



ProCredit Bank

Romania



Annual Report 2005



Key Figures

EUR '000	2005	2004*	Change
Balance Sheet Data			
Total Assets	128,728	68,401	88.2%
Gross Loan Portfolio	89,046	51,300	73.6%
Business Loan Portfolio	80,731	45,350	78%
EUR < 10,000	48,117	26,937	78.6%
EUR > 10,000 < 50,000	21,727	14,515	49.7%
EUR > 50,000 < 150,000	7,391	3,360	120%
EUR > 150,000	3,496	538	549.4%
Housing Loan Portfolio	7,825	5,950	31.5%
Other	490	–	n.a.
Allowance for Losses	2,565	724	254.3%
Net Loan Portfolio	86,481	50,576	71%
Liabilities to Customers	67,742	25,341	167.3%
Liabilities to Banks and Financial Institutions	47,736	31,726	50.5%
Shareholders' Equity	12,670	10,970	15.9%
Income Statement			
Operating Income	10,272	4,555	125.5%
Operating Expenses	9,440	5,272	79%
Operating Profit Before Tax	832	-717	n.a.
Net Profit	850	-717	n.a.
Key Ratios			
Cost/Income Ratio	75%	106.3%	
ROE	7.2%	-6.1%	
Capital Ratio	13.5%	20.7%	
Operational Statistics			
Number of Loans Outstanding	21,260	12,245	73.6%
Number of Loans Disbursed within the Year	16,842	10,748	56.7%
Number of Business Loans Outstanding	18,824	11,096	69.6%
Number of Deposit Accounts	58,981	26,111	125.9%
Number of Staff	502	261	92.3%
Number of Branches and Outlets	17	10	70%

*Some figures differ slightly from those in the 2004 annual report as they have been adjusted to reflect new calculation methods.

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Mission Statement

ProCredit Bank Romania is a development-oriented full-service bank. We offer excellent customer service and a wide range of banking products. In our credit operations, we focus on lending to 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

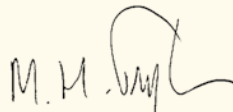
ProCredit Bank was the first bank in Romania to specialise in serving micro, small and medium-sized enterprises, and to date it is still the only one that focuses primarily on lending to this target group. Since its foundation in May 2002, at a point when few banks if any in Romania were granting loans to MSMEs, ProCredit Bank has issued more than 33,000 loans totalling more than EUR 160 million – an average amount of well below EUR 5,000 per borrower. In the meantime, the banking sector has discovered the MSME market segment. Many banks are following ProCredit Bank's example and are targeting these clients, setting up specialised departments and adding MSME loans to their product range.

2005 was another year of significant investment for the bank. More than 300 new employees joined the institution and considerable efforts were made to intensively train all new recruits. Substantial additional investments were also made in the expansion of the branch network. Last but not least, new products and services were introduced, including ATMs and cards. Leveraging the advantages of the latest technology, ProCredit Bank became the first bank in Romania to issue a chip card – no small feat for our young institution. Despite these significant investments, the bank ended the year with a profit for the first time, earning a return on equity of 7.2% in 2005.

In the course of 2005 ProCredit Bank made significant progress in earning the confidence of savers and depositors. Besides attracting large institutional clients, the bank was especially successful in attracting smaller retail depositors. Given our mandate to strengthen the savings culture in Romania, we are especially proud of having succeeded in gradually earning the trust of low-income earners. The overall deposit base of the bank more than doubled in 2005, with customer funds amounting to more than EUR 67.7 million held in over 58,000 accounts. Encouraged by this success, we will continue to work hard to earn the trust of our clients in the future and expect to reach a growing section of the Romanian population in coming years.

In October we invited Fitch Ratings to review our bank and received a long-term BB+ rating – recognition from an international agency of the bank's strong ownership structure, its solid business model, sound organisational structure and positive outlook for the future. ProCredit Bank's individual rating is just one notch below Romania's country rating of BBB-, a remarkable compliment to the bank.

2005 was ProCredit Bank's most successful year since its establishment. Operating in an increasingly competitive and very dynamic financial sector, ProCredit Bank will continue on its path of substantial operational growth and regional network expansion in 2006 and beyond – and it will do so without compromising the quality of service offered by the bank's exceptional staff. I would like to congratulate all our employees for their achievements in 2005, and thank them for their dedication and hard work!



Mike Taylor

Chairman of the Board of Administrators

**Members of the
Supervisory Board as at
December 31, 2005:**

Mike Taylor
Claus-Peter Zeitinger
Reinhard Bollmann
Ana Maria Mihaescu
Helmut Toellner
Rüdiger Rurainsky



Letter from the Management

2005 was another very good year for ProCredit Bank. The number of staff almost doubled, our branch network expanded by seven branches to a total of 17, and the number of clients more than doubled, rising to 37,429. At the same time, our total assets increased by 88.2%.

The year was once again marked by sizeable investments in the bank's future – training of staff, further branching out, and the implementation of a range of technology upgrades to support the launching of new products and services. Despite these investments, the bank achieved profitability for the first time, earning a profit of EUR 0.85 million in 2005. This translates into a return on equity of 7.2%.

The impressive increase in customer deposits in 2005 – by 167% to more than EUR 67 million – was the result of constant, intensive efforts to communicate the key characteristics of ProCredit Bank to existing as well as new clients, both inside and outside the bank. Transparency and openness are signalled by the new branch design with bright, open spaces in all new locations, and the bank's well-trained and motivated staff follow up on this initial good impression by providing the best possible service to our customers.

In 2005, we launched two new marketing campaigns with visuals which underscore what we deeply believe. The first paid tribute to all of our clients, ranging from the owners of a small bakery to the wage-earning parents who deposit with us what little funds they can spare each month. The second promoted the basic concept of saving, the foundation of all economic growth and for most Romanians the only means to insure against unforeseen events.

In a year when large parts of the country were flooded, some areas even more than once, ProCredit Bank engaged more than ever in providing loans to clients operating in rural areas and involved in agricultural activities. Almost ten percent of our loan customers received funds for agriculture-related purposes, and many more operate in rural towns and villages where obtaining a loan from a commercial bank is still virtually



impossible. We have worked closely with those clients most heavily affected by the flooding to ensure that they can start rebuilding their lives without worrying about financial obligations.

We would like to express our great appreciation for the support we received from our shareholders and from the governments of the United States (through the EBRD) and Germany, which provided funds to ensure that we could reach out to more clients and grow as rapidly as we did in 2005.

Our special thanks, however, go out to our staff for their dedication and the strength of their commitment. It is thanks to them that the bank's mission, values and corporate culture are not only understood and "lived" within the bank, but were also successfully transmitted to the new colleagues who joined us in 2005. Our employees ensure that the high standards we maintain in our provision of banking services and in our work for ProCredit Bank will continue to be reflected in the way we deal with our customers and suppliers – in 2006 and beyond.

From left to right:
Razvan Filcescu
Michael Kowalski
Ilinca Rosetti
Gabriel Stanescu

Michael Kowalski
General Manager

The Bank and its Shareholders

ProCredit Bank S.A. was established in 2002 by international investors as the first bank in Romania dedicated to the financial needs of micro, small and medium enterprises. As a full-scale commercial bank, it provides a broad range of financial services through a growing network of

branches countrywide. Its emphasis on tailored financing solutions for its business customers is complemented with savings and deposit programmes, domestic and international money transfers, documentary business and debit and credit cards.

Shareholder (as of Dec. 31, 2005)	Sector	Headquarters	Share	Paid-in Capital (in EUR *)
DEG (KfW Group)	Banking	Germany	16.53%	2,429,330
IFC	Banking	USA	15.08%	2,217,472
EBRD	Banking	UK	16.53%	2,429,330
ProCredit Holding	Investment	Germany	25.62%	3,766,111
Commerzbank	Banking	Germany	20.03%	2,944,949
IPC	Consulting	Germany	6.21%	912,798
Total Capital			100%	14,699,989

* measurement currency = RON; presentation currency = EUR

Notes:

In 2005 there were no changes in the paid-in capital amount. The amount in EUR of paid-in capital as of December 31, 2005 is computed on the following basis:

- in 2005 the measurement currency is RON and the presentation currency is EUR
- the previous year's financial statements, which were measured in EUR in 2004, were not restated to reflect the switch to RON as the measurement currency in 2005. The difference of EUR 1,071,839 in the paid-in capital between 2004 and 2005 is due to the difference between the EUR/RON exchange rate as of December 31, 2004 and the exchange rate as of December 31, 2005, and to the switch from EUR to RON as the measurement currency.

DEG EIN UNTERNEHMEN DER KFW-GROUPE **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".

IFC **The International Finance Corporation (IFC)** is the private sector arm of the World Bank Group and is headquartered in Washington, D.C. The mission of IFC is to promote sustainable private sector investment in developing and transition countries, helping to reduce poverty and improve people's lives. IFC finances private sector investments in the developing world, mobilises capital in the international financial markets, helps clients improve social and environmental sustainability, and provides technical assistance and advice to governments and businesses. From its founding in 1956 through FY05, IFC has committed more than USD 49 billion of its own funds and arranged USD 24 billion in syndications for 3,319 companies in 140 developing countries. IFC's worldwide committed portfolio as of FY05 was USD 19.3 billion for its own account and USD 5.3 billion held for participants in loan syndications.



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.



ProCredit
HOLDING

ProCredit Holding AG was founded as Internationale

Micro Investitionen AG (IMI) in 1998. Today it is the parent company of a global group of 19 microfinance banks located in transition and developing countries across three continents. The ProCredit group of banks aim to make a difference by providing banking services to people whom other banks either do not serve at all (usually on the grounds of cost or risk) or only serve inadequately. The holding company, working closely with Internationale Projekt Consult GmbH (IPC), guides the development of the ProCredit institutions, providing support in all key areas of banking operations and human resources management. The company currently has an equity base of EUR 102 million. Its shareholders are a 50:50 mix of private and public investors.

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

ipc **Internationale Projekt Consult (IPC)**, a Frankfurt-based company, was founded in 1981. IPC's aim has always been to provide sound consulting and management services for meaningful development projects. The company has been particularly successful in its activities in the financial sector, a field in which IPC has been involved since 1984. IPC advises banks in developing countries and transition economies on how to build their capacity to provide financial services to micro and small enterprises. Over the last two decades, IPC has set new standards in the establishment of target group-oriented financial institutions. It founded ProCredit Holding, and remains that company's leading shareholder and strategic investor. IPC is the driving entrepreneurial force behind the ProCredit group, providing management services for all of the ProCredit Banks and seconding qualified personnel to ProCredit Holding.



The **Netherlands Development Finance Company** supports financial institutions and private enterprises in developing countries. In the course of 2005, FMO

sold its participation in ProCredit Bank Romania to ProCredit Holding AG. However, FMO is a shareholder in ProCredit Holding and will remain strongly involved in supporting the ProCredit group through its increased participation at the holding company level.

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The ProCredit Group – Banks Making a Difference



ProCredit Bank

In the developing countries and transition economies in which the ProCredit group operates, conventional commercial banks focus their lending operations on corporate finance and consumer lending. They tend to neglect micro and small businesses, because they supposedly have inadequate accounting methods and insufficient collateral and are associated with high administrative costs. However, these businesses are the main engine of growth and job creation. Moreover, in political terms, the middle class which emerges when they grow and flourish usually plays a stabilising role in society. Therefore the founding shareholders decided to establish specialised financial institutions to serve these neglected target groups in Eastern Europe, Latin America and Africa, a process which began seven years ago.

Today, the ProCredit group comprises 19 banks and finance companies operating in as many countries through 370 branches staffed by 8,400 employees. All of these institutions share a common corporate mission. They aim to make a difference by providing banking services to people whom other banks either do not serve at all or only serve inadequately. Their focus is micro, small and medium-sized enterprises (MSMEs). At the same time they provide retail banking services to “ordinary” people, with a focus on low-income families.

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 50,000 loans totalling more than EUR 180 million every month. By the end of 2005, the number of loans outstanding had grown to more than 560,000 (representing EUR 1.5 billion), a 35% increase compared to 2004. The average loan amount outstanding is just EUR 2,500 and the loan portfolio quality remains excellent with

a ratio of loans in arrears (>30 days) to total loan portfolio of only 1.1%. This demonstrates that small borrowers are indeed creditworthy when served appropriately.

The ProCredit banks also mobilise deposits in their local markets, not only to fund their rapidly growing loan portfolio, but also because it is a central part of their development mission. ProCredit institutions strive to build public confidence in banks and foster a savings culture by setting new standards in customer service, transparency and business ethics. ProCredit deposit facilities are appropriate for a broad range of customers, especially low income groups. We offer simple savings products with no minimum deposit. Over 2005, the group’s deposit base has increased from EUR 830 million to EUR 1.3 billion with 460,000 new accounts having been opened. Many of these accounts have been small family savings accounts – a good start in the ProCredit strategy to help build a savings culture in our countries of operation. ProCredit banks aim to be “neighbourhood banks” and place great emphasis on children’s savings products and education campaigns as well as sponsoring local community events. 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 Frankfurt-based ProCredit Holding, founded by the consulting firm IPC in 1998, is the parent company of the group. The other international shareholders include KfW/DEG, IFC, FMO, and the DOEN Foundation. These shareholders also participate in some individual banks. In addition, EBRD and Commerzbank are important shareholders in the Eastern European institutions. 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. This centralised management and supervision make it possible to achieve synergies which have a positive impact in many areas. ProCredit Holding has achieved an investment grade international credit rating from FITCH Ratings which enables it to raise debt and equity capital efficiently for the group as a whole. Furthermore it means highly effective group-wide approaches to business development, risk man-

agement, auditing and IT, as well as to training and human resources.

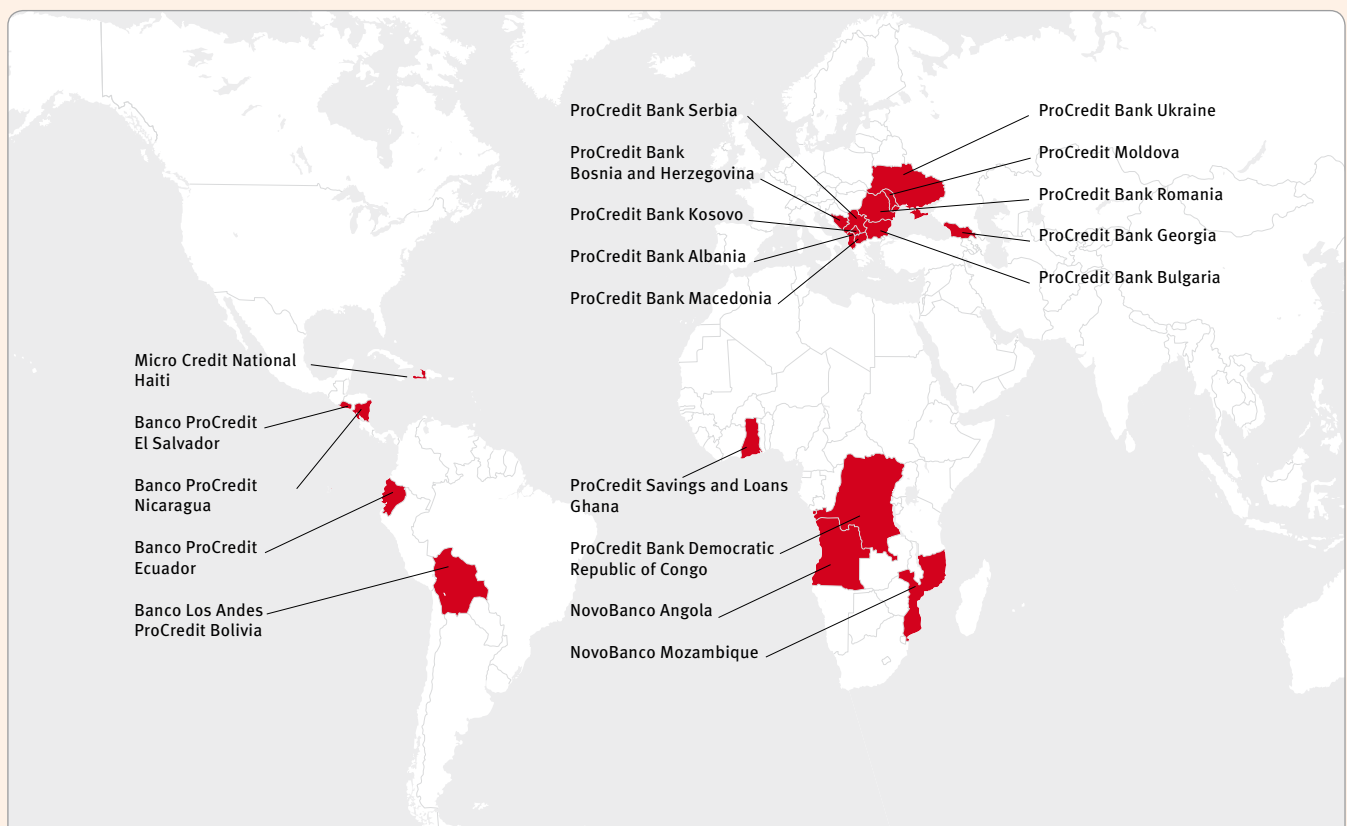
The ProCredit institutions can only be successful in their developmental mission if their sustainability is assured. Accordingly, they have been established as commercial, i.e. for-profit, entities. However, the shareholders of the group aim to strike a balance between, on the one hand, the developmental 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 2005, the return on equity for the group as a whole, expressed in hard currency, after deduction of profit taxes, is expected to reach 15%.

This level of profitability is sufficient to ensure the further development of the group. By the end of 2010, the group expects to have institutions in 25 countries, with the total number of branches growing to almost 800, the number of employees rising to over 17,000, and the loan portfolio increasing to EUR 4.5 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 continue to be a

key priority for the group. This will entail not only intensive training in technical and management skills, 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.

In 2005, there has been a particular emphasis on developing a group-wide approach to human resources management and strengthening our corporate culture. As ProCredit banks continue to expand rapidly in terms of staff, branches and products, finding, integrating and training the right staff with the right attitude, and building the strength of our middle management are priorities across the group. A key challenge is to make sure we grow whilst remaining true to our corporate values which embed principles such as open communication, transparency and professionalism into our day-to-day business. To this end, the group invests strongly in training both in individual banks and internationally. The group has also set up the ProCredit Academy in Germany which will provide a three-year part-time “ProCredit Banker” training programme for its high potential local personnel, thereby securing a firm base for the development and management of our staff in the future.

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





ProCredit in Eastern Europe

ProCredit is present in 10 countries across Eastern Europe, and with close to 300,000 loans outstanding is the region's leading provider of banking services to micro- small and medium-sized businesses. In Eastern Europe, financial sectors and private sector lending are rapidly expanding, often with heavy investment from foreign capital and strong western banks. In this context we are sometimes asked: can ProCredit really claim to be different and to be making a difference in the region? Our answer is a resounding "yes". We stand out as banks deeply committed to small business lending over the long term, to building a responsible savings culture rather than blindly fuelling consumer spending, and to setting new standards of transparency and service for our customers.

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

It is also no surprise that consumer lending, which is being so aggressively pursued by other banks in Eastern Europe, is not a business in which ProCredit actively engages. We believe that it tends to drive imports rather than domestic production, and if pushed irresponsibly in the context of a market share gain game – thus with very little analysis of a customer's repayment capacity – quickly leads to over-indebtedness. This creates suffering for the individuals and families affected, and can threaten the stability of a financial sector. Our approach is to provide loans to businesses based on a careful, but efficient

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

Across the region we provide agricultural loans since this is a sector that has been particularly neglected by other banks, and is vital for employment and social cohesion outside of the main urban areas. We also provide housing loan products to help low-income families renovate their homes and improve energy efficiency. ProCredit banks offer their business clients not only loans, but also other services, including plastic cards and fast, low-cost money transfer ('ProPay'), providing a truly integrated service for entrepreneurs that are active across the region.



More widely, we believe it is a priority to create a 'savings' culture, not just a 'spending' culture because savings are an important buffer against the vagaries of life. Therefore we provide simple, reliable banking products, with a focus on savings, to ordinary people. In keeping with our mission to be accessible to clients wherever they are, the ProCredit group provides comprehensive coverage across the region with 238 branches and more than 6,000 staff. Our clients can now drive from Tirana in Albania to Kiev in Ukraine and enjoy the same friendly service and open, welcoming branches all along the way. We place a strong emphasis on transparency in all ProCredit banks: campaigns are being run to ensure that all customers understand the pricing of our products as well as those of our competitors, since we find that in aggressively growing markets, there is a lot of scope for confusing customers about the true price of banking services.



Our staff are the key element in our approach to being a stable, down-to-earth banking partner to clients across the region. The group has a strong commitment to staff training, professional development and cultivating an open, honest communication culture. Staff exchanges, cross-border training programmes and regional workshops are an important part of our approach. In the highly competitive Eastern European banking sectors,

the well-trained, motivated ProCredit staff who have built strong, long-term relationships with clients, are in high demand from competitor banks. However, the ProCredit work environment, the investment we make in our staff and the international opportunities that they enjoy has meant that so far we have been very successful in retaining our best people, providing a firm base for our ongoing growth in the region.

Name	Highlights	Contact
ProCredit Bank Albania	<p>Founded in March 1999</p> <p>17 branches</p> <p>23,961 borrowers / EUR 80.3 million in loans</p> <p>80,403 depositors / EUR 158.2 million</p> <p>489 employees</p>	<p>Rruga Sami Frasheri Tirana</p> <p>Tel./Fax: +355 4 271 272 / 276</p> <p>info@procreditbank.com.al</p> <p>www.procreditbank.com.al</p>
ProCredit Bank Bosnia and Herzegovina	<p>Founded in October 1997</p> <p>15 branches</p> <p>29,167 borrowers / EUR 80.4 million in loans</p> <p>36,501 depositors / EUR 42.4 million</p> <p>430 employees</p>	<p>Emerika Bluma 8 71000 Sarajevo</p> <p>Tel./Fax: +387 33 250 950 / 250 971</p> <p>contact@procreditbank.ba</p> <p>www.procreditbank.ba</p>
ProCredit Bank Bulgaria	<p>Founded in October 2001</p> <p>43 branches</p> <p>34,448 borrowers / EUR 203.1 million in loans</p> <p>46,334 depositors / EUR 95.9 million</p> <p>750 employees</p>	<p>131, Hristo Botev Blvd. Sofia</p> <p>Tel./Fax: +359 2 921 71 00 / 71 10</p> <p>contact@procreditbank.bg</p> <p>www.procreditbank.bg</p>
ProCredit Bank Georgia	<p>Founded in May 1999</p> <p>24 branches</p> <p>37,045 borrowers / EUR 112.2 million in loans</p> <p>49,190 depositors / EUR 62.2 million</p> <p>944 employees</p>	<p>D. Agmashenebeli Ave 154 Tbilisi</p> <p>Tel./Fax: +995 32-20 2222 / 0580</p> <p>info@procreditbank.ge</p> <p>www.procreditbank.ge</p>
ProCredit Bank Kosovo	<p>Founded in January 2000</p> <p>22 branches</p> <p>36,531 borrowers / EUR 162.5 million in loans</p> <p>225,349 depositors / EUR 336.3 million</p> <p>574 employees</p>	<p>Rr Skenderbeu 38000 Prishtina/ Kosovo UNMIK</p> <p>Tel./Fax: +381 38-249624 / 248777</p> <p>info@procreditbank-kos.com</p> <p>www.procreditbank-kos.com</p>
ProCredit Bank Macedonia	<p>Founded in July 2003</p> <p>16 branches</p> <p>12,781 borrowers / EUR 47.9 million in loans</p> <p>35,727 depositors / EUR 47.1 million</p> <p>325 employees</p>	<p>Jane Sandanski 109a 1000 Skopje</p> <p>Tel./Fax: +389 2 321 99 00 / 01</p> <p>info@procreditbank.com.mk</p> <p>www.procreditbank.com.mk</p>
ProCredit Moldova	<p>Founded in December 1999</p> <p>19 branches</p> <p>9,701 borrowers / EUR 15.9 million in loans</p> <p>172 employees</p>	<p>Stefan cel Mare si Sfint, 65 Off. 900, 902, 904, Chisinau</p> <p>Tel./Fax: +373 22 270707 / 34 88</p> <p>office@procredit.md</p> <p>www.procredit.md</p>
ProCredit Bank Serbia	<p>Founded in April 2001</p> <p>33 branches</p> <p>43,433 borrowers / EUR 183 million in loans</p> <p>134,932 depositors / EUR 152 million</p> <p>1,005 employees</p>	<p>Bulevar despota Stefana 68c Belgrade</p> <p>Tel./Fax: +381 11 20 77 906 / 905</p> <p>info@procreditbank.co.yu</p> <p>www.procreditbank.co.yu</p>
ProCredit Bank Ukraine	<p>Founded in January 2001</p> <p>32 branches</p> <p>23,530 borrowers / EUR 146 million in loans</p> <p>30,700 depositors / EUR 67.6 million</p> <p>1,079 employees</p>	<p>107-A Pobedy Ave. Kyiv 03115</p> <p>Tel./Fax: +380 44 590 10 41 / 01</p> <p>info@procreditbank.com.ua</p> <p>www.procreditbank.com.ua</p>

The Year in Review

January

- The employees of ProCredit Bank Romania set up the “Asia Mission” campaign to raise money for the victims of the tsunami in South-East Asia

February

- ProCredit Bank Romania adds two new branches to its network: Marasti Agency in Cluj and Mosilor Agency in Bucharest

March

- ProCredit Bank organises a drawing contest for children, “The Future in Colours”, with the support of actors from Bucharest’s Children’s Theatre. The event coincided with the launch of new products: savings plans for children.

April

- Toamnei Agency, the second branch in Brasov, is opened.
- “Si-ti merge bine!” (“It works well for you!”) is the bank’s new slogan. It is introduced in all printed materials together with new layouts.

May

- ProCredit Bank Romania receives a EUR 12.4 million loan from the EBRD and the Taiwanese ICDF, as well as commercial investors Cordiant – International Finance Participation Trust 2004 and Erste Bank (Austrian Sparkassen AG).

June

- The bank steps up activities aimed at preparing clients for the redenomination of the ROL. Special events are held at each branch to provide information to both existing and potential customers.

July

- The hard leu is introduced. The bank accomplishes the changeover to the new currency smoothly.

August

- ProCredit Bank Romania signs a EUR 2 million loan agreement with KfW to support lending to small and medium enterprises.





September

- ProCredit Bank officially opens the Pitesti Branch. For the first time, the bank buys a branch building.

October

- Fitch Ratings awards the bank a BB+ long-term foreign and local currency rating.
- Two more branches are added to the Bucharest network: Giurgiului Branch and Stefan cel Mare Agency.
- ProCredit Bank opens the first branch in Arad to meet the demand for micro loans previously covered by the Timisoara Branch.
- The bank organises a special campaign offering bonus interest rates to celebrate World Savings Day – October 31.
- The first “Children’s Savings Day” event is co-ordinated in Bucharest. The aim of the event is to teach children the benefits of saving.

November

- With support from Visa, ProCredit Bank launches the first chip card in Romania, thus taking the lead in card payment technology in Romania. At the same time, the bank installs ATMs at all branches.
- A new term deposit is launched: the Deposit for Senior Citizens, a specialised product with higher interest rates.
- The bank introduces a special offer for students. Each student is eligible for a ProCredit Visa card with low fees and commissions.

December

- ProCredit Bank Romania participates in the organisation of the first Children’s Book Fair in Romania together with “Step-by-Step” kindergartens.

Business Review



Political and Economic Environment

The signing of the EU accession treaty on April 25, 2005 marked the beginning of the final phase of the structural adjustments undertaken by Romania with the aim of joining the European Union. January 1, 2007 was set as the earliest possible accession date, but with a string of conditions attached and the option of postponing accession for a year. Throughout 2005 the government received ongoing feedback from international observers, acknowledging the progress that the country was making, but also criticising areas in which Romania falls short of the requirements for EU membership. As widely expected, the final decision on the precise date of accession to the EU will not be determined until sometime in 2006.

At the beginning of 2005 the government implemented a flat tax, which is a keystone of its economic policy. This raised concerns on the part of the International Monetary Fund that the budget deficit might increase. Differences of opinion also arose over the use of privatisation proceeds and the government's wages policy, and by November 2005 the dispute between the government and the IMF had become so intractable that the standby agreement, concluded in July 2004, was terminated.

Following real GDP growth of 8.3% in 2004, Romania's economy got off to an equally dynamic start in 2005. During the first half of the year, there were even warnings that the economy might be overheating. However, during spring and summer much of the country was hit by disastrous floods, wiping out a significant proportion of Romania's productive capacity in agriculture, and to a lesser extent also in industry. The main driver of economic growth in 2005 was private consumption, boosted by the changes in the income tax law at the start of 2005, by the rapid expansion of consumer lending and by substantial rises in salaries. During the second half of the year consumption growth slowed down while investment activities accelerated. As a result of higher utility prices and nominal exchange rate appreciation, industry performed poorly. Overall, GDP growth in 2005 fell far short of initial expectations, at 4.1% (real terms).

The National Bank of Romania (NBR) announced in August that it would be specifically targeting inflation, which remained high throughout the year, amounting to 8.6% at year-end. Direct and portfolio investments were consistently strong, causing the leu to appreciate against the euro, which in turn prompted the NBR to intervene several times on the foreign exchange market. During the year, the leu gained 8% against the euro.

Financial Sector Developments

The banking sector saw a number of structural changes in 2005, the most important being the sale of Romanian Commercial Bank to Austria's Erste Bank in December 2005. There is still a high level of concentration, however, in both lending and deposit-taking, with the top five banks commanding well over 50% of the market. The banking system as a whole recorded strong growth rates, with combined total assets rising to more than EUR 34.1 billion – an increase of over 18.5% compared to 2004.

Intensified competition affected all areas of banking. Efforts to increase market share resulted in a race for the precious few suitable branch locations, in particular in Bucharest. At the same time, the need to staff the new branches and to meet the rising demand for banking products increased the degree of competition for personnel, which was heightened by the fact that the banks' own training capacities and recruitment mechanisms are often inadequate.

The NBR maintained its policy of gradually lowering interest rates, bringing market rates down to levels below the inflation rate. With the securities business declining dramatically, lending to private households became a more attractive line of business for banks. The predominance of loans denominated in foreign currency increased during the first part of 2005, mainly due to the lower nominal interest rates on hard currency loans and the strong appreciation of the leu against the euro. Concerned about this trend, the NBR took measures to limit hard currency lending. It first raised the reserve requirements on foreign currency liabilities to 30%, while lowering the reserve requirement on leu liabilities by two percentage points to 16%. When these measures proved less successful than envisioned, the NBR

imposed a ceiling on foreign currency lending, limiting the size of a bank's foreign currency portfolio to 300% of its own funds.

Entering the market for loans to small and medium-sized enterprises has become a priority for many banks; they have started to offer a number of new products in an effort to increase their market share. Some of these products are characterised by an amazing lack of transparency about the real costs of the loan, while the maturities and interest rates are difficult to justify in economic terms. In addition, there are major doubts about the extent and quality of the credit analysis conducted by some banks in connection with loans to businesses, fuelling speculation about the future quality of their loan portfolios.

2005 was a profitable year for the banking sector. Despite the investments in branch network expansion and modernisation and the cost of ensuring the readiness of IT systems for the redenomination process in July 2005, most banks recorded higher profits than in previous years. Capital adequacy levels came down from 20.7% at the end of 2004 to 13.5%, but remained well above the NBR requirement of 12%.

In 2006 and beyond, banks will have to react to ongoing harmonisation of the local legal framework with European standards, and prepare themselves – together with NBR – for the full implementation of Basle II.

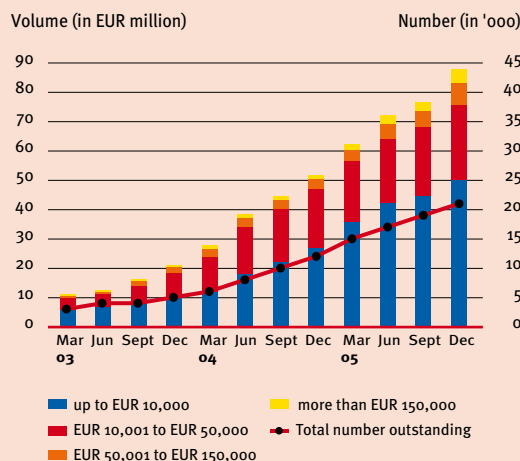
Lending Performance

Although the competitive environment has changed dramatically in the last two years, ProCredit Bank's lending performance in 2005 was once again very impressive. The bank disbursed more than 16,800 loans representing more than EUR 80 million. This is equivalent to 46.7% of the total volume and 47.3% of the total number of loans disbursed by the bank since it first went into operation. While the average disbursed loan amount remained below EUR 5,000, ProCredit Bank's gross loan portfolio grew by 73.6% to EUR 89 million at year-end.

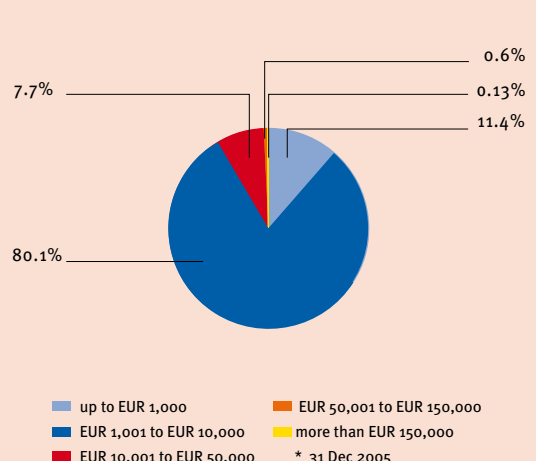
In September 2005, NBR implemented restrictions on hard currency lending by banks. ProCredit Bank has been affected only marginally by these measures, as the bank had already switched to providing attractive loan products denominated in local currency. Ultimately, this helps to avoid a situation in which the smaller companies in particular, which tend to have limited hard currency cash flows, or none at all, are exposed to foreign exchange risks. Accordingly, ProCredit Bank was already disbursing more than 80% of its loans in RON long before any restrictions came into force. As of the end of the year, 65% of the loan portfolio was denominated in RON, more than 43 percentage points up on the ratio at the end of 2004.

The growth in lending operations was primarily driven by micro loans. "Rapid" and "Business"

Loan Portfolio Development



Number of Loans Outstanding – Breakdown by Loan Size *



loans are products for entrepreneurs requesting amounts up to EUR 10,000, and more than 1.3 times as many of these loans were issued in 2005 as in the previous year, enlarging the respective loan portfolio by 70%. The main selling points of these products have been the fast processing time, typically just 24 to 48 hours, and the highly flexible collateral requirements.

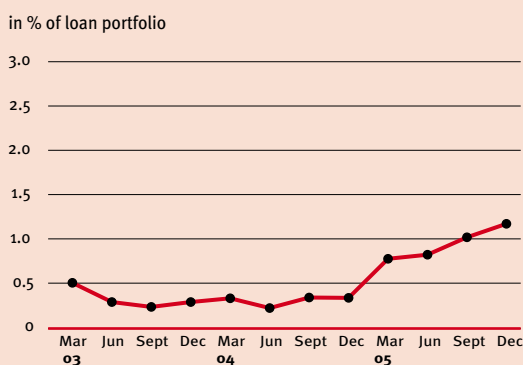
At the same time, the bank's activities in rural and agricultural areas have been very rewarding. ProCredit Bank expanded its operations to rural regions where borrowing from a bank had previously been virtually inconceivable for the small agricultural producers the bank now serves. With average loan sizes of just over EUR 3,300, more than 2,500 loans with a total volume of over EUR 8.6 million were disbursed in the year just ended, 250% more than in all previous years combined. Despite the hardship that has been brought to many areas of the countryside by the heavy floods, which often destroyed whole villages, the bank has not decreased but rather intensified its efforts to reach out to small farmers and enterprises in rural areas. ProCredit Bank will continue to place a special focus on expanding its outreach to these clients in 2006.

The quality of ProCredit Bank's loan portfolio has remained high, with the portfolio at risk (loans more than 30 days overdue) accounting for only 1.16% of the loan portfolio as of December 31, 2005. The bank's allowance for losses covers

2.4% of the total loan portfolio and more than 240% of the aggregate balance of loans with payments more than 30 days overdue.



Loan Portfolio Quality (arrears >30 days)



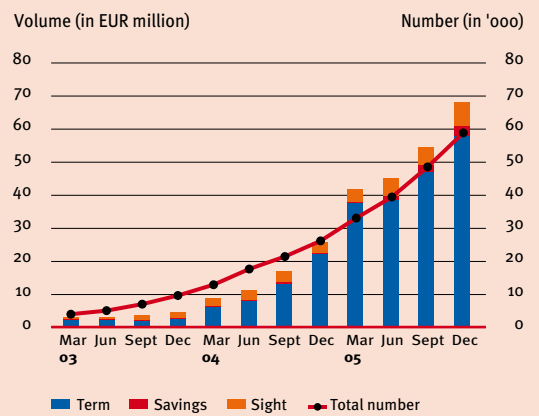
No net write-offs in 2003

Net write-offs in 2004: EUR 94,461

Net write-offs in 2005: EUR 357,687



Customer Deposits



Other Banking Services

Earning the trust of depositors by providing simple products and a friendly service was the main objective of ProCredit Bank's retail business in 2005. More than 40 new client advisers were hired and trained extensively, ensuring that the bank's high standards in customer service are maintained and enabling each branch to extend the geographical limits of its outreach. Substantial investments in the overall technical infrastructure were accompanied by a more sophisticated branch network structure and the choice of highly visible and easily accessible locations for new branches. Marketing campaigns focused on attracting potential savers with moderate but significant amounts to deposit, and a range of special events, such as a children's savings day, helped to shape the image of the bank as a friendly and customer-oriented institution. Furthermore, the bank extended its opening hours in most locations, in addition to Saturday opening, which had already been established and is much appreciated by clients.

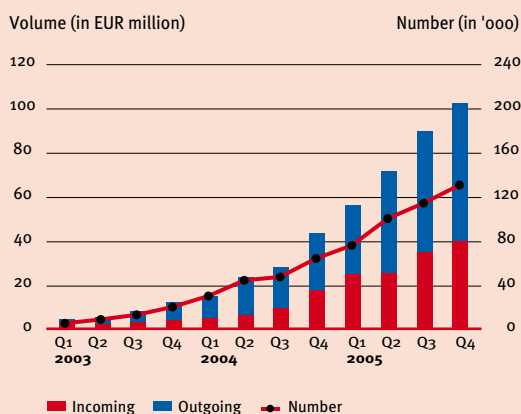
Over the course of 2005 the bank's clients rewarded these efforts by increasing the volume of funds held with ProCredit Bank by more than 167%, to EUR 67.7 million. Almost 38,000 clients held roughly 59,000 accounts at year-end, 125% more than at the end of 2004. Especially gratifying was the fact that more than 88% of our customer deposit accounts have balances of less

than EUR 1,000. This is an indication that people notice and appreciate the special attention paid by ProCredit Bank to clients that are unattractive for many other banks, precisely because their savings potential is very limited. We are proud to serve these clients and to have earned this high degree of confidence in our bank.

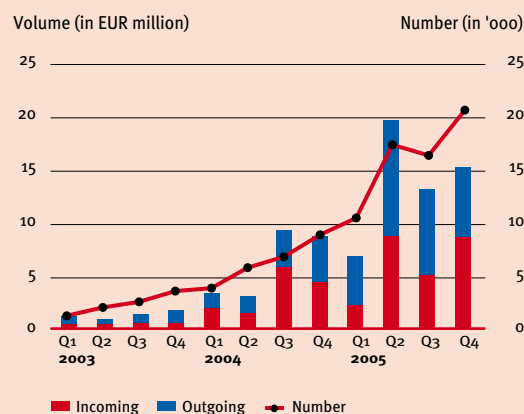
During the first half of 2005, retail activities concentrated on the conversion of the ROL into the RON, which meant the removal of four "zero's" from amounts expressed in local currency. A number of events organised by ProCredit Bank ensured that our clients were well informed about this important change and felt comfortable with the details. Simultaneously, the bank ensured that it was technically well prepared for July 1, 2005, the date of the redenomination. Ultimately, both clients and the bank made the transition to the hard RON smoothly.

The long-awaited introduction of an electronic payment system in Romania gave a boost to domestic payments and ensured a more efficient and reliable transfer of funds between banks. In line with the steady increase in these transactions, the bank's clients also used its international money transfer services. A number of business clients were so impressed by our efforts to offer excellent customer service that they made ProCredit Bank their exclusive provider for all of their financial services.

Domestic Money Transfers



International Money Transfers



Special feature: The first chip card issued in Romania

Cards have been in use in Romania since 1996. Here, as in almost all the Eastern European countries, a debit card used to access the holder's salary was the driving force behind the establishment of a card market. Only after growth rates in this segment started to decline were products developed to broaden the card market by targeting groups such as students and pensioners. By the end of 2005 there were 7.2 million valid cards in Romania, 24.5% more than in the previous year.

ProCredit Bank was a latecomer to the Romanian banking sector and therefore found it more difficult to penetrate the market for standardised retail products. However, benefiting from our excellent IT infrastructure and from the experience and expertise in the card business accumulated elsewhere in the ProCredit Bank network, ProCredit Bank Romania decided to install ATMs and introduce card-based services in 2005.

When ProCredit Bank presented its new ATMs and cards in November 2005, we did more than merely add a new product to our range. Thanks to a constructive partnership with VISA, we were able to launch the first chip card ever issued in Romania. This event received widespread media attention and was reported in almost every major newspaper.

The arrival of the chip card signals the birth of a new generation of non-cash payment instruments. The most important advantage of chip technology is increased security: the information can be stored in a much more secure way on a chip than on a magnetic strip, thus significantly reducing the risk of fraud. Furthermore, whereas magnetic strip cards can only store banking data, the data storage properties of chip cards make it possible to provide other types of services in addition.



ProCredit Bank offers two card products, both issued in partnership with VISA: a debit card with overdraft facilities for private individuals, and a similar product designed for legal entities. In line with the bank's strategy, the products are designed to be accessible for the target group and appropriate to their needs, and to reflect the international character of the institution – both cards can be used all over the world. The bank launched its card business with 17 ATMs. During 2006 this network will be expanded significantly through the installation of ATMs both within the fast growing branch network and at off-site locations to ensure greater accessibility for the bank's clients.

ProCredit Bank's retail operations are characterised by accessibility, flexibility, and convenience. By entering the card business, the bank has diversified the services offered to its customers and at the same time has made its approach to the market more efficient. Following ProCredit Bank's lead, other institutions in the Romanian market are expected to make the transition to chip cards over the next few years. By implementing the new generation of chip cards with their tighter security features, the bank is helping to educate the citizenry, encouraging Romanians to be less suspicious of non-cash means of payment.



Financial Results

Increased business volume at the existing locations combined with regional expansion resulted in another strong increase in ProCredit Bank's total assets, which rose by 88.2%. The gross loan portfolio climbed to EUR 89 million at year-end, up by 73.6% on 2004. At the same time, the bank also reported a higher liquidity ratio than in the past.

The funding for this asset growth was primarily attracted through the mobilisation of customer deposits, which at EUR 67.7 million at the end of 2005 accounted for 58.4% of total liabilities. The branches in Bucharest contributed 76% of the total volume attracted from customers, which highlights the concentration of funds in the Romanian capital. As more than 74% of customer funds were denominated in local currency, the bank was able to finance the growth in local currency lending internally. To increase diversification and to avoid significant maturity mismatches, in early 2006 the bank will issue a three-year bond denominated in RON. IFI funding grew by 63.2% to EUR 37.65 million, mainly due to a syndicated loan from EBRD in May 2005.

The high growth rates on the assets side were accompanied by a consolidation of ProCredit Bank's income situation. While operationally profitable since mid-2004, the bank was adversely affected by foreign exchange rate developments that it could not hedge until well into 2005. Then the NBR changed its regulations, allowing the bank to close its open positions. Subsequently, the bank recorded its first profitable calendar year and ended 2005 with a net profit of EUR 849,836.

Revenues from lending operations (EUR 17 million) continued to be the predominant source of income for ProCredit Bank, accounting for 89% of total income. However, net commission income amounted to EUR 1.14 million for the year, an increase of 139% over the figure for 2004. At EUR 10.3 million, the bank's operating income grew by 125.5% compared to the EUR 4,555,137 recorded in 2004.

Operating expenses increased as a result of the branch network expansion as well as staff increases during 2005. Personnel expenses were

up by 65.3% and general administrative expenses increased by 89.7%. Even so, the cost/income ratio decreased from 106.3% in 2004 to 75%.

Throughout 2005 the bank maintained a sufficiently high capital adequacy ratio (13.5% at the end of the year).



Outlook

After years of relative inertia the banking sector in Romania is now changing rapidly. The end of the privatisation process is in sight, mergers and acquisitions are taking place, banks are pushing strongly to enter the retail market through branching out, and they are fighting hard for customers and market share. There is a pervasive sense of eagerness to capitalise on the high potential that pre-accession Romania offers to banks. Yet many banks are trying to grow the easy way, mainly by granting consumer loans. And despite the presence of many international players in the market, the overall degree of transparency and customer orientation is often rather low.

In 2006 ProCredit Bank will continue on its path of steady and controlled growth. Further branch network expansion is indispensable to the long-term success of the bank, and we will open more branches in 2006 than in any previous year. New branches will be set up both in cities in which we do not yet have a presence and in cities where we are already operating.

Notwithstanding these investments, our most important objective for the next year will be to maintain and indeed improve our customer orientation and the quality of service we provide. This can be achieved only if we continue to attract talented and motivated new employees and train them well. In addition, our existing staff will require further training to adapt to the challenges presented by tougher competition and by an increasingly demanding and knowledgeable clientele.

We welcome competition and the recent moves to bring international banking standards to the Romanian market. Still, much needs to be done to ensure that banks disclose all of the details that their customers need in order to make an

informed decision when choosing a financial service or product. Leading by example has always been a fundamental principle for ProCredit Bank. When a customer applies for a loan from us, we take the time to explain what the total cost will be, and when we offer time deposits we guarantee that the interest rate will not change during the term of the deposit, and that when the deposit matures the customer will not get less money back from us than he or she put in. To be sure, this transparency and fairness towards clients requires more work and is less cost efficient than the other banks' approach. However, it is very rewarding to have so many satisfied customers as a result, and we strongly believe that our approach and philosophy will assure us of greater client loyalty in the long run.



Risk Management

The process of identifying, assessing, monitoring and controlling the risks associated with the bank's activities is regarded as a fundamental activity not only of the management and the members of the risk management committees, but of staff at all levels. Risk management at ProCredit Bank might be more rigorous and more extensive than one would expect from such a young institution at such an early stage of development. However, we believe that we have a special responsibility to our clients, our shareholders and the reputation of the banking system as a whole, and therefore we take risk management very seriously.

The inherent risks associated with financial intermediation have been with ProCredit Bank since

its inception, and have always been managed satisfactorily. Nonetheless, the dynamic growth of the bank has made it increasingly essential to ensure that the trade-off between risk and return associated with each of our business activities is reviewed carefully by the appropriate units, and presented to the Board of Administrators and the management in a sufficiently clear manner to enable those bodies to make informed decisions on the strategy of the bank.

The Risk Management Committee analyses both the general risk report and the operational risk report on a monthly basis. These reports cover credit risk, market risk, financial risk and other risks, such as compliance, legal and reputation risk. The Asset and Liabilities Committee ensures



in particular that the bank maintains adequate liquidity at all times. Furthermore, the bank's credit committee reviews, at monthly intervals, the development and profitability of the loan portfolio as well as the bank's exposure to credit risk.

Towards the end of 2004, the bank established a Risk Management Department that was charged with providing the committees responsible for risk management with relevant data as well as co-ordinating their activities. Throughout the last year, this team significantly improved the quality of data and analysis. In addition, members of the Internal Audit Department are actively involved in the work of all of the risk-relevant committees, as are members of the bank's executive

management. This ensures that the importance of risk management is highlighted, and that the decisions taken by the respective committees are implemented effectively.

ProCredit Bank refined its risk management tools during the course of the year under review. An important development in 2005 was the progress made by the bank in establishing an operational risk database as a basis for evaluating and eventually quantifying the exposure in this area. With key input provided by staff at all levels of the bank, special emphasis is placed on raising staff awareness of the importance of recognising and reporting operational loss events, and ensuring the highest possible degree of co-operation in this regard. After completion of an initial testing period, the respective data will be reviewed and analysed by the operational risk committee. Ultimately, this will facilitate better and faster analysis of structural problems in all of the bank's operations.

Towards the end of 2005 ProCredit Bank focused on expanding the range of tools available for minimising interest rate risks. The bank plans to hedge its small current interest rate gap and is working closely with the National Bank of Romania to obtain the approvals required to apply the appropriate instruments. At the same time, in the case of large loans with relatively long tenors, the bank is increasingly negotiating loan agreements with variable interest rates, thus offsetting the risk it faces due to the fact that most of the funding it receives from international financial institutions is provided at floating rates.

The overall risk profile of ProCredit Bank is low. The portfolio at risk (defined as loans with arrears of more than 30 days) was less than 1% for most of the year and stood at just under 1.2% at the end of December 2005. The bank's foreign currency position has been kept within the regulatory limit of 10% of equity at all times. Furthermore, the bank's liquidity situation improved throughout the year, while its capital adequacy ratio stood at 13.5% at year-end, i.e. well above the required 12%.



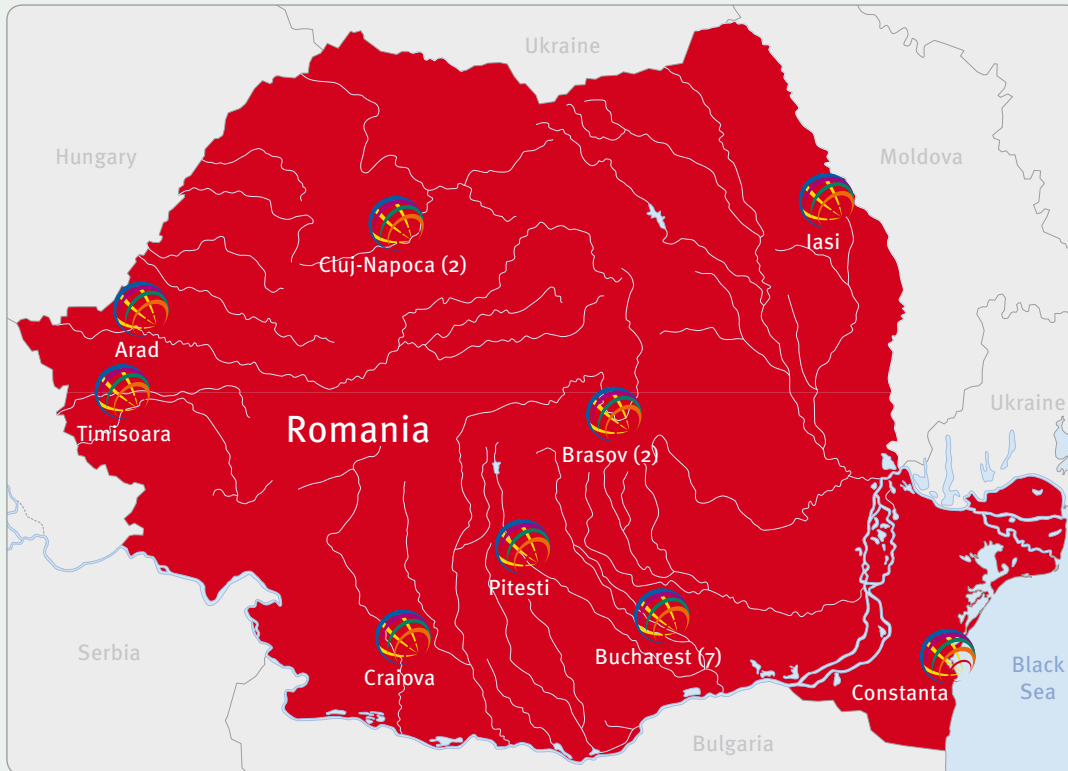
Branch Network

Expanding ProCredit Bank's branch network was an important objective in 2005. We want to be closer to our clients in the cities where we operate and extend our coverage of the regions. A further step in this direction was the addition of seven new branches during the year, bringing the total to 17 branches in nine cities throughout Romania.

Given the sheer size of Bucharest, we decided it was necessary not only to open new branches here, but also to move existing branches to more

easily accessible locations. Three new locations – Mosilor, Giurgiului and Stefan cel Mare – were inaugurated in 2005, while the Vasile Lascar branch was relocated, and thus by the end of the year there were a total of seven ProCredit Bank branches in Bucharest. We also opened branches in Arad and Pitesti. In Pitesti, the bank actually purchased the building it now occupies – its first transaction of this kind. In other cities where ProCredit Bank was already operating, customers now have access to additional branches, such as Marasti in Cluj or Toamnei in Brasov.





In response to the high level of demand for its agricultural and rural lending products, the bank extended the area served by each of its branches into rural parts of the country. The deployment of bank resources explicitly for agricultural and rural lending was responsible for a significant share of the growth in lending operations.

In the coming years we will move towards full coverage of the Romanian market. We will do so through a network of branches in easily accessible and central locations, housed in buildings whose architecture reflects our high standards of transparency and openness. In 2006, our network will grow to a total of 30 branches, six of which will bring our services to regions which the bank does not yet cover. At the same time, we will launch a pilot project with mobile branches, allowing us to reach more rural areas on a regular basis.



Organisation, Staff and Staff Development

The dynamic development of ProCredit Bank is a reflection of the strong demand for its products and services and of the quality of the personnel who serve its clients. 2005 was another year of intensive internal and external training and professional development for the bank's staff, and in particular a year in which large numbers of new employees were successfully integrated into the organisation.

In all, we hired and trained 292 new employees during the year, bringing the total number of staff to 502 as of year-end. Despite the large number of new recruits joining the ProCredit Bank team, each was carefully prepared for his or her responsibilities through a combination of classroom-based instruction and on-the-job training.

Given the recent efforts of many banks to branch out, in particular in Bucharest and Romania's other major cities, competition for well-trained staff increased during the year. With salaries already comparatively high, some employees succumbed to the temptation of the even higher salaries offered by banks that are apparently unable to provide adequate training for new staff. However, ProCredit Bank's policy of hiring and training on a continuous basis has paid off, and at the end of 2005 we had a team of highly motivated and committed employees.

During the year internal promotions presented employees with opportunities to advance their careers. A total of 52 middle management positions were filled, sometimes giving young colleagues the chance to take on the kind of managerial responsibility that they would not have been able to assume elsewhere this early in their career. With the overall ratio of female employees already high (at 74%), it is not surprising that 74% of the promotions in 2005 went to female staff, increasing their share of management positions in the bank to 69%.

ProCredit Bank could not have experienced the growth that it has in all lines of business during 2005 were it not for its competent and friendly staff at all levels. The banking sector is developing rapidly and the days of banks that lack a customer orientation are numbered. In this environment, where the differences between products are decreasing and in which clients are increasingly well informed, we feel that the best way to ensure our ongoing success is by focusing on clients who are largely ignored by other banks because of the limited volume of business that such individuals can bring. We want to ensure that each client is given the respect that he or she deserves, and receives the same attention and care as any other client. We constantly strive to know our customers better in order to offer them reliable and appropriate advice on all financial matters. Ultimately, we aim to build a long-term relationship with our clients. All these objectives not only make business sense but also ensure that we enjoy working at ProCredit Bank.



Business Ethics and Environmental Standards

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

- **Transparency:** We adhere to the principle of providing transparent information both to our customers and the general public and to our employees, and our conduct is straightforward and open;
- **Culture of open communication:** We are open, fair and constructive in our communication with each other, and deal with conflicts at work in a professional manner, working together to find solutions;
- **Social responsibility and tolerance:** We give our clients sound advice; their economic and financial situation, their potential and their needs are assessed and are translated into appropriate “products”; promoting a culture of savings is important to us; we are committed to treating all customers and employees respectfully and fairly, irrespective of their origin, colour, language, gender or religious or political beliefs;
- **Service orientation:** Every client is served in a friendly, competent and courteous manner. Our employees are committed to providing excellent service to all customers, regardless of their background or the size of their business;
- **High professional standards:** Every employee takes responsibility for the quality of his/her work and strives to do his/her job even better;
- **High degree of personal commitment:** This goes hand-in-hand with personal integrity and honesty – traits which are required of all employees in all ProCredit institutions.

These ProCredit values represent the backbone of our corporate culture and are discussed and actively applied in our day-to-day operations. Moreover, they are reflected in the Code of Con-

duct, which translates the ProCredit group’s ethical principles into practical guidelines for all ProCredit staff. In order to ensure that staff fully understand all of the principles that have been defined, several training sessions were conducted during the year under review at which case studies were presented and grey areas discussed. We will not only continue to conduct such training sessions, but will carry them out even more frequently in the coming years.

Another aspect of ensuring that our institution adheres to the highest ethical standards is our consistent application of international best-practice methods and procedures to protect ourselves from being used as a vehicle for money laundering or other illegal activities such as the financing of terrorist activities. The important thing here is to “know your customer”, and, in line with this principle, to carry out sound reporting and comply with the applicable regulations.

We also set standards when it comes to the impact of our lending operations on the environment. ProCredit Bank Romania has implemented an environmental management system which calls for continuous assessment of the loan portfolio according to environmental criteria, an in-depth analysis of all economic activities which potentially involve environmental risks, and the rejection of loan applications from enterprises engaged in activities which are deemed environmentally hazardous and appear on our institution’s exclusion list. By incorporating environmental issues into the loan approval process, ProCredit Bank Romania is also able to raise its clients’ overall level of environmental awareness. It goes without saying that when loan applications are evaluated, compliance with ethical business practices is also a key consideration. No loans are issued to enterprises or individuals if it is suspected that they are making use of unsafe or morally objectionable forms of labour, in particular child labour.



Our Clients



Ion and Viorel Ghindeanu, Farmers

Modernising to meet EU standards

Ion and Viorel Ghindeanu own a family farm in a village near Constanta. The farm was established in 1990 with just a few cows which they kept for milk. Some years later, to diversify their risks, and also in response to customer demand, they bought some sheep and goats. The different types of livestock usually graze together in the same field. For the most part, they still use traditional tools – including a horsecart – and the milk production process is also traditional.

Agriculture is still as important as ever for the Romanian economy – and although modern, large-scale farms exist, a considerable percentage of the country's agricultural output is still produced by small farmers. As one might expect, these small farmers were never really an attractive clientele for the formal banking sector, which for the most part continues to neglect them.

“No other bank has ever approached us as potential clients for a loan – nor any of our neighbours. But the loan officer from ProCredit Bank came out to us, and spent time in the field to see our animals for himself.”



The Ghindeanus had never borrowed from a bank before when they decided to take up ProCredit Bank's offer of a loan. They found out about ProCredit Bank through direct promotion carried out at the beginning of 2005. In April 2005 the bank issued them a RON 40,000 loan (worth approximately EUR 11,000), to be disbursed in two equal tranches. The men used the funds to buy 10 additional cows and 100 more sheep, and were thus able to more than double their output. At present, they have 30 cows, 24 of which give milk (around 400 litres a day), and their next project is already in the pipeline. Now that Romania is an accession candidate for the European Union, farmers are having to comply with certain standards if they want to sell their products to other member states. In this context, the Ghindeanus will have to upgrade their milk production equipment to meet the more stringent sanitary standards – and they are therefore thinking about taking out another loan.

Mr. and Mrs. Voicu, Producers of paving stones and fencing



Paving the way to success

Mr. and Mrs. Voicu bought the company S.C. Samouna International SRL in 1996. Initially the firm produced bricks, but from 1998 it went over to making paving stones. The couple's division of responsibilities is simple: Mrs. Voicu cultivates Samouna's relationships with both customers and suppliers, while Mr. Voicu supervises production.

In 2004 a law came into force banning large trucks from Bucharest's streets. Since the site of their production facility is in Bucharest, they needed to act quickly. Crucially, the owners realised that they needed a loan in order to buy smaller, diesel-powered trucks. They asked their friends for suggestions, and someone told them about ProCredit Bank Romania.

“At the bank we previously did business with, we did not have a name. We were not treated as customers, we were just a number.”

With their first investment loan from ProCredit Bank, EUR 36,000 issued in March 2004, they purchased two medium-sized trucks.



At present, SC Samouna International has 100 employees and is one of the country's largest manufacturers of paving stones. It has contracts with major construction firms and with large construction material depots. In 2001, the company established a business relationship with one of the biggest chains of home improvement and construction material stores in Romania, a deal which represented massive growth potential but at the same time increased the pressure on Samouna to meet the demands of this important client.

Mrs. and Mr. Voicu took out a second investment loan of EUR 15,000 in early 2005 to broaden the company's range of products – and this diversification has already proved highly successful. Overall, Samouna International's turnover more than doubled during the last financial year alone. The firm purchased new equipment, and one more vehicle which can enter Bucharest during the day. In March 2004 Mrs. and Mr. Voicu started to use ProCredit Bank's non-lending services as well.



**Gheorghe Nimara,
Retired teacher**

*A small saver is
a valued customer*

In February 2005, when ProCredit Bank opened the Mosilor Agency in Bucharest, the branch launched a promotional campaign to advertise its services to the people who live and work in the neighbourhood. That's how Mr. Gheorghe Nimara came to receive a letter in his mailbox informing him about ProCredit in general and in particular about its new location. The brochure aroused his curiosity and he went to see the new premises.

“ProCredit Bank’s advertising was accurate and informative. Everything they advertised in the brochure was actually available in the branch.”

Mr. Nimara is a 68-year-old retired teacher. He taught biology in a secondary school in Bucharest until his retirement in 1998. As a matter of course, he would always save a small part of his salary as a safeguard against the unexpected:

“I save for rainy days – you never know what the future will bring.”

Today, he even manages to save a part of his modest state pension.

“I’m a pensioner, so I don’t have much money to spare, but I still try to save regularly.”

As a dedicated saver, he had opened deposit accounts with various banks before, but never really liked the way he was treated. He felt that he was not being taken seriously because he did not have large amounts of money to deposit.

Encouraged by the brochure he received when the new branch opened, he decided to open his first deposit account with ProCredit Bank and was very pleased with the service. He knows that there are banks on the Romanian market offering higher interest rates, but for him that is not the most important criterion.



Nicolae Domsa, Mini-supermarket owner

From kiosk to supermarket – and always well stocked

Management skills and a certain amount of courage are the main requirements for starting a small private business. Mr. Nicolae Domsa had both – he started his first business in 1996 with a small kiosk at a large wholesale market. At that time he ran the entire business on his own, taking care of everything himself – from buying goods from wholesalers, to arranging them in his kiosk, to selling them to his clients.

The business grew steadily, and Mr. Domsa decided to diversify his product range and offer a delivery service. He hired four staff members and invested most of the firm's earnings in three modern mini-vans. He then negotiated with a number of beverage producers, and succeeded in becoming the sole distributor for Hellas Lemon in Pitesti county. This was a major step forward, as competition among kiosks is very high and being able to offer something that no one else does is obviously a big advantage. The increased turnover enabled him to rent a new space and to move

from a small kiosk to a mini-supermarket. After a while, thanks to his tenacity, he managed to build his own premises and succeeded in opening a second mini-supermarket. To equip the second shop, however, Mr. Domsa needed financial support.

“I needed financial support very quickly, and just at that time a loan officer from ProCredit Bank came into my shop to enquire if I was interested in one of the bank's products. It was perfect for my needs.”

Mr. Domsa received RON 35,000 (roughly EUR 9,800) from ProCredit Bank in November 2005. He bought merchandise for his supermarkets and another mini-van to facilitate transportation of goods between the wholesalers and his two shops – just in time for one of the busiest months in the year: sales always leap up in December, and customers come in with many unusual requests. But Mr. Domsa has no worries: he knows his shops are well-equipped and well stocked.

Financial Statements

Report of independent auditors and Financial Statements for the year ended 31 December 2005



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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF PROCREDIT BANK SA

1. We have audited the accompanying balance sheet of ProCredit Bank SA (the "Bank") as at 31 December 2005 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. 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.
3. As discussed in Note 2 the Bank assessed that up to the end of 2004 and in previous years transactions and balances were measured in EUR or USD, not RON. The rationale for that decision was that a large part of the Bank's borrowings and other financial assets and liabilities had been denominated in EUR or USD. However, SIC 19 *Reporting Currency—Measurement and Presentation of Financial Statements under IAS 21 and IAS 29* put emphasis not only on the currency in which transactions and balances are denominated, but primarily on the currency of the economy that determines the pricing of transactions. Therefore, we believe that the measurement currency of the Bank should have been RON also for all previous years before 2005. In addition, SIC 19 requires when the measurement currency is the currency of a hyperinflationary economy IAS 29 *Financial Reporting in Hyperinflationary Economies* to be applied. Since the Romanian economy was hyperinflationary up to the end of 2003, certain balance sheet items should

Registration Number: J40/17223/1993
Fiscal Code: R4282940



have been restated in terms of the purchasing power as at 31 December 2003. As a result, the Bank's share capital as at 31 December 2005 and 31 December 2004 is understated by EUR 3,111,707 and the accumulated losses are understated by the same amount. In addition the income statement for the year ended 31 December 2004 is overstated by EUR 247,000 and the accumulated losses for 2005 are further understated by the same amount.

4. In our opinion, except for the matters described in paragraph 3, the accompanying financial statements present fairly, in all material respects, the financial position of ProCredit Bank SA as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Audit SRL
PricewaterhouseCoopers Audit SRL

Bucharest, 19 May 2006

Income Statement

31 December 2005

<i>in EUR</i>	Note	Year ended 31 December 2005	Year ended 31 December 2004
Interest income	7	17,650,942	7,247,594
Interest expense	7	(6,287,002)	(2,063,926)
Net interest income		11,363,940	5,183,668
Fee and commission income	8	1,337,242	613,683
Fee and commission expense	8	(199,197)	(137,854)
Net fee and commission income		1,138,045	475,829
Net trading income	9	(44,980)	(729,534)
Other operating income		115,592	31,976
Other operating expenses	10	(9,439,597)	(5,272,279)
Impairment losses on loans, advances and other assets	11	(2,300,607)	(406,802)
Profit/(loss) before income tax		832,393	(717,142)
Income tax	12	17,443	–
Net profit(loss) for the year		849,836	(717,142)

The financial statements set out on pages 1 to 46, were approved by the Board of Administrators on May 19, 2006 and signed on its behalf by:



Michael Kowalski
General Manager



Gabriel Stanesco
Deputy General Manager

Balance Sheet

31 December 2005

<i>in EUR</i>	Note	31 December 2005	31 December 2004
Assets			
Cash and balances with the Central Bank	13	29,691,647	11,558,649
Due from banks	14	7,854,449	3,613,838
Financial assets at fair value through profit or loss		–	378,397
Loans and advances to customers, net of provisions	15	86,480,892	50,576,185
Investment securities available for sale	13	25,610	43,763
Other assets and prepayments	17	343,275	251,709
Intangibles	18	435,463	304,015
Property and equipment	19	3,878,758	1,674,157
Deferred tax assets	9	17,443	–
Total assets		128,727,537	68,400,713
Liabilities			
Due to banks	20	10,087,816	8,654,774
Due to customers	22	67,741,923	25,340,596
Borrowings from banks and other financial institutions	21	37,648,434	23,071,412
Other liabilities	23	579,725	364,424
Total liabilities		116,057,898	57,431,206
Shareholders' equity			
Share capital	24	14,699,992	13,628,150
Reserves	25	873,210	–
Accumulated deficit		(2,891,116)	(2,658,643)
Translation reserve		(12,447)	–
Total shareholders' equity		12,669,639	10,969,507
Total equity and liabilities		128,727,537	68,400,713

The accounting policies and notes on pages 44 to 58 form an integral part of these financial statements.

Statement of Changes in Shareholders' Equity

31 December 2005

<i>in EUR</i>	Share capital	Reserves	Accumulated deficit	Translation reserve	Total equity
Balance at 1 January 2004	10,701,965		(1,941,501)	–	8,760,464
Net loss for the year	–	–	(717,142)	–	(717,142)
Total recognised income during 2004	–		(717,142)	–	(717,142)
Issue of share capital	2,926,185	–	–	–	2,926,185
Balance at 31 December 2004	13,628,150	–	(2,658,643)	–	10,969,507
Net profit for the period	–	–	849,836	–	849,836
Total recognised income during 2005	–	–	849,836	–	849,836
Transfer to reserves	–	873,210	(873,210)	–	–
Effect of translation	1,071,842	–	(209,099)	(12,447)	850,296
Balance at 31 December 2005	14,699,992	873,210	(2,891,116)	(12,447)	12,669,639

Cash Flow Statement

31 December 2005

<i>in EUR</i>	Note	Year ended 31 December 2005	Year ended 31 December 2004
Operating activities			
Cash flows from operating activities			
Interest receipts		16,428,485	7,247,594
Interest paid		(4,931,026)	(2,063,926)
Fee and commission receipts, net		1,138,045	490,960
Net trading and other income		611,772	(729,534)
Recoveries of loans previously written off	8	228,983	42,668
Cash payments to employees and suppliers		(8,385,106)	(4,730,495)
Operating profit before changes in operating assets and liabilities		5,091,153	257,267
Changes in operating assets:			
Increase in minimum reserve		(14,814,388)	(6,941,469)
Increase in loans and advances to customers		(38,381,788)	(30,598,605)
Increase in other assets		(91,593)	(33,348)
Changes in operating liabilities:			
Increase in deposits from banks and other financial institutions		1,433,042	6,372,652
Increase in deposits from customers		42,401,327	21,238,254
Increase in other liabilities		215,328	66,366
Cash flow used in operating activities		(4,146,919)	(9,638,883)
Investing activities			
Proceeds from investment securities		378,398	149,639
Purchase of investments		(3,246)	(3,463)
Purchase of property, equipment and intangible assets		(3,246,034)	(1,305,540)
Cash used in investing activities		(2,870,882)	(1,159,364)
Financing activities			
Issue of share capital		–	2,926,185
Net proceeds from borrowings		14,577,022	12,552,043
Cash used in financing activities		14,577,022	15,478,228
Increase in cash and cash equivalents		7,559,221	4,679,981
Cash and cash equivalents at 1 January		6,145,576	1,465,595
Cash and cash equivalents at 31 December	26	13,704,797	6,145,576

The accounting policies and notes on pages 44 to 58 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2005

All amounts expressed in EUR unless stated otherwise

1. ProCredit Bank and its operations

These financial statements for the year ended 31 December 2005 were prepared by ProCredit Bank S.A. (the "Bank").

ProCredit Bank S.A. (the „Bank“) was incorporated in Romania in July 2002 (up to November 2004 it was known as Microfinance Bank MIRO S.A) and is licensed by the National Bank of Romania to conduct banking activities. The Bank is principally engaged in wholesale and retail banking operations in Romania. The Bank operates through its head office located in Bucharest and its network consisting of the following:

	Bucharest	Rest of the country	Total
Branches	3	8	11
Agencies	3	3	6
ATMs	6	11	17

The address of its registered office is: 62-64 Buzesti Street, Sector 1, Bucharest.

The Bank's number of employees as at 31 December 2005 was 502 (31 December 2004: 261).

The Bank is managed by a Board of Directors made up of 6 members led by a president. The Composition of the Board of Directors as at 31 December 2005 was as follows:

Position	Name
President	Michael Harold Taylor
Vice-president	Claus-Peter Zeitingner
Member	Ana Maria Mihaescu
Member	Helmut Toellner
Member	Ruediger Rurainsky
Member	Reinhard Bollmann

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

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

2.2 Currency of presentation

The accompanying financial statements are presented in Euros ("EUR").

2.3 Functional currency

The functional currency of the Bank is the currency of the primary economic environment in which the entity operates. From 1 January 2005 the Bank adopted the national currency of Romania, Roma-

nian Lei ("RON") as its functional currency. During 2004 the Bank had used EUR as its functional currency. In prior years it had used USD as its functional currency.

Change in functional currency

As mentioned above, in previous years the Bank had adopted USD and EUR as its functional currencies. This decision was driven by the fact that a substantial portion of the Company's borrowings and other financial assets and liabilities were denominated in USD and EUR.

The Bank's management reassessed the measurement currency during 2005 and determined that the RON more appropriately reflects the composition of the Bank's assets and liabilities, and that its operational expenses also show a greater emphasis on RON-based transactions. Consequently, as of 1 January 2005 the functional currency was changed from the EUR to the RON. This change was applied prospectively.

Except for the change in the functional currency, as set out 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 2004.

Monetary assets and liabilities are translated into the functional currency at the official exchange rate of the National Bank of Romania ("NBR") at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the NBR are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Translation from functional to presentation currency

Items included in the 2005 balance sheet and income statement of the Bank are measured using the currency of the primary economic environment in which the Company operates, which is Romanian leu (RON) ("the functional currency").

These financial statements are presented in EUR, which is the Bank's presentation currency. The reason for using a presentation currency different from the functional currency is to meet the expectations of existing and potential providers of external financing and other counterparties.

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

2.4 Use of estimates

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2.5 Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective yield method. Interest income includes coupons earned on fixed income investments and trading securities and accrued discounts and premiums on treasury bills and other discounted instruments.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.6 Fee and commission income

Fees and commissions consist mainly of fees received for foreign currency transactions, fees arising from guarantees given and from opening of letters of credit, and commissions from funds managed on behalf of legal entities and individuals.

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are likely to be drawn down are deferred (together with related direct costs) and are recognised as an adjustment to the effective yield on the loan.

2.7 Financial assets

a) Classification

The Bank classifies its financial assets into the following categories: financial assets held at fair value to profit and loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value to profit and loss ("AFVPL")

This category has two sub-categories: financial assets held for trading and those designated at fair value to profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The Bank currently does not have any financial assets designated at fair value to profit and loss at inception. The Bank did not hold AFVPL securities in its portfolio during 2005.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) Held-to-maturity ("HTM")

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's man-

agement has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of HTM assets, the entire category would be tainted and reclassified as available for sale. The Bank did not hold HTM securities during 2004 and 2005.

(iv) Available-for-sale ("AFS")

AFS investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

b) Recognition and initial measurement

Purchases and sales of financial assets AFVPL, HTM and AFS are recognised on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value to profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

c) Subsequent measurement

AFS financial assets and financial assets held for trading ("HFT") are subsequently carried at fair value. Loans and receivables and HTM investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the HFT category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of AFS financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on AFS equity instruments are recognised in the income statement when the entity's right to receive payment is established.

d) Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.8 Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:

- adverse changes in the payment status of borrowers in the Bank; or
- national or local economic conditions that correlate with defaults on the assets in the Bank.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics – product types, and for retail if the exposure is insured for credit risk. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.9 Intangibles – computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, typically three years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

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

2.10 Property and equipment

Property and equipment is stated at restated cost less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is applied on a straight line method to write off the cost of each asset to its residual value over its estimated useful life. Land is not depreciated.

The estimated useful lives are:

	Years
Premises	40
Leasehold improvements	5-10
Furniture and equipment	3-12
Motor vehicles	5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists the management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the circumstances which led to the impairment. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Expenses for repairs and maintenance are charged to operating expenses as incurred. Interest expenses are not included in the cost of premises and equipment.

2.11 Assets held for sale

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

2.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with the National Bank of Romania other than minimum required reserves and amounts due from other banks.

2.13 Pension obligation and post retirement benefits

In the normal course of business the Bank makes payments to the Romanian state funds on behalf of its employees for pension, health care and unemployment benefit. The cost of these payments is charged to the income statement in the same period as the related salary cost. All employees of the Bank are members of the State pension plan. The Bank does not operate any other pension scheme and, consequently, has no obligation in respect of pensions.

2.14 Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with Romanian legislation enacted or substantively enacted by the balance sheet date. The income tax charge/credit comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to

transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Bank. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

2.15 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.16 Fair value of financial instruments

Fair value is the amount for which an instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It represents a general approximation of possible value and may never be effectively realised.

The Bank is subject to fluctuations of many economic variables including:

- (a) exchange rate of foreign currency against the Romanian leu or other foreign currency;
- (b) market price of similar products;
- (c) interest rates;
- (d) volatility in the purchasing power of the Romanian leu.

The Bank's financial instruments, as defined in accordance with applicable requirements, include financial assets and liabilities recorded in the balance sheet as well as off-balance sheet instruments such as guarantees and letters of credit.

The Bank's short-term funds and customer accounts are carried in the financial statements at cost, because these instruments have short maturity terms and are convertible into cash or are settled without significant transaction costs. The loans to customers, guarantees, and letters of credit are reported at cost less an estimate for impairment. These items have predominantly short repricing terms and carry interest rates which reflect current market conditions.

2.17 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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.18 Operational leases

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

2.19 Share capital

Share capital is recognised at the nominal value of issued shares.

2.20 Dividends

Dividends are not accounted for until they have been ratified at the Annual General Meeting of shareholders. Dividends on ordinary shares are recognised in equity in the period in which they are declared. The statutory accounting reports of the Bank prepared in accordance with Romanian Accounting Regulations are the basis for profit distribution and other appropriations.

2.21 Comparatives

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

3. Financial risk management

3.1 Strategy in using financial instruments

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

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances.

3.2 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided where there is objective evidence that the Bank will not be able to collect all amounts due. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved by the Board.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily.

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

Credit-related commitments

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

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

3.3 Interest rate risk

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

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

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

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non interest bearing	Total
31 December 2005							
Assets							
Cash and balances with the Central Bank	23,841,299	–	–	–	–	5,850,348	29,691,647
Due from banks	7,854,449	–	–	–	–	–	7,854,449
Loans to customers	4,521,048	7,290,606	31,865,201	39,219,421	3,584,616	–	86,480,892
Available for sale investments	–	–	–	–	–	25,610	25,610
Other assets	–	–	–	–	–	360,718	360,718
Intangibles	–	–	–	–	–	435,463	435,463
Property and equipment	–	–	–	–	–	3,878,758	3,878,758
Total assets	36,216,796	7,290,606	31,865,201	39,219,421	3,584,616	10,550,897	128,727,537
Due to banks	8,087,816	2,000,000	–	–	–	–	10,087,816
Due to customers	30,289,999	12,928,257	23,540,883	982,784	–	–	67,741,923
Borrowings from other banks	22,235,689	2,989,226	2,985,845	9,437,674	–	–	37,648,434
Other liabilities	–	–	–	–	–	579,725	579,725
Total liabilities	60,613,504	17,917,483	26,526,728	10,420,458	–	579,725	116,057,898
Total interest sensitivity gap	(24,396,708)	(10,626,877)	5,338,473	28,798,963	3,584,616	9,971,172	12,669,639
At 31 December 2004							
Total assets	14,829,136	3,776,677	17,224,480	23,182,062	3,993,216	5,395,142	68,400,713
Total liabilities	17,603,987	12,878,976	19,438,290	3,162,619	–	4,347,334	57,431,206
Net interest sensitivity gap	(2,774,851)	(9,102,299)	(2,213,810)	20,019,443	3,993,216	1,047,808	10,969,507

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

in %	As at 31 December 2005				As at 31 December 2004			
	RON	USD	Euro	Other	RON	USD	Euro	Other
Assets								
Deposits with the Central Bank	1.5	0.95	0.7	–	6	0.75	–	–
Due from banks		4.73	3.35	4.48	14.2	4	2.28	–
Loans and advances to customers	23.17	14.17	15.27	–	31	16	16	–
Liabilities								
Deposits from banks	7.27	–	5	–	16.30	2.38	3.83	–
Borrowings from banks and other financial institutions		7.26	5.17	–		4.87	5.3	–
Due to customers – term deposits	9.13	4.42	3.73	3	18	4.25	5	–
Due to customers – savings accounts	5.31	1.8	1.68	–	6	1	1.25	–

3.4 Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2005. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

	RON	Euro	USD	Other	Total
At 31 December 2005					
Assets					
Cash and balances with the Central Bank	10,940,035	14,936,957	3,814,655	–	29,691,647
Due from banks		4,135,420	1,049,803	2,669,226	7,854,449
Financial assets at fair value to profit and loss	6,709	–	18,901	–	25,610
Loans and advances to customers, net of provisions	56,202,753	25,075,424	5,202,715	–	86,480,892
Other assets and prepayments	205,459	101,470	35,854	492	343,275
Intangibles	435,463	–	–	–	435,463
Property and equipment	3,878,758	–	–	–	3,878,758
Deferred tax assets	17,443	–	–	–	17,443
Total assets	71,686,620	44,249,271	10,121,928	2,669,718	128,727,537
Liabilities					
Due to banks	8,054,205	2,033,611	–	–	10,087,816
Due to customers	50,633,022	8,663,375	5,782,113	2,663,413	67,741,923
Borrowings from banks and other financial institutions	–	33,359,275	4,289,159	–	37,648,434
Other liabilities	529,093	36,159	14,473	–	579,725
Total liabilities	59,216,320	44,092,420	10,085,745	2,663,413	116,057,898
Net on-balance sheet position	12,470,300	156,851	36,183	6,305	12,669,639
At 31 December 2004					
Total assets	17,012,155	32,651,831	18,733,848	2,879	68,400,713
Total liabilities	18,794,077	31,020,128	7,617,001	–	57,431,206
Net on-balance sheet position	(1,781,922)	1,631,703	11,116,847	2,879	10,969,507

3.5 Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Bank has concluded with European Bank for Reconstruction and Development and with International Finance Corporation loan agreements which compel the Bank to comply with a certain level of financial ratios (financial covenants). As some of these covenants were breached, the total outstanding balance of the respective loans was considered in liquidity risk as immediately due. At the time of approval of its financial statements the Bank was in the process of negotiating with the respective institutions with a view to reassessing the ratios included in financial covenants.

The table analyses the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
31 December 2005						
Assets						
Cash and balances with the Central Bank	29,691,647	–	–	–	–	29,691,647
Due from banks	7,854,449	–	–	–	–	7,854,449
Financial assets at fair value	–	18,901	–	–	6,709	25,610
Loans and advances to customers, net of provisions	4,521,048	7,290,606	31,865,201	39,219,421	3,584,616	86,480,892
Other assets and prepayments	259,638	39,386	32,259	11,992	–	343,275
Intangibles	–	–	–	435,463	–	435,463
Property and equipment	–	–	–	3,878,758	–	3,878,758
Deferred tax asset	17,443	–	–	–	–	17,443
Total assets	42,344,225	7,348,893	31,897,460	43,545,634	3,591,325	128,727,537
Liabilities						
Due to banks	8,054,205	2,033,611	–	–	–	10,087,816
Due to customers	29,465,668	13,124,767	24,138,847	1,012,641	–	67,741,923
Borrowings from other banks	20,698,274	16,907	20,508	16,912,745	–	37,648,434
Other liabilities	579,725	–	–	–	–	579,725
Total liabilities	58,797,872	15,175,285	24,159,355	17,925,386	–	116,057,898
Net liquidity gap	(16,453,647)	(7,826,392)	7,738,105	25,620,248	3,591,325	12,669,639
At 31 December 2004						
Total assets	18,521,617	3,800,761	17,305,296	22,857,351	5,915,688	68,400,713
Total liabilities	19,043,442	3,782,740	16,192,251	18,408,721	4,052	57,431,206
Net liquidity gap	(529,825)	18,021	1,113,045	4,448,630	5,919,636	10,969,507

3.6 Fair values of financial assets and liabilities

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

	Carrying value			Fair value
	2005	2004	2005	2004
Financial assets				
Due from banks	7,854,449	3,613,838	7,854,730	3,613,838
Loans and advances to customers, net of provisions	86,480,892	50,576,185	89,346,339	50,576,185
Financial liabilities				
Due to banks	10,087,816	8,654,774	10,094,019	8,654,774
Loans from banks	37,648,434	23,071,412	37,430,352	23,071,412
Due to customers	67,741,923	25,340,596	67,917,857	25,340,596

i) Due from other banks

Due from other banks includes inter-bank placements.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

ii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

In 2005 the Bank's management estimates the fair value of loans and advances to customers to be their amortised cost reported in the financial statements since the present value of expected future cash flows is considered not to be materially different from the carrying amount of loans and advances to customers.

iii) Due to other banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

In 2005 deposits from customers are reported at cost. These items have either predominantly short-term maturities or carry interest rates, which reflect current market conditions. Because of the periodically contractual repricing of these financial instruments, the Bank's management estimates fair value not to be materially different from the carrying amount of deposits from customers.

4. Critical accounting estimates and judgements in applying accounting policies

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

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates, among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Bank considers that the impairments observed are prolonged and significant and has recorded these impairments as such in the statement of profit and loss.

5. Adoption of new and revised standards

In 2005 the Bank adopted the following IFRS, which are relevant to its operations. The 2004 accounts have been amended as required, in accordance with the relevant transition requirements.

- IAS 1 (revised 2003) Presentation of Financial Statements
- IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 (revised 2003) Events after the Balance Sheet Date
- IAS 16 (revised 2003) Property, Plant and Equipment
- IAS 17 (revised 2003) Leases
- IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
- IAS 24 (revised 2003) Related Party Disclosures
- IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
- IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
- IAS 36 (revised 2004) Impairment of Assets
- IAS 38 (revised 2004) Intangible Assets

The adoption of the revised IAS 1, 8, 10, 16, 17, 21, 24, 32, and 39 (all revised 2003) and IAS 36 and 38 (all revised 2004) resulted in certain additional disclosures, but did not result in material changes to the Bank's accounting policies and accounting treatment of transactions.

6. Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2006 or later periods but which the Bank has not adopted early.

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

There are a number of other new standards or amendments to existing ones but the management concluded they are not relevant to the Bank's operations. These amendments and standards include:

- IAS 19 (Amendment) Employee Benefits (effective from 1 January 2006)
- IAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
- IAS 39 (Amendment) The Fair Value Option (effective from 1 January 2006)
- IFRS 1 (Amendment) First-time Adoption of International Financial Reporting Standards and
- IFRS 6 (Amendment) Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
- IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
- IFRIC 4 Determining whether an Arrangement contains a Lease (effective from 1 January 2006)
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)
- IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005)
- IAS 39 and
- IFRS 4 (Amendment) Financial Guarantee Contracts (effective from 1 January 2006)

7. Net interest income

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Interest and discount income		
Loans and advances to customers	17,030,504	7,055,000
Current accounts and deposits to banks	619,113	169,980
Treasury bills and bonds	1,325	22,614
	17,650,942	7,247,594
Interest expense		
Customers' term deposits	4,233,828	878,330
Loans from banks and financial institutions	1,826,418	905,791
Deposits from banks	226,756	279,805
	6,287,002	2,063,926

8. Net fee and commission income

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Fee and commission income		
Transaction-related fees and commissions	1,300,572	600,655
Other fees	36,670	13,028
	1,337,242	613,683
Fee and commission expense		
Fee and commission expense for transactions with other banks	176,972	103,643
Other fee and commission expenses	22,225	34,211
	199,197	137,854

9. Net trading income

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Net foreign exchange gain/(loss) from transactions in foreign currency	602,475	(1,006,802)
Net effect of translation of foreign currency denominated assets and liabilities	(647,455)	277,268
	(44,980)	(729,534)

10. Other operating expenses

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Salaries	2,895,986	1,753,332
Social security contributions	941,550	568,402
Administration expenses	1,707,506	873,860
Rent expenses	1,186,632	632,977
Depreciation and amortisation (Note 18 and 19)	938,899	509,808
Taxes other than income tax	229,308	104,120
Insurance	99,279	78,472
Contributions to Deposit Guarantee Fund	71,089	14,543
Other expenses	1,369,348	736,765
	9,439,597	5,272,279

Banks operating in Romania are required to make annual contributions to the Deposits Guarantee Fund ("the Fund"), which are established by Government Ordinance at 0.5% (2004: 0.8%) of the balance of individuals' deposits at 31 December of the preceding year.

11. Impairment losses on loans, advances and other assets

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Impairment charge/(release) on equity investment	67,691	(6,908)
Impairment charge for loans to customers (Note 15)	2,461,899	456,378
Recoveries from loans previously written-off	(228,983)	(42,668)
	2,300,607	406,802

12. Income tax expense

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

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Current tax	-	-
Deferred tax credit	(17,443)	-
	(17,443)	-

The tax on the Bank's profit differs from the theoretical amount that would arise using the basic tax rate of 16% applicable in Romania as follows:

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Profit / (loss) before tax	832,393	(717,142)
Tax calculated at 16% (2004: 25%)	133,183	(179,286)
Tax effects of items which are not deductible		
- non-taxable income	(177,981)	(277,372)
- non-deductible expense	82,553	188,019
Tax loss (brought)/carried forward	(20,312)	268,639
Income tax credit for the year	17,443	-

Current income tax is calculated applying a rate of 16% (2004: 25%). Deferred income taxes are calculated on all temporary differences under the liability method using an income tax rate of 16% (31 December 2004: 16%). During the year 2005 the Bank did not recognise deferred tax assets in relation to brought forward fiscal losses due to uncertainty about the availability of sufficient profits in the foreseeable future to utilise those deferred tax assets.

	31 Dec 2005	Differences recognition and reversals	31 Dec 2004
Tax effects of deductible temporary differences			
Provision for impairment of loans and other provisions	7,768	7,768	-
Restatement of property and equipment	12,643	12,643	-
	20,411	20,411	-
Tax effects of taxable temporary differences			
Other	2,968	2,968	-
	2,968	2,968	-
Net deferred tax asset	17,443	17,443	-

The Bank has an unrecognised potential deferred tax asset in respect of unused tax loss carry forwards of EUR 2,009,021. The tax loss carry forwards expire as follows: EUR 793,886 in 2008 and EUR 1,215,135 in 2009.

13. Cash and balances with the central bank

	31 Dec 2005	31 Dec 2004
Cash in hand	4,490,361	1,857,826
Current account with the Central Bank, of which:	25,201,286	9,700,823
Included in cash and cash equivalents (Note 26)	1,359,987	679,730
Mandatory reserves kept with Central Bank	23,841,299	9,021,093
	29,691,647	11,558,649

In accordance with local regulations in force, the Bank holds mandatory reserves with the Central Bank. The mandatory reserves are required to be held either in RON for RON-denominated deposits and in either US Dollars or in EUR in respect of foreign currency deposits. The Bank has elected to hold the reserve in US Dollars for US Dollar-denominated deposits, in EUR for EUR-denominated deposits, and in US Dollars for other foreign currency-denominated deposits, calculated according to a prescribed formula.

The formula is based upon a set percentage of each type of resource attracted by the Bank as customer funds or bank loans. The balance of mandatory reserves can vary on a daily basis and at 31 December 2005, the RON equivalent balance was EUR 23,841,294 (31 December 2004: EUR 9,696,847). The interest rates paid by the Central Bank for mandatory reserves held by banks are 1.5% for RON-denominated reserves, 0.95% for US Dollar-denominated reserves and 0.7% for EUR-denominated reserves as at 31 December 2005. The mandatory reserves can be used in the Bank's day to day activities providing the average balance for the month is maintained within the required formula.

14. Due from banks

	31 Dec 2005	31 Dec 2004
Current accounts	159,664	64,631
Placements with banks	7,694,785	3,549,207
	7,854,449	3,613,838

15. Loans and advances to costumers**(a) Economic sector risk concentrations**

Economic sector risk concentrations are analysed by the main line of business of borrowers as follows:

	31 Dec 2005		31 Dec 2004	
		%		%
Services	33,457,289	37	16,718,935	32
Commerce	28,088,981	32	16,082,590	31
Industry	13,966,812	16	5,955,907	12
Individuals, mortgage loans	8,725,806	10	12,496,560	24
Others	4,806,808	5	46,104	1
	89,045,696	100	51,300,095	100

	31 Dec 2005	31 Dec 2004
Gross loans and advances	89,045,696	51,300,095
Less provision for impairment losses on loans	(2,564,804)	(723,910)
Net loans and advances to customers	86,480,892	50,576,185

(b) Allowance for impairment on loans and advances

The movements in the allowance for impairment on loans and advances are as follows:

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
At beginning of period	723,910	427,337
Provision for loan impairment (Note 11)	2,461,899	456,378
Loans written off during the year	(621,005)	(159,805)
At end of period	2,564,804	723,910

(c) Geographic sector risk concentrations

All corporate loans were extended to companies operating in Romania and the vast majority of the individual loans are issued to Romanian residents.

16. Investment securities available for sale

	31 Dec 2005	31 Dec 2004
Investment in subsidiaries	674,125	594,557
Impairment loss on equity investments	(655,224)	(554,257)
Other unlisted equity investments	6,709	3,463
	25,610	43,763

Investment in subsidiaries represents the 100% investment held by the Bank in Microenterprise Credit Romania SA ("MCR"). This subsidiary is undergoing liquidation procedures. The Bank management considers that the consolidation of this subsidiary is not significant. The investment is provisioned up to the level of cash owned by the subsidiary. Other equity investments represent minority shareholdings.

17. Other assets and prepayments

	31 Dec 2005	31 Dec 2004
Income tax receivable	-	14,410
Prepayments	128,426	137,367
Sundry debtors	88,690	42,110
Other receivables	126,159	57,822
Other assets and prepayments	343,275	251,709

18. Intangibles

	Intangibles
Year ended 31 December 2004	
Opening net book amount	73,385
Additions	314,289
Disposals	-
Amortisation charge	(83,659)
Closing net book amount	304,015
At 31 December 2004	
Cost or valuation	459,897
Accumulated amortisation	(155,882)
Net book amount	304,015
Year ended 31 December 2005	
Opening net book amount	304,015
Additions	229,824
Disposals	-
Effect of exchange rate	61,316
Amortisation charge	(159,692)
Closing net book amount	435,463
At 31 December 2005	
Cost or valuation	722,804
Accumulated amortisation	(287,341)
Net book amount	435,463

19. Property and equipment

	Leasehold improvements and buildings	Furniture and equipment	Motor vehicles	Assets under construction	Total
Year ended 31 December 2004					
Opening net book amount	249,979	644,716	129,177	–	1,023,872
Additions	462,385	484,547	44,998	99,634	1,091,564
Disposals	(2,339)	(7,867)	(4,925)	–	(15,131)
Depreciation charge	(80,870)	(306,279)	(39,000)	–	(426,149)
Closing net book amount	629,155	815,117	130,250	99,634	1,674,156
At 31 December 2004					
Cost	769,110	1,398,033	200,553	99,634	2,467,330
Accumulated depreciation	(139,955)	(582,916)	(70,303)	–	(793,174)
Net book amount	629,155	815,117	130,250	99,634	1,674,156
Year ended 31 December 2005					
Opening net book amount	629,155	815,117	130,250	99,634	1,674,156
Additions	1,421,392	1,342,922	87,704	164,192	3,016,210
Disposals	–	(71)	(6,038)	(99,634)	(105,743)
Effect of exchange rate	32,918	13,933	26,490	–	73,341
Depreciation charge	(236,263)	(484,525)	(58,419)	–	(779,207)
Closing net book amount	1,847,202	1,687,376	179,987	164,192	3,878,757
At 31 December 2005					
Cost	2,230,896	2,826,786	308,160	164,192	5,530,034
Accumulated depreciation	(383,694)	(1,139,410)	(128,173)	–	(1,651,277)
Net book amount	1,847,202	1,687,376	179,987	164,192	3,878,757

20. Due to banks

	31 Dec 2005	31 Dec 2004
Deposits from other banks	10,087,816	8,654,774

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

21. Borrowings from banks and other financial institutions

	31 Dec 2005	31 Dec 2004
European Bank for Reconstruction and Development (EBRD)	16,409,115	4,973,598
Kreditanstalt für Wiederaufbau (KfW)	9,437,674	1,736,666
International Finance Corporation (IFC)	4,289,158	3,686,805
Commerzbank International	3,006,133	2,993,609
Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG)	3,006,354	2,994,505
German Romanian Fund (GRF)	1,500,000	2,842,039
ProCredit Bank Kosovo	–	805,404
Nederlandse Financierings Maatschappij voor Ontwikkelingslanden N.V (FMO)	–	3,038,786
Borrowings from banks and other financial institutions	37,648,434	23,071,412

A description of the borrowings at 31 December 2005 is provided below:

Loan from EBRD – micro-finance

In October 2003 the Bank concluded with the European Bank for Reconstruction and Development (“EBRD”) a loan agreement in the amount of EUR 5,000,000 for the purpose of granting micro-finance loans. The outstanding principal of the loan as of 31 December 2005 was EUR 4,166,667. The loan bears interest at a rate of 6-month Euribor plus a margin and is repayable in equal semi-annual instalments of EUR 833,333 each until June 2008.

Loan from EBRD – small and medium-sized enterprises (“SMEs”)

In May 2005 the Bank concluded with the European Bank for Reconstruction and Development (“EBRD”) a loan agreement in the amount of EUR 12,390,000 for the purpose of granting loans to SMEs. The loan was fully drawn as at year end. The loan bears interest at a rate of 6-month Euribor plus a margin and is repayable starting from June 2007 in equal semi-annual instalments of EUR 2,065,000 each until December 2009.

Loan from KfW – refinancing

In June 2004 the Bank concluded a loan agreement with KfW in the amount of EUR 1,480,000 for the purpose of refinancing other loans. The loan was fully drawn as at year end. The loan bears interest at a rate of 6-month Euribor plus a margin and is repayable starting from June 2008 in 2 equal semi-annual instalments.

Loan from KfW

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

Loan from KfW – acquired

During 2002 the Bank acquired from Microenterprise Credit Romania a loan agreement concluded initially with KfW in the amount of EUR 2,000,000. The loan was fully drawn as at year end. The loan carries a fixed interest rate and is repayable starting from June 2008 in 2 equal semi-annual instalments.

Loan from International Finance Corporation (“IFC”)

In December 2004 the Bank concluded with IFC a loan agreement in the amount of USD 10,000,000 (equivalent to EUR 8,451,769) for the purpose of refinancing other loans. The loan has a regular facility of USD 5,000,000 and a stand-by facility of USD 5,000,000. The outstanding principal of the loan as of 31 December 2005 is USD 5,000,000 (equivalent to EUR 4,225,885). The loan bears interest at a rate of 6-month Libor plus a margin and is repayable in equal semi-annual instalments of EUR 833,333 starting from March 2007 until September 2009.

Loan from Commerzbank

In February 2004 the Bank concluded a loan agreement with Commerzbank in the amount of EUR 3,000,000 for the purpose of refinancing other loans. The loan was fully drawn as at year end. The loan bears interest at a rate of 3-month Euribor plus a margin and is repayable in February 2007.

Loan from DEG

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

Loan from GRF

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

The loan agreements with IFC, EBRD and DEG require the Bank to comply with certain financial ratios (financial covenants). As at 31 December the Bank did not comply with some of the financial covenants required in the agreements with EBRD and IFC. As a consequence, the balances of these loans have been presented in the liquidity note as being due as at year-end (Note 3.5).

	31 December 2005		31 December 2004	
	Number of shares	%	Number of shares	%
ProCredit Holding AG	1,438,375	25.62	673,163	19.98
Commerzbank Aktiengesellschaft	1,124,752	20.03	674,959	20.03
European Bank for Reconstruction and Development	927,824	16.53	556,783	16.53
Deutsche Investitions- und Entwicklungsgesellschaft mbH	927,824	16.53	556,783	16.53
International Finance Corporation	846,910	15.08	508,227	15.08
International Projekt Consult GmbH	348,621	6.21	224,904	6.68
Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden NV	–	–	174,302	5.17
	5,614,306	100.00	3,369,121	100.00

22. Due to customers

	31 Dec 2005	31 Dec 2004
Demand deposits		
Individuals	1,887,241	642,623
Corporate entities	5,741,526	2,570,651
	7,628,767	3,213,274
Savings and time deposits		
Individuals	30,845,645	9,120,525
Corporate entities	29,267,511	13,006,797
	60,113,156	22,127,322
Aggregate	67,741,923	25,340,596

Included in customer accounts are deposits of EUR 142,309 (31 December 2004: EUR 25.84) held as collateral for loans and advances to customers.

23. Other liabilities

	31 Dec 2005	31 Dec 2004
Salaries and related contributions and taxes payables	390,872	264,065
Other liabilities	188,853	100,359
	79,725	364,424

24. Share capital

The shareholders with a holding in excess of 5% are as follows (based on statutory share capital figures, expressed in nominal values):

The issued capital of the Bank is represented by 5,614,306 shares (31 December 2004: 3,369,121 shares) of RON 10 each, equivalent to USD 14,400,000.02 and EUR 2,000,000.75. In April 2005 FMO transferred 174,302 shares to IPC and ProCredit Holding acquired 190,000 shares from IPC.

In July 2005, due to the redenomination of the local currency, the Bank changed the nominal value of the shares from ROL 166,640 to RON 10 each.

25. Reserves

	31 Dec 2005	31 Dec 2004
Demand deposits		
Statutory reserve	43,657	–
General banking risks reserve	829,553	–
	873,210	–

In accordance with the Romanian legislation, the Bank must distribute the statutory profit as dividends or effect a transfer to retained earnings (reserves) on the basis of the financial statements prepared under Romanian Accounting Regulations ("RAR"). Amounts

transferred to reserves must be used for the purposes designated when the transfer is made. Starting from 1 January 2004, under Romanian banking legislation the Bank is required to create the following reserves from appropriation of the profit for the year calculated under RAR:

(a) Statutory reserve, appropriated at the rate of 5% of the gross statutory profit, until the total reserve equals a maximum of 20% of the issued and fully paid-up share capital (all based on figures from the statutory financial statements prepared in accordance with RAR);

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

After reducing taxes and setting aside the reserves as discussed above, the remaining balance of the statutory net profit may be distributed to shareholders. Dividends may only be declared from current statutory profit determined in accordance with RAR. The statutory reserves (EUR 873,210) may be distributed subject to the approval of the Annual General Meeting of the Shareholders but would be taxed upon distribution.

26. Analysis of cash and cash equivalents

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

	31 Dec 2005	31 Dec 2004
Cash and balances with the Central Bank (Note 13)	5,850,348	2,537,556
Due from other banks (Note 14)	7,854,449	3,608,020
	13,704,797	6,145,576

27. Comparatives

The comparatives have been adjusted to conform with the current year's presentation.

The main source of changes is detailed below:

(i) Accrued interest was presented in 2004 as a component of Other assets; in 2005 it is presented as a component of the amortised cost of each financial asset or liability

(ii) In 2004 the AFS securities held by the Bank were kept at fair value being recycled through PL; by adopting IAS 39, revised on 1 January 2005, the Bank designated them as Financial Assets at fair value through profit and loss

	As reported 31 Dec 2004	As previously reported 31 Dec 2004	Difference	Accrued interest presentation	Designation of available for sale investments	Other and effect of translation
Cash and balances with the Central Bank	11,558,649	11,619,304	60,655	-	-	60,655
Due from banks	3,613,838	3,543,389	(70,449)	-70,449	-	-
Held at fair value through profit and loss	378,397		(378,397)		-378,397	-
Loans and advances to customers, net of provisions	50,576,185	50,068,847	(507,338)	-507,338	-	-
Investment securities available for sale	43,763	410,189	366,426		378,397	(11,971)
Other assets and prepayments	251,709	880,447	628,738	628,738	-	-
Property and equipment	1,674,157	1,574,522	(99,635)	-	-	(99,635)
Liabilities						
Due to banks	8,654,774	8,599,142	(55,632)	(55,632)	-	-
Due to customers	25,340,596	25,075,074	(265,522)	(265,522)	-	-
Borrowings from banks and other financial institutions	23,071,412	22,911,360	(160,052)	(160,052)	-	-
Other liabilities	364,424	845,630	481,206	481,206		

28. Contingencies and commitments

Legal proceedings

As at 31 December 2005 there were no legal proceedings outstanding against the Bank.

Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend

credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers.

	31 Dec 2005	31 Dec 2004
Guarantees given	172,315	29,531
Commitments to extend credit	1,185,562	673,769
	1,357,877	703,300

The Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from the granting of loans. In the event of a claim on the Bank as

a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank. At 31 December 2005 no provision has been established for risks arising from off-balance sheet commitments (31 December 2004: nil).

Assets pledged/restricted

The Bank had no pledged deposits in other banks (31 December 2004: EUR 335,495). Mandatory reserve deposits are restricted balances held with the Central Bank in accordance with Central Bank requirements (Note 13).

Taxation risk

The taxation system in Romania is subject to varying interpretations and to constant changes, which may be retroactive. In certain circumstances the tax authorities can be aggressive and arbitrary in assessing tax penalties and interest. Although the actual tax due on a transaction may be minimal, penalties can be significant as they may be calculated based on the value of the transaction and can be as high as 0.06% per day and 0.5% per month. In Romania, tax periods remain open to tax audits for a period of 5 years from the end of the period. The last tax audit of the Bank was conducted in 2005 for the period 2002-2004. The management of the Bank is unaware of any specific tax risks. To minimise the Bank's exposure to taxation risk, the Bank's management makes use of professional advice on a regular basis.

Operating lease commitments

The future minimum lease payments under non-cancellable building operating leases are as follows:

	2005	2004
No later than 1 year	56,328	–
Later than 1 year and no later than 5 years	9,017,652	6,017,730
Later than 5 years	4,112,018	19,304,851
	13,185,998	25,322,581

29. Related party transactions

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

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and conditions and at market rates or at rates that are representative of the credit risk of the respective entities.

List of related parties and description of the nature of the relationship

Name	Relationship
Commerzbank Aktiengesellschaft (and its subsidiaries)	shareholder
Deutsche Investitions- und Entwicklungsgesellschaft	shareholder
European Bank for Reconstruction and Development	shareholder
Nederlandse Financierings Maatschappij voor Ontwikkelingslanden NV	shareholder
International Finance Corporation	shareholder

Internationale Projekt Consult	shareholder
ProCredit Holding AG	shareholder
ProCredit Bank Albania	bank belonging to the group
ProCredit Bank Bulgaria	bank belonging to the group
ProCredit Bank Bosnia and Herzegovina	bank belonging to the group
ProCredit Bank Congo	bank belonging to the group
ProCredit Bank Georgia	bank belonging to the group
ProCredit Bank Kosovo	bank belonging to the group
ProCredit Bank Macedonia	bank belonging to the group
ProCredit Bank Serbia and Montenegro	bank belonging to the group
ProCredit Bank Ukraine	bank belonging to the group
Microenterprise Credit Romania	subsidiary

The parent company of the Bank is ProCredit Holding, Germany.

The related party transactions for the reporting period and outstanding balances at period end are as follows:

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Assets		
Loans and advances	721,919	4,027,699
Other debtors-receivable	94,228	–
Liabilities		
Deposits	2,033,611	4,748,866
Borrowings	26,734,474	18,339,321
Other payables	–	10,884
Income		
Interest income	16,901	7,249
Fees and commission	(8,007)	(166,210)
Expense		
Interest expense	(1,543,073)	(879,255)
Other expenses	(170,864)	–
Management salaries	(475,837)	(392,610)

30. Operating environment of the bank

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 moderate inflation.

Additionally, the banking sector in Romania is particularly impacted by currency fluctuations and economic conditions. Furthermore, the need for further developments in the bankruptcy laws, in formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Romania. The prospects for future economic stability in Romania are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal and regulatory developments.

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