SANPAOLO IMI BANK ROMANIA SA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

SANPAOLO IMI BANK ROMANIA SA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER 2005

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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 2005 the Bank had 17 branches and 8 representative offices (2004: 17 branches and 7 representative offices).

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

As for 2005 the number of employees was on average 400 (2004: 418).

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

As at 31 December 2005 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. Francesco Cervetti	member*
6. Daniele Bordina	member

*) Members of the Executive Committee

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AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF SANPAOLO IMI BANK ROMANIA SA

1 We have audited the accompanying consolidated balance sheet of SanPaolo Imi Bank Romania SA and its subsidiary (the "Group") as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These financial statements (as set out on pages 1 to 53) are the responsibility of the Group's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2005 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

4 As explained in Note 2, the Euro (EUR) amounts presented in the financial statements are translated from RON into EUR as a matter of arithmetic computation only, at the official rate of the National Bank of Romania at 31 December 2005 of RON 3,6671 to the EUR. The EUR amounts are presented solely for the convenience of the reader and should not be construed as a representation that the RON amounts have been or could have been converted to EUR at this rate, nor that the EUR amounts present fairly the financial position of the Group or its results of operations or cash flows in accordance with IFRS.

PricewaterhouseCoopers Audit SRL

PricewaterhouseCoopers Audit SRL — Bucharest, 4 April 2006

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

SANPAOLO IMI BANK ROMANIA SA

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2005
(All amounts in RON unless otherwise stated)

				Year ended 31 December	
	Note	**2005**	**2004**	**2005 (EUR)**	**2004 (EUR)**
Interest and similar income	7	53,018,217	46,399,095	14,418,487	11,698,332
Interest expense and similar charges	7	(18,775,690)	(15,813,755)	(5,106,114)	(3,987,029)
Net interest income		34,242,527	30,585,340	9,312,373	7,711,303
Fee and commission income	8	12,279,057	11,545,421	3,339,332	2,910,879
Fee and commission expense	8	(1,471,277)	(1,570,251)	(400,119)	(395,898)
Net fee and commission income		10,807,780	9,975,170	(2,939,213)	2,514,981
Net trading income	9	3,916,597	325,564	1,065,132	82,083
Gains less losses from investment securities		(636)	1,290,478	(173)	325,361
Other operating income	10	2,847,343	6,650,840	774,345	1,676,837
Impairment provision	11	(820,777)	4,708,279	(223,213)	1,187,071
Operating expenses	12	(37,509,486)	(41,873,861)	(10,200,834)	(10,557,411)
Profit before income tax		13,483,348	11,661,810	3,666,843	2,940,225
Income tax	25	(104,823)	-	(28,507)	-
Profit for the year		13,378,525	11,661,810	3,638,336	2,940,225
Profit is attributable to:					
Equity holders of the Bank		13,378,519	11,660,337	3,638,334	2,939,853
Minority interest		6	1,473	2	372
Profit for the year		13,378,525	11,661,810	3,638,336	2,940,225

The financial statements on pages 1 to 53 were approved and signed on behalf of the Board of Directors on 4 April 2006 by:

Marco Capellini
General Manager

SANPAOLO IMI Bank Romania S.A.
SANPAOLO BANK
1

Mihai Ardelean
Finance Manager

The accompanying notes on pages 5 to 53 form an integral part of these financial statements.

SANPAOLO IMI BANK ROMANIA SA

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005

(All amounts in RON unless otherwise stated)

	Note	31 December 2005 (RON)	31 December 2004 (RON)	31 December 2005 (EUR)	31 December 2004 (EUR)
ASSETS					
Cash		13,431,110	10,524,930	3,652,637	2,653,589
Balances with Central Bank	13	175,550,932	64,460,586	47,741,680	16,252,070
Due from banks	14	5,039,417	81,500,115	1,370,487	20,548,147
Derivative financial instruments	15	175,629	192,500	47,763	48,534
Loans and advances to customers, net	16	400,970,566	237,568,705	109,045,325	59,896,807
Investment securities available-for-sale	17	84,642,988	19,099,125	23,018,952	4,815,351
Intangible assets	18	3,222,505	3,644,340	876,371	918,826
Property and equipment	19	43,645,665	34,440,158	11,869,589	8,683,195
Deferred income tax assets	25	413,034	-	112,326	-
Other assets, net	20	5,976,889	4,967,126	1,625,436	1,252,332
Total assets		733,068,735	456,397,585	199,360,565	115,068,851
LIABILITIES					
Liabilities					
Deposits from banks	21	95,866,091	123,784,703	26,071,113	31,209,113
Due to customers	22	375,754,334	211,283,937	102,187,684	53,269,782
Other borrowed funds	23	148,236,687	39,856,771	40,313,477	10,048,854
Other liabilities	24	21,824,850	22,034,174	5,935,343	5,555,347
Current income tax liabilities		436,048	-	118,585	-
Total liabilities		642,118,010	396,959,585	174,626,203	100,083,096
Shareholders' equity					
Share capital	26	144,140,040	125,963,040	39,199,380	31,758,324
Retained earnings		(60,769,409)	(69,828,642)	(16,526,450)	(17,605,487)
Other reserves	27	7,577,281	3,300,795	2,060,668	832,210
Minority interest		2,813	2,807	765	708
Shareholders equity		90,950,725	59,438,000	24,734,363	14,985,755
Total liabilities and equity		733,068,735	456,397,585	199,360,565	115,068,851

The financial statements on pages 1 to 53 and accompanying notes on pages 5 to 53 were approved and signed on behalf of the Board of Directors on 4 April 2006 by:

Marco Capellini
General Manager

Mihai Ardelean
Finance Manager

SANPAOLO IMI Bank Romania S.A.
SANPAOLO BANK

The accompanying notes on pages 5 to 53 form an integral part of these financial statements.

(2)

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005
(All amounts in RON unless otherwise stated)

	Note	31 December 2005	31 December 2004
Net cash flow from operating activities			
Cash flows from operating activities			
Interest and commission receipts		52,672,979	45,141,699
Interest paid		(16,872,312)	(14,594,193)
Fee and commission receipts		13,682,675	9,975,044
Net trading and other income		15,177,050	12,053,512
Cash proceeds from sale of foreclosed assets		1,551,199	-
Recoveries on loans previously written off		3,539,895	10,074,456
Cash payments to employees and suppliers		(34,480,877)	(33,813,783)
Income taxes paid		(81,809)	-
Net cash flow from operating activities before changes in operating assets and liabilities		35,188,800	28,836,735
Change in operating assets			
(Increase)/decrease in treasury securities over 90 days		(5,871,395)	4,091,600
Decrease in placements with other banks		-	892,000
Increase in balances with Central Bank		(101,090,346)	(17,130,190)
Increase in loans and advances to customers		(148,288,305)	(132,143,822)
Increase in other assets		(1,766,449)	(709,900)
Total changes in operating assets		(257,016,495)	(145,000,312)
Change in operating liabilities			
(Decrease)/Increase in deposits from banks		(27,918,612)	75,843,889
Increase in amounts owed to depositors		163,508,088	70,673,259
(Decrease) in other borrowed funds		-	(2,503,899)
Increase in other liabilities		1,651,369	889,915
Total changes used in operating liabilities		137,240,845	144,903,164
Net cash (used in)/from operating activities		(84,586,850)	28,739,587
Cash flow from investing activities			
Sale of equity investments		-	113,300
Purchase of equity investments		(5,905)	-
Purchase of property, equipment and intangible assets		(12,432,321)	(10,014,900)
Sale of investment securities		-	10,130,917
Net cash (used in)/from investing activities		(12,438,226)	229,317
Cash flow from financing activities			
Increase of share capital		18,177,000	20,116,000
Proceeds from subordinated loan from SANPAOLO		103,563,044	32,696,800
Finance lease repayments		-	(116,581)
Net cash from financing activities		121,740,044	52,696,219
Effect of exchange rate changes on cash and cash equivalents		(28,559,487)	1,779,323
(Decrease)/Increase in cash and cash equivalents		(3,844,519)	83,444,446
Cash and cash equivalents at 1 January		102,025,045	18,580,600
(Decrease)/increase in cash and cash equivalents		(3,844,519)	83,444,446
Cash and cash equivalents at 31 December 2005	28	98,180,526	102,025,045

The accompanying notes on pages 5 to 3 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005
(All amounts in RON unless otherwise stated)

	Note	Attributable to equity holders of the Bank				
		Share capital (RON'000)	Other reserves (RON'000)	Retained earnings (RON'000)	Minority interest (RON'000)	Total equity (RON'000)
Balance at 31 December 2003 as previously reported		105,847,026	3,244,921	(80,175,959)	-	29,915,988
Effect of restatement (Note 2.4)		-	95,274	1,313,020	1,334	(1,216,412)
Balance at 31 December 2003 restated		105,847,026	3,340,195	(81,488,979)	1,334	27,699,576
Net change in available for sale investments, net of tax		-	(39,400)	-	-	(39,400)
Total recognized income		-	(39,400)	11,660,337	1,473	11,622,410
Increase of share capital		20,116,014	-	-		20,116,014
Balance at 31 December 2004		125,963,040	3,300,795	(69,828,642)	2,807	59,438,000
Profit for the period		-	-	13,378,519	6	13,378,525
Net change in available for sale investments net of tax		-	(42,800)	-	-	(42,800)
Total recognized income		-	(42,800)	13,378,519	6	13,335,725
Increase of share capital		18,177,000	-	-	-	18,177,000
Distribution of 2004 profit to other reserves		-	4,319,286	(4,319,286)	-	-
Balance at 31 December 2005		144,140,040	7,577,281	(60,769,409)	2,813	90,950,725

The accompanying notes on pages 5 to 4 form an integral part of these financial statements.

1. THE SANPAOLO IMI GROUP AND ITS OPERATIONS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 for SanPaolo IMI Bank SA (the "Bank") and its subsidiary West Leasing SA (together referred to as the "Group" or "SanPaolo Imi Group").

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

2.1. Currency of presentation

The accompanying financial statements are presented in Romanian Lei (RON).

On 1 July 2005, Romania introduced new currency rates and removed four zero's from the old Romanian Lei ("ROL"). The new Romanian Lei ("RON") is presented in these financial statements.

2.2. Use of estimates

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

2.3. Accounting for the effect of hyperinflation

IAS 29 ("Financial Reporting in Hyperinflationary Economies") 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

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

economic environment in Romania indicate that hyperinflation has ceased, effective from 1 January 2005 the Group 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.

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 2005 were included in the statement of income as a monetary gain or loss.

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4. Consolidated financial statements

Subsidiaries are those companies and other entities (including special purpose entities) in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Bank (acquisition date) and are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank started preparing consolidated financial statements during this year and used the same principles also for the comparative amounts; as a result of this the previously reported figures as at 31 December 2004 were restated as follows:

	Net interest income	Net fee and commission income	Other operating income	Impairment	Operating expense	Net profit for the year
As previously reported	30,239,150	10,025,150	4,107,379	3,315,973	(38,866,080)	10,437,614
Adjustment	346,190	(49,980)	2,543,461	1,392,306	(3,007,781)	1,224,196
As restated	30,585,340	9,975,170	6,650,840	4,708,279	(41,873,861)	11,661,810

	Total assets	Total liabilities	Retained earnings
As previously reported	457,540,455	398,110,239	59,430,216
Adjustment	(1,142,870)	(1,150,654)	7,784
As restated	456,397,585	396,959,585	59,438,000

2.5. 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 RON as at the balance sheet date. At 31 December 2005 the principal rate of exchange used for translating foreign currency balances was USD 1= RON 3.1078 (31 December 2004: USD 1 = RON 2.9067) and EUR 1 = RON 3.6771 (31 December 20043: EUR 1 = RON 3.9663).

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6. Interest income and expense

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

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

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

2.7. 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 commissions from managed funds on behalf of legal entities and citizens, from guarantees given and from opening letters of guarantee and are also included under fee and commission income.

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

2.8. Foreign exchange gains

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

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9. Financial assets

a) Classification

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

(i) Financial assets at fair value to profit and loss ("AFVPL")
This category has two sub-categories: financial assets held for trading and those designated at fair value to profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The Group currently does not have any financial assets designated at fair value to profit and loss at inception. Derivatives are also categorized as held for trading unless they are designated as hedges.

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

(iii) Held-to-maturity ("HTM")
HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of HTM assets, the entire category would be tainted and reclassified as available for sale. During 2005 and 2004 the Group had no investments in this category.

(iv) Available-for-sale ("AFS")
AFS investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. During 2005 and 2004, all the investment securities of the Group were classified into this category.

b) Recognition and initial measurement

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

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) *Subsequent measurement*

AFS financial assets and financial assets HFT are subsequently carried at fair value. Loans and receivables and HTM investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the HFT category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of AFS financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity

should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement. Dividends on AFS equity instruments are recognised in the income statement when the entity's right to receive payment is established.

d) *Fair value measurement principles*

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group 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.

2.10. Impairment of financial assets

(a) *Assets carried at amortized cost*

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

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:
- adverse changes in the payment status of borrowers in the Group; or
- national or local economic conditions that correlate with defaults on the assets in the Group.

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

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

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

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

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for

estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

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

(b) *Assets carried at fair value*

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

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11. 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.

2.12. Other credit related commitments

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

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

2.13. Sundry debtors

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

2.14. Assets held for sale

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

2.15. 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 Group, 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.

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2.16. 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

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

2.17. Pension obligations and other post retirement benefits

The Group, 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 Group are members of the State pension plan. The Group does not operate any other pension scheme and, consequently, has no obligation in respect of

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

pensions. The Group does not operate any other defined benefit plan or post retirement benefit plan. The Group has no obligation to provide further services to current or former employees. Other employees compensations are recognised when the liability arises for the services provided.

2.18. Borrowings

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

2.19. Operational Leases

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

2.20. Offsetting

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

2.21. Share capital

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

2.22. 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 Group 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.

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group'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 Group's short term funds 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 Group's management estimates fair value based on their nominal or face value. The Group'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.

2.23. Derivative financial instruments and hedging

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (ie, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on day 1.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges of

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement. In 2005 and 2004 the Group classified its derivative instruments recognized in the balance sheet into this category. The Bank had no hedge accounting at year end.

2.24. Provisions

Provisions are recognized when the Group 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.

2.25. Income taxes

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

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

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

2 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

2.26. Dividends

Final dividends are not accounted for until they have been ratified at the Annual General Meeting.

2.27. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. Compared to the previous year reported figures, the re-classifications were insignificant.

3. FINANCIAL RISK MANAGEMENT

3.1 Strategy in using financial instruments

By their nature, the Group'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.

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 Group's exposure to interest rate risks at 31 December 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

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 2005							
Assets							
Cash	-	-	-	-	-	13,431,110	13,431,110
Due from the Central Bank	175,550,932	-	-	-	-	-	175,550,932
Due from banks	5,039,417	-	-	-	-	-	5,039,417
Derivative financial instruments	-	-	-	175,629	-	-	175,629
Loans and advances to customers, net	21,516,789	50,948,236	154,025,375	69,308,653	105,171,513	-	400,970,566
Investment securities	-	59,710,000	4,653,302	19,919,460	-	360,226	84,642,988
Intangibles						3,222,505	3,222,505
Premises and equipment	-	-	-	-	-	43,645,665	43,645,665
Deferred income tax assets	-	-	-	-	-	413,034	413,034
Other assets	-	-	-	-	-	5,976,889	5,976,889
Total assets	202,107,138	110,658,236	158,678,677	89,403,742	105,171,513	67,049,429	733,068,735
Liabilities							
Deposits from banks	95,866,091	-	-	-	-	-	95,866,091
Due to customers	221,520,793	123,481,377	30,465,258	286,906	-	-	375,754,334
Loans from banks	163,322	989,365	-	91,927,500	55,156,500	-	148,236,687
Other liabilities	1,059,259	3,792,294	16,973,297	-	-	-	21,824,850
Current income tax liability	-	-	-	-	-	436,048	436,048
Total liabilities	318,609,465	128,263,036	47,438,555	92,214,406	55,156,500	436,048	642,118,010
Total interest sensitivity gap	(116,502,327)	(17,604,800)	111,240,122	(2,810,664)	50,015,013	66,613,381	90,950,725

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

31 December 2005	EUR	USD	ROL
	%	%	%
Assets			
Current accounts with National Bank of Romania	0.70	0.80	2.00
Deposits with National Bank of Romania	-	-	8.00
Due from banks	-	-	7.70
Investment securities	5.75	-	-
Loans and advances to customers			
Individuals			
– short term	9.21	-	25.78
– medium and long term	8.74	9.01	27.49
Companies			
– 1-3 months	9.45	7.38	24.53
– 3-12 months	8.41	9.23	21.52
– more than 12 months	7.78	9.23	20.58
Due to banks	2.42	3.57	7.50
Other borrowed funds	2.86	-	-
Due to customers			
– up to 30 days	1.97	1.79	7.13
– 1-3 months	2.71	2.28	7.52
– 3-9 months	2.79	2.13	9.12
– 9-12 months and over	2.15	2.92	11.91

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below summarises the Group's exposure to interest rate risks at 31 December 2004. Included in the table are the Group'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
Total assets	170,834,021	42,708,381	101,620,267	55,031,093	32,272,949	53,930,875	456,397,586
Total liabilities	276,008,206	43,459,909	10,940,512	40,523,981	3,992,803	22,034,175	396,959,586
Total interest sensitivity gap	(105,174,185)	(751,528)	90,679,755	14,507,112	28,280,146	31,896,700	59,438,000

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	6.00
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

3.4 Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2005	RON	EUR	USD	Other	Total
Assets					
Cash	10,154,270	2,672,534	432,789	171,517	13,431,110
Balances with NBR	43,709,419	131,841,513	-	-	175,550,932
Due from other banks	-	2,686,928	786,119	1,566,370	5,039,417
Derivative financial instruments	-	175,629	-	-	175,629
Loans to customers	119,433,164	273,193,151	8,344,251	-	400,970,566
Investments securities	76,423,833	8,219,155	-	-	84,642,988
Intangibles assets	3,222,505	-	-	-	3,222,505
Property and equipment	43,645,665	-	-	-	43,645,665
Deferred income tax assets	413,034	-	-	-	413,034
Other assets net	5,011,120	333,707	631,916	146	5,976,889
Total assets	302,013,010	419,122,617	10,195,075	1,738,033	733,068,735
Liabilities					
Due to other banks	47,615,547	34,210,331	14,025,323	14,890	95,866,091
Due to customers	145,242,068	170,530,948	58,947,965	1,033,353	375,754,334
Other borrowed funds	-	148,236,687	-	-	148,236,687
Other liabilities	20,832,075	787,799	204,772	204	21,824,850
Current income tax liability	436,048	-	-	-	436,048
Total liabilities	214,125,738	353,765,765	73,178,060	1,048,447	642,118,010
Net on balance-sheet position	87,887,272	65,356,852	(62,982,985)	689,586	90,950,725
Net off balance sheet position	-	(58,003,380)	62,998,767	-	4,995,387
Net currency position	87,887,272	7,353,742	15,782	689,586	95,946,112

Other currencies include mainly British Pound and Hungarian Forint.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below summarises the Group's exposure to foreign exchange rate risk at 31 December 2004:

	RON	EUR	USD	Other	Total
Total assets	213,563,387	44,367,185	197,140,209	1,326,805	456,397,585
Total liabilities	144,008,881	44,242,017	207,861,685	847,003	396,959,585
Net on balance-sheet position	69,554,506	125,168	(10,721,476)	479,802	59,438,000

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. The tendency in the last 6 months of 2005 was to increase the source of funds represented by deposits in the liquidity band 3 months to one year (due to pricing policy offered by the Bank); therefore offering a better cover to liquidity risk.

	Up to 1 month	1 month to 3 months	3 months to 1 year	Over 1 year	Total
Assets					
Cash	13,431,110	-	-	-	13,431,110
Balances with Central Bank	175,550,932	-	-	-	175,550,932
Due from other banks	5,039,417	-	-	-	5,039,417
Derivative financial instruments	-	-	-	175,629	175,629
Loans to customers	21,550,174	50,914,852	154,025,374	174,480,166	400,970,566
Investment securities	-	59,710,000	813,302	24,119,686	84,642,988
Intangibles	-	-	-	3,222,505	3,222,505
Property and equipment	-	-	-	43,645,665	43,645,665
Deferred income tax assets	-	-	413,034	-	413,034
Other assets	3,759,622	306,600	-	1,910,667	5,976,889
Total assets	219,331,255	110,931,452	155,251,710	247,554,318	733,068,735
Liabilities					
Due to other banks	95,866,091	-	-	-	95,866,091
Due to customers	221,520,793	123,481,377	30,465,258	286,906	375,754,334
Other borrowed funds	163,322	989,365	-	147,084,000	148,236,687
Other liabilities	1,059,259	3,792,294	16,973,297	-	21,824,850
Current income tax liability	-	436,048	-	-	436,048
Total liabilities	318,609,465	128,699,084	47,438,555	147,370,906	642,118,010
Net liquidity gap	(99,278,210)	(17,767,632)	107,813,155	100,183,412	90,950,725
Cumulative gap	(99,373,758)	(116,924,791)	(9,328,235)	90,950,725	

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

	Up to 1 month	1 month to 3 months	3 months to 1 year	Over 1 year	Total
Total assets	185,043,508	42,708,381	102,808,755	125,836,941	456,397,585
Total liabilities	296,174,600	43,041,785	13,183,400	44,559,800	396,959,585
Net liquidity gap	(111,131,092)	(333,404)	89,625,355	81,277,141	59,438,00

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	
	2005	2004	2005	2004
Financial assets				
Due from banks	-	81,500,100	-	81,486,394
Loans to customers, net	400,970,566	237,568,705	384,645,460	236,400,492
Financial liabilities				
Deposits from banks	95,866,091	123,784,714	95,885,489	123,787,549
Due to customers	375,754,334	211,283,937	378,455,134	212,620,237
Loans from banks	148,236,687	39,856,771	142,964,134	38,642,592

(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.

4 CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Impairment losses on loans and advances

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

(b) Impairment of available for-sale equity investments

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

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

4 CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(c) Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying certain non-derivative financial assets (certificated of deposit) with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortized cost. If the entire class of held-to-maturity investments is tainted, the fair value would increase by approximately RON 100 thousand, with a corresponding entry in the fair value reserve in shareholders' equity, net of the tax effect.

(d) Provision for litigations

The Group follows the guidance of IFRS on recording of the provisions for contingencies. The provisions are recorded when there a probable cash outflow from the Group and that cash flow can be reliably estimated. In assessing the probability of the cash outflow the bank assesses the confitions existing at balance sheet date and uses the judgement and advise of internal and external lawyers which represent the Group in legal court cases. If the conditions are no longer met, the Group reverses the provisions. In assessing the probable cash outflows the Groups also involves its legal advisers and formal documentation from the legal files. The value of provision is also computed with reference to the timing of expected outflow. Where the timing is over 1 year, the Bank records the provision at their present value discounted with the Bank's cost of funds.

5 ADOPTION OF NEW AND REVISED STANDARDS

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

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

5 ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

6 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

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

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

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

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

7 NET INTEREST INCOME

	2005	2004
Interest income		
Loans to customers	41,579,321	37,859,166
Current accounts and deposits to banks	8,463,093	5,513,954
Investment securities	2,975,803	3,025,975
Total interest income	53,018,217	46,399,095
Interest expense		
Customers deposits	12,288,985	10,598,194
Deposits from banks	4,454,992	4,813,666
Other borrowed funds	2,031,713	401,895
Total interest expense	18,775,690	15,813,755

8 NET FEE AND COMMISSION INCOME

	2005	2004
Fee and commission income		
Transactions related fee and commissions	10,044,803	9,674,456
Credit related fee and commissions	2,221,251	1,855,569
Other fees	13,003	15,396
Total fee and commissions	12,279,057	11,545,421
Fee and commission expense		
Fee and commission expense for transactions with banks	1,278,832	1,335,812
Other fees paid	192,445	234,439
Total fee and commissions	1,471,277	1,570,251

9 NET TRADING INCOME

	2005	2004
Foreign exchange loss from revaluation of currency assets/liabilities	(10,391,735)	(10,007,884)
Foreign exchange gain from dealing transactions	14,330,050	10,333,332
Interest rate instruments	(21,718)	116
Net trading income	3,916,597	325,564

10 OTHER OPERATING INCOME

	2005	2004
Income from sale of foreclosed assets	1,620,919	3,595,478
Income from operational leases	521,567	2,316,552
Other income	704,857	738,810
	2,847,343	6,650,840

11 IMPAIRMENT PROVISION

	2005	2004
Charge allowance loans to customers (Note 16)	(5,789,154)	(3,973,918)
Recoveries from loans previously written-off	4,968,377	8,682,197
Impairment (losses)\write backs	(820,777)	4,708,279

12 OPERATING EXPENSES

	31 December 2005	31 December 2004
Staff costs	20,320,712	20,631,990
Administrative expenses	4,916,769	4,482,617
Depreciation and amortisation (Notes 18 and 19)	3,648,648	2,910,347
Loss on sale on property and equipment	740,164	512,100
(Release) / charge of provision for litigation (Note 29)	(1,503,543)	1,183,315
Charge / (Release) with provisions for letter of guarantees (Note 29)	144,509	(131,600)
Expenses with local tax and due	454,506	775,615
Software expenses	260,727	246,198
Advertising and marketing	453,759	388,674
Guarantee fund expenses	1,055,198	625,769
Other	7,018,037	10,248,836
	37,509,486	41,873,861

13 BALANCES WITH CENTRAL BANK

	31 December 2005	31 December 2004
Current account	155,550,932	54,460,586
Term deposits	20,000,000	10,000,000
	175,550,932	64,460,586

Current accounts are required to satisfy the mandatory reserves requirements of the National Bank of Romania. During 2005 the interest ranged from 6% to 1.5% (2004: 6%) for reserves held in RON and ranged from 0.75% to 0.70% (2004: 0.75%) for reserves held in EUR. The interest rates for term deposits with National Bank of Romania ranged during 2005 from 17% to 8% (2004: 17% to 20.75%).

14 DUE FROM BANKS

	31 December 2005	31 December 2004
Current accounts	5,039,417	3,973,682
Placements in other Romanian banks	-	77,526,433
Total due from banks	5,039,417	81,500,115

During 2005 interest on placements with banks ranged from 2.21%to 4.50% for USD (2004: 1.02% to 3.16%), from 1% to 17% for RON (2004: 10% to 24%) and from 1.80% to 3.00% for EUR (2004: 1.90% to 2.75%).

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

15 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2005	31 December 2004
Derivative financial instruments	175,629	192,500

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

The agreement was made on the OTC market, on 27th June 2003. Notional amount is EUR 2,000,000 (RON equivalent 7,261,758) maturing on 27th June 2010.

16 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of customer

	31 December 2005	31 December 2004
Companies	344,976,583	218,138,664
Individuals	62,373,230	26,955,550
Less provision	(6,379,247)	(7,525,509)
Total loans	400,970,566	237,568,705

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysis by sector

	31 December 2005	% of total	31 December 2004	% of total
Trade	131,160,593	32%	72,570,828	18%
Industry	109,094,478	27%	79,575,902	20%
Individuals	61,935,916	15%	26,955,550	7%
Services	56,779,060	14%	35,092,273	9%
Constructions	26,957,625	7%	14,794,572	4%
Agriculture	19,440,416	5%	13,996,361	3%
Other	1,981,725	0%	2,108,728	1%
	407,349,813	100%	245,094,214	100%
Less provision for loans losses	(6,379,247)		(7,525,509)	
Total loans	400,970,566		237,568,705	

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 2005	31 December 2004
At the beginning of the year	7,525,509	8,360,298
Write-offs	(6,935,416)	(4,808,707)
Charge for the year	5,789,154	3,973,918
At the end of the year	6,379,247	7,525,509

The main source of income for the Bank is represented by loans to customers. The interest rates charged for the year ended 31 December 2005 for loans and advances to customers ranged from 27.49% to 20.58% for RON (2004: 22% to 40%), from 9.23% to 7.38% for USD (2004: 5.75% to 14%) and from 9.45% to 7.78% for EUR (2004: 5.75% to 14%).

17 INVESTMENT SECURITIES AVAILABLE FOR SALE

	31 December 2005	31 December 2004
Debt securities	8,282,762	18,744,783
Equity securities	360,226	354,321
	84,642,988	19,099,125

Debt securities comprise Eurobonds issued by Romanian Ministry of Finance.

The Group has entered into economic hedge to mitigate the interest rate risk related to the Eurobonds redeemable on 2nd July 2010, by a swap agreement with Sanpaolo IMI SpA Torino, for same amount and maturity (see details in Note 15).

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

Equity investments held by the Bank are detailed below:

Investment	Country of incorporation	Nature of business	Shareholding 31 December 2005	31 December 2004
BMFMS	Romania	commodity exchange	0.58%	1.16%
Casa Română de Compensaţie	Romania	clearing house BMFMS	0.38%	1.12%
TransFonD	Romania	settlement and clearing inter-banking transfer	2.47%	2.47%
Biroul de Credit	Romania		0.23%	0.09%

18 INTANGIBLE ASSETS

	Intangibles
Year ended 31 December 2004	
Opening net book amount	3,082,642
Additions	1,631,347
Disposals	573,276
Amortisation charge	496,373
Closing net book amount	3,644,340
At 31 December 2004	
Cost or valuation	5,390,881
Accumulated amortisation	1,746,541
Net book amount	3,644,340
Year ended 31 December 2005	
Opening net book amount	3,644,340
Additions	501,186
Disposals	(174,260)
Amortisation charge	(748,760)
Closing net book amount	3,222,506
At 31 December 2005	
Cost or valuation	5,716,283
Accumulated amortisation	(2,493,778)
Net book amount	3,222,505

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

19 PROPERTY AND EQUIPMENT

	Land and buildings	Other assets	Fixed assets in progress	Total
Year ended 31 December 2004				
Year ended 31 December 2004				
Opening net book amount	20,171,676	4,897,846	2,827,743	27,897,265
Additions	2,634,665	1,580,753	4,935,261	9,150,678
Disposals	(125,310)	(68,501)	-	(193,811)
Depreciation charge	(604,746)	(1,809,229)	-	(2,413,975)
Closing net book amount	22,076,285	4,600,869	7,763,004	34,440,158
At 31 December 2004				
Cost or valuation	28,574,468	14,334,946	7,763,004	50,672,418
Accumulated depreciation	(6,498,183)	(9,734,077)	-	(16,232,260)
Net book amount	22,076,285	4,600,869	7,763,004	34,440,158
Year ended 31 December 2005				
Opening net book amount	22,076,286	4,600,869	7,763,004	34,440,158
Additions	6,960,767	4,004,751	1,320,917	12,286,436
Disposals	-	(181,040)	-	(181,040)
Depreciation charge	(754,083)	(2,145,806)	-	(2,899,888)
Closing net book amount	28,282,970	6,278,774	9,083,921	43,645,665
At 31 December 2005				
Cost or valuation	35,504,446	16,963,766	9,083,921	61,552,133
Accumulated depreciation	(7,221,476)	(10,684,992)	-	(17,906,468)
Net book amount	28,282,970	6,278,774	9,083,921	43,645,665

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

20 OTHER ASSETS

	31 December 2005	31 December 2004
Foreclosed assets	1,449,446	401,606
Other debtors	726,846	392,955
Other assets and prepayments	3,800,597	4,172,565
Total other assets	5,976,889	4,967,126

Details on other debtors are presented below:

Other debtors (gross)	4,036,951	3,703,060
less provision for doubtful debtors	(3,310,105)	(3,310,105)
Other debtors (net)	726,846	392,955

The provision for other debtors was made for the receivable recorded by the Bank from a bankrupt company.

21 DEPOSITS FROM BANKS

	31 December 2005	31 December 2004
Sight deposits	95,866,091	117,680,150
Term deposits	-	6,104,553
	95,866,091	123,784,703

The interest rate during 2005 for term deposits ranged from 2.4% to 4.77% for USD (2004: 1.05% to 3%), from 1.5% to 16.5% for RON (2004: 12% to 23%) and from 2.07% to 3.70% for EUR (2004: 1.82% to 3.45%).

22 DUE TO CUSTOMERS

	31 December 2005	31 December 2004
Term deposits - companies	170,827,345	33,294,181
Current accounts	108,534,248	87,213,823
Term deposits - individuals	80,477,331	78,716,084
Restricted deposits	15,915,410	12,059,849
Total deposits from customers	375,754,334	211,283,937

Included in restricted deposits were margin accounts for forward transactions outstanding as at 31st December 2005 in amount of RON 1,412,942 (2004: 3,483,690).

The interest rate during 2005 for term deposits ranged from 1.5% to 15.75% for RON (2004: 13% to 16%), from 2% to 4.2% for USD (2004: 2% to 4%) and from 1% to 3.15% for EUR (2004: 2.5% to 2.75%).

23 OTHER BORROWED FUNDS

	31 December 2005	31 December 2004
Loan from Sanpaolo IMI Bank	148,236,687	39,856,771

The amount from Sanpaolo IMI Bank comprises three loans granted to the Bank by members of the Sanpaolo IMI Group (i.e. first two by Sanpaolo IMI SpA Vienna Branch and one by SanPaolo IMI Bank Ireland) and a subordinated loan granted by SanPaolo IMI Ireland. Total amount granted is EUR 25,000,000 (2004: EUR 10,000,000) and subordinate loan of EUR 15,000,000 (2004: 0).

The first loan disbursed on 20th February 2003 in the amount of EUR 2,000,000 is repayable in one tranche on 18th February 2007.

The second loan disbursed on 28th October 2004, in the amount of EUR 8,000,000 is repayable in one tranche on 22th October 2008.

Both loan agreements exclude the possibility of early repayment.

23 OTHER BORROWED FUNDS (CONTINUED)

The third one is a short term loan and was disbursed on 18th August 2005 in the amount of EUR 15,000,000 and is repayable in one tranche 6 moths from the disbursement date that is on 18th February 2006.

The subordinated Loan from SanPaolo IMI Ireland was disbursed on 13th October 2005 in amount of EUR 15,000,000 and is repayable in one tranche on 17th October 2015. Upon the insolvency of the borrower the lender's claims arising from this agreement will rank behind those of all other creditors of the Borrower and will rank ahead only of the shareholders of the Borrower.

24 OTHER LIABILITIES

	31 December 2005	31 December 2004
Provision for litigations (Note 29)	15,140,908	16,644,451
Provision for off b/s commitments (Note 29)	144,509	-
Taxes due to the state budget	74,598	258,969
Other liabilities	6,464,835	5,130,754
Total other liabilities	21,824,850	22,034,174

25 INCOME TAX EXPENSE

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

	31 December 2005	31 December 2004
Current tax	517,857	-
Deferred income tax charge	(413,034)	-
	104,823	-

25 INCOME TAX EXPENSE (CONTINUED)

	31 December 2005	31 December 2004
Profit before tax	13,478,218	10,437,700
Theoretical tax charge at the applicable statutory rate	2,156,515	2,609,425
Tax effect on items which are not deductible		
– non-deductible expenses	2,292,613	2,303,425
– income which is exempt of taxation	(3,059,467)	(1,494,423)
– other IAS adj that have non-temporary nature	-	(8,248)
Effect of change in tax rate	-	(592,800)
Tax losses brought forward	(1,284,838)	(3,564,288)
Unrecognised deferred tax	-	738,661
Income tax expense/(release) for the year	104,823	-

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 16% (2004: 25%). Deferred income taxes are calculated on all temporary differences under the liability method using a profit tax rate of 16% (2004: 16%).

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

25 INCOME TAX EXPENSE (CONTINUED)

	31 December 2005	Differences recognition and reversals	31 December 2004
Tax effects of deductible temporary differences			
Deferral of loans origination commissions	459,983	459,983	-
Accruals	436,443	436,443	-
Tax effects of taxable temporary differences			
Restatement of fixed assets	169,272	169,272	-
Restatement of investments	166,387	166,387	-
Other	147,743	147,743	-
Net tax effect of temporary differences	413,034	413,034	-
Total net deferred tax asset	413,034	413,034	-

During the year 2005 the Group started recognising deferred tax asset.

No deferred tax asset was recognised in previous years due to uncertainty about availability of sufficient profits in the foreseeable future to utilise that deferred tax asset.

26 SHARE CAPITAL

	31 December 2005	31 December 2004
Registered share capital	103,965,240	85,788,240
Restatement in accordance with IAS 29	40,174,800	40,174,800
Total share capital	144,140,040	125,963,040

The share capital was made up as at 31 December 2005 of 10,396,524 shares (2004: 8,578,824 shares) with a nominal value of RON 10 each. All issued shares are fully paid and carry one vote.

The capital structure as at 31 December 2005 and 31 December 2004 is as follows:

Shareholder	31 December 2005 Number of shares	31 December 2005 %	31 December 2004 Number of shares	31 December 2004 %
Sanpaolo Internazionale	10,255,757	98.65	8,438,057	98.36
Simest SpA Italy	140,757	1.35	140,757	1.64
Carosiello Roberto	3	-	3	-
Sangalli Luigi	3	-	3	-
Paolo Bozzoli	4	-	4	-
	10,396,524	100.00	8,578,824	100.00

27 OTHER RESERVES

	31 December 2005	31 December 2004
Statutory reserve	3,412,642	2,951,094
Bank risk general reserve	4,164,639	306,901
Revaluation reserve for of AFS investment securities	-	42,800
Total reserves	7,577,281	3,300,795

27 OTHER RESERVES (CONTINUED)

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 2005, under Romanian banking legislation the Bank is required to create the following reserves from appropriation of profit:

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

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

After reducing taxes and setting aside the legal and general reserves as discussed above, the remaining balance of net profit may be distributed to shareholders; the distributable amount for 2005 is RON 15,458,670. Dividends may only be declared from current statutory profit.

28 ANALYSIS OF CASH AND CASH EQUIVALENTS

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

	31 December 2005	31 December 2004
Cash	13,431,110	10,524,930
Short term deposits with NBR (Note 13)	20,000,000	10,000,000
Treasury bills less than 3 months	59,709,999	-
Due from banks less than 3 months (Note 14)	5,039,417	81,500,115
Cash and cash equivalents	98,180,526	102,025,045

29 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.

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.

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

	31 December 2005	31 December 2004
Letters of guarantee	18,944,335	13,469,807
Unused loan facilities and L/Cs	43,464,083	18,477,252
Total	62,408,418	31,947,059

29 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Provision for letters of guarantee

	31 December 2005	31 December 2004
As at 1 January	-	131,600
Charge/(release) for the year (Note 12)	144,509	(131,600)
As at 31 December (Note 24)	144,509	-

Provision for contingencies (litigations)	**31 December 2005**	**31 December 2004**
Provision at beginning of period	16,644,451	15,461,136
(Release) / Charge for the year (Note 12)	(1,503,543)	1,183,315
Provision at end of period (Note 24)	15,140,908	16,644,451

Legal proceedings

The provisions for litigations were computed for litigations in which the Bank was involved as at 31 December and from which contingent liabilities arise. These litigations relate to operations undertaken by the Bank's previous management. 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 the largest amount is represented by:

- Provision amounting to RON 9,239,984 for litigation related to a letter of guarantee and related penalties where the Bank is a defendant and an international company a plaintiff;
- Other six litigations amounting to RON 5,900,914.

The release of provision during the year was caused by final favourable Court decision.

29 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The future operating lease payments committed are disclosed below:

	31 December 2005	31 December 2004
No later than 1 year	1,432,160	844,208
Later than 1 year and no later than 5 years	3,723,232	1,547,750
Later than 5 years	226,861	342,911

Assets pledged/restricted

The Bank had no collateral deposits in other banks (31 December 2004: nil).

		Asset		Related liability
	31 December 2005	31 December 2004	31 December 2005	31 December 2004
Balances with the Central Bank	155,550,932	54,460,586	-	-

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.

30 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.

The ultimate parent of the Sanpaolo IMI Bank Romania SA is Sanpaolo IMI Group.

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	
	2005	2004	2005	2004
Revenues & expenses				
Interest revenues	326,950	241,300	636,788	148,400
Interest expenses	(1,175,337)	(720,920)	(187,863)	(317,200)
Balance sheet position				
Current accounts	-	254,200	1,577,738	1,138,000
Term deposits placed with banks	1,300,025	-	-	-
Term deposits due to individuals	-	-	3,851,604	3,440,600
Term deposits due to group companies	-	-	-	-
Collateral deposits due to group	1,001	2,000	299,016	302,500
Loans from banks	148,236,687	39,856,771	-	-
Loans to individuals	-	-	6,197,730	2,784,800
Key management compensation	-	-	286,182	302,064

Included in the term deposits placed with banks with Group companies in 2005 is the amount of RON 1,227,866 representing the current account with Sanpaolo IMI SpA.

31 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.

32 PRINCIPAL SUBSIDIARIES

The details in respect of the consolidated subsidiary of the Bank are presented below:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
Subsidiaries:				
West Leasing SA	Leasing	99.88%	99.88%	Romania

The consolidated financial statements include the financial statements of the subsidiary which had at 31 December 2005 a total assets of RON 2,354,187 (2004: 2,437,577).

33 EVENTS AFTER BALANCE SHEET DATE

In 2006 there was the transfer of the loan contracted with Sanpaolo IMI Vienna in amount outstanding of EUR 10,000,000 to Sanpaolo IMI Ireland.