



BANCA  
COMERCIALA  
ROMANA  
GROUP

ANNUAL REPORT 2001

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# ANNUAL REPORT 2001

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For Banca Comerciala Romana and for the Group that it heads, 2001 was a year of consolidation and strengthening of its leadership in several business areas, a period during which we successfully reconciled quantitative growths with significant qualitative improvements. It was a year in which very good results were achieved in the day-to-day business. Now, Banca Comerciala Romana is **well known** and is **perceived** as one of the most stable financial institutions on the Romanian market.



## CHAIRMAN'S STATEMENT

Our accomplishments in 2001 are illustrative of the fundamental development and growth of our Group. With an increase of 18% in total assets of the Group (reaching USD 3.7 billion) and 20% in Group net profits (USD 130.4 million) on International Accounting Standards we have met and exceeded our ambitious projections and achieved our strategic target of consolidating our market leader position. As a result of these good growth rates, the Return-On-Average-Assets increased to 3.78% in 2001 from 3.40% in 2000. Return-On-Average-Equity was up at 20.30% in 2001 from 20.08% in the previous year.

As far as the implementation of our strategic goals is concerned, 2001 was rich in initiatives of our dynamic group. We achieved important progress in developing our domestic platform with the final goal to provide our customers with the best services on a *one-stop-banking, one-stop-shopping* basis. We established a subsidiary in leasing, which became fully operational in April, as well as another subsidiary in insurance, which became fully operational in January 2002 and thus creating the conditions for implementing and developing our bancassurance capabilities. BCR Leasing had very good performances and by the end of the year they had already captured 8% of the market. Our brokerage subsidiary – BCR Securities – together with the Bank pioneered successfully in 2001 the municipal bonds issue and became more involved in the corporate bonds issue. Our foreign banking subsidiaries (in London, Frankfurt, Paris and Kishinew) supported effectively the Bank's activity, especially in the areas of credit syndicalisation and capital markets operation and ended the year with good results.

Banca Comerciala Romana, the parent company of the Group continued to deliver excellent results. BCR is the largest bank in Romania with an approximately 30% share in all its markets. Its customer base doubled in the past three years and reached a figure of 2.7 million of which 250 thousand were corporate customers.

During 2001 the Bank made loans to customers amounting to USD 3.5 billion (on a turnover basis), and as of year-end loans and advances stood at over USD 1 billion.

The quality of the loans improved over the years especially due to the enhancement in the lending procedures and risk management. Three years ago BCR introduced its own internal rating system for loan classification, which is very much in line with the IAS provisions and the Bank has already started to reap the benefits.

According to the five-year Strategy and the Business Plan to 2004 retail banking represented a priority in 2001 and will be a priority for the future as it has at present the largest growth potential. Of the 27 new products launched by the Bank during the previous year, 17 were in the retail market, and the customers have very well taken them up. Consumer credits had a spectacular growth in the past two years (over sevenfold) and by the end of 2001 they represented 5% of total loans made by BCR to non-bank customers. Card business developed very well and last year BCR's efforts in this area were in line with government's strong policies and actions and concentrated towards educating the market to move from cash business to card business. Card business will continue its development in the future with spectacular growth rates.

Corporate banking has always been BCR's core business and during 2001 it enjoyed new dimensions. The Bank improved its organisation structure to become even more customer-oriented. In addition to the customer relationship management division and the corporate finance related divisions (set up in the past 2 years) the Bank established a division to deal only with the foreign projects under management. Currently, BCR is managing and co-financing over USD 2.2 billion in foreign projects aimed at restructuring the economy and supporting small and medium enterprises (SMEs) and co-operates fruitfully with the World Bank, the European Bank for Investment, the European Bank for Reconstruction and Development, the European Union and Japan. Within the corporate customers segment, SMEs received special focus last year.

The international activity continued to assist the Bank's efforts to support and help its customers. In 2001 BCR processed and finalised almost USD 6 billion foreign trade transactions and by the year-end it had renewed agreements for 17 credit lines with the major export credit agencies, as well as agreements for commercial transactions (letter of credit confirmation or guarantees) with more than 150 major banks all over the world.

In our customer-focused strategy, we do our best to know customers better than our competitors and to anticipate their needs.

Our customer management divisions and products and services management divisions create solutions, which, most of the time, exceed customers' expectations for the quality of service and lower costs. Our *mission* is to enable and help customers to improve on their financial situation.

We have been successful at and continue to be concerned with balancing our present performance with the investments we need to make for the future.

Our team has proven great expertise and research abilities on the local market.

We are building a strategic partnership with our customers, focusing on adding value for and protecting the customers and the shareholders on a medium and long term basis.

Banca Comerciala Romana participates in and contributes to economic growth and modernisation in Romania in current transition period and EU accession.

Banca Comerciala Romana is a responsible partner for communities where we conduct business supporting the local development.

All our achievements have required a good deal of hard work and thus reflect the assiduous endeavours of our staff in the Bank and in all its subsidiaries. Consequently, we extend our sincere thanks to every employee of the Bank and of the BCR Group for his or her contribution to BCR's success and for his or her efforts on the Group's behalf.

Preserve the leading position on the domestic banking market and gain significant share on the financial markets where our subsidiaries operate, increase the Bank's value for shareholders and the value added for customers, improve operational effectiveness and strengthen the universal profile of BCR and the Group structure as a financial entity constitute some of the challenges that we shall have to face every day, through professionalism, dedication and capacity to innovate and to create value.

Our strategy to 2004 is build around the so-called "3 Ps": productivity, profitability and predictability.

We do our best to continue to have Banca Comerciala Romana perceived as:

- ★ A company with vision;
- ★ A company that listens to and understands its customers;
- ★ A company that has products and services and supports its partner-customers – "*one-stop-banking, one-stop-shopping*";
- ★ A company with medium and long term view and future.

In our activity, we continue to apply the following modern *principles*:

- ★ Partner friendly;
- ★ Solutions oriented;
- ★ Know-how transfer;
- ★ Balancing short term results with medium and long term vision.

I would like to thank each of BCR's customers for the trust they placed in our organisation in 2001 and to express my confidence that the relationship we have can build and develop mutually profitable partnership in the years to come.

We are proud to acknowledge that Banca Comerciala Romana proves it can be the right place where the power of team and partnership is building the road towards a state-of-the-art business.

Chairman & CEO,

Dr. Nicolae DĂNILĂ







## BOARD OF DIRECTORS

(on balance sheet approval date)

Dr. Nicolae Dănilă	Chairman
Dr. Ion Nițu	Deputy Chairman
Dr. Ilie Mihai	Deputy Chairman
Drd. Eugen Cîrstea	Deputy Chairman
Dr. Natalița Hurduc	Deputy Chairman
Dr. Florin Georgescu	Member
Iozsef Birtalan	Member
Dr. Ionel Desmireanu	Member
Mihai Fercală	Member
Teodor Mihăescu	Member

## MANAGING COMMITTEE

(on balance sheet approval date)

Dr. Nicolae Dănilă	Chairman, BCR Chairman
Dr. Ion Nițu	Deputy Chairman, BCR Deputy Chairman
Dr. Ilie Mihai	Deputy Chairman, BCR Deputy Chairman
Drd. Eugen Cîrstea	Deputy Chairman, BCR Deputy Chairman
Dr. Natalița Hurduc	Deputy Chairman, BCR Deputy Chairman



Dr. Ion Nițu  
Deputy Chairman



Dr. Ilie Mihai  
Deputy Chairman



Drd. Eugen Cîrstea  
Deputy Chairman



Dr. Natalița Hurduc  
Deputy Chairman

## AUDITORS

(on balance sheet approval date)

Dr. Călin Oprea  
Urania Moldovanu  
Remus Dușa

## EXTERNAL AUDIT

PricewaterhouseCoopers







## 2001 FINANCIAL RESULTS

In 2001 Banca Comercială Română Group achieved good financial results, which confirmed the management's capacity to implement its ambitious objectives established by the Bank's strategy and business plan.

These results were obtained in the context of improved performances for the banking sector, based on the Romanian economy recovery.

### Economic Environment

Macroeconomic policies implemented in 2001, according to Romania's mid-term economic development strategy, produced a GDP rise, partly as a result of increased investment and improved export.

Thus, the estimated GDP for 2001 of ROL 1,154,126.4 billion represented a real increase of 5.3% compared to the previous year.

GDP for 2001, by categories of resources and uses was as follows:

	2001 ROL billion	% compared to 2000
Agriculture, forestry and fish breeding	154,311.0	121.2
Industry	297,245.8	107.9
Constructions	57,977.0	105.2
Services	535,448.5	101.7
Indirectly measured financial intermediation services	-16,983.3	146.3
<b>Gross value added - total</b>	<b>1,027,999.0</b>	<b>105.5</b>
Net taxes on product	126,127.4	103.1
<b>Gross domestic product</b>	<b>1,154,126.4</b>	<b>105.3</b>
Total final consumption	995,017.9	105.7
- population households	921,805.1	106.4
- public administration	73,212.8	98.1
Gross capital formation, of which	252,650.3	—
Gross fixed capital formation	219,289.3	106.6
Net export of goods and services	-93,541.8	—
- export of goods and services	386,831.6	110.6
- import of goods and services	480,373.4	117.5

GDP increase was generated by the growth in activity, and consequently in the gross value added, in agriculture (+21.2%), industry (+7.9%) and construction (+5.2%).

The 1.7% increase in services contribution to GDP is based, mainly, on retail trading.

In 2001, Total final consumption showed a 5.7% rise as a consequence of the final consumption of population households increase of 6.4%, whereas final consumption of public administration declined by 1.9% as a result of administrative and personnel expenses reduction.

Gross fixed capital formation increased by 6.6%. The investment rate (gross fixed capital formation/gross value added in the economy) remained relatively steady compared to 2000, at about 21.3%.

The current account deficit rose in 2001, reflective of higher import volume (+17.5%), compared to export volume (+10.6%).

In 2001, consumer prices increase was 34.5% on an average yearly basis and 30.3% on a year-end basis, reflecting a disinflation trend, which also triggered an interest rate reduction.

The 2001 reform was faster in the financial banking system, especially concerning the legal framework harmonisation with EU prudential principles and international best practices, further cleaning of the banking system by the Central Bank and privatisation of some banks etc.

### **Group Financial Results**

Banca Comerciala Romana Group benefited from the opportunities created by the economic recovery, met the new requirements of the banking system reform, and maintained its market leadership, enjoying the best financial results.

The Group's net profit amounted to ROL 4,120,397 million (USD 130.4 million) as at 31 December 2001, 20% higher than the previous year, based on business volume increases and operational efficiency improvements.

As a result of the inflation drop from 40.7% in 2000 to 30.3% in 2001 interest rates followed a decreasing trend. Even so, net interest income increased by almost 16%.

Net income from fees and commissions amounted to ROL 3,281.5 billion, as at 31 December 2001, a 9% increase compared to the previous year, as the Group diversified its services for customers.

At the same time, operating expenses declined by 9.4%, which led to a cost-income ratio improvement from 47.3% in 2000 to 43.0% in 2001.

In 2001 total assets amounted to ROL 118,079.4 billion, an 18% increase compared to 2000, of which loans, with a net value of ROL 33,988.6 billion, increased by 14.4%.

Deposits from customers reached ROL 83,812.7 billion, 27% more than the previous year, whereas deposits from banks dropped by 14%.

Equity amounting to ROL 22,389.6 billion increased due to profit distribution on funds and share capital increases.

Banca Comerciala Romana Group currently offers a diversified range of high quality banking products and services, covering corporate and retail banking, capital market, leasing and insurance. The Group's parent company, Banca Comerciala Romana is the Romanian banking system leader with over 30% of the Romanian banking system assets and the largest customer base as at 31 December 2001, including 2,457,941 individuals and 249,369 corporate customers, of which 245,649 were SMEs.

The Group's activities increase led to a 3.78% Return on Average Assets (ROAA) in 2001 compared to 3.40% in 2000. Return on Average Equity (ROAE) increased to 20.30% in 2001, from 20.08% in 2000.

BCR provides depository services for open investment funds (investment companies) and distributes their fund units through its branch network. BCR also operates on the financial leasing and insurance markets through its subsidiaries.







## CORPORATE BANKING

Banca Comerciala Romana Group has always seen cooperation with its customers as a prerequisite of its existence and development, and the consolidation of its current position in corporate banking has been primarily achieved by introducing a new approach to personal business relationships.

At year-end 2001, the number of corporate customers was 249,369 including "blue-chips", with comprehensive activities in foreign trade primarily and enjoying significant market shares, as well as small and medium-sized companies in economic sectors with real growth prospects (about 99% of corporate customers).

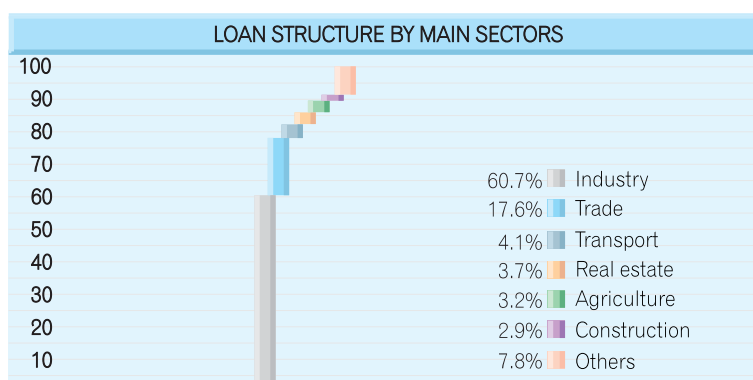
These customers are offered packages of products and services, with the aim to better satisfy customers' needs as well as to provide appropriate risk coverage and distribution and generate substantial revenues.

The Loan is still the basic product demanded by Romanian companies, either for working capital or for capital expenditures requirements. The Group's supply of loans has constantly developed along with the related services and internal working procedures that add to the regulations of the National Bank of Romania.

Of total outstanding loans as at year-end 2001, namely ROL 33,988.6 billion, 14.4% up from the previous year, corporate lending accounted for 95%.

The loan portfolio by sectors shows the Bank's concern to spread risk by distributing exposure to all sectors, with a focus on high growth-potential industries able to sustain the export of goods and services.





Banca Comerciala Romana Group grants treasury loans, mortgage loans, capital investment loans, export credits etc. Foreign currency loans, mainly for technology upgrading, represented 42.1% of total corporate loans at year-end 2001. To provide the required funding for foreign currency loans, foreign currency resources attracted from the domestic market are complemented with credit lines taken from correspondent banks.

The Bank is increasingly focused on lending to private companies, the weight thereof reaching 73% of total loans.

Loans to SMEs were 1.7 times larger as at December 31, 2001 than at year-end 2000, with a 42.7% weight in total corporate loans.

Besides the traditional lending products, Banca Comerciala Romana Group offers a vast range of services, such as trade finance, domestic and international leasing, cash management services and multicash e-services. At the same time, large companies are supported in attracting resources from the foreign capital markets through bond issues or syndicated loans. Also included in the services offered are bank guarantees in ROL and foreign currency for investment projects, purchase of equipment for leasing purposes, buyer or supplier credit, as well as for production.



International factoring was launched in 1998 showing a highly dynamic development, especially after BCR became a member of Factors Chain International. As of 2001 the Bank provides domestic factoring operations as well.

Factoring increased in 2001 by 88 %, on a turnover basis, most of the customers for such services coming from the textile, machine building, and metallurgy industries.

In the following years, the Group shall consolidate its offer of integrated financial services, which includes traditional banking products and services as well as other insurance, leasing, capital markets, asset management products, substantiating the concept ONE STOP BANKING, ONE STOP SHOPPING.

BCR's corporate business targets are:

- ★ to identify profitable business opportunities;
- ★ to develop sound, durable, long-term income generating businesses;
- ★ to have an in-depth financial and commercial understanding of customers' needs and businesses.





## RETAIL BANKING

In 2001, BCR Group adopted a new retail banking policy with guidelines that envisage a new bank – retail customer relationship.

In order to better satisfy all customers' requirements, the Bank provided the whole range of banking products and services available on the domestic market, in the attempt to develop an acquainted and loyal customer base, ready to work with the most complex banking instruments.

The first actions taken by BCR were to expand its retail deposit base, to organise its customer relationship management, to start using new customer-oriented products and services and to develop a financially educated customer base.

Consequently, consumer loans increased over 7 times in the past two years, and the number of retail customers by 40%.

Loans were extended to cover the customers' whole range of financial needs: tuition, medical assistance, household, mortgages, tourism and personal expenses.



Through rapid responses to market changes, BCR consolidated its leadership on the Romanian financial market, within an increasingly tighter competitive environment. Consistent development of financial products and services for private individuals ensured the Bank's competitive edge both domestically and abroad.

Following the large amounts in consumer credits, BCR was awarded **"The most dynamic retail bank in 2001"** by the prestigious magazine "Bucharest Business Week".

In the beginning, retail banking developed on the deposit side, as the Bank gradually removed its interbank borrowings.

Amongst its main saving instruments, the Bank offers: sight and term deposits, special purpose deposits (for pensions, holidays), deposits for the underaged, certificates of deposit denominated in ROL, discounted certificates denominated in ROL and foreign currency.

BCR has also launched a wide range of services for individuals such as: foreign exchange operations, safety deposit boxes, foreign currency payment orders via Swift, Merchants Bank of California and MoneyGram system, direct debits and standing orders.

BCR processes cheques in all major foreign currencies and also issues cheques under the sign of its most important correspondent banks. The Bank also issues travellers cheques in co-operation with American Express Bank and Thomas Cook Limited, as well as Eurocheques.

Private individuals and sole traders take priority in BCR's strategy. Meeting their credit needs, providing them with facilities, as well as with correct and up to date information on a timely basis represent focal points of the Bank's strategy in retail banking.







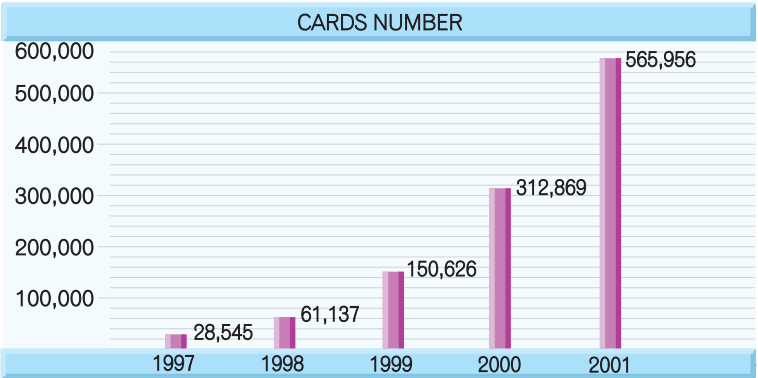
GEORGE ENESCU  
1881 - 1959



CARD BUSINESS

At the end of 1994, Banca Comerciala Romana became the first Romanian bank to process Visa cards and, only one year later, Europay International cards. Subsequently, the Bank issued its own debit cards and in 2001 launched its own credit cards.

The chart below shows the BCR cards development during 1997-2001:



BCR currently issues 6 debit card types and 2 credit card types:

- ★ Cards for private individuals:
  - ★ debit cards: in ROL - BCR MAESTRO, BCR VISA CLASIC, BCR VISA ELECTRON; in foreign currency: BCR VISA INTERNATIONAL
  - ★ credit cards: in foreign currency: BCR EUROCARD MASTERCARD BUSINESS.

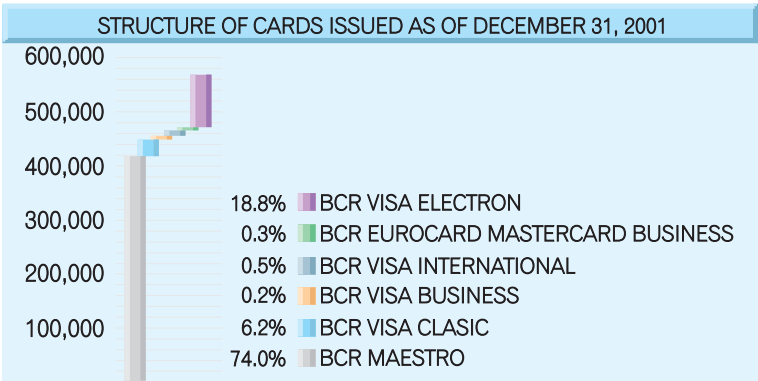


The types of BCR cards issued during 1998-2001:

THE TYPES OF BCR CARDS ISSUED DURING 1998-2001				
	1998	1999	2000	2001
BCR MAESTRO	50,927	131,415	282,368	418,752
BCR VISA CLASIC	8,356	15,559	25,586	34,896
BCR VISA BUSINESS	696	1,061	1,282	1,241
BCR VISA INTERNATIONAL	752	1,819	2,351	2,674
BCR EUROCARD MASTERCARD BUSINESS	406	772	1,282	1,829
BCR VISA ELECTRON	–	–	–	106,568

As of year-end 2001, BCR had issued 565,956 cards (81% higher as compared to 2000), and the Bank's market share was 30%.

The launch of BCR Visa Electron in March 2001 – an international debit card in ROL – was a success. Thanks to the opportunities offered by this type of card and the promotion campaign carried out by the Bank along with Visa International, the number of such cards rose to 106,568 as of year-end 2001.



In 2001, net income from card transactions was ROL 12,890 million.

BCR has always paid attention to increasing the number of merchants accepting cards as payment, as well as the number of Points-Of-Sale. As of December 31, 2001 the number of merchants was 889 and the number of Points-Of-Sale stood at 480. The Bank's ATM network included 336 devices serving mainly as cash dispenser.

BCR will further develop its card activity, aiming at maintaining market leadership both as an issuer and as an acceptor.





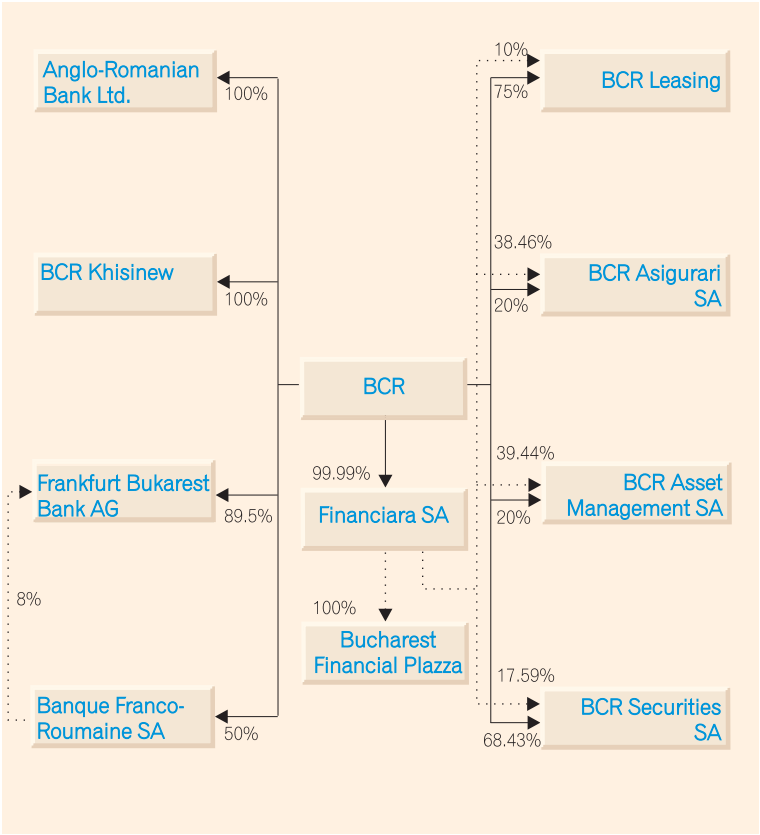


EQUITY INVESTMENTS  
AND CAPITAL  
MARKETS

Equity Investments in Financial and Non-financial  
Institutions

An important target for Banca Comerciala Romana is to strengthen its position as a provider of integrated financial services, by strengthening Group structures as an important leverage to a better utilisation of business opportunities

The structure of the BCR Group, with the direct and indirect majority interests of Banca Comerciala Romana, is presented below:



As at 31 December 2001 the Bank held stakes in 29 banking, financial and non-financial institutions, both domestically and abroad.

Domestic participations represent the Bank's interest in the capital of 22 companies, of which 18 are financial and 4 are non-financial.

BCR's foreign equity investments portfolio also includes 6 participations in banks abroad: Anglo-Romanian Bank Ltd. London, Banque Franco-Roumaine SA Paris, Frankfurt Bukarest Bank AG Frankfurt am Main, BCR Kishinew, MISR Romanian Bank, SAE Cairo and Banca Italo-Romena SpA Milan.

Equity investments received a higher priority beginning with 2000, with the aim to complete the establishment of the BCR Group, in order to facilitate access to all banking related financial markets and to cover the whole range of financial services with the view to include financial integrated services in the Bank's supply and to make best use of BCR's domestic market share.

Additional to reinforcing the group structure, BCR aimed primarily at consolidating profitable financial participations, as non-financial institutions are not a priority for the Bank.

Foreign subsidiaries achieved good performances, during the same period.

Consequently, the long-term direct capital investment in 2001 is reflective of how the Bank adjusts to the economic environment and to the market requirements. The consolidation of the Group structure is substantiated by its further expansion on the capital market, in insurance and leasing.

The following measures have been taken during 2001 in order to consolidate the Group structure:

- ★ establishment of BCR Leasing SA, which became operational in March 2001 and performed very well in its first year of operation;
- ★ set up of BCR Asigurari SA, registered in Bucharest in December 2001;
- ★ reorganisation of and capital increase in BCR Securities SA in order to adjust the company's structure to the capital markets requirements and to consolidate BCR's market share;

- ★ establishment of BCR Asset Management SA, nearly completed by 31 December 2001, as an attempt to enter the asset management for mutual funds market;
- ★ capital increases in BCR Asigurari, Financiara and BCR Leasing.

### Capital markets

The National Bank of Romania (NBR) authorized BCR as a settlement bank for securities traded on the National Securities Clearing, Settlement & Depository Company in 1996 and for the securities traded on the Bucharest Stock Exchange in 1997. A large number of brokerage companies settle their transactions on a daily basis. In 2001, the Bank's market share in total volume of transactions settled was 13.6% for the Bucharest Stock Exchange and 34.5% for the National Securities Clearing, Settlement & Depository Company.

Additionally, since 1998, BCR has been authorized by the National Securities Commission as a custody agent and a depository bank for the open-end investment funds and financial investment companies, handling assets of up to ROL 2,998 billion-monthly average values.

In 2001, the BCR continued to distribute unit funds for open-end investment funds (other than those benefiting from depository services).

BCR also acted as a distributor in several public issues of shares or bonds. Thus, BCR provided front office services through 29 branches in Constanta county and Bucharest, during the first public offer of Mangalia City Hall municipal bonds. BCR Securities brokered the issue, amounting to ROL 10 billion.



BCR participated, as well, in the public offer of shares issued by the Tourism Development Fund Sighisoara. The offer, brokered by Active International SA, consisted of 15.5 million shares, amounting to ROL 155 billion.

BCR brokered securities on the capital market both domestically and internationally:

#### **Domestic capital market**

- ★ BCR manages the portfolio of municipal bonds issued by Mangalia City Hall, listed on Bucharest Stock Exchange and purchased within the primary public offer, which was intermediated by the consortium made up of BCR Securities, BCR and VMB Partners. The nominal value of the BCR portfolio amounts to ROL 530 million.
- ★ BCR manages shares listed on Bucharest Stock Exchange, issued by the 5 financial investment companies (SIF Banat-Crisana, SIF Moldova, SIF Muntenia, SIF Oltenia, SIF Transilvania), amounting to ROL 4 billion as at 31 December 2001. Due to the high liquidity of these shares and to the good financial results of the listed companies, in order to obtain a good return on investment, BCR strategy aims at purchasing up to the 0.1% of the share capital of each of the 5 financial investment companies.

BCR is involved on the capital market through BCR Securities, member of the BCR Group, which provided brokerage and consulting services on BCR share portfolio.



**International capital market**

★ Bonds and promissory notes

BCR operates on the international capital markets through its subsidiary, Anglo-Romanian Bank, which acts as an intermediary and a custodian for the securities purchased by BCR. BCR strategy on the international capital market aims at identifying and investing in bonds and promissory notes issued by Romanian entities, guaranteed by Romania's Ministry of Finance. Due to the positive macroeconomic results achieved by Romania and the quality improvement in ratings, BCR securities portfolio has currently appreciated significantly, their trading price showing an upward trend. As of 31 December 2001 Banca Comerciala Romana managed a bonds and promissory notes portfolio with a nominal value of USD 35,824,753.34, structured as follows:

★ Promissory notes	USD 15,529,693.68
★ Bonds	USD 20,295,059.66

★ Syndicated loans

Another important activity of the Bank is the participation in bank syndicates together with reputable international banks. As a result of the high profits generated by such investment, this activity has shown an upward trend recently.

★ Consultancy

Besides investing in securities listed on the domestic and foreign markets, BCR participated in consortia together with high profile banks and companies, as follows:

- ★ BCR and JP Morgan joined efforts in order to obtain the mandate of consultant for the privatisation of Romtelecom;
- ★ BCR and GED Group participated in the selection of bids organised by the Ministry of Public Finance for the appointment of the Romanian Fund for Energy Efficiency management.







## INTERNATIONAL ACTIVITY

The international activity in 2001 aimed at improving the correspondent relationships, with a focus on new commercial and treasury facilities to benefit customers.

BCR's positive results at year-end 2001 led to improved account conditions and facilities or to new facilities.

Its 11-year long existence has turned BCR into a strong banking group, an acknowledged partner, and a benchmark in the Romanian banking system.

2001 also witnessed the consolidation, in quality terms, of BCR's foreign relations both with correspondents and with international financial organisations, rating agencies and export credit guarantee agencies.

Despite mergers, acquisitions and bankruptcies, which occurred on the international banking market, BCR managed to maintain correspondent relationships with 836 banks worldwide. At the same time, the number of banks with a bilateral SWIFT key exchanged increased to 1,500.

BCR opened 64 LORO accounts and 41 NOSTRO enabling fund transfers in the most remote locations of the world.

The number of credit lines with coverage from export credit agencies is 17, of which 6 are on an open account basis. Their term varies from 1 to 5 years and funds are guaranteed by specialised government organisations in the relevant countries. BCR is accepted as guarantor or borrower.

Regarding FOREX transactions, the number of lines received from foreign correspondents amounted to over 50. Along with FOREX operations, BCR was offered highly favourable deposit placement terms and conditions, based on BCR's liquidity position that makes it a net depositor on the interbank market, especially with first rank banks.

BCR received facilities for commercial transactions (letter of credit confirmation or guarantees with no cash collateral) from several banks. German banks rank first followed by Italian, Dutch, French, US, Belgium, Swiss banks. Typically, most banks confirm letters of credit for a 6 – 12 month period, and, currently, there are several first class banks willing to accept BCR risk for terms of up to 2 or 3 years (CITIBANK, American Express, Deutsche Bank - BT etc.).

BCR was appointed to act as an authorised agent for the Ministry of Finance for the following projects:

**Foreign Government loans and foreign loans with Government guarantees**, of which:

***World Bank:***

- ★ Project for the Romanian Oil Sector Rehabilitation;
- ★ Project for Industrial Development;
- ★ Project for Mines Closure and Mitigating Social Impact;
- ★ Project for Health Sector Reform.

***European Bank for Investment:***

- ★ Project for Railroad Modernisation;
- ★ Project for Reconstruction and Annihilation of Floods Effects;
- ★ The RENEL Project for Energy Sector Rehabilitation;
- ★ The RATB Project for Transport Rehabilitation;
- ★ The RADET Project for Heating System Rehabilitation.

***European Bank for Reconstruction and Development:***

- ★ Program for Municipal Utilities Development

***Japan:***

- ★ Project for Development of Constanta Sud Harbour;
- ★ Project for Road Rehabilitation.

**PHARE** – Crediting Scheme for SMEs – MARR Fund + RICOP Programme

**Other loans:**

- ★ Project for Water Supply for Villages and Building of Social Houses

**Loans granted to BCR as a principal, of which:**

- ★ SME Funding Facility

BCR has increased its direct involvement on the international financial markets with its 6 subsidiaries (London, Frankfurt, Milan, Paris, Cairo, Kishinev) and the 2 representative offices (New York and Moscow).

All of the above are reasons underpinning the sound basis of the Group's complex retail and corporate business and commercial or non-commercial settlements.

In 2001, total settlements on exports processed by BCR stood at USD 2.8 billion, whilst total settlements on imports amounted to USD 2.6 billion, resulting in collections and payments in foreign currency of USD 5.4 billion.

Regarding international non-commercial settlements processed for private individuals and corporate customers, State-Budget-financed institutions, public or non-governmental organisations, the number of payment orders received and issued reached 244,803, whilst the number of processed cheques totalled 208,108, the entire value of such settlements amounting to USD 533,2 million.









## **NEW TECHNOLOGIES AND MODERN DISTRIBUTION CHANNELS**

The utilisation of new technologies in the development and administration of computer applications and the acquisition of bank software in line with international standards have been constant requirements, considered essential by BCR within the process of developing and implementing banking products for its customers.

The Bank's strong technical and communication infrastructure (over 8,500 PC's, 1 land communication component, using the IP protocol and 1 satellite back-up communication component) enabled the WAN development, using Windows 2000 technology, which supports the implementation of software products for on-line services, fast settlements, efficiency in front-office operations, supply of data required by the Head Office divisions and management.

Treasury operations have been fully computerised through the software modules purchased from Reuters (Kondor+, Diagram, Tib Mercury). All front office dealings are confirmed on-line by the back-office, which automatically books such transactions, produces swift messages, as well as reports and daily statements. The processing flow allows secured transactions and a permanent control of settlement. All BCR branches use Tib Mercury to obtain real-time quotations for customers (auctions, collected deposits). They also use "chat" communication for large value transactions quotations from the dealers in the Head Office Treasury Division. The KONDOR + module, through its risk management system, monitors on-line dealer, bank and country exposure limits, as well as the overall risk management (liquidity, exchange rate, GAP analysis etc.).

Banktrade, a software product harmonized with international standards regulating the sector, provides automation of documentary business and foreign payments (letters of credit, documentary collections, letters of guarantee, payment orders). All foreign operations are managed automatically, beginning with initiation, booking and final settlement via automatically generated and transmitted Swift messages. The application also allows the automatic import into the Bank's database of all incoming Swift messages.



The products purchased are integrated in the Bank's IT system by use of middleware products that allow on-line interfacing for data transfers.

In December 2001, the Bank put in operation the Back-up Centre where all critical systems at the Head Office were replicated to provide continuity in the Bank's activity in case of disaster (Foreign Settlements, Cards, Swift, Treasury etc.).

The IT system provides not only process of day-to-day business but also customer-oriented communication, which makes customer presence at the bank no longer required.

BCR is a universal bank and has therefore developed distribution channels to satisfy market requirements.

For its customers with e-services preferences, BCR developed electronic facilities and for large corporate customers (with branches all over the country) even more sophisticated products for efficient cash management have been implemented. The wide range of products and services enabled the Bank to optimise customers' funds flows, beginning with salary payments in card accounts and continuing with domestic and international e-transfers, real-time FOREX market quotations, utilisation of high quality treasury products, electronic management of financial information etc.

Multicash-BCR is a product in the e-banking services range that allows customers from all over the country to make e-payments and have instant access to account information via a PC terminal. The product also enables on-line bidding or deposit making. For large corporate customers with branches or clients banking with other BCR branches Multicash provides account statements and daily transfers of cash available from branches to the corporate head office.

“e-BCR”, successfully launched in April 2001, is an alternative of MultiCash-BCR, accessible via Internet. It is essentially designed for SMEs that require regular banking services.

Mobile Banking, launched in September 2001, allows CONNEX clients who are at the same time BCR cardholders to access card account information and make card payments at any time and location, on their mobile phone.

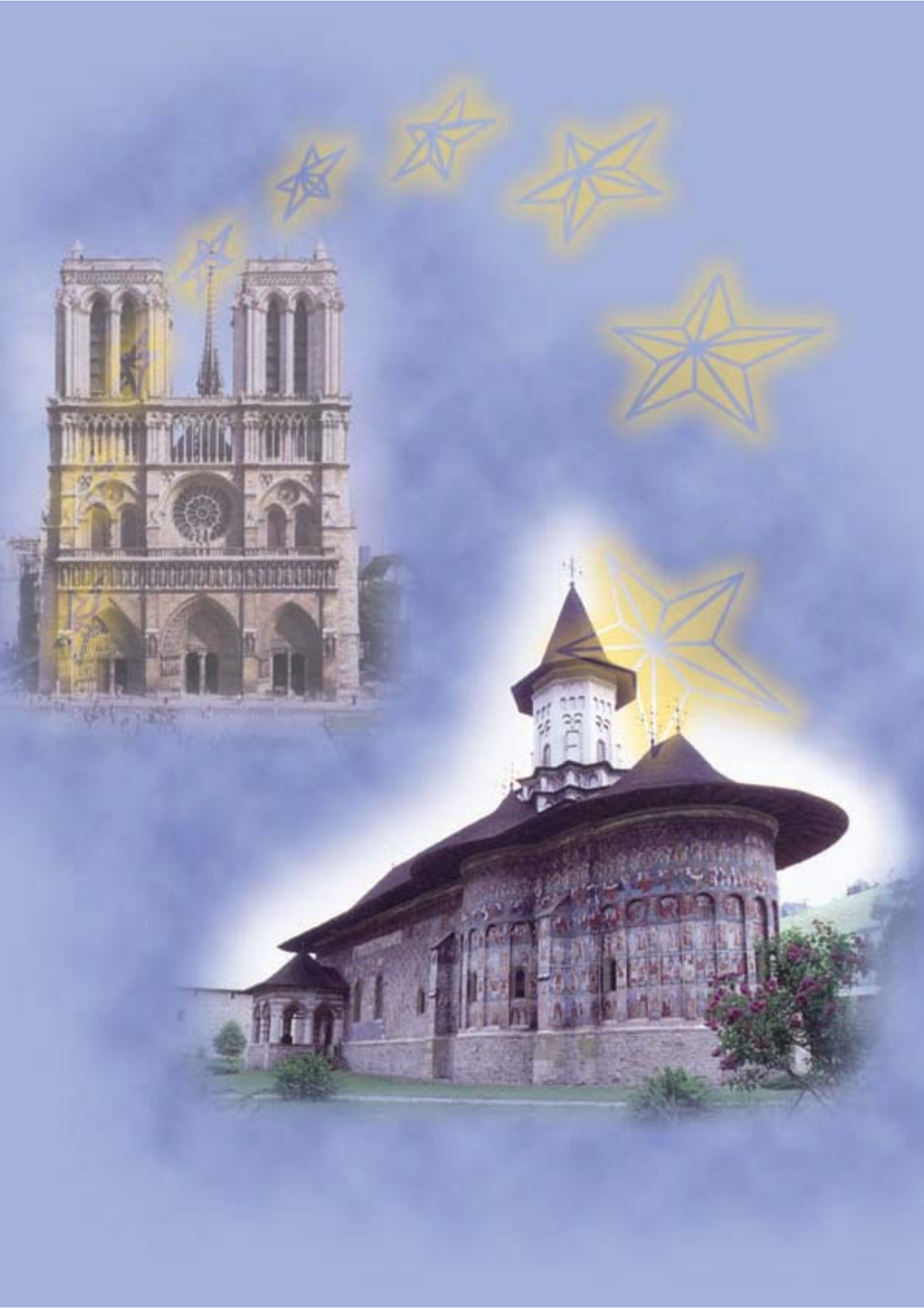
Clientrade module of the Banktrade application provides corporate customer with the opportunity to electronically send the Bank all the information required to open and process letters of credit, documentary collections, foreign payment orders.

BCR's website ([www.bcr.ro](http://www.bcr.ro)) provides customer-oriented information on its banking products and services; the site also includes market studies and research, exchange and interest rates, e-mail management, and informative publications.

The confidentiality of operations via electronic distribution channels is secured through personal identification numbers and the encryption methods used so far have provided 100% security.

Additional to the above products and services which facilitate the bank-customer e-business, BCR, as a universal bank, also includes in its range traditional products provided with an adequate IT support and supplied through its country-wide branch network (deposits, loans, and interbank transfers, payment of utilities etc.).







## RISK MANAGEMENT

With a view to ensure a sustainable growth of its profitability, Banca Comercială Română pays a special attention to the prudential approach of risk management. To make this process more efficient, consistent measures of risk monitoring have been taken, along with the development of internal working procedures in accordance with the regulations in force and the Bank's strategy.

### Credit Risk

One of the Bank's strategic targets is to assess, monitor and mitigate credit risk derived both from lending and from other transactions: letters of guarantee, letters of credit, discounts etc.

To assess its credit risk, the Bank uses an internal credit-rating system and a computer-based economic and financial ratio analysis, both similar to those used by foreign banks.

BCR's credit rating system is bidimensional, combining results from customers' financial and non-financial analysis (overview, financial issues, market segment, strategy and management) with credit risk appraisals (credit history, eligibility, debt service, repayment sources and types of collaterals). Credit risk related to retail customers is assessed by an analysis-based scoring system.

As regards credit risk monitoring towards large exposures, the Bank has established exposure limits (the maximum potential level to which the Bank may be exposed towards each customer) and monitors exposures permanently.

At the same time, the Bank monitors exposure towards the first 100 customers, its single debtors and related party transactions, on a monthly basis, to ensure an appropriate credit risk distribution (by category of customers, by branch).

The Bank also monitors all its exposures towards customers exceeding ROL 200 million and reports them to the Bank Risk Centre (BRC) within the National Bank of Romania. BRC's countrywide database can provide information on customers' exposures to the Romanian banking system and as to how their obligations to other banks in the system are met.

### **Liquidity Risk**

BCR has always maintained a very good liquidity level by a careful monitoring and measurement of this ratio.

After the enforcement of NBR Norms No. 1/2001 on bank liquidity, BCR aligned its strategic objectives on liquidity to the central bank regulations.

Liquidity risk is managed both by objectives and by exceptions.

The Bank has developed internal regulations and working procedures in line with its lending policy, set exposure limits for liquidity risk toward one single debtor and established specific ratios to monitor liquidity risk.

During 2001, BCR acted as net lender both in ROL and in foreign currency on the interbank. ROL interbank placements were mainly made with the National Bank of Romania but also with the Romanian commercial banks enjoying sound financial positions, within the exposure limits established. Foreign currency interbank placements were directed especially to the top rank foreign banks, BCR's traditional business partners.

On the background of an increasing public confidence in the Romanian banking system, BCR enforced a number of measures to increase its financial independence from the interbank market based on the decrease in the volumes of borrowed funds from commercial banks and other financial institutions and on the extension of tenors.

The Bank makes medium-term forecasts on funds and placements and uses monetary and credit instruments to secure an efficient liquidity management, in order to overcome any circumstantial deposit run.

### Interest Rate Risk

Interest rate risk is analysed from an earning assets and liabilities perspective, anticipating their impact on the Bank's profit in the context of the market interest rate trends.

As regards the ROL interest rate risk, BCR pays variable interest rates on most of the funds from non-bank customers, while on the assets side, loans to customers carry interests that are also subject to change.

Under these circumstances, the Bank focused on matching the fixed rate balance sheet items denominated in ROL, both in size and in residual maturity terms. BCR pays therefore special attention to the trend, structure and residual maturity of fixed rate liabilities such as bearer certificates of deposit and discounted certificates of deposit, which are offset by the portfolio of T-bills denominated in ROL. Banca Comerciala Romana strictly monitors the compliance with the limits established for the interest rate risk ratio (highly sensitive assets less highly sensitive liabilities to total assets). The regular scenario analysis aims to outline the potential loss from adverse changes in the interest rates, as a percentage of total equity.





Interest rate risk related to assets and liabilities denominated in foreign currency is much lower than the ROL denominated balance sheet items. The Bank pays special attention to the opportunity cost/interest rate risk ratio, and focuses on maintaining an optimum preset ratio between fixed rate funds and fixed rate placements.

### Operational Risks

The continuous changes in the Bank's business and environment require careful monitoring of the operational risk.

Risk management is therefore within the scope of a systemic approach, which assumes the identification of banking products and services risk profiles and the configuration of the risk related to each branch.

A major part of operational risk relates to cash/non-cash settlements and the Bank undertakes an in-depth creditworthiness analysis of customers who apply for and make use of such instruments to reduce such risks.

To mitigate operational and credit risks, the Bank compares its information with the NBR database – the Payment Defaults Centre (PDC), when accounts are opened for new customers, when loan applications are screened and whenever deemed necessary.

If an account holder produces a major payment default on a cheque, the default is reported to PDC and the account holder becomes subject to bank interdiction. To prevent the risk of such customers producing new defaults the PDC representatives send the information to all the Romanian banks' head offices in the same banking day.

### Economic Environment Risk

The Bank acknowledges the fact there are several internal or external environment factors likely to have an impact on its overall business and therefore built an in-house structure to constantly monitor the key developments in the economy in order to determine potential effects on the financial results of the Bank.

Based on the development of the main macroeconomic and regional indicators, BCR analyses and adjusts the exposure limits towards the main sectors of the economy on a regular basis, making use of a scoring system, in order to channel its placements towards viable, performing sectors.

### Solvency Risk

With a view to achieving an optimal risk-reward ratio, the Bank periodically analyses the average risks and efficiency of the main categories of balance sheet and off-balance sheet items in order to identify the best risk-profile placements and to maximise profit.

Every month, each balance sheet and off-balance sheet asset is classified according to risk level, risk entity and collateral, in order to determine total risk exposure and solvency ratio, which reflects to what extent equity funds and equity capital cover the Bank's portfolio risk.

Banca Comerciala Romana closely monitors the solvency ratios in accordance with the limits set by NBR – 8% for the equity capital to total net exposure from on and off-balance sheet items ratio and 12% for the equity funds to total net exposure from on and off-balance sheet items ratio.



### Foreign Currency Risk

The foreign exchange risk is managed based on internal procedures, which impose several restrictions. The Bank manages the exposure to the foreign exchange rate movements, by adjusting the asset and liability mix and by performing interbank forex or swap transactions to adjust the ROL and foreign currency inflows and outflows.

According to the NBR regulations, the ROL equivalent of foreign currency assets and liabilities is daily computed.

### Country Risk, Bank And Insurance-Reinsurance Companies Risk

The Bank has its own risk assessment system when initiating business relationships with banks and insurance-reinsurance companies.

With a view to appraise bank risk, BCR uses a performance ratios and non-financial information analysis resulting in the classification of banks by risk category. As a general principle, BCR's exposure towards the above is differentiated by risk applicable to each category of transactions.

Treasury transactions are monitored by means of the KONDOR + application (a REUTERS product) which allows a real-time visualisation and the assessment at any time of risks incumbent to placements with other domestic and foreign banks.

The main categories of risk are analysed in inter-departmental committees established in compliance with the banking law and coordinated members of the Bank's management.

- ★ Loans Committee reviews and approves loan and letter of guarantee applications, accompanied by an adequate documentation, as well as the measures to be taken to recover non-performing loans.
- ★ Risk Committee is a consultative synthesis body, which cooperates with all divisions within the Head Office and manages banking risks. The Risk Committee analyses the conditions of banking risk occurrence and proposes the Bank's policies for protection against the risks generated by the lending and subscription activities, commercial transactions and other activities carried out by the Bank on behalf of its local and foreign customers.
- ★ Assets and Liabilities Management Committee is a consultative synthesis body, aimed at protecting shareholders and depositors, preserving a sufficient liquidity to cover the cash-flow requirements, profitably investing the liquidity surplus, as well as increasing profit within the risk limits, setting up the price of products, in order to support the assets and liabilities management and to maximise the Bank's income.







## MAIN STRATEGIC GOALS FOR 2001-2004

According to our forecasts regarding our domestic business environment development, the major strategic objective we intend to follow over the next period is the consolidation of the BCR Group market position as a financial integrated services provider.

We aim to maintain our leadership within the Romanian banking system and to win, for our financial subsidiaries, market shares comparable to those of the parent bank in sectors like brokerage, leasing, insurance, asset and investment funds management.

Our strategy follows 3 major directions:

- ★ Increase in the value added for shareholders and customers, based on sustainable profit and quality growth;
- ★ Improvement in productivity, with a reduction in cost/income ratio, while consolidating the IT platform and implementing the TQM system;
- ★ Prudential placement of financial resources, by adequate specific risks management.

Over the next period we will further develop corporate banking as a core Group activity, with a focus on complex-finance structured projects, and investment banking services. Trade finance remains a key area both for the parent bank and for the foreign subsidiaries; factoring and forfeiting services, as well as currency risk hedging are products to be better promoted.

Banca Comercială Română Group addresses all customer segments through specifically tailored products and services. Our customers are both large companies, with nation-wide branch networks and a large number of SMEs.





Another major orientation of our strategy is to develop retail banking, which has a huge growth potential, and which will be approached on different levels: consumer credit, insurance products, saving and investment instruments, payment services. We will take further measures to issue more cards and extend their use as a payment and credit instrument. The fact that we have the largest private individual customer base and that we enjoy the highest public confidence determines us to make further efforts to diversify our supply and develop multidistribution channels, to better meet the needs of the ever more active and sophisticated customers.

Banca Comerciala Romana Group will maintain its profit growth rates through business portfolio increase, efficient resources allocation, tight risk control and best use of internal synergies and competitive advantages. The target is to double the 2000 profit by 2004.

At the same time, we will provide adequate capital to all subsidiaries, to cover specific risks and to achieve profitability ratios that protect our shareholders' interests.

Our financial performance steady increase and our customers' confidence in the strength of our partnership confirm the success of our strategic guidelines and our belief that we are ready to act competitively as a dynamic factor in the Euro-Atlantic integration of Romania.