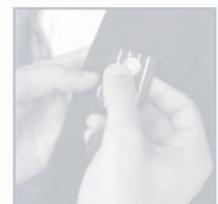


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**BANCA  
COMERCIALA  
ROMANA  
GROUP**



**ANNUAL  
REPORT  
2002**

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## Message from the Chairman

2002 was, for Banca Comerciala Romana, another excellent year, continuing the trend seen over several years; its efficiency and profitability were a direct result of continuous investment in technology, staff training, and the introduction of new products and services whilst refining existing ones.

The Bank was well placed to benefit from the opportunities provided to the Romanian financial markets. Positive development in the economy, decreasing inflation (lower than targeted inflation) and the favourable evolution of exchange rates led to an increase of internal demand for financing of feasible projects. At the same time decreasing interest rates and increasing credit demands generated supplementary pressure on liabilities management and profit margins.

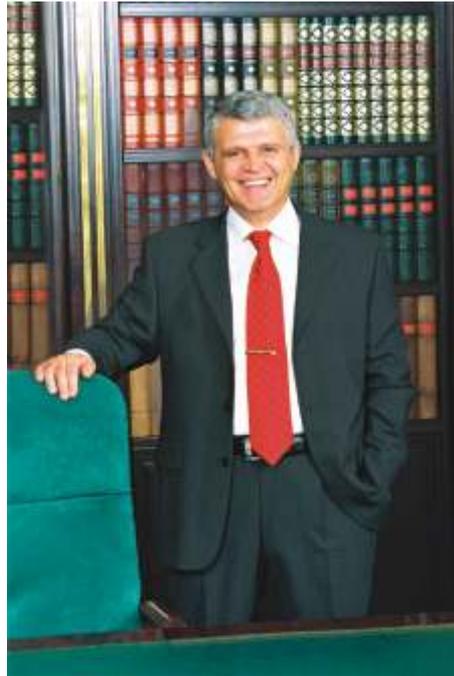
The Romanian banking system, in the process of strengthening its credibility, consolidated its performance, the main catalyst being increased competition for various segments of clients, and products offered, by the top ten Romanian banking institutions, often supported through direct capital investment in other financial areas.

In this context, I am pleased to note the fact that Banca Comerciala Romana Group maintained its place as the leader in the Romanian banking system and sustained all its subsidiaries through an adequate capitalisation level, and brand value.

Consequently, the Bank achieved the primary objective of its strategy and created the necessary conditions to advance in the European rankings.

Banca Comerciala Romana's market share fully confirms its leading position in Romania. As at 31st December 2002, the Bank had 31% of total banking assets, 28% of total non-government loans and 33% of total market deposits. Through its subsidiaries, the Group accounted for 54% of the municipal bonds market, 8% of the financial leasing market, and had a promising start in general insurance – an area in which the Group entered last year.

Banca Comerciala Romana's financial strength and stability is evidenced by the fact that the Bank capital base represents 41% of the total Romanian banking system's capitalisation.





Considering 2002 results, the market rewarded our efforts to offer diversified and efficient solutions for managing businesses and financial investments.

A higher number of products and services offered to our clients leads to a higher level of satisfaction regarding their needs and expectations; based on this the Bank organised its branch network as a "financial supermarket" in order to provide an integrated distribution of the Group's products.

In our opinion the traditional branch is, and will continue to be, the main distribution channel for the Romanian market, due to our clients' preference for a more "personal" approach from financial institutions. A strong branch network is a priority for the Bank – last year we continued to expand and improve the network, which, as at 31 December, was comprised of 283 branches.

The branch network allowed us to develop new business and offer our clients the services they needed. Reacting to these service needs, in 2002 the Group entered the insurance market (B.C.R Insurance) and asset management market (B.C.R Asset Management, managing B.C.R Clasic fund).

We ended 2002 with good results (IAS), expressed through an ROAA of 2.35%, ROAE of 12.70% and a costs/profit ratio of 52.87%.

The Bank's capability to obtain high profits is, in our opinion, the best proof of the quality of our products and services, client oriented, and is reflected in the fact that Banca Comerciala Romana's 2002 profit amounts to 44% of the net profits of the Romanian banking sector.

The Bank's risk management systems managed to significantly reduce the costs and risks related to credit activity and, using adequate measures, to ensure a loans portfolio of a better quality, with beneficial effects on the balance sheet.

Banca Comerciala Romana has a good operational risk management, improving the quality and stability of its profits and the Bank's competitive position.

Modernisation and restructuring were financed by own resources, a fact made possible by the Bank's high level of profit.

During the last couple of years the Bank has invested over USD 50 million for modernising its branch network, developing a state of the art IT system, promoting its products through modern means, and extending the ATM network.

During this modernisation process we were helped by the introduction of a quality management system (December 2002), Banca Comerciala Romana being certified by Moody's International according to ISO 9001/2001.

Banca Comerciala Romana Group continued to be the main partner of the Romanian economy in its efforts towards improving efficiency and integrating in the European market. The Bank is the main provider of loans for Romanian companies (USD 6 billion turnover in 2002) and is managing USD 2 billion worth of internationally financed projects in infrastructure, regional development and SMEs.

The Bank also consolidated its nation-wide player profile, promoting high quality products and services, providing flexibility and good returns for its clients. Banca Comerciala Romana is recognised as market leader for integrated financial solutions.

At the same time, based on transactions volume and diversity of products, the Group remains the most important provider of retail services on the Romanian market. Our services cover a large number of products, from savings and credit to modern payment instruments, investments and banc assurance.

The retail business has seen very dynamic development, the volume having trebled in real terms in 2002, along with ATMs and related services.

We provide financial services to over 3 million customers, and are convinced that the growth potential in this field is considerable. B.C.R has the resources to develop this potential based upon its partnership synergies, which provide mutually profitable possibilities for the Bank and its customers. Special care is attached to staff training, which should provide them with the ability to better communicate with and give pertinent business advice to customers. Working as a team, and the strong motivation of our specialists, based on competence and performance, are some of the most important goals of our human resources management.

In 2003, we are prepared to launch new products on the market, specially tailored to customers' needs, as individual offers, originating from the entities forming the B.C.R Group, as well as complex group packages proposing the diversification of the financial investments portfolio. We intend to increase the interbank activity, to promote structured finance transactions, mortgage granting and credit card business, which we believe are areas of great potential.

The launching of a comprehensive, user friendly B.C.R website, unique in the Romanian banking system insofar as the potential to serve the customer and provide interactive access, represents a valuable business project, combining the experience and Romanian know-how (Softwin and B.C.R) with the renown experience of SAP.

In order to better promote the Group's and our customers' interests in the EU market, the business merger of our London, Paris and Frankfurt subsidiaries will be finalised in 2003, following which Anglo-Romanian Bank will further increase its capital base.

We are aware of the challenges ahead of us, have the necessary financial strength to meet them, and are prepared to competitively participate in any business area, which meets our requirement of sustainable, profitable growth. The ultimate goal is to produce long-term value for shareholders, customers and employees, and for society as a whole.

We are of the opinion that today's results are successful only if they bring a valid contribution to the development of the whole environment, to which we will still relate tomorrow. Subsequently, we consider that we have a fundamental social responsibility to build an institution with a tradition in its capability to trigger positive change through its activities and decisions.

We are also aware of the power and the influence which the banking system exerts in society and thus of our high social responsibility, in addition to the responsibility towards our customers, shareholders and staff.

We trust that in the near future the B.C.R Group will maintain its profitability and the results we obtain will ensure its leading position in the Romanian financial and banking system, as well as in the league of Central and East-European lenders.

The progress of the Banca Comerciala Romana Group would be impossible without customers, our partners. For this reason therefore I wish to thank all the customers who have invested their trust in us. Their loyalty has proved to be, throughout, the main support of our performance and development. Last, but not least, I extend my thanks to our team of managers and staff for their valuable contribution to the advancement of B.C.R.

CHAIRMAN & CEO

Dr. Nicolae Dănilă



## Board of Directors

(on balance sheet approval date)

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

## Managing Committee

(on balance sheet approval date)

Dr. Nicolae Dănilă	Chairman and CEO, B.C.R. Chairman
Dr. Ion Nițu	Deputy Chairman, B.C.R. Deputy Chairman
Dr. Ilie Mihai	Deputy Chairman, B.C.R. Deputy Chairman
Dr. Natalița Hurduc	Deputy Chairman, B.C.R. Deputy Chairman
Drd. Eugen Cîrstea	Deputy Chairman, B.C.R. Deputy Chairman



Dr. Ion Nițu  
Deputy Chairman



Dr. Ilie Mihai  
Deputy Chairman



Dr. Natalița Hurduc  
Deputy Chairman



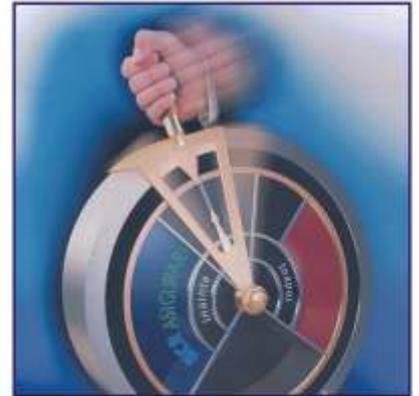
Drd. Eugen Cîrstea  
Deputy Chairman

## External Audit

PricewaterhouseCoopers



# Trust and loyalty



- ... I wish to thank
- all the customer
- who have invested their trust in us.
- Their loyalty has proved to be,
- throughout, the main support of
- our performance and development ...

**BCR**ASIGURARI

## Financial Results of 2002

Banca Comerciala Romana Group concluded year 2002 with good financial results, proving once again the management's ability to implement the objectives stated in the Bank's strategy and the business plan.

### Economic Environment

The measures undertaken during 2002 in compliance with Romania's economic development strategy ensured a GDP growth, based on investment and export recovery.

Thus, the estimated GDP for 2002 was ROL 1.512.256,6 billion, increasing – in real terms – by 4.9 % as compared to the previous year.

In 2002, the GDP structure by categories of resources and uses was as follows.

In 2002, total final consumption increased by 3.0 % compared to 2001, particularly as a result of the increase in households – final consumption.

	Year 2002 - ROL billion -	% compared to 2001
Agriculture, forestry and fisheries	177,211.0	96.1
Industry	439,490.6	107.2
Construction	75,705.4	106.9
Services	675,932.0	105.3
Financial intermediation services	-15,501.3	104.6
Gross value added – total	1,352,837.7	104.7
Net taxes per product	159,418.9	106.4
GDP	1,512,256.6	104.9
Total final consumption	1,250,333.8	103.0
- households	1,149,828.4	103.0
- public administration	100,505.4	102.1
Gross capital formation, of which	349,462.9	-
- gross fixed capital formation	319,645.1	108.3
Net export of goods and services	-87,540.1	-
- export of goods and services	536,051.4	116.9
- import of goods and services	623,591.5	112.1

Gross fixed capital formation showed an increase by 8.3 %, the investment rate (gross fixed capital formation/gross value added in the economy) being 25.8 % (21.3 % in 2001).

The decrease of the current account deficit represented a positive aspect, the dynamics of goods and services exports (+ 16.9%) outrunning the dynamics of imports.

In 2002, the average increase of consumer prices was 22.5% compared to year-end-2001, whilst the increase in consumer prices was 17.8% on the previous year's levels. The deflation trend registered triggered a reduction of the banking interest rates.

### Group's Financial Results

Banca Comerciala Romana Group benefited from the opportunities created by the economic recovery, met the requirements imposed by the financial-banking system's reform and succeeded to maintain its market leadership in terms of financial indicators.

As at year-end-2002, the net profit of Banca Comerciala Romana Group amounted to ROL 3,473.9 billion.

Net income from fees and commissions amounted to ROL 4,202.8 billion at year-end-2002, increasing by 8.7% compared to 2001, as the Group diversified the services provided to its customers.

In 2002, the Group's total assets amounted to ROL 156,558 billion, increasing by 12.5%, out of which loans with a net value of ROL 51,670.6 billion rose by 28.2%.

Deposits from customers reached ROL 117,033.8 billion, 17.3% higher than the previous year, whereas resources from banks dropped by 16.4%.

In 2002, shareholders' equity amounting to ROL 28,310 billion registered a positive trend, increasing by 7.3% compared to 2001.

Banca Comerciala Romana Group currently offers a diversified range of high-quality financial products and services, covering banking activities, corporate and retail banking, capital markets, leasing and insurance.

The Group's parent company, Banca Comerciala Romana is the Romanian banking system's leader, with over 30% of the Romanian banking sector's assets and the largest customer base.

The Group's activity resulted in a 2.35% Return on Average Assets (ROAA), and a 12.70% Return on Average Equity (ROAE).

## Corporate Banking

The development of Banca Comerciala Romana Group, as well as the consolidation of its structures are strongly influenced by the corporate financing evolution, especially for strategic customers, or strategic sector customers, through a personalized, wide range of products and services offered.

During 2002, Banca Comerciala Romana further developed the Romanian banking sector's first financial supermarket, by gathering under the same structure a wide range of banking services, leasing, insurance, capital markets, and investment funds, which provide the optimal solutions to customers' financial needs, in a timely manner.

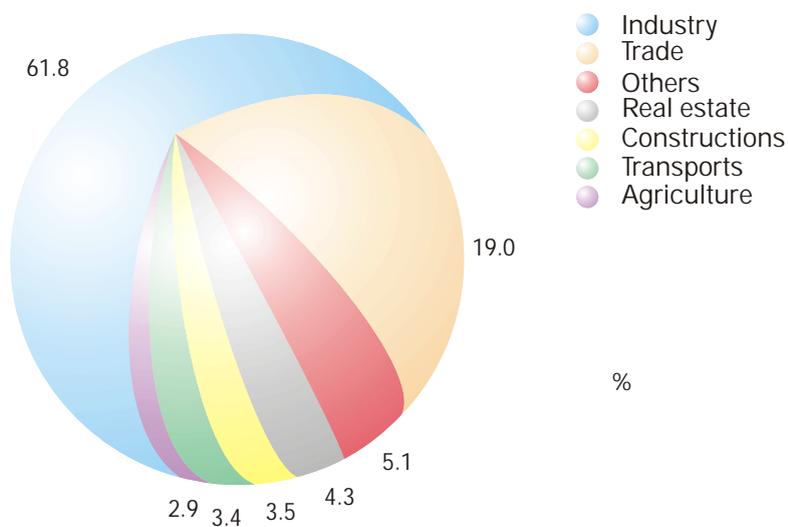
At year-end-2002, the number of companies requesting banking products and services was 239,775. The Bank's corporate customers are large companies, "blue chips", which carry out complex foreign trade activities and, enjoy significant market shares, as well as small and medium enterprises, performing in economic sectors with real growth prospect (approximately 92% of corporate customers).

Business configuration by banking products and services is based mainly on profit-generating product and service packages that ensure a proper risk cover and spread.

Loans continue to be the main banking product required by the Romanian companies in order to support working capital or investments. B.C.R. Group's loan offers have constantly developed, together with the related services and the internal working procedures that supplement the NBR's regulations.

As at year-end-2002, the volume of outstanding loans had increased by 51.9% as compared to the previous year. About 90% of this volume is represented by loans extended to corporate clients. As at December 31, 2002, corporate lending activity recorded a 42.6% increase, as compared to 2001-year-end.

Corporate loan structure by main sectors



The loan portfolio structure by economic sector reflects a trend of balanced risk distribution towards all sectors, with an emphasis on supporting the industrial sectors showing high developing potential and sustaining exports.

Banca Comercială Română Group provides its customers with credits for working capital, loans for specific purposes, credit lines, loans for exports, credits for equipment acquisitions, and mortgage loans in ROL. In 2003, B.C.R. also intends to provide foreign currency mortgage loans (from EBRD or own resources).

At year-end 2002, foreign currency loans, provided mainly for technology upgrading, represented about 45.0% of the total corporate loans.

In order to ensure the funds required for foreign currency loans, B.C.R. has access to credit lines provided by correspondent banks, supplemented by its own internal foreign currency resources.

During 2002, a 79.0% increase in financing private companies was reached, compared to 72.9% registered at year-end-2001.

The volume of outstanding loans to SMEs registered as at December 31, 2002, was 1.4 times higher compared to year-end-2001, with a 43.0% share in the total volume of corporate loans. This positive development, which has created a potential demand for financial services, resulted in the was financed from own sources and domestic and external under EBRD-SME Finance Facility, FIDA, SAPARD, PHARE, MAAR.

Beside traditional lending products, B.C.R. Group provides its clients with a wide range of services, such as trade finance, domestic and international factoring, leasing, cash management services, and MultiCash electronic services. At the same time, large companies are supported in attracting resources from the international capital market, through bond issues or syndicated loans and structured finance.

These products are offered especially to major clients and to large corporates from strategic sectors. B.C.R. also offers bank guarantees in ROL and foreign currency for investment projects, leasing acquisition of equipment, buyer or supplier credits, as well as for production activities in both ROL and foreign currency.

Within the corporate business, B.C.R. will continue to:

- consolidate its core customer base, by attracting customers with profit-generating activities and significant bank cash-flows, as well as small companies with dynamic growth and developing perspectives,
- monitor and develop its business with those customers operating in sectors showing growth prospects in the near future: power industry, electrical equipment industry, food industry, timber industry, building industry, trade and tourism.
- promote a thorough understanding of customers, their needs and business, both from financial and commercial point of view.

## Retail Banking

In 2002, B.C.R. Group continued to apply the retail banking policies introduced in 2001, by adopting development strategies that envisage a new bank – individuals relationship.

Consequently, B.C.R.'s policy, through its product and service packages looks at developing the retail banking business and better focusing on the customer, as an important target for consolidating its universal profile and maintaining its leadership within the Romanian banking system.

The integrated distribution of B.C.R.'s services through its network is equally addressed to retail customers, aiming at meeting their expectations and requirements with an increased efficiency.

The actions taken by BCR were intended to expand its retail deposit base, to organize a proper customer relationship management, to segment the customer base, to develop marketing activities in order to create new products, to start using new and multiple customer-orientated products and services, as well as to develop a financially-educated customer base. Thus, a financially knowledgeable and loyal customer base, ready to work with the most complex banking instruments was formed.

Prompt response to market changes was one of the decisive factors for the consolidation of BCR's position on the Romanian banking market, within an increasingly tighter competitive environment.

Loans were extended to cover the customers' entire range of financial needs: tuition, mortgages, medical-assistance, household, cultural, tourism, personal expenses, etc.

As at December 31, 2002, loans to the retail sector were 2.3 times larger compared to year-end 2001, representing 10.9% of the Bank's non-governmental loans. This was the result of several new products' launch such as :mortgage loans, following the promulgation of Law no. 190/1999, treasury loans – amounting to ROL equivalent of maximum USD 4,000, loans in currency for the acquisition of new motor cars, motor bicycles, motor boats – domestic and overseas produced, the standard package of products and services entitled "Welfare of my family".

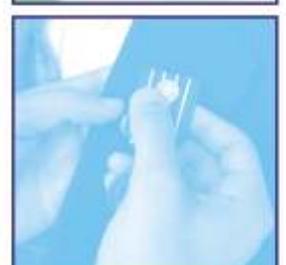
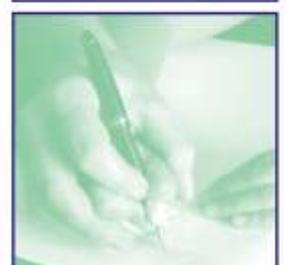
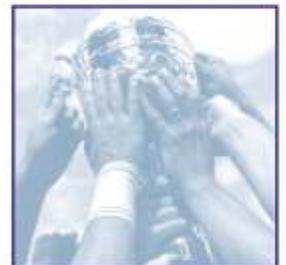
The table below shows the development and structure of B.C.R.'s retail loans:

	2002		2001	
	ROL billion	%	ROL billion	%
Total loans of which:	50,725	100.0	33,394	100.0
Retail loans	5,520	10.9	1,694	5.1



# Competence and performance

- Working as a team, and
- the strong motivation
- of our specialists,
- based on competence and performance
- are some of the most important goals
- of our human resources management.



At year-end 2002, B.C.R.'s retail loans represented an important market share within the Romanian banking system.

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

As at year-end-2002, BCR's market share within the Romanian banking system was 39.1% for private individuals deposits denominated in ROL and foreign currency.

B.C.R. offers a wide range of services for individuals such as: foreign currency payment orders via SWIFT, Merchants Bank of California and MoneyGram systems, direct debit and standing orders, foreign exchange operations and safety deposit boxes.

B.C.R. also processes cheques in all major foreign currencies and issues cheques in all convertible foreign currencies drawn on its most important correspondent banks. At the same time, the Bank issues travellers cheques in co-operation with American Express Bank, and Thomas Cook Limited, as well as Eurocheques.

For the future, CASH MANAGEMENT is the solution provided by BCR to its customers to forecast, plan, supervise and administer their assets in order to avoid cash transactions, increase the account transaction security and optimise their flow, so that the final result provides a higher efficiency to the customers.

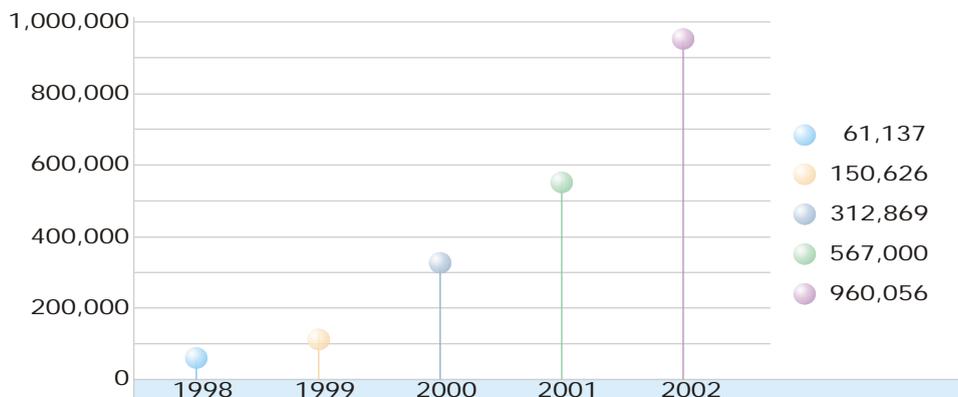
CASH MANAGEMENT services offered by BCR are permanently adjusted to reflect developments in the Romanian financial-banking environment, being designed to satisfy customers' expectations of costs reduction and results maximisation.

## Card Business

In 2002, BCR channeled its card transaction activity in to the following directions:

- growth of number of cards issued
- expansion of the card transactions network in terms of traders, Points-Of-Sales and ATMs
- diversification of product and service range offered to its customers
- risk and fraud management
- increase in service quality
- reorganization of activity and working procedures with the view to obtaining the ISO 9001/2001 Certificate.

BCR's card transactions development during 1998 - 2002:



As at year-end 2002, BCR provided to its customers 6 types of debit card and 2 of credit cards:

Cards issued for private individuals:

- Debit cards:
  - in ROL – BCR MAESTRO, BCR VISA CLASIC, BCR VISA ELECTRON;
  - BCR VISA INTERNATIONAL – denominated in foreign currency;
- Credit cards:
  - BCR EUROCARD/ MASTERCARD – ROL denominated;

Cards issued for corporate customers:

- Debit cards:
  - BCR EUROCARD BUSINESS – ROL denominated;
  - BCR VISA BUSINESS – denominated in foreign currency;
- Credit cards:
  - BCR EUROCARD / MASTERCARD BUSINESS – denominated in foreign currency.



As at year-end 2002, the total number of cards issued by BCR was 960,056 (60% higher on 2001 levels), whilst the Bank's correspondent market share was 32.59%.

BCR VISA ELECTRON debit cards registered the highest growth, due to their flexible domestic and overseas use. 97.18% of the total number of active debit cards are used for salaries distribution.

Credit cards registered a second high growth rate, the number of credit cards issued by BCR reaching 20,000 at year-end 2002.

In 2002, BCR ranked first on the market, both in terms issued cards number and active cards.

In 2002, the total net income from card transactions was ROL 54,290 million.

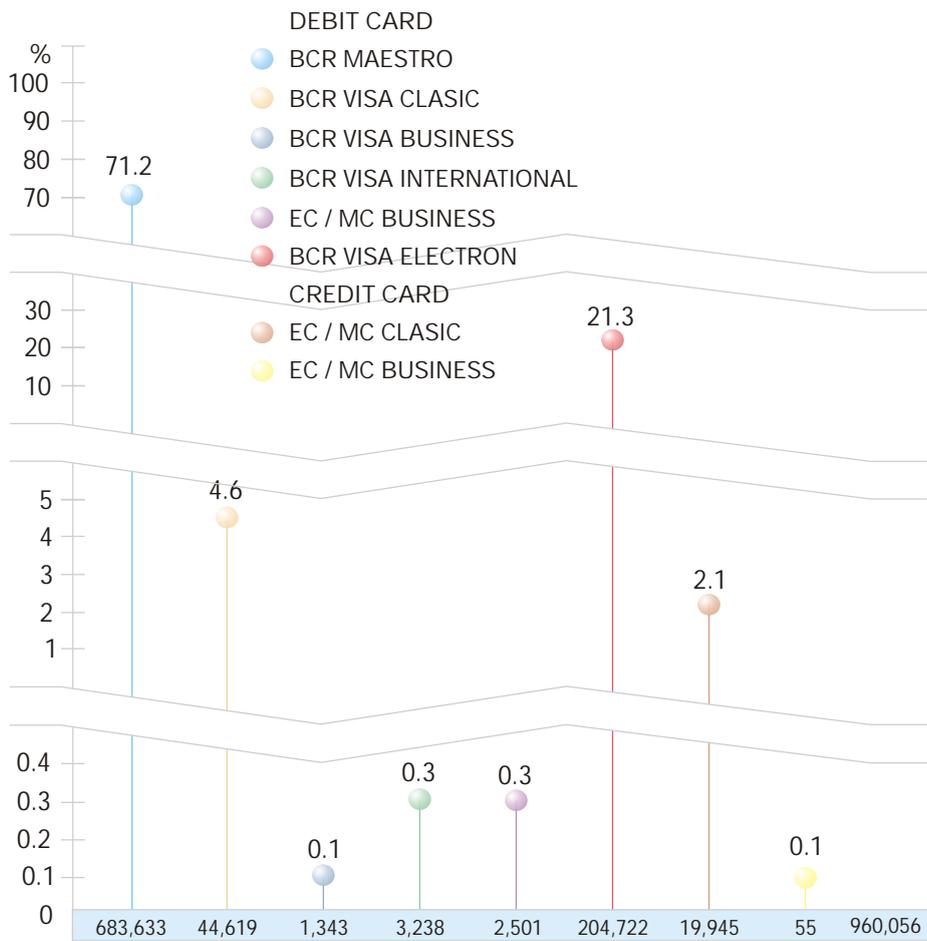
BCR has always paid attention to the expansion of the trading network where card transactions are accepted, as well as the increase in number of Points-Of-Sale.

As at year end-2002, the trading network where card transactions were accepted numbered 1,439 shops and supermarkets, whilst the number of Points-Of-Sales reached 1,203.

The Bank's ATM network comprised of 569 units, serving mainly as cash dispensers.

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

Structure of cards issued as of December 31, 2002:



## Equity Investments and Capital Markets

In 2002, B.C.R.'s strategy in the domestic and foreign capital markets field focused on:

- ▶ consolidating its domestic and foreign investments in the group structure;
- ▶ consolidating its securities portfolio managed on the domestic and foreign capital markets (shares, bonds, promissory notes, floating rate notes, syndicated loans).

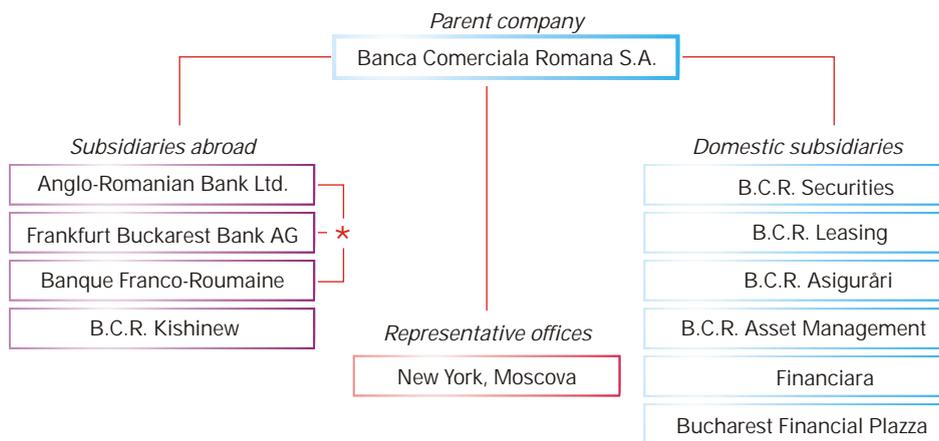
### Consolidation of the domestic and foreign investments of the Bank

Investment management registered a new and important development during 2002, new opportunities being created within the B.C.R. Group, facilitating its access to all financial markets related to banking activities, covering the entire range of financial services, developing B.C.R. into the first financial supermarket in Romania.

Under these circumstances, the long-term direct equity investments made in 2002 helped the Bank adjust to the economic environment and market requirements, by consolidating the Group structure both on the banking side and on the capital market, asset management, insurance and leasing side.

As at December 31, 2002, B.C.R. held stakes in 28 companies. Domestic investments represented the Bank's interest in the capital of 21 commercial, financial and non-financial companies.

B.C.R.'s foreign equity investment portfolio included 6 participations in banks abroad: Anglo-Romanian Bank Ltd., London, Banque Franco-Roumaine S.A Paris, Frankfurt Bucharest Bank AG Frankfurt/Main, BCR Kishinev, MISR Romanian Bank SAE, Cairo and Banca Italo-Romana Spa Milan.



\* Merger under way: ARB will absorb FBB and BFR which will become ARB branches

Within B.C.R.'s equity investment portfolio, 6 domestic commercial companies and 4 banks headquartered abroad are Bank subsidiaries.

Starting 1999, B.C.R. Group has prepared a consolidated balance-sheet, in accordance with the above structure.

In order to develop and consolidate the Group structure and to take advantage of its significant share on the financial banking market, during 2002, the Bank:

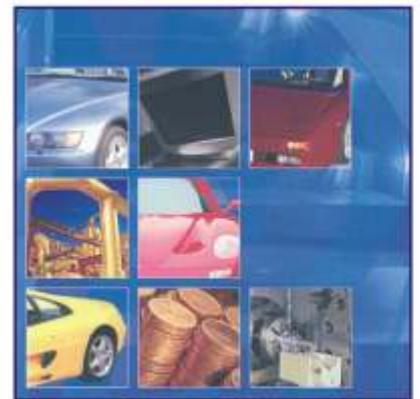
- ▶ increased the capital of B.C.R. Leasing SA up to ROL 100 billion. This company showed a strong upward trend during 2002, achieving a 8.4% market share of the domestic financial leasing market by year-end 2002;

- ▶ increased the capital of B.C.R. Asigurari SA up to ROL 96 billion. After completing the preliminary administrative tasks and launching specific insurance products, the company registered a strong development in the second half of the year, ending 2002 with a profit and ranking 14th in the general top of insurance companies.



# ● Teamwork

- Working as a team and
- the strong motivation
- of our specialists,
- based on competence and performance
- are some of the most important goals
- of our human resources management.





- increased the capital of Financiare SA up to more than ROL 124.75 billion and expanded the field of activity by including financial real-estate leasing operations;
- set up B.C.R. Asset Management SA, which started to operate in June. By year-end 2002, the company was already managing an open investment fund, established by B.C.R. SA;
- launched BCR Clasic, an open investment fund focusing on placements in credit instruments and diversification of the portfolio, with a view to spreading risk, as well as at maintaining a high liquidity level.

2002 marked the beginning of a complex process: 3 member banks of B.C.R. Group (Anglo-Romanian Bank, Frankfurt-Bukarest Bank, Banque Franco-Roumaine), headquartered in different countries, are to merge into one entity.

It is worth mentioning that the Bank's financial investments were primarily intended to secure access to the specific markets the companies were active in, and also to benefit from the services rendered.

In this category, we mention: Romcard SA; Registrul Roman al Actionarilor SA; Societatea Nationala de Compensare, Decontare, Depozitare SA; SC Transfond SA; SC Bursa Romana de Marfuri SA.

### Consolidation of securities portfolio, managed on the domestic and foreign capital markets

During 2002, B.C.R. continued to consolidate its investments in instruments specific to the domestic capital market. The main targets of the Bank in 2002 were:

- consolidation of *the municipal bonds portfolio*, amounting to about ROL 16.52 billion (nominal value) at year-end 2002, compared to only ROL 530 million at year-end 2001; in 2002, the yield on the municipal bonds portfolio was 32.23%;

- set up and management of a share portfolio, issued by companies listed on the Bucharest Stock Exchange, with a market value of ROL 2.2 billion as at year-end 2002;
- management of the unit funds portfolio, issued by BCR Clasic (an open investment fund); at year-end 2002, B.C.R. held 515,274.07 unit funds, with a yield of 15,04%.

On the international capital markets, B.C.R. continued the strengthening of its Eurobond portfolio, under the following structure:

- *bonds issued by the Romanian government on the international capital markets, due in 2005, 2008 and 2012; the nominal value of this portfolio is EUR 50 million;*
- corporate bonds issued on the international capital markets by Termoelectrica and guaranteed by the Romanian government, due in 2004, with a nominal value of EUR 13 million;
- corporate bonds issued on the international capital market by CFR Marfa, with a nominal value of EUR 15 million, without government guarantees;
- *instruments such as floating-rate notes, issued by JP Morgan Luxembourg in order to obtain the financial resources required to conclude several loan agreements with Termoelectrica and 18 Romanian power plants, with the guarantee of the Ministry of Public Finance. The yield on such placements, with a nominal value of USD 30 million, is 5.06%;*
- *promissory notes issued by Romtehnica and guaranteed by the Ministry of Public Finance, due on November 28, 2003, with a nominal value of USD 9,737,674.12*

During 2002, B.C.R. managed two syndicated loans granted to Termoelectrica, amounting to USD 32 million, both with the guarantee of the Ministry of Public Finance. The final purpose of these loans was to finance natural gas, coal and black-crude-oil (fuel) purchases for Termoelectrica.



## International Activity

In 2002, B.C.R. continued to develop its relationship with foreign correspondent banks, as well as with international financial institutions, rating agencies and export credit agencies (ECA).

In view of the growing concern about the international climate and the uncertain economic environment affected by the events occurred in 2001, B.C.R. reconsidered its correspondent banking activity, developing a new approach based on partnership and cooperation (instead of competition). Moreover, B.C.R. saw the implementation of a strict know-your-customer policy (KYC), as well as firm anti-money laundering measures as high priorities. Based on a very careful selection of business partners, close monitoring of their activity and increased flexibility in its customer relationships, B.C.R. was able to anticipate and to efficiently react to market challenges.

B.C.R.'s activity focused on the consolidation of business relations with strong financial institutions, which would enable favorable and secure business conditions to its customers.

All this, together with the advantages deriving from its expertise, technical abilities, network, customer basis and, last but not least, excellent financial results, recommended B.C.R. as the favorite partner of international banks in Romania. Based on mutually beneficial agreements concluded with European and Asian banks (Vneshtorgbank, Russian Federation and Industrial and Commercial Bank of China, respectively), B.C.R. created new opportunities for its customers and extended their business activities with new partners, recommended by correspondent banks.

835 correspondent banks and 1550 banks with SWIFT arrangements in place represented as many alternatives proposed by B.C.R. to its customers for conducting their business. As at year-end-2002, 56 LORO accounts and 41 NOSTRO accounts allowed fund transfers throughout the world.

On the occasion of the EBRD Annual Meeting held in Bucharest, B.C.R. received the visit of many banks' representatives, which created the opportunity to negotiate and to enlarge its facilities portfolio granted by partner banks, thus reaching a number of 112 L/Cs and L/Gs confirmation lines and of 19 credit lines, of which 6 were of unlimited amount. With regards to treasury transactions (FOREX), more than 50 lines were established during 2002 in favor of B.C.R. by foreign correspondent banks.

As a result of the remarkable performance of B.C.R. and its further improving perspectives, ratings assigned by the main international agencies were favorably revised, reaching the sovereign level.

In terms of export credit agencies, B.C.R. maintained contacts with institutions from the main industrialized countries, such as: Export Development Corporation (Canada), FINNVERA (Finland), COFACE (France), HERMES (Germany), IFTRIC (Israel), SACE (Italy), ECGD (UK), NCM (Netherlands), CESCE (Spain), EXIMBANK of USA.

Since 1992, B.C.R. has been a member of the Financial Institutions Initiative within the UN Program for Environment Protection. Starting 2003, this entity is planning to take concrete measures and to establish working groups in order to achieve its objectives.

During 2002, B.C.R. won auctions or was designated through tender selections as the implementing bank by the Ministry of Public Finance, the Ministry of Public Works & Territorial Planning, the Ministry of Health and Family, the Ministry of Agriculture, Food and Forests, the Ministry of Water and Environment Protection, the Ministry of Industry and Resources, the Ministry of Development and Prognosis, and national companies, for several projects financed by external loans guaranteed by the state, reimbursable/non-reimbursable loans (grants) from IBRD, EIB, EBRD, Japanese Bank of International Cooperation, Government of the Hellenic Republic, FIDA, Deutsche Bank AG – UK, ING Bank Netherlands and Bank Leumi Israel.

Moreover, B.C.R. managed and still continues to manage SMEs financing programs from PHARE grants and EBRD loans.





B.C.R. signed a protocol with SAPARD Agency, stipulating the general cooperation framework between the two institutions, in order to ensure the co-financing terms of investment projects for eligible applicants by providing bank loans.

In May 2002, B.C.R. joined the EBRD Program – "Trade Facilitation for Central and Eastern European and CIS banks". The purpose of this program is to assist the international, regional and interregional trade in 27 EBRD operating countries. Through this program, the EBRD is willing to issue guarantees in favor of the participant commercial banks, assuming partially or totally the non-payment risk of instruments issued or guaranteed by the banks accepted by the EBRD, such as: L/Cs, L/Gs, promissory notes, and bills of exchange.

In 2002, B.C.R. negotiated and signed a loan agreement with the IFC amounting to USD 75 million for improving the balance sheet structure and providing loans to the private, retail and corporate sectors.

Over the past year, B.C.R. intensified its presence on the international financial markets mainly through its 3 foreign subsidiaries in London, Frankfurt am Main, and Paris, and 2 investments in Cairo and Milan, and the 2 representative offices in New York and Moscow.

This has enabled the complex retail and corporate business, as well as the commercial and non-commercial settlements successfully carried out by B.C.R. Group.

In 2002, total export settlements processed by B.C.R. stood at USD 4.1 billion, while total import settlements amounted to USD 3.2 billion, which increased the volume of collections and payments in foreign currency to USD 7.3 billion.

Regarding the international non-commercial settlements processed on behalf of individuals and corporate customers, state budget-financed institutions, public or non-profit organizations, the number of payment orders received and issued reached 303,782, while the number of cheques processed totaled 144,300, the entire value of such settlements amounting to USD 603.4 million.

## Social Responsibility

B.C.R.'s management attaches particular importance to the long-term development of the Bank and of its subsidiaries whilst harmonizing the specific corporate objectives with those of the community in which they operate. Meeting the expectations and protecting the interests of our clients, shareholders, employees, Romanian society as a whole, are prerequisites for carrying out a sustainable business.

The social commitment of B.C.R. Group is clearly expressed by its participation in financing the economic restructuring process, in environmental protection, and in financing certain socio-cultural projects.

### Contribution to the Economy

- ▶ Banca Comerciala Romana Group is the most important financing source for the Romanian economy, providing loans to companies active in all economic sectors, for production, investment and export purposes.
- ▶ B.C.R. Group actively contributes to the consolidation of the SME sector, through the substantial volume of loans and alternative leasing financing provided, playing an important role in the creation of new jobs.

- ▶ As a trustworthy partner of international financial institutions and banks, B.C.R. Group manages several programs of national interest, financed from external sources.

- ▶ B.C.R. Group supports the development of housing construction, through a diversified range of corporate and retail loans offered to its customers.

- ▶ B.C.R. Group supports local communities in raising funds for specific projects, being the leader in the intermediation of municipal bonds issues..

### Environmental Protection

Environmental protection is a major concern of B.C.R. Group, the Bank being a signatory of the "Statement on the Environment and Sustainable Development" launched by the United Nations Environment Program in 1992.

Even though, as a services supplier, the Bank is a minor consumer of natural resources, rational consumption of energy, water, etc, is an issue of great concern. Special attention is also paid to the prevention of any negative effects on the environment caused by the investment programs carried out by the Bank.

Nevertheless, our key role in preserving the environment is to channel financing towards companies and projects encouraging the utilization of non-polluting technologies, waste recycling and environmental protection.





# Value adding

- ... The ultimate goal
- to produce long-term value
- for shareholders,
- customers and employees,
- and for society
- as a whole.

BCR mortgage loan



## Sponsorships of Social and Cultural Events

B.C.R. acts directly and jointly with government organizations, public authorities, and non-profit companies in order to finalise certain projects focusing on the increase of qualitative standards in the education and health assistance areas, as well as on supporting cultural and sport events. During 2002, B.C.R. contributed sponsorship funds in excess of USD 2 millions.

- ▶ B.C.R. has become a traditional sponsor of various cultural events, such as the awards ceremonies of the Romanian Theatre Union, Writers Union, Artists Union and Association of Television Professionals.
- ▶ the Bank also offered scholarships, supported young musical talents in gaining international recognition, and supported the publishing of various art albums dedicated to some famous painters or sculptors.
- ▶ B.C.R.'s involvement in projects aimed at improving medical assistance materialised in providing the necessary financing for the acquisition of medical equipments, or in carrying out of various programs for disabled persons..
- ▶ In the sporting field, B.C.R. helped the Romanian Athletics Federation, the Romanian Boxing Federation and the Romanian Judo Federation achieve special performances. Sport centers promoting and stimulating young talents were financially supported, as well.
- ▶ Starting 2001, B.C.R. set up the "Perseverance in Excellency" prize, awarded to skilled young people. So far, it has been awarded to The National Female Gymnastics Team, to Lucian Tudose (photo-journalist), to Marius Urzica (leading international competitor in gymnastics) and to Ana Caraiani (internationally recognized mathematician).

The social responsibility of B.C.R. Group is also revealed by the role played in establishing the financial culture within the Romanian society, by offering consultancy to its customers, by leading the way in developing the market for new services and products, as well as by enriching the financial-banking literature with papers and works written by B.C.R.'s specialists.

## Elements of Corporate Governance

Banca Comercială Română is a joint stock company, with an issued capital of ROL 7,924,687.5 million comprised of nominal shares of ROL 10,000 each.

Shareholders are: The Authority for Privatization and Management of State Ownership 69.8825%, SIF (Financial Investment Company) Banat-Crisana, SIF Moldova, SIF Transilvania and SIF Muntenia 6% each and SIF Oltenia 6.1175%.

The Bank is organized and operates according to Law no. 31/1990 on commercial companies, amended by Law no. 161 setting measures for ensuring transparency in the conduct of public offices, public positions and businesses, and for the prevention of corruption, as well as according to the Banking Law no. 58/1998 amended by Law no. 357/2002.

### Shareholders

#### Fundamental Rights

The Statute of Banca Comercială Română stipulates the following rights for shareholders:

- ▶ to vote for each share paid ("one share-one vote");
- ▶ to take part in the General Meetings of Shareholders, to elect and to be elected in the Bank's management bodies

- ▶ to participate in the important decisions of B.C.R.
- ▶ to participate in profit sharing and assets distribution in case of the Bank's liquidation
- ▶ to obtain information on the Bank's administration on the occasion of ordinary/extraordinary meetings or between meetings.

### Board of Directors and Management Committee

The current management and administration of the Bank is entrusted by the General Meeting of Shareholders to the Board of Directors, comprised of 11 members, of which 6 are non-executives, appointed for a 4 year period, who may be re-elected.

The Chairman and the Deputy Chairmen of the Board of Directors, which are also the Chairman and Deputy Chairmen of Banca Comercială Română, are empowered to manage and coordinate the current activity and are vested with the competence to assume the Bank's responsibility.

The members of the Board of Directors are responsible for the actual payments made by the shareholders, the existence and correctness of the ledgers required by the law, the dividends paid, the carrying out of the decisions made by the General Meeting of Shareholders and the observance of legal obligations.

The Board of Directors is a deliberative body and holds monthly meetings or as and when required.

The Management Committee is made up of the Chairman and the Deputy Chairmen of the Bank, and of the Chairman and the Deputy Chairmen of the Board of Directors respectively. The Management Committee is chaired by the Chairman of the Board of Directors, using the authorities delegated by the Board of Directors. Additionally, the Management Committee informs the Board of Directors in due time on any major problems of the bank, on the observance of internal strategy and policies, on the achievement of revenues and profitability, on the compliance with risk policies and risk management in B.C.R., and on the carrying out of human resources policies.

The Management Committee must inform the Board of Directors on all deviations noticed during the performance of its surveillance activity.

The corporate governance is perceived in B.C.R. as an ongoing process, covering all Bank staff.

The Management Committee ensures that all laws are observed by the Bank, monitors the compliance with the norms and the conflict of interests principle.

### Executive Committees

The organizational structure of the Bank comprises several executive committees, decision taking or advisory bodies, their organizing and functioning structures being approved by the Board of Directors. These are: the Credit Committee, Assets and Liabilities Management Committee, Risk Committee, Technical and Economic Council, Quality Committee, the Committee for the Implementation of System Evaluation based of Competence.

### Financial Auditor

Since 1992, PriceWaterhouse-Coopers has audited the financial statements of B.C.R., prepared in accordance with International Accounting Standards.

Since 1999, B.C.R. has also presented consolidated financial statements at the Groups level, in accordance with International Accounting Standards.



As a result of the legal framework amendments, starting 1<sup>st</sup> January, 2003, PriceWaterhouseCoopers has taken over the prerogatives of the internal financial auditor from the authorized auditors commission.

### Reporting and Transparency

Banca Comercială Română carries on a policy of permanent information to the public on its current and future business, through several channels.

Annually, B.C.R. prepares the Group's Report, comprising the audited consolidated financial statements prepared in accordance with International Accounting Standards.

The public is notified of the financial results achieved by the Bank on a quarterly basis. Also, other information of interest to the public and potential customers is disclosed whenever necessary, being also available on the Internet portal [www.bcr.ro](http://www.bcr.ro).

## New Technologies and Development of the Modern Distribution Channels

In 2002, Banca Comerciala Romana continued to focus on the utilisation of new technologies, by developing and managing the IT programmes designated to implement the banking products offered to its customers.

Based on a strong communication and technical infrastructure, the new IT system SIBCOR 2000 has been implemented in Banca Comerciala Romana, covering all the main branches in the country, the district branches in Bucharest and part of the activities carried out by the Head Office. The system is to be implemented in the remaining Bucharest branches by the end of 2003.

The new system is based on advanced technologies at all levels (*Microsoft 2000, Microsoft Terminal Server, Web Technology, Oracle 9i, Oracle Developer/2000*), through a national communication network connecting all territorial units of the Bank on a ground support (IP protocol) and CSAT, using CISCO interconnecting equipment, the local networks being based on structured cabling technology, and the sites at territorial units level, on INTEL-type multiprocessor equipments.

Functionally, the system has been thought out as a whole, its functions being structured as specific modules (Customers, Banking Products, Payment Instruments, Petty cash, Banking Operations, Accountancy, Fund Transfers, Banking Management etc.); all banking operations and accountancy transactions are carried out and registered using a unique procedure and following a pre-established model, irrespective of the modules they are generated in.

Technologically, the system utilizes a homogeneous expertise in the operating systems, the hardware platforms and the management system of the data base.

Almost the entire functionality of the system is a parametrical one, allowing definition and modification of parameters varying with necessities.

The system has a central data base and a data base in each main branch amongst which data flows are established.

The system is also provided with mechanisms intended to prevent deliberate or accidental unauthorized access to its functions, as well as to the data comprised in the data base or the data within the network. The system is provided with facilities which allow the continuation of its functioning and recovering of data in case certain incidents occur (equipment breakdown, disasters, erroneous operation etc.).

At the same time, the SIBCOR 2000 IT system is based on a strong centralized management, by utilizing adequate techniques and communications, operating systems, and data base etc.

The higher level of, and more aggressive, competition on the Romanian banking market has led competitors to develop new strategies designed to place them in improved positions in terms of communication and interaction with existing and prospective customers. In this respect, the new trends in carrying out banking business focus mainly on the internet, used both as an information environment and as a mean of distribution for the offers launched by the players in the market.

In 2002, as a consequence of the developments in the Romanian banking market, B.C.R. continued to focus on the development of the "non-cash"-types of products and services. In this respect, in the field of electronic payments, the Bank's efforts materialised in the conclusion of co-operation agreements with the main service providers, to offer electronic invoice payment facilities through -Automated Teller Machines (ATMs), or with specific products from "direct debit" and "internet banking".

Simultaneously, the implementation of the IT sub-system Banktrade was finalised. Banktrade is designed to process on a centralised, IT basis, all the operations in the documentary business field. At the same time, the Treasury "straight-through processing" solution was extended, allowing the automatic flow of operations from client/branch, through the dealing/front-office, ending in the back-office (accountancy, swift departments).

Banca Comerciala Romana's leading position on the Romanian banking market is owed to its customers, demanding the utilization of new and efficient channels of communication and interaction with the Bank. Within this context, in 2002, communication was made possible through the Web Portal and Contact Centre type services.



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# Social responsibility

- ... we consider that we have
- a fundamental social responsibility
- to built an institution
- with a tradition in its capability
- to trigger positive change
- through its activities and decisions.

## BCR SECURITIES



<p>December 2001</p>  <p><b>Municipal Magalia</b> Lot 10,000,000,000</p> <p>Ámbito: 10,000,000,000 m<sup>2</sup> Superficie: 10,000,000 m<sup>2</sup> Inventario: 10,000,000 m<sup>2</sup></p>	<p>Mar 2002</p>  <p><b>Municipal Caldas</b> Lot 10,000,000,000</p> <p>Ámbito: 10,000,000,000 m<sup>2</sup> Superficie: 10,000,000 m<sup>2</sup> Inventario: 10,000,000 m<sup>2</sup></p>	<p>August 2002</p>  <p><b>Municipal Berrón</b> Lot 10,000,000,000</p> <p>Ámbito: 10,000,000,000 m<sup>2</sup> Superficie: 10,000,000 m<sup>2</sup> Inventario: 10,000,000 m<sup>2</sup></p>
<p>November 2002</p>  <p><b>Municipal Baitán</b> Lot 10,000,000,000</p> <p>Ámbito: 10,000,000,000 m<sup>2</sup> Superficie: 10,000,000 m<sup>2</sup> Inventario: 10,000,000 m<sup>2</sup></p>	<p>December 2002</p>  <p><b>Municipal Yaguajay</b> Lot 10,000,000,000</p> <p>Ámbito: 10,000,000,000 m<sup>2</sup> Superficie: 10,000,000 m<sup>2</sup> Inventario: 10,000,000 m<sup>2</sup></p>	<p>April 2003</p>  <p><b>Municipal Candelaria</b> Lot 10,000,000,000</p> <p>Ámbito: 10,000,000,000 m<sup>2</sup> Superficie: 10,000,000 m<sup>2</sup> Inventario: 10,000,000 m<sup>2</sup></p>
<p>April 2003</p>  <p><b>Municipal Berrón</b> Lot 10,000,000,000</p> <p>Ámbito: 10,000,000,000 m<sup>2</sup> Superficie: 10,000,000 m<sup>2</sup> Inventario: 10,000,000 m<sup>2</sup></p>	<p>July 2003</p>  <p><b>Municipal Arad</b> Lot 10,000,000,000</p> <p>Ámbito: 10,000,000,000 m<sup>2</sup> Superficie: 10,000,000 m<sup>2</sup> Inventario: 10,000,000 m<sup>2</sup></p>	<p>June 2003</p>  <p><b>Municipal Candelaria</b> Lot 10,000,000,000</p> <p>Ámbito: 10,000,000,000 m<sup>2</sup> Superficie: 10,000,000 m<sup>2</sup> Inventario: 10,000,000 m<sup>2</sup></p>



In 2002, B.C.R. launched the first banking Portal in Romania, which presents integrated information about the entire range of products and services of B.C.R. Group, the parent company and its subsidiaries operating in the fields of leasing, insurance, portfolio investment and capital markets. The portal also presents Anglo-Romanian Bank, the British subsidiary of B.C.R..

The users of the Portal benefit not only from information regarding the offer addressed to B.C.R. Group customers, but also from many facilities, such as:

- ▶ estimated calculations of credit instalments, leasing instalments and insurance premiums;
- ▶ access to an integrated newsletter comprising useful information on the entire activities of the Group;
- ▶ access to a poll centre through which they can contribute ideas or suggestions for the improvement of the products and services offered, as well as to the contents of the Portal.

At the same time, the Portal allows each authorised user (via an access password) access to the personalised area "My BCR". Thus, the user will be able to select, in order to be displayed, only the information of interest (for example: cards, leasing and BCR Clasic) in a format of the user's choice.

In addition, the authorised users, clients of BCR Leasing or BCR Asigurari, will be able to find out the value of instalments or premiums valid for the current month, whilst the Portal will advise them on the payment date, by automatically generating an e-mail message prior to the due date.

The safety of the information is guaranteed both through the utilisation of a unique name and password and by a HTTPS secured connection, tested and implemented by many large banks in the world.

The BCR Portal uses an IT technology created by SAP, the international leader of e-business IT solutions, and is entirely developed for B.C.R. by SOFTWIN, the major player in the Romanian IT market.

This technology is very flexible and will further allow the development of the Portal with new applications, enhancing the interactivity of the dialogue for the benefit of the customers.

The results obtained so far have demonstrated the ability of the complex teams of specialists within the bank and of the partner companies (Microsoft, Oracle, Ernst&Young) to reshape the banking processes, so that, in the near future, the projects regarding the reorganization of the IT activity and the reshaping of technical architecture and IT applications – designed to ensure an efficient management of customer relations and diversification of the services offered, especially in the electronic banking area – be finalized.

The operative banking unit is further playing the most important role within the mix of distribution channels, of establishment, maintenance and enhancement of the Bank – customer relationship.

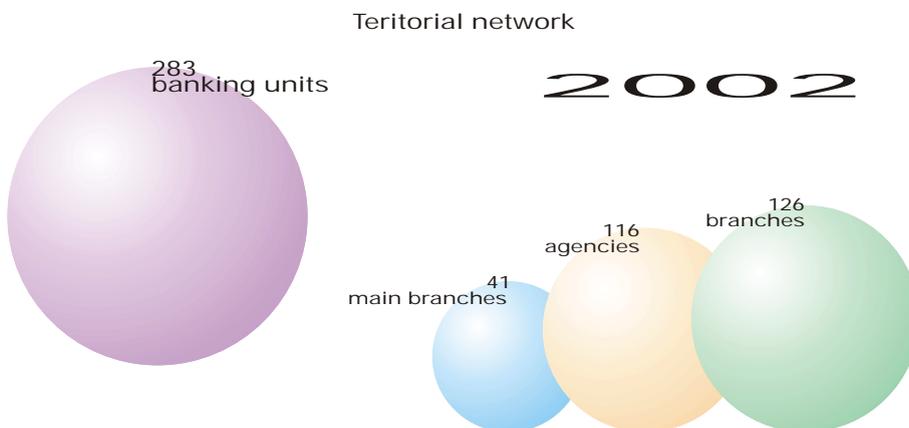
As to the continuing expansion of B.C.R. territorial network, at year-end 2002, this comprised of 283 banking units spread all over the country, consisting of: 41 main branches, 126 branches and 116 agencies.

In Bucharest, where the highest volume of activity is registered, there are 39 operational banking units.

For 2003 and 2004, an expansion of the network by an additional 19 banking units is expected, of which 7 will be branches and 12 agencies, channelled mainly towards retail activity.

The policy of developing and consolidating the territorial banking units in the near future will consist of the following measures:

- ▶ management of territorial banking units will be based on the development and maintenance of the profit-generating units only;
- ▶ programming of future actions based on a business-plan will become a key instrument in the decision-making process regarding the shaping of the territorial network (establishment of new units, closure of units, expansion) and will take into consideration the Bank's own experience, the implementation of best practices in this field, the market evolution, and the experience of large European banks;
- ▶ efficiency improvement at the territorial banking units level, through a new approach based on the standardization of the organization plan for units, improvement of internal and customer flows, as well as through the diversification of distribution channels, so that they can best capitalise on selling opportunities or the service demand in the respective location.



Achievement of a proper efficiency and profitability of the Bank is closely related to the human resources quality.

Consequently, the Bank's management focuses on the human resources area, with a view to improving the training of the personnel, in accordance with the requirements of the current period. In this respect, the targets followed in 2002 aimed at increasing the bank flexibility regarding the offer of banking products and services designed to meet customers' needs and expectations, building up a friendly and long lasting partnership with its customers, and implementing the Quality management system in accordance with the SREN ISO 9001/2001 Standard requirements.

In 2002, the staff's professional education and improvement training was met by attendance of in-house courses, courses organised by the Romanian Banking Institute or by different specialised institutions from Romania and abroad. During this period, 9,544 participations in courses were registered, as follows:

- in-house courses: 6,739
- courses organised by the RBI: 691
- courses organised in Romania by / in co-operation with other Romanian institutions: 2,043
- courses, seminars, and scholarships abroad: 71

The in-house training activity included improvement educational courses, special programmes, instructing and training within the territorial banking units.

The courses and training programmes were designed to improve the professional capabilities of staff whose enhanced knowledge and skills should ensure further development and strengthening of customer relationships.

During 2002, the Bank also focused on manpower planning and training of personnel, in order to ensure the continuity of the managing process at all levels. At the same time, monitoring the training and the professional integration of trainee banking personnel represented a special objective within the training programme of B.C.R. personnel during the stated period.

The training process implied not only an organisational effort, but also an important financial investment. However, the later is included in the category of expenses with the shortest recovery period of time, as the results are immediately reflected in the Bank's performance, in all business areas.

## Risk Management

Banca Comercială Română pays special attention to the prudent management of the risks related to its portfolio, based upon identification, assessment and undertaking of adequate measures aimed at mitigating the risks which can affect its activity and performance, with a view to ensuring a sustainable profit growth.

In order to achieve a modern and performing risk management system, Banca Comercială Română makes use of methods and tools enabling it to comply with international standards and prudential requirements set up by the National Bank of Romania.

### Credit Risk

One of the strategic objectives of the Bank is to monitor and mitigate the credit risk, deriving both from the lending activity and from other transactions such as letters of guarantee, letters of credit opening/confirmation, bills of exchange discounts.

In order to assess credit risk, the Bank uses an internal credit rating system and a computer-based economic and financial analysis method, similar to those used by foreign banks..

Banca Comercială Română's credit rating system is bi-dimensional, combining results from corporate customer's characteristics analysis (general and financial issues, market share, strategy and management) with credit risk assessments (credit history, eligibility, debt service, repayment sources and type of collateral). Credit risk related to individuals is assessed by an analysis-based scoring system.

In 2002, the Bank also developed a credit rating applicable to other entities such as: local public authorities, authorized individuals, newly established companies.

Likewise, the rating system used for assessing companies performances has been revised.

With regard to the monitoring of credit risk of major customers where the Bank has significant exposures, the Bank has set up risk exposure limits (maximum levels of exposure to which the Bank may be exposed towards a certain customer) and constantly monitors the level of commitments within the established limits.

At the same time, the Bank monitors its 100 largest exposures, single debtors and related party transactions on a monthly basis, in order to ensure an appropriate credit risk distribution (on customer types, on territorial units).

The Bank also monitors all exposures, towards individuals and legal entities, exceeding ROL 200 million, and reports them to the Bank Risk Center within the National Bank of Romania, on a monthly basis.

In order to achieve an efficient credit risk management, all territorial banking units consult the Bank Risk Center archive prior to assuming any commitments.

### Liquidity Risk

B.C.R.'s strategy regarding liquidity management establishes the need to secure an adequate balance-sheet structure, which should minimize the negative effects of liquidity risk.

Following the coming into effect NBR's rules no.1/2001 on banks' liquidity, B.C.R. adjusted its strategic objectives regarding liquidity management to comply with the regulations imposed by the supervisory banking authority. The liquidity ratio calculated thereon comfortably conforms with the limits imposed by the National Bank of Romania. As a general rule, B.C.R. observes all limits and regulations issued by the National Bank of Romania, whilst internally it operates within establish even stricter limits than those required by the supervisory authority. Within the Bank, liquidity risk is handled both by applying the management - by - objectives and the management - of - exception techniques.

The Bank has established working procedures indicating guiding limits for placements, limits for the supervision of high liquidity risk against an individual, as well as a system of ratios which monitor the liquidity risk and its minimum accepted level. Likewise, the Bank has established an IT system sustaining the entire liquidity management process, producing basic reports required for the prompt notification of Bank's management, as well as the reports to be transmitted by its territorial units.

During 2002, B.C.R. acted on the inter-bank market as a net investor in ROL and foreign currency. ROL funds were mainly placed with the National Bank of Romania, but also with other financially sound Romanian commercial banks, within established exposure limits. Foreign currency placements were made especially with top-ranked international banks, which are traditional business partners of the Bank.

During 2002, B.C.R. activated its ROL and foreign currency government bonds portfolio, expanding its trading customer portfolio on the secondary market. Results of this policy were positive, B.C.R. becoming the absolute leader on the secondary market of government bonds.

Against the background of increasing confidence in the Romanian banking system, during 2002, B.C.R. undertook a number of measures aimed at increasing its financial autonomy by decreasing the share of finance attracted from its correspondent commercial banks in total finances, concurrently with increasing the maturity of finances received.

B.C.R. draws up plans and forecasts regarding the medium term evolution of finance and placements and employs monetary and loan levers to efficiently manage liquidity, allowing the Bank to overcome adverse market conditions

## Interest Rate Risk

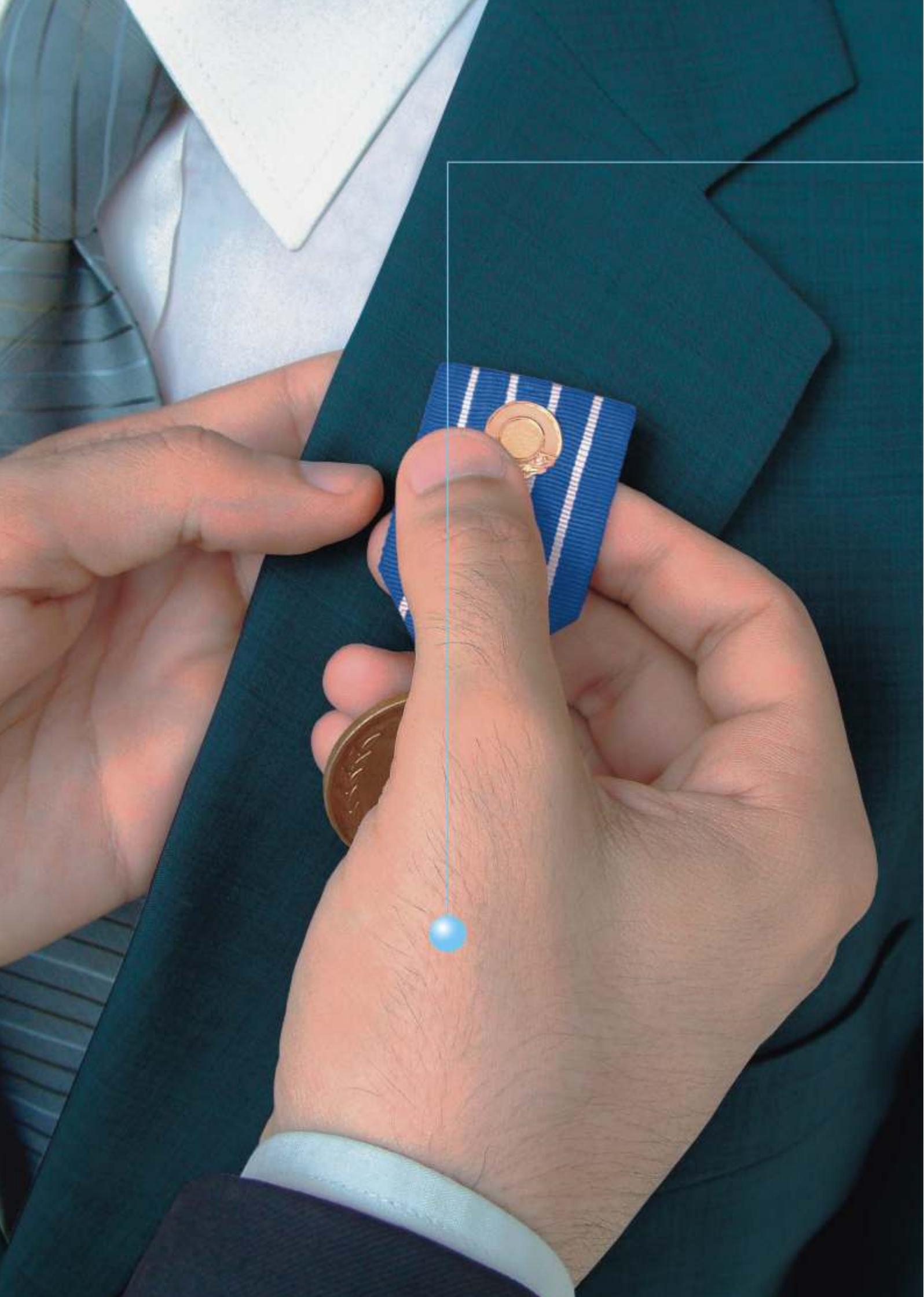
Interest rate risk is analysed in the light of interest bearing assets and liabilities, by anticipating the effects on the Bank's profit, of interest rates evolution on the market.

As interest rates show differentiated sensitivity levels, ROL and foreign currency assets and liabilities are analysed independently.

In order to best manage the interest rate risk in ROL, B.C.R. applies floating interest rates to most of the funds attracted from non-bank customers, while on the assets side, most of the loans to customers bear adjustable interest rates.

During 2002, the Bank's efforts focused on matching the volume and maturities of fixed interest-bearing ROL balance-sheet items. Special attention is paid to the development, structure and residual maturity of fixed-interest liabilities, such as bearer certificates of deposit and discount certificates of deposit, mainly offset by government bonds denominated in ROL.

B.C.R. consistently monitors the difference between fixed interest-bearing assets and liabilities to total assets ratio, within the established limits, and regular scenarios show the potential loss the Bank could face on an adverse change of interest rates, compared to the size of its equity.



# Leader

- ... Banca Comerciala Romana Group
- maintained its place as the leader
- in the Romanian banking system
- and sustained all its subsidiaries
- through an adequate capitalisation level,
- and brand value.



The influence of interest rate risk on foreign currency assets and liabilities is much lower than of those expressed in ROL. The Bank pays special attention to the opportunity cost-interest rate risk ratio, consistently monitoring it to maintain an optimum ratio between fixed-interest resources and placements.

### Operating Risks

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

Operational risk management should be therefore framed within the scope of a systemic approach, which assumes the identification of banking products' and services' risk profile, going further to the configuration of the risk profile for each unit of the Bank's network.

\* In order to eliminate operational risks related to its IT system, the Bank has developed internal working procedures, creating at the same time the required environment for their enforcement, aimed at:

- ▶ eliminating the potential operational risks related to the non-compliance with the documents' procedures;
- ▶ solving complaints, applications, suggestions formulated by individuals or legal entities at the Head Office or territorial units level;

▶ regulating all aspects related to classified information, according to the legislation in force.

\* In order to track down, monitor and eliminate the risks related to money laundering operations, the Bank has developed new Know-Your-Customer policies and procedures, introducing systems for detecting suspicious transactions.

\* With a view to mitigating operational risks within the context of international terrorism, the Bank has developed a package of measures aimed at preventing and fighting against the use of the financial-banking system for financing terrorist activities.

### Economic

#### Environment Risk

Due to the various internal and external environmental factors likely to have an impact on its overall business, the Bank consistently monitors key developments in the economy, domestic trends and results achieved in the main economic sectors, in order to determine potential effects on its financial results.

Based on the information analysed and processed within the Bank, reports on the domestic macroeconomic status and the possible effects on its business are produced on a quarterly basis.

Following assets development analysis i.e. the types of loans offered to its customers, as well as the developments registered within the main sectors of the economy, the Bank's exposure limits towards the main sectors are examined and adjusted on a quarterly basis, making use of a scoring system, in order to channel credit towards viable, performing sectors.

In addition, proposals are made in order to secure a good risk spread and to avoid concentration on a limited number of economic sectors.

### Solvency Risk and other Financial Risks

With a view to achieving an optimum risk / efficiency ratio, the Bank periodically analyses the development of the main balance sheet placements and off-balance sheet items, their related risks (by setting average risk levels, upon analysing the maturity, currency structure, etc.) and efficiency, in order to identify the best risk-profile placements and to maximise profit.

Each on- and off-balance sheet asset is classified on a monthly basis according to the risk level, based on the risk entity type, collateral and other criteria, in order to determine the aggregate risk exposure and solvency ratios (which reflect to what extent equity funds and shareholders' equity cover the Bank's risk portfolio).

Banca Commerciale Romana closely monitors capital adequacy ratios against the levels set by the NBR - at least 8% for Tier 1 ratio (equity capital to total net exposure from on and off-balance sheet items ratio) and at least 12% for the Tier 1 + Tier 2 ratio (equity funds to total net exposure from on and off-balance sheet items ratio).

In 2003, the Bank intends to use derivatives, both as products offered to its clients in order to cover risks and as hedging instruments for covering interest rate and foreign exchange risks related to its portfolio.

In order to assess market risk (to estimate the maximum potential loss which could be caused by an adverse change in the market, affecting the value/price of securities in the portfolio), necessary steps were taken in view of applying the value-at risk method starting 2003, as per the provisions of the current and of the draft of Basel II Accords.

### Foreign Currency Exchange Risk

Foreign currency exchange risk is generated by the adverse movement of exchange rates in connection with an existing foreign currency portfolio.

The bank centralises all foreign currency flows generated by its business, analyses and manages them according to market conditions.

The Bank concentrates on matching the convertible currencies structure with the current payment needs, carefully managing its foreign currency position on the domestic inter-bank market. This aims both at making best use of market opportunities, and at mitigating the foreign currency exchange risk by a consistent adjustment focused on matching positions. The final goal is to fall within NBR regulations and to minimise the risk.

In view of mitigating the risks that may occur as a result of the foreign currency transactions carried out by banks, NBR issued Regulation No.4/2001 regarding the supervision of banks' foreign currency positions. These regulate the calculation methods and the upper limits of adjusted individual foreign currency positions, as well as the aggregate foreign currency position of the bank. They also set up specific requirements for the management of foreign currency exchange risk and internal control.

According to the regulations in force, by the end of each banking day, foreign currency positions should comply with the following limits:

- a) maximum 10% of bank's equity for each adjusted individual foreign currency position; and
- b) maximum 20% of bank's equity for the aggregate foreign currency position.

The aggregate foreign currency position represents the net value of the sum of all adjusted long individual foreign currency positions and the sum of all adjusted short individual foreign currency positions.

B.C.R. also complies with NBR requirements regarding foreign currency positions and established a number of measures in order to prevent the adverse influence of foreign currency exchange risk. Therefore, B.C.R.:

- consistently follows the limits set by NBR on the aggregate foreign currency position, as well as the adjusted individual foreign currency positions, depending on the evolution of foreign currency exchange rates on the domestic and international markets.
- monitors risk limits in real time using a Kondor programme+ terminal, and through the reports required the supervisory authority' applies the "6 eye" principle.
- set up a number of internal regulations regarding the accurate and efficient recording of foreign currency operations in the IT management system. Between 1999 and mid-2001, the Bank generally had a long foreign currency position, close to the maximum approved limit.

The long foreign currency position was due to the daily evolution of the national currency exchange rate against the main hard currencies. Starting 2H2001, the Bank focused on improving its foreign currency position so that for several days it achieved a short foreign currency position, all against the background of a slower depreciation of the ROL against the USD, and even an appreciation of ROL in nominal terms against the USD and EUR.

Due to its size (B.C.R. equity accounting for over 35% of the aggregate equity in the entire Romanian banking system), the adjustment of foreign currency position at the Bank's level is a slower process compared to the same process within smaller banks, as foreign currency deals on the inter-bank foreign exchange market are gradually made, over several days.

Starting January 2002, B.C.R. monitors 15 individual foreign currency positions. Usually, the inter-bank foreign currency market allows the Bank to adjust its aggregate foreign currency position up to 5 b.p./day at most.

The Bank's policy regarding the management of foreign currency risk is to avoid high-risk speculative transactions. On the inter-bank foreign currency market, the Bank carries out spot, forward and swap transactions. In case of forward transactions, maturities usually do not exceed 3 months.

In order to mitigate the foreign currency exchange risk, customers' transactions generating an exchange rate risk are covered by correspondent hedging transactions.

Exposure reports are forwarded to the executive management of the Bank on a daily basis and are analysed by the collective management bodies.

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

With a view to assessing correspondent bank risk and determining the maximum exposure level that can be assumed against its business partners, the Bank makes use of a creditworthiness and performance ratios system, also taking into account various non-financial informations.

Country risk is managed by setting up the maximum level of commercial and financial transactions that can be undertaken by B.C.R. against domestic or international banks, government bodies, financial institutions or companies.

The risk profile of a country is determined by analysing macroeconomic indicators, political factors, ratings assigned by international rating agencies, as well as its risk perception on the market.

The recommendation and selection of a risk insurance method represents also an important stage, combining at least three elements: the best possible cover, a negotiated insurance premium and an insurer able to promptly cover potential losses.

In this respect, consistent with its risk management policy, B.C.R. analyses the risk deriving from dealing with insurance-reinsurance companies, monitoring it in real time.

The main risk categories are analysed in inter-departmental committees established in compliance with the Banking Law and coordinated by top executive managers.

- ▶ The Loan Committee reviews and approves loan and L/Gs applications, along with the adequate documentation, as well as the measures to be taken in order to recover non-performing loans, which require the utilisation of risk provisions.
- ▶ The Risk Committee is a consultative's body, which liaises with all divisions within the Head Office managing bank risks. The Risk Committee analyses the circumstances in which bank risks occur, and advises on the adequate policies to protect the Bank against the risks deriving from lending, commercial transactions and other operations undertaken by the Bank on behalf of its local and foreign customers.

- ▶ The Assets and Liabilities Management Committee is a consultative body, in charge of: protecting shareholders and depositors interests; preserving an adequate liquidity to cover cash-flow requirements; placing excess liquidity in lucrative investments; managing the interest rate gap in order to increase profit within risk limits; establishing product prices in order to support the assets and liabilities management process and maximising the Bank's income. Furthermore, the Assets and Liabilities Management Committee makes recommendations as to the adjustment of interest rates, monitors the resources and placements scheme, as well as the main asset and liability positions, recommending changes according to the developments on the market, and analyses the opportunity of launching new products.

## Strategies and Priorities for 2003

The recent developments registered on the Romanian financial markets present interesting challenges for system operators in 2003, which could equally mean not only more opportunities but also constraints for the management. On one hand, there are clear signs that the demand for credits and more complex financial services will increase, while on the other hand, it is more and more clear that financial institutions' presence on the market depends on the quality of services rendered and their operational efficiency, within an environment of diminishing interest rate margins and increasing education of customers on financial matters.

Therefore, B.C.R. Group's medium-term strategy, which is particularly focused on consolidating the competitive elements as the main factor of development, proves to be a solid platform for further business growth and achievement of the goals established for the next stage.

*B.C.R. Group set its ambition on asserting itself as the most important supplier of integrated financial services accessible by multiple distribution channels, able to achieve durable performances through efficiency, a prudent risk management, client-orientated policies and a responsible commitment towards society.*

For 2003, the Bank aims at achieving a significant increase of its business, concentrated on the two basic segments of the Group, corporate and retail banking, in order to obtain at least the same level of profit as in 2002. Loans will remain the most important component of the Bank's activities and will also have the greatest contribution to balance sheet growth, which is expected to exceed 40% in real terms.

In this respect, B.C.R. intends to be more active in placing resources in loans in order to finance both large companies, of strategic importance for the bank's profit, and small and medium-size enterprises, showing good developing potential on the domestic and international markets.

The growth of the loan portfolio intended for the real economy in order to support production, investments and foreign trade, will be based on a better selection of customers and financial projects, under strict specific risks control, thereby reducing the costs associated with such risks.

The most dynamic business evolution of the Group will continue to be registered in the retail sector, both at the Bank and the subsidiaries' level.

B.C.R. is prepared to approach this segment, which tends to play a greater role in the competition for market share amongst banks, by offering a diversified range of financial products and services.

At the same time, the Bank will continue its investment program, investing funds of about USD 35 million in order to improve the IT system in the branch network. During 2003, the Bank will add 8 new units to its branch network, of which 3 will be located in Bucharest, in order to ensure customers' better access to services.

For 2003, an accelerated increase in mortgage and consumer loans is foreseen, against a background of deflation and decreasing banking interest rates. Simultaneously, the Bank plans for growth in the number of credit/debit card users, aiming at doubling the number of cards issued, by improving the technological infrastructure, enlarging the number of traders B.C.R. is cooperating with, and offering new products for target clients, as well as by developing related services.

During this period, B.C.R. will also focus on increasing the volume of funding attracted both from the domestic market and external financing lines, with appropriate structures, to support the financing of an increased level of long-term projects.

In an environment of decreasing returns for customer on their deposits, stimulating the saving process will represent a real challenge for the Romanian banks and introduce an element of intensified competition.

B.C.R.'s experience in the field and the policies adopted in order to provide a good return for its customers (through interest rates, or facilities granted and by its product and services packages), are reasons behind forecasts of an increase in customer deposits and a higher B.C.R. market share

For 2003, B.C.R. Group also intends to consolidate its presence on the insurance market, by raising business capabilities of all branches and by assigning them new functions. Furthermore, the Bank wishes to develop the asset management activity, by promoting a new investment fund – *BCR Dinamic* – orientated to investment in shares. With development prospects of the domestic markets profile in mind, the Bank intends to extend its financial leasing operations, as well as the marketable securities intermediation.

During 2003, the merger of our subsidiaries abroad (Anglo-Romanian Bank Ltd. London, Banque Franco Roumaine S.A. Paris, Frankfurt Bukarest Bank AG Frankfurt/Main) will be finalised. Through this process, the Bank intends to achieve a better allocation of the capital invested. With a stronger capital base, the newly-resulted entity will be able to better represent the interests of the Bank and of its customers on the European Union market.

The improvement of the Group structures and of their integration level, will have a positive impact on the consolidated financial results anticipated for 2003 and, implicitly, on Bank shareholders' returns.

The projects presently developed in order to better capitalise intra-group synergies aim at ensuring the enlargement of the business portfolio, and the increase of the quality of services, concurrently with a stricter management of risks and operational costs.

In 2003, the main strategic objective of B.C.R. Group will continue to be the consolidation of its leading position within the Romanian financial system, whilst increasing its profit generating capacity and operational efficiency.