branding of "MIRO Bank" to "ProCredit Bank" was another important milestone in 2004, allowing the institution to benefit from an international image and the advantages of

belonging to a strong network of similar banks. The new head office building was inaugurated, and the branch on the ground floor opened its doors to the public; both share the ProCredit corporate design and identity. The new design will serve as the uniform standard for outlets opened in the course of regional expansion in 2005.

The governments of both the United States (through the EBRD) and Germany have consistently provided funds to support us throughout all these changes and our recent growth, and we would like to take this opportunity to thank them. Management would also like to express its gratitude to the bank's hard-working and dedicated staff. Over 90 new staff members were recruited, trained and integrated into our team, bringing the total number of employees to more than 260. Maintaining a good working climate, offering ongoing training and opportunities for advancement, and paying attention to the individual are the factors which have been key to the bank's success, and will remain so in the years to come. While competition among financial institutions for young and qualified staff is increasingly strong in Romania, the management believes that by ensuring that it continues to offer the abovementioned advantages, ProCredit Bank will remain an attractive employer.

Based on the favourable developments in 2004, the management assesses the outlook for 2005 and beyond as promising. Priority will again be given to our retail business in order to further strengthen the deposit base and allow growth in lending. An equally important element of our strategy for the coming year, and



one that complements the emphasis on retail operations, will be the establishment of new branches in order to increase ProCredit Bank's visibility and outreach. Since the bank now has a sound and growing income base, we are confi-

dent that we will be able to manage the planned investments successfully. Costs and risks are well monitored and under control, and management's task will be to ensure that they remain so.

Michael Kowalski
General Manager
(since March 2005)

The Bank and its Shareholders

ProCredit Bank Romania SA was established in May 2002 by international investors. In the two and a half years since its founding, it has developed into a full-scale commercial bank providing a broad range of financial services, comprising various loan products

tailored to meet the needs of micro, small and medium enterprises and private customers, as well as savings and deposit programmes, domestic and international money transfers and documentary business.

Shareholder	Sector	Headquarters	Share	Paid-in Capital in EUR million
DEG (KfW Group)	Banking	Germany	16.53%	2.25
IFC	Banking	USA	15.08%	2.06
EBRD	Banking	UK	16.53%	2.25
FMO	Banking	Netherlands	5.17%	0.71
ProCredit Holding	Investment	Germany	19.98%	2.72
Commerzbank	Banking	Germany	20.03%	2.73
IPC	Consulting	Germany	6.68%	0.91
Total Capital			100%	13.63



The **Deutsche Investitions- und Entwicklungsgesellschaft (DEG)**, based in Cologne, is a key player in Germany's development co-operation activities and supports private sector development in Africa, Asia and Latin America, as well as in Central and Eastern Europe and the CIS. DEG operates according to the principles of private enterprise and focuses on professionally managed private-sector ventures which are not only profitable projects for their investors but also beneficial to the development of the local economy. DEG is a member of the KfW Banking Group.

sector activities, helps mobilise additional financing from other sources and provides advisory services to both government and business. It participates in projects without a government guarantee of repayment. During FY 2004, IFC approved USD 5.6 billion in new loan and equity investments supporting projects with a total cost of over USD 23.4 billion. Since its founding in 1956, IFC has invested almost USD 44 billion of its own funds in more than 3,100 companies in 140 developing countries.



The **International Finance Corporation (IFC)**, a multilateral institution, promotes the development of the private sector in its developing member countries. A member of the World Bank Group, but legally and financially independent, IFC provides long-term loan and equity finance on market terms in support of private



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

27 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 **Netherlands Development Finance Company (FMO)** supports

financial institutions and private enterprises in developing countries. Its aim is to promote sustainable economic growth. By providing tailor-made finance, FMO acts as a catalyst for private sector activity. Although it finances at market terms, FMO complements rather than competes with commercial financiers. FMO was formed in 1970 through a partnership between the Netherlands government and Dutch financial institutions, industrial companies and trade unions. With an investment portfolio of EUR 1.9 billion and more than 200 employees, FMO is one of the largest bilateral development banks in the world that focuses on the private sector. FMO has a 'Triple A' rating from Standard & Poor's.



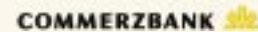
ProCredit
HOLDING

ProCredit Holding AG was founded as Internationale Micro Investitionen AG

(IMI) in 1998 as an investment company specialised in equity participations in microfinance banks located in transition and developing countries. These microfinance banks, now collectively known as the ProCredit group, focus on providing banking services to people whom other banks either do not serve at all (usually on the grounds of cost or risk) or only serve inadequately. ProCredit Holding is now, or soon will be, the majority owner of nearly all of the institutions in the ProCredit group, as it is currently

implementing a strategy of purchasing from the publicly-owned institutions the shares they hold in the individual ProCredit banks. ProCredit Holding, working closely with Internationale Projekt Consult GmbH (IPC), actively guides the development of the institutions, taking responsibility at the corporate governance level. The company has so far taken equity stakes totalling EUR 53 million in 19 banks and financial institutions. Its shareholders are a 50:50 mix of private and public investors.

Commerzbank AG was established in 1870 and today is one of the leading private 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 and corporate banking services. It also offers financial services via a number of subsidiaries, such as leasing, asset management and real estate investment.



Internationale Projekt Consult (IPC) *ipc* GmbH, a Frankfurt-based company, was

founded in 1981 with the aim of putting into practice an integrated consulting concept that combines classic consultancy services with the assumption of management responsibility for project implementation. In Latin America, Africa and Eastern Europe, IPC has set new standards in financial institution building. IPC founded ProCredit Holding (originally known as "IMI") and remains its single largest shareholder. IPC also has a strategic partnership with ProCredit Holding, providing management services to all of the institutions within the ProCredit group and seconding key staff to perform central management functions at ProCredit Holding.

ProCredit – An International Group



ProCredit Bank

ProCredit Bank Romania is a member of an international group consisting of 19 financial institutions operating in as many countries. All of these institutions have a similar ownership structure and share a common corporate mission and focus: to provide micro, small and medium-sized enterprises with reliable access to credit and other banking services.

In the countries where the ProCredit group has a presence, the conventional commercial banks often focus their lending operations on corporate finance and consumer lending, but tend to neglect small businesses as a potential clientele. Their main reasons for not lending to micro, small and medium-sized enterprises are the perceived inadequacy of MSMEs' accounting methods, the ostensible inability of MSMEs to provide sufficient collateral and the high administrative costs incurred in small business lending. Yet MSMEs are seen by many economists and development experts as the main engine of growth and job creation in developing and transition economies. Moreover, in political terms, the middle class which emerges when MSMEs grow and flourish usually plays a stabilising role in society. It was these insights which prompted the initiators of the ProCredit group to establish target group-oriented financial institutions in Eastern Europe, Latin America and Africa, a process which began six years ago. In the meantime, these institutions have grown substantially: taken together, the 19 banks and finance companies operate through a total of some 300 branches and have roughly 7,000 employees.

The main shareholders of the group's institutions are ProCredit Holding, KfW Group, IFC, FMO, and DOEN Foundation. ProCredit Holding, which is owned largely by the same entities that hold shares in the individual ProCredit institutions, is or soon will be the majority shareholder in the ProCredit institutions. ProCredit Holding produces consolidated financial statements for the group, and has a BBB- (investment grade) international rating from Fitch Ratings.

The activities of the group's member institutions are guided and supervised by ProCredit Holding and by IPC, the consulting firm which provides management services to the banks. Both ProCredit Holding and IPC are located in Frankfurt am Main, Germany. This centralised management and supervision makes it possible to achieve synergies which have a positive impact in many areas – for example, in training, corporate culture and identity, risk management, auditing, business policies, and funding for lending activities, as well as ethical and other professional standards.

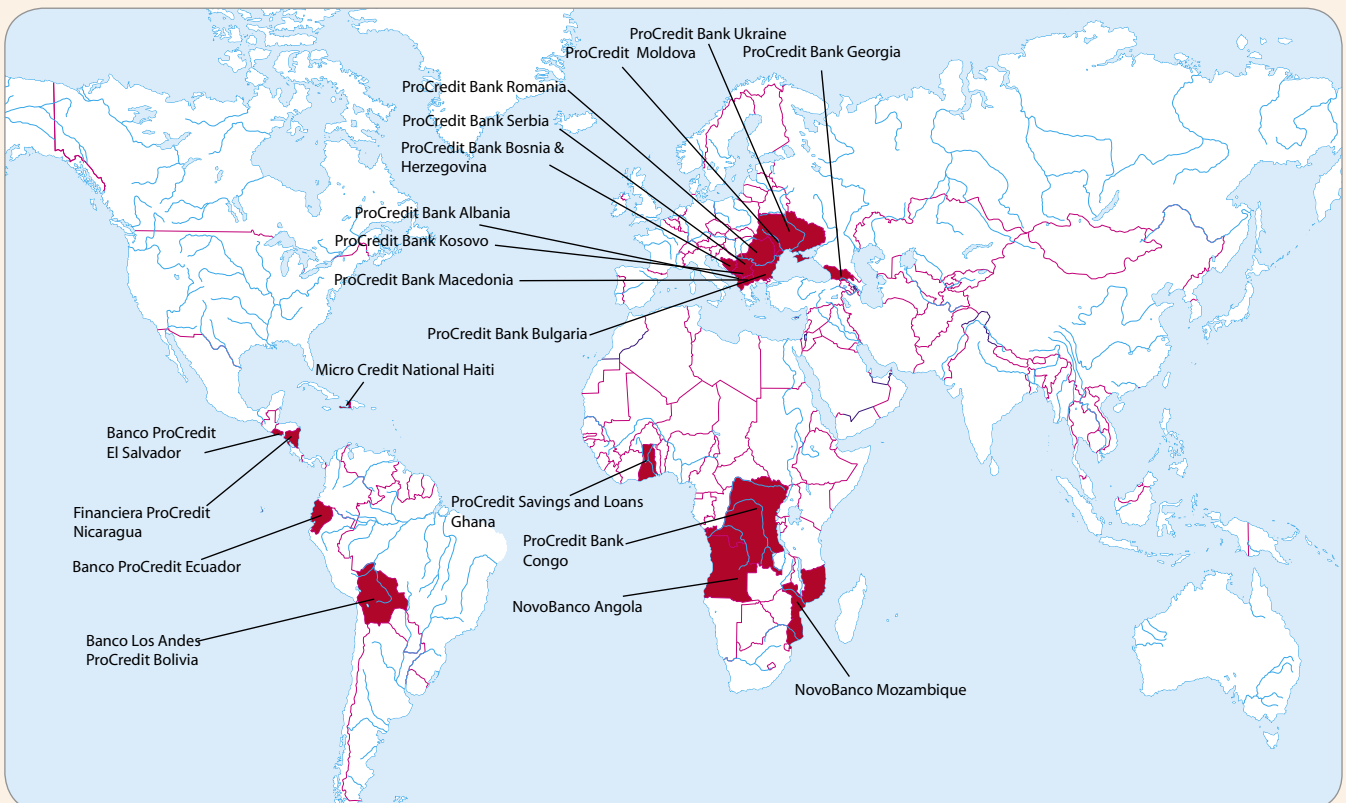
Over the years, the ProCredit group and IPC, which developed the lending methodology used by the ProCredit group, have gained a profound understanding of both the problems faced by small businesses and the opportunities available to them, and have tailored the credit technology to reflect the realities 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: currently they disburse more than 40,000 loans totalling more than EUR 100 mil-

lion to small enterprises every month. By the end of 2004, the number of loans outstanding had grown to more than 420,000 (representing EUR 949 million), a 60% increase compared to 2003. And while the average loan amount outstanding is just EUR 2,250, the loan portfolio quality remains excellent with a ratio of loans in arrears (>30 days) to total loan portfolio of only 1.0%. This demonstrates that small borrowers are indeed creditworthy.

No small business financing operation can survive over the long term if it is forced to rely on external sources of funds. Accordingly, the ProCredit institutions are actively seeking to make locally mobilised deposits their main means of financing their loan portfolios. In line

with their development orientation, the network institutions strive to ensure that their deposit facilities are appropriate to a broad range of customers; in particular, they make their services accessible to low income groups by offering simple savings products with no minimum deposit. By placing a higher priority on deposit mobilisation in 2004, the ProCredit institutions have succeeded in enlarging their combined deposit volume to EUR 824 million, compared to EUR 552 million at the end of 2003. In addition to deposit facilities, business clients are offered a full range of standard non-credit banking services, including domestic and international transfers, debit and credit cards, documentary services and foreign exchange operations.

The international network of ProCredit institutions; see also www.procredit-holding.com





At the same time, ProCredit institutions strive to set new standards in their respective banking sectors in terms of transparency and business ethics, as well as risk management and auditing. In this way, the group also aims to help build public confidence in banks.

The ProCredit institutions can only be successful in their developmental mission if their sustainability is assured. Accordingly, they have been established as commercial, i.e. for-profit, entities. However, the shareholders of the group aim to strike a balance between, on the one hand, the developmental goals which motivated their investment in the ProCredit group, and on the other, the commercial success which forms the basis of long-term sustainability, and is reflected in an adequate return on investment. In 2004, the return on equity for the group as a whole, expressed in hard currency, after deduction of profit taxes, is expected to reach 14%.

This level of profitability is sufficient to ensure the further development of the group. By the end of 2009, the group expects to have institutions in 22 countries, with the total number of branches growing to almost 600, the number of employees rising to over 13,000, and the loan portfolio increasing to EUR 3 billion. To achieve the envisaged level of growth, it will be necessary to mobilise substantial financial resources. But in itself, access to additional funding will not be enough: human resource development will also continue to be a key priority for the group. This will entail not only intensive training in technical and management skills at the level of the individual institutions, but also a continuous exchange of personnel between the member institutions, so as to take full advantage of the opportunities for staff development which are created by their membership of a truly international group.

Partner Banks in the Region

Since the early 1990s, small businesses have become the driving force in Eastern Europe with respect to economic growth and job creation, thus playing a major role in the transition process. With many large, state-owned enterprises simply disappearing, many people found that starting their own business was the only available means of earning a living and creating a future for their family. One might assume that in the meantime the financial services markets in these countries would be sufficiently well developed to address the demand for loans exhibited by small businesses, but the reality is somewhat different: Many banks claim that they are perfectly willing to serve small busi-

nesses, but in practice they continue to focus almost exclusively on more conventional, and more familiar, lines of business, such as corporate finance and consumer loans. Thus, the growth potential of small businesses is still constrained by their limited access to finance.

The ProCredit group aims to remedy this situation. Since 1998 the group has expanded its operations to cover 10 countries in the Balkans and the CIS. Nine out of the 10 institutions are fully licensed banks offering a wide range of financial services to business clients and private individuals. With its 185 branches, the sheer size of the ProCredit network makes the



group a major player in the region, and in fact in some countries the local ProCredit institution is one of the leaders in the banking industry, setting new standards in terms of small business finance and customer service. Six of the 10 institutions have received an international rating, and in each case it was one of the highest awarded to any bank in the country in question.

Using a credit technology that is tailor-made to fit the specific requirements of small businesses, the ProCredit institutions have been able to quickly expand their lending operations. Currently, the group serves approximately 187,000 loan clients across the region. Particular attention is now being paid to rural areas, and an increasing number of ProCredit

loans are being disbursed to businesses in the agricultural sector.

However, in accordance with their mission “to provide a broad range of reliable financial services”, the ProCredit banks are not merely lending institutions, but also offer a considerable number of simple and straightforward non-credit products aimed at the general public, including deposit facilities, private current accounts and debit/credit cards. Particularly the institutions in Eastern Europe have invested considerable financial and human resources in developing these operations over the last 12 months. The regional network offers special advantages when it comes to providing various kinds of non-credit products which are increasingly in demand. As cross-border travel and business activities gain in importance, the ProCredit banks have simplified the procedures for international money transfers between group institutions, and made their prices even more competitive. And ProCredit clients now have access to more and more ATMs across the region, at no extra cost.

Even more importantly, the strong ProCredit network permits a continuous exchange of know-how between the institutions to take place. Management staff exchanges, cross-border training programmes and regional workshops and seminars ensure that improvements and experience are quickly shared across the region, thus accelerating the institutional development of the network banks and enhancing the quality and reliability of their services. As part of the regional network, ProCredit Bank Romania is benefiting from this steadily increasing cooperation.



Name	Highlights	Contact
ProCredit Bank Albania	Founded in March 1999 15 branches 18,951 borrowers / EUR 79 million in loans 50,311 depositors / EUR 116 million 387 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 13 branches 19,866 borrowers / EUR 61.4 million in loans 24,609 depositors / EUR 21 million 291 employees	Sime Milutinovica Sarajlije 4 71000 Sarajevo Tel./Fax: +(387) 33-250 950 / 250 971 info@procreditbank.ba www.procreditbank.ba
ProCredit Bank Bulgaria	Founded in October 2001 35 branches 26,852 borrowers / EUR 139.3 million in loans 53,384 depositors / EUR 75.6 million 623 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 19 branches 16,295 borrowers / EUR 50.4 million in loans 36,532 depositors / EUR 24.9 million 605 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 16 branches 28,600 borrowers / EUR 109.9 million in loans 157,500 depositors / EUR 310 million 430 employees	Rr Skenderbeu 38000 Prishtina/ Kosovo UNMIK Tel./Fax: +(381) 38-249624 /-248777 info@procreditbank-kos.com www.procreditbank-kos.com
ProCredit Bank Macedonia	Founded in July 2003 7 branches 8,008 borrowers / EUR 23.7 million in loans 14,018 depositors / EUR 11.6 million 171 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 16 branches 5,483 borrowers / EUR 9.2 million in loans 140 employees	Izmail, 31 Chisinau Tel./Fax: +(373) 22 27-07 07/-34 88 office@procredit.md www.procredit.md
ProCredit Bank Serbia	Founded in April 2001 25 branches 34,959 borrowers / EUR 122 million in loans 89,660 depositors / EUR 92 million 744 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 28 branches 17,400 borrowers / EUR 74.4 million in loans 25,891 depositors / EUR 26 million 853 employees	86 Bozhenka Str. 03150 Kyiv Tel./Fax: +(380) 44-490 60 52 / 80 info@procreditbank.com.ua www.procreditbank.com.ua

Business Review

POLITICAL AND ECONOMIC ENVIRONMENT

Among the chief events in 2004 were the local and parliamentary elections. The PSD (Social Democratic Party), together with its coalition partner, the PUR (Humanist Party of Romania), remained the largest bloc in the Romanian parliament. However, the opposition National Liberal Party (PNL) and the Democratic Party (PD) made substantial gains by joining forces to form the DA Alliance. The new alliance ranked second in the general election, but won the presidency and ultimately formed the government.

As far as external relations are concerned, in October 2004 the European Commission certified that Romania has a “functioning market economy”, a precondition for membership in the EU. The process of structural reforms must be continued, however, as part of the EU accession process. Apart from the purely economic reforms, key areas which Romania must work on are the introduction and enforcement of effective anti-corruption legislation and the strengthening of independent legal institutions.

Over the past four years, Romania has reported consistent GDP growth. The year-end figures for 2004 (growth of 4.4%) indicate that the economy expanded at a dynamic pace during the year. The most dynamic sector was agriculture. The Romanian agricultural sector had experienced a series of natural disasters in the previous years, and 2004 was the first year of recovery. The expansion was due mostly to a larger harvest, and was thus achieved despite the lack of structural reforms. The boom in the construction sector was fuelled by soaring demand for housing and production capacity.

In the production sector, manufacturing expanded strongly, followed by mining and quarrying. The energy industry continued to have an adverse impact on the growth rate for the production sector, however, as the state-owned energy companies experienced severe losses that were ultimately subsidised by the state.

The strong performance in manufacturing and construction boosted employment. Private consumption expanded due to a strong increase in real wages and despite restrictions on consumer lending. This powerful domestic demand translated into a severe imbalance in Romania’s external position, however. The current account deficit is higher than it was in 2003, while the trade deficit is close to EUR 5 billion (approximately 5% of GDP).

Responding to favourable data indicating that inflation was under control, the National Bank of Romania lowered interest rates several times during 2004. External confidence in the financial system has improved, reducing the country risk considerably. However, the consistent surplus on the foreign exchange market during 2004, together with the National Bank of Romania’s decision to stop intervening, led to a significant appreciation of the ROL (Romanian leu). And the ongoing liberalisation of the capital account may attract large amounts of speculative capital.

The banking system continued to develop rapidly during 2004. Total assets grew by roughly 45%, from EUR 14.75 billion at the end of 2003 to EUR 21.42 billion. Ongoing efforts to fully privatise the largest bank in the system, Banca Comerciala Romana (BCR), which has a

30% market share, resulted in a 25% sale to EBRD and IFC. Towards the end of 2004, preparations for the sale of the state-owned savings bank CEC were stepped up, and this sale is already attracting the interest of foreign investors as well.

Although the banking system as a whole increased its lending activities substantially in 2004, less than 50% of total assets are held as loan portfolios. In contrast, ProCredit Bank holds more than 73% of its total assets in the form of a loan portfolio of excellent quality. In regard to medium-term lending (one to five years' maturity) in the local currency, ProCredit Bank has already achieved a market share of roughly 3%. More than 99% of ProCredit Bank's portfolio is characterised as 'standard' or 'watch', while the volume of loans registered as 'substandard' or worse in the system as a whole is nine times higher than the volume of such loans at ProCredit Bank. Overall ProCredit Bank developed faster than the market and managed to double its market share in terms of total assets during 2004. Nevertheless, due to the fact that ProCredit's average loan sizes are relatively modest compared to the loan amounts issued by other banks, its market share is still less than 1%.

Many of the 39 banks operating in the market focused their efforts on introducing new products and services in the retail area. Continuing the same trend as in 2003, strong growth rates (26%) were recorded for consumer lending (with EUR 2 billion outstanding as of December 2004). Mortgage lending activities in Romania increased as well, as international organisations provided long-term financing

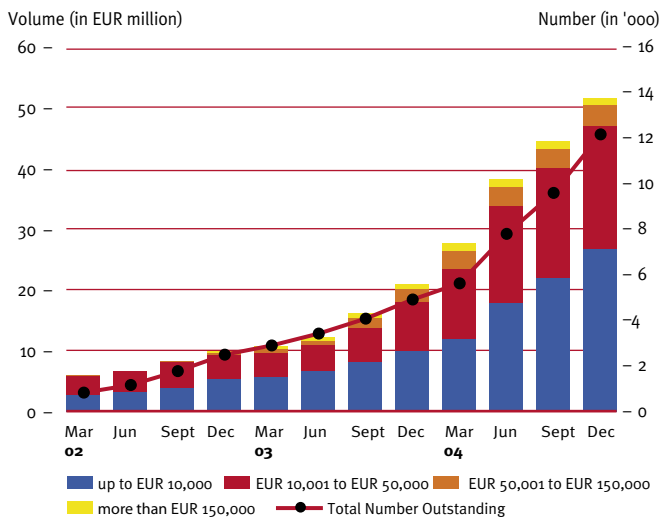


to enable the banks to offer loans with longer maturities, both in hard currency and in local currency. Many banks are also increasingly extending loans to SMEs, encouraged in part by targeted credit facilities from international organisations. This led to increased competition and slightly reduced lending margins. However, the demand for SME loans expanded dynamically at the same time.

In addition to the banks making up the formal financial sector, a number of NGOs and other microfinance providers offer financial services to the approximately 700,000 micro, small and medium-sized enterprises in Romania. Usually, however, these institutions operate with a regional focus and face significant funding problems, and thus it is doubtful whether their operations will prove sustainable in the long run. In particular, many of the banks will move to expand their regional outreach in the future, and increased competition can thus be expected to narrow the market niches of the unregulated non-bank organisations.

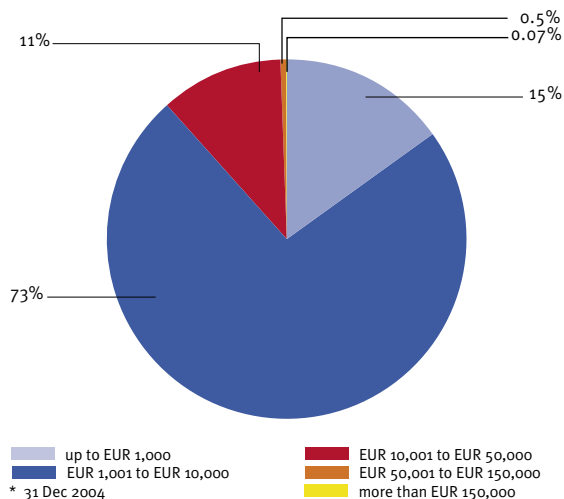
LOAN PORTFOLIO DEVELOPMENT

Loan Portfolio Development



During 2004, ProCredit Bank strengthened its focus on providing finance to the smallest Romanian enterprises. The renewed emphasis on micro lending (loan amounts up to EUR 10,000), the streamlining of lending operations based on a thorough review of internal lending procedures, and a great deal of word-of-mouth advertising by satisfied borrowers led to dynamic growth in the bank's lending operations. A total of more than 10,000 loans with a volume of EUR 52.4 million were disbursed in 2004. As a result, compared to the end of 2003 the number of loans outstanding increased from 5,008 to 12,245 (an increase of 144.5%), while the total volume grew from EUR 20.2 million to EUR 50.07 million.

Number of Outstanding Loans by Loan Size*



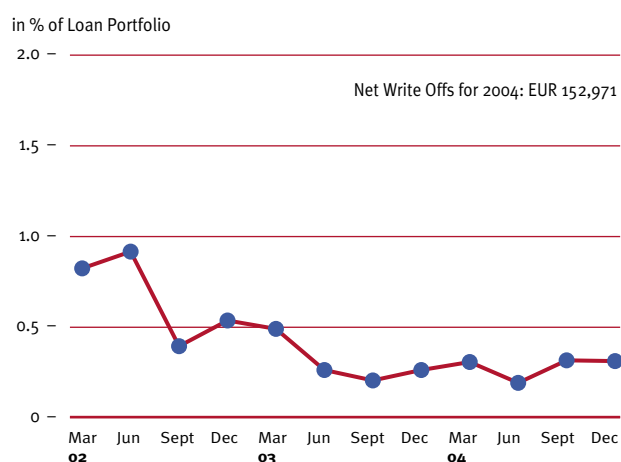
The higher rate of growth in the number of loans outstanding as compared to the volume outstanding is a reflection of the bank's successful focus on extending loans to small and very small businesses. At the end of 2004 almost 90% of the number of loans outstanding were for amounts of less than EUR 10,000. The average loan amount outstanding remained below EUR 5,000 throughout the year and stood at EUR 4,147 as of the end of December.

Based on an encouraging pilot phase, begun in 2002 at the branches in Timisoara and Craiova and covering the counties of Timis and Dolj, agricultural lending activities were expanded to other regions of the country. More than 475 loans have been disbursed so far, with a combined volume of EUR 2.1 million. Most of these farmers have never even had a bank account before, so ProCredit Bank is playing a truly pioneering role in linking them to the formal financial system. ProCredit Bank offers loans to

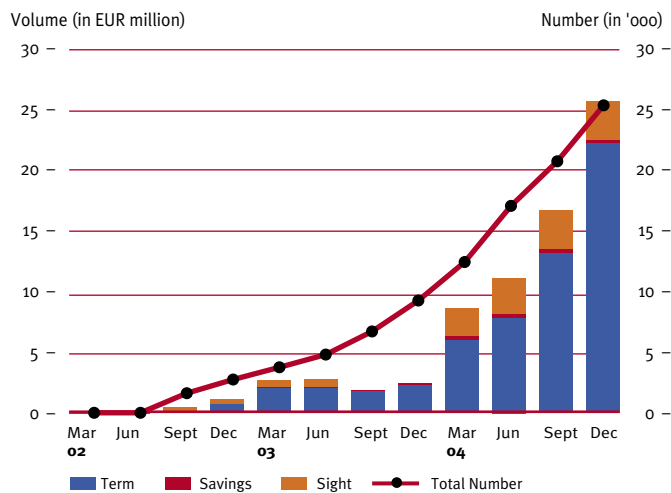
support a wide range of agricultural activities, from crop cultivation and vegetable growing, to the breeding of all types of livestock, to agricultural support services, and also finances the purchase of fixed assets, such as agricultural machinery.

While strong growth was achieved in 2004, the quality of the loan portfolio remained excellent. The bank's portfolio at risk, defined as loan in arrears for more than 30 days, has remained below 0.4% of the loan portfolio at all times and stood at 0.3% at the end of December 2004. Similarly, total write-offs (EUR 160,000) amounted to only 0.23% of the average loan portfolio.

Loan Portfolio Quality (arrears >30 days)



Client Deposits



NON-CREDIT BANKING SERVICES

Strong growth was also achieved in our non-credit operations. A combined balance of EUR 25.1 million was held in 26,111 customer accounts at ProCredit Bank Romania as of December 2004, compared to EUR 4.1 million held in 9,535 accounts at the end of 2003.

In its retail operations ProCredit Bank Romania consistently sought to streamline its internal processes and enhance its product range. The bank now offers a competitive range of products, including current, savings and time deposit accounts, as well as letters of guarantee, letters of credit and money transfers. Significant growth in terms of numbers and volume was achieved with respect to all products during the year under review.

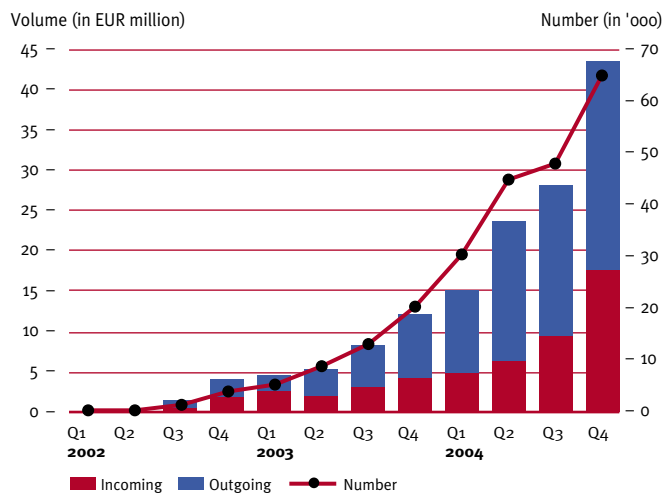
The number of current accounts increased from 8,398 as of the end of 2003 to 19,700 by the end of 2004, while the volume of funds held in these accounts increased by 90%. The bank introduced savings products which were specially designed to meet local demand, offering our clients not only favourable interest rates, but also the advantages of flexibility, security and transparency. As a result, the volume of savings deposits increased by 74%, while the number of savings accounts grew from 559 as of the end of 2003 to 2,575 as of the end of 2004. Term deposits grew from 580 accounts with a combined balance of EUR 2.2 million in December 2003 to 3,860 accounts with a combined balance of EUR 21.6 million by the end of 2004.



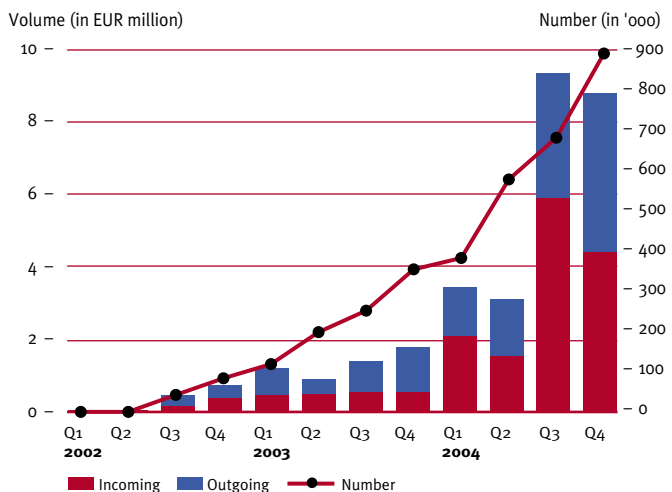
In 2004 ProCredit Bank Romania introduced MoneyGram money transfers. MoneyGram is a fast and convenient option for sending and receiving small international money transfers. Since implementation of the new system in June, the total volume transferred has reached EUR 700,000, with over 1,900 transactions performed. Overall, both the number and volume of domestic and international transfers more than quadrupled in the year under review. The number of transfers performed through ProCredit Bank increased from roughly 50,000 in 2003 to almost 200,000 in 2004; at the same time, the volume transferred rose to EUR 120.0 million, up from EUR 35.0 million in 2003.

Letters of guarantee were successfully launched at the beginning of September, followed by letters of credit in October. Both products are designed for our larger-scale clients, serving to facilitate their trading activities or make it easier for them to import large-scale items, such as machinery. Letters of guarantee in particular seem to be very much appreciated by our clients, and have been very successful in the short time since their introduction.

Domestic Money Transfers



International Money Transfers



FINANCIAL PERFORMANCE

During 2004, the bank's total assets grew by EUR 42.6 million (164%) to EUR 68.4 million. The main drivers for this growth were the loan portfolio growth and the growth in liquid assets (an increase of EUR 11.5 million). The expansion of the bank's lending operations was financed mainly through additional long-term borrowings from international institutions, which rose by 118% to EUR 22.9 million in 2004. The increase in customer deposits by EUR 20.1 million supplemented the bank's other sources of funding and is expected to contribute even more strongly in the years to come. Furthermore, the bank's shareholders increased the equity twice in 2004, by EUR 0.9 million in May and EUR 2 million in December, bringing the total paid-in capital to EUR 13.6 million. The increase in equity will enable the bank to seize growth opportunities during the coming year and underlines the long-term commitment which the shareholders have made to ProCredit

Bank and their reliability in supporting the institution. At 21%, the bank's capital adequacy remained well above the requirements of the local regulatory authorities (12%).

The good performance in lending operations yielded an increase in interest income of 190% to EUR 7.05 million for the year. Additional income was generated by the bank's treasury operations as well as through commissions from customer transactions (in total EUR 700,000). The 182% increase in total interest income more than offsets the increase in operating expenses. Administrative expenses increased by 66%, mainly due to one-off costs incurred in connection with the change in the bank's name and the investments in new branch and head office premises, as well as expansion and upgrading costs for the communications infrastructure. Moreover, the size of the bank's staff increased considerably, mainly due to the expansion of its retail activities. Personnel costs thus rose by 159.6%.

Despite these necessary but costly investments, ProCredit Bank reached operational break-even in July 2004, twenty-four months after the founding of the bank. From July on, the bank consistently achieved operational profitability on a monthly basis; nonetheless, for the year as a whole, the bank still posted a loss of EUR 0.7 million and a return on equity of -7.27%. However, the bank is expected to remain consistently profitable from now on, and will thus generate a positive return on equity from 2005 onwards.



OUTLOOK

ProCredit Bank's existing branches cover all of the cities in Romania with a population of more than 250,000. However, given the size of these cities and the dynamic economic growth which they are experiencing, we need to expand our presence and our outreach in these locations in order to be able to fully exploit the existing potential of the local markets, especially as regards deposit products and account services. Thus, in 2005 the bank plans to open additional offices in the country's seven main cities. The goal is to find centrally located, smaller premises for new facilities which will enable us to make non-credit banking services more easily accessible to our customers, and to do so at a reasonable cost.

The name change in late 2004 and the new central locations to be opened in 2005 can be expected to have a positive impact. Furthermore, an attractive new savings plan for regular monthly savers will be introduced, with no minimum amount and a range of maturities. On the strength of these factors, we are confident in predicting a significant increase in the bank's deposit base. Also, the launch of basic card products and internet banking will make it easier for many clients to use their accounts, allowing them fast access to cash as well as convenient service.

We plan to continue with efforts to streamline our structures and processes in order to increase operational efficiency, above all in our retail operations. The consolidation process carried out in the year just ended should continue to pay off and this, combined with the new organisational structure at branch level, will enable us to operate more efficiently



and provide even more professional customer service.

In our lending activities, we will continue to focus on loans to the smallest enterprises. In light of the dynamic development of this sector during 2004, loans smaller than EUR 10,000 should remain the main driver of further loan portfolio growth. In addition, the agricultural lending programme will be expanded to all outlets of the bank, making agricultural loans available in a large part of the country. Also, as our existing clients' businesses grow, we expect a corresponding rise in loan sizes to account for the remainder of the growth predicted for 2005.

Risk Management

ProCredit Bank is one of the fastest-growing financial institutions in Romania. At the same time, we have managed to establish a reputation as a very sound institution. In other words, after just over two years of operations in the local financial sector, the bank's stringent approach to risk management is already gaining recognition among its clients and the public at large. Staff at all levels of the bank are fully aware that the long-term success of the bank depends on the level of trust its clients place in the institution. They understand that transparency is a fundamental principle of our work, and that in order to maintain it, we must consistently work to refine our procedures for identifying, assessing, monitoring and controlling risk.

The pace at which ProCredit Bank is developing requires us to take an active and comprehensive approach to risk management. Consequently, the bank actively monitors all major risk categories – credit, market, financial

and operational risk. In addition, other risks are also monitored, such as country, legal and compliance risk.

Risk management is handled by a range of committees, such as the Asset and Liabilities Committee, the Anti-Money Laundering Committee and the Risk Committee. The Risk Committee is made up of key personnel of the bank in order to ensure that decisions can be taken quickly and implemented swiftly if necessary. It reviews two comprehensive reports on a regular basis – a general risk report and an operational risk report.

In late 2004, the bank created a Risk Unit charged with further formalising risk management within the institution. The unit is headed by a Risk Manager and is responsible for both risk reporting and risk reviews. A specialist for information security issues is to be added to the unit in 2005, in recognition of the fact that our information systems are becoming increasingly complex as our institution grows and the number and volume of transactions increases. A further key objective for the unit will be to develop a loss event database to monitor and quantify operational risks throughout the organisation.

However, once we have set up the appropriate structures, we will not simply lean back and relax. Ongoing, critical review of the practices we apply, and proactive development of appropriate risk management strategies in areas which are increasing in importance – such as information security or the detection of fraud – will remain an integral part of our risk management activities on all levels.



RISK MANAGEMENT ISSUES AT PROCredit BANK IN 2004

The bank has established a loan portfolio that is of exceptional quality, with arrears rates (loans in arrears more than 30 days) of consistently less than 0.4% of the outstanding loan portfolio, write-offs of less than 0.25% and a high degree of diversification. At the end of 2004, the bank's 10 largest loan exposures accounted for just 17.4% of the bank's equity capital (3.7% of the gross loan portfolio). Credit risk is thus well under control.

Interest rate risk has been and remains a relevant issue for our bank, since only a very limited range of hedging instruments is available on the Romanian market. Accordingly, ProCredit Bank takes all measures possible to limit the potential adverse impact of overall interest rate changes on our bank.

Foreign exchange risk was an important focus of the bank's risk management activities in 2004. However, the bank was able to limit its exposure to foreign exchange rate fluctuations, even during the significant appreciation of the ROL against both the USD and the EUR towards the end of the year.

The bank has consistently maintained a conservative liquidity policy in order to ensure the accessibility of customer funds at all times throughout the branch network – thus minimising **liquidity risk**. This policy will remain a core principle for ProCredit Bank in 2005.

The year 2004 saw major advances in terms of the bank's reputation in its local market. In particular, the re-branding from "MIRO Bank" to "ProCredit Bank" in December 2004, as well as the relocation of the head office to

a centrally located building in Bucharest with an eye-catching "rainbow" façade, reinforced ProCredit Bank's image as a dynamic, modern and growing bank. The level of customer satisfaction is high, and this, combined with the fact that we still have only a relatively low market share as yet, means that we are only moderately vulnerable to **reputation risk**.



However, the growing number of staff and the increasing number and volume of transactions performed by the bank brought **operational risk monitoring** to the forefront of risk management. We placed more emphasis on staff training, and, in addition, implemented new information technology which offered better support for our operations; both of these measures have had a positive impact on the bank's risk profile in this area. In addition, a complete review of ProCredit Bank's internal processes and regulations, carried out with a specific focus on internal control procedures, served to increase our understanding of our operational risks and thus to reduce their potential negative impact on the bank.

Branch Network

At the end of 2004, ProCredit Bank Romania was operating in seven cities – Bucharest, Timisoara, Cluj, Constanta, Craiova, Brasov and Iasi – through a total of eight branches and two outlets. The full range of products offered by our bank is available in all seven cities.

Given that our focus in 2004 was on further improving efficiency and strengthening and streamlining the existing institutional structures, we undertook only a modest expansion of the branch network. Two new branches were added in the year under review – one in Iasi, the most important city in the Moldavian region in north-eastern Romania, and one in Bucharest. The office in Iasi was opened in

March and achieved promising results from the very beginning, both in micro lending and in its deposit operations. The second opening took place in December, when the bank established a branch on the ground floor of its new head office building, which had only recently been completed. Due not least to the building's excellent location and the eye-catching design chosen for its façade – which have significantly increased public awareness of our brand in Bucharest – operations at the new branch got off to an excellent start.

With its existing branches, ProCredit Bank covers all of the cities in Romania having a population of more than 250,000. However,





given the size of these cities and the dynamic economic growth which each of them is experiencing, we need to expand our presence and our outreach in these locations in order to be able to fully exploit the potential of the local markets, especially as regards deposit products and account services. Thus, in 2005 the bank plans to open additional offices in the country's seven main cities. The goal is to find centrally located, smaller premises for new facilities which will enable us to make non-

credit banking services more easily accessible to our customers, and to do so at a reasonable cost. In three cities, suitable premises have already been found: lease agreements have been concluded in Bucharest, Cluj and Brasov, where additional branches are to be opened during the first quarter of 2005. These offices will be designed specifically to cater to customers making use of the bank's non-credit products and services.



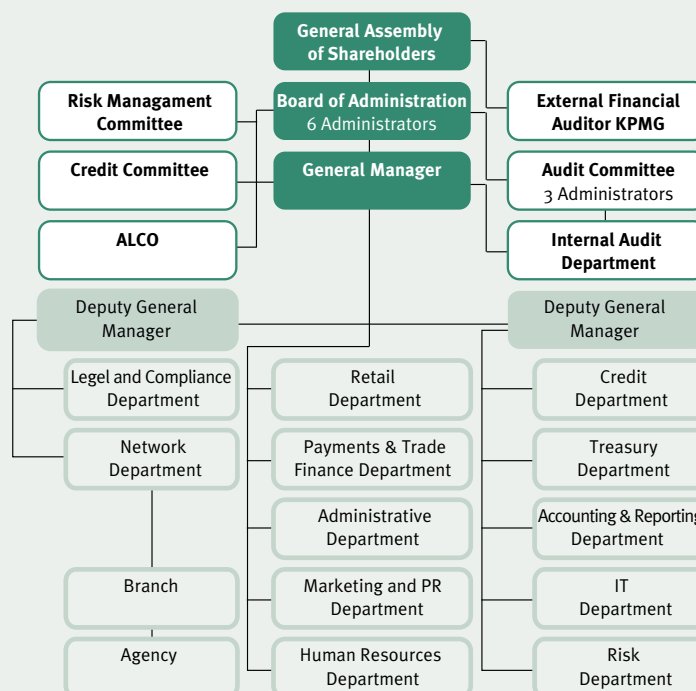
Organisation, Staff and Staff Development

Since ProCredit Bank is still a very young and fast-growing institution, we focus considerable attention on staff recruitment and training. In the year under review the staff grew from 170 to 261 individuals, including 72 loan officers and 34 client advisors. 71% of all employees are female, 29% are male; 70% of all management positions are held by female staff. The turnover rate stood at 10% in 2004. This figure may seem quite high, but it must be seen in the context of the dynamic growth of the Romanian banking sector and the resulting fierce competition for promising young people.

As our bank is one of the few banks in Romania to hire individuals with no previous banking experience, we provide intensive basic training on general topics in banking as well as on our specific credit technology. However, learning is an ongoing process at our bank, and therefore we have also designed advanced training modules for our existing staff, especially for middle management, loan officers, client advisors and cashiers. In addition, the vast majority of bank staff have received training in “soft skills”, including communication, sales techniques and employee motivation.

One of our main goals during the year was to achieve the same degree of success with our non-credit banking services as we have al-

Organisational Structure



ready achieved in our lending operations. To this end, we invested significant effort in product development and in staff recruitment, and this in turn posed a considerable challenge in terms of training. From March on, the bank significantly enhanced its capacity by expanding its staff of client advisors and providing them with the appropriate training.

The impact of this increased personnel capacity in the area of non-credit banking services was reinforced by a reorganisation at branch level. Back office positions were created in order to release front office staff from administrative tasks; moreover, a range of new front office functions were defined in order to allow the bank to offer customised services to our various client groups. The reorganisation and recruitment process has so far resulted in an overall 25% capacity increase in our front office operations, although it was not until October that this was first reflected in an improvement in the operating results. The full impact of the measures we have taken will be felt in the first few months of 2005, and the changes will continue to pay off over the course of the year.

Another challenge was to adjust head office structures to meet the demands placed on the bank's headquarters by increasing business volumes. New functions and departments were set up, increasing the number of head office staff from 33 to 60. Major investments were made in head office staff in the areas of non-credit banking services, payments and trade finance, human resources, marketing, public relations and risk management.



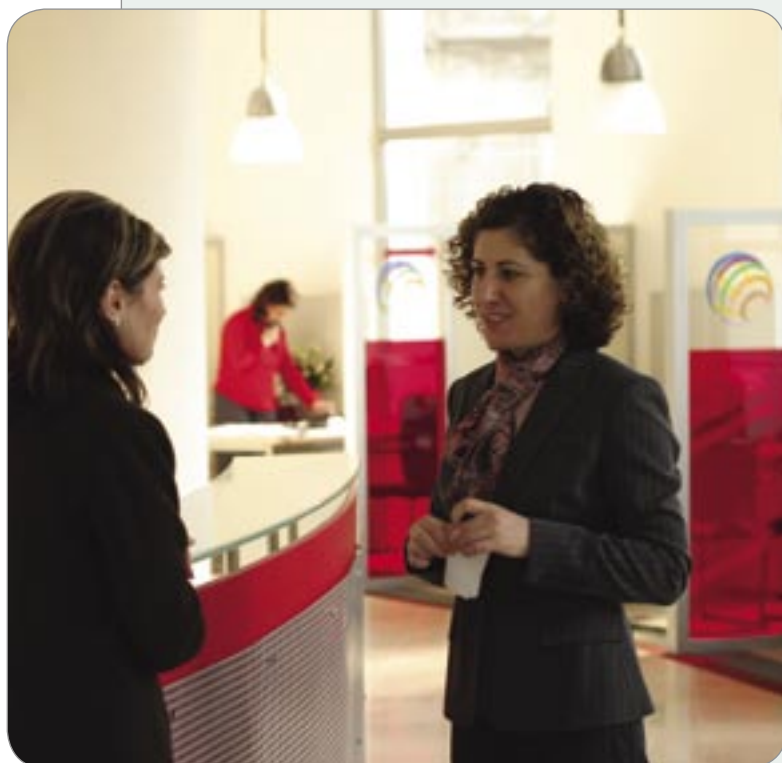
Ethical and Environmental Standards

Our high standards of business ethics are reflected in the bank's Code of Conduct. It was introduced with the aim of creating and maintaining an open and transparent working environment, in which the interests of the bank, its employees and its clients are all equally well protected. All of our staff members are expected to adhere to the highest standards of conduct and to act with honesty, integrity, impartiality and respect in all their dealings with fellow employees, clients and the general public.

It is a strict rule that the bank must not conduct or support transactions involving funds which may be suspected to have originated from criminal activities. Accordingly, compliance with the legal requirements for the prevention of money laundering is given special emphasis. The operational modules of ProCredit Bank's IT system are designed to detect and track suspicious transactions, and the anti-money laundering compliance officer reports to the local authorities on a regular basis.

As a member of the ProCredit group, ProCredit Bank Romania defines its role as a development-oriented institution not only in commercial and economic terms. It also regards promoting environmentally sound and ethical business practices as an integral part of its mission to support long-term development.

Both in the way it conducts its own operations and in the criteria it applies when selecting its clients, ProCredit Bank Romania adheres to strict environmental standards. In order to facilitate compliance with these standards, the bank has formulated an Environmental Policy Statement, which is part of an overall Environmental Management System that has been adopted by all of the institutions belonging to the ProCredit group. In addition to applicable legal requirements, the Environmental Policy Statement includes an Exclusion List which defines a number of environmentally hazardous activities that may not be financed with a ProCredit loan. ProCredit Bank Romania also refuses to finance, or be associated in any other way, with economic activities that involve coercive or unsafe forms of labour, in particular harmful child labour.





Our Clients

SUPPLIER OF CAR WASHING PRODUCTS AND EQUIPMENT



Growing fast – ambitious plans

Petrisor Iancu opened a car wash in 1994 under the trade name Patrikk Barr, but was forced to close when he was evicted from the rented premises. In 2003 the firm started selling car washing products, but was not authorised by its main supplier to sell in Bucharest. Only six months after starting this new venture, the firm received its first loan from ProCredit Bank. In an effort to penetrate the Bucharest market, Mr. Iancu set up a new company, Expert Clean, in March 2004, selling a different brand of products, and also supplying equipment for car wash installations. Impressed with ProCredit's speed and flexibility, Mr. Iancu came back for a second loan to finance a delivery van for the new company.

In September 2004, when the firm participated in an international trade fair, its managers were pleasantly surprised to find that foreign suppliers were already aware of Expert Clean and were ready to discuss exclusive distribution contracts for Romania. Prospects for both companies are good, and they are currently looking at options for enlarging their showroom and service area.

FURNITURE MANUFACTURER



Turning a sideline into a flourishing operation

Valentin Oprea founded Imobil Plus, a real estate agency, in 2002, but business was slow, so in spring 2004 he decided to branch out. He and his partner rented a workshop and began to produce small items of furniture, mostly by hand. Encouraged by how well their products sold, they approached the Carrefour chain, hoping to negotiate a trade contract. It was a great opportunity, but they did not yet have the capacity to produce the volumes that the retailer required.

Needing a loan quickly, they turned to ProCredit Bank. With the EUR 5,000 they received, they bought professional equipment for cutting raw materials, signed the contract with Carrefour, hired new people, and are now able to meet their orders. In the meantime, the firm has also started to use ProCredit Bank's non-credit services. While the estate agency has still not really got off the ground, the furniture production side of the business is booming. And the owners hope it will continue to grow, supported by future ProCredit loans, and the bank's other products and services.

BEAUTY SALON AND HAIRDRESSER



Making her customers look like movie stars

Perla Elmod is a company that runs a beauty salon in Bucharest's Maria Rosetti Street. When the firm first came to ProCredit Bank, its sole source of income was the film industry: the owner, Mr. Nica, is a member of a movie production team based in Buftea. However, his wife had experience in cosmetics and beauty care, and she decided to open a small beauty salon to supplement the family income.

When the Nicas first approached ProCredit Bank, they had already found suitable premises for the salon and had enough savings to purchase some of the equipment. But they still needed additional financing to create the beauty salon they had dreamed of. They received a loan of EUR 5,000 in February 2004 and opened for business soon after. The business went so well that Mrs. Nica felt confident enough to expand the scope of the operation to include hairdressing. For this project she received a second loan from ProCredit. Now both of Mrs. Nica's lines of business are flourishing, while her husband continues to make movies.

PROTECTIVE WORKWEAR MANUFACTURER



Combining innovative designs with functionality

Dieter's SRL was founded in 1998 by Ani Mari and Traian Hrab, an ambitious young couple. Their main activity is the production of protective workwear, such as helmets, gloves and overalls. Having started out with just two sewing machines and two additional employees, they now have a total of nine staff members, producing around 130 different products. The firm prides itself on its innovative ideas for combining colourful designs with functionality. It has participated in many trade fairs and its designs have won numerous awards.

Dieter's applied to ProCredit Bank for a EUR 4,500 loan in April 2004 to purchase two machines that would improve the workflow. Expecting to have to wait a month for a response, the owners were very pleasantly surprised to receive their loan in just a few days. Indeed, they were so satisfied with the quality of service that they opened business accounts with the bank, and in July 2004 they had already received their first overdraft, followed shortly afterwards by a letter of guarantee, all of which were granted in a matter of days.

FARMER



With a ProCredit loan, you can beat the weather

In 1995, Ionel Podoleanu decided to set up a farm of his own. Together with his business partner, Stefan Oprea, he bought a small plot of land in Sohatu, a village near Bucharest, and started to grow cereals. Over the years, as their harvests grew bigger, they were able to extend the area under cultivation to 210 ha. However, like other farmers in Romania, they suffered a setback in the 2002/2003 season, when the harsh frosts of winter were followed by drought in the summer. Mr. Podoleanu's yield in 2003 was much smaller than usual.

This was what prompted him to become a customer of ProCredit Bank. He applied for a loan to cover the shortfall in his cash flow, and this enabled him to buy enough new seed to ensure that his output was back to normal in 2004. In fact, the loan not only assured the continuity of the business, but also allowed the partners to diversify their activities by growing other types of cereals.

CLOTHES MANUFACTURER AND RETAILER



From a struggling store to a booming manufacturing operation in just two years

For nine years Mihaela and Petre Ionescu ran a grocery store at a Bucharest market, but when sales began to drop, they decided to change tack. Mrs. Ionescu started making ladies' outfits, and at the end of 2002 the couple received their first loan from ProCredit Bank to support the new business. Initially they had only two sewing machines and used their home as a workshop, but with their second loan they bought another five sewing machines and moved the workshop to a rented facility. Demand continued to grow, and in summer 2003 they rented a retail outlet at a shopping centre, which they fitted out using a third loan from ProCredit. Their next loan was spent on new, special-purpose machines, and on moving their workshop to a former factory. They also opened a second outlet in another well-known shopping area, and during the summer season they rented a small shop in Neptun, a popular seaside resort. Being able to take advantage of business opportunities has been the key to their success over the past two years, and that would not have been possible without ProCredit's support.

TRADER AND PATISSERIE OWNER



Diversifying with support from ProCredit Bank

SC Toxotis Impex SRL is owned by Marius Dumitrache, who originally ran it as a small shop from his one-room apartment in Bucharest. His credit history began in March 2000, when he took out a loan from ProCredit Bank's forerunner, MCR. This, and several subsequent loans, were spent on expanding his business, renovating his premises, and enlarging his working capital. Then, in spring 2004, Mr. Dumitrache decided to open a patisserie, and he applied for a loan in order to buy the premises for the new business.

Within a short time, he received a EUR 23,000 loan, repayable over a five year period, and by the summer, the patisserie had already gone into operation. Since then, sales at the patisserie have gradually increased, and Mr. Dumitrache is very pleased that the new business has become profitable in such a short time. He is also more than satisfied with the service he has received from ProCredit Bank, which, even though his businesses were relatively small, was willing to support his successful efforts to diversify his sources of income.

BOUILLON PRODUCER AND DISTRIBUTOR



Twelve barrels, a fork-lift, and the will to succeed

Sebi Cris SRL produces *bors*, a traditional Eastern European cooking ingredient. The company was established in 2003 by two families, the Chifans and the Siminas, with nothing more than the two husbands' last salaries as carpenters. They initially rented premises in a small town near Iasi, equipped with only a second-hand heating system (which they installed themselves), 12 barrels, a fork-lift, and their will to succeed.

Seven months later, when they first contacted ProCredit Bank, they had a new heating system, a boiler and three industrial fork-lifts, and were distributing 15,000 litres of *bors* a month to 120 shops in Iasi. A week after the Iasi branch of ProCredit Bank opened, Sebi Cris applied for a EUR 2,500 loan: having invested everything they had in the mini-factory, they had until then used a rented van to distribute their product. In less than a week they were granted a micro loan, and are now making deliveries in their own van. The monthly instalment on the loan is lower than the van rental had been, so now there is more money left over to invest in their business.

PRINTING SERVICES PROVIDER AND COMPUTER RETAILER



Turnover doubled thanks to prompt loan decisions

DASS SRL was founded by two brothers who started out 10 years ago selling business cards produced on a friend's computer. They now run a highly professional printing service and a shop on one of the main commercial streets in Craiova, retailing computers and printer accessories and providing internet services for other companies. When they tried to obtain premises in the city centre, they missed an opportunity because their former bank took too long to process their loan application.

Then they applied to ProCredit Bank for a EUR 30,000 to buy a property in a prime location, and this time the money arrived promptly. The two brothers and their six employees renovated the premises themselves, creating a retail outlet, two workshops and sufficient office space. In 2004 they received another loan to buy the premises next door, as their business had developed so well that they had already run out of space. After only a year and a half of banking with ProCredit, DASS has doubled its turnover, employs a staff of 16, and commands a significant share of the Craiova market.

MANUFACTURER OF BLINDS AND PVC WINDOW FRAMES



Making the most of market opportunities

Marian Mirea set up Deco Tech in 1998, producing blinds in his own small apartment. Initially he worked on his own, but as demand grew he hired two employees, rented additional workshop space, and bought a second delivery vehicle which he used in addition to his own car. In 2003 he also began to manufacture sliding doors, and in 2004 he diversified again: responding to the encouraging development of the construction sector and the real estate market, he began to install automatic garage doors. At this point he hired a sales representative.

In June 2004 he applied to ProCredit Bank for a EUR 10,000 loan to buy equipment for the production of PVC window frames. This new line took off, and after only four months he moved to a production facility three times larger than the first. In fact, the production of PVC systems has in the meantime supplanted blinds as the firm's main activity. Since he first turned to ProCredit, Mr. Mirea has doubled his profit, and hired four new employees.



Financial Statements

Prepared in accordance with International Financial Reporting Standards





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Independent Auditors' Report

The Shareholders'
ProCredit Bank S.A.

We have audited the accompanying balance sheet of ProCredit Bank S.A. (the "Bank") as of 31 December 2004 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of management. 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 promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board.

KPMG Romania SRL
Bucharest, Romania
28 February 2005

INCOME STATEMENT

For the year ended 31 December 2004

<i>In EUR</i>	Note	2004	2003 Restated** Presented in EUR*
Interest and similar income		7,247,594	2,566,020
Interest expense and similar charges		(2,063,926)	(801,750)
Net interest income	4	5,183,668	1,764,270
Fees and commissions income		613,683	355,429
Fees and commissions expense		(137,854)	(63,730)
Net fees and commissions income	5	475,829	291,699
Net foreign exchange losses		(729,534)	(31,919)
Operating expenses	6	(5,240,303)	(2,766,758)
Net charge of provision for impairment losses	7	(406,802)	(145,621)
Loss before taxation		(717,142)	(888,329)
Income tax expense	8	-	-
Net loss for the year		(717,142)	(888,329)

* Refer to note 2c)

** Refer to note 2g)

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 66.

The financial statements were approved by the Board of Administrators on 28 February 2005 and were signed on its behalf by:



Michael Kowalski
Deputy General Manager



Gabriel Stanescu
Deputy General Manager

BALANCE SHEET

As at 31 December 2004

<i>In EUR</i>	Note	31 December 2004	31 December 2003 <small>Restated** Presented in EUR*</small>
Assets			
Cash and cash equivalents	9	11,619,304	2,712,819
Placements with banks	10	3,543,389	838,218
Investment securities, available-for-sale	11	410,189	549,467
Loans and advances to customers	12	50,068,847	20,237,129
Intangible assets	13	304,015	73,385
Property and equipment	14	1,574,522	1,023,872
Other assets	15	880,447	415,204
Total assets		68,400,713	25,850,095
Liabilities			
Deposits from banks	16	8,599,142	2,282,122
Deposits from customers	17	25,075,074	4,102,342
Loans from banks and other financial institutions	18	22,911,360	10,519,378
Other liabilities	19	845,630	185,790
Total liabilities		57,431,206	17,089,631
Shareholders' equity			
Share capital	20	13,628,150	10,701,965
Accumulated deficit		(2,658,643)	(1,941,501)
Total shareholders' equity		10,969,507	8,760,464
Total liabilities and shareholders' equity		68,400,713	25,850,095

* Refer to note 2c)

** Refer to note 2g)

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out out on pages 46 to 66.

The financial statements were approved by the Board of Administrators on 28 February 2005 and were signed on its behalf by:



Michael Kowalski
Deputy General Manager



Gabriel Stanescu
Deputy General Manager

STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2004

Presented in EUR *	Share capital	Accumulated deficit	Total
Balance at 1 January 2003, restated	8,634,268	(1,378,287)	7,255,981
Increase of share capital	3,915,396	–	3,915,396
Net loss for the year	–	(513,900)	(513,900)
Translation differences (refer to note 2c)	(1,847,699)	292,584	(1,555,115)
Balance at 31 December 2003, previously reported and restated	10,701,965	(1,599,603)	9,102,362
Correction for amortisation of financial instruments (refer to notes 4,5,6,12)	–	(374,429)	(374,429)
Translation difference (refer to note 2c)	–	32,531	32,531
Balance at 31 December 2003, restated	10,701,965	(1,941,501)	8,760,464
In EUR			
Balance at 1 January 2004	10,701,965	(1,941,501)	8,760,464
Increase of share capital	2,926,185	–	2,926,185
Net loss for the year	–	(717,142)	(717,142)
Balance at 31 December 2004	13,628,150	(2,658,643)	10,969,507

* Refer to note 2c)

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 66.

CASH FLOW STATEMENT

For the year ended 31 December 2004

<i>In EUR</i>	Note	2004	2003 Restated Presented in EUR*
Operating activities			
Loss before tax		(717,142)	(888,329)
Adjustments for non-cash items:			
Depreciation and amortisation	6	509,808	388,847
Reversal of impairment loss of/on investment in subsidiaries	11	(6,908)	9,710
Net charge of provision for impairment losses	7	312,043	104,747
Bad debt written-off	7	144,335	65,415
Loss on disposal of property and equipment	14	15,131	–
Operating profit before changes in operating assets and liabilities		257,267	(319,610)
Changes in operating assets:			
Decrease/Increase in investment securities		149,639	(496,345)
Increase in loans and advances to customers		(30,288,109)	(13,697,096)
Increase in accrued interest receivable and other assets		(465,245)	(223,353)
Changes in operating liabilities:			
Increase in deposits from banks and other financial institutions		6,317,020	2,373,085
Increase in deposits from customers		20,972,732	3,488,701
Increase in other liabilities		659,867	129,225
Cash flows used in operating activities		(2,396,829)	(8,745,393)
Investing activities			
Net purchase of property and equipment	14	(991,930)	(592,659)
Purchase of intangible assets	13	(314,289)	(81,670)
Purchase of investments	11	(3,463)	–
Cash flows used in investing activities		(1,309,682)	(674,329)
Financing activities			
Proceeds from issue of share capital		2,926,185	3,915,396
Net proceeds from borrowings		12,391,982	5,478,263
Cash flows from financing activities * Refer to note 2c)		15,318,167	9,393,659
Net increase in cash and cash equivalents		11,611,656	(26,064)
Cash and cash equivalents balances at beginning of year		3,551,037	3,523,898
Effect of change in currency rate EUR/USD		–	53,204
Cash and cash equivalents balances at end of year		15,162,693	3,551,037
Analysis of cash and cash equivalents			
<i>In EUR</i>	Note	31 December 2004	31 December 2003 Restated Presented in EUR *
Cash and cash equivalents comprise:			
Cash on hand	9	1,857,826	555,536
Current accounts held with banks	9	64,631	32,687
Current accounts held with the National Bank of Romania	9	9,696,847	2,124,596
		11,619,304	2,712,819
Placements with other banks – less than 3 months	10	3,543,389	838,218
Cash and cash equivalents in the statement of cash flows			
* Refer to note 2c)		15,162,693	3,551,037

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 66.

NOTES TO THE FINANCIAL STATEMENTS

1. Introduction

ProCredit Bank S.A. (up to November 2004 was known as Microfinance Bank MIRO S.A.), became operational since the beginning of July 2002. ProCredit Bank S.A. (referred to as the "Bank" or "ProCredit") was set up in April 2002 and is licensed by the National Bank of Romania to conduct banking activities. The current registered office is located on 62 – 64 Buzesti Street, Sector 1, Bucharest.

The Bank commenced operations following the acquisition of Microenterprise Credit Romania SRL and its portfolio of loans to micro and small size customers and of the loans from banks.

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 of 8 branches and 2 agencies. 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.

2. Significant accounting policies

a. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The Bank's management reassessed the measurement currency during 2004 and has determined that the EUR more appropriately reflects the current environment the Bank operates in when considering the criteria established by SIC 19 ("Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29") starting with 1 January 2004. In prior years management had assessed the measurement currency to be the US dollar. Consequently, the measurement and presentation currency has been changed from the US dollar to the EUR.

Except for the change in the measurement currency, as noted above, the accounting policies adopted and

applied by the Bank are consistent with those described in the financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2003.

b. Basis of preparation

The financial statements are prepared and presented in Euro ("EUR").

The financial statements are prepared on a fair value basis for trading 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.

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 with between IFRS and statutory accounts

The accounts of the Bank are maintained in historical ROL in accordance with Romanian accounting law and National Bank of Romania banking regulations ("statutory accounts"). These accounts have been restated to reflect the differences between the statutory accounts and the IFRS. Accordingly, such adjustments have been made to the statutory accounts as have been considered necessary to bring the financial statements into line, in all material respects, with IFRS.

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

- grouping of numerous detailed items into broader captions;
- selection of the EUR as the appropriate measurement currency for the Bank in accordance with SIC 19;
- fair value adjustments required in accordance with IAS 39 ("Financial Instruments – Recognition and Measurement");
- adjustments to the income statement to place certain revenues and expenses on an accruals basis;
- provision for deferred taxation, where appropriate; and
- the necessary IFRS disclosure requirements.

In respect of comparative information, certain items from the financial statements as at 31 December 2003 have been reclassified to conform to current presentation.

c. Application of IAS 21 and SIC 19

The Bank's management considers that the measurement currency, as defined by SIC 19, is the EUR, due to the fact that it uses EUR-based reports to budget and analyze the Bank's financial performance and the trend of usage of the resources attracted will have a higher emphasis on EUR-based transactions.

In accordance with SIC 19, since the measurement currency of the Bank is EUR, and management has chosen its measurement currency as its reporting currency, the financial statements are prepared in EUR and transactions in foreign currencies (all currencies other than EUR) are recorded at the exchange rate prevailing at the date of the transaction based on IAS 21 ("The Effects of Changes in Foreign Exchange Rates").

The movement in the exchange rate of the EUR over the years 2002, 2003 and 2004 was:

Year ended	Movement in the exchange rate of the EUR	Increase in the general price index
31 December 2004	(3.5%)	9.3%
31 December 2003	17.7%	14.1%
31 December 2002	25.2%	17.9%

i) Application of SIC 19

The accounts of the Bank are maintained in accordance with Romanian accounting regulations and requirements, stated in historical ROL, prepared in compliance with Romanian statutory requirements. In order to translate the Romanian statutory accounts into EUR in accordance with IAS 21 and SIC 19, the following procedures were followed:

- monetary items (such as cash and amounts due from other banks, loans to customers, loans from other banks, customers' deposits) denominated in foreign currencies (i.e. all currencies other than EUR) at the balance sheet date are reported in EUR using the year end exchange rates of EUR 1 : ROL 39,663 for 31 December 2004 (EUR 1 : ROL 41,117 for 31 December 2003);
- non-monetary items (such as property and equipment, investments in subsidiaries, prepayments and share capital) which are carried in terms of historical cost denominated in a foreign currency are reported using the historical exchange rate from the date of transaction (purchase or contribution);

- revenues and expenses are reported in EUR using the monthly average exchange rate ROL/EUR as an estimate for the historical exchange rate from the date of transaction;
- exchange differences arising on the settlement of monetary items or on reporting the Bank's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, are recognized as income or expenses in the period in which they arise.

The above-described method of translation of the statutory accounts stated in historical ROL into EUR should not be considered as a representation that the ROL amounts could have been or could be converted into EUR at the closing ROL/EUR rate, or any other rate.

ii) Presentation currency - Application of SIC 30

The comparative information was presented in EUR, following the requirement of SIC 30. According to SIC 30, since the measurement currency during 2003 was the USD, for translation from USD to EUR the following procedures were followed:

- assets and liabilities for the comparative balance sheet presented at 31 December 2003 were translated from USD to EUR at closing rate existing as at 31 December 2003 (of 0.793 USD/EUR);
- income and expense items for the comparative year ended 31 December 2003 were translated from USD to EUR at the average exchange rate during 2003 (of 0.884 USD/EUR);
- equity items other than the net profit and loss for the year ended 31 December 2003 that was included in the balance of accumulated deficit were translated from USD to EUR at closing rate existing as at 31 December 2003 (of 0.793 USD/EUR);
- all exchange differences resulting from translation in accordance with above paragraphs were recognised directly in equity.

The restatement and presentation procedures used in accordance with IAS 21, SIC 19 and SIC 30 could result in distortion of the figures presented in EUR compared with real values before application of translations.

d. Investments in subsidiaries

The Bank holds 100% investment in Microenterprise Credit Romania SRL, a limited company that emerged following the decision of the General Shareholders' Meeting of Microenterprise Credit Romania SA (see note 1) to change the legal substance of the entity. The Bank did not consolidate the financial statements of this subsidiary in accordance with IAS 27 ("Consolidated financial statements and accounting for investments in subsidiaries"), since the Bank intends to hold temporary control over the financial and operating policies of Microenterprise Credit Romania SRL. The Bank does not consider this subsidiary to be a going concern since it acquired Microenterprise Credit Romania SRL with the intent to liquidate it in the near future. Consequently, the Bank accounted for this investment at the liquidation value of the net assets of the subsidiary at the balance sheet date.

e. Financial instruments

i) Classification

Trading instruments are those that the Bank holds for the purpose of short-term profit taking. These include dealing securities. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets, and those in a net payable position (negative fair value, i.e. in a loss position), as well as options written are reported as trading liabilities.

Financial assets originated by the Bank are loans and advances created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Financial assets originated by the Bank comprise loans and advances to banks and customers other than purchased loans.

Held-to-maturity assets are those with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include purchased loans.

Available-for-sale financial assets are financial assets that are not originated by the Bank, held for trading purposes or held to maturity. Available-for-sale instruments include money market placements, treasury bonds and other bonds eligible for discounting with central banks and investment securities that are not held for trading or held-to-maturity.

ii) Recognition

The Bank recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Originated loans and receivables are recognised on the day they are transferred to the Bank.

iii) Measurement

Financial instruments are initially measured at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, and held-to-maturity assets are recognised at amortised cost less impairment. Amortised cost is calculated on the effective rate method.

Premiums and discounts, including initial transactions costs, are included in the carrying amount of the related instrument and are amortised based on the effective rate of the instrument.

iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account the current market conditions and the current creditworthiness of the counterparties.

v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading and available-for-sale financial instruments are recognised in the income statement for the period.

vi) Specific instruments*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances on hand, cash deposited with central bank and nostro accounts with banks.

Placements with banks

Placements with banks are classified as available-for-sale assets. Placements are short-term financial assets that are not quoted on an active market. Consequently, placements with banks are stated at their nominal amount, less specific provision for impairment if losses are considered likely to occur.

Investment securities

Debt securities are classified as available-for-sale assets since the Bank does not hold them for trading purposes or have the intent and ability to hold them to maturity.

Debt securities issued by the Romanian Government do not have an active market to support the assessment of their fair value. Consequently, the fair value of these securities was estimated using discounted cash flow techniques applying the prevailing reference rate for placements on the local inter-bank market.

Equity investments in non-consolidated companies are classified as available-for-sale assets and are carried at the fair value. Where no reliable estimate of fair value is available, equity investments are stated at cost less impairment.

Loans and advances to customers

Loans and advances to customers are classified as financial assets originated by the Bank. Loans are stated in the balance sheet at the amount of principal outstanding, adjusted for provision for loan impairment to reflect the estimated recoverable amount (refer to accounting policy 21).

f. Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Originated loans and receivables are derecognised on the day they are transferred by the Bank.

g. Correction of error

Previously, the Bank measured loans received and originated at cost and recognized upfront commission income and expenses immediately. The Bank did not apply IAS 39 "Financial Instruments: Recognition and Measurement" in relation to the measurement of loans received and originated at amortised cost and IAS 18 "Revenue" in relation to revenue recognition of upfront commission fees for loans as an adjustment to the effective yield of the loans.

The correction of this error was included in the determination of the opening balance of retained earnings for the year ended 31 December 2003 and applied retroactively (refer to statement of changes in equity).

h. Offsetting

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

i. Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Loans and advances to customers originated by the Bank

The recoverable amount of originated loans and advances is calculated as the present value of expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of provision for uncollectibility. Provisions for impairment losses are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts.

In determining the recoverable amount for the loan to customers, management considers particular factors, including the evaluation of the borrower's remaining ability to repay the receivables (principal and interest) and the assessment of the financial strength and performance of borrowers taken individually and as members of the same group of companies.

Provisions for impairment losses on loans are estimated also when there is objective evidence for impairment of homogenous components of the loan portfolio at the balance sheet date. These provisions have been estimated based upon the historical patterns of collectibility for each homogenous component and reflecting the current economic environment in which the borrowers operate.

The provision for impairment losses on loans is reported in the income statement as a specific charge or release and is deducted from the relevant asset category in the balance sheet for reporting purposes.

When it is determined that a loan cannot be recovered, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off.

Investment securities

Investment securities are presented net of provision for uncollectibility. Provision for impairment losses is made against the carrying amount of debt securities that are identified as being impaired based on regular reviews of outstanding balances to reduce these debt securities to their recoverable amounts.

In determining the recoverable amount for the debt securities, management considers particular factors, including the evaluation of the borrower's remaining ability to repay the receivables (principal and interest).

j. Interest income and expenses

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amount of amortisation of any discount or premium or other differences between the initial carrying amount of a loan or a debt security and its amount at maturity calculated on an effective interest rate basis.

k. Fee and commission income and expense

Fee and commission income and expense are recognized in the income statement on an accrual basis.

l. Intangible assets

Intangible assets are stated at their cost less accumulated amortization value and impairment losses. Intangible assets comprise software and licenses. Subsequent expenditure on a capitalized intangible asset is capitalized 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 charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of capitalized software and licenses are 2 years.

m. Property and equipment

Items of property and equipment are stated at their cost less accumulated depreciation value and impairment losses. Capital expenditure on fixed assets in the course of construction is capitalised and depreciated once the assets enter into use.

Depreciation and amortisation is provided on a straight-line basis over the estimated useful lives of items of property and equipment, and major components that are accounted for separately. Land is not depreciated. The average depreciation rates per category used are as follows:

Leasehold improvements	20% per annum
Equipment	6.66%-25% per annum
Motor vehicles	20% per annum
Computer equipment	33% per annum

n. Pension obligations and other post-retirement benefits

The Bank, in the normal course of business, makes payments to the Romanian state funds on behalf of its Romanian employees for pension, health care and unemployment benefits. All employees of the Bank are members of the state pension plan.

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

o. Government grants

Grants that compensate the expense incurred for services performed are presented, according to IAS 20 "Government grants," by netting revenue against the related expense.

p. Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates.

q. Taxation

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or sub-

stantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior periods. Deferred tax is provided for using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using future tax rates that will be used based on the current legislation in force.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The tax rate used to calculate the deferred tax position at 31 December 2004 is 16% (31 December 2003: 25%). In accordance with changes in the fiscal legislation, the profit tax rate was reduced from 1 January 2005 onwards. For the year ended 31 December 2004 the current profit tax rate was 25% (2003: 25%).

r. New and revised International Accounting Standards

The International Accounting Standards Board (IASB) has issued revisions to several International Accounting Standards such as IAS 1 ("Presentation of Financial Statements"), IAS 21 ("The Effect of Changes in Foreign Exchange Rates"), IAS 32 ("Disclosure and Presentation of Financial Instruments") and IAS 39 ("Recognition and Measurement of Financial Instruments") and has issued new International Financial Reporting Standards. The revisions and the new standards will be applicable by entities preparing IFRS financial statements for annual periods beginning with 1 January 2005.

The Bank is currently in the process of designing a plan for IFRS conversion and implementation. This process is also driven by the new regulations issued in Romania, which provide for the statutory implementation of the International Financial Reporting Standards from 1 January 2006.

The conversion and implementation will include adjusting existing reporting and accounting systems, amending existing applications and implementing new applications to support the accounting changes and training for all relevant Bank employees.

The main change brought on by the application of the new and revised standards that will impact the opening balances of retained earnings at 1 January 2005 and/or the Bank's future results is represented by the gains and losses arising from changes in the fair value of available-for-sale financial assets and shall be recognized directly in equity in accordance with the new IAS 39. Currently, these gains and losses are recognized in the income statement.

The impact of these changes has not been and cannot be estimated at this time.

3. Risk management policies

The main financial and operational risks associated with the Bank's activities are arising as a result of the Bank's operations in the local banking sector. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk and interest rate risk.

a. Credit risk

The Bank is exposed to credit risk through its trading, lending and investing activities and in cases where it issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process. The risk is mitigated through selecting counterparties with good credit standings and monitoring their activities and ratings and through the use of exposure limits.

The Bank's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of these assets on the balance sheet. In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued.

In order to minimise this risk procedures are in place to screen the customers before granting the loans and to monitor their ability to repay the principal and interest during the duration of the loans and establishment of exposure limits.

Concentrations of credit risk that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by type of customer in relation to the Bank's loans and advances (see note 12).

b. Interest rate risk

The Bank incurs interest rate risk principally in the form of exposure to adverse changes in the market interest rates to the extent that interest-earning assets and interest-earning liabilities mature or reprice at different times or in differing amounts.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, the Bank is liability sensitive because its interest-earning assets have a longer duration and reprice less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

The Bank attempts to maintain a net positive position for interest-bearing financial instruments.

To achieve this, the Bank uses a mix of fixed and variable interest instruments by means of which it attempts to control the mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

The interest rates related to the local currency and the major foreign currencies as at 31 December 2004 and 31 December 2003 were as follows:

Currencies	Interest rate	31 December 2004	31 December 2003
Leu (ROL)	BUBOR 3 months	17.56%	22.31%
Euro (EUR)	Euribor 3 months	2.16%	2.1%
Euro (EUR)	Euribor 6 months	2.22%	2.2%
US Dollar (USD)	Libor 6 months	2.5%	1.2%

The interest rates obtained or offered by the Bank for its interest-bearing assets and liabilities are presented in note 24.

c. Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies against EUR. There is also a balance sheet risk that the net monetary liabilities in foreign currencies will take a higher value when translated into EUR as a result of currency movements.

The principal foreign currencies held by the Bank are USD and ROL. Romania experiences high rates of inflation and significant currency devaluation. There is a consequent risk of loss in value in respect of net monetary assets held in ROL. The Bank manages its exposure to movements in exchange rates by modifying its assets and liabilities mix.

Open foreign exchange positions represent a source of foreign exchange risk. In order to avoid losses arising from adverse movements in exchange rates, the Bank is currently pursuing the policy of maintaining a long foreign exchange position.

The assets and liabilities held in EUR and in foreign currencies at the balance sheet date are presented in note 22.

d. 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 maturity analysis of the assets and liabilities of the Bank is presented in note 23.

e. 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 fewer 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. At the balance sheet date, the penalties paid by the Bank have been insignificant.

f. Operating environment

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

In accordance with the Law No. 348/2004 adopted by the Parliament of Romania in July 2004, from 1 July 2005 the Romanian currency will be re-denominated at a conversion rate of 10,000 ROL to 1 new Romanian Leu.

4. Net interest income

<i>In EUR</i>	2004	2003 Restated Presented in EUR
Interest and similar income arising from:		
Current accounts and deposits with banks	169,980	103,100
Loans and advances to customers	7,055,000	2,432,963
Debt securities	22,614	29,957
Total interest and similar income	7,247,594	2,566,020
Interest expense and similar charges		
Interest expense and similar charges arising from:		
Deposits from banks	279,805	118,528
Deposits from customers	878,330	288,692
Loans from banks and financial institutions	905,791	394,530
Total interest expense and similar charges	2,063,926	801,750
Net interest income	5,183,668	1,764,270

The correction for the amortisation of the financial instruments for 2003 resulted in an increase of the

interest expense of loans from banks and financial institutions of EUR 1,784 in 2003.

5. Net fee and commission income

Net fee and commission income includes fees and commission income from various banking services, including income from banking services regarding domestic and international payments, current accounts administration and lending activities, less fees and commission expenses paid for similar services received by the Bank.

The correction for the amortisation of the financial instruments for the year 2003 resulted in a reduction in the commission income of EUR 427,401 in 2003 and in the commission expense of EUR 54,756 in 2003.

The number of employees as at 31 December 2004 was 261 (31 December 2003: 170).

6. Operating expenses

<i>In EUR</i>	2004	2003 Restated Presented in EUR
Salaries and other personnel costs		
	2,321,734	894,343
Rent expenses		
	632,977	488,986
Depreciation and amortisation		
	509,808	388,847
Administrative expenses		
	952,332	572,504
Other operating costs		
	823,452	422,078
Total	5,240,303	2,766,758

7. Net charge of provision for impairment losses

<i>In EUR</i>	2004	2003 Restated Presented in EUR
Loans and advances to customers		
	301,443	103,949
Other assets		
	10,600	798
Equity investments		
	(6,908)	9,710
Bad debts written-off		
	144,335	65,415
Recoveries from loans and advances to customers		
	(42,668)	(34,251)
Net charge of provision for impairment losses	406,802	145,621

8. Taxation

Current tax expense

No current tax expense arises because the Bank incurred losses for taxation purposes during the year ended 31 December 2004.

Deferred taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 16% (31 December 2003: 25%).

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

	31 Dec 2004	31 Dec 2003
<i>In EUR</i>	<i>(Assets/Liabilities)</i> Restated Presented in EUR	
Property and equipment and intangible assets	(15,157)	(11,121)
Investment in subsidiaries	908	(2,079)
Loans and advances to customers	(22,199)	(97,575)
Accrued expenses	(5,312)	
Loans from financial institutions	20,005	12,092
Total	(21,755)	(98,683)
Valuation allowance	21,755	98,683
Total	-	-

9. Cash and cash equivalents

	31 Dec 2004	31 Dec 2003
<i>In EUR</i>	Presented in EUR	
Cash on hand	1,857,826	555,536
Current accounts held with other banks	64,631	32,687
Balances with central bank	9,696,847	2,124,596
Total	11,619,304	2,712,819

At 31 December 2004 the balances with central bank of EUR 9,696,847 (31 December 2003: EUR 2,124,596) represented the minimum reserve requirements; these funds are not available for the Bank's daily business. At 31 December 2004 the reserve was set up at 18% p.a. for ROL and 30% p.a. for USD and EUR denominated funds attracted with residual maturity of less than 2 years (31 December 2003: 18% p.a. for ROL and 25% p.a. for USD and EUR).

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

10. Placements with banks

As at 31 December 2004 out of the deposits placed with other banks an amount of EUR 355,495, equivalent to ROL 14,100 million (31 December 2003: EUR 45,479 equivalent ROL 1,807 million) is pledged as collateral to the National Bank of Romania for the purpose of settlements related to inter-bank operations according to the Regulation 3/1998. The deposit was placed with Piraeus Bank Romania, bearing an interest rate of 17% p.a.

11. Investment securities, available-for-sale

<i>In EUR</i>	2004	2003
	Presented in EUR	
Debt instruments available-for-sale		
Treasury bills	-	119,695
Government bonds (i)	366,426	396,369
	366,426	516,064
Equity investments available-for-sale		
Investment in subsidiaries (ii)	594,557	594,568
Less impairment loss on equity investments (iii)	(554,257)	(561,165)
	40,300	33,403
Other unlisted equity investments	3,463	-
Total	410,189	549,467

i) Government bonds are issued by the Ministry of Finance of Romania and are denominated in USD and bear an interest rate of 4.5% p.a. (31 December 2003: 4.5% p.a.).

ii) The Bank holds 100% investment in Microenterprise Credit Romania SRL (see note 2d) that is carried at the fair value of the net assets of the subsidiary in amount of EUR 40,300 as at 31 December 2004 (31 December 2003: EUR 33,403). There is no market for this non-consolidated subsidiary and there have not been any recent transactions that provide evidence of the current fair value. In addition, the Bank intends to

liquidate this company in the near future. As such, the Bank considered the fair value of the net assets of the subsidiary as the liquidation value of the assets and liabilities as at 31 December 2004 and 31 December 2003 respectively.

iii) The Bank reversed an impairment loss of EUR 6,908 in 2004 (2003: impairment loss EUR 9,710) to bring the carrying amount of the investment to the recoverable amount of the subsidiary's net assets at 31 December 2004 and 31 December 2003 respectively.

12. Loans and advances to customers

<i>In EUR</i>	31 December 2004	31 December 2003 Restated Presented in EUR
Purchased loans held-to-maturity	–	322,009
Loans and advances to customers originated by the Bank	50,775,668	20,335,968
Less provision for impairment losses on loans	(706,821)	(420,848)
Total	50,068,847	20,237,129

The Bank's commercial lending is concentrated on micro and small sized companies domiciled in Romania.

Economic sector risk concentrations within the customer loan portfolio as at 31 December 2004 were as follows:

<i>In EUR</i>	31 December 2004	31 December 2003 Restated Presented in EUR
Industry	5,898,219	2,158,432
Trade (wholesale and retail)	15,920,018	6,409,314
Services	16,551,118	6,434,458
Individuals, mortgage loans	12,370,698	5,469,480
Others	35,615	186,293
Total loans and advances to customers before provisions	50,775,668	20,657,977
Less provision for impairment losses on loans	(706,821)	(420,848)
Net loans and advances to customers	50,068,847	20,237,129

As at 31 December 2004 the level of non-performing loans was EUR 10,749,414 (31 December 2003: EUR 6,497,834).

The correction for the amortisation of the financial instruments for 2003 resulted in a decrease of the balance of the loans and advances to customers of EUR 390,300 as at 31 December 2003.

The provision for impairment losses on loans can be further analysed as follows:

<i>In EUR</i>	31 December 2004	31 December 2003 Presented in EUR
Balance at the beginning of the year	420,848	344,025
Net charge for the year	301,443	103,949
Effect of restatement	(15,470)	(27,126)
Balance at the end of the year	706,821	420,848

13. Intangible assets

<i>In EUR</i>	Total
Cost	
At 1 January 2004 (presented in EUR)	145,608
Additions	314,289
At 31 December 2004	459,897
Accumulated amortisation	
At 1 January 2004 (presented in EUR)	72,223
Amortisation charge for the period	83,659
At 31 December 2004	155,882
Net book value	
At 31 December 2004	304,015
At 31 December 2003 (presented in EUR)	73,385

14. Property and equipment

<i>In EUR</i>	Leasehold improvements	Furniture and computer equipment	Motor vehicle	Total
Cost				
At 1 January 2004 (presented in EUR)	310,853	928,649	163,132	1,402,634
Additions	462,385	484,547	44,998	991,930
Disposals	(4,128)	(15,163)	(7,577)	(26,868)
At 31 December 2004	769,110	1,398,033	200,553	2,367,696
Accumulated depreciation				
At 1 January 2004 (presented in EUR)	60,874	283,933	33,955	378,762
Depreciation charge for the period	80,870	306,279	39,000	426,149
Disposal	(1,789)	(7,296)	(2,652)	(11,737)
At 31 December 2004	139,955	582,916	70,303	793,174
Net book value				
At 31 December 2004	629,155	815,117	130,250	1,574,522
At 31 December 2003 (presented in EUR)	249,979	644,716	129,177	1,023,872

15. Other assets

<i>In EUR</i>	31 December 2004	31 December 2003
		<small>Presented in EUR</small>
Accrued interest receivable	546,192	202,787
Less provision for uncollectible interest	(17,089)	(5,958)
	529,103	196,829
Tax receivable	14,410	13,912
Prepayments	137,367	109,103
Other debtors	141,745	42,318
Other prepayments and receivables	57,822	53,042
Total	880,447	415,204

16. Deposits from banks

	31 Dec 2004	31 Dec 2003
<i>In EUR</i>	<small>Presented in EUR</small>	
Sight deposits	4,599,142	1,952,891
Term deposits	4,000,000	329,231
Total	8,599,142	2,282,122

17. Deposits from customers

	31 Dec 2004	31 Dec 2003
<i>In EUR</i>	<small>Presented in EUR</small>	
Payable on demand	3,206,143	1,687,818
Sight deposits	282,835	162,415
Term deposits	21,573,370	2,231,850
Collateral deposits	5,595	2,821
Amounts in transit	7,131	17,438
Total	25,075,074	4,102,342

18. Loans from banks and other financial institutions

	31 Dec 2004	31 Dec 2003
<i>In EUR</i>	<small>Restated Presented in EUR</small>	
Commerzbank International	2,977,112	-
Kreditanstalt für Wiederaufbau (KfW)	1,730,000	1,000,000
German-Romanian Fund	2,842,039	4,567,746
European Bank for Reconstruction and Development	4,965,923	4,951,632
ProCredit Bank Kosovo	800,000	-
International Finance Corporation	3,628,974	-
Deutsche Investitions- und Entwicklungsgesellschaft GmbH	2,974,955	-
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	2,992,357	-
Total	22,911,360	10,519,378

During February 2004 the Bank and Commerzbank International S.A. concluded a loan agreement for a total amount of EUR 3,000,000.

During 2002 the Bank purchased from Microenterprise Credit Romania SA the liabilities under the loan agreements concluded by the latter with KfW and with the German-Romanian Fund between 2000 and 2002.

An additional loan agreement with KfW was concluded in June 2004 for a total amount of EUR 1,480,000.

The remaining six loan agreements concluded with the German-Romanian Fund were for a total amount of EURO 4,567,721 over periods of 3 to 4 years.

In October 2003 the Bank concluded a 60-month loan agreement with the European Bank for Reconstruction and Development of EUR 5,000,000.

In April 2004 the Bank concluded a 9-month loan agreement with ProCredit Bank Kosovo for EUR 800,000.

In July 2004 the Bank concluded a loan agreement with International Finance Corporation with final maturity September 2009 for EUR 10,000,000 (amount not drawn as at 31 December 2004 was EUR 5,000,000).

In May 2004 the Bank concluded a loan agreement with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. for an amount of EUR 3,000,000. The final maturity date is June 2005.

The range of interest rates on loans from banks and other financial institutions is indicated in Note 24.

The loans from banks were used by the Bank mainly to refinance the loans to micro and small sized enterprises and authorised individuals.

The correction for the amortisation of the financial instruments for 2003 resulted in a reduction of the loans from banks and other financial institutions of EUR 48,368 as at 31 December 2003.

19. Other liabilities

<i>In EUR</i>	31 December 2004	31 December 2003
		<small>Presented in EUR</small>
Accrued interest payable	481,207	28,358
Salaries and related contributions and taxes payable	264,065	113,967
Other	100,358	43,465
Total	845,630	185,790

20. Issued capital

The issued capital of the Bank is represented by 3,369,121 shares (31 December 2003: 2,671,511 shares) of ROL 166,640 each, equivalent to USD 14,600,000.02 and EUR 1,999,993.09 respectively at the dates of contribution. The shareholders of the Bank at 31 December 2004 and 31 December 2003 were as follows:

	2004	2004	2003	2003
	No of Shares	%	No of Shares	%
Commerzbank Aktiengesellschaft	674,959	20.03	556,783	20.84
Internationale Micro Investitionen AG (in the process of changing its name to ProCredit Holding AG)	673,163	19.98	318,633	11.93
European Bank for Reconstruction and Development	556,783	16.53	556,783	20.84
Deutsche Investitions- und Entwicklungs- gesellschaft GmbH	556,783	16.53	556,783	20.84
International Finance Corporation	508,227	15.08	508,227	19.02
Internationale Projekt Consult GmbH	224,904	6.68	–	–
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	174,302	5.17	174,302	6.53
Total	3,369,121	100.00	2,671,511	100.00

21. Related party transactions

Transactions with Shareholders and other related parties

The Bank entered into a number of banking transactions with the related parties in the normal course of business. These transactions were carried out in the normal course of the business on commercial terms and conditions and at market rate. During the year ended 31 December 2004 and the period ended 31 December 2003 the following transactions were carried out:

<i>In EUR</i>	31 December 2004	31 December 2003
		Presented in EUR
ProCredit Bank (other banks of the group)	6,608	-
Commerzbank Aktiengesellschaft (and its subsidiaries)	21,091	21,709
Total current accounts	27,699	21,709
ProCredit Bank (other banks of the group)	4,000,000	-
Sociedad Financiera Ecuatorial	-	792,738
Total term deposits	4,000,000	792,738
Outstanding receivables	4,027,699	814,447
Commerzbank International	2,977,112	-
European Bank for Reconstruction and Development	4,965,923	4,951,632
ProCredit Bank (other banks of the group)	800,000	-
International Finance Corporation	3,628,974	-
Deutsche Investitions- und Entwicklungsgesellschaft GmbH	2,974,955	-
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	2,992,357	-
Total loan payable	18,339,321	4,951,632
Internationale Micro Investitionen AG	2,507,674	-
ProCredit Bank (other banks of the group)	2,241,192	384,455
Total term deposits	4,748,866	384,455
Outstanding payable	23,088,187	5,336,087
ProCredit Bank (other banks of the group)	1,066	-
Commerzbank Aktiengesellschaft (and its subsidiaries)	388	5,133
Sociedad Financiera Ecuatorial	5,795	40,729
Interest income	7,249	45,862
Commerzbank Aktiengesellschaft (and its subsidiaries)	(144,506)	(60,425)
European Bank for Reconstruction and Development	(201,283)	(31,848)
ProCredit Bank (other banks of the group)	(147,334)	(764)
Internationale Micro Investitionen AG	(105,004)	-
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.	(86,559)	-
International Finance Corporation	(91,570)	-
Deutsche Investitions- und Entwicklungsgesellschaft GmbH	(103,000)	-
Interest expense	(879,255)	(92,273)
Commerzbank Aktiengesellschaft (and its subsidiaries)	-	(2,053)
European Bank for Reconstruction and Development	-	(46,339)
ProCredit Bank (other banks of the group)	(1,778)	-
International Finance Corporation	(25,727)	-
Internationale Projekt Consult GmbH	(138,705)	-
Deutsche Investitions und Entwicklungsgesellschaft GmbH	-	-
Net commission expense	(166,210)	(187,840)
Net expense	(1,038,216)	(235,015)

The Bank received grants from the European Bank for Reconstruction and Development and Kreditanstalt für Wiederaufbau (KfW) to finance the implementation of the Microfinance Bank of Romania and promotion of small and medium enterprises via the financial sector respectively, for management and other services provided by Internationale Projekt Consult (IPC) GmbH based on a consultancy agreement between the Bank and IPC GmbH.

The grant agreement with EBRD was concluded in 2002, with the total amount available being USD 2,000,000 and EUR 250,000, to be disbursed directly to IPC GmbH for services provided under the consultancy agreement. This agreement was extended for another year to 8 July 2005 with additional funds of up to USD 740,000 made available. The amount disbursed directly to IPC GmbH for services provided to the Bank in 2004 was USD 294,840 and EUR 2,255 (2003: USD 865,860 and EUR 75,186). The amount had been netted in the income statement against the expenses they relate to.

The grant agreement with KfW was concluded on 1 September 2004, with the total amount available being EUR 190,000, to be disbursed directly to IPC GmbH for services provided under the consultancy agreement. The amount disbursed directly to IPC GmbH for services provided to the Bank in 2004 was EUR 65,007. The amount had been netted in the income statement against the expenses they relate to.

IPC GmbH is a related party of the Bank due to the nature of services provided under consultancy agreement, the management of the Bank being ensured by IPC GmbH employees. All the transactions with IPC GmbH are related to the mentioned above grant received from the European Bank for Reconstruction and Development.

Transactions with subsidiaries

During 2002, the Bank acquired certain assets and liabilities from Microenterprise Credit Romania SA, an enterprise that was fully acquired by the Bank (see note 1). As at 31 December 2004 the Bank had EUR 23,646 (31 December 2003: EUR 23,645) outstanding balances receivable from Microenterprise Credit Romania SA and the current account of Microenterprise Credit Romania SA with the Bank of EUR 61,644 (31 December 2003: EUR 46,307).

22. Foreign currency positions

The amounts of assets and liabilities held in EUR and in foreign currencies at 31 December 2004 can be analysed as follows:

<i>In EUR</i>	USD	ROL	EUR	GBP	Total
Assets					
Cash and cash equivalents	7,278,985	3,323,200	1,014,240	2,879	11,619,304
Placements with banks	3,187,894	355,495	-	-	3,543,389
Investment securities, available-for-sale	406,726	3,463	-	-	410,189
Loans and advances to customers	7,768,040	11,015,471	31,285,336	-	50,068,847
Intangible assets	-	304,015	-	-	304,015
Property and equipment	-	1,574,522	-	-	1,574,522
Other assets	92,203	435,989	352,255	-	880,447
Total assets	18,733,848	17,012,155	32,651,831	2,879	68,400,713
Liabilities					
Deposits from banks	-	4,349,142	4,250,000	-	8,599,142
Deposits from customers	3,910,713	13,872,376	7,291,985	-	25,075,074
Loans from banks and financial institutions	3,632,066	-	19,279,294	-	22,911,360
Other liabilities	74,222	572,559	198,849	-	845,630
Total liabilities	7,617,001	18,794,077	31,020,128	-	57,431,206
Net assets/(liabilities)	11,116,847	(1,781,922)	1,631,703	2,879	10,969,507

The amounts of assets and liabilities held in EUR and in foreign currencies at 31 December 2003 can be analysed as follows:

<i>In EUR</i>	USD	ROL	EUR	GBP	Total
Assets					
Cash and cash equivalents	1,792,860	638,325	278,692	2,942	2,712,819
Placements with banks	792,738	45,480	–	–	838,218
Investment securities, available-for-sale	429,760	119,707	–	–	549,467
Loans and advances to customers	7,781,365	10,332	12,445,432	–	20,237,129
Intangible assets	–	73,385	–	–	73,385
Property and equipment	–	1,023,872	–	–	1,023,872
Other assets	90,595	201,546	123,064	–	415,205
Total assets	10,887,318	2,112,647	12,847,188	2,942	25,850,095
Liabilities					
Deposits from banks	217,988	389,134	1,675,000	–	2,282,122
Deposits from customers	593,818	2,736,945	771,579	–	4,102,342
Loans from banks and financial institutions	–	–	10,519,378	–	10,519,378
Other liabilities	414	169,325	16,051	–	185,790
Total liabilities	812,219	3,295,404	12,982,008	–	17,089,632
Net assets/(liabilities)	10,075,099	(1,182,757)	(134,820)	2,942	8,760,464

23. Maturity analysis

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 2004 as follows:

<i>In EUR</i>	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	No fixed maturity	Total
Assets							
Cash and cash equivalents	11,619,304	–	–	–	–	–	11,619,304
Placements with banks	3,543,389	–	–	–	–	–	3,543,389
Investment securities, available-for-sale	366,425	–	40,301	–	3,463	–	410,189
Loans and advances to customers	2,258,836	3,776,677	17,224,480	22,815,638	3,993,216	–	50,068,847
Intangible assets	–	–	–	–	–	304,015	304,015
Property and equipment	–	–	–	–	–	1,574,522	1,574,522
Other assets	725,663	24,084	40,515	41,713	–	48,472	880,447
Total assets	18,513,617	3,800,761	17,305,296	22,857,351	3,996,679	1,919,009	68,400,713
Liabilities							
Deposits from banks	6,599,142	–	2,000,000	–	–	–	8,599,142
Deposits from customers	10,974,010	3,110,370	9,304,023	1,682,619	–	4,052	25,075,074
Loans from banks and financial institutions	1,043,626	508,848	4,640,476	16,718,410	–	–	22,911,360
Other liabilities	426,664	163,522	247,752	7,692	–	–	845,630
Total liabilities	19,043,442	3,782,740	16,192,251	18,408,721	–	4,052	57,431,206
Maturity surplus/ (shortfall)	(529,825)	18,021	1,113,045	4,448,630	3,996,679	1,922,957	10,969,507

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 2003 as follows:

<i>Presented in EUR</i>	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	No fixed maturity	Total
Assets							
Cash and cash equivalents	2,712,819	–	–	–	–	–	2,712,819
Placements with banks	–	838,218	–	–	–	–	838,218
Investment securities, available-for-sale	–	96,929	56,169	396,369	–	–	549,467
Loans and advances to customers	935,958	1,862,291	7,126,209	8,460,937	1,851,734	–	20,237,129
Intangible assets	–	–	–	–	–	73,385	73,385
Property and equipment	–	–	–	–	–	1,023,872	1,023,872
Other assets	210,764	47,238	114,883	42,319	–	–	415,204
Total assets	3,859,542	2,844,677	7,297,261	8,899,624	1,851,734	1,097,257	25,080,094
Liabilities							
Deposits from banks	2,282,122	–	–	–	–	–	2,282,122
Deposits from customers	2,527,510	760,817	814,015	–	–	–	4,102,342
Loans from banks and financial institutions	–	254,476	2,209,803	8,055,099	–	–	10,519,378
Other liabilities	160,802	15,160	9,828	–	–	–	185,790
Total liabilities	4,970,433	1,030,454	3,033,646	8,055,099	–	–	17,089,632
Maturity surplus/ (shortfall)	(1,110,892)	1,814,223	4,236,616	844,526	1,851,734	1,097,257	8,760,463

24. Interest rate risk

The following table shows the interest rates obtained or offered by the Bank as at 31 December 2004 for its interest-bearing assets and liabilities:

	ROL range		USD range		EUR range	
Assets						
Current accounts to NBR	6.00%	6.00%	0.75%	0.75%	–	–
Placements with other banks	7.00%	21.40%	1.00%	7.00%	1.70	2.85
Investment securities, available-for-sale	–	–	4.50%	4.50%	–	–
Loans and advances to customers	25.00%	38.00%	12.00%	20.00%	12.00%	20.00%
Liabilities						
Deposits from banks	9.00%	23.59%	1.06%	3.70%	1.87%	5.78%
Deposits from customers	6.00%	18.00%	1.00%	4.25%	1.25%	5.00%
Loans from banks and financial institutions	–	–	4.43%	5.31%	3.64%	6.97%

The following table shows the interest rates obtained or offered by the Bank as at 31 December 2003 for its interest-bearing assets and liabilities:

	ROL range		USD range		EUR range	
Assets						
Current accounts to NBR	6.00%	6.00%	0.75%	0.75%	–	–
Placements with other banks	19.00%	19.00%	7.00%	7.00%	–	–
Investment securities, available-for-sale	14.00%	17.00%	4.50%	4.50%	–	–
Loans and advances to customers	38.00%	38.00%	10.00%	24.00%	10.00%	24.00%
Liabilities						
Deposits from banks	20.50%	20.50%	1.15%	1.40%	2.40%	2.40%
Deposits from customers	6.00%	17.5%	1.00%	3.00%	1.25%	3.5%
Loans from banks and financial institutions	–	–	–	–	3.64%	6.97%

25. Commitments and contingencies

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one month to one year.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted.

	31 Dec. 2004	31 Dec. 2003
<i>In EUR</i>		Presented in EUR
Loan commitments	673,769	359,073
Guarantees issued	29,531	-
Total	703,300	359,073

26. Reconciliation of profit/(loss) under IFRS and Romanian Accounting Standards as stipulated in Order 1982/2001

<i>In EUR</i>	2004
Net loss under Romanian Accounting Standards	(1,323,448)
Adjustments for amortization of financial instruments	340,746
Net translation gain	265,560
Net loss after tax under IFRS	(717,142)

The net loss under Romanian Accounting Standards as stipulated in Order 1982/2001 presented above may change due to issuance of statutory closing norms pursuant to IFRS financial statements approval.

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