SANPAOLO IMI BANK ROMANIA SA

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS

SANPAOLO IMI BANK ROMANIA SA

FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER 2004

CONTENTS	**PAGE**

GENERAL INFORMATION

NATURE OF THE ENTERPRISE

Sanpaolo IMI Bank Romania SA (the "Bank") has been incorporated in Romania in December 1996, initially under the name of “West Bank” and is licensed by the National Bank of Romania to conduct banking activities. The Bank has changed its name from “West Bank” to “Sanpaolo IMI Bank Romania” after the approval by National Bank of Romania on 16th October 2003. The Bank is principally engaged in retail banking operations in Romania.

The Bank is a member of SANPAOLO IMI Group, through sub-holding company Sanpaolo Internazionale SpA (Padova, Italy).

As at 31 December 2004 the Bank had 17 branches and 7 agencies (2003: 17 branches and 4 agencies).

The Bank’s registered office is located at the following address:
88, B-dul Revoluției
Arad
Romania

As at 31 December 2004 the number of employees was 418 (31 December 2003: 403).

The Board of Directors formulates policies for the operation of the Bank and supervises their implementation. The Board is composed of 6 members appointed by the General Meeting of Shareholders.

As at 31 December 2004 the Board of Directors of the Bank comprised the following members:

1. Giovanni Ravasio	president
2. Marco Capellini	member*
3. Ioan Mihail Anca	member*
4. Nicola Calabró	member
5. Gerardo Palmitesta	member*
6. Daniele Bordina	member

*) Members of the Executive Committee

SANPAOLO IMI BANK ROMANIA SA

STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2004
(All amounts in ROL million unless otherwise stated)

	Note	Year ended 31 December			
		2004	2003	2004 EUR Proforma	2003 EUR Proforma
Interest and similar income	4	380,682	279,437	9,597,912	6,796,143
Interest expense and similar charges	4	(147,004)	(154,472)	(3,706,326)	(3,756,889)
Net interest income		233,678	124,965	5,891,586	3,039,254
Fee and commission income	5	192,144	150,273	4,844,414	3,654,766
Fee and commission expense	5	(15,703)	(15,876)	(395,911)	(386,118)
Net fee and commission income		176,441	134,397	4,448,503	3,268,648
Other operating income		41,074	14,108	1,035,575	343,118
Foreign exchange gain/(loss), net	6	(4,189)	96,672	(105,615)	2,351,144
Impairment provision	7	47,349	(31,306)	1,193,784	(761,388)
Operating expenses	8	(389,976)	(543,976)	(9,832,237)	(13,229,953)
Net operating profit/(loss)		104,377	(205,140)	2,631,596	(4,989,177)
Loss on net monetary position		-	(5,704)	-	(138,726)
Profit/(loss) before taxation		104,377	(210,844)	2,631,596	(5,127,903)
Income tax	21	-	-	-	-
Net profit/(loss)		104,377	(210,844)	2,631,596	(5,127,903)

The financial statements on pages 1 to 5 and accompanying notes on pages 6 to 49 were approved and signed on behalf of the Board of Directors on 15 March 2005 by:

Marco Capellini
General Manager

Mihai Ardelean
Deputy Finance Manager

The accompanying notes on pages 6 to 49 form an integral part of these financial statements.

SANPAOLO IMI BANK ROMANIA SA

BALANCE SHEET AS AT 31 DECEMBER 2004

(All amounts in ROL million unless otherwise stated)

	Note	31 December 2004 (ROL million)	31 December 2003 (ROL million)	31 December 2004 EUR Proforma	31 December 2003 EUR Proforma
ASSETS					
Cash and balances with Central Bank	9	749,855	449,171	18,905,655	10,924,216
Treasury securities		-	40,916	-	995,112
Due from banks	10	815,001	118,726	20,548,143	2,887,516
Loans and advances to customers, net	11	2,365,682	1,171,444	59,644,555	28,490,503
Investment securities available-for-sale	12	187,448	296,957	4,726,017	7,222,244
Equity investments	13	27,812	16,072	701,208	390,885
Intangible assets	14	36,443	30,827	918,816	749,739
Property, plant and equipment	15	344,387	278,863	8,682,828	6,782,182
Other assets, net	16	48,776	41,675	1,229,761	1,013,571
Total assets		4,575,404	2,444,651	115,356,983	59,455,968
LIABILITIES					
Liabilities					
Deposits from banks	17	1,237,847	439,199	31,209,112	10,681,689
Due to customers	18	2,125,330	1,407,768	53,584,701	34,238,101
Other borrowed funds	19	398,568	107,552	10,048,862	2,615,755
Other liabilities	20	219,357	200,972	5,530,520	4,887,808
Total liabilities		3,981,102	2,155,491	100,373,195	52,423,353
Shareholders' equity					
Share capital	22	1,259,630	1,058,470	31,758,314	25,742,880
Other reserves	23	32,054	32,449	808,184	789,187
Accumulated losses		(697,382)	(801,759)	(17,582,710)	(19,499,452)
Shareholders' equity		594,302	289,160	14,983,788	7,032,615
Total liabilities and equity		4,575,404	2,444,651	115,356,983	59,455,968
Off balance sheet commitments and contingencies	25	319,471	185,665	8,054,625	4,515,517

The financial statements on pages 1 to 5 and accompanying notes on pages 6 to 49 were approved and signed on behalf of the Board of Directors on 15 March 2005 by:

Marco Capellini
General Manager

Mihai Ardelean
Deputy Finance Manager

The accompanying notes on pages 6 to 49 form an integral part of these financial statements.

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2004
(All amounts in ROL million unless otherwise stated)

	Note	31 December 2004	31 December 2003
Net cash flow from operating activities			
Cash flows from operating activities			
Interest and commission receipts		371,889	273,323
Interest paid		(146,066)	(152,704)
Fee and commission receipts		176,441	134,397
Net trading and other income		95,101	35,482
Recoveries on loans previously written off		86,822	42,082
Cash payments to employees and suppliers		(308,060)	(325,265)
Net cash flow from operating activities before changes in operating assets and liabilities		276,127	7,315
Change in operating assets			
Decrease in treasury securities over 90 days		40,916	172,493
(Increase)/decrease in placements with other banks		8,920	(8,920)
Increase in loans and advances to customers		(1,309,196)	(34,582)
(Increase)/decrease in other assets		(7,099)	32,922
Total changes in operating assets		(1,266,459)	161,913
Change in operating liabilities			
(Increase)/decrease in deposits from banks		758,439	(180,313)
(Increase)/decrease in amounts owed to depositors		706,733	(57,388)
Decrease in other borrowed funds		(25,039)	-
Increase in other liabilities		9,031	15,233
Total changes in operating liabilities		1,449,164	(222,468)
Cash flow from operating activities		458,832	(53,240)
Cash flow from investing activities			
Sale/(purchase) of equity investments, net		1,133	(3,059)
Purchase of property, equipment and intangible assets		(100,149)	(58,756)
Sale/(purchase) of investment securities		101,309	(296,135)
Net cash used in investing activities		2,293	(357,950)
Cash flow from financing activities			
Issue of share capital		201,160	204,032
Proceeds from loan from Sanpaolo		326,968	70,652
Finance lease repayments		(1,166)	(3,332)
Net cash used in financing activities		526,962	271,352
Effect of inflation on cash and cash equivalents		-	(5,704)
Effect of exchange rate changes		17,792	-
Increase/(decrease) in cash and cash equivalents		1,005,879	(145,542)
Cash and cash equivalents at 1 January		558,977	704,519
Cash and cash equivalents at 31 December	**24**	1,564,856	558,977

The accompanying notes on pages 6 to 49 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004
(All amounts in ROL million unless otherwise stated)

	Share capital	Other reserves	Accumulated losses	Shareholders' equity
Balance as at 31 December 2002	854,438	31,627	(590,915)	295,150
Issue of share capital	204,032	-	-	204,032
Net loss for the year	-	-	(210,844)	(210,844)
Change in fair value of AFS Securities	-	822	-	822
Balance as at 31 December 2003	1,058,470	32,449	(801,759)	289,160
Issue of share capital	201,160	-	-	201,160
Net profit for the year	-	-	104,377	104,377
Change in fair value of AFS Securities	-	(395)	-	(395)
Balance as at 31 December 2004	1,259,630	32,054	(697,382)	594,302

The accompanying notes on pages 6 to 49 form an integral part of these financial statements.

1. BASIS OF PRESENTATION

These financial statements of Sanpaolo IMI Bank SA (the "Bank") are prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements are prepared under the historical cost convention and modified by the revaluation of available for sale financial assets and all derivative contracts at fair value.

1.1. Currency of presentation

The accompanying financial statements are presented in Romanian Lei (ROL). The comparative figures have been restated in terms of the current purchasing power of the Romanian Lei as at 31 December 2003.

The EUR amounts shown in the accompanying financial statements have been included solely for ease of understanding and are derived from ROL as a matter of arithmetic computation only. Such computations should not be contracted as a representation that the ROL amounts have been or could be converted into EUR at this rate or any other rate.

1.2. Basis of accounting

The underlying accounting records maintained in conformity with Romanian accounting law and National Bank of Romania ("NBR") banking regulations ("statutory accounts") have been restated to reflect the differences between the statutory accounts and the International Financial Reporting Standards ("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 principal differences between the statutory accounts and the IFRS financial statements relate to the effects of accounting for hyperinflation to 31 December 2003, income tax, methodologies for determining the allowance for loan losses, accounting for financial instruments, and accounting for investments and derivative contracts.

1. BASIS OF PRESENTATION (CONTINUED)

1.3. Use of estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported income and expenses during the reported period. Actual results could differ from these estimates.

1.4. Offsetting financial instruments

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

(All amounts in ROL million unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Accounting for the effect of hyperinflation

Prior to 1 January 2004 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the ROL in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment in Romania indicate that hyperinflation has ceased, effective from 1 January 2004 the Bank no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2003 are treated as the basis for the carrying amounts in these financial statements.

The restatement was calculated using the conversion factors derived from the Romanian Consumer Price Index ("CPI"), published by the Comisia Nationala de Statistica. The indices used to restate corresponding figures, based on 1998 prices (1998 = 100) for the five years ended 31 December 2003, and the respective conversion factors are:

Year	Movement in CPI	Indices	Conversion Factor
1999	54.8%	1.548	2.46
2000	40.7%	2.178	1.75
2001	30.3%	2.838	1.35
2002	17.8%	3.343	1.14
2003	14.1%	3.815	1

The main guidelines followed in restating the corresponding figures were:

All corresponding amounts were stated in terms of the measuring unit current at 31 December 2003;

Monetary assets and liabilities held at 31 December 2003 were not restated because they were already expressed in terms of the monetary unit current at 31 December.

Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current at 31 December 2003) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All items in the statement of income and cash flows were restated by applying the change in the general price index from the dates when the items were initially transacted to 31 December 2003.

Gain or losses that arose as a result of holding monetary assets and liabilities for the reporting period ended 31 December 2003 were included in the statement of income as a monetary gain or loss.

2.2. Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currency are expressed in ROL as at the balance sheet date. At 31 December 2004 the principal rate of exchange used for translating foreign currency balances was USD 1= ROL 29,067 (31 December 2003: USD 1 = ROL 32,595) and EUR 1 = ROL 39,663 (31 December 2003: EUR 1 = ROL 41,117).

2.3. Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4. Fee and commission income

Fees and commission income consist mainly of fees received for the transfers of money to customers, cards, foreign exchange transactions. Fees arising from guarantees given, opening letters of credit and commissions from managed funds on behalf of legal entities and citizens are also included under fee and commission income.

Loan origination fees are credited to income upon granting of the applicable loan. During the year 2004 most of the new loans granted by the bank are short term loans or overdrafts, for which loan origination fee was charged entirely in the income statement of the year. For the medium and long term loans the origination fees are credited in income statement in tranches during the loan term. Commissions on foreign currency transactions are credited to income on receipt.

2.5. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days original maturity including: cash, balances with Central Bank, treasury bills and other eligible bills and amounts due from other banks.

2.6. Foreign exchange gains

Foreign exchange gains include dealing profits and exchange differences from the revaluation of the hard currencies positions.

2.7. Financial assets

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

(a) Financial assets held-for-trading (“HFT”)
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as HFT.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with

no intention of trading the receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Held-to-maturity ("HTM")
HTM 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. Were the Bank to sell other than an insignificant amount of HTM assets, the entire category would be tainted and reclassified as available for sale.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8. Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Bank and are carried at amortised cost using the effective yield method, which is defined as the fair value of consideration given to originate those loans as is determinable by reference to market prices at origination date, less provision for impairment. All loans and advances are recognised when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due.

The amount of provision is the difference between the carrying amount and the estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the instrument's interest rate at inception.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflecting the current economic environment in which the borrowers operate.

When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are treated as income.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the "Impairment provision" line in the statement of income.

2.9. Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments, letters of credit and guarantees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Specific provisions are raised against other credit related commitments when losses are considered probable.

2.10. Sundry debtors

A provision for sundry debtors is established on a case by case basis when there is objective evidence that the Bank will not be able to collect all amounts due.

2.11. Equity investments

The Bank classified its equity investments in non-consolidated subsidiaries and equity investments as available-for-sale assets.

The Bank does not present consolidated financial statements as the Bank is itself a wholly owned subsidiary of Sanpaolo IMI Group who is the ultimate parent and produces consolidated financial statements.

A market does not presently exist for these investments which would facilitate obtaining prices for comparative instruments. These financial investments generally represent equity in companies for which there is no reliable comparative information for estimating market value. Investments are initially recognised at cost and subsequently re-measured at restated cost less an estimate for impairment.

2.12. Intangible assets

Acquired computer software licenses are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is applied on a straight-line method to write off the cost of each asset to their residual values over their estimated useful life.

Land is not depreciated.

The estimated useful lives are:

Category	**Useful lives**
Buildings	10-50
Office equipment, fixtures and fittings	3-15
Other assets	5

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

Expenses for repairs and maintenance are charged to operating expenses as incurred.

Management reviews the carrying value of premises and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2.14. Pension obligations and other post retirement benefits

The Bank, in the normal course of business makes payments to the Romanian State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the Bank are members of the State pension plan. The Bank does not operate any other pension scheme and, consequently, has no obligation in respect of pensions. The Bank does not operate any other defined benefit plan or post retirement benefit plan. The Bank has no obligation to provide further services to current or former employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15. Fair value of financial instruments

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

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

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

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

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

A market does not presently exist for most of these financial instruments which would facilitate obtaining prices for comparative instruments and if sold or settled prior to their stated maturity dates, these instruments would bear transaction costs in the form of fees or discounts. Because of the short-term maturity of these financial instruments, the Bank's management estimates fair value based on their nominal or face value. The Bank's investments in companies which have no quoted market price are carried at restated cost less an estimate for impairment. These financial investments generally represent equity in companies for which there is no reliable comparative information for estimating market value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16. Derivative financial instruments and hedging

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Bank's criteria for a derivative instrument to be accounted for as a hedge include:

a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
c) the hedge is highly effective on an ongoing basis.

Changes in the fair value of the effective portions of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 16.

2.17. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18. Income taxes

The Bank records profit tax upon net income for the Romanian financial statements in accordance with Romanian profit tax legislation. Romanian profits tax legislation is based on a fiscal year ending on 31 December. In recording both the current and deferred income tax charge for the year ended, the Bank has computed the annual income tax charge based on Romanian profits tax legislation enacted (or substantially enacted) at the balance sheet date.

Differences between financial reporting under International Financial Reporting Standards and fiscal regulations give rise to material differences between the carrying value of certain assets and liabilities and income and expenses for financial reporting and income tax purposes.

Deferred income tax is provided for using the liability method, for such temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The main temporary differences arise from the differences between provisions for doubtful and bad loans made under IFRS and fiscal regulations and adjustments for fixed assets and investments.

2.19. Dividends and participation of staff to profit

Final dividends and participation of staff to profit are not accounted for until they have been ratified at the Annual General Meeting.

2.20. Comparatives

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

3. FINANCIAL RISK MANAGEMENT

3.1. Strategy in using financial instruments

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

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

3.2. Credit risk

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

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit-related commitments

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

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 less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.3. Interest rate risk

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

Interest rate risk is the risk that the present value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk affects the fair value of cash flows generated by assets and liabilities to the extent that a change in market interest rates affects the present value of such cash flows. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the sensitivity of the present value of all assets and liabilities to a change in interest rate.

The table below summarises the Bank's exposure to interest rate risks at 31 December 2004. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

(All amounts in ROL million unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
At 31 December 2004							
Assets							
Cash and balances with Central Bank	644,606	-	-	-	-	105,249	749,855
Due from banks	815,001	-	-	-	-	-	815,001
Investment securities	-	-	-	101,881	85,567	-	187,448
Loans and advances to customers, net	238,728	427,084	1,016,203	446,505	237,162	-	2,365,682
Equity investments	-	-	-	-	-	27,812	27,812
Intangible assests	-	-	-	-	-	36,443	36,443
Property and equipment	-	-	-	-	-	344,387	344,387
Other assets	-	-	-	-	-	48,776	48,776
Total assets	1,698,335	427,084	1,016,203	548,386	322,729	562,667	4,575,404
Liabilities							
Deposits from banks	1,237,847	-	-	-	-	-	1,237,847
Due to customers	1,522,235	434,599	121,896	6,672	39,928	-	2,125,330
Other borrowed funds	-	-	-	398,568	-	-	398,568
Other liabilities	-	-	-	-	-	219,357	219,357
Total liabilities	2,760,082	434,599	121,896	405,240	39,928	219,357	3,981,102
Interest sensitivity gap	(1,061,747)	(7,515)	894,307	143,146	282,801		

(All amounts in ROL million unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

31 December 2004	**EUR**	**USD**	**ROL**
Assets			
Current accounts with National Bank of Romania	-	0.75%	6%
Deposits with National Bank of Romania	-	-	17.00%
Due from banks	-	-	16.31%
Investment securities	8.40%	-	-
Loans and advances to customers			
Individuals			
– short term	8.76%	-	26.81%
– medium and long term	8.94%	9.11%	28.03%
Companies			
– 1-3 months	11.12%	12.20%	31.51%
– 3-12 months	8.14%	8.89%	25.79%
– more than 12 months	8.67%	9.39%	28.40%
Due to banks	2.59%	2.71%	-
Other borrowed funds	2.93%	-	-
Due to customers			
– up to 30 days	2.57%	1.66%	13.77%
– 1-3 months	2.62%	2.02%	14.63%
– 3-9 months	2.79%	2.21%	15.88%
– 9-12 months and over	2.10%	2.35%	15.44%

(All amounts in ROL million unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below summarises the Bank's exposure to interest rate risks at 31 December 2003. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
At 31 December 2003							
Assets							
Cash and balances with Central Bank	373,171	-	-	-	-	76,000	449,171
Treasury securities	-	-	40,916	-	-	-	40,916
Due from banks	109,806	-	8,920	-	-	-	118,726
Loans and advances to customers, net	207,624	265,587	371,900	325,512	821	-	1,171,444
Investment securities	-	-	-	211,116	85,841	-	296,957
Equity investments	-	-	-	-	-	16,072	16,072
Intangible assets	-	-	-	-	-	30,827	30,827
Property and equipment	-	-	-	-	-	278,863	278,863
Other assets	-	-	-	-	-	41,675	41,675
Total assets	690,601	265,587	421,736	536,628	86,662	443,437	2,444,651
Liabilities							
Deposits from banks	185,468	-	253,731	-	-	-	439,199
Due to customers	1,032,257	251,000	98,242	26,269	-	-	1,407,768
Other borrowed funds	-	-	25,039	82,513	-	-	107,552
Other liabilities	-	-	-	-	-	200,972	200,972
Total liabilities	1,217,725	251,000	377,012	108,782	-	200,972	2,155,491
Interest sensitivity gap	(527,124)	14,587	44,724	427,846	86,662		

(All amounts in ROL million unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

31 December 2003	**EUR**	**USD**	**ROL**
Assets			
Current accounts with National Bank of Romania	-	0.75%	6.00%
Deposits with National Bank of Romania	-	-	-
Treasury securities	-		24.00%
Due from banks	1.91%	-	20.05%
Investment securities	9.22%	-	-
Loans and advances to customers			
Individuals			
– short term	8.31%	8.72%	24.40%
– medium and long term	9.13%	9.18%	28.70%
Companies			
– 1-3 months	9.57%	12.18%	34.10%
– 3-12 months	9.15%	9.11%	29.04%
– more than 12 months	8.84%	10.26%	29.40%
Due to banks	2.91%	2.00%	21.14%
Other borrowed funds	2.91%	-	-
Due to customers			
– up to 30 days	2.75%	2.00%	13.84%
– 1-3 months	2.79%	2.00%	14.42%
– 3-9 months	2.93%	2.24%	16.29%
– 9-12 months and over	3.23%	2.26%	16.87%

(All amounts in ROL million unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4. Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Romania is just recently moving out of a long period of high rates of inflation and significant currency devaluation. As such, there is a consequent risk of loss in value in respect of net monetary assets held in Romanian Lei. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

	ROL	USD	EUR	Other	Total
At 31 December 2004					
Assets					
Cash and balances with Central Bank	387,523	343,874	17,688	770	749,855
Due from banks	775,264	9,258	18,492	11,987	815,001
Loans and advances to customers, net	537,284	85,992	1,742,406	-	2,365,682
Investment securities	-	-	187,448	-	187,448
Equity investments	27,812	-	-	-	27,812
Intangible assets	36,443	-	-	-	36,443
Property and equipment	344,387	-	-	-	344,387
Other assets	38,349	4,548	5,368	511	48,776
Total assets	2,147,062	443,672	1,971,402	13,268	4,575,404
Liabilities					
Deposits from banks	-	298,270	939,463	114	1,237,847
Due to customers	1,239,391	143,645	734,451	7,843	2,125,330
Other borrowed funds	-	-	398,568	-	398,568
Other liabilities	212,204	505	6,135	513	219,357
Total liabilities	1,451,595	442,420	2,078,617	8,470	3,981,102
Net on balance sheet position	695,467	1,252	(107,215)	4,798	594,302
At 31 December 2003					
Total assets	1,042,350	299,426	1,091,819	11,056	2,444,651
Total liabilities	1,215,887	263,300	668,710	7,594	2,155,491
Net on balance sheet position	(173,537)	36,126	423,109	3,462	289,160

Other currencies include mainly British Pound and Hungarian Forint.

(All amounts in ROL million unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5. Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank maintains a daily equilibrium between maturing assets and maturing liabilities but does not maintain cash resources to meet all future liabilities, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on liquidity mismatching in order to comply with National Bank of Romania's regulations and with other internationally defined regulations.

	Up to 1 month	1 month to 3 months	3 months to 1 year	Over 1 year	Total
At 31 December 2004					
Assets					
Cash and balances with Central Bank	749,855	-	-	-	749,855
Due from banks	815,001	-	-	-	815,001
Loans and advances to customers, net	238,728	427,084	1,016,203	683,667	2,365,682
Investment securities	-	-	-	187,448	187,448
Equity investments	-	-	-	27,812	27,812
Intangible assets	-	-	-	36,443	36,443
Property and equipment	-	-	-	344,387	344,387
Other assets	48,776	-	-	-	48,776
Total assets	1,852,360	427,084	1,016,203	1,279,757	4,575,404
Liabilities					
Deposits from banks	1,237,847	-	-	-	1,237,847
Due to customers	1,504,542	441,924	131,834	47,030	2,125,330
Other borrowed funds	-	-	-	398,568	398,568
Other liabilities	219,357	-	-	-	219,357
Total liabilities	2,961,746	441,924	131,834	445,598	3,981,102
Net liquidity gap	(1,109,386)	(14,840)	884,369	834,159	594,302

(All amounts in ROL million unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Management is confident that in spite of a substantial portion of deposits having contractual maturity dates within three months, diversification of these deposits by number and type of deposits, and the past experience of the Bank would indicate that these deposits provide a long - term and stable source of funding for the Bank.

	Up to 1 month	1 month to 3 months	3 months to 1 year	Over 1 year	Total
At 31 December 2003					
Assets					
Cash and balances with Central Bank	449,171	-	-	-	449,171
Treasury securities	-	-	40,916	-	40,916
Due from banks	109,806	-	8,920	-	118,726
Loans and advances to customers, net	256,174	258,020	359,450	297,800	1,171,444
Investment securities	-	-	-	296,957	296,957
Equity investments	-	-	-	16,072	16,072
Intangible assets	-	-	-	30,827	30,827
Property and equipment	-	-	-	278,863	278,863
Other assets	41,675	-	-	-	41,675
Total assets	856,826	258,020	409,286	920,519	2,444,651
Liabilities					
Deposits from banks	185,468	-	253,731	-	439,199
Due to customers	1,062,448	244,740	96,350	4,230	1,407,768
Other borrowed funds	25,318	-	-	82,234	107,552
Other liabilities	200,001	-	699	272	200,972
Total liabilities	1,473,235	244,740	350,780	86,736	2,155,491
Net liquidity gap	(616,409)	13,280	58,506	833,783	289,160

(All amounts in ROL million unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.6. Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	Carrying value		Fair value	
	2004	2003	2004	2003
Financial assets				
Due from banks	815,001	118,726	814,864	118,751
Loans and advances to customers	2,365,682	1,171,444	2,364,005	1,171,444
Financial liabilities				
Deposits from banks	1,237,847	439,199	1,237,875	443,659
Due to customers	2,125,330	1,407,768	2,126,202	1,407,024
Other borrowed funds	398,568	107,552	386,426	105,368

(a) Due from banks

Due from other banks includes inter-bank placements and items in the course of collection.

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

(b) Loans and advances to customers

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

(c) Deposits and borrowings

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.7. Capital adequacy

The Bank calculates capital adequacy based upon the regulations issued by the National Bank of Romania ("NBR"). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amount to reflect their relative risk. The regulations require that capital adequacy ratios be calculated on financial information prepared in accordance with Romanian Accounting Regulations ("RAR"). To be "sufficiently capitalised" under NBR regulations a banking institution must have a capital adequacy ratio of at least 12%. As of 31 December 2004, the capital adequacy ratio based upon the NBR's regulations, was15.91% (2003: 16.71%).

In addition to the above ratios the Bank also monitors the adequacy of its capital using ratios established by the Bank for International Settlements ("BIS"), based upon its financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Based upon financial information prepared in accordance with IFRS the Tier 1 and a Tier 1 plus Tier 2 capital adequacy ratios of the Bank at 31 December 2004 were 19.36% and 20.48% respectively (2003: 17.81% and 18.95% respectively).

The main reason for the difference in the capital adequacy ratios between IFRS and RAR is the effect of restating fixed assets, shareholders' equity for the effects of hyperinflation and the differences between the NBR and IFRS loan provisioning methodology.

Under BIS guidelines assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance-sheet credit related commitments and forwards and options based derivative instruments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Tier 1 capital consists of paid-in share capital and retained earnings. Tier 2 capital includes reserves and the Bank's eligible long-term debt.

	IFRS Balance sheet (Notional amount)		Risk weighted amount	
	2004	2003	2004	2003
Balance sheet assets (net of provisions)				
Due from banks	815,001	118,726	163,000	23,745
Loans and advances to customers, net	2,365,682	1,171,444	2,136,988	1,081,019
Equity investments	27,812	16,072	27,812	16,072
Intangible assets	36,443	30,827	36,443	30,827
Property and equipment	344,387	278,863	344,387	278,863
Other assets	48,776	41,675	41,289	41,677
Off balance sheet positions				
Off balance sheet commitments and contingencies	319,471	185,665	319,471	151,075
Total risk weighted assets	3,957,572	1,843,272	3,069,390	1,623,278

	Capital 2004 (ROL million)	Capital 2003 (ROL million)	BIS % 2004	BIS % 2003
BIS Capital ratios				
Tier 1 capital	594,303	289,160	19.36%	17.81%
Tier 1 + Tier 2 capital	628,677	307,563	20.48%	18.95%

(All amounts in ROL million unless otherwise stated)

4. NET INTEREST INCOME

	31 December 2004	31 December 2003
Interest income		
Cash and short term funds	51,359	30,850
Treasury securities and investment securities	30,260	27,278
Loans and advances	299,063	221,309
	380,682	279,437
Interest expense		
Customers deposits	105,489	117,736
Deposits from banks	38,164	33,681
Other borrowed funds	3,351	3,055
	147,004	154,472

5. NET FEE AND COMMISSION INCOME

	31 December 2004	31 December 2003
Fee and commission income		
Credit related fees and commissions	94,746	68,056
Transaction related fees and commissions	97,244	82,094
Other fees and commission income	154	123
	192,144	150,273
Fee and commission expense		
Fee and commission expense for transactions with banks	13,279	13,122
Other fee and commission expenses	2,424	2,754
	15,703	15,876

(All amounts in ROL million unless otherwise stated)

6. FOREIGN EXCHANGE GAIN/(LOSS)

	31 December 2004	31 December 2003
Realised foreign exchange gains	95,101	35,482
Net effect of translation of foreign currency denominated assets and liabilities	(99,322)	60,882
Unrealized gain from revaluation of available-for-sale securities	32	308
	(4,189)	96,672

7. IMPAIRMENT PROVISION

	31 December 2004	31 December 2003
Impairment charge for loans to customers (Note 11)	53,662	76,966
Impairment charge/(release) for off balance sheet commitments (Note 25)	(1,316)	(1,343)
Impairment charge/(release) for equity investments	(12,873)	9,041
Release for other debtors (Note 16)	-	(11,276)
Recoveries from loans previously written-off (Note 26)	(86,822)	(42,082)
	(47,349)	31,306

8. OPERATING EXPENSES

	31 December 2004	31 December 2003
Staff expenses	171,717	156,374
Charge with provision for litigation (Note 25)	11,833	112,737
Administrative and other expenses	148,643	134,570
Depreciation (Note 15)	29,009	40,876
Provision for impairment of fixed assets	-	50,990
Technology and communications	13,138	15,030
Premises maintenance	11,762	14,338
Advertising and marketing	3,874	19,061
	389,976	543,976

(All amounts in ROL million unless otherwise stated)

9. CASH AND BALANCES WITH CENTRAL BANK

	31 December 2004	31 December 2003
Cash in hand	105,249	76,000
Current account	544,606	373,171
Term deposits	100,000	-
	749,855	449,171

Current accounts are required to satisfy the mandatory reserves requirements of the National Bank of Romania. During 2004 the interest rate was 6% (2003: 6% to 6.25%) for reserves held in ROL and was 0.75% (2003: 0.75%) for reserves held in USD. The interest rates for term deposits with National Bank of Romania ranged during 2004 from 17% to 20.75% (2003: 5% to 19.4%).

10. DUE FROM BANKS

	31 December 2004	31 December 2003
Current accounts with other banks	39,737	32,225
Placements to Romanian banks	775,264	77,581
Collateral deposits	-	8,920
	815,001	118,726

During 2004 interest on placements with banks ranged from 1.02% to 3.16% for USD (2003: 1.03% to 1.6%), from 10% to 24% for ROL (2003: 8.4% to 30%) and from 1.90% to 2.75% for EUR (2003: 1.4% to 3.10%).

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

(All amounts in ROL million unless otherwise stated)

11. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of customer

	31 December 2004	31 December 2003
Companies	2,170,610	1,131,611
Individuals	269,555	108,740
Less provision to loans losses	(74,483)	(68,907)
Total	2,365,682	1,171,444

(b) Analysis by sector

	31 December 2004	% of total	31 December 2003	% of total
Trade	725,708	30%	445,336	36%
Agriculture	139,964	6%	75,101	6%
Constructions	147,946	6%	35,602	3%
Industry	795,759	33%	401,485	32%
Services	340,145	14%	125,405	10%
Others	21,088	1%	48,682	4%
Individuals	269,555	10%	108,740	9%
Total portfolio	2,440,165	100%	1,240,351	100%
Less allowance for loans losses	(74,483)		(68,907)	
	2,365,682		1,171,444	

A currency analysis and residual maturity profile of loans and advances to customers is presented in Note 3.

(c) Allowance for loan losses

	31 December 2004	31 December 2003
At the beginning of the year	68,907	99,990
Effect of inflation	-	(12,356)
Charge for the year (Note 7)	53,662	76,966
Write-offs	(48,086)	(95,693)
At the end of the year	74,483	68,907

The main source of income for the Bank is represented by loans to customers. The interest rates charged for the year ended 31 December 2004 for loans and advances to customers ranged from 22% to 40% for ROL (2003: 10.5% to 60%), from 5.75% to 14% for USD (2003: 6.75% to 13.5%) and from 5.75% to 14% for EUR (2003: 5.39% to 16%).

(All amounts in ROL million unless otherwise stated)

12. INVESTMENT SECURITIES AVAILABLE FOR SALE

	31 December 2004	31 December 2003
Investment securities available-for-sale	187,448	296,957

Investment securities comprise Eurobonds issued by Romanian Ministry of Finance. A set of Eurobonds, with a nominal value of EUR 2,000,000 (2003: EUR 4,000,000) is redeemable on 27th June 2008; another set of Eurobonds with a nominal value of EUR 2,000,000 is redeemable on 2nd July 2010.

The bank has hedged the interest rate risk related to the Eurobonds redeemable on 2nd July 2010, by entering into a swap agreement with Sanpaolo IMI SpA Torino, for same amount and maturity (see details in Note 16).

A currency analysis and residual maturity profile of the investment securities is presented in Note 3.

(All amounts in ROL million unless otherwise stated)

13. EQUITY INVESTMENTS

	31 December 2004	31 December 2003
At the beginning of the year	44,990	41,932
Additions	-	3,058
Disposals	(1,133)	-
Impairment loss	(16,045)	(28,918)
At the end of the year	27,812	16,072

Investment	Country of incorporation	Nature of business	Shareholding 31 December 2004	31 December 2003
West Leasing (in liquid)	Romania	leasing	99.88%	99.69%
Continental Astoria	Romania	hotel	-	1.36%
BMFMS	Romania	commodity exchange	1.16%	1.25%
Casa Română de Compensație	Romania	clearing house BMFMS	1.12%	1.12%
TransFonD	Romania	settlement and clearing inter-banking transfer	2.47%	2.47%
Biroul de Credit	Romania		0.96%	-

The subsidiary West Leasing was not consolidated and is presented at cost less an impairment loss due to the fact that the shareholders are in course of liquidating the activity. This company recorded a net profit of ROL 16,779 million for the year ended 31 December 2004. The net shareholders' equity of West Leasing as at 31 December 2004 was ROL 23,289 million (31 December 2003: ROL 6,992 million) and the net lease receivable as at 31 December 2004 was ROL 8,997 million (31 December 2003: ROL 31,435 million).

(All amounts in ROL million unless otherwise stated)

14. INTANGIBLE ASSETS

	Intangibles
Year ended 31 December 2003	
Opening net book amount	27,765
Additions	11,402
Disposals	(273)
Impairment charge	(2,843)
Depreciation charge	(5,224)
Closing net book amount	30,827
At 31 December 2003	
Cost or valuation	44,882
Accumulated depreciation	(14,055)
Net book amount	30,827
Year ended 31 December 2004	
Opening net book amount	30,827
Additions	16,313
Disposals	(5,733)
Depreciation charge	(4,964)
Closing net book amount	36,443
At 31 December 2004	
Cost or valuation	53,909
Accumulated depreciation	(17,466)
Net book amount	36,443

Included in tangible assets are computer software licenses (FIBA) and Mastercard licenses.

(All amounts in ROL million unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Other assets	Fixed assets in progress	Total
Year ended 31 December 2003				
Opening net book amount	216,230	73,943	24,862	315,035
Additions	26,657	13,699	27,107	67,463
Disposals	-	(3,838)	(23,690)	(27,528)
Impairment charge	(31,198)	(16,949)	-	(48,147)
Depreciation charge	(9,980)	(17,980)	-	(27,960)
Closing net book amount	201,709	48,875	28,279	278,863
At 31 December 2003				
Cost or valuation	261,176	135,230	28,279	424,685
Accumulated depreciation	(59,467)	(86,355)	-	(145,822)
Net book amount	201,709	48,875	28,279	278,863
Year ended 31 December 2004				
Opening net book amount	201,709	48,875	28,279	278,863
Additions	26,347	15,607	95,053	137,007
Disposals	(1,253)	(483)	(45,702)	(47,438)
Depreciation charge	(6,045)	(18,000)	-	(24,045)
Closing net book amount	220,758	45,999	77,630	344,387
At 31 December 2004				
Cost or valuation	285,735	140,498	77,630	503,863
Accumulated depreciation	(64,977)	(94,499)	-	(159,476)
Net book amount	220,758	45,999	77,630	344,387

Included within other assets are motor vehicles, furniture and fittings, household equipment, air conditioning equipment.

(All amounts in ROL million unless otherwise stated)

16. OTHER ASSETS

	31 December 2004	31 December 2003
Assets from execution of collateral	4,016	17,510
Other debtors (net of provision)	2,974	6,040
Other assets and prepayments	39,861	16,772
Financial asset – fair value hedging derivatives	1,925	1,353
	48,776	41,675
Other debtors (gross)	36,075	39,141
Less provision for doubtful debtors	(33,101)	(33,101)
	2,974	6,040

Provision for other debtors

	31 December 2004	31 December 2003
As at 1 January	33,101	50,635
Effect of inflation	-	(6,258)
Charge/(release) of the year (Note 7)	-	(11,276)
As at 31 December	33,101	33,101

The financial asset represents the gain from fair value valuation of the interest rate swap agreement between the Bank and Sanpaolo IMI SpA Torino.

The agreement was made on the OTC market, on 27th June 2003. Nominal amount is EUR 2,000,000, maturing on 27th June 2010.

17. DEPOSITS FROM BANKS

	31 December 2004	31 December 2003
Sight deposits	1,176,801	7,833
Term deposits	61,046	431,366
	1,237,847	439,199

The interest rate during 2004 for term deposits ranged from 1.05% to 3% for USD (2003: 1% to 2.80%), from 12% to 23% for ROL (2003: 8% to 23.9%) and from 1.82% to 3.45% for EUR (2003: 1.4% to 4.31%).

18. DUE TO CUSTOMERS

	31 December 2004	31 December 2003
Current accounts	872,138	566,812
Term deposits		
- individuals	787,161	620,621
- companies	345,433	171,971
Collateral deposits	120,598	48,364
	2,125,330	1,407,768

Included in collateral deposits were margin accounts for forward transactions outstanding as at 31st December 2004 in amount of ROL million 34,837 (2003: 0).

The interest rate during 2004 for time deposits ranged from 13% to 16% for ROL (2003: 8% to 33%), from 2% to 4% for USD (2003: 0.75% to 3.5%) and from 2.5% to 2.75% for EUR (2003: 2.75% to 4.6%).

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

(All amounts in ROL million unless otherwise stated)

19. OTHER BORROWED FUNDS

	31 December 2004	31 December 2003
Loan from Sanpaolo Bank	398,568	82,513
Funds from Ministry of Agriculture	-	25,039
	398,568	107,552

The amount from Sanpaolo Bank (Austria) comprises two loans granted to the Bank by a member of the Sanpaolo Group (i.e. Sanpaolo IMI SpA Vienna Branch). Total amount granted is EUR 10,000,000 (2003: EUR 2,000,000).

The first loan disbursed 20th February 2003 in amount of EUR 2,000,000 is repayable in one tranche on 20th February 2007.

The second loan disbursed on 28th October 2004, in amount of EUR 8,000,000 is repayable in one tranche on 28th October 2008.

Both loan agreements exclude the possibility of early repayment.

20. OTHER LIABILITIES

	31 December 2004	31 December 2003
Other liabilities	50,322	40,736
Taxes due to the state budget	2,590	3,142
Finance lease payables	-	1,166
Provision for litigations and Off-balance sheet commitments (Note 25)	166,445	155,928
	219,357	200,972

(All amounts in ROL million unless otherwise stated)

21. INCOME TAX EXPENSE

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

	31 December 2004	31 December 2003
Current tax	-	-
Deferred income tax charge	-	-
	-	-

	31 December 2004	31 December 2003
IAS profit/(loss) before tax	104,377	(210,844)
Theoretical tax charge at the applicable statutory rate	26,094	(52,711)
Tax effect on items which are not deductible		
– non-deductible expenses	(35,991)	(23,346)
– income which is exempt of taxation	24,073	60,320
– other IAS adj that have non-temporary nature	(8,248)	15,737
Effect of (reduction)/increase in profit tax rate from 25% to 16% starting 1 January 2005 for deferred tax	(5,928)	-
Income tax expense/(release) for the year	-	-

The differences between regulations issued by the Romanian Ministry of Finance and the accounting rules applied in preparing these financial statements give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting and tax purposes.

Current income tax is calculated applying a rate of 25% (2003: 25%). Deferred income taxes are calculated on all temporary differences under the liability method using a profit tax rate of 16% (2003: 25%).

(All amounts in ROL million unless otherwise stated)

21. INCOME TAX EXPENSE (CONTINUED)

Deferred income tax assets and liabilities are attributable to the following items:

	31 December 2004	Differences recognition and reversals	Change in tax rate	31 December 2003
Tax effects of deductible temporary differences				
Provision for impairment of loans	-	(6,501)	0	6,501
Provision for litigation	(2,467)	(38,851)	(1,388)	37,772
Provision for investments	2,567	(3,232)	1,444	4,355
Other	19,008	(26,053)	1,698	43,363
Tax effects of taxable temporary differences				
Restatement of fixed assets	865	(36,074)	(487)	37,426
Restatement of investments	4,231	-	(2,380)	6,611
Other	2,324	487	(1,307)	3,144
Net tax effect of temporary differences	11,688	(39,050)	5,928	44,810
Less non-recognised deferred tax asset	(11,688)			(44,810)
Total net deferred tax (liability)/asset	-			-

(All amounts in ROL million unless otherwise stated)

22. SHARE CAPITAL

	31 December 2004	31 December 2003
Statutory	857,882	656,722
Restatement of share capital	401,748	401,748
	1,259,630	1,058,470

The share capital was made up as at 31 December 2004 of 8,578,824 shares with a nominal value of ROL 100,000 each. All issued shares are fully paid and carry one vote.

The capital structure as at 31 December 2004 and 31 December 2003 is as follows:

Shareholder	31 December 2004 Number of shares	31 December 2004 %	31 December 2003 Number of shares	31 December 2003 %
Sanpaolo IMI	-	0.00	6,426,457	97.86
Sanpaolo Internazionale	8,438,057	98.360	-	0.00
Simest SpA Italy	140,757	1.64	140,757	2.14
Chiti Fiorenzo	-	0.00	4	0.00
Carosiello Roberto	3	0.00	3	0.00
Sangalli Luigi	3	0.00	3	0.00
Paolo Bozzoli	4	0.00	-	-
	8,578,824	100.00	6,567,224	100.00

(All amounts in ROL million unless otherwise stated)

23. OTHER RESERVES

	31 December 2004	31 December 2003
Legal reserve	28,558	28,558
Bank risk general reserve	3,069	3,069
Revaluation reserve for fair value of available-for-sale securities	427	822
	32,054	32,449

Revaluation reserve for fair value of available-for-sale securities

	31 December 2004	31 December 2003
As at 1 January	822	-
Revaluation of investment securities	(395)	822
At 31 December	427	822

In accordance with the Romanian law on banks and banking activities, the Bank must distribute the profit as dividends or effect a transfer to retained earnings (reserves) on the basis of the financial statements prepared under Romanian Accounting Regulations ("RAR"). Amounts transferred to reserves must be used for the purposes designated when the transfer is made.

As at 31 December 2004, under Romanian banking legislation the Bank is required to create the following reserves from appropriation of profit:

(a) legal reserve, appropriated at the rate of 5% of the gross profit, until the total reserve is equal to 20% of the issued and fully paid up share capital;

(b) general reserve for banking risk, appropriated from the gross profit at the rate of 1% of assets bearing banking risks.

Computation of reserves according to statutory requirements as at 31 December 2004 cannot diminish reserves accumulated as at 31 December 2003.

After reducing taxes and setting aside the legal and general reserves as discussed above, the remaining balance of net profit may be distributed to shareholders. Dividends may only be declared from current statutory profit.

(All amounts in ROL million unless otherwise stated)

23. OTHER RESERVES (CONTINUED)

As at 31 December 2003, under Romanian banking legislation the Bank is required to create the following reserves from appropriation of profit:

(a) legal reserve, appropriated at the rate of 20% of the gross profit, until the total reserve is equal to the issued and fully paid up share capital, 10% until the total reserve is equal to twice the share capital issued and fully paid up and thereafter from the net profit without any limitation;

(b) general reserve for possible credit losses, appropriated from the gross profit at the rate of 2% of the loan risk portfolio.

24. ANALYSIS OF CASH AND CASH EQUIVALENTS

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

	31 December 2004	31 December 2003
Cash	105,249	76,000
Current account and short term deposits with Central Banks	644,606	373,171
Due from other banks - less than 3 months	815,001	109,806
	1,564,856	558,977

25. COMMITMENTS AND CONTINGENCIES

The Bank issues guarantees and letters of credit on behalf of its customers. The market and credit risk on these financial instruments, as well as the operating risk 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 2004 the probability of material losses arising in connection with letters of credit is considered to be remote and accordingly no provision has been established.

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 are collateralised and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, second, from these drawings subsequently not being repaid as due.

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 total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(All amounts in ROL million unless otherwise stated)

25. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The aggregate amount of outstanding gross commitments and contingencies as at period end was:

	31 December 2004	31 December 2003
Letters of guarantee	134,698	69,180
Unused loan facilities and letters of credit	184,773	116,485
	319,471	185,665

Provision for letters of guarantee	31 December 2004	31 December 2003
As at 1 January	1,316	3,036
Effect of inflation	-	(377)
Charge/(release) for the year (Note 7)	(1,316)	(1,343)
As at 31 December	-	1,316

Provision for contingencies (litigations)	31 December 2004	31 December 2003
Provision at beginning of period	154,612	47,779
Effect of inflation	-	(5,904)
Charge for the year (Note 8)	11,833	112,737
Provision at end of period	166,445	154,612

25. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigations

The provisions for litigations were computed for litigations in which the Bank was involved as at 31 December and from which contingent liabilities arise. The estimates of outcome and of the financial effects represent management's assessment based on legal advice. Out of the total amount shown as provision for litigation (Note 20) the largest amount is represented by:

- Litigation related to a letter of guarantee amounting to USD 2,500,000 and related penalties where the Bank is a defendant and Alfred C.Toepfer Int'l GmbH a plaintiff;
- Other five litigations amounting to EUR 1,500,000.

Taxation risk

The Romanian taxation system is undergoing a process of consolidation and harmonization with the European Union legislation. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (0.06% per day delay, respectively 0.5% per month). In Romania, the Bank's records are open to inspection by the tax authorities for up to 5 years. The Bank's management considers that the tax liabilities included in these financial statements are fairly stated.

26. OFF BALANCE SHEET RECEIVABLES

At 31 December 2004, the Bank's off balance sheet receivables comprising principal and interest for written off loans, amounted to ROL 303,864 million (2003: ROL 401,222 million).

During the year the Bank managed to recover off balance sheet receivables in total amount of ROL 86,822 million (2003: ROL 42,082 million) mainly from a large group of clients which were written off at the beginning of 2004 and from two other loans extended prior to 2003 and written off in 2003 and 2004.

The recovery of the off balance sheet receivables depends on success of procedures performed by the Bank.

(All amounts in ROL million unless otherwise stated)

27. RELATED PARTY TRANSACTIONS

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

A number of banking transactions is entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out both on preferential and commercial terms and conditions and at market rates. The volumes of related party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

	Group companies		Management and employees	
	2004	2003	2004	2003
Revenues & expenses				
Interest expenses	8,164	9,237	3,172	3,055
Interest revenues	2,413	2,866	1,484	598
Balance sheet position				
Current accounts	2,542	6,714	11,380	11,396
Term deposits placed with banks	-	253,751	-	-
Term deposits due to individuals	-	-	34,406	32,053
Term deposits due to group companies	13,050	-	-	-
Collateral deposits due to group	20	-	3,025	-
Loans from banks	398,568	106,182	-	-
Loans to individuals	-	-	27,848	7,449
Other liabilities	-	6,126	-	-
Other assets	-	16,963	-	3

28. OPERATING ENVIRONMENT OF THE BANK

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

Additionally, the banking sector in Romania is particularly impacted by adverse currency fluctuations and economic conditions. Furthermore, the need for further developments in the bankruptcy laws, in formalised procedures for the registration and enforcement of collateral and other legal, fiscal impediments contribute to the difficulties experienced by banks currently operating in the Romania.

The prospects for future economic stability in Romania are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal and regulatory developments.

29. POST BALANCE SHEET EVENTS

Increase in share capital

The Bank’s share capital was increased in February 2005 with an amount of EUR 5 million cash from Sanpaolo IMI Internazionale. Following this injection of capital the main shareholder of the Bank is Sanpaolo IMI Internazionale with 98.64%.