



**ProCredit Bank**

Romania

*Annual Report 2007*



## Key Figures

EUR '000	2007	2006	Change
<b>Balance Sheet Data</b>			
Total Assets	281,435	218,299	28.92%
Gross Loan Portfolio	213,834	157,278	35.96%
Business Loan Portfolio	164,426	124,819	31.73%
EUR < 10,000	71,859	59,976	19.81%
EUR > 10,000 < 50,000	57,839	38,857	48.85%
EUR > 50,000 < 150,000	20,305	14,238	42.61%
EUR > 150,000	14,423	11,748	22.77%
Agricultural Loan Portfolio	29,204	17,225	69.54%
Housing Improvement Loan Portfolio	12,633	10,610	19.06%
Other	7,571	4,625	63.72%
Allowance for Impairment on Loans	5,322	3,276	62.45%
Net Loan Portfolio	208,513	154,002	35.40%
Liabilities to Customers	160,752	116,858	37.56%
Liabilities to Banks and Financial Institutions	79,499	63,213	25.76%
Shareholders' Equity	19,150	19,510	-1.84%
<b>Income Statement</b>			
Operating Income	25,928	18,626	39.20%
Operating Expenses	24,797	17,008	45.80%
Operating Profit Before Tax	1,131	1,618	-30.10%
Net Profit	947	1,501	-36.91%
<b>Key Ratios</b>			
Cost/Income Ratio	91.02%	85.2%	
ROE*	4.90%	9.33%	
Capital Ratio	12.19%	14.10%	
<b>Operational Statistics</b>			
Number of Loans Outstanding	39,269	29,621	32.57%
Number of Loans Disbursed within the Year	26,487	22,318	18.68%
Number of Business and Agricultural Loans Outstanding	31,775	24,768	28.29%
Number of Deposit Accounts	106,804	87,986	21.39%
Number of Staff	899	795	13.08%
Number of Branches and Outlets	35	29	20.69%

\* The ROE figure for 2006 differs from that shown in last year's annual report because the method of calculating this indicator has been modified.

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## Mission Statement

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

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

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



## Letter from the Board of Administrators

After Romania joined the European Union at the beginning of 2007, many banks from other member states decided to explore the opportunities presented by this new market. The resulting struggle for market share has had a defining impact on the banking sector. The number of bank branches and bank employees has grown dramatically; consumer lending has significantly expanded and Romanians have been bombarded with new products, new offers, and new promises.

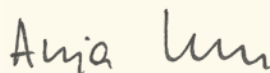
In view of this aggressive competition, and taking into account the impact of the sub-prime mortgage crisis in the United States, in 2007 ProCredit Bank made an even greater effort to emphasise simplicity and transparency in its relationships with its clients. In a year of tempting opportunities for financial institutions in Romania and throughout the region, a fixed-rate loan from ProCredit Bank Romania remained a fixed-rate loan. There were no “teaser” rates or obscure foreign currency loans, but instead an insistence on explaining to clients all of the risks and all of the costs associated with their loans. This resolve sharpened the bank’s profile in the Romanian market.

The Romanian financial sector experienced increased competition beyond the race for clients and market share; competing banks also felt pressure in the struggle to attract qualified staff. Salaries increased substantially, and staff turnover rose across the entire sector, including at ProCredit Bank. Unlike its competitors, ProCredit Bank Romania did not deceive its staff with unrealistic promises of career opportunities and salaries. Rather, in line with our corporate values, we pursued a policy of sustainability and transparency. Like all of the ProCredit banks, we at ProCredit Bank Romania consistently invested in personnel development and thereby continued to strengthen our long-term relationships with our staff members. The establishment of a local training centre in Romania, alongside the academies for ProCredit management personnel in Skopje, Macedonia, and Fürth, Germany, is a clear expression of a personnel policy geared towards commitment and continuity.

Despite the intense competition for clients and talented employees, ProCredit Bank achieved good results in 2007. The bank’s profitability remained solid – one of the factors which led Fitch to upgrade our individual rating. The loan portfolio grew by 36%, with especially encouraging results in the agricultural sector, where the bank is one of the market leaders. In a market dominated by the drive to boost lending to finance consumption, ProCredit Bank continued to emphasise the importance of savings, and customer funds grew by 38% – exceeding the market growth rate of 35%. We added six branches to our network.

Together with our extremely competent and loyal staff, we begin the year 2008 with high expectations and a high level of confidence. We will add another 15 branches to our network, opening nine in cities where the bank does not yet have a presence. Branch network expansion will lay the foundations for increased outreach to both rural and urban clients. We expect the bank’s profile to remain distinct in 2008 – as a vocal proponent of a transparent, honest banking sector in Romania.

I would like to thank our staff, customers and management for their loyalty and dedication to the institution and for the excellent results achieved in 2007. Despite the possible turmoil in the international and Romanian financial markets, we will face future challenges with the same tenacity that has brought us to where we are today. With this confidence, I am sure that 2008 will be another successful year for all of us.



Anja Lepp

Chairperson of the Board of Administrators

### Members of the Board of Administrators:

Anja Lepp  
Ana Maria Mihaescu  
Rüdiger Rurainsky  
Hanns Martin Hagen  
Maria Teresa Zappia  
Hans-Joerg Krohn  
Dietrich Ohse

### Members of the Management Board:

Michael Kowalski  
Asmus Rotne  
Dana Enache  
Marius Sindile

## The Bank and its Shareholders

ProCredit Bank Romania is part of the ProCredit group, which is led by its Frankfurt-based parent company, ProCredit Holding. ProCredit Holding is the majority shareholder in ProCredit Bank Romania. In 2007, it agreed with Kreditanstalt für Wiederaufbau (KfW) and International Finance Corporation (IFC) to acquire their shares in the bank. Once this transaction is registered, ProCredit Holding will hold 57.49% of the shares. This proposed acquisition is subject to approval by the National Bank of Romania; the shareholder structure shown below was current as of the end of December 2007.

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

sector and contribute to long-term economic development while also achieving a sustainable return on the investment.

The founding shareholders of ProCredit Bank Romania were IFC, Deutsche Investitions- und Entwicklungsgesellschaft (DEG), the European Bank for Reconstruction and Development (EBRD), ProCredit Holding, Commerzbank, and the Netherlands Development Finance Company (FMO). The management of the bank was provided by Internationale Projekt Consult (IPC). Over the years, ProCredit Holding, working closely with IPC, has consolidated the ownership and management structure of all the ProCredit banks and financial institutions to create a truly global group with a clear shareholder structure and to bring to each ProCredit institution all the synergies and benefits that this implies. Today's shareholder structure of ProCredit Bank Romania is outlined below. Its current share capital is almost EUR 18.9 million.

Shareholder (as of Dec. 31, 2007)	Sector	Headquarters	Share	Paid-in Capital (in EUR)
ProCredit Holding	Investment	Germany	32.22%	6,082,383
Commerzbank	Banking	Germany	21.03%	3,969,972
EBRD	Banking	UK	16.53%	3,120,478
KfW	Banking	Germany	13.21%	2,493,739
IFC	Banking	USA	12.05%	2,274,759
IPC	Consulting	Germany	4.96%	936,332
<b>Total Capital</b>			<b>100%</b>	<b>18,877,664</b>



**ProCredit**  
HOLDING

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

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

ensures that ProCredit corporate values, best-practice banking operations and Basle II risk management principles are implemented group-wide.

IPC is the leading shareholder and strategic investor in ProCredit Holding. IPC has been the driving entrepreneurial force behind the ProCredit group since the foundation of the banks. Historically, IPC provided the senior managers of the ProCredit banks. At the end of 2007, IPC staff were integrated into ProCredit Holding, significantly strengthening the company's ability to support the ProCredit group.

ProCredit Holding is a public-private partnership. In addition to IPC and IPC Invest (the investment vehicle of the staff of IPC and ProCredit), the other private shareholders of ProCredit Holding include the Dutch DOEN Foundation, the US pension fund TIAA-CREF, It

the US Omidyar-Tufts Microfinance Fund, the Swiss investment fund responsAbility and the Salvadoran company Fundasal. The public shareholders of ProCredit Holding include KfW (the AAA-rated German promotional bank), IFC (the AAA-rated private sector arm of the World Bank), FMO (the Dutch development bank) and BIO (the Belgian development fund).

ProCredit Holding has an investment grade rating (BBB-) from Fitch Ratings Agency. As of the end of 2007, the equity base of the ProCredit group is EUR 333.2 million. The total assets of the ProCredit group are EUR 4.1 billion.

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



**The European Bank for Reconstruction and Development (EBRD)** was established in 1991. It aims to foster the transition towards open, market-oriented economies and to promote private and entrepreneurial initiative in countries from Central Europe to Central Asia that are committed to democracy, pluralism and market economics. The EBRD seeks to help its countries of operations to implement structural and sectoral economic reforms, promoting competition, privatisation and entrepreneurship. In fulfilling its role as a catalyst of change, the Bank encourages co-financing and foreign direct investment from the private and public sectors, helps to mobilise domestic capital, and provides technical cooperation in relevant areas.



**KfW Entwicklungsbank (KfW Development Bank):** On behalf of the German federal government, KfW Entwicklungsbank finances investments and accompanying advisory services in developing and transition coun-

tries. Its aim is to build up and expand the social and economic infrastructure of the respective countries, and to advance sound financial systems while protecting resources and ensuring a healthy environment. KfW Entwicklungsbank is a leader in the field of microfinance and is involved in target group-oriented financial institutions around the world. It is part of KfW Bankengruppe (KfW Banking Group), which has a balance sheet total of approximately EUR 375 billion (as of December 2007). KfW Bankengruppe is one of the ten biggest banks in Germany and is AAA-rated.



**IFC**, a member of the World Bank Group, fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing private capital in local and international financial markets, and providing advisory and risk mitigation services to businesses and governments. IFC's vision is that poor people have the opportunity to escape poverty and improve their lives. In FY07, IFC committed \$8.2 billion and mobilized an additional \$3.9 billion through loan participations and structured finance for 299 investments in 69 developing countries. IFC also provided advisory services in 97 countries. For more information, visit [www.ifc.org](http://www.ifc.org).



**Internationale Projekt Consult (IPC)**, a Frankfurt-based company, was founded in 1981. Since then, IPC has provided sound consulting and management services for meaningful development projects. The company has been particularly successful in its activities in the financial sector, a field in which IPC has been involved since 1984. IPC advises banks in developing countries and transition economies on how to build their capacity to provide financial services to very small, small and medium-sized enterprises. Over the last two and a half decades, IPC has set new standards in the establishment of target group-oriented financial institutions. It founded ProCredit Holding, and remains that company's leading shareholder and strategic investor. From the very beginning, IPC has been the driving entrepreneurial force behind the ProCredit group, and until November 2007 it also provided management services for all of the ProCredit banks and seconded qualified personnel to ProCredit Holding.

## The ProCredit Group – Neighbourhood Banks for Ordinary People

The ProCredit group currently comprises 22 target group-oriented banks operating in as many countries. We focus on developing countries and transition economies in three regions: Eastern Europe, Latin America and Africa. The group has 622 branches staffed by 16,800 employees. Currently, ProCredit banks disburse more than 75,000 loans totalling more than EUR 236 million every month. By the end of 2007, the number of loans outstanding had grown to 926,000 (amounting to EUR 2.8 billion, an increase of 34% over the year). The average loan amount outstanding is EUR 3,045, and the loan portfolio quality remains excellent, with a ratio of loans in arrears (>30 days) to total loan portfolio of only 1.4%. Over 2007, the group's deposit base increased from EUR 1.8 billion to EUR 2.5 billion, an increase of 37%. The number of accounts increased by 900,000.

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

In the developing countries and transition economies in which the ProCredit group operates, conventional commercial banks tend to neglect small and very small businesses because they are thought to keep inadequate records, have insufficient collateral and generate high administrative costs. However, these businesses are the main engine of economic growth and job creation. Over the years, the ProCredit group and IPC, which developed the lending methodology used by the ProCredit group, have gained a profound understanding of both the problems faced by small businesses and the opportunities available to them, and have tailored the credit technology to reflect the realities of their operating envi-

ronment. Thanks to this credit technology, which combines careful analysis of all credit risks with a high degree of standardisation and efficiency, ProCredit institutions are able to reach a large number of small borrowers.

In contrast to ProCredit, other commercial banks give priority in their lending operations to corporate finance and consumer lending, especially the latter. Consumer finance is attractive to those banks because it usually does not require skilled staff or much financial analysis of the client, allowing banks focussed on market share to grow quickly. However, this quest for market share can lead to irresponsible lending and over-indebtedness on the part of the client. ProCredit never forgets that a loan is also a debt. The recent events around the US subprime mortgage crisis are an important reminder of the social and economic consequences of inappropriate lending behaviour. In contrast, we place great emphasis on the careful evaluation of a borrower's debt capacity and on building lasting relationships. In this way, ProCredit is characterised by a responsible, long-term attitude towards business development and client relationships.

Furthermore, ProCredit institutions strive to foster a savings culture. We aim to build public confidence in banks by setting new standards in customer service, transparency and business ethics. ProCredit deposit facilities are appropriate for a broad range of customers, especially low-income groups. We offer simple savings products with no minimum deposit requirement. Eighty percent of all deposit accounts have a balance of less than EUR 100. This illustrates our target-group orientation and highlights the challenge of serving this target group of small savers who account for only 1% of our total deposit volume. In the spirit of a neighbourhood bank, ProCredit banks place great emphasis on children's savings products and education campaigns as well as on sponsoring local community events. In addition to deposit facilities, clients are offered a full range of standard non-credit banking services.

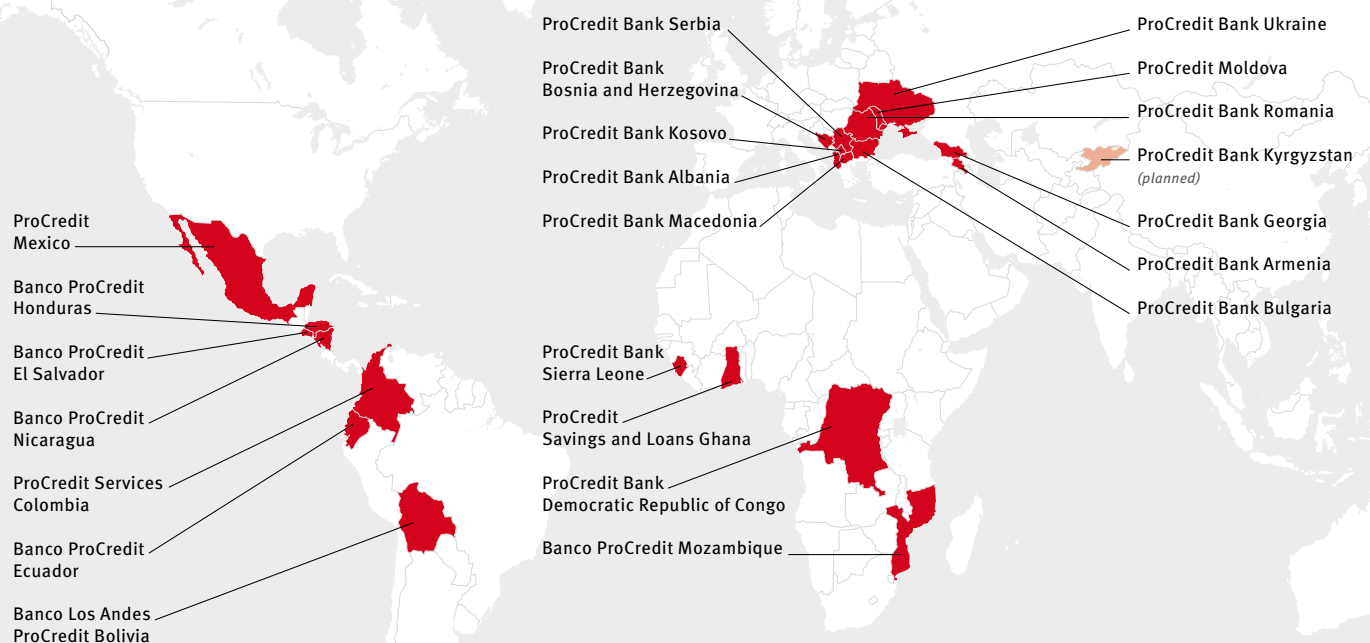
The shareholders of the group aim to strike the right balance between their prime developmental goals: reaching as many small enterprises and small savers as possible, and achieving commercial success. For 2007, the return on equity for

the group as a whole, expressed in hard currency after deduction of profit taxes, is 12.6%.

And who are the shareholders behind the ProCredit group? The ProCredit group is led by the Frankfurt-based ProCredit Holding AG, founded by the consulting firm IPC in 1998. In Eastern Europe, EBRD and Commerzbank, and in Latin America, the IDB, also participate as minority shareholders. ProCredit Holding is a public-private partnership, led by IPC and by IPC Invest, the investment vehicle of the staff of IPC and ProCredit. The other private shareholders of ProCredit Holding include the Dutch DOEN Foundation, the US pension fund TIAA-CREF, the US Omidyar-Tufts Microfinance Fund and the Swiss investment fund responsibility. The public shareholders include KfW, IFC, FMO and BIO.

ProCredit Holding not only provides equity to its subsidiaries, but also guides the development of the ProCredit banks, provides their senior management, and supports the banks in all key areas of activity. Historically, IPC staff managed the ProCredit institutions, building them to what they are today. At the end of 2007, IPC staff were integrated into ProCredit Holding, greatly strengthening its ability to support the group. The holding company ensures that ProCredit corporate values, best-practice banking operations and Basle II risk management principles are implemented group-wide. Plans are underway to bring the ProCredit group under the supervision of the German federal banking supervisory authority (BaFin) in 2008.

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





ProCredit Holding is deeply involved in human resource management. The neighbourhood bank concept is not limited to our target customers and how we reach them, it is also about our staff: how we work with one another and how we work with our customers. The neighbourhood bank approach requires a high degree of decentralised decision-making and therefore judgement and creativity from all staff, especially our branch managers. Our corporate values embed principles such as honest communication, transparency and professionalism into our day-to-day business. Key to our success is therefore the right selection and training of staff. We maintain a corporate culture that harnesses the creativity and entrepreneurial spirit of our staff, while fostering their deep sense of personal and social responsibility. This entails not only intensive training in technical and management skills, but also a continuous exchange of personnel among our member institutions in order to take full advantage of the opportunities for staff development that are created by their participation in a truly international group.

A central plank in our approach to training is the group's ProCredit Academy in Germany, which provides a three-year, part-time "ProCredit Banker" training programme for high-potential personnel from each of the ProCredit institutions. The programme includes intensive technical training and also exposes participants to a very multicultural learning environment and to subjects such as anthropology and the humanities. The programme provides an opportunity for our future leaders to develop their views of the world, as well as their communication and staff management skills. The professional development of local middle managers is further supported by three regional academies in Latin America, Africa and Eastern Europe, which provide similar off-site training for a larger number of people.

The group's strategy is to continue its very rapid growth in order to meet the large unmet demand for financial services from its target groups. The continued success of ProCredit relies on a self-confident team of people who share a personal commitment to the target group, to fast growth and to the neighbourhood way of doing things.

## ProCredit in Eastern Europe

ProCredit operates in 11 countries across Eastern Europe. With more than 535,000 loans outstanding, it is the region's leading provider of banking services to very small, small and medium-sized businesses. In 2007, ProCredit decided to expand its regional presence into Armenia and Kyrgyzstan. A provisional banking licence has been obtained in Armenia, and the bank will be operational in February 2008. We plan for ProCredit Bank Kyrgyzstan to be operational in 2008.

The region is currently enjoying relative political stability and strong GDP growth of around 5% in 2007. Financial sectors and private sector lending are also rapidly expanding. In all Eastern European markets in which ProCredit operates, total banking assets in 2007 grew by well over 20%, and in several markets by over 50%. Much of this growth is driven by heavy investment in the form of foreign capital and the activities of western banks. In this context the market opportunities are clear, but sometimes we are asked: can ProCredit 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 other banks continues to be corporate finance and consumer lending. They neglect lending to small 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 Soviet influence and the large state-owned enterprises related to it. For most banks, it is simply easier to make money with consumer lending and loans to large corporate clients, since small business lending requires decentralised decision-making and highly qualified staff who are able to assess risk quickly and reliably and maintain durable client relationships.

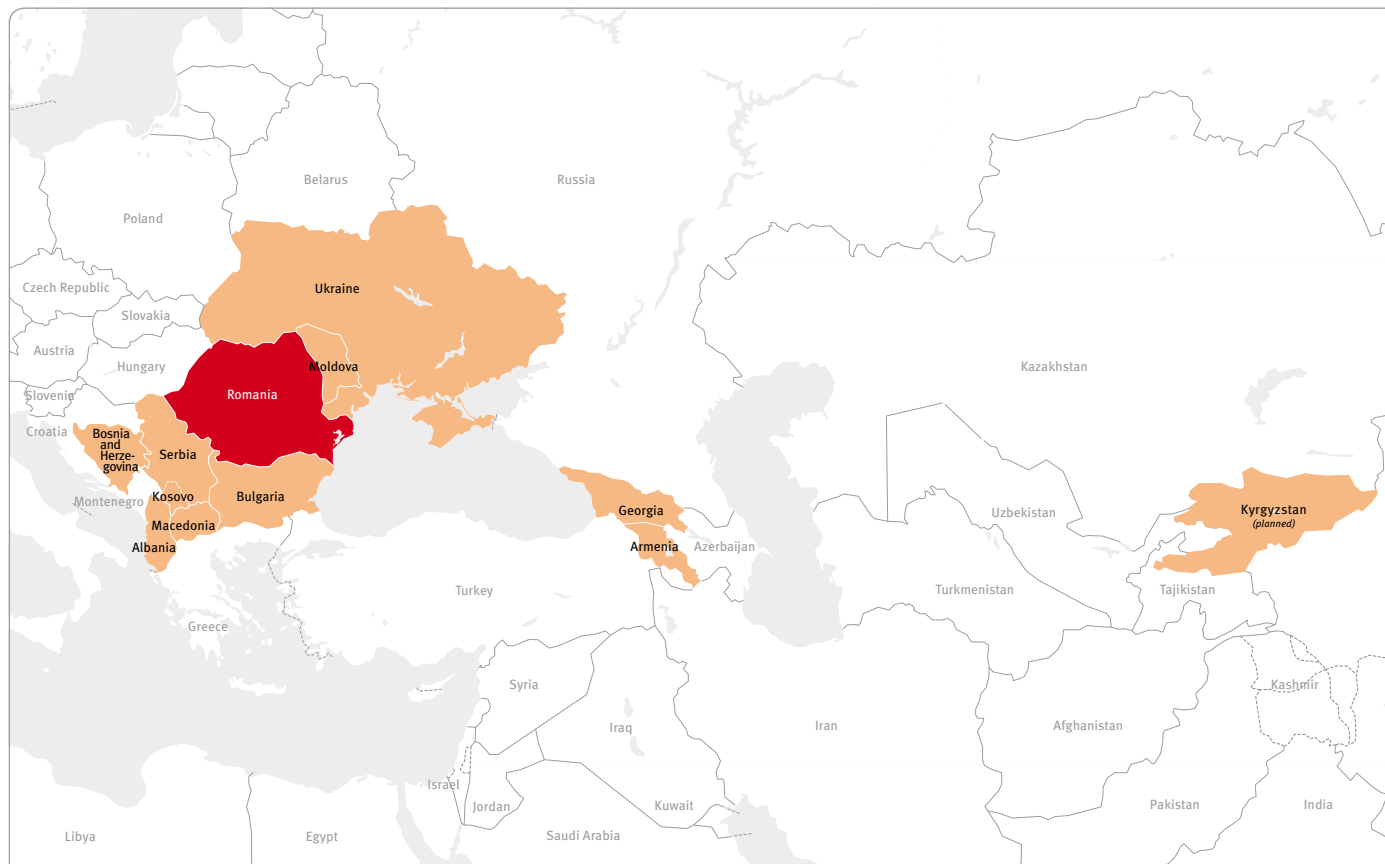
The loan portfolio volume of ProCredit banks in Eastern Europe grew by more than 34% in 2007, which is at least as fast as the consumer-driven market as a whole, emphasising the importance of our focus on small business loans. The impor-

tance of ProCredit in transition economies should be no surprise: even in well-developed western markets, only a few banks are dedicated to the long-term support of small business customers.

It is also no surprise that consumer lending, which is being so aggressively pursued by other banks in Eastern Europe, is not a business in which ProCredit actively engages. We believe that it tends to drive imports rather than domestic production. If pushed irresponsibly in the context of a market-share gain game – with very little analysis of a customer's repayment capacity – it quickly leads to over-indebtedness. This creates suffering for the individuals and families affected, and can undermine wider social and financial stability. The growing incidence of rising default rates underpins this view. The sub-prime mortgage crisis in the US is a timely reminder of the consequences of inappropriate lending practices. Our approach is to provide loans primarily to businesses and to do so based on a careful, efficient analysis of a client's ability to repay. We aim to build lasting relationships, and we never forget that a loan is also a debt. In this way, ProCredit is characterised by a responsible, long-term attitude towards business development.

Across the region, we provide agricultural loans, supporting a sector that has been particularly neglected by other banks and that is vital for employment and social cohesion outside the main urban areas. We also provide housing improvement loans to help low-income families renovate their homes and improve energy efficiency. ProCredit banks offer their business clients loans and other services, including plastic cards and fast, low-cost money transfers ("ProPay"), providing a truly integrated service for entrepreneurs who are active across the region.

In the face of rapid expansion in consumer lending, we make it a priority to create a "savings" culture, not just a "spending" culture – because savings are an important buffer against the vagaries of life. The level of deposits to GDP in Eastern European countries, typically around 50%, remains well below Western European levels. Through promotional events and direct, personal communication, we encourage people – particularly those who do not yet have a banking relationship – to use banking services and to regu-



larily set aside a portion of their earnings. This outreach is combined with the offer of simple and reliable banking products, especially savings and deposit accounts.

In keeping with our mission to be accessible to clients wherever they are, the ProCredit group continues to expand to provide comprehensive coverage across the region: in 2007 we opened 100 branches and employed 2,400 more staff to bring the total to more than 440 branches and 11,000 staff. Our clients can now drive from Tirana in Albania to Yerevan in Armenia and enjoy the same friendly service and open, welcoming branches all along the way. We place a strong emphasis on transparency in all ProCredit banks. We run information campaigns to ensure that all customers understand the pricing of our products as well as those of our competitors, since we find that aggressively growing markets create a lot of scope for misleading customers about the true price of banking services.

Our staff are the key element in our approach to being a stable, down-to-earth banking partner to clients across the region. The group has a strong commitment to staff training, professional development and cultivating an open, honest communication culture. Staff exchanges, cross-border training programmes and regional workshops are an important part of our approach. In 2007 we founded the ProCredit Regional Academy in Skopje, Macedonia for the training of local middle managers. Already 90 managers have graduated from the six-week intensive course. In the highly competitive Eastern European banking sectors, well-trained, highly motivated ProCredit staff, who have built strong, long-term relationships with clients, are in high demand from competitor banks. However, the ProCredit work environment, the investment we make in our staff, and the international opportunities that they enjoy enable us to be very successful in retaining our best people, providing a firm base for our ongoing growth in the region.

Name	Highlights*	Contact
<b>ProCredit Bank Albania</b>	Founded in October 1998 26 branches 32,581 loans / EUR 117.5 million in loans 198,668 deposit accounts / EUR 213.8 million 711 employees	Rruga Sami Frasheri Tirana Tel./Fax: +355 4 2 271 272 / 276 info@procreditbank.com.al www.procreditbank.com.al
<b>ProCredit Bank Armenia</b>	Founded in December 2007 Operational in February 2008 1 branch 118 employees	31, Moskovvan St. Building 99 Yerevan 0002 Tel./Fax: + 374 10 514 860 / 853 info@procreditbank.am www.procreditbank.am
<b>ProCredit Bank Bosnia and Herzegovina</b>	Founded in October 1997 39 branches 68,752 loans / EUR 162.1 million in loans 84,126 deposit accounts / EUR 143.1 million 831 employees	Emerika Bluma 8 71000 Sarajevo Tel./Fax: +387 33 250 950 / 250 971 info@procreditbank.ba www.procreditbank.ba
<b>ProCredit Bank Bulgaria</b>	Founded in October 2001 72 branches 63,125 loans / EUR 447.4 million in loans 194,530 deposit accounts / EUR 311.4 million 1,566 employees	131, Hristo Botev Blvd. Sofia 1233 Tel./Fax: +359 2 813 51 00 / 51 10 contact@procreditbank.bg www.procreditbank.bg
<b>ProCredit Bank Georgia</b>	Founded in May 1999 42 branches 64,283 loans / EUR 164.2 million in loans 407,756 deposit accounts / EUR 118.2 million 1,476 employees	154 D. Agmashenebeli Ave. 0112 Tbilisi Tel./Fax: +995 32 20 2222 / 2266 info@procreditbank.ge www.procreditbank.ge
<b>ProCredit Bank Kosovo</b>	Founded in January 2000 47 branches 69,601 loans / EUR 343.2 million in loans 296,825 deposit accounts / EUR 492.1 million 914 employees	“Mother Tereze” Boulevard No. 16 10 000 Prishtina Tel./Fax: +381 38 555 777 / 776 info@procreditbank-kos.com www.procreditbank-kos.com
<b>ProCredit Bank Macedonia</b>	Founded in July 2003 34 branches 28,642 loans / EUR 105.3 million in loans 117,247 deposit accounts / EUR 105.9 million 737 employees	Bul. Jane Sandanski 109a 1000 Skopje Tel./Fax: +389 2 321 99 00 / 01 info@procreditbank.com.mk www.procreditbank.com.mk
<b>ProCredit Moldova</b>	Founded in December 1999 22 branches 15,267 loans / EUR 25.0 million in loans 323 employees	65, Stefan cel Mare Ave. Off. 900; Chisinau Tel./Fax: +373 22 27 0707 / 3488 office@procredit.md www.procredit.md
<b>ProCredit Bank Moldova</b>	Founded in December 2007 Operational in February 2008 1 branch 41 employees	35, Eminescu St. Chisinau Tel./Fax: +373 22 271707 / 204496 office@procreditbank.md www.procreditbank.md
<b>ProCredit Bank Romania</b>	Founded in May 2002 36 branches 39,687 loans / EUR 213.9 million in loans 106,804 deposit accounts / EUR 160.8 million 899 employees	Strada Buzesti, No. 62-64, Sector 1 011017 Bucharest Tel./Fax: +40 21 2016000 / 305 5663 headoffice@procreditbank.ro www.procreditbank.ro
<b>ProCredit Bank Serbia</b>	Founded in April 2001 60 branches 101,999 loans / EUR 415.3 million in loans 434,183 deposit accounts / EUR 393.4 million 1,625 employees	Bulevar despota Stefana 68c Belgrade Tel./Fax: +381 11 20 77 906/ 905 info@procreditbank.rs www.procreditbank.rs
<b>ProCredit Bank Ukraine</b>	Founded in January 2001 61 branches 52,885 loans / EUR 264.9 million in loans 100,682 deposit accounts / EUR 150.1 million 1,803 employees	107a Peremogy Ave. Kyiv 03115 Tel./Fax: +380 44 590 10 41 / 01 info@procreditbank.com.ua www.procreditbank.com.ua

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

## Highlights in 2007

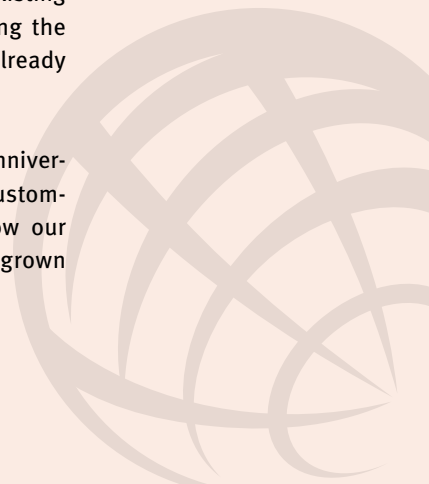


- At the end of the year, the bank was serving more than 30,000 loan clients and nearly 70,000 retail clients. The loan portfolio stood at EUR 214 million, and deposits totalled EUR 160 million. Deposits grew at a faster rate than loans, bringing the bank closer to its goal of funding the entire loan portfolio through domestic deposits.
- Fitch Ratings upgraded ProCredit Bank's individual rating from D/E to D, and it confirmed the existing long-term foreign and local currency rating of BB+.
- The bank signed a five-year local currency loan agreement with the International Finance Corporation (IFC). The USD 15 million credit is only the second local currency loan IFC has offered on the Romanian market.
- ProCredit Bank opened six branches: one each in the new cities of Ploiesti and Sibiu, an additional branch in Iasi, and three more in Bucharest. These additions brought the total number of ProCredit Bank Romania branches to 35.





- The bank introduced the position of regional managers in the organisational structure. This step moved the bank towards decentralised decision-making, encouraging branches to assume greater responsibility for regional business development.
- ProCredit Bank launched its call centre and introduced teller cash recyclers (TCRs). After overcoming the initial technological challenges, our employees increased customer satisfaction by providing more efficient service.
- The bank added Maestro cards to its existing range of card products, complementing the Visa Electron and Visa Business cards already being offered.
- ProCredit Bank celebrated its fifth anniversary with a celebration for staff and customers. We took the opportunity to show our appreciation to the clients who have grown with us since our founding in 2002.



## Management Business Review



*The Executive Management  
from left to right:*

*Marius Sindile*

*Dana Enache*

*Asmus Rotne*

*Michael Kowalski*

## Political and Economic Environment

Heavy investment and consumer spending have driven performance in the Romanian economy in recent years. Domestic and foreign investors responded positively to Romania's accession to the European Union and the expected improvements in the policy framework. Consumers increased spending, encouraged by higher incomes and fewer credit constraints. Highly liquid global financial markets poured in foreign capital. The local market for financial intermediation developed rapidly, offering citizens many options to obtain formal financial services. The results of these developments can be seen in income growth, poverty reduction, and a steep drop in unemployment.

This rapid growth has placed excessive pressure on the country's fragile transition economy, and in July 2007, it began to falter. The boom in consumer spending, driven by large wage increases and the extension of consumer credit, outpaced domestic industrial production. This imbalance resulted in a ballooning external deficit, reaching unsustainable levels by mid-year. Foreign direct investment (FDI), the primary stabilising factor for Romanian New Lei (RON) exchange rates, turned downward, causing Romania's external debts and risks to increase. High value-added exports continued to do well, but total exports lagged sharply behind imports. Growing labour costs also began to wear down the country's competitive edge. The combination of these triggers led to a re-evaluation of national growth prospects and reduced access to investment funds.

Despite its economic turmoil, Romania achieved growth of 6% in 2007, more than twice the rate of the European Union. The manufacture of higher value-added capital and intermediate goods appeared to surpass the production of minerals, energy and basic consumer goods. Although productivity grew by 9.9%, the increase in real wages, at 25%, overshadowed these gains.

A considerable challenge for Romania will be to match its high growth with the necessary regulatory measures. When the year-end inflation rate reached 6.6%, well above the targeted 5%, the National Bank of Romania sent a strong anti-inflationary signal by increasing base rates.

Without corresponding budgetary adjustments by the government, however, these measures were insufficient. The lack of motivation on the part of the government, along with economic factors, persuaded Standard and Poor's to revise Romania's outlook from stable to negative.

Looking ahead to 2008, an election year, it is doubtful whether politicians will take the necessary steps to enact stable economic policies such as complementing the National Bank of Romania's monetary restrictions with fiscal restraint. The sustainability of economic trends in Romania faced serious threats in 2007, and investors will be assessing risk more conservatively before raising investment funds. As Romania becomes more susceptible to external shocks, it must find a way to moderate growth in a sustainable way.

## Financial Sector Developments

Developments in Romania's banking sector mirrored the development of the overall economy. Investors questioned the sustainability of growth trends in the sector, consisting of 41 banks at the end of the year. Four international banks entered the market, and 108 European Union banks notified the National Bank of Romania of their intention to serve the Romanian market based on the common EU passport. Domestic banks increased their networks to a total 5,500 branches (an increase of 1,080 units), and the total number of banking staff jumped from 58,000 to 65,600. Banks located most of their new branches in cities, continuing to ignore rural areas.

Credit growth remained strong in 2007, with the global tightening only moderately affecting Romania. Banking assets increased by 45% to EUR 69 billion. Total loans outstanding grew by 61%, led by growth in lending to private individuals, at 82%, followed by lending to legal entities, which was up by 46%. As of December 31, 2007, the share of loans to private individuals (EUR 19 million) in the total portfolio almost equalled the share of loans to legal entities (EUR 22 million).

In the race to open branches and boost growth, it appeared that many banks had become overstretched. The second half of the year saw banks scaling back branch network expansion plans.

Prices will rise as banks recognise the unsustainability of very low nominal interest rates. Additionally, all market players had to contend with the problem of finding qualified staff at these high growth levels.

Risks in the banking sector have increased, such as macroeconomic risks (fluctuations in the lei exchange rate and the inflation rate), and portfolio quality. Non-performing loan indicators rose last year, but huge gains in volume may conceal the actual condition of the portfolio. Foreign currency loans create a high risk of over-indebtedness for households with lei-denominated incomes, especially for those who do not fully understand the implications of currency risk. Romania's real estate market faced a similar trend as in other countries, where credit was supported by excessively high housing prices, and its prospects must be reassessed. Deposit growth increased at a rate of 35%, much slower than other balance sheet items; some of the risks of relying on foreign funds are higher costs and restricted funding.

Transparency in the sector appeared to decline. Banks have used, and continue to use, questionable methods of attracting credit clients, including teaser rates, "zero-interest" loans, hidden interest costs, and loans denominated in "exotic" foreign currencies.

To keep profits from declining, many banks are expected to exploit all opportunities to increase

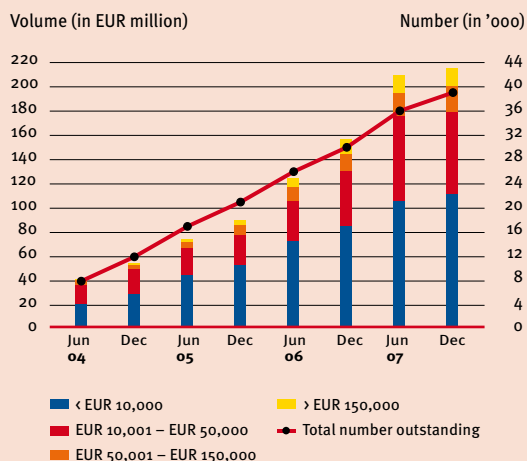
income. For example, foreign "parent" banks are not subject to the high capital reserve requirements; this loophole increases direct lending without guaranteeing proper provisions. Selling loan portfolios on the domestic or international market is another strategy to avoid high reserve requirements. However, with the full implementation of the Basel II framework, banks can anticipate lower costs and reserve requirements.

### Lending Performance

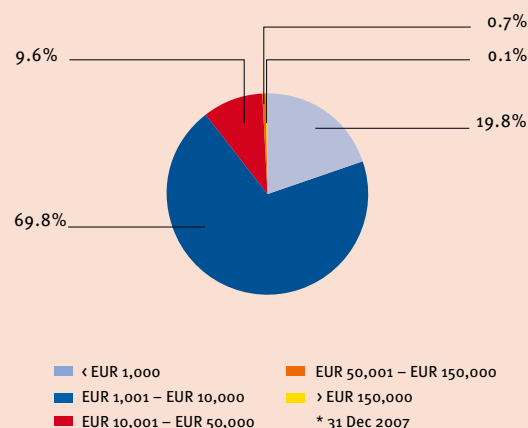
Since its founding in 2002, ProCredit Bank has operated as a responsible neighbourhood bank in all areas of its lending business. The bank focuses in its lending on small and very small enterprises located close to its branches. Such enterprises create growth, providing jobs and improving income distribution. In 2003 we introduced agricultural lending, bringing financial services to rural entrepreneurs. ProCredit Bank has always taken very seriously its responsibility to prevent clients from becoming over-indebted, and for that reason lends primarily to support business growth. ProCredit Bank is not taking part in the current consumer lending "boom"; less than 2% of our outstanding portfolio consists of consumer loans, amounting to EUR 3.5 million.

At year-end, the bank was providing credit services to more than 30,000 Romanian businesses. Working with ProCredit Bank Romania was the

#### Loan Portfolio Development



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



first experience with a formal financial institution for many of these entrepreneurs. The majority of our clients have grown with the bank, but on average their outstanding debt still comes to less than EUR 5,400. This is a small figure compared to loan amounts in other EU nations, but for many Romanians it is sufficient to secure the future of their businesses.

The outstanding loan portfolio increased by 36% this year in total volume, reaching EUR 214 million. We disbursed 26,000 loans, totalling EUR 178.5 million. As a responsible lender, we want to minimise currency risk for our clients; 98% of all loans disbursed were denominated in lei.

Continuing the trend from 2006, agricultural, small and very small business loans were dynamic categories within the portfolio. For loans up to EUR 50,000, we changed the product design by simplifying collateral requirements and loan procedures, and introducing flexible documentation requirements. The bank focused strongly on improving results in agricultural lending. We increased the number of specialised agricultural loan officers, expanded the geographical outreach of our operations, and improved product design. The “Special Feature” report on agricultural lending illustrates the positive results in more detail.

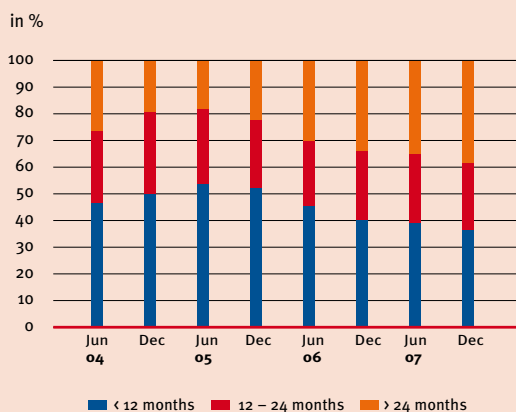
Loan portfolio quality remained high throughout the year. Portfolio at Risk (PAR, i.e. loans in arrears by more than 30 days) came to 1.29% of



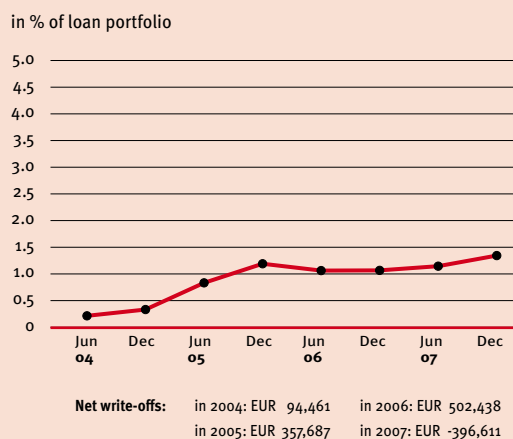
the total portfolio, and loan-loss provisions, at 2.5% of the total portfolio, covered our risks by a comfortable margin. We relied on our well trained loan officers to analyse prospective borrowers carefully and to identify problems at an early stage to facilitate the management of arrears. Reorganisation of our credit control and arrears management operations helped us maintain a high quality portfolio as we continued to grow.

The outlook for lending is quite favourable. Although staffing will continue to be a challenge in 2008 as we increase our branch network, we are confident that we can find and train qualified staff. Agricultural lending will remain a priority; we plan to expand our branch network in rural areas, deploy additional specialised loan officers, and launch co-operative projects with certain providers of agricultural inputs.

**Business Loan Portfolio – Breakdown by Maturity**

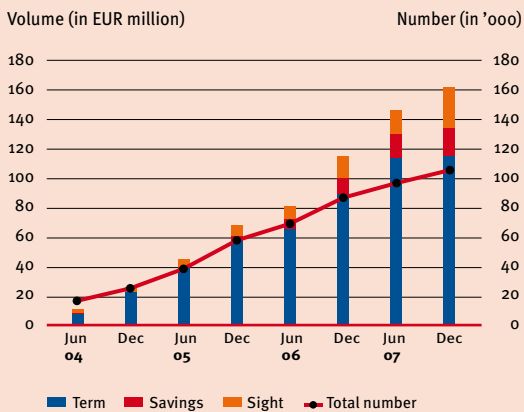


**Loan Portfolio Quality (arrears >30 days)**

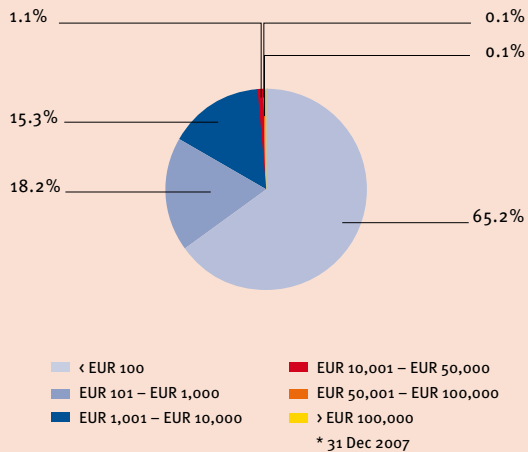




**Customer Deposits**



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



### Other Banking Services

As a neighbourhood bank, ProCredit Bank Romania aims to provide clients with a range of services in addition to loans. Growth in other banking services (i.e. deposits, savings accounts, transfers) outpaced growth in client numbers in 2007, indicating that customers use their accounts for a variety of services. In 2007 the number of retail banking clients increased by more than 50% to 70,000, and by year-end they were using more than 133,000 accounts. Customer deposits grew by 40% to EUR 160 million, compared to 35% growth in the overall deposit market. This rise underscores the success of ProCredit’s efforts to promote savings despite broad trends towards increased spending on consumer goods.

Our efforts to attract deposits involved direct contact with our potential clients through community-oriented activities. Some of these activities were clearly business-oriented, such as face-to-face promotions, whereas others had broader educational or social goals. These events, organised by branches, gave ProCredit employees the opportunity to personally inform clients about the benefits of banking services. Knowing our clients and their requirements allows us to offer products that truly benefit our clients. The personal contact between the bank and its clients is a mutually beneficial relationship; we receive funding from a diverse base of loyal clients, and

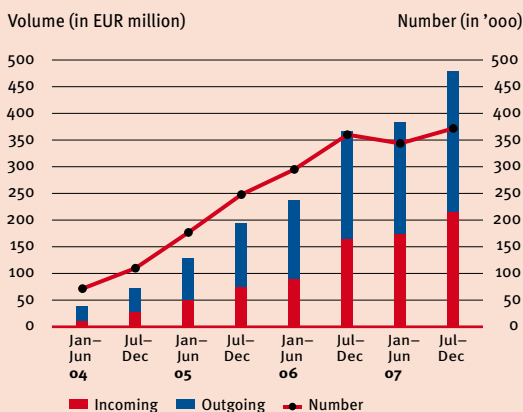
our clients gain access to useful financial services from a trusted institution.

We increased the interest rate on our standard savings account to encourage regular saving among all segments of the population. This offered a more flexible product to clients who could not use term deposit accounts. We eliminated restrictions on accessing funds in accounts and all fees and penalties, giving clients the opportunity to withdraw their money whenever necessary. Despite this flexibility, we encouraged clients to view their savings account as a “safe-deposit box” that is to be opened only in an emergency. Our efforts paid off, and the volume of funds held in savings accounts increased by 87%, reaching EUR 18.6 million. The majority of our deposits were for amounts less than EUR 1,000. These figures highlight our success in attracting small savers and reaching our business targets.

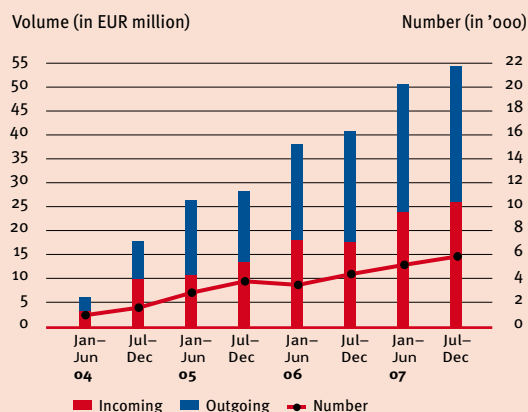
The Payments Centre established in 2006 continued to provide efficient service for processing payments and money transfers. In 2007, ProCredit transferred nearly one billion euros, a 40% increase from 2006. The volume of currency exchange operations grew by 70% to EUR 120 million.

ProCredit Bank Romania constantly seeks ways to improve its services and to reach more clients. To facilitate these improvements, the bank set

#### Domestic Money Transfers



#### International Money Transfers



up a Call Centre, which provides information and receives feedback from existing and future clients. We expanded our range of card products with the introduction of the Maestro card; Visa Electron and Visa Business cards have been offered since 2005. Further technological advances included the launch of teller cash recyclers (TCRs), which automate cash deposit and withdrawal operations. In 2008 the bank plans to double the size of its ATM network, implement Internet banking, expand the use of TCRs, and begin card acquisition activities for point-of-sale terminals. These services will increase efficiency and allow our employees to concentrate on building strong relationships between clients and the bank.

### Financial Results

ProCredit Bank posted solid financial results in 2007, despite a highly challenging and competitive business environment. Total assets grew by 29%, with an increase in the loan portfolio of 36%. Deposits from local savers increased at a faster rate than loans, growing by 40%. The large deposit base reduced the bank's dependence on foreign funding, which had become more difficult to obtain.

The international financial institutions that helped build ProCredit Bank Romania continued to play an important role in our development. But their contribution to the bank's funding rose by only 4%, to EUR 64 million, underscoring the growing reliance on funds mobilised from local deposits. Our shareholder structure changed slightly this year, as Deutsche Investitions- und Entwicklungsgesellschaft (DEG) transferred 100% of its shares to Kreditanstalt für Wiederaufbau (KfW). ProCredit Holding agreed to acquire all of the shares of KfW and International Finance Corporation (IFC), increasing its holding to 57.49%. A significant source of funding included a local currency loan from IFC equalling EUR 15 million, the first local currency loan for ProCredit Bank and only the second issued by IFC in Romania.

Net profit equalled EUR 0.95 million. Interest income contributed 88% of total income. Non-interest income rose 63% compared with 2006. Although its share of total income increased, at EUR 5 million, non-interest income made a rela-

tively small contribution to the bank's profit. A rise in staff and administrative expenses caused operating expenses to increase by 46%. At the same time, operating income grew by 39.2% to EUR 25.9 million. The cost-income ratio was 91.0%, compared with 85.2% in 2006.

ProCredit Romania maintained a sufficient capital adequacy ratio throughout 2007; at the end of the year it stood at 12%.

### Outlook

The growing uncertainty that surrounded the development of the Romanian economy will continue in 2008. Investors must pay attention to rising inflation rates, the current account deficit, and fluctuations in the exchange rate. Despite slightly lowered expectations, projected growth rates remain well above the EU average. A combination of foreign investments and structural funds from the EU will bolster large segments of the economy. These funds will strongly impact the agricultural sector, which expects solid growth, assuming favourable weather conditions.

Economic conditions worldwide will affect Romania's financial sector in 2008. The global credit crunch and the possible downgrade of Romania's country risk rating may raise the cost of foreign funds. We can expect banks to reduce their rate of branch network expansion, partly due to continuing high rates of staff turnover. A tighter labour market will mean higher labour costs, despite the proposed easing of payroll taxes. The rapid growth in 2007 drove banks to hire large numbers of employees without implementing proper training programmes. Despite this lack of training and low productivity, salary increases will continue, restricting profitability in the banking sector.

The long-term effect of allowing foreign banks to serve the Romanian market remains to be seen. Competition between international and local banks will lead to increased disbursement of consumer and housing loans as an easy way to increase market share. A lack of local expertise will likely prevent foreign banks from moving into small and medium-sized enterprise lending; it is probable that even local banks will fall short of their expectations in terms of penetrating this market.



ProCredit Bank is well positioned for expansion in the competitive Romanian banking market. Our experience in working closely with clients allows us to better understand their requirements and provide straight-forward and useful products. Continued implementation of the neighbourhood banking concept will enhance our ability to attract funds from local depositors. Branch network expansion will increase access to regional

markets and support agricultural lending. Internally, we will significantly increase training efforts for new and existing staff to provide the best possible customer service to our rapidly growing client base. The commitment of our employees to ProCredit's values makes us confident that we can master the challenges we face and continue to work towards our business targets and development goals.

## Special Feature



### Agricultural Lending

It was a good day for Radoi Constantin, a small farmer in the Ramnicu Valcea region. He had been trying for some time to buy additional cows for his small herd but couldn't come up with the necessary funds. A few days earlier, however, he had met a ProCredit loan officer who was interested in his business plans. Further inquiries led to a detailed discussion about his dairy farm. On the same day, Mr. Constantin left a ProCredit branch with 10,000 lei in his pocket and headed to the livestock market to close a deal on some Holstein cows.

Mr. Constantin's story, presented in greater detail below in the "Our Clients" section, is typical of many Romanians living in rural areas. These regions have great untapped potential for banks, but they need to be highly motivated, and very committed to rural lending, in order to be successful in rural areas. ProCredit Bank entered the agricultural lending market at an early stage;

this experience and its unique approach to lending make it one of the market leaders today.

Serving the agricultural sector in Romania is not easy. The highly fragmented rural economy includes many small family farms. It exists almost entirely within the informal economy, and, like farming everywhere, depends on favourable weather conditions, a healthy workforce, and a little bit of luck. These factors are not easily quantified on a loan analysis form, leaving room for unpredictable risks. Legal uncertainties surround the use of land as collateral, and state subsidies and frequent policy changes have often weakened the entrepreneurial spirit. A bank wishing to do business in this sector must be able to provide regular service to a client base spread across hundreds of square kilometres. The reluctance of most banks to cater to rural dwellers is obvious, with only 28 of the 1,080 bank branches opened in 2007 situated in rural areas. ProCredit

Bank's approach is to extend its branch network to smaller cities, and from there to use mobile offices to serve the surrounding area. This method is expensive, but we believe that the untapped potential in this sector will outweigh these costs.

Of the country's total workforce, more than one-third live in rural areas. The majority of these people do not have access to a bank branch, meaning they do not have bank accounts or access to business loans. Although there are many small farms, due to their low productivity they contribute only 14% of GDP. Additional capital could raise productivity dramatically, as in the case of Radoi Constantin, causing output to double or quadruple in a very short time.

ProCredit Bank launched its agricultural lending activities five years ago in Timisoara with two loan officers and a co-ordinator, and the project developed rapidly. The introduction of "creditmobiles" in 2006 increased the effective service radius of rural branches to 100–150 kilometres. A creditmobile consists of a minivan, loaded with the appropriate equipment and carrying specialised loan officers who use it to visit villages according to a fixed schedule. At the end of 2007, the bank provided agricultural loans from 19 branches staffed by more than 60 agricultural loan officers. They disbursed 7,800 loans totalling EUR 32 million. In 2007, one in three loans disbursed by the bank went to an agricultural enterprise. Even with difficult weather conditions, the quality of the agricultural loan portfolio remained good. We find that our clients understand the value of the business relationship, and they make great efforts to pay each instalment on time. We promote our services with direct marketing activities, but most information spreads by word of mouth. When villagers see the new livestock, tractor or harvester that their neighbours have purchased with a ProCredit loan, they begin thinking about what they could do if they got a loan.

We analyse each farmer's current business and investment plans carefully, determining whether the projections are realistic. ProCredit loan officers have the proper training to conduct detailed analysis and acquire the necessary information to evaluate clients' repayment capacity. We understand that certain documents may not be

available, so we work with clients to verify their information through informal means.

Once it has decided that a client is creditworthy, the bank offers a flexible repayment schedule adapted to the irregular income cycle of a farm. We design products to be easily understood, and loan officers offer explanations and assistance as necessary. Finally, clients can trust that the loan officer will protect their financial interests by giving them complete product information and costs; this includes not lending to clients who risk becoming over-indebted. As we gain further experience in this sector, our understanding of the market and the risks involved increases, and we refine our lending methodology accordingly.

This approach has proved successful in serving the credit requirements of farmers, and we plan further expansion of our agricultural lending operations. We intend to open more branches with a rural focus and to increase the number of specialised agricultural loan officers. Ten of the 15 branches we plan to open in 2008 will disburse agricultural loans. These new branches will provide the institutional and operational basis for training new staff and managers in agricultural lending, accelerating the establishment of further branches and increasing the bank's rural outreach. Starting in 2008, ProCredit Bank plans to co-operate with companies that supply equipment, fertiliser, seed and other inputs to the agricultural sector.



## Risk Management

ProCredit Bank Romania aims to effectively identify, measure, aggregate and manage risk exposure and to allocate appropriate capital to cover these risks. Risk management is conducted at the bank level and at the level of ProCredit Holding.

Central to our risk management strategy is our simple and transparent business model, a thorough understanding of our customers, a well-trained staff, and a conservative approach to financial risks. The ProCredit Code of Conduct enhances our risk management strategy by establishing a “risk awareness culture”, which encourages employees to take personal responsibility for recognising and reacting to risks.

In co-operation with the management of ProCredit Bank Romania, ProCredit Holding has developed specific principles for risk management and “best practice” recommendations. The Board of Administrators approves and reviews the bank’s risk profile on an annual basis. ProCredit Bank’s management is responsible for implementing the risk strategy and for setting up the requisite risk committees. The Risk Management Committee consists of top managers who address all material risks from a strategic perspective. The bank also maintains an Asset and Liability Committee, a Credit Risk Committee and an Operational Risk Committee. These committees meet regularly and on an ad hoc basis when necessary.

The Risk Management Department develops and implements risk management at an operational level. It monitors all relevant risks and risky positions, analysing quantitative and qualitative aspects, to ensure that the total amount of risk incurred does not exceed the bank’s risk-bearing capacity. ProCredit Bank does not engage in speculative trading, aims for closed currency positions, and limits interest rate risk. The bank’s Internal Audit Department evaluates and assesses possible risks in all processes and areas of operations, including branches. These audits identify the potential for fraud and minimise such risks through immediate notification of management.

The bank’s risk position is set forth in a risk report prepared on a quarterly basis. This report is provided to, and discussed with, ProCredit Bank’s

management, the Board of Administrators, and the Group Risk Management Department of ProCredit Holding.

### Credit Risk

Managing credit risk is a central requirement of our risk management. The design of our lending process minimises risk associated with individual loans. Our thorough credit analysis examines each client’s cash flow, in addition to his or her assets. Credit committees ensure proper assessment of loan applications by experienced personnel. Loan officers bear responsibility for ensuring their clients’ adherence to the agreed repayment plans, creating a strong incentive to closely monitor all loans. Monthly repayment plans ensure prompt identification of potential defaults. On the first day of a missed payment, loan officers follow up with clients to emphasise the importance of meeting all payment obligations on time.

Due to the nature of our business, the bank benefits from excellent portfolio diversification. The portfolio at risk (PAR, defined as loans overdue by more than 30 days) equalled 1.29% of the total portfolio, well below the industry average. The bank did not write off any loans in 2007, and recovered EUR 396,611 during the year from loans previously written off.

### Market Risk

#### *Currency Risk*

ProCredit Bank conducts operations in local currency and foreign currencies, particularly the euro. The bank monitors its currency exposure on a daily basis and closes its positions within predefined limits. It does not use derivative instruments for hedging purposes. By disbursing 98% of our loans in local currency, we avoid foreign exchange risks and minimise the currency mismatch between assets and liabilities.

#### *Interest Rate Risk*

We aim to ensure that the bank’s balance sheet remains balanced across all maturities. Interest rate risk is managed mainly using maturity gap and duration analysis. At the end of 2007, the

one-year repricing assets equalled 146% of the one-year repricing liabilities.

## Financing Risk

ProCredit Bank divides its financing risk into two categories:

- Liquidity risk – the risk that the bank will have insufficient liquidity available in the short term, and
- Funding risk – the risk that the bank will have insufficient equity and funding to finance continued growth.

### *Liquidity Risk*

Proper liquidity monitoring is vital as we increasingly depend on a diversified deposit portfolio to finance our lending business. The bank closely monitors its liquidity position on a daily basis in line with ProCredit's best practices. Liquid assets were equivalent to 24% of total liabilities and covered a comfortable 39% of customer deposits.

### *Funding Risk*

The ProCredit business strategy aims to fund growth primarily through customer deposits. At the end of 2007, customer deposits funded 75% of the loan portfolio (year-end 2006: 74%). These accounts, the majority of which are held by loyal, small savings clients, provided a stable source of regular funding. The bank further diversified its funding sources by issuing local currency bonds, obtaining syndicated loans, and working with a larger number of lenders. The strong commitment on the part of the shareholders has also ensured sufficient funding with capital injections and subordinated debt to support the bank's growth plans.

## Compliance Risk, Reputation Risk and Legal Risk

The bank recently established a Compliance Department to support the Asset and Liability Committee. This department monitors compliance with the covenants in the bank's funding agreements on a monthly basis.

Our reputation remains central to our success in mobilising deposits and raising funds in the capital market. Lenders recognise our commitment



to transparent and responsible banking procedures. The Fitch rating agency acknowledged our prudent risk management by upgrading our individual rating from D/E to D.

ProCredit Holding's legal staff supports the bank's legal department. No significant legal proceedings were pending as of the year's end.

## Operational Risk

ProCredit Bank maintains a loss event database and an Operational Risk Committee, which is responsible for actively monitoring and controlling operational risk. With the increase in the size of staff in 2007, this committee placed a special emphasis on informing new employees about the sources of operational risk and how to address them. Other functions of the committee include the development and maintenance of proper procedures, the creation of disaster recovery plans, and the implementation of information security policies.

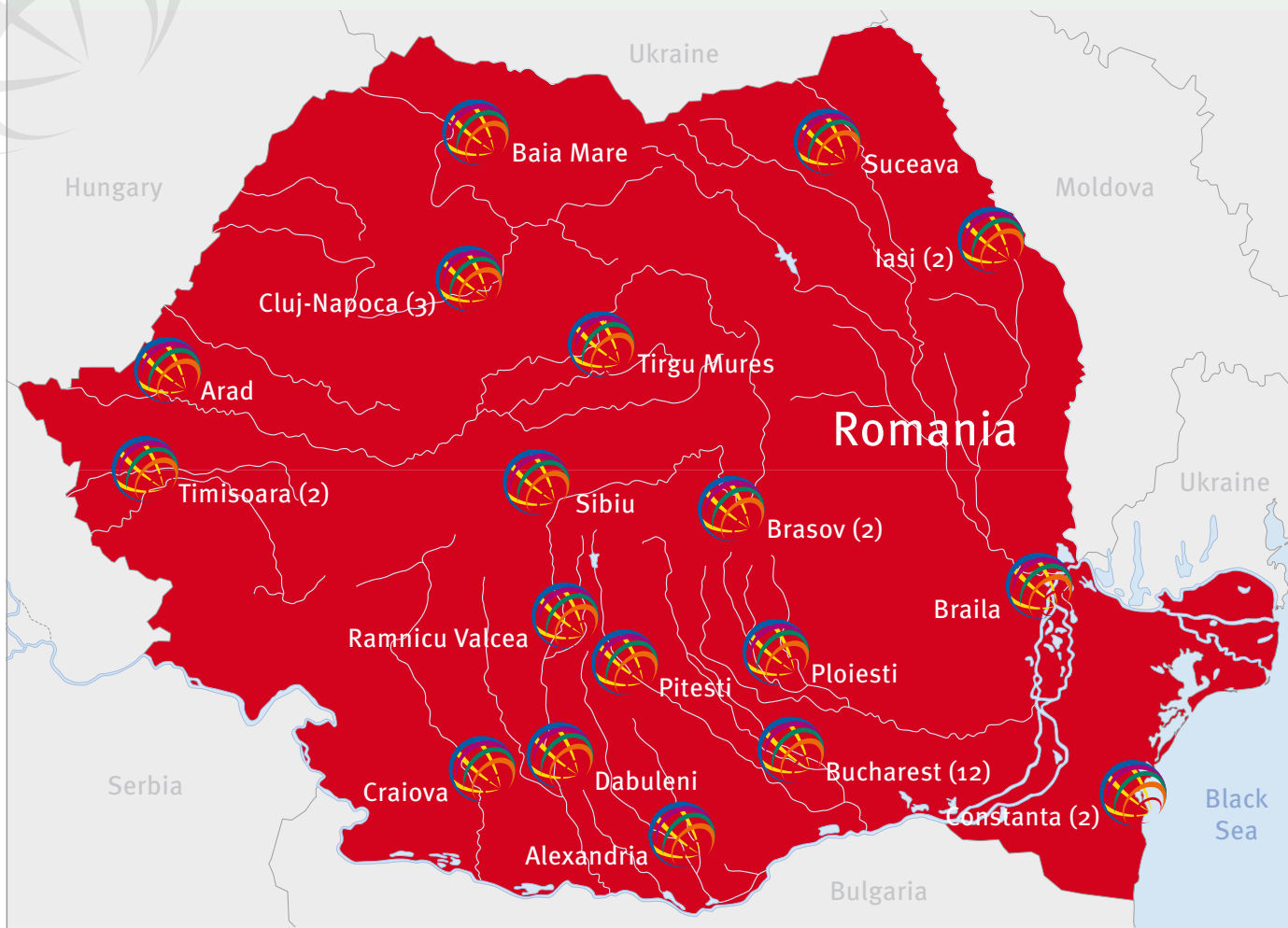
## Branch Network

ProCredit Bank plans to continue its ambitious branch network expansion in the coming years. In 2007, the bank opened six branches: three in Bucharest (Obregia, Colentina and Tei), and three outside the capital, in Iasi, Sibiu and Ploiesti. These additions brought the total number of branches to 35. We expect to open 15 branches in 2008, and to have a total of 111 branches within the next five years. This extensive network will help us achieve our goal of being able to serve all urban and rural areas of the country. Implementation of this large-scale expansion plan poses many managerial, financial and human resource challenges.

The priority during this period of expansion will be to find and train capable managers and employees to operate the branches. Our strategy is

to build upon the solid foundation in our existing branches; through internal recruitment measures, we will seek to promote staff members who fully identify with the ProCredit corporate culture, are committed to our values, and demonstrate strong management and leadership capabilities.

In 2007, we created a new position in the bank's organisational structure: regional managers. This crucial step will allow us to efficiently manage regional branch expansion. Our four regional managers are responsible for coaching branch managers in their respective regions, and identifying, training, and promoting high-potential employees. They also assist in the establishment of new branches by choosing the location and supervising the set-up and launch process.





## Organisation, Staff and Staff Development

In order to meet its goals and ensure that it remains true to its values, ProCredit Bank must be sure that the right people are involved in its business. We rely on these employees and their commitment to our business philosophy to provide responsible banking services to ordinary people and, by so doing, to contribute to the development of the Romanian economy.

We recognise the importance of having a motivated staff. Our corporate culture aims to inspire employees by highlighting the positive role we play in the local economy and by offering opportunities for professional development. Still, 2007 presented us with a major challenge in the form of high staff turnover. Unemployment in Romania fell to an historic low, and rapid growth in the banking sector forced all banks to contend with increased turnover rates. Almost one quarter of our staff left the bank during the course of the year.

In the face of a diminishing labour pool and the deliberate poaching of strong staff, ProCredit Bank took direct action. We implemented a four-pronged human resource strategy based on the following points: fair and transparent hiring and promotion practices, a pleasant working environment characterised by a culture of open communication, staff development through extensive training, and a fair level of remuneration. We looked for staff who closely identified with the ProCredit philosophy and who recognised the value of an open and friendly working environment.

The training department provided more than 14,000 person-days of training to entry- and mid-level employees. Total training costs approached EUR 500,000. Middle managers attended specific courses consisting of two-weeks of instruction focusing on topics such as communication

skills, corporate values, and staff and business management. This programme fostered stronger links between ProCredit Bank Romania's head office in Bucharest and the 35 branches throughout the country, a vital contribution to the maintenance of optimal communication channels in a growing institution.

Alongside staff recruitment and training, we closely examined internal promotion procedures. Our new regional managers were drawn from among the bank's most experienced personnel; in their new role as coaches, we expect them to lead professional development activities for current and future middle managers. As participants in the course at the ProCredit Academy in Fürth, Germany, our regional managers are building valuable management skills, which ensure implementation of the bank's human resource strategy across the group. In addition to these four regional managers, we have five middle managers attending the long-term training programme in Germany and ten attending the ProCredit Regional Academy in Skopje, Macedonia. The ProCredit Language Centre began operations in June, providing English training at an intergroup level. These training facilities promote an exchange of ideas and experiences among the ProCredit group's 22 member institutions, while promoting thinking skills on the part of the students and developing their interpersonal skills.

Having a strong foundation consisting of loyal employees is critical to ProCredit Bank Romania's continued success. The investments made in 2007 for training will pay off in the coming years, as we seek to continuously improve the quality of our service and to implement our regional expansion plans.



## Business Ethics and Environmental Standards

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

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

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

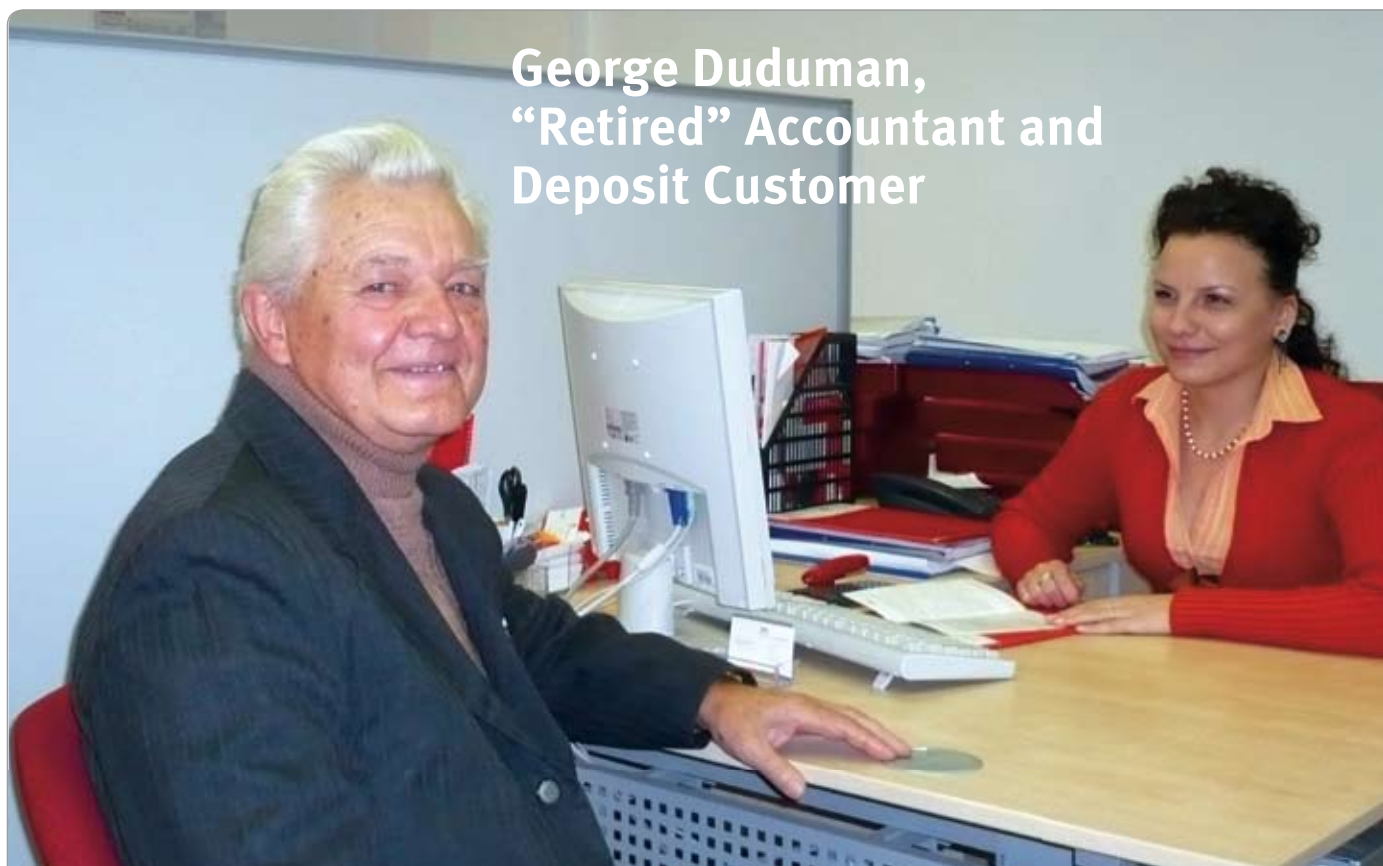
understand all of the principles that have been defined, the induction training for new employees includes dedicated sessions dealing exclusively with the Code of Conduct and its significance for all members of our team. And to ensure that employees remain committed to our high ethical standards and are made aware of new issues and developments which have an ethical dimension for our institution, refresher training sessions – at which case studies are presented and grey areas discussed – are regularly conducted for existing staff.

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

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



## Our Clients



### George Duduman, “Retired” Accountant and Deposit Customer

George Duduman’s hopes of retiring after a successful 40-year career as an accountant never really came true. To this day, his many friends continue to request his help in dealing with Romania’s complex accounting rules. Although he is officially retired, he stays actively involved in business issues.

Mr. Duduman says he always understood the value of saving, but could never compel himself to save regularly. Although his personal experience with multiple bank failures in the 1990s might have discouraged him from entrusting his money to a bank, he insists that a lack of trust in banks was not the problem. Rather, none of the banks he had previously dealt with ever encouraged him to save. His attitude changed when he met ProCredit employees handing out leaflets regarding deposits near his home in Suceava. They were polite and professional as they informed him of the benefits of saving, and he took one of the leaflets, which he found interesting. This meeting convinced him to visit the new branch that had recently opened in the city centre.

*“I liked the staff’s promptness and politeness. They took the time to explain every detail about making a deposit, and I really appreciated that. It also sounded quite simple, and given the way they described the benefits of saving, anyone would understand the need to start setting money aside”,*

says Mr. Duduman.

As a person with experience in the financial world, Mr. Duduman appreciates the fact that ProCredit Bank has respected international institutions as shareholders. He notes with approval that the bank focuses on long-term stability rather than short-term returns. Another bonus in Mr. Duduman’s opinion is the location of the ProCredit group’s head office. He explains that he “likes the quality of things ‘made in Germany’”.

Mr. Duduman says that his experience with ProCredit Bank has shown him the wisdom of saving regularly. He clearly values the help of the staff, who have explained other useful services offered by the bank. Since opening his savings account, Mr. Duduman has used ProCredit Bank Romania for many of his banking requirements, and is now in the process of setting up a pension account.

## Radoi Constantin, Dairy Farmer



Within two days, Mr. Constantin received the loan. The whole experience made him feel good about the bank, which, in his view, is unique in its approach to rural clients:

*“ProCredit was the only bank that came to visit our village and that actually offered loans to farmers like me. In fact, it is still the only bank doing so”,*

says Mr. Constantin.

A brief encounter in 2006 with several ProCredit loan officers changed the direction of Radoi Constantin’s life. A veterinarian by profession, Mr. Constantin owned several cows and was running a very small dairy operation. The loan officers had visited his village to talk to local farmers and entrepreneurs about credit products. Interested, he told them about his plan to buy additional cows. The attention they paid to the details of his business surprised him, but at the end of the conversation came good news. Mr. Constantin was eligible to receive a loan for EUR 3,000. Their careful analysis had determined that this was the right amount to enable him to buy more cows and repay the loan without difficulty.

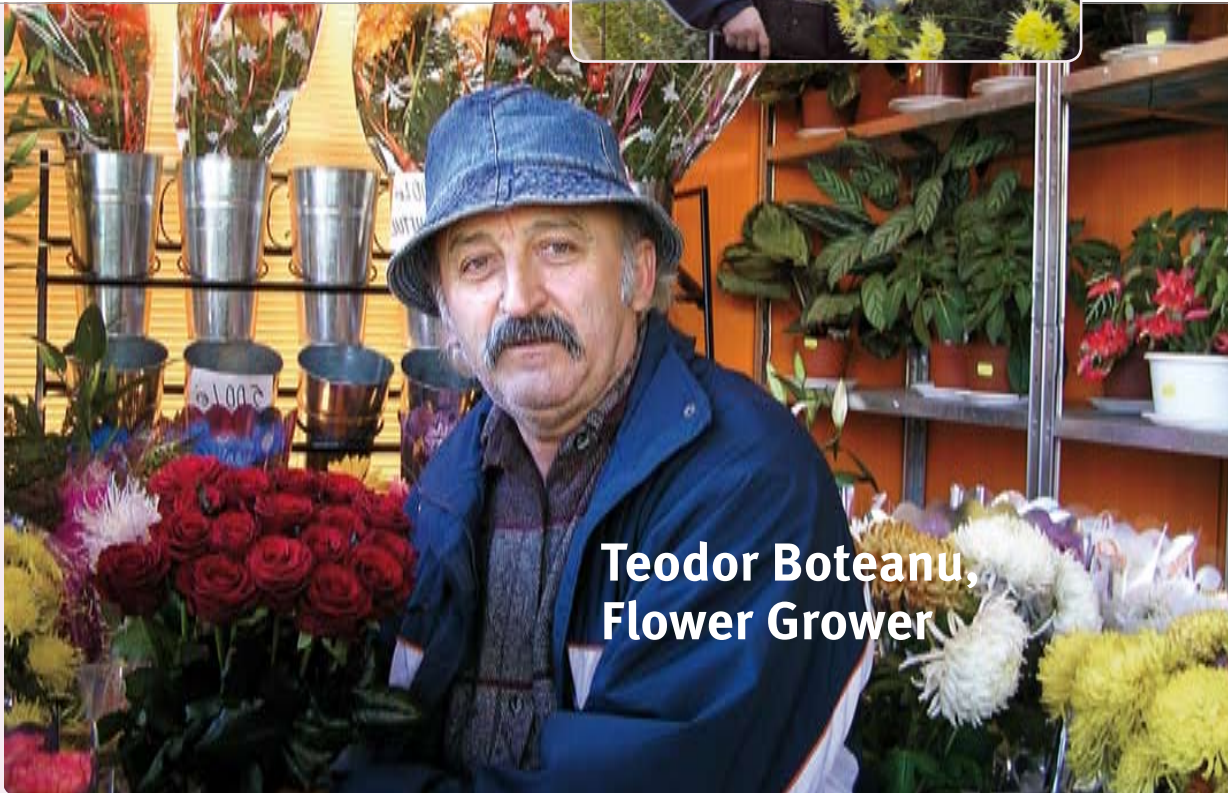
*“I was surprised at how fast and uncomplicated the process was. I did not have to figure out how to fill out any forms – they helped me with everything”,*

he says.

His dairy farming business grew rapidly after he received the loan, and his milk output quadrupled. With growth came higher expenses, and a year later Mr. Constantin took out a second loan from ProCredit. This loan paid for a new tractor, which he used to increase cultivation of his 18 hectares of land. He uses most of the grain he produces as fodder for his animals.

Today, he has seven cows and employs a farm-hand. Having repaid two loans on time, Mr. Constantin will be able to continue to rely on financing support from ProCredit Bank. In the future, he plans to apply for a third loan to increase his herd to 20 animals. He is also considering diversifying his operations to include meat production.

Mr. Constantin says that his only regret is that he didn’t discover ProCredit Bank sooner. The relationship with the bank has greatly improved life for his family, and the success of his dairy farm gives him a confident feeling that things will continue to get better.



## Teodor Boteanu, Flower Grower

Teodor Boteanu's passion is flowers, so it comes as no surprise that he has spent the last 30 years working as a horticultural engineer. Today, he and his seven-person team manage six greenhouses, the largest and most modern in the region. His engineering background shows in his choice of sophisticated watering and heating systems for his greenhouses. Also an astute businessman, Mr. Boteanu explains that these systems have helped him save substantially on energy and labour costs. As his business grew, he needed to develop efficient processes to facilitate growth with limited resources.

Mr. Boteanu sells his output to florists across the country. For a long time, he had wanted to open his own florist's shop in the centre of town. He needed financing, but because he had not had any experience with banks, he doubted his ability to obtain a loan. His thoughts changed after talking to a ProCredit loan officer who was promoting the bank's services to businesses in his neighbourhood.

*"Before finding out about ProCredit Bank I had always financed the business myself, and a lack of capital was always a serious constraint. But now that I have become a customer of*

*your bank, things have taken a favourable turn. The loan fit my requirements perfectly",* he says.

Mr. Boteanu is impressed by the professionalism and competence of the ProCredit staff. He also likes their polite, friendly manner:

*"Your bank is not like the others. The loan officer helped me a lot with the loan application. I also really like the fact that as soon as I walk in the door, someone comes up and asks me how things are going."*

With the loan from ProCredit Bank, Mr. Boteanu bought a flower shop in the commercial area of Ramnicu Valcea and built a special storage room next to it. The storage facility gives him a key competitive advantage, as his flowers stay fresh much longer than would otherwise be possible. Mr. Boteanu believes he would not have been able to develop his retail business so quickly without the loan from ProCredit. He wants to continue expanding his wholesale business and is already planning to apply for a second loan to build an additional greenhouse and a larger storage facility.



## Atena Cosma, Manufacturer of Women's Clothing

Atena Cosma was an entrepreneur long before the collapse of the communist regime in Romania. She gained experience as a seamstress at a state-owned company and began making clothes at home. By 1989, the growth of her home business convinced her to quit her state job to focus on developing her enterprise. She rented premises in Ramnicu Valcea, the town in which she lives, and with some difficulty, convinced four of her co-workers to join her, leaving the perceived security of their state jobs.

It turned out to be a good decision for everyone. In 1992, Ms. Cosma bought a building in the same town to open her workshop. By 2006, she employed 35 women who were creating more than 100 intricate pieces of women's clothing every day. She used bank loans to expand the business, but complained about the complexity of dealing with banks and the challenge of high interest rates for her small company.

In 2007, Ms. Cosma applied for a EUR 55,000 investment loan from ProCredit Bank. In contrast to her previous experience with banks, the evaluation process was quick and efficient. It especially impressed her that she only had to visit the bank once – to receive the funds after the approval of the loan. The loan officer had come to the factory

for the analysis and a few required documents, took them back to the bank, and within a few days he invited her to come in to sign the contracts and receive the loan.

*"I was really pleasantly surprised by how easy ProCredit made the entire process. It helped a lot that the bank came to me, because I could not really afford to spend time away from the business",*  
says Ms. Cosma.

With her ProCredit loan she bought new sewing machines and a thermal press, which is used to make winter clothing by joining several layers of fabric.

*"I'm especially happy about the new thermal press. It does in two hours what the old machine took eight to do",*  
she says.

The investments Ms. Cosma financed with the loan from ProCredit Bank have clearly paid off. Less than one year after obtaining the loan, she has 20 more people working at the factory and has doubled her output. Ms. Cosma is very optimistic about the future of her business.

## Financial Statements

For the year ended 31 December 2007.

Prepared in accordance with International Financial Reporting Standards.



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### Independent Auditors' Report

The Shareholders'  
ProCredit Bank SA

#### Report on the Financial Statements

- 1 We have audited the accompanying financial statements of ProCredit Bank SA ("the Bank"), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.
- 2 This report is made solely to the Bank's shareholders, as a body. Our audit work has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

#### *Management's Responsibility for the Financial Statements*

- 3 Management is responsible for the preparation and fair presentation of these financial statements, which have been presented together to report the financial position, results of operations, and changes in cash flows for the Bank in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' Responsibility*

- 4 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.
- 5 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

*Opinion*

- 7 In our opinion, the financial statements presents fairly the financial position of the Bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

- 8 Without qualifying our opinion, we draw attention to the fact that, as described in the Note 3.h.vii to the financial statements, because of the inherent limitations related to the historical experience in obtaining local information for individually impaired loans, incurred loss information and complexity of methodologies applied, the loan impairment estimate as described above may differ significantly from the value that would have been obtained had the Bank obtained sufficient local historical experience on obtaining reliable information on incurred losses, timing and amounts of the expected future cash flows.

A handwritten signature of 'KPMG' in blue ink, written in a stylized, cursive font.

KPMG Romania S.R.L.  
Bucharest, Romania  
15 April 2008

## Income Statement

For the year ended 31 December 2007

<i>in EUR</i>	Notes	2007	2006
Interest income		37,773,886	25,594,949
Interest expense		(16,663,216)	(9,892,848)
<b>Net interest income</b>	<b>8</b>	<b>21,110,670</b>	<b>15,702,101</b>
Fee and commission income		4,294,670	2,655,043
Fee and commission expense		(453,274)	(325,653)
<b>Net fee and commission income</b>	<b>9</b>	<b>3,841,396</b>	<b>2,329,390</b>
Net trading income	10	897,896	529,889
Other operating income		77,800	65,067
<b>Operating income</b>		<b>25,927,762</b>	<b>18,626,447</b>
Net impairment loss on financial assets	11	(2,150,204)	(1,144,590)
Personnel expenses	13	(10,093,776)	(7,027,641)
Operating lease expenses		(2,834,154)	(1,941,331)
Depreciation and amortisation		(2,750,631)	(1,622,073)
Other operating expenses	12	(6,968,481)	(5,272,547)
<b>Operating expenses</b>		<b>(24,797,246)</b>	<b>(17,008,182)</b>
<b>Profit before income tax</b>		<b>1,130,516</b>	<b>1,618,265</b>
Income tax expense	14	(183,990)	(117,690)
<b>Profit for the year</b>		<b>946,526</b>	<b>1,500,575</b>

The financial statements were approved by the Board of Administrators on 15 April 2008 and were signed on its behalf by:



Michael Kowalski  
General Manager



Daniela Enache  
Head of Accounting

## Balance Sheet

As at 31 December 2007

<i>in EUR</i>	Notes	2007	2006
<b>Assets</b>			
Cash and balances with National Bank of Romania	15	62,868,569	50,793,413
Loans and advances to banks	16	1,770,076	4,549,291
Loans and advances to customers	18	208,513,019	154,002,282
Investment securities, available-for-sale	17	104,232	7,295
Property and equipment	20	6,659,977	7,023,014
Intangible assets	19	664,839	911,659
Other assets	21	854,129	1,011,995
<b>Total assets</b>		<b>281,434,841</b>	<b>218,298,949</b>
<b>Liabilities</b>			
Deposits from banks	22	15,293,448	1,434,446
Deposits from customers	23	160,751,964	116,857,729
Loans from banks and other financial institutions	24	64,206,193	61,778,502
Debt securities issued	25	11,444,659	12,161,821
Subordinated liabilities	27	8,931,091	5,116,908
Deferred tax liabilities	14	267,254	103,739
Other liabilities	26	1,390,075	1,335,776
<b>Total liabilities</b>		<b>262,284,684</b>	<b>198,788,921</b>
<b>Equity</b>			
Share capital	28	18,877,664	20,153,219
Reserves	29	1,868,564	1,922,005
Accumulated deficit		(1,524,517)	(2,629,135)
Translation reserve	3.a	(71,554)	63,939
<b>Total equity</b>		<b>19,150,157</b>	<b>19,510,028</b>
<b>Total liabilities and equity</b>		<b>281,434,841</b>	<b>218,298,949</b>

The financial statements were approved by the Board of Administrators on 15 April 2008 and were signed on its behalf by:



Michael Kowalski  
General Manager



Daniela Enache  
Head of Accounting

## Statement of Changes in Equity

For the year ended 31 December 2007

<i>in EUR</i>	Share capital	Reserves	Accumulated deficit	Translation reserve	Equity
<b>Balance at 1 January 2006</b>	<b>14,699,992</b>	<b>873,210</b>	<b>(2,891,116)</b>	<b>(12,447)</b>	<b>12,669,639</b>
Increase of share capital	4,169,146	–	–	–	4,169,146
Profit for the year	–	–	1,500,575	–	1,500,575
Transfer to reserves	–	974,140	(974,140)	–	–
Effect of translation*	1,284,081	74,655	(264,454)	76,386	1,170,668
<b>Balance at 31 December 2006</b>	<b>20,153,219</b>	<b>1,922,005</b>	<b>(2,629,135)</b>	<b>63,939</b>	<b>19,510,028</b>
Profit for the year	–	–	946,526	–	946,526
Transfer to reserves	–	70,664	(70,664)	–	–
Effect of translation*	(1,275,555)	(124,105)	228,756	(135,493)	(1,306,397)
<b>Balance at 31 December 2007</b>	<b>18,877,664</b>	<b>1,868,564</b>	<b>(1,524,517)</b>	<b>(71,554)</b>	<b>19,150,157</b>

\* see note 3.a

The statement of changes in shareholders' equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 42 to 65.

## Cash Flow Statement

For the year ended 31 December 2007

<i>in EUR</i>	Notes	2007	2006
<b>Cash flows from operating activities</b>			
<b>Profit after income tax</b>		<b>946,526</b>	<b>1,500,575</b>
Adjustments for:			
Depreciation and amortisation		2,750,631	1,622,072
Impairment on investment in subsidiaries	11	1,955	19,712
Impairment on loans and advances to customers	11	2,544,860	1,061,617
Loans written-off	11	–	502,438
Gain on disposal of property and equipment		–	(370)
Accrued interest, deferred commission on debt securities	25	295,692	259,523
Deferred tax expense / (income)	14	183,990	117,690
Dividend income		(2,382)	(1,541)
Exchange rate differences		(2,051,149)	793,524
<b>Operating profit before changes in operating assets and liabilities</b>		<b>4,670,123</b>	<b>5,875,240</b>
Change in minimum compulsory reserve	15	(11,592,837)	(18,264,276)
Change in loans and advances to customers	18	(57,055,597)	(69,085,445)
Change in other assets	21	155,911	(569,775)
Change in deposits from banks	22	13,859,002	(8,653,370)
Change in deposits from customers	23	43,894,235	49,115,806
Change in other liabilities	26	54,299	756,051
<b>Net cash used in operating activities</b>		<b>(6,014,864)</b>	<b>(40,825,769)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment and intangible assets	19,20	(2,429,350)	(4,971,752)
Proceeds from sale of property and equipment		–	9,891
Dividends received		2,381	1,542
Purchase of investment securities	17	(96,937)	–
<b>Net cash used in investing activities</b>		<b>(2,523,906)</b>	<b>(4,960,319)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		–	4,169,146
Net proceeds from borrowings	24	2,427,691	24,130,068
Proceeds from subordinated liabilities	27	3,814,183	5,116,908
Debt securities issued	25	–	11,902,298
<b>Net cash from financing activities</b>		<b>6,241,874</b>	<b>45,318,420</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at 31 December	30	13,237,129	13,704,797
Net increase in cash and cash equivalents		(2,296,896)	(467,668)
<b>Cash and cash equivalents at 31 December</b>	<b>30</b>	<b>10,940,233</b>	<b>13,237,129</b>
<b>Cash flows from operating activities include:</b>			
Interest receipts		34,762,929	24,119,788
Interest paid		(15,118,227)	(9,038,109)
Fees and commissions receipts		3,841,396	2,329,390
		23,486,098	17,411,069

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 42 to 65.

## Notes to the Financial Statements

For the year ended 31 December 2007

All amounts in EUR thousands unless otherwise stated

### 1. Reporting entity

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

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

The Bank operates through the Head Office located in Bucharest and through its network consisting of 22 branches (31 December 2006: 18) and 13 agencies (31 December 2006: 11) located in Romania.

The current registered office of the Bank is located at:

62 – 64 Buzesti Street,  
Bucharest, Sector 1  
Romania

The Bank's number of employees as at 31 December 2007 was of 899 (31 December 2006: 795).

The Bank is managed by a Board of Administration made up of 7 members, lead by a President, and by the Bank's Managers, Mr. Michael Kowalski as General Manager. The composition of the Board of Administration was as follows:

Position	31 December 2007	31 December 2006
President	Anja Lepp	Anja Lepp
Vice-president	Ana Maria Mihaescu	Ana Maria Mihaescu
Member	Maria Teresa Zappia	Maria Teresa Zappia
Member	Hans Joerg Krohn	Hans Joerg Krohn
Member	Rudiger Rurainsky	Rudiger Rurainsky
Member	Hanns Martin Hagen	Reinhard Bollmann
Member	Dietrich Ohse	–

### 2. Basis of preparation

#### a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been prepared on the basis of the IFRS in issue that are effective for the Bank's IFRS annual reporting date, 31 December 2007.

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

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

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

These accounts have been restated to reflect the differences between the statutory accounts and the IFRS. Accordingly, such adjustments have been made to the statutory accounts as have been

considered necessary to bring the financial statements into line, in all material respects, with IFRS.

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

- grouping of numerous detailed items into broader captions;
- different methodology for the calculation of loan loss provisions;
- provision for deferred taxation, where appropriate;
- the necessary IFRS disclosure requirements; and
- restatement adjustments required in accordance with IAS 21 "The effects of Changes in Foreign Exchange Rates" applied by Bank until 31 December 2005 (refer to Note 2.c).

#### b) Basis of measurement

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

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

#### c) Functional and presentation currency

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

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

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

#### d) Use of estimates and judgements

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

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

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

### 3. Significant accounting policies

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

## a) Foreign currency

### i. Foreign currency transactions

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

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

The exchange rates of major foreign currencies were:

Currency	31 December 2007	31 December 2006	Increase/ (decrease)
Euro (EUR)	1: RON 3.6102	1: RON 3.3817	7%
US Dollar (USD)	1: RON 2.4564	1: RON 2.5676	(4%)

### ii. Translation from functional to presentation currency

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

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

## b) Interest

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

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

## c) Fees and commission

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

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

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

## d) Net trading income

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

## e) Dividends

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

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

## f) Lease payments made

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

## g) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. For the year ended 31 December 2007 the current profit tax rate was 16% (31 December 2006: 16%).

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

deferred tax position for the Bank at 31 December 2007 is 16% (31 December 2006: 16%).

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

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

## h) Financial assets and liabilities

### i. Classification

The Bank classifies its financial instruments in the following categories:

*Financial assets or financial liabilities at fair value through profit or loss.* This category has two sub-categories: financial assets or financial liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial instrument is classified in this category if acquired principally for the purpose of short term profit-taking or if so designated by management. As at 31 December 2007 the Bank had no financial instruments classified at fair value through profit and loss.

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

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. As at 31 December 2007 the Bank had no financial instruments classified as held-to-maturity investments.

*Available-for-sale financial assets* are those financial assets that are designated as available for sale or are not classified as loans and advances, held-to-maturity investments or financial assets at fair value through profit or loss. As at 31 December 2007 available-for-sale financial assets comprise of equity investments.

### ii. Recognition

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

### iii. Derecognition

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

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

### iv. Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

### v. Amortised cost measurement

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

### vi. Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

Where a fair value cannot be reliably estimated, unquoted equity instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

### vii. Identification and measurement of impairment

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

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

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

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

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss.

When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

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

#### i) Cash and cash equivalents

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

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

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

#### j) Property and equipment

##### i. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses (refer to accounting policy no. 3.1).

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

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

##### ii. Subsequent costs

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

##### iii. Depreciation

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

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

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

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

#### k) Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses (refer to accounting policy no. 3.1).

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

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

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

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

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amounts of an asset or its cash-generating unit exceed its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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

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

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

#### n) Provisions

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

#### o) Financial guarantees

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

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities. The Bank has no financial guarantees as at 31 December 2007.

#### p) Employee benefits

##### i. Short-term benefits

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

##### ii. Defined contribution plans

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

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

All employees of the Bank are members and are also legally obliged to make defined contributions (included in the social security contributions) to the Romanian State pension plan (a State defined contribution plan). All relevant contributions to the Romanian State pension plan are recognised as an expense in the income statement as incurred. The Bank does not have any further obligations.

The Bank does not operate any independent pension scheme and, consequently, has no obligation in respect of pensions.

##### iii. Defined benefit plans

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

##### iv. Other long-term employee benefits

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

##### v. Termination benefits

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

#### q) Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments (Note 6). The Bank performed during the year ended 31 December 2007 banking transactions delivered only on the Romanian market. The management considers that the inherent risks and benefits specific to the banking activity are not significantly different between the categories of clients as well as between various geographical regions, and consequently does not believe identifying separate reportable segments is necessary and would provide any additional benefits. Please see Note 18 for the structure of loans portfolio per industry.

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods but which the Bank has not early adopted. Management considered the following new standards, amendments and interpretations to existing standards:

##### 1. Amendments to IFRS 2 Share-based Payment and IFRIC 11 IFRS 2-Group and Treasury Share Transactions.

It requires the attribution of cash-settled share-based payments granted by a parent to suppliers of goods and services (including employees) of a subsidiary in the financial statements of the subsidiary. The IASB has not specified a proposed effective date but has proposed that the amendment be applied retrospectively subject to transitional requirements of IFRS. Amendment to IFRS 2 is currently not relevant to the Bank's operations because the Bank does not operate any share-based payment programme.

##### 2. Revised IFRS 3 'Business Combinations' (effective from 1 January 2009).

The revised Standard also includes a number of other potentially significant changes including:

- All items of consideration transferred by the acquirer are recognized and measured at fair value as of the acquisition date, including contingent consideration.

- Transaction costs are not included in the acquisition accounting.
- The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree.
- Acquisitions of additional non-controlling equity interests after the business combination must be accounted for as equity transactions.

The revised IFRS 3 is currently and in the foreseeable future not relevant to the Bank's operations.

3. *Revised IAS 1 Presentation of Financial Statements (effective from 1 January 2009).*

The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Bank is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

4. *IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009).*

It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Bank will apply IAS 23 (Amended), if the case, from 1 January 2009. Currently this is not applicable to the Bank as there are no qualifying assets.

5. *Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009).*

In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as „the equity in a subsidiary not attributable, directly or indirectly, to a parent“. The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The revised IAS 27 is currently and in the foreseeable future not relevant to the Bank's operations.

6. *Amendments to IAS 32 Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009).*

The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if and only if they meet certain conditions. The amendments are not relevant to the Bank's financial statements as the Bank did not issue any puttable instruments that would be affected by the amendments.

7. *IFRS 8, 'Operating segments' (effective from 1 January 2009).*

IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Bank will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management.

8. *IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008).*

IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Bank will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the Bank's accounts.

9. *IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008).*

IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Bank's operations because the Bank does not provide for public sector services.

10. *IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).*

IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values. IFRIC 13 is not relevant to the Bank's operations because the Bank does not operate any loyalty programmes.

## 4. Financial risk management

### a) Introduction and overview

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

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

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

#### *Risk management framework*

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

The Risk Management Policy of ProCredit Bank Romania establishes the Bank's risk philosophy and strategy, compliant with the regulations issued by the Romanian banking supervisory authority. This document sets forth minimum standards for risk management and it was approved by the Board of Administrators.

The Board of Administration has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Administration has established the Management Board and the Asset and Liability (ALCO), Credit Risk and Operational Risk committees, which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees report regularly to the Management Board.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly

to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

## b) Credit risk

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

### i. Management of credit risk

The Board of Administration has delegated, through the Management Board, the responsibility for the management of credit risk to its Credit Risk Committee. A separate Credit Department, reporting to the Credit Risk Committee, is responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to five levels of credit committees. Larger facilities require approval by the highest level Credit Committee or the Management Board as appropriate.
- *Reviewing and assessing credit risk.* Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer and country.
- *Developing and maintaining the Bank's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of six grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the Management Board. Risk grades are subject to regular reviews.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries and product types.
- *Regular reports* are provided to Credit Risk Committee on the credit quality of portfolios and appropriate corrective action is taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Bank in the management of credit risk.

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

the Credit Risk Committee. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of branches/agencies and Bank credit processes are undertaken by Internal Audit.

The Bank monitors the quality of the loan portfolio on an ongoing basis, using a portfolio at risk definition that includes all exposures with payments overdue by more than 30 days as the basic measure of current portfolio quality. The Bank chooses this measure because the vast majority of all loans have fixed instalments with monthly payment of principal and interest. Exceptions are seasonal agricultural loans and investment loans, which have a grace period of six months. Portfolio at risk remaining at 31 December 2007 is 1.3% (as compared to 1.2% in 2006).

The Bank's primary exposure to credit risk arises through its lending activity. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued (see Note 31).

Concentrations of credit risk that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The major concentrations of credit risk arise by individual counterparty and by type of customer in relation to the Bank's loans and advances to customers (see Note 18).

## ii. Exposure to credit risk

in EUR	Loans and advances to customers		Loans and advances to banks		Investment securities	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
<b>Individually impaired</b>						
Grade 5: impaired	–	–	–	–	–	–
Grade 6: impaired	217,372	268,121	–	–	–	733,012
Gross amount	217,372	268,121	–	–	–	733,012
Allowance for impairment	(103,557)	(81,726)	–	–	–	(733,012)
<b>Carrying amount</b>	<b>113,815</b>	<b>186,395</b>	–	–	–	–
<b>Collectively impaired</b>						
Grade 1-2: low risk	210,818,769	155,453,451	–	–	–	–
Grade 3-4: watch list	1,155,321	799,234	–	–	–	–
Grade 5: impaired	695,429	383,818	–	–	–	–
Grade 6: impaired	947,923	373,583	–	–	–	–
Gross amount	213,617,442	157,010,086	–	–	–	–
Allowance for impairment	(5,218,238)	(3,194,199)	–	–	–	–
<b>Carrying amount</b>	<b>208,399,204</b>	<b>153,815,887</b>	–	–	–	–
<b>Past due but not impaired</b>						
Carrying amount	–	–	–	–	–	–
Neither past due nor impaired	–	–	1,770,076	4,549,291	104,232	7,295
Carrying amount	–	–	1,770,076	4,549,291	104,232	7,295
<b>Total carrying amount</b>	<b>208,513,019</b>	<b>154,002,282</b>	<b>1,770,076</b>	<b>4,549,291</b>	<b>104,232</b>	<b>7,295</b>

*Impaired loans and securities*

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreements. Where contractual interest or principal payments are past due by over 30 days the loans are considered impaired and assessed individually for exposures higher than EUR 50,000. These loans are graded 6 in the Bank's loan loss provision methodology.

*Past due but not impaired loans*

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

*Allowances for impairment*

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets

in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

*Write-off policy*

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when it determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

*Collateral*

The Bank holds collateral against loans and advances to customers in the form of pledge over cash deposits, mortgage interests over property, guarantees and other pledge over equipments and/or receivables. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2007 or 2006.

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

in EUR	Loans and advances to customers		Loans and advances to banks	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
<b>Against individually impaired</b>				
Mortgages	341,931	271,898	–	–
Personal guarantees	258,474	261,749	–	–
Inventories	40,372	40,857	–	–
Others	–	–	–	–
<b>Against collectively impaired</b>				
Mortgages	158,211,937	136,508,538	–	–
Personal guarantees	265,038,320	170,996,033	–	–
Inventories	64,298,970	70,663,719	–	–
Others	998,062	378,868	–	–
<b>Total</b>	<b>489,188,066</b>	<b>379,121,662</b>	–	–

The Bank's credit portfolio risk is naturally limited by the credit strategy resulting from the business model; in particular the focus on small and very small loans and the broad in EUR show the distribution of loan portfolio by loan destination for 31.12.2007:

<i>in EUR</i>	Working capital	Agriculture	Housing	Consumer	Other	Total
Less than EUR 10,000	70,363,300	20,978,350	9,831,715	1,975,698	1,220,992	104,370,055
EUR 10,000 to 50,000	57,642,381	5,936,135	2,160,002	1,264,833	410,736	67,414,087
EUR 50,000 to 150,000	20,044,514	886,963	166,769	127,383	–	21,225,629
More than EUR 150,000	15,000,705	335,309	–	167,234	–	15,503,248
<b>Total</b>	<b>163,050,900</b>	<b>28,136,757</b>	<b>12,158,486</b>	<b>3,535,148</b>	<b>1,631,728</b>	<b>208,513,019</b>

The Bank's credit portfolio risk is naturally limited by the credit strategy resulting from the business model; in particular the focus on small and very small loans and the broad in EUR show the distribution of loan portfolio by loan destination for 31.12.2006.

<i>in EUR</i>	Working capital	Agriculture	Housing	Consumer	Other	Total
Less than EUR 10,000	57,271,728	12,836,233	7,417,556	2,275,204	–	79,800,721
EUR 10,000 to 50,000	40,116,424	3,562,004	2,988,443	769,327	–	47,436,198
EUR 50,000 to 150,000	14,236,663	653,528	103,681	–	–	14,993,872
More than EUR 150,000	11,771,491	–	–	–	–	11,771,491
<b>Total</b>	<b>123,396,306</b>	<b>17,051,765</b>	<b>10,509,680</b>	<b>3,044,531</b>	<b>–</b>	<b>154,002,282</b>

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

Limits for large-scale loans limit our maximum exposure toward single clients. As a rule, the sum of the 10 largest loans of any banks may not exceed 100 % of the Bank's equity. All in all, this results in a comparatively low need for individual impairment.

The structure of the loan portfolio is regularly reviewed within the Bank in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and if necessary limit the exposure toward certain sectors of the economy.

### c) Interest rate risk

The Bank incurs interest rate risk from its financial intermediation activity, principally in the form of exposure to adverse changes in the market interest rates. The main sources of interest rate risk are imperfect correlation between the maturity (for fixed interest rates) or re-pricing date (for floating interest rates) of the interest-bearing assets and liabilities, adverse evolution of the slope and shape of the yield curve (the unparallel evolution of the interest rate yields of the interest-earning assets and interest-earning liabilities), imperfect correlation in the adjustments of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics and the options embedded in the Bank's products. ProCredit Bank does not aim to earn profits through maturity transformation or other forms of speculation in the interest rate market. Rather, the Bank seeks to ensure that the balance sheet structure is as balanced as possible across all maturities.

The Bank counteracts the loan portfolio risks associated with interest rate fluctuations through variable interest for our borrowings. In quantitative terms, the Bank currently limits the risks associated with interest rate fluctuations by stipulating that the maximum weighted modified duration gap (Macaulay modified duration) of the assets and liabilities must be less than 1 (and greater than -1) while aiming at a modified duration gap of 0. In addition, a parallel shift in the yield curve by 200 basis points may not lead to a loss of more than 20% of the regulatory capital.

In our operating environment, the limitations of purely quantitative value-at-risk models quickly become apparent. Despite this fact, we wish to retain the basic premises of the VaR model, according to which a bad year can be expected to occur roughly every 20 years (VaR with confidence level 95%, holding period one year), while a "worst-case" year can be expected to occur only about every 100 years (VaR with confidence level 99%, holding period one year). The Bank we developed scenarios for normal cases and worst cases. An overview of the scenario results as of the end of the year is presented in the following table:

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
200 bp parallel increase	(3,938)	179,968
200 bp parallel decrease	(55,543)	(222,541)
100 bp parallel increase	4,373	94,662
100 bp parallel decrease	(19,173)	(105,267)

The interest rates related to the local currency and the major foreign currencies as at 31 December 2007 and 2006 were as follows:

Currencies	Interest rate	31 Dec 2007	31 Dec 2006
Leu (RON)	BUBOR 3 months	8.4%	8.6%
Leu (RON)	BUBOR 6 months	8.4%	8.6%
Euro (EUR)	Euribor 3 months	4.8%	3.7%
Euro (EUR)	Euribor 6 months	4.8%	3.8%
US Dollar (USD)	Libor 3 months	4.8%	5.4%
US Dollar (USD)	Libor 6 months	4.7%	5.4%

**Range of interest rates**

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during financial year 2007:

Range of interest rates <i>in %</i>	RON		USD		EUR	
<b>Assets</b>						
Current accounts with the National Bank of Romania	1.90	2.50	1.00	1.30	0.80	1.35
Loans and advances to banks	1.00	21.00	5.15	6.85	3.70	5.75
Loans and advances to customers, net	6.25	36	10.00	20.00	5.25	24
<b>Liabilities</b>						
Deposits from customers	2.00	12.00	1.00	6.00	1.25	6.05
Deposits from banks	1.50	22.00	6.10	6.10	4.85	6.5
Loans from banks and other financial institutions	8.38	11.44	–	–	4.50	6.40
Debt securities issued	8.50	8.50	–	–	–	–
Subordinated liabilities	–	–	–	–	9.00	9.16

The following table shows the interest rates per annum obtained or offered by the Bank for its interest-bearing assets and liabilities during financial year 2006:

Range of interest rates <i>in %</i>	RON		USD		EUR	
<b>Assets</b>						
Current accounts with the National Bank of Romania	1.50	1.90	0.95	1.00	0.70	0.80
Loans and advances to banks	1.20	9.25	0.50	6.80	0.25	5.10
Loans and advances to customers	7.00	36.00	10.00	20.00	7.60	24.00
<b>Liabilities</b>						
Deposits from customers	2.00	12.00	1.00	6.00	1.25	6.05
Deposits from banks	1.17	29.50	6.00	7.00	4.50	4.50
Loans from banks and other financial institutions	10.59	10.59	7.20	8.32	4.50	6.54
Debt securities issued	8.50	8.50	–	–	–	–
Subordinated liabilities	–	–	–	–	9.09	9.16

A summary of the Bank's interest rate gap position on non-trading portfolios as at 31 December 2007 is as follows:

<i>in EUR</i>	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with NBR	53,698,412	–	–	–	–	9,170,157	62,868,569
Loans and advances to banks	1,769,191	–	–	–	–	885	1,770,076
Investment securities, available-for-sale	–	–	–	–	–	104,232	104,232
Loans and advances to customers	82,560,957	8,612,601	45,273,878	66,770,685	3,383,307	1,911,591	208,513,019
	<b>138,028,560</b>	<b>8,612,601</b>	<b>45,273,878</b>	<b>66,770,685</b>	<b>3,383,307</b>	<b>11,186,865</b>	<b>273,255,896</b>
Deposits from banks	15,270,838	–	–	–	–	22,610	15,293,448
Deposits from customers	78,995,057	36,218,826	37,549,063	3,175,144	–	4,813,874	160,751,964
Loans from banks and financial institutions	–	9,288,390	53,763,710	–	–	1,154,093	64,206,193
Debt securities issued	–	–	–	11,083,769	–	360,890	11,444,659
Subordinated liabilities	–	–	–	–	8,750,000	181,091	8,931,091
	<b>94,265,895</b>	<b>45,507,216</b>	<b>91,312,773</b>	<b>14,258,913</b>	<b>8,750,000</b>	<b>6,532,558</b>	<b>260,627,355</b>
<b>Total interest sensitivity gap</b>	<b>43,762,665</b>	<b>(36,894,615)</b>	<b>(46,038,895)</b>	<b>52,511,772</b>	<b>(5,366,693)</b>	<b>4,654,307</b>	<b>12,628,541</b>

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

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

#### d) Currency risk

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

ign currency exposure on a daily basis and close out its positions within individually defined limits.

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

The monetary assets and liabilities held in RON and in foreign currencies at 31 December 2007 are presented below:

<i>in EUR</i>	RON	EUR	USD	Other	Total
<b>Monetary assets</b>					
Cash and balances with Central Bank	30,883,929	29,502,171	2,482,469	–	62,868,569
Loans and advances to banks	1,789	353,929	1,375,517	38,841	1,770,076
Investment securities, available-for-sale	4,232	100,000	–	–	104,232
Loans and advances to customers	164,303,448	43,218,448	991,123	–	208,513,019
Other assets	617,637	164,297	72,195	–	854,129
<b>Total monetary assets</b>	<b>195,811,035</b>	<b>73,338,845</b>	<b>4,921,304</b>	<b>38,841</b>	<b>274,110,025</b>
<b>Monetary liabilities</b>					
Deposits from banks	6,376,501	8,916,947	–	–	15,293,448
Deposits from customers	113,274,261	42,395,187	5,071,349	11,167	160,751,964
Loans from banks and other financial institutions	51,774,196	(135,817)	12,567,814	–	64,206,193
Debt securities issued	11,444,659	–	–	–	11,444,659
Other liabilities	1,365,851	24,176	48	–	1,390,075
Deferred tax liabilities	267,254	–	–	–	267,254
Subordinated liabilities	–	8,931,091	–	–	8,931,091
<b>Total monetary liabilities</b>	<b>184,502,722</b>	<b>60,131,584</b>	<b>17,639,211</b>	<b>11,167</b>	<b>262,284,684</b>
<b>Net currency position</b>	<b>11,308,313</b>	<b>13,207,261</b>	<b>(12,717,907)</b>	<b>27,674</b>	<b>11,825,341</b>

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

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

The Bank measures the foreign exchange risk based on the ratio net open position/own funds, measured at 0.37% as at 31 December 2007 (31 December 2006: 3.38%).

#### e) Liquidity risk

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

The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding, and diversifying the funding base.

The Bank concluded with 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 of the respective loans were considered in liquidity risk as immediately due.

The financial assets and liabilities of the Bank analysed over the remaining period from the balance sheet date to contractual maturity are as at 31 December 2007 as follows:

<i>in EUR</i>	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
<b>Financial assets</b>						
Cash and cash with Central Bank	62,868,569	–	–	–	–	62,868,569
Loans and advances banks	1,770,076	–	–	–	–	1,770,076
Investment securities, available-for-sale	–	–	–	–	104,232	104,232
Loans and advances to customers	9,868,188	10,860,607	56,421,213	115,366,997	15,996,014	208,513,019
Other assets	124,822	154,622	461,468	55,542	57,675	854,129
<b>Total financial assets</b>	<b>74,631,655</b>	<b>11,015,229</b>	<b>56,882,681</b>	<b>115,422,539</b>	<b>16,157,921</b>	<b>274,110,025</b>
<b>Financial liabilities</b>						
Deposits from banks	15,293,448	–	–	–	–	15,293,448
Deposits from customers	81,937,221	37,171,921	38,385,238	3,257,584	–	160,751,964
Loans from banks and other financial institutions	9,692,336	–	9,171,012	45,342,845	–	64,206,193
Debt securities issued	–	360,891	–	11,083,768	–	11,444,659
Other liabilities	1,386,886	3,189	–	–	–	1,390,075
Subordinated liabilities	–	99,233	81,857	–	8,750,000	8,931,090
<b>Total financial liabilities</b>	<b>108,309,891</b>	<b>37,635,234</b>	<b>47,638,107</b>	<b>59,684,197</b>	<b>8,750,000</b>	<b>262,017,429</b>
<b>Maturity surplus/ (shortfall)</b>	<b>(33,678,236)</b>	<b>(26,620,005)</b>	<b>9,244,574</b>	<b>55,738,342</b>	<b>7,407,921</b>	<b>12,092,596</b>

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

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

#### f) Taxation risk

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

Interpretation of the text and practical implementation procedures of the newly enforced EU tax regulations could vary, and there is a risk that certain transactions, for example, could be viewed differently by the tax authorities as compared to the Company's treatment.

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

#### g) Operating environment

On 1 January 2007 Romania became a member of the European Union and therefore the laws and regulations applicable to financial institutions have been adapted to comply with the detailed and complex rules on the basis of the EU Treaties, Regulations and Directives.

Although a member of the European Union, the economy of Romania continues to display certain macroeconomic imbalances, such as a high current account deficit, a relatively uncomplex financial market and fluctuations in the foreign currency exchange rates.

From mid 2007 onwards recent months the international financial markets have experienced a number of effects that can be traced back to the concerns over the US sub-prime mortgage market. These range from specific concerns over the underlying value

of certain asset classes to the broader impact of widening credit spreads and market illiquidity on asset values, and the ability of financial organizations to meet their financing requirements in an orderly and low cost manner.

The effects of these on the Romanian financial markets have been seen in the form of fall in the capital markets and a forecasted increase in financing interest rates on the medium term due to worldwide liquidity conditions. Nevertheless, given the market conditions and uncertainties that are likely to exist throughout the first periods of 2008, other effects may be felt beyond the date of these financial statements.

#### h) Capital management

##### *Regulatory capital*

The Bank's regulator, NBR (National Bank of Romania), sets and monitors capital requirements. In implementing current capital requirements NBR requires the Bank to maintain a prescribed ratio of total capital to total risk – weighted assets (12%).

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

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

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

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

The Bank's regulatory capital position\* at 31 December 2007 was as follows:

<i>in EUR</i>	<b>2007</b>	<b>2006</b>
<b>Tier 1 capital</b>		
Ordinary share capital	19,456,501	20,771,168
Share premium		
Retained earnings	(526,295)	(1,756,827)
Less intangible assets	(613,941)	(898,310)
Other regulatory adjustments (equity investments)	(3,776)	–
<b>Total</b>	<b>18,312,489</b>	<b>18,116,031</b>
<b>Tier 2 capital</b>		
Revaluation reserve (fixed assets)	–	–
Qualifying subordinated liabilities	8,750,000	5,000,000
Other regulatory adjustments (equity investments)	–	–
<b>Total</b>	<b>8,750,000</b>	<b>5,000,000</b>
<b>Total regulatory capital</b>	<b>27,062,489</b>	<b>23,116,031</b>
<b>Risk-weighted assets</b>	<b>223,989,066</b>	<b>164,585,995</b>
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets	12.08%	14.04%
Total tier 1 capital expressed as a percentage of risk-weighted assets	8.18%	11.01%

\*) This calculation is based on statutory figures. Please refer to Note 32.

#### Capital allocation

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

#### i) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements

- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective.

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

#### 5. Use of estimates and judgements

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

##### Impairment losses on loans and advances

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

#### 6. Segment reporting

The business segment reporting format is the Bank primary basis of segment reporting. Transactions between business segments are conducted at arm's length.

The Bank is currently in the process of amending the existing applications and adjusting existing internal financial reporting to support identification of the lower level reportable business segments and related segment information within its business segments. Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise property and equipment, intangible assets, other assets and other liabilities and taxation.

The Bank's segment reporting as at 31 December 2007 comprises the following main business segments:

- *Banking for medium entities* – within corporate banking the Bank provides corporations with a range of banking products and services, including lending and deposit taking, providing cash management, foreign commercial business.
- *Banking for Small entities and Individuals* – the Bank provides individuals and legal entities with a range of banking products and services, including lending (consumer loans, vehicles purchase, personal needs, and mortgages), savings and deposit taking business, payment services and securities business.
- *Unallocated* – within other the Bank incorporates financial products and services provided to or by financial institutions including money market and treasury operations, syndicated loans taken and bonds issued, foreign currency.

in EUR	Small entites		Individual		Medium entities		Unallocated			Total
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<b>Assets</b>										
Cash and balances with National Bank of Romania	-	-	-	-	-	-	62,868,569	50,793,413	62,868,569	50,793,413
Loans and advances to banks	-	-	-	-	-	-	1,770,076	4,549,291	1,770,076	4,549,291
Loans and advances to customers	111,188,181	80,956,806	75,475,286	57,453,074	21,849,552	15,592,402	-	-	208,513,019	154,002,282
Investment securities, available-for-sale	-	-	-	-	-	-	104,232	7,295	104,232	7,295
Property and equipment	-	-	-	-	-	-	6,659,977	7,023,014	6,659,977	7,023,014
Intangible assets	-	-	-	-	-	-	664,839	911,659	664,839	911,659
Other assets	-	-	-	-	-	-	854,129	1,011,995	854,129	1,011,995
<b>Total assets</b>	<b>111,188,181</b>	<b>80,956,806</b>	<b>75,475,286</b>	<b>57,453,074</b>	<b>21,849,552</b>	<b>15,592,402</b>	<b>72,921,822</b>	<b>64,296,667</b>	<b>281,434,841</b>	<b>218,298,949</b>
<b>Liabilities</b>										
Deposits from banks	-	-	-	-	-	-	15,293,448	1,434,446	15,293,448	1,434,446
Deposits from customers	15,420,399	12,341,233	88,418,985	62,493,871	56,912,580	42,022,625	-	-	160,751,964	116,857,729
Loans from banks and other financial institutions*	-	-	-	-	-	-	64,206,193	61,778,502	64,206,193	61,778,502
Debt securities issued	-	-	-	-	-	-	11,444,659	12,161,821	11,444,659	12,161,821
Subordinated liabilities	-	-	-	-	-	-	8,931,091	5,116,908	8,931,091	5,116,908
Deferred tax liabilities	-	-	-	-	-	-	267,254	103,739	267,254	103,739
Other liabilities	-	-	-	-	-	-	1,390,075	1,335,776	1,390,075	1,335,776
<b>Total liabilities</b>	<b>15,420,399</b>	<b>12,341,233</b>	<b>88,418,985</b>	<b>62,493,871</b>	<b>56,912,580</b>	<b>42,022,625</b>	<b>101,532,720</b>	<b>81,931,192</b>	<b>262,284,684</b>	<b>198,788,921</b>

\* Included in "Loans from banks and other financial institutions" is EUR 49,808,945, borrowings from European Bank for Reconstruction and Development and Citibank Romania taken as source of funding for the Small and Medium segments.

<i>in EUR</i>	Small entities		Individual		Medium entities		Unallocated		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Interest and similar income	19,513,476	13,138,001	13,245,879	9,323,720	3,834,587	2,530,399	1,179,944	602,829	37,773,886	25,594,949
Interest expense (*)	(197,766)	(158,851)	(5,270,043)	(3,021,136)	(3,045,003)	(1,866,749)	(8,150,404)	(4,846,112)	(16,663,216)	(9,892,848)
<b>Net interest income</b>	<b>19,315,710</b>	<b>12,979,150</b>	<b>7,975,836</b>	<b>6,302,584</b>	<b>789,584</b>	<b>663,650</b>	<b>(6,970,460)</b>	<b>(4,243,283)</b>	<b>21,110,670</b>	<b>15,702,101</b>
Fees and commission income	1,863,500	1,373,929	922,853	553,978	1,058,885	537,048	449,432	190,088	4,294,670	2,655,043
Fees and commission expense	-	-	-	-	-	-	(453,274)	(325,653)	(453,274)	(325,653)
<b>Net fee and commission income</b>	<b>1,863,500</b>	<b>1,373,929</b>	<b>922,853</b>	<b>553,978</b>	<b>1,058,885</b>	<b>537,048</b>	<b>(3,842)</b>	<b>(135,565)</b>	<b>3,841,396</b>	<b>2,329,390</b>
Net trading income	-	-	-	-	-	-	897,896	529,889	897,896	529,889
Other operating income	-	-	-	-	-	-	77,800	65,067	77,800	65,067
<b>Operating income</b>	<b>21,179,210</b>	<b>14,353,079</b>	<b>8,898,689</b>	<b>6,856,562</b>	<b>1,848,469</b>	<b>1,200,698</b>	<b>(6,974,302)</b>	<b>(4,378,848)</b>	<b>25,927,762</b>	<b>18,626,447</b>
Net impairment losses on financial assets	(1,166,102)	(654,784)	(888,786)	(435,317)	(97,272)	(34,777)	1,956	(19,712)	(2,150,204)	(1,144,590)
Operating expenses	-	-	-	-	-	-	(22,647,042)	(15,863,592)	(22,647,042)	(15,863,592)
Income tax expense	-	-	-	-	-	-	-	-	(183,990)	(117,690)
<b>Net profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>946,526</b>	<b>1,500,575</b>

\* Included in "Interest expenses" is EUR 4,969,270, borrowings from European Bank for Reconstruction and Development and Citibank Romania taken as source of funding for the Small and Medium segments.

## 7. Financial assets and liabilities

### Accounting classifications and fair values

<i>in EUR</i>	Notes	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
<b>31 December 2007</b>									
Cash and balances with Central Bank	15	-	-	-	62,868,569	-	-	62,868,569	62,868,569
Loans and advances to banks	16	-	-	-	1,770,076	-	-	1,770,076	1,769,790
Loans and advances to customers	18	-	-	-	208,513,019	-	-	208,513,019	212,272,456
Investment securities, available for sale	17	-	-	-	-	104,232	-	104,232	104,232
<b>Total financial assets</b>		-	-	-	<b>273,151,664</b>	<b>104,232</b>	-	<b>273,255,896</b>	<b>277,015,047</b>
Deposits from banks	22	-	-	-	-	-	15,293,448	15,293,448	15,296,704
Deposits from customers	23	-	-	-	-	-	160,751,964	160,751,964	161,154,507
Loans from banks and other financial institutions	24	-	-	-	-	-	64,206,193	64,206,193	63,417,415
Debt securities issued	25	-	-	-	-	-	11,444,659	11,444,659	11,444,659
Subordinated liabilities	27	-	-	-	-	-	8,931,091	8,931,091	8,931,091
<b>Total financial liabilities</b>		-	-	-	-	-	<b>260,627,355</b>	<b>260,627,355</b>	<b>260,244,376</b>

<i>in EUR</i>	Notes	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
<b>31 December 2006</b>									
Cash and balances with Central Bank	15	-	-	-	50,793,413	-	-	50,793,413	50,793,413
Loans and advances to banks	16	-	-	-	4,549,291	-	-	4,549,291	4,548,762
Loans and advances to customers	18	-	-	-	154,002,282	-	-	154,002,282	156,989,734
Investment securities, available for sale	17	-	-	-	-	7,295	-	7,295	7,295
<b>Total financial assets</b>		-	-	-	<b>209,344,986</b>	<b>7,295</b>	-	<b>209,352,281</b>	<b>212,339,204</b>
Deposits from banks	22	-	-	-	-	-	1,434,446	1,434,446	1,435,537
Deposits from customers	23	-	-	-	-	-	116,857,729	116,857,729	117,009,720
Loans from banks and other financial institutions	24	-	-	-	-	-	61,778,502	61,778,502	62,228,442
Debt securities issued	25	-	-	-	-	-	12,161,821	12,161,821	12,161,821
Subordinated liabilities	27	-	-	-	-	-	5,116,908	5,116,908	5,200,845
<b>Total financial liabilities</b>		-	-	-	-	-	<b>197,349,406</b>	<b>197,349,406</b>	<b>198,036,365</b>

#### 8. Net interest income

<i>in EUR</i>	2007	2006
<b>Interest income</b>		
Interest and similar income arising from:		
Cash and balances with National Bank of Romania	907,090	374,088
Loans and advances to banks	272,854	228,741
Loans and advances to customers, out of which:	36,576,822	24,968,357
Impaired loans and advances to customers	17,120	23,763
Investment securities, available-for-sale	-	-
<b>Total interest income</b>	<b>37,773,886</b>	<b>25,594,949</b>
<b>Interest expense</b>		
Interest expense arising from:		
Deposits from banks	192,059	1,178,178
Deposits from customers	8,512,812	5,046,736
Loans from banks and other financial institutions	6,176,426	2,761,227
Debt securities issued	1,082,052	792,066
Subordinated liabilities	699,867	114,641
<b>Total interest expense</b>	<b>16,663,216</b>	<b>9,892,848</b>
<b>Net interest income</b>	<b>21,110,670</b>	<b>15,702,101</b>

#### 9. Net fee and commission income

<i>in EUR</i>	2007	2006
<b>Fee and commission income</b>		
Fees and commission income arising from:		
Transactions	3,076,389	1,941,917
Loan administration and guarantee issuance	1,161,890	685,916
Other	56,391	27,210
<b>Total fee and commission income</b>	<b>4,294,670</b>	<b>2,655,043</b>
<b>Interest expense and similar charges</b>		
Fee and commission expense arising from:		
Inter bank transaction fees	412,314	280,882
Loans and guarantees received from banks	23,306	28,499
Other	17,654	16,272
<b>Total fee and commission expense</b>	<b>453,274</b>	<b>325,653</b>
<b>Net fee and commission income</b>	<b>3,841,396</b>	<b>2,329,390</b>

#### 10. Net trading income

<i>in EUR</i>	2007	2006
Net gain from transactions in foreign currency	1,027,931	571,928
Net loss from translation of foreign currency denominated assets and liabilities	(130,035)	(42,039)
<b>Net trading income</b>	<b>897,896</b>	<b>529,889</b>

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

<i>in EUR</i>	2007	2006
Impairment charge on loans and advances to customers	4,324,493	2,558,256
Release of the impairment for loans and advances to customers from change in estimates	(777,424)	(1,028,550)
Release of the impairment for loans and advances to customers through usage	(1,002,209)	(468,089)
Loans written-off	–	502,438
Recoveries from loans and advances to customers	(396,611)	(439,177)
Impairment charge on equity investments	1,955	19,712
<b>Net charge of provision for impairment losses</b>	<b>2,150,204</b>	<b>1,144,590</b>

**12. Other operating expenses**

<i>in EUR</i>	2007	2006
Advertising and promotion expenses	926,096	965,074
Consumables expenses	748,152	847,322
Post and telecommunication expenses	764,866	721,867
Travel expenses	505,949	463,390
Repairs and maintenance expenses	539,116	437,510
Other tax expenses	1,637,247	416,357
Electricity expenses	284,162	212,346
Insurance expenses	213,945	179,313
Representative expenses	189,791	136,863
Contribution to deposit guarantee fund	68,151	86,150
Other operating expenses	1,091,006	806,355
<b>Total</b>	<b>6,968,481</b>	<b>5,272,547</b>

**13. Personnel expenses**

<i>in EUR</i>	2007	2006
Salaries and social security contributions	9,912,073	6,919,428
Training and recruiting expenses	181,703	108,213
<b>Total</b>	<b>10,093,776</b>	<b>7,027,641</b>

**14. Taxation**

<i>in EUR</i>	2007	2006
Current tax expense	–	–
Deferred tax expense	183,990	117,690
<b>Total income tax expense</b>	<b>183,990</b>	<b>117,690</b>

**Deferred taxes**

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

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
Property and equipment and intangible assets	25,313	20,460
Loans and advances to customers	27,832	29,711
Provision for impairment of loans	(91,035)	(153,910)
Banking risk reserve (i)	(273,285)	–
Fiscal loss	43,921	–
<b>Deferred tax liability</b>	<b>(267,254)</b>	<b>(103,739)</b>

(i) Subject to future General Shareholder's Assembly decision, the Bank will use the general banking risks reserve to cover the prior years losses or for incorporation within the share capital (refer to Note 29).

**Reconciliation of effective tax rate**

<i>in EUR</i>	2007	2006
<b>Profit before tax</b>	<b>1,130,516</b>	<b>1,618,265</b>
<b>Taxation at statutory rate of 16% (2006: 16%)</b>	<b>180,883</b>	<b>258,922</b>
Non-deductible expenses	80,630	88,683
Non-taxable revenues	(17,177)	(55,539)
Tax effect of other non-temporary differences	(244,336)	(292,066)
Origination and reversal of temporary differences	183,990	117,690
<b>Taxation in the income statement</b>	<b>183,990</b>	<b>117,690</b>

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

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
Minimum compulsory reserve	53,698,412	42,105,575
Cash on hand and cash in ATMs	7,710,652	7,034,053
Other balances with National Bank of Romania	1,459,505	1,653,785
<b>Total</b>	<b>62,868,569</b>	<b>50,793,413</b>

At 31 December 2007 the minimum compulsory reserve, held with the National Bank of Romania, was established at 20% for RON and 40% for USD or EUR (31 December 2006: 20% for RON and 40% for USD or EUR) denominated funds attracted. The balance of mandatory reserve can vary on a daily basis. The interest paid by the National Bank of Romania for the reserve held by banks was 2.5% p.a. for RON denominated reserves, 1.35% p.a. for EUR and 1.2% p.a. for USD denominated reserves. The mandatory reserve can be used in the Bank's day to day activities providing the average balance for the month is maintained within required formula.

**16. Loans and advances to banks**

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
Current accounts with banks	442,401	380,171
Deposits with banks	1,327,675	4,169,120
<b>Total</b>	<b>1,770,076</b>	<b>4,549,291</b>

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

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

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
<b>Equity investments available-for-sale</b>		
Investment in subsidiaries	–	733,012
Less provision for impairment loss on equity investments	–	(733,012)
Other unlisted equity investments	104,232	7,295
<b>Total</b>	<b>104,232</b>	<b>7,295</b>

The subsidiary accounted for, by the Bank, under investment in subsidiaries as at 31 December 2006, Microenterprise Credit Romania SA, was liquidated in July 2007.

**18. Loans and advances to customers**

<i>in EUR</i>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
Loans and advances to customers	213,834,813	157,278,207
Out of which:		
Accrued interest on impaired loans	33,071	13,974
Less provision for impairment losses on loans and advances to customers	(5,321,794)	(3,275,925)
<b>Total</b>	<b>208,513,019</b>	<b>154,002,282</b>

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

<i>in EUR</i>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
Services	75,607,889	59,424,731
Trade	68,831,755	47,610,963
Industry	48,930,923	32,752,258
Individuals, mortgage loans	5,685,253	7,252,136
Individuals, consumer loans	3,734,519	3,086,355
Others	11,044,474	7,151,764
<b>Total loans and advances to customers before provisions</b>	<b>213,834,813</b>	<b>157,278,207</b>
Less provision for impairment losses on loans and advances to customers	(5,321,794)	(3,275,925)
<b>Total</b>	<b>208,513,019</b>	<b>154,002,282</b>

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

<i>in EUR</i>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
Balance at the beginning of the year	3,275,925	2,564,804
Charge of impairment loss to income statement for collectively impaired loans and advances	4,309,715	2,476,530
Charge of impairment loss to income statement for individually impaired loans and advances	14,778	81,726
Release of impairment loss to income statement for collectively impaired loans and advances	(1,779,633)	(1,496,639)
Release of impairment loss to income statement for individually impaired loans and advances	-	-
Exchange rate differences	(498,991)	(350,496)
<b>Balance at the end of the year</b>	<b>5,321,794</b>	<b>3,275,925</b>

**19. Intangible assets**

<i>in EUR</i>	<b>Total</b>
<b>Cost</b>	
At 1 January 2007	1,556,675
Additions	278,698
Effect of exchange rate	(98,527)
At 31 December 2007	1,736,846
<b>Accumulated amortisation</b>	
At 1 January 2007	645,016
Amortisation charge for the year	506,071
Effect of exchange rate	(79,080)
At 31 December 2007	1,072,007
<b>Net book value</b>	
<b>at 31 December 2007</b>	<b>664,839</b>
<b>Cost</b>	
At 1 January 2006	698,806
Additions	796,826
Effect of exchange rate	61,043
At 31 December 2006	1,556,675
<b>Accumulated amortisation</b>	
At 1 January 2006	287,341
Amortisation charge for the year	325,958
Effect of exchange rate	31,717
At 31 December 2006	645,016
<b>Net book value</b>	
<b>at 31 December 2006</b>	<b>911,659</b>

## 20. Property and equipment

<i>in EUR</i>	Leasehold improvements	Furniture and computer equipment	Motor vehicles	Construction in progress	Total
<b>Cost</b>					
At 1 January 2007	3,730,250	5,662,515	681,979	89,887	10,164,631
Additions	963,215	1,022,937	134,507	119,880	2,240,539
Disposals	–	(49,198)	–	(89,887)	(139,085)
Effect of exchange rate	(236,098)	(358,395)	(43,164)	–	(637,657)
<b>At 31 December 2007</b>	<b>4,457,367</b>	<b>6,277,859</b>	<b>773,322</b>	<b>119,880</b>	<b>11,628,428</b>
<b>Accumulated depreciation</b>					
At 1 January 2007	857,988	2,041,726	241,903	–	3,141,617
Depreciation charge for the year	710,340	1,377,832	156,388	–	2,244,560
Disposal	–	(49,198)	–	–	(49,198)
Effect of exchange rate	(108,000)	(220,174)	(40,354)	–	(368,528)
At 31 December 2007	1,460,328	3,150,186	357,937	–	4,968,451
<b>Net book value</b>					
<b>At 31 December 2007</b>	<b>2,997,039</b>	<b>3,127,673</b>	<b>415,385</b>	<b>119,880</b>	<b>6,659,977</b>

<i>in EUR</i>	Leasehold improvements	Furniture and computer equipment	Motor vehicles	Construction in progress	Total
<b>Cost</b>					
At 1 January 2006	2,230,890	2,826,786	308,160	89,252	5,455,088
Additions	1,221,966	2,591,927	360,398	89,887	4,264,178
Disposals	(7,373)	(3,125)	(11,574)	(89,252)	(111,324)
Effect of exchange rate	284,767	246,927	24,995	–	556,689
<b>At 31 December 2006</b>	<b>3,730,250</b>	<b>5,662,515</b>	<b>681,979</b>	<b>89,887</b>	<b>10,164,631</b>
<b>Accumulated depreciation</b>					
At 1 January 2006	383,694	1,139,410	128,173	–	1,651,277
Depreciation charge for the year	426,673	764,071	105,370	–	1,296,114
Disposal	(4,178)	(1,117)	(7,326)	–	(12,621)
Effect of exchange rate	51,799	139,362	15,686	–	206,847
<b>At 31 December 2006</b>	<b>857,988</b>	<b>2,041,726</b>	<b>241,903</b>	<b>–</b>	<b>3,141,617</b>
<b>Net book value</b>					
<b>At 31 December 2006</b>	<b>2,872,262</b>	<b>3,620,789</b>	<b>440,076</b>	<b>89,887</b>	<b>7,023,014</b>

## Operating leases

Non-cancellable operating lease rentals are payable as follows:

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
Less than one year	2,936,653	1,861,885
Between one and five years	8,560,935	5,588,553
More than five years	1,814,953	1,392,382
<b>Total</b>	<b>13,312,541</b>	<b>8,842,820</b>

## 21. Other assets

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
Prepayments	376,298	330,414
Sundry debtors	23,246	12,410
Advances for fixed assets		
in progress	131,377	375,004
Other receivables	323,208	294,167
<b>Total</b>	<b>854,129</b>	<b>1,011,995</b>

**22. Deposits from banks**

<i>in EUR</i>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
Term deposits	15,293,448	1,434,446
<b>Total</b>	<b>15,293,448</b>	<b>1,434,446</b>

**23. Deposits from customers**

<i>in EUR</i>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
<b>Individuals</b>		
Term deposits	66,477,235	50,632,865
Current deposits	20,622,419	11,058,843
Collateral deposit	239,949	161,783
<b>Corporate customers</b>		
Term deposits	47,271,524	39,099,313
Current deposits	25,911,860	15,564,446
Collateral deposit	228,977	340,479
<b>Total</b>	<b>160,751,964</b>	<b>116,857,729</b>

**24. Loans from banks and other financial institutions**

<i>in EUR</i>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
Commerzbank International (i)	–	3,019,326
Kreditanstalt für Wiederaufbau (“KfW”) (ii)	3,519,498	9,674,964
German Romanian Fund (iii)	–	1,518,030
European Bank for Reconstruction and Development (iv)	9,072,299	14,830,575
International Finance Corporation (v)	9,652,864	–
Deutsche Investitions und Entwicklungsgesellschaft GmbH (“DEG”) (vi)	–	3,021,380
Citibank (vii)	41,961,532	29,714,227
<b>Total</b>	<b>64,206,193</b>	<b>61,778,502</b>

*(i) Loan from Commerzbank International*

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

*(ii) Loan from KfW*

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

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

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

*(iii) Loan from GRF*

In October 2003 the Bank concluded with GRF a loan agreement amounting to EUR 1,500,000 with the purpose of granting micro-

finance loans. The loan was fully drawn as at year end. The loan bears an interest rate of 3 months Euribor plus margin and is repayable in equal quarterly instalments of EUR 375,000 each starting from January 2007 until October 2007. The loan was fully repaid in October 2007.

*(iv) Loan from EBRD*

In October 2003 the Bank concluded with the European Bank for Reconstruction and Development (“EBRD”) a loan agreement amounting to EUR 5,000,000 with the purpose of granting micro-finance loans. The outstanding principal of the loan as for 31 December 2007 was EUR 833,333 (31 December 2006: EUR 2,500,000). The loan bears an interest rate of 6 months Euribor plus margin and is repayable in June 2008.

In May 2005 the Bank concluded with European Bank for Reconstruction and Development (“EBRD”) amounting to EUR 12,390,000 with the purpose of granting loans to SME’s. The outstanding principal of the loan as for 31 December 2007 was EUR 8,260,000 (31 December 2006: EUR 10,325,000). The loan bears an interest rate of 6 months Euribor plus margin and is repayable starting from June 2007 in equal semi-annually instalments of EUR 2,065,000 each until December 2009.

*(v) Loan from International Finance Corporation (IFC)*

In June 2007 the Bank concluded with International Finance Corporation a loan agreement amounting RON 34,050,000 (EUR 9,431,610). The loan bears a variable interest rate linked to 6 months SWAP rate (the swap market, being the Leu fixed rate quoted to IFC for a Leu/Dollar swap transaction between IFC and a swap counterparty selected by IFC) plus margin, repayable in equal semi-annual instalments of RON 4,864,286 (EUR 1,347,373) each starting from August 2009 till August 2012.

*(vi) Loan from DEG*

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

*(vii) Loan from Citibank Romania SA*

In October 2006 the Bank concluded with Citibank a syndicated loan agreement amounting to 150,000,000 RON. The drawn amount the end of 2007 was 150,000,000 RON (EUR 41,548,945). The drawn amount the end of 2006 was 100,000,000 RON (EUR 361,020,000). The loan bears an interest rate of 6 months BUBOR plus margin and is repayable in equal semi-annual instalments of RON 25,000,000 each starting from April 2009 until October 2011.

The loan agreement with IFC requires the Bank to comply with certain financial ratios (financial covenants). As at 31 December 2007 the Bank did not comply with negative maturity gap of the financial covenants required in the agreements with IFC. As a consequence, the balance of the loans has been presented in the liquidity note as due as at year end.

**25. Debt securities issued**

<i>in EUR</i>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
Principal (i)	11,148,967	11,902,298
Deferred commission	(65,198)	(125,753)
Accrued interest	360,890	385,276
<b>Total</b>	<b>11,444,659</b>	<b>12,161,821</b>

(i) In March 2006 the Bank issued corporate bonds in nominal value of RON 40,250,000 (i.e. EUR 11,148,967 as at 31.12.2007 and EUR 11,902,298 as at 31.12.2006). The interest rate is 8.5% p.a. and is paid semi-annually. The final maturity is 12th of February 2009. The bonds issuance was intermediated by BCR Securities S.A.. The bonds are publicly listed on the Bucharest Stock Exchange since 12 February 2007 (symbol PRCR09). The fair value of the debt securities issued is disclosed in Note 7.

## 26. Other liabilities

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
Salaries and related contributions and taxes payables	823,565	723,156
Sundry creditors	566,510	612,620
<b>Total</b>	<b>1,390,075</b>	<b>1,335,776</b>

## 27. Subordinated liabilities

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
Principal (i)	8,750,000	5,000,000
Accrued interest	181,091	116,908
<b>Total</b>	<b>8,931,091</b>	<b>5,116,908</b>

(i) In August 2006 the Bank received a EUR 3,000,000 subordinated loan from ProCredit Holding AG bearing a fixed interest rate. The loan is repayable in August 2016. In November 2006 the Bank received a EUR 2,000,000 subordinated loan from ProCredit Holding AG bearing a fixed interest rate. In April 2007 the Bank received a EUR 3,500,000 subordinated loan from ProCredit Holding AG bearing a fixed interest rate. The loan is repayable EUR 5,000,000 in October 2016 and EUR 3,500,000 in April 2017.

## 28. Issued capital

The issued capital of the Bank is represented by 7,024,186 shares (31 December 2006: 7,024,186 shares) of RON 10 each, equivalent to USD 14,600,000.02 and EUR 6,000,000.75 respectively at the dates of contribution. The shareholders of the Bank at 31 December 2007 and 31 December 2006 were as follows:

Shareholders	Number of shares	2007		2006	
		%	Number of shares	%	
ProCredit Holding AG (i)	2,263,083	32.22	2,263,083	32.22	
Commerzbank Aktiengesellschaft	1,476,925	21.03	1,476,925	21.03	
European Bank for Reconstruction and Development	1,160,823	16.53	1,160,823	16.53	
Deutsche Investitions- und Entwicklungsgesellschaft GmbH	–	–	927,824	13.21	
Kreditanstalt für Wiederaufbau (KfW) (i)	927,824	13.21	–	–	
International Finance Corporation (i)	846,910	12.06	846,910	12.06	
Internationale Projekt Consult GmbH	348,621	4.96	348,621	4.96	
<b>Total</b>	<b>7,024,186</b>	<b>100.00</b>	<b>7,024,186</b>	<b>100.00</b>	

(i) During 2007 ProCredit Holding AG took over the participation of International Finance Corporation in ProCredit Bank SA. At current date, the legal procedures to change the shareholder structure are pending approval from the regulatory authorities.

## 29. Reserves

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
Statutory reserve (i)	160,556	96,097
General banking risk reserve (ii)	1,708,008	1,825,908
<b>Total</b>	<b>1,868,564</b>	<b>1,922,005</b>

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

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

Subject to future General Shareholder's Assembly decision, the Bank will use the general banking risks reserve, in balance as at 31 December 2007, to cover the prior years losses or for incorporation within the share capital.

### 30. 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:

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
Cash and other balances with NBR (Note 15)	9,170,157	8,687,838
Loans and advances to banks (Note 16)	1,770,076	4,549,291
<b>Total</b>	<b>10,940,233</b>	<b>13,237,129</b>

### 31. Commitments and contingencies

#### i) Legal proceedings

As at 31 December 2007 and 31 December 2006 there were no significant legal proceedings outstanding against the Bank.

#### ii) Credit related commitments

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

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

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

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
Guarantees given	559,480	469,925
Commitments to extend credit	4,081,196	2,432,822
<b>Total</b>	<b>4,640,676</b>	<b>2,902,747</b>

The Bank issues guarantees and letters of credit on behalf of its customers. The credit risk on guarantees is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank. At 31 December 2007 no provision has been established for risks arising from off balance sheet commitments (31 December 2006: nil).

In accordance with the requirements of the Emergency Government Ordinance no. 23 / 22 March 2006, the Bank signed a stand-by liquidity agreement for one year with the Banking Deposits Guarantee Fund for a maximum amount of EUR 698,145. No amounts were drawn from this facility.

### 32. Related party transactions

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

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

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

Name	Relationship
Commerzbank Aktiengesellschaft (and its subsidiaries)	Shareholder
Deutsche Investitions- und Entwicklungsgesellschaft	Shareholder
European Bank for Reconstruction and Development	Shareholder
International Finance Corporation	Shareholder
Internationale Projekt Consult	Shareholder
ProCredit Holding AG	Shareholder
ProCredit Bank Albania	Bank of the group
ProCredit Bank Bulgaria	Bank of the group
ProCredit Bank Bosnia & Herzegovina	Bank of the group
ProCredit Bank Congo	Bank of the group
ProCredit Bank Georgia	Bank of the group
ProCredit Bank Kosovo	Bank of the group
ProCredit Bank Macedonia	Bank of the group
ProCredit Bank Serbia and Montenegro	Bank of the group
ProCredit Bank Ukraine	Bank of the group
ProCredit Moldova	Group company
ProCredit Academy	Group company
ProLease Bulgaria	Group company
Microenterprise Credit Romania SRL (liquidated in 2007)	Subsidiary

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

During the year ended 31 December 2007 and the year ended 31 December 2006 the following transactions were carried out with the shareholders and other related parties from the group:

<i>in EUR</i>	31 Dec 2007	31 Dec 2006
Loans and advances	400,029	355,593
Other receivable	123,806	60,000
<b>Total assets</b>	<b>523,835</b>	<b>415,593</b>
Deposits	-	1,136,900
Borrowings	2,431,515	20,871,281
Other liabilities	61	11,281
Subordinated liabilities	8,931,091	5,116,908
<b>Total liabilities</b>	<b>11,362,667</b>	<b>27,136,370</b>

<i>in EUR</i>	2007	2006
Interest income	441	43,774
Net fees and commissions	(3,658)	(7,385)
Other revenue	5,565	27,497
<b>Income</b>	<b>2,348</b>	<b>63,886</b>
Interest expense	(2,474,022)	(1,746,846)
Other expense	(449,925)	(399,100)
<b>Expense</b>	<b>(2,923,947)</b>	<b>(2,145,946)</b>

**Transactions with key management personnel**

<i>in EUR</i>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
Management salaries	1,301,011	591,775
<b>Total expenses</b>	<b>1,301,011</b>	<b>591,775</b>

**33. Reconciliation of profit under IFRS and Romanian Accounting Standards as stipulated in Order No. 5/2005 issued by the National Bank of Romania Governor on the approval of accounting regulations compliant with EU Directives and applicable to credit institutions**

<i>in EUR</i>	<b>2007</b>	<b>2006</b>
Profit for the year under Romanian Accounting Standards	1,481,716	934,326
Adjustments for net charge of provisions	(359,243)	794,387
Deferred tax expenses	(183,989)	(117,690)
Other items	8,042	(110,448)
<b>Profit for the year under IFRS</b>	<b>946,526</b>	<b>1,500,575</b>

The profit for the year under Romanian Accounting Standards as stipulated in Order No. 5/2005 issued by the National Bank of Romania Governor on the approval of accounting regulations compliant with EU Directives and applicable to credit institutions presented above may change due to issuance of the statutory financial statements pursuant to IFRS financial statements approval.

**34. Reconciliation of equity under IFRS and Romanian Accounting Standards as stipulated in Order No. 5/2005 issued by the National Bank of Romania Governor on the approval of accounting regulations compliant with EU Directives and applicable to credit institutions**

<i>in EUR</i>	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>
<b>Equity under Romanian Accounting Standards</b>	<b>19,180,580</b>	<b>19,016,962</b>
Loans related adjustments	395,020	742,388
Fixed assets related adjustments	(158,207)	(125,776)
Deferred tax	(267,236)	(127,222)
Other items	–	3,676
<b>Equity under IFRS</b>	<b>19,150,157</b>	<b>19,510,028</b>

The equity as at 31 December 2007 under Romanian Accounting Standards as stipulated in Order No. 5/2005 issued by the National Bank of Romania Governor on the approval of accounting regulations compliant with EU Directives and applicable to credit institutions presented above may change due to issuance of the statutory financial statements pursuant to IFRS financial statements approval.

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\* Opened in 2008

