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## 1 NATURE OF OPERATIONS

Banca Comerciala Romana Group (the "Group") comprises the parent entity, Banca Comerciala Romana SA (the "Bank" or the "Parent") and its subsidiaries: Anglo-Romanian Bank (United Kingdom), Frankfurt Bucharest Bank (Germany), Banque Franco-Roumaine (France), Banca Comerciala Romana Chişinău (Republic of Moldova), Financiară SA (Romania), Bucharest Financial Plaza SRL (Romania), BCR Securities SA (Romania), BCR Leasing SA (Romania), BCR Asigurări SA (Romania) and BCR Asset Management SA (Romania).

The Group is principally engaged in wholesale and retail banking operations in Romania and abroad and in other financial services activities including brokerage, insurance, asset management and leasing and employed approximately 12,400 members of staff at 31 December 2002 (31 December 2001: 11,163). The Group operates through its head office located in Bucharest and 290 branches and offices (31 December 2001: 280) located in Romania and abroad.

Banca Comerciala Romana SA (the "Bank") has been incorporated in Romania since 1990 as a joint stock Company and is licensed by the National Bank of Romania to conduct banking activities.

The registered office of the Parent is:

Banca Comerciala Romana SA  
5, Elisabeta Boulevard  
Bucharest, Sector 3  
ROMÂNIA

The Group serves a broad client base that includes corporations, the government and individuals. Management also uses its expertise and resources to enter into transactions for the Group's own account.

## 2 CAPITAL ADEQUACY

The Parent calculates capital adequacy based upon the regulations issued by the National Bank of Romania ("BNR"). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amount to reflect their relative risk. The regulations require that capital adequacy ratios be calculated on financial information prepared in accordance with Romanian Accounting Regulations ("RAR"). To be "sufficiently capitalised" under BNR regulations a banking institution must have a Tier 1 ratio of at least 8% and a Tier 1 plus Tier 2 ratio of at least 12%. As of 31 December 2002, the Tier 1 and Tier 1 plus Tier 2 capital adequacy ratios based upon the BNR's regulations, were 22.53% and 26.30% respectively (2001: 26.72% and 30.06%, respectively).

## 2 CAPITAL ADEQUACY (CONTINUED)

In addition to the above ratios the Group also monitors the adequacy of its capital using ratios established by the Bank for International Settlements ("BIS"), based upon its financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Based upon financial information prepared in accordance with IAS the Tier 1 and a Tier 1 plus Tier 2 capital adequacy ratios of the Group at 31 December 2002 were 27.72% respectively 28.94% (31 December 2001: 31.87% and 32.96%, respectively).

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

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

Tier 1 capital consists of shareholders' equity less general credit risk reserves. Tier 2 capital includes the Group's eligible long-term debt, general credit risk reserves up to 1.25% of the risk weighted assets and revaluation reserves.

## 2 CAPITAL ADEQUACY (CONTINUED)

|   | IFRS Balance sheet<br>(Nominal amount)         |  | IFRS Balance sheet<br>(Risk weighted amount) |                              |
|---|--|--|--|------------------------------|
|   | <u>2002</u><br>(ROL million)                   | <u>2001</u><br>(ROL million)                   | <u>2002</u><br>(ROL million)                 | <u>2001</u><br>(ROL million) |
| Balance sheet assets (net of provisions)        |  |  |  |                              |
| Due from other banks                            | 8,262,046                                      | 15,746,022                                     | 1,593,077                                    | 3,089,133                    |
| Loans and advances to customers, net            | 51,670,622                                     | 40,310,533                                     | 49,485,304                                   | 38,882,675                   |
| Investment securities                           | 9,545,539                                      | 9,221,511                                      | 3,927,487                                    | 579,092                      |
| Investments in associates                       | 531,586  | 586,054  | 224,170                                      | 278,639                      |
| Property and equipment                          | 15,382,129                                     | 14,815,994                                     | 15,382,129                                   | 14,815,994                   |
| Other assets                                    | 744,434  | 1,964,075                                      | 692,721                                      | 1,917,257                    |
| Investment property                             | 1,540,755                                      | 1,336,188                                      | 1,540,755                                    | 1,336,188                    |
| Off balance sheet commitments and contingencies | <u>31,547,664</u>                              | <u>26,310,978</u>                              | <u>23,928,968</u>                            | <u>18,197,784</u>            |
| Total risk weighted assets                      |  |  | <u>96,774,611</u>                            | <u>79,096,762</u>            |
|   |  |  |  |                              |
|   | <u>Capital</u><br><u>2002</u><br>(ROL million) | <u>Capital</u><br><u>2001</u><br>(ROL million) | <u>BIS %</u><br><u>2002</u>                  | <u>BIS %</u><br><u>2001</u>  |
| BIS Capital ratios                              |  |  |  |                              |
| Tier 1 capital                                  | 26,827,351                                     | 25,206,456                                     | 27.72%                                       | 31.87%                       |
| Tier 1 + Tier 2 capital                         | 28,002,603                                     | 26,067,539                                     | 28.94%                                       | 32.96%                       |

INDEPENDENT AUDITORS' REPORT TO THE BOARD DIRECTORS OF  
BANCA COMERCIALA ROMANA SA

We have audited the accompanying consolidated balance sheet of Banca Comerciala Romana SA and its subsidiaries ("the BCR Group" or "the Group" as defined in Note 1 to the consolidated financial statements) as at 31 December 2002 and the related consolidated statements of income and cash flow for the year ended 31 December 2002 expressed in the current purchasing power of the Romanian Lei ("ROL") as at 31 December 2002. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Banca Comerciala Romana Group as at 31 December 2002 and the results of its operations and its cash flows the year then ended in accordance with Financial Reporting Standards including International Accounting Standards and interpretations issued by the International Accounting Standards Board.



Bucharest 11 April 2003  
with the exception of Note 34 and Note 38  
for which the signing date is 26 June 2003

PricewaterhouseCoopers Audit SRL

BANCA COMERCIALA ROMANA GROUP

CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2002

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2002)

|   | Note | Year ended<br>31 December 2002<br>(ROL million) | Year ended<br>31 December 2001<br>(ROL million) |
|---|------|---|---|
| Interest income                                 | 3    | 24,081,425                                      | 26,595,125                                      |
| Interest expense                                | 4    | <u>(13,417,969)</u>                             | <u>(14,985,405)</u>                             |
| Net interest income                             |      | 10,663,456                                      | 11,609,720                                      |
| Fee and commission income, net                  | 5    | 4,202,842                                       | 3,865,661                                       |
| Foreign exchange gain, net                      | 6    | 246,629   | 351,850   |
| Other operating income                          | 7    | <u>980,757</u>                                  | <u>698,823</u>                                  |
| Operating income                                |      | 16,093,684                                      | 16,526,054                                      |
| Other operating expenses                        | 8    | (8,508,669)                                     | (7,123,775)                                     |
| Bad and doubtful debts expense                  | 9    | <u>(512,998)</u>                                | <u>(2,324,792)</u>                              |
| Profit from operations                          |      | 7,072,017                                       | 7,077,487                                       |
| Loss on net monetary position                   |      | <u>(2,069,090)</u>                              | <u>(1,045,136)</u>                              |
| Profit before taxation<br>and minority interest |      | 5,002,927                                       | 6,032,351                                       |
| Taxation  | 10   | <u>(1,499,353)</u>                              | <u>(1,188,205)</u>                              |
| Profit before minority interest                 |      | 3,503,574                                       | 4,844,146                                       |
| Less minority interest (profit)/loss            | 36   | <u>(29,706)</u>                                 | <u>9,682</u>                                    |
| Net profit                                      |      | <u><u>3,473,868</u></u>                         | <u><u>4,853,828</u></u>                         |

The financial statements on pages 64 to 67 and accompanying notes on pages 68 to 112 based on the statutory accounts restated in accordance with International Financial Reporting Standards were signed on behalf of the Board of Directors on 11 April 2003 by:



Dr. Nicolae Dănilă  
President



Dr. Ion Niju  
Vice President

The accompanying notes set out on pages 68 to 112 form an integral part of these consolidated financial statements.

BANCA COMERCIALA ROMANA GROUP

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2002)

|  | Note | 31 December 2002<br>(ROL million) | 31 December 2001<br>(ROL million) |
|--|------|-----------------------------------|-----------------------------------|
| <b>Assets</b>                                      |      |                                   |                                   |
| Cash   | 11   | 4,118,979                         | 4,187,412                         |
| Due from Central Banks                             | 12   | 54,242,711                        | 37,374,753                        |
| Treasury Bills                                     | 13   | 10,519,187                        | 13,595,936                        |
| Due from other banks, net                          | 14   | 8,262,046                         | 15,746,022                        |
| Loans and advances to customers                    | 15   | 51,670,622                        | 40,310,533                        |
| Investment securities                              |      |                                   |                                   |
| - available for sale                               | 16   | 5,347,552                         | 1,780,302                         |
| - held to maturity                                 | 16   | 4,197,987                         | 7,441,209                         |
| Equity investments                                 | 17   | 531,586                           | 586,054                           |
| Premises and equipment                             | 18   | 15,382,129                        | 14,815,994                        |
| Other assets                                       | 19   | 744,434                           | 1,964,075                         |
| Investment property                                | 20   | <u>1,540,755</u>                  | <u>1,336,188</u>                  |
| <b>Total assets</b>                                |      | <u><u>156,557,988</u></u>         | <u><u>139,138,478</u></u>         |
| <b>Liabilities</b>                                 |      |                                   |                                   |
| Due to other banks                                 | 21   | 8,496,313                         | 10,162,267                        |
| Deposits from customers                            | 22   | 117,033,768                       | 99,778,434                        |
| Deferred tax liability                             | 10   | 446,505                           | 487,791                           |
| Other liabilities and provisions                   | 23   | <u>1,586,044</u>                  | <u>1,713,861</u>                  |
| <b>Total liabilities</b>                           |      | <u><u>127,562,630</u></u>         | <u><u>112,142,353</u></u>         |
| Minority interest                                  | 36   | 685,339                           | 621,171                           |
| <b>Shareholders' equity</b>                        |      |                                   |                                   |
| Share capital                                      | 24   | 18,577,498                        | 18,577,498                        |
| Retained earnings                                  | 25   | 4,173,624                         | 3,393,365                         |
| Reserves   | 25   | <u>5,558,897</u>                  | <u>4,404,091</u>                  |
| <b>Total shareholders' equity</b>                  |      | <u><u>28,310,019</u></u>          | <u><u>26,374,954</u></u>          |
| <b>Total liabilities and shareholders' equity</b>  |      | <u><u>156,557,988</u></u>         | <u><u>139,138,478</u></u>         |
| Off balance sheet commitments<br>and contingencies | 34   | 31,547,664                        | 26,310,978                        |

The financial statements on pages 64 to 67 and accompanying notes on pages 68 to 112 based on the statutory accounts restated in accordance with International Financial Reporting Standards were signed on behalf of the Board of Directors on 11 April 2003 by:



Dr. Nicolae Dănilă  
President



Dr. Ion Nițu  
Vice President

The accompanying notes set out on pages 68 to 112 form an integral part of these consolidated financial statements.

BANCA COMERCIALA ROMANA GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2002

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2002)

|  | <u>Note</u> | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--|-------------|--|--|
| Net cash flow from operating activities  |             |  |  |
| Operating profit (before taxation and loss on net monetary position)                   |             | 7,072,017                                | 7,077,486                                |
| Adjustments for:   |             |  |  |
| Accrued interest receivable  |             | ( 237,110)                               | 485,133                                  |
| Accrued interest payable   |             | 2,265                                    | (77,979)                                 |
| Charge for provisions  |             | 2,151,316                                | 3,713,495                                |
| Profit from disposal of property and equipment   |             | (25,531)                                 | (3,870)                                  |
| Profit from investment   |             | -  | (79,612)                                 |
| Unrealised foreign exchange loss   |             | 30,614                                   | 1,162,089                                |
| Mark-to-market adjustment for AFS Tbills   |             | (180,067)                                | -  |
| Fair value adjustment for investment property (IAS 40)                                 |             | (204,567)                                | -  |
| Dividend income  |             | (13,981)                                 | (712)                                    |
| Depreciation charge  |             | <u>795,947</u>                           | <u>596,155</u>                           |
| Total change in operating cash flow before changes in operating assets and liabilities |             | 9,390,903                                | 12,872,185                               |
| Change in operating assets   |             |  |  |
| Decrease/(increase) in amounts placed to Central Banks                                 |             | (1,092,360)                              | 588,700                                  |
| Decrease/(increase) in Treasury Bills over 90 days                                     |             | 3,603,213                                | (12,777,801)                             |
| Decrease in placements with other banks  |             | 894,035                                  | 1,899,175                                |
| Increase in loans and advances to customers  |             | (13,492,687)                             | (8,566,318)                              |
| Increase in accrued income and other assets  |             | <u>1,222,040</u>                         | <u>3,342,620</u>                         |
| Total change in operating assets   |             | (8,865,759)                              | (15,513,624)                             |
| Change in operating liabilities  |             |  |  |
| Decrease in deposits from banks  |             | (1,632,994)                              | (1,492,254)                              |
| Increase in amounts owed to customers  |             | 17,220,108                               | 22,198,769                               |
| Decrease in other liabilities  |             | <u>(83,555)</u>                          | <u>(2,097,726)</u>                       |
| Change in operating liabilities  |             | 15,503,559                               | 18,608,789                               |
| Taxation paid  |             | <u>(1,611,630)</u>                       | <u>(1,856,947)</u>                       |
| Net cash from operating activities   |             | 14,417,073                               | 14,110,403                               |
| Cash flow from investing activities  |             |  |  |
| Purchase of investments  |             | (4,214)                                  | -  |
| Sale of investments  |             | 16,083                                   | -  |
| Purchase of premises and equipment   |             | (1,847,988)                              | (3,247,934)                              |
| Sale of premises and equipment   |             | 511,437                                  | 341,057                                  |
| Purchase/disposal of investment securities   |             | (324,028)                                | 1,856,433                                |
| Dividends received   |             | 13,981                                   | 712                                      |
| Net cash used in investing activities  |             | <u>(1,634,729)</u>                       | <u>(1,049,732)</u>                       |
| Cash flow from financing activities  |             |  |  |
| Dividends paid   |             | (1,636,490)                              | (1,086,856)                              |
| Dividends paid to minority interest  |             | <u>(40,404)</u>                          | <u>(83,222)</u>                          |
| Net cash used in financing activities  |             | (1,676,894)                              | (1,170,078)                              |
| Effect of exchange rate changes  |             | 67,073                                   | 8,520,145                                |
| Effect of inflation on cash and cash equivalents                                       |             | <u>(2,010,750)</u>                       | <u>(11,230,835)</u>                      |
| Increase in cash and cash equivalents  |             | <u>9,161,773</u>                         | <u>9,179,903</u>                         |
| Cash and cash equivalents as at 1 January  |             | 57,476,198                               | 48,296,295                               |
| Increase in cash and cash equivalents  |             | <u>9,161,773</u>                         | <u>9,179,903</u>                         |
| Cash and cash equivalents as at 31 December  | 26          | <u>66,637,971</u>                        | <u>57,476,198</u>                        |

The accompanying notes set out on pages 68 to 112 form an integral part of these consolidated financial statements.



BANCA COMERCIALA ROMANA GROUP

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2002

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2002)

|                                      | <u>Share capital</u><br>(ROL million) | <u>Reserves</u><br>(ROL million) | <u>Retained earnings</u><br>(ROL million) | <u>Total</u><br>(ROL million) |
|--------------------------------------|---------------------------------------|----------------------------------|---|-------------------------------|
| Balance as at<br>31 December 2000    | <u>18,577,498</u>                     | <u>3,480,826</u>                 | <u>(611,516)</u>                          | <u>21,446,808</u>             |
| Translation reserve                  | -                                     | (372,912)                        | -   | (372,912)                     |
| Adoption of IAS 40                   | -                                     | 447,230                          | -   | 447,230                       |
| Net profit for the year 2001         | -                                     | -                                | 4,853,828                                 | 4,853,828                     |
| Transfer to general banking reserves | -                                     | 142,853                          | (142,853)                                 | -                             |
| Transfer to statutory reserve        | <u>-</u>                              | <u>706,094</u>                   | <u>(706,094)</u>                          | <u>-</u>                      |
| Balance as at<br>31 December 2001    | <u>18,577,498</u>                     | <u>4,404,091</u>                 | <u>3,393,365</u>                          | <u>26,374,954</u>             |
| Net profit for the year 2002         | -                                     | -                                | 3,473,868                                 | 3,473,868                     |
| Translation reserve                  | -                                     | 97,687                           | -   | 97,687                        |
| Dividends paid for 2001              | -                                     | -                                | (1,636,490)                               | (1,636,490)                   |
| Transfer to general banking reserves | -                                     | 227,713                          | (227,713)                                 | -                             |
| Transfer to statutory reserve        | <u>-</u>                              | <u>829,406</u>                   | <u>(829,406)</u>                          | <u>-</u>                      |
| Balance as at<br>31 December 2002    | <u>18,577,498</u>                     | <u>5,558,897</u>                 | <u>4,173,624</u>                          | <u>28,310,019</u>             |

The accompanying notes set out on pages 68 to 112 form an integral part of these consolidated financial statements.

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2002

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2002)

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## 1 BASIS OF PRESENTATION

### Currency of presentation

The accompanying financial statements have been restated in terms of the current purchasing power of the Romanian Lei (ROL) as at 31 December 2002.

### Consolidation

Banca Comerciala Romana Group ("the Group") consists of Banca Comerciala Romana as parent and its subsidiaries: Anglo-Romanian Bank (United Kingdom), Frankfurt Bucharest Bank (Germany), Banque Franco-Roumaine (France), Banca Comerciala Romana Chişinău (Republic of Moldova), Financiară SA (Romania), Bucharest Financial Plaza SRL (Romania), BCR Securities SA (Romania), BCR Leasing SA (Romania), BCR Asigurări SA and BCR Asset Management SA.

A summary of the constituent entities within Banca Comerciala Romana Group is set in Note 37.

Subsidiary undertakings, which are those companies in which Banca Comerciala Romana SA (the "Bank" or the "Parent") has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Group. Minority interest in the consolidated balance sheet is recorded separate from liabilities and shareholders' equity.

### Basis of accounting

The Bank maintains its accounting records in conformity with the Romanian accounting law and the National Bank of Romania ("NBR") banking regulations ("statutory accounts"). Foreign incorporated consolidated financial institutions maintain their accounting records in compliance with the applicable banking laws in their respective jurisdictions. Romanian consolidated non banking entities maintain their accounting records in compliance with the Romanian company's laws. All these accounting records are defined hereafter as the statutory accounts.

## 1 BASIS OF PRESENTATION (CONTINUED)

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") and interpretations issued by International Accounting Standards Board. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of investments, available-for-sale financial assets as described in Note 2 below.

The principal differences between the statutory accounts and the IAS financial statements relate to the hyperinflation accounting, income tax, methodologies for determining the specific provision for estimated loan losses and overdue interest, accounting for financial instruments and accounting for investments.

As at 1 January 2001, the Group adopted IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Property". The financial effects of adopting IAS 39 and IAS 40 are reported in the statement of changes in shareholders' equity.

In accordance with IAS 39, the Group classified its investment securities, loans to customers and treasury bills into the following categories: available for sale (for equity investments, Treasury Bills and investment securities), originated loans (for loans) and held to maturity (for investment securities).

Prior to adoption of IAS 39, all debt and equity securities, except for trading securities were measured at amortised cost or cost respectively providing only for permanent value impairments.

Further information relating to the effect of the adoption of IAS 40 is presented in the relevant accounting policies for investments in subsidiaries.

### Reclassification of comparative amounts

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

### Use of estimates

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

### Offsetting

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

## 2 SIGNIFICANT ACCOUNTING POLICIES

### Accounting for hyperinflation

IAS require that financial statements prepared on a historical cost basis should be adjusted to take account of the effects of inflation, if this has been significant. IAS 29 provides guidance on how financial information should be prepared in such circumstances. In summary it requires that financial statements should be restated in terms of measuring unit current at the balance sheet date and that any gain or loss on the net monetary position should be included in the income statement and disclosed separately. The restatement of financial statements in accordance with IAS 29 requires the use of a general price index that reflects changes in general purchasing power.

IAS 29 suggests that economies should be regarded as hyperinflationary if, among other factors, the cumulative inflation rate over a period of three years exceeds 100%. The annual increase in the general price index as issued by the "Institutul Național de Statistică" (National Statistical Institut) over the years 2000, 2001 and 2002 was:

|                             | <u>Movement in general<br/>price index</u> | <u>Movement in exchange<br/>rate of the US Dollar</u> |
|-----------------------------|--|---|
| Year ended 31 December 2002 | 17.8%                                      | (6.02%)   |
| Year ended 31 December 2001 | 30.3%                                      | (21.9%)   |
| Year ended 31 December 2000 | 40.7%                                      | (42.0%)   |

The cumulative rate of inflation was 115.96% over years 2000, 2001 and 2002 on the basis of the information published by the National Statistical Institut. Therefore the provisions of IAS 29 have been adopted in preparing these financial statements.

The application of IAS 29 to specific categories of transactions and balances within the financial statements is set out as follows:

(a) Monetary assets and liabilities

Cash, amounts due from banks, Treasury Bills, loans, accruals, receivables, payables (including taxes), borrowed funds, both long and short term, have not been restated as they are considered monetary assets and liabilities and therefore stated in ROL current at the balance sheet date.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Non monetary assets and liabilities

Non monetary assets and liabilities (i.e. those balance sheet items that are not already expressed in terms of ROL current at the balance sheet date such as property and equipment) are restated from their historical cost by applying the general price index from either the date of acquisition, valuation or contribution to the balance sheet date.

(c) Gains and losses on net monetary position

In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities in an inflationary currency loses purchasing power, while an entity holding an excess of monetary liabilities over monetary assets gains purchasing power. The net gain or loss on the net monetary position comprises the effects of changes in the general price indices on the net monetary asset/liability position. The net gain or loss is derived after having restated the balance sheet and the income statement in accordance with the procedures described above. Gains or losses on net monetary position are included in the income statement.

(d) Property and equipment

IAS 29 states that all tangible fixed assets should be restated from the date of their purchase or valuation using a general price index.

(e) Shareholders' equity

All components of shareholders' equity are restated by applying a general price index from the date of contribution or recording in the accounting records.

(f) Income statement

Amounts included in the consolidated statement of income have been indexed by the change in the general price index on a monthly basis.

(g) Comparative figures

Comparative figures for the previous reporting period are restated by applying the change in the general price index so that the comparative financial statements are presented in terms of ROL current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the balance sheet date.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Other significant accounting policies

#### Foreign currency translation

Transactions denominated in foreign currency are recorded at the official exchange rate ruling at the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income at the time of settlement using the exchange rate ruling on that date.

Income statements of foreign entities are translated into the Parent reporting currency at average exchange rates for the year and their balance sheets are translated at the year end exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign subsidiaries are taken to shareholders' equity and included in the translation reserve.

Monetary assets and liabilities denominated in foreign currency are expressed in ROL as at the balance sheet date. At 31 December 2002 the principal rate of exchange used for translating foreign currency balances was USD 1 = ROL 33,500, EUR 1 = ROL 34,919 (2001: USD 1 = ROL 31,597, EUR 1 = ROL 27,881). Foreign currency gains and losses arising from the translation of monetary assets and liabilities are reflected in the statement of income for the year.

#### Interest income and expense

Interest income and expense are recognised in the statement of income for all interest bearing instruments on an accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investment securities and accrued discount and premium on Treasury Bills and other discounted instruments.

#### Fee and commission income

Fee and commission income consists mainly of fees received for the granting of loans, issuance of guarantees and letters of credit, transfers for customers and cards.

Fees and commissions are generally recognised on an accrual basis. Non-interest expenses are recognised at the time the products are received or the service is provided.

Certain commissions such as those deriving from customers payments, cash withdrawals, letters of credit, letters of guarantee, cards are recognised as income when received. Loan origination fees are deferred and subsequently recognised in the income statement as an adjustment to the effective yield on the loan.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense as incurred. However, expenditure that enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software.

Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives but not exceeding a period of three years.

Costs associated with the maintenance of present computer software programmes are expensed as incurred.

### Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days original maturity including: cash and balances with National Bank of Romania, Treasury Bills and amounts due from other banks.

### Treasury Bills

Treasury Bills are classified as available-for-sale and are carried at market value. All interest income and any gains/losses realised from trading in Treasury Bills are included in the statement of income. The changes in fair value are recognised in the statement of income.

### Investment securities

Investment securities include debt and equity securities that are classified as available for sale and accordingly carried at fair value as well as debt securities classified as held-to-maturity that are carried at amortised cost. Debt securities represent Eurobonds issued by a Romanian incorporated company controlled by the Romanian Government and Eurobonds issued by the Romanian State.

According to IAS 39 the portfolio of the held-to-maturity investment securities is not tainted in the cases when the sales or reclassification as available-for-sale are close enough to the maturity and the difference between the fair value and the amortised cost is very small.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Originated loans and provisions for loan impairment

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

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

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

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

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

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

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

Prior to the adoption of IAS 39, loans and advances were stated at the principal amounts outstanding net of provisions for losses on loans and advances.



## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Other credit related commitments

In the normal course of business, the Group enters into other credit related commitments including loan commitments, letters of credit and guarantees. Specific provisions are raised against other credit related commitments when losses are considered probable.

### Sundry debtors

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

### Investments in subsidiaries

Investments in subsidiaries have been fully consolidated as described in Note 2.

### Investment property

A Romanian subsidiary is holding for long term rental an office building. This building is classified as "investment property". Investment property is treated as long-term investment and is carried at fair value, representing present value of cash flows from rental income.

### Equity investments

At 1 January 2001 the Group adopted IAS 39 and classified all its equity investments as "investments available for sale". This classification includes investments which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investments at the time of purchase.

Investments in which the Parent holds between 20% and 50% of the voting power but over which does not have significant influence are classified as available for sale assets.

Investments available for sale are initially recognized at cost (which includes transaction costs) and subsequently re-measured to fair value based on quoted bid prices. Certain investments available for sale for which there is no available external independent quotation have been fair valued by Management on the basis of results of recent sales of equity interest in the investees between unrelated third parties, consideration of other relevant factors such as discounted cash flows and financial information of the investees and application of other valuation methodologies.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior to adoption of IAS 39, all investments available for sale were carried at cost less provision for diminution in value, created in cases where the value of an investment has declined, and Management believes that the decline is not temporary in nature. Income derived from investments available for sale was accounted for on a cash basis. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount was charged or credited to income.

All regular way purchases and sales of investments securities are recognised at trade date, which is the date on which the Bank commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

### Sale and repurchase agreements

Securities sold subject to a linked repurchase agreements ("repos") are retained in the financial statements as originated loans including Treasury Bills and the counter party liability is included in amounts due to customers.

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers as appropriate.

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

### Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation.

Depreciation of the restated cost is applied on a straight-line method using the rates specified for each depreciable asset by the Ministry of Finance to write off the cost of each asset to their residual values over their estimated useful life.

Land is not depreciated.

The estimated useful lives are:

|                    | <u>Years</u> |
|--------------------|--------------|
| Premises           | 30 – 50      |
| Office equipment   | 3 – 10       |
| Other fixed assets | 3 – 15       |

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Expenses for repairs and maintenance are charged to operating expenses as incurred. Interest expenses are not included in the cost of premises and equipment.

### Income taxes

Each entity is required to record profit tax based upon income from financial statements prepared in accordance with the profit tax legislation in effect, in the country of incorporation.

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

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

The principal temporary differences arise from the restatement of investments and accrual adjustments for Treasury Bills and between provisions for bad and doubtful debts made under IAS and local fiscal regulations.

### Pension obligations and other post retirement benefits

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

The Group does not operate any other pension scheme and, consequently, has no obligation in respect of pensions. The Group does not operate any other defined benefit plan or post retirement benefit plan. The Group has no obligation to provide further services to current or former employees.

### Dividends and participation of staff to profit

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

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation to transfer economic benefits as a result of past events and a reliable estimate of the amount of the obligation can be made.

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3 INTEREST INCOME

|  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--|--|--|
| Current accounts and deposits to banks   | 9,033,456                                | 7,618,922                                |
| Loans and advances to customers          | 11,052,878                               | 11,268,655                               |
| Treasury Bills and investment securities | 3,973,921                                | 6,877,344                                |
| Other interest income                    | <u>21,170</u>                            | <u>830,204</u>                           |
|  | <u>24,081,425</u>                        | <u>26,595,125</u>                        |

4 INTEREST EXPENSE

|                                  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|----------------------------------|--|--|
| Customer deposits                | 11,678,835                               | 13,485,812                               |
| Due to banks                     | 549,292                                  | 533,597                                  |
| Repo transactions with customers | <u>1,189,842</u>                         | <u>965,996</u>                           |
|                                  | <u>13,417,969</u>                        | <u>14,985,405</u>                        |

5 FEE AND COMMISSION INCOME, NET

|                            | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|----------------------------|--|--|
| Fee and commission income  | 4,737,955                                | 4,410,614                                |
| Fee and commission expense | <u>(535,113)</u>                         | <u>(544,953)</u>                         |
|                            | <u>4,202,842</u>                         | <u>3,865,661</u>                         |

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6 FOREIGN EXCHANGE GAIN, NET

|   | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|---|--|--|
| Realised foreign exchange gains                                       | 277,243                                  | 1,513,939                                |
| Translation of foreign currency<br>denominated assets and liabilities | <u>(30,614)</u>                          | <u>(1,162,089)</u>                       |
|   | <u>246,629</u>                           | <u>351,850</u>                           |

7 OTHER OPERATING INCOME

|   | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|---|--|--|
| Dividends received  | 14,002                                   | 35,439                                   |
| Rent income   | 147,396                                  | 215,065                                  |
| Income from transport of values                                   | 56,532                                   | 53,802                                   |
| Investment property revaluation                                   | 204,568                                  | -  |
| Mark-to-market adjustment of Treasury Bills<br>available-for-sale | 180,067                                  | -  |
| Insurance premium income, net of reinsurance                      | 59,955                                   | -  |
| Tax discount  | -  | 213,392                                  |
| Other income  | <u>318,237</u>                           | <u>181,125</u>                           |
|   | <u>980,757</u>                           | <u>698,823</u>                           |

8 OTHER OPERATING EXPENSES

|   | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|---|--|--|
| Salaries and wages                      | 5,243,964                                | 4,250,275                                |
| Depreciation                            | 795,947                                  | 596,155                                  |
| Rent expenses                           | 90,005                                   | 50,642                                   |
| Claims, net of reinsurance              | 27,317                                   | -  |
| Office expenses                         | 1,304,086                                | 1,237,998                                |
| Other expenses including taxes and fees | <u>1,047,350</u>                         | <u>988,705</u>                           |
|   | <u>8,508,669</u>                         | <u>7,123,775</u>                         |

Other office expenses include other taxes, as local taxes, postage and telecommunications expenses, rent, fuel, energy and water supply.

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9 BAD AND DOUBTFUL DEBTS EXPENSE

|   | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|---|--|--|
| Provision for loans to customers (see Note 15)      | 2,071,656                                | 3,240,114                                |
| Provision for placements to banks (see Note 14)     | (6,195)                                  | 241,878                                  |
| Provision for other assets (see Note 19)            | -  | 221,160                                  |
| Provision for investments (see Note 17)             | 59,125                                   | 385,400                                  |
| Provision for off balance sheet items (see Note 34) | 26,730                                   | (51,472)                                 |
| Recoveries from loans previously written-off        | (1,567,269)                              | (1,609,863)                              |
| Other provisions                                    | <u>(71,049)</u>                          | <u>(102,425)</u>                         |
|   | <u>512,998</u>                           | <u>2,324,792</u>                         |

10 INCOME TAX EXPENSE

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

|                             | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|-----------------------------|--|--|
| Current income tax          | 1,539,932                                | 1,574,676                                |
| Deferred income tax release | <u>(40,579)</u>                          | <u>(386,471)</u>                         |
|                             | <u>1,499,353</u>                         | <u>1,188,205</u>                         |

Current income tax is calculated applying the enacted rate in each of the jurisdictions of the members of the Group. For the Parent, current income tax is calculated applying a rate of 25% (2001: 25%). Deferred income taxes are calculated on all temporary differences under the liability method.

|  | <u>31 December 2002</u><br>(ROL million) |
|--|--|
| IFRS profit before taxation                      | 5,002,927                                |
| Tax computed at a tax rate of 25%                | 1,250,732                                |
| Effect of different tax rates in other countries | 53,793                                   |
| Non deductible expenses                          | 271,375                                  |
| Income exempt from taxation                      | <u>(76,547)</u>                          |
| Income tax expense for the year                  | <u>1,499,353</u>                         |

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10 INCOME TAX EXPENSE (CONTINUED)

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

|   | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|---|--|--|
| Deferred income tax liabilities                   |  |  |
| - restatement of the fixed assets and investments | 529,212                                  | 450,117                                  |
| - other temporary difference                      | <u>242,229</u>                           | <u>371,311</u>                           |
|   | <u>771,441</u>                           | <u>821,428</u>                           |
| Deferred income tax assets                        |  |  |
| - loan loss provisions                            | 302,007                                  | 312,461                                  |
| - other provisions                                | <u>22,929</u>                            | <u>21,176</u>                            |
|   | <u>324,936</u>                           | <u>333,637</u>                           |
| Deferred income tax liability                     | <u>446,505</u>                           | <u>487,791</u>                           |

The movement on the deferred income tax liability is as follows:

|                              | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|------------------------------|--|--|
| At the beginning of the year | 487,791                                  | 934,050                                  |
| Income statement release     | (39,374)                                 | (386,471)                                |
| Transfer to reserves         | -  | 149,077                                  |
| Effects of exchange rates    | <u>(1,912)</u>                           | <u>(208,865)</u>                         |
| At the end of the year       | <u>446,505</u>                           | <u>487,791</u>                           |

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11 CASH

|                    | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--------------------|--|--|
| Cash               | 4,113,001                                | 4,177,375                                |
| Travellers cheques | <u>5,978</u>                             | <u>10,037</u>                            |
|                    | <u>4,118,979</u>                         | <u>4,187,412</u>                         |

12 DUE FROM CENTRAL BANKS

|                                       | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|---------------------------------------|--|--|
| Due from the National Bank of Romania |  |  |
| - current account in ROL              | 5,842,362                                | 11,503,819                               |
| - current account in other currencies | 11,458,352                               | 7,955,227                                |
| - term deposits                       | 36,242,007                               | 17,080,380                               |
| - restricted deposits                 | 122,656                                  | 244,772                                  |
| Due from other central banks          | <u>577,334</u>                           | <u>590,555</u>                           |
|                                       | <u>54,242,711</u>                        | <u>37,374,753</u>                        |

Current accounts due from the National Bank of Romania are required to satisfy the mandatory reserve requirements of the National Bank of Romania and are used for the settlements of the customers payments and receipts in local currency. The interest rates ranged from 8% to 15% (2001: 17% to 25.5%) for reserves held in ROL, the weighted average being 11.21 % (2001: 23%) and of 1% (2001: 1% to 3.1%) for reserves held in USD the weighted average being 1% (2001: 2.8%).

The interest rates for term placements with National Bank of Romania ranged during 2002 from 19.45% to 35% (2001: from 33.65% to 50%) weighted average being 27.12% (2001: 39.69%).



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13 TREASURY BILLS

|                                  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|----------------------------------|--|--|
| Romanian Treasury Bills - in ROL | 7,063,628                                | 9,644,814                                |
| Romanian Treasury Bills - in USD | <u>3,455,559</u>                         | <u>3,951,122</u>                         |
|                                  | <u>10,519,187</u>                        | <u>13,595,936</u>                        |

Treasury Bills in ROL are issued by the Romanian Ministry of Finance with interest rates ranging from 17% to 40% during 2002 (2001: 31 % to 55%), the weighted average rate being 26% (2001: 39%). Treasury Bills in foreign currency are issued by the Romanian Ministry of Public Finance, denominated in USD, carry an interest rate of 5% (2001: 5% to 7%), having a weighted average of 5% (2001: 6%).

Included in Treasury Bills are securities sold under sale and repurchase agreements, as described in Note 22.

The Bank pledged as collateral Treasury Bills amounting to ROL 888,529 million mainly in favour of the clearing house of the Romanian payment system (TransFonD).

The Government bonds in ROL bear a variable interest rate between 23.72% and 35.16% with a weighted average of 30% and have a maturity on January 2003.

14 DUE FROM OTHER BANKS

|                                | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--------------------------------|--|--|
| Analysis by maturity           |  |  |
| Payable on demand              | 1,147,623                                | 1,495,900                                |
| Term deposits                  | 8,048,178                                | 15,271,503                               |
| Other loans                    | <u>131,051</u>                           | <u>20,689</u>                            |
| Due from banks, gross          | 9,326,852                                | 16,788,092                               |
| Provision for doubtful amounts | <u>(1,064,806)</u>                       | <u>(1,042,070)</u>                       |
|                                | <u>8,262,046</u>                         | <u>15,746,022</u>                        |

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14 DUE FROM OTHER BANKS (CONTINUED)

|  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--|--|--|
| Provision for doubtful placements          |  |  |
| Provision at 1 January                     | 1,042,070                                | 1,194,016                                |
| Charge/(release) for the year (see Note 9) | (6,195)                                  | 241,878                                  |
| Effects of inflation                       | (157,461)                                | (277,657)                                |
| Write-offs                                 | (36,648)                                 | -  |
| Effects of exchange rates                  | <u>223,040</u>                           | <u>(116,167)</u>                         |
| Provision at 31 December                   | <u>1,064,806</u>                         | <u>1,042,070</u>                         |

|  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--|--|--|
| Analysis of principal by classification before provision |  |  |
| Current accounts and money at call with banks            | 1,068,744                                | 1,495,902                                |
| Placements with non-Romanian incorporated banks          | 6,537,723                                | 13,438,103                               |
| Placements with Romanian incorporated banks              | 833,498                                  | 792,800                                  |
| Collateral deposits and blocked accounts                 | 372,355                                  | 1,040,598                                |
| Loans to Romanian incorporated banks                     | <u>514,532</u>                           | <u>20,689</u>                            |
|  | <u>9,326,852</u>                         | <u>16,788,092</u>                        |

During 2002 interest on placements in USD ranged from 0.14% to 2.88% (2001: 1.75% to 8%), the weighted average rate being 1.70% (2001: 4.14%). Interest rates on placements in EUR ranged from 2.40% to 3.98%, the weighted average rate being 3.25%. Interest rates on placements in ROL ranged from 6% to 65% (2001: 17% to 80%), the weighted average rate being 29.65% (2001: 38%).

The Bank has a collateral deposit in amount of EUR 6,730,709 which represents a guarantee retained by DZ Bank for its investment in Frankfurt Bukarest Bank's share capital.

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15 LOANS AND ADVANCES TO CUSTOMERS

|                                      | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--------------------------------------|--|--|
| Loans and advances to customers, net | 51,669,623                               | 40,302,577                               |
| Reverse repo                         | <u>999</u>                               | <u>7,956</u>                             |
|                                      | <u>51,670,622</u>                        | <u>40,310,533</u>                        |

The Group accepted Treasury Bills with a carrying amount of ROL 999 million as collateral for a loan, which is due on 7 March 2003.

Analysis by industrial classification

|  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--|--|--|
| Trade                                  | 9,739,080                                | 7,379,363                                |
| Finance lease                          | 6,550,345                                | -  |
| Agriculture and food industry          | 4,326,833                                | 5,175,446                                |
| Metallurgy                             | 3,599,988                                | 4,295,475                                |
| Chemical and petrochemical             | 2,706,288                                | 2,795,538                                |
| Transport vehicles manufacturing       | 3,221,579                                | 3,046,163                                |
| Textile and leather                    | 2,014,895                                | 2,529,360                                |
| Manufacturing metallic products        | 2,725,282                                | 1,749,541                                |
| Power generating                       | 998,836                                  | 1,852,965                                |
| Mining                                 | 2,354,757                                | 1,120,512                                |
| Wood industry                          | 1,074,103                                | 1,352,099                                |
| Machinery and mechanical equipment     | 1,673,128                                | 1,496,502                                |
| Transport                              | 700,967                                  | 1,695,487                                |
| Electrical engineering and electronics | 412,732                                  | 704,170                                  |
| Latex and plastic materials            | 1,813,562                                | 456,254                                  |
| Construction materials                 | 2,035,253                                | 1,074,013                                |
| Individuals                            | 5,568,989                                | 3,935,752                                |
| Other                                  | <u>3,713,775</u>                         | <u>3,186,560</u>                         |
| Total portfolio                        | <u>55,230,392</u>                        | <u>43,845,200</u>                        |
| Provision for loan losses              | <u>(3,559,770)</u>                       | <u>(3,534,667)</u>                       |
|  | <u>51,670,622</u>                        | <u>40,310,533</u>                        |

## 15 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The major part of the loans and advances are granted to Romanian incorporated companies. Interest rates on ROL loans and advances during 2002 ranged from 27% to 40% (2001: 40% to 57%), the weighted average rate being 35% (2001: 51%). Interest rates on foreign currency loans during the year ranged from 8% to 11% (2001: 7% to 11%), the weighted average rate being 8.5% (2001: 9%).

## Provision for loan losses

|                                  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|----------------------------------|--|--|
| Provision at 1 January           | 3,534,667                                | 3,464,857                                |
| Charge for the year (see Note 9) | 2,071,656                                | 3,240,114                                |
| Effects of inflation             | (534,101)                                | (805,717)                                |
| Write-offs                       | (1,663,346)                              | (2,437,692)                              |
| Effects of exchange rates        | <u>150,894</u>                           | <u>73,105</u>                            |
| Provision at 31 December         | <u><u>3,559,770</u></u>                  | <u><u>3,534,667</u></u>                  |

An analysis of loans and advances by maturity is presented in Note 29.

## 16 INVESTMENT SECURITIES

Investment classified as securities available-for-sale:

|   | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|---|--|--|
| Debt securities – at fair value                   |  |  |
| - listed  | 3,917,055                                | 999,808                                  |
| - unlisted  | 1,374,120                                | 780,274                                  |
| Equity securities – at fair value                 |  |  |
| - listed  | 2,204                                    | 220                                      |
| - unlisted  | <u>54,173</u>                            | <u>-</u>                                 |
| Total securities classified as available-for-sale | <u><u>5,347,552</u></u>                  | <u><u>1,780,302</u></u>                  |

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16 INVESTMENT SECURITIES (CONTINUED)

Investment securities classified as held-to-maturity:

|   | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|---|--|--|
| Debt securities at amortised cost               |  |  |
| - listed  | 2,262,716                                | 837,951                                  |
| - unlisted                                      | <u>1,935,271</u>                         | <u>6,603,258</u>                         |
| Total securities classified as held-to-maturity | <u>4,197,987</u>                         | <u>7,441,209</u>                         |
| Total investment securities                     | <u><u>9,545,539</u></u>                  | <u><u>9,221,511</u></u>                  |

The movement in investment securities may be summarized as follows:

Investment securities

|  | <u>Available for sale</u><br>(ROL million) | <u>Held to maturity</u><br>(ROL million) |
|--|--|--|
| At 1 January 2002                                    | 1,780,302                                  | 7,441,209                                |
| Less effect of inflation                             | (269,010)                                  | (1,124,393)                              |
| Transfer from held to maturity to available for sale | 603,859                                    | (603,859)                                |
| Exchange difference on monetary assets               | 39,477                                     | 164,576                                  |
| Additions  | 3,284,752                                  | 1,053,292                                |
| Disposals (Sale and redemption)                      | (122,181)                                  | (2,732,838)                              |
| Gain from changes in fair value                      | <u>30,353</u>                              | <u>-</u>                                 |
| At 31 December 2002                                  | <u><u>5,347,552</u></u>                    | <u><u>4,197,987</u></u>                  |

17 EQUITY INVESTMENTS

|  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--|--|--|
| At 1 January                                     | 1,124,710                                | 1,179,970                                |
| Transfers  | (5,795)                                  | (688,834)                                |
| Additions/(disposals)                            | <u>10,452</u>                            | <u>633,574</u>                           |
| At 31 December                                   | <u><u>1,129,367</u></u>                  | <u><u>1,124,710</u></u>                  |
| Provision for diminution in value of investments | <u>(597,781)</u>                         | <u>(538,656)</u>                         |
|  | <u><u>531,586</u></u>                    | <u><u>586,054</u></u>                    |

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17 EQUITY INVESTMENTS (CONTINUED)

Investments relate to the Group's participation in a number of Romanian and foreign companies which are accounted for at cost.

|                              | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|------------------------------|--|--|
| Provision for investments    |  |  |
| At 1 January                 | 538,656                                  | 153,256                                  |
| Charge for the year (Note 9) | <u>59,125</u>                            | <u>385,400</u>                           |
| At 31 December               | <u>597,781</u>                           | <u>538,656</u>                           |

| Company's Name   | Country of<br><u>incorporation</u> | Nature of<br><u>business</u>                            | Shareholding       |                    |
|--|------------------------------------|---|--------------------|--------------------|
|  |                                    |   | <u>2002</u><br>(%) | <u>2001</u><br>(%) |
| Banca Italo-Romena, Milano*  | Italy                              | Banking   | 7.69%              | 7.69%              |
| MISR Romanian Bank, Cairo*   | Egypt                              | Banking   | 19.00%             | 19.00%             |
| Eurombank  | Romania                            | Banking   | 0.02%              | 0.02%              |
| Fondul de Garantare a Creditului Rural                             | Romania                            | Investment fund   | 26.32%             | 26.32%             |
| ASIBAN SA  | Romania                            | Insurance   | 20.00%             | 20.00%             |
| Fondul de Garantare a Creditelor<br>pentru Intreprinzatori Privati | Romania                            | Investment and guaranteeing fund                        | 19.62%             | 19.62%             |
| OMNIASIG-Asigurari de Viata*                                       | Romania                            | Insurance   | -                  | 20.00%             |
| OMNIASIG SA*   | Romania                            | Insurance   | 1.60%              | 2.78%              |
| Registrul Roman al Actionarilor                                    | Romania                            | Register for Stock exchange<br>listed companies         | 20.00%             | 20.00%             |
| Romcard  | Romania                            | Card operations   | 20.00%             | 20.00%             |
| Transfond  | Romania                            | Clearing and settlements of<br>inter-banking payments   | 2.68%              | 2.38%              |
| Agentia bursiera SIS & CO SA                                       | Romania                            | Brokerage house   | 20.00%             | 20.00%             |
| Popasul Romanilor SRL Zalau  | Romania                            | Tourism   | 16.00%             | 16.00%             |
| Bursa Romana de Marfuri  | Romania                            | Commodity exchange                                      | 5.27%              | 5.27%              |
| Bursa Maritima si de Marfuri<br>Constanta SA                       | Romania                            | Commodity exchange                                      | 0.61%              | 0.66%              |
| SNCDD  | Romania                            | Clearing and settlements for<br>Rasdaq quoted companies | 3.43%              | 3.43%              |
| Romwool  | Romania                            | Textile industry  | 8.70%              | 8.70%              |
| Kvaerner IMGB  | Romania                            | Heavy industry  | 5.87%              | 5.87%              |
| Piata de Gros SA   | Romania                            | Trade   | 0.71%              | 0.71%              |
| SWIFT Belgium*   | Belgium                            | Banking communications                                  | <1.00%             | <1.00%             |

\* acquired from Bancorex during 1999.

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18 PREMISES AND EQUIPMENT

|                          | <u>Land and<br/>buildings</u><br>(ROL million) | <u>Office<br/>equipment</u><br>(ROL million) | <u>Other<br/>fixed assets</u><br>(ROL million) | <u>Total</u><br>(ROL million) |
|--------------------------|--|--|--|-------------------------------|
| Restated cost            |  |  |  |                               |
| At 31 December 2001      | 12,886,337                                     | 1,855,731                                    | 2,446,627                                      | 17,188,695                    |
| Additions                | 927,143  | 249,296                                      | 671,549  | 1,847,988                     |
| Disposals                | <u>(219,469)</u>                               | <u>(344,259)</u>                             | <u>(92,197)</u>                                | <u>(655,925)</u>              |
| At 31 December 2002      | <u>13,594,011</u>                              | <u>1,760,768</u>                             | <u>3,025,979</u>                               | <u>18,380,758</u>             |
| Accumulated depreciation |  |  |  |                               |
| At 31 December 2001      | 1,048,512                                      | 657,077                                      | 667,112  | 2,372,701                     |
| Charge for the year      | 290,339  | 228,824                                      | 276,784  | 795,947                       |
| Disposals                | <u>(8,012)</u>                                 | <u>(118,635)</u>                             | <u>(43,372)</u>                                | <u>(170,019)</u>              |
| At 31 December 2002      | <u>1,330,839</u>                               | <u>767,266</u>                               | <u>900,524</u>                                 | <u>2,998,629</u>              |
| Net book value           |  |  |  |                               |
| At 31 December 2002      | <u>12,263,172</u>                              | <u>993,502</u>                               | <u>2,125,455</u>                               | <u>15,382,129</u>             |
| At 31 December 2001      | <u>11,837,825</u>                              | <u>1,198,654</u>                             | <u>1,779,515</u>                               | <u>14,815,994</u>             |

The caption "Other fixed assets" includes cars, software and other sundry fixed assets.

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19 OTHER ASSETS

|                                   | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|-----------------------------------|--|--|
| Amounts in transit                | 132,447                                  | 106,271                                  |
| Sundry debtors                    | 301,359                                  | 1,466,896                                |
| Petty inventory                   | 80,341                                   | 429,005                                  |
| Other assets and prepayments      | <u>428,404</u>                           | <u>183,063</u>                           |
|                                   | <u>942,551</u>                           | <u>2,185,235</u>                         |
| Less provision for sundry debtors | <u>(198,117)</u>                         | <u>(221,160)</u>                         |
|                                   | <u>744,434</u>                           | <u>1,964,075</u>                         |

|   | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|---|--|--|
| Provision for sundry debtors                  |  |  |
| Provision at 1 January                        | 221,160                                  | -  |
| Charge of provision for the year (see Note 9) | -  | 221,160                                  |
| Effects of inflation                          | (33,418)                                 | -  |
| Other assets written-off                      | (467)                                    | -  |
| Effects of exchange rates                     | <u>10,842</u>                            | <u>-</u>                                 |
| Provision at 31 December                      | <u>198,117</u>                           | <u>221,160</u>                           |

20 INVESTMENT PROPERTY

|                              | <u>31 December 2002</u><br>(ROL million) |
|------------------------------|--|
| At the beginning of the year | 1,336,188                                |
| Fair value adjustment        | <u>204,567</u>                           |
| At the end of the year       | <u>1,540,755</u>                         |

The investment property is valued at 31 December 2002 at fair value comprising present value of future cash flows from rental income.



## 20 INVESTMENT PROPERTY (CONTINUED)

During the year 2002 the rental income from investment property was ROL 115,213 million. Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the year were in amount of ROL 51,114 million.

## 21 DUE TO OTHER BANKS

|                     | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|---------------------|--|--|
| Repayable on demand | 586,073                                  | 1,028,129                                |
| Term deposits       | 3,165,808                                | 3,782,648                                |
| Loans from banks    | <u>4,744,432</u>                         | <u>5,351,490</u>                         |
|                     | <u>8,496,313</u>                         | <u>10,162,267</u>                        |

A maturity profile of amounts due to other banks is provided in Note 29.

The interest rates for amounts in USD during the year ranged from 0.75% to 4.5% (2001: 1% to 6.6%), the weighted average rate being 2% (2001: 2.98%).

The interest rates for deposits in EUR during 2002 ranged from 0.75% to 3.52%, the weighted average being 2.96%.

Interest rates on deposits taken in ROL ranged from 14% to 34% (2001: 5% to 60%), the weighted average being 24% (2001: 34%).

The largest amounts due to other banks are loans from foreign banks denominated in hard currencies. The interest rates in 2002 for these borrowed funds ranged from 3.39% to 7.77% for EUR, weighted average interest rate being 5.5% and from 2.2% to 7.7% for USD, weighted average interest rate being 3.44%.

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## 22 DEPOSITS FROM CUSTOMERS

|  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--|--|--|
| Repayable on demand - individuals      | 8,594,545                                | 9,760,484                                |
| Repayable on demand - companies        | 24,439,203                               | 20,343,240                               |
| Term deposits - individuals            | 50,263,099                               | 43,085,407                               |
| Term deposits - companies              | 21,488,468                               | 15,706,338                               |
| Certificates of deposits - individuals | 10,131,315                               | 6,464,815                                |
| Certificates of deposits - companies   | 953,132                                  | -  |
| Repurchase agreements                  | <u>1,164,006</u>                         | <u>4,418,150</u>                         |
|  | <u>117,033,768</u>                       | <u>99,778,434</u>                        |

Interest rates during 2002 ranged from 6% to 33% (2001: 6% to 39%) for ROL term deposits, the weighted average rate being 22.95% (2001: 32.79%) and ranged from 0.5% and 3.5% (2001: 2.88% to 5%) for foreign currency deposits, the weighted average rate being 2.74% (2001: 4.15%).

Assets pledged as collateral for repurchase agreements are Treasury Bills issued by the Romanian Ministry of Public Finance in local currency with a carrying amount of ROL 837,862 million and in USD with a carrying amount of ROL 326,144 million equivalent.

The Treasury Bills denominated in local currency are issued for periods of 3 or 12 months and bear an interest ranging between 21.5% and 35.85%.

The Treasury Bills denominated in hard currency are issued for periods of 1 year and bear an interest of 5%.

## 22 OTHER LIABILITIES AND PROVISIONS

|  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--|--|--|
| Clearing payments pending                        | 583,243                                  | 996,092                                  |
| Provision for letters of guarantee (see Note 34) | 113,449                                  | 132,178                                  |
| Other taxes payable                              | 12,063                                   | -  |
| Taxation   | 147,098                                  | 305,544                                  |
| Unearned premium reserve                         | 136,869                                  | -  |
| Other liabilities                                | <u>593,322</u>                           | <u>280,047</u>                           |
|  | <u>1,586,044</u>                         | <u>1,713,861</u>                         |

Clearing payments pending relate to obligations to settle payments, which arise due to timing differences between the execution of payments and their settlement.

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24 SHARE CAPITAL

|                                | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--------------------------------|--|--|
| Statutory value (not restated) | 7,924,688                                | 7,924,688                                |
| Restatement of share capital   | <u>10,652,810</u>                        | <u>10,652,810</u>                        |
|                                | <u>18,577,498</u>                        | <u>18,577,498</u>                        |

Shareholder

|                   | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|-------------------|--|--|
| APAPS             | 69.88%                                   | 69.88%                                   |
| SIF Oltenia       | 6.12%                                    | 6.12%                                    |
| SIF Banat Crisana | 6.00%                                    | 6.00%                                    |
| SIF Moldova       | 6.00%                                    | 6.00%                                    |
| SIF Transilvania  | 6.00%                                    | 6.00%                                    |
| SIF Muntenia      | <u>6.00%</u>                             | <u>6.00%</u>                             |
|                   | <u>100.00%</u>                           | <u>100.00%</u>                           |

The share capital of the Group consists of 792,468,750 (2001: 792,468,750) allotted and fully paid ordinary shares of ROL 10,000 each. Each share carries one vote. Share capital is owned 69.88% by the Romanian State through "Autoritatea pentru Privatizare și Administrarea Participațiilor Statului" ("APAPS") (former State Ownership Fund) and 30.12% by the five Financial Investments Funds ("SIF") (former Private Ownership Funds), the latter being closed investment companies. In the above table, the statutory value of share capital is presented in nominal terms as required by the relevant Romanian authorities.

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25 RESERVES

|  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--|--|--|
| General banking reserves                 | 1,014,478                                | 786,765                                  |
| Statutory reserve                        | 4,372,414                                | 3,543,008                                |
| Translation reserve                      | (275,225)                                | (372,912)                                |
| Adoption of IAS 40 - investment property | <u>447,230</u>                           | <u>447,230</u>                           |
|  | <u>5,558,897</u>                         | <u>4,404,091</u>                         |
|  |  | <u>31 December 2002</u><br>(ROL million) |
| General banking reserves                 |  |  |
| At 1 January                             |  | 786,765                                  |
| Transfer from profit                     |  | <u>227,713</u>                           |
| At 31 December                           |  | <u>1,014,478</u>                         |
| Statutory reserves                       |  |  |
| At 1 January                             |  | 3,543,008                                |
| Transfer from profit                     |  | <u>829,406</u>                           |
| At 31 December                           |  | <u>4,372,414</u>                         |
| Translation reserves                     |  |  |
| At 1 January                             |  | (372,912)                                |
| Transfer from profit                     |  | <u>97,687</u>                            |
| At 31 December                           |  | <u>(275,225)</u>                         |

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

## 25 RESERVES (CONTINUED)

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

- (a) legal reserve, appropriated at the rate of 20% of the gross profit, until the total reserve is equal to the issued and fully paid up share capital, 10% until the total reserve is equal to twice the share capital issued and fully paid up and thereafter from the net profit without any limitation;
- (b) general reserve for possible credit losses, appropriated from the gross profit at the rate of 2% of the loan risk portfolio.

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

## 26 ANALYSIS OF CASH AND CASH EQUIVALENTS

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

|  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--|--|--|
| Cash   | 4,118,979                                | 4,187,412                                |
| Current account and short term deposits with Central Banks | 53,189,974                               | 37,374,752                               |
| Treasury Bills - less than 3 months                        | 299,273                                  | 294,936                                  |
| Due from other banks - less than 3 months                  | <u>9,029,745</u>                         | <u>15,619,098</u>                        |
|  | <u>66,637,971</u>                        | <u>57,476,198</u>                        |

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27 ASSETS AND LIABILITIES DENOMINATED IN ROL AND OTHER CURRENCIES

The table below presents the Group's assets and liabilities analysed by currency denominated as at 31 December 2002 (see Note 33):

|   | <u>ROL</u><br>(ROL million) | <u>USD</u><br>(ROL million) | <u>EUR</u><br>(ROL million) | <u>Other</u><br>(ROL million) | <u>Total</u><br>(ROL million) |
|---|-----------------------------|-----------------------------|-----------------------------|-------------------------------|-------------------------------|
| <b>Assets</b>                           |                             |                             |                             |                               |                               |
| Cash                                    | 2,681,753                   | 433,299                     | 921,389                     | 82,538                        | 4,118,979                     |
| Due from the Central Banks              | 42,223,782                  | 11,628,006                  | 374,764                     | 16,159                        | 54,242,711                    |
| Treasury bills                          | 7,076,289                   | 3,342,345                   | 42,823                      | 57,730                        | 10,519,187                    |
| Due from other banks                    | 462,374                     | 2,509,252                   | 3,826,294                   | 1,464,126                     | 8,262,046                     |
| Loans and advances<br>to customers, net | 26,533,111                  | 13,418,060                  | 11,218,500                  | 500,951                       | 51,670,622                    |
| Investment securities                   | 89,771                      | 4,797,419                   | 4,604,368                   | 53,981                        | 9,545,539                     |
| Investments in associates               | 219,300                     | 211,961                     | 100,325                     | –                             | 531,586                       |
| Property and equipment                  | 15,309,967                  | –                           | 66,278                      | 5,884                         | 15,382,129                    |
| Investment property                     | 1,540,755                   | –                           | –                           | –                             | 1,540,755                     |
| Other assets                            | <u>482,702</u>              | <u>91,852</u>               | <u>157,813</u>              | <u>12,067</u>                 | <u>744,434</u>                |
| <b>Total assets</b>                     | <u>96,619,804</u>           | <u>36,432,194</u>           | <u>21,312,554</u>           | <u>2,193,436</u>              | <u>156,557,988</u>            |
| <b>Liabilities</b>                      |                             |                             |                             |                               |                               |
| Due to other banks                      | 127,807                     | 3,701,712                   | 4,498,954                   | 167,840                       | 8,496,313                     |
| Due to customers                        | 70,880,780                  | 28,548,607                  | 15,610,380                  | 1,994,001                     | 117,033,768                   |
| Other liabilities and provisions        | 607,919                     | 428,496                     | 166,823                     | 382,806                       | 1,586,044                     |
| Deferred tax liability                  | <u>341,876</u>              | <u>–</u>                    | <u>104,535</u>              | <u>94</u>                     | <u>446,505</u>                |
| <b>Total liabilities</b>                | <u>71,958,382</u>           | <u>32,678,815</u>           | <u>20,380,692</u>           | <u>2,544,741</u>              | <u>127,562,630</u>            |
| <b>Net on balance sheet position</b>    | <u>24,661,422</u>           | <u>3,753,379</u>            | <u>931,862</u>              | <u>(351,305)</u>              | <u>28,995,358</u>             |

Other currencies include mainly British Pound and Swiss Franc.

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27 ASSETS AND LIABILITIES DENOMINATED IN ROL AND OTHER CURRENCIES (CONTINUED)

As at 31 December 2001 (see Note 33):

|  | <u>31 December 2001</u><br>(ROL million) |
|--|--|
| Assets                                   |  |
| Denominated in ROL                       | 81,902,553                               |
| Denominated in currencies other than ROL | <u>57,235,925</u>                        |
| Total assets                             | <u>139,138,478</u>                       |
| Liabilities                              |  |
| Denominated in ROL                       | 57,658,055                               |
| Denominated in currencies other than ROL | <u>54,484,298</u>                        |
| Total liabilities                        | <u>112,142,353</u>                       |

The principal foreign currency held by the Group is the US Dollar, other foreign currencies are also held including Euro, GB Pounds, and Swiss Francs.

28 INTEREST RATE RISK

The table below summarises the effective interest rate by major currencies for monetary financial instruments (see Note 33).

|                                 | <u>EUR</u> | <u>USD</u> | <u>ROL</u> |
|---------------------------------|------------|------------|------------|
| Assets                          |            |            |            |
| Balances with central banks     | –          | 1.00%      | 18.88%     |
| Treasury bills                  | –          | 5.00%      | 26.52%     |
| Investment securities           | 10.22%     | 5.00%      | 23.72%     |
| Due from banks                  | 3.12%      | 1.48%      | 20.91%     |
| Loans and advances to customers | 7.00%      | 7.00%      | 28.00%     |
| Liabilities                     |            |            |            |
| Due to other banks              | 3.09%      | 1.43%      | 19.20%     |
| Loans from banks                | 3.41%      | 2.46%      | –          |

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28 INTEREST RATE RISK (CONTINUED)

The table below summarizes the Group's exposures to interest rate risk. Included in the table are the Group's assets and liabilities at carrying amount categorized by earlier of contractual repricing or maturity dates as at 31 December 2002.

|                                     | Up to<br>3 months<br>(ROL million) | 3 months to<br>1 year<br>(ROL million) | 1 year to<br>5 years<br>(ROL million) | Over<br>5 years<br>(ROL million) | No interest<br>bearing<br>(ROL million) | Total<br>(ROL million) |
|-------------------------------------|------------------------------------|--|---------------------------------------|----------------------------------|---|------------------------|
| <b>Assets</b>                       |                                    |  |                                       |                                  |   |                        |
| Cash                                | -                                  | -                                      | -                                     | -                                | 4,118,979                               | 4,118,979              |
| Due from Central Banks              | 54,242,711                         | -                                      | -                                     | -                                | -                                       | 54,242,711             |
| Treasury Bills bonds                | 2,631,767                          | 7,887,420                              | -                                     | -                                | -                                       | 10,519,187             |
| Due from other banks                | 7,804,609                          | 457,437                                | -                                     | -                                | -                                       | 8,262,046              |
| Investment securities               | 705,504                            | 3,352,489                              | 3,661,148                             | 1,826,398                        | -                                       | 9,545,539              |
| Loans and advances<br>to customers  | 51,047,464                         | 623,158                                | -                                     | -                                | -                                       | 51,670,622             |
| Investment in associates            | -                                  | -                                      | -                                     | -                                | 531,586                                 | 531,586                |
| Premises and equipment              | -                                  | -                                      | -                                     | -                                | 15,382,129                              | 15,382,129             |
| Investment property                 | -                                  | -                                      | -                                     | -                                | 1,540,755                               | 1,540,755              |
| Other assets                        | -                                  | -                                      | -                                     | -                                | 744,434                                 | 744,434                |
| <b>Total assets</b>                 | <b>116,432,055</b>                 | <b>12,320,504</b>                      | <b>3,661,148</b>                      | <b>1,826,398</b>                 | <b>22,317,883</b>                       | <b>156,557,988</b>     |
| <b>Liabilities</b>                  |                                    |  |                                       |                                  |   |                        |
| Due to other banks                  | 4,977,133                          | 2,156,376                              | 1,034,547                             | 328,257                          | -                                       | 8,496,313              |
| Deposits from customers             | 113,926,208                        | 3,094,686                              | 12,874                                | -                                | -                                       | 117,033,768            |
| Deferred tax liability              | -                                  | -                                      | -                                     | -                                | 446,505                                 | 446,505                |
| Other liabilities<br>and provisions | -                                  | -                                      | -                                     | -                                | 1,586,044                               | 1,586,044              |
| <b>Total liabilities</b>            | <b>118,903,341</b>                 | <b>5,251,062</b>                       | <b>1,047,421</b>                      | <b>328,257</b>                   | <b>2,032,549</b>                        | <b>127,562,630</b>     |
| <b>Interest sensitivity gap</b>     | <b>(2,471,286)</b>                 | <b>7,069,442</b>                       | <b>2,613,727</b>                      | <b>1,498,141</b>                 | <b>20,285,334</b>                       | <b>28,995,358</b>      |



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## 29 LIQUIDITY RISK

The amount of total assets and liabilities at 31 December 2002 analysed over the remaining period to the contractual maturity date is as follows (see Note 33):

|                                     | Up to<br>3 months<br>(ROL million) | 3 months to<br>1 year<br>(ROL million) | 1 year to<br>5 years<br>(ROL million) | Over<br>5 years<br>(ROL million) | Total<br>(ROL million) |
|-------------------------------------|------------------------------------|--|---------------------------------------|----------------------------------|------------------------|
| <b>Assets</b>                       |                                    |  |                                       |                                  |                        |
| Cash                                | 4,118,979                          | –                                      | –                                     | –                                | 4,118,979              |
| Due from Central Banks              | 54,242,711                         | –                                      | –                                     | –                                | 54,242,711             |
| Treasury Bills bonds                | 2,668,491                          | 7,796,868                              | 53,828                                | –                                | 10,519,187             |
| Due from other banks                | 7,594,718                          | 581,078                                | 86,250                                | –                                | 8,262,046              |
| Loans and advances<br>to customers  | 20,626,712                         | 17,799,647                             | 11,866,858                            | 1,377,405                        | 51,670,622             |
| Investment securities               | 650,921                            | 2,385,212                              | 5,039,871                             | 1,469,535                        | 9,545,539              |
| Investment in associates            | –                                  | –                                      | –                                     | 531,586                          | 531,586                |
| Premises and equipment              | –                                  | –                                      | –                                     | 15,382,129                       | 15,382,129             |
| Investment property                 | –                                  | –                                      | –                                     | 1,540,755                        | 1,540,755              |
| Other assets                        | 510,716                            | 159,986                                | 10,792                                | 62,940                           | 744,434                |
| <b>Total assets</b>                 | <b>90,413,248</b>                  | <b>28,722,791</b>                      | <b>17,057,599</b>                     | <b>20,364,350</b>                | <b>156,557,988</b>     |
| <b>Liabilities</b>                  |                                    |  |                                       |                                  |                        |
| Due to other banks                  | 3,888,017                          | 1,799,932                              | 2,564,933                             | 243,431                          | 8,496,313              |
| Deposits from customers             | 101,400,959                        | 13,911,946                             | 852,981                               | 867,882                          | 117,033,768            |
| Other liabilities<br>and provisions | 679,156                            | 795,025                                | 21,257                                | 90,606                           | 1,586,044              |
| Deferred tax liability              | –                                  | –                                      | –                                     | 446,505                          | 446,505                |
| <b>Total liabilities</b>            | <b>105,968,132</b>                 | <b>16,506,903</b>                      | <b>3,439,171</b>                      | <b>1,648,424</b>                 | <b>127,562,630</b>     |
| <b>Net liquidity gap</b>            | <b>(15,554,884)</b>                | <b>12,215,888</b>                      | <b>13,618,428</b>                     | <b>18,715,926</b>                | <b>28,995,358</b>      |

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

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29 LIQUIDITY RISK (CONTINUED)

The amount of total assets and liabilities at 31 December 2001 analysed over the remaining period to the contractual maturity date is as follows:

|                                     | Up to<br>3 months<br>(ROL million) | 3 months to<br>1 year<br>(ROL million) | 1 year to<br>5 years<br>(ROL million) | Over<br>5 years<br>(ROL million) | Total<br>(ROL million) |
|-------------------------------------|------------------------------------|--|---------------------------------------|----------------------------------|------------------------|
| <b>Assets</b>                       |                                    |  |                                       |                                  |                        |
| Cash                                | 4,187,412                          | -                                      | -                                     | -                                | 4,187,412              |
| Due from Central Banks              | 37,374,753                         | -                                      | -                                     | -                                | 37,374,753             |
| Treasury Bills bonds                | 3,121,021                          | 10,474,915                             | -                                     | -                                | 13,595,936             |
| Due from other banks                | 15,021,335                         | 296,326                                | 377,940                               | 50,421                           | 15,746,022             |
| Loans and advances<br>to customers  | 17,011,293                         | 13,862,044                             | 7,622,228                             | 1,814,968                        | 40,310,533             |
| Investment securities               | -                                  | 5,416,283                              | 2,691,292                             | 1,113,936                        | 9,221,511              |
| Equity investments                  | -                                  | -                                      | -                                     | 586,054                          | 586,054                |
| Premises and equipment              | -                                  | -                                      | -                                     | 14,815,994                       | 14,815,994             |
| Investment property                 | -                                  | -                                      | -                                     | 1,336,188                        | 1,336,188              |
| Other assets                        | 634,781                            | 999,098                                | 286,561                               | 43,635                           | 1,964,075              |
| <b>Total assets</b>                 | <b>77,350,595</b>                  | <b>31,048,666</b>                      | <b>10,978,021</b>                     | <b>19,761,196</b>                | <b>139,138,478</b>     |
| <b>Liabilities</b>                  |                                    |  |                                       |                                  |                        |
| Due to other banks                  | 5,324,665                          | 1,212,083                              | 2,969,219                             | 656,300                          | 10,162,267             |
| Deposits from customers             | 86,339,027                         | 11,975,104                             | 1,272,500                             | 191,803                          | 99,778,434             |
| Other liabilities and<br>provisions | 649,329                            | 356,483                                | 363,062                               | 344,987                          | 1,713,861              |
| Deferred tax liability              | -                                  | -                                      | -                                     | 487,791                          | 487,791                |
| <b>Total liabilities</b>            | <b>92,313,021</b>                  | <b>13,543,670</b>                      | <b>4,604,781</b>                      | <b>1,680,881</b>                 | <b>112,142,353</b>     |
| <b>Net liquidity gap</b>            | <b>(14,962,426)</b>                | <b>17,504,996</b>                      | <b>6,373,240</b>                      | <b>18,080,315</b>                | <b>26,996,125</b>      |

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30 ECONOMIC SECTOR RISK

The table below analyse assets and liabilities of the Parent into transactions with Romanian State and Private companies as at 31 December 2002 (see Note 33).

|                                      | <u>State</u><br>(ROL million) | <u>Private</u><br>(ROL million) | <u>Total</u><br>(ROL million) |
|--------------------------------------|-------------------------------|---------------------------------|-------------------------------|
| <b>Assets</b>                        |                               |                                 |                               |
| Due from National Bank of Romania    | 53,579,468                    | –                               | 53,579,468                    |
| Treasury bills                       | 10,114,378                    | –                               | 10,114,378                    |
| Due from other banks                 | –                             | 6,630,221                       | 6,630,221                     |
| Loans and advances to customers, net | 8,751,557                     | 40,210,897                      | 48,962,454                    |
| Investment securities                | <u>6,181,878</u>              | <u>–</u>                        | <u>6,181,878</u>              |
|                                      | <u>78,627,281</u>             | <u>46,841,118</u>               | <u>125,468,399</u>            |
| <b>Liabilities</b>                   |                               |                                 |                               |
| Due to other banks                   | 1,035,391                     | 4,343,125                       | 5,378,518                     |
| Due to customers                     | <u>11,297,433</u>             | <u>102,962,434</u>              | <u>114,259,867</u>            |
|                                      | <u>12,332,824</u>             | <u>107,305,559</u>              | <u>119,638,383</u>            |

As at 31 December 2001:

|                                      | <u>State</u><br>(ROL million) | <u>Private</u><br>(ROL million) | <u>Total</u><br>(ROL million) |
|--------------------------------------|-------------------------------|---------------------------------|-------------------------------|
| <b>Assets</b>                        |                               |                                 |                               |
| Due from National Bank of Romania    | 36,784,197                    | –                               | 36,784,197                    |
| Treasury bills                       | 13,423,976                    | –                               | 13,423,976                    |
| Due from other banks                 | –                             | 13,226,645                      | 13,226,645                    |
| Loans and advances to customers, net | 9,681,665                     | 28,285,647                      | 37,967,312                    |
| Investment securities                | <u>6,327,818</u>              | <u>–</u>                        | <u>6,327,818</u>              |
|                                      | <u>66,217,656</u>             | <u>41,512,292</u>               | <u>107,729,948</u>            |
| <b>Liabilities</b>                   |                               |                                 |                               |
| Due to other banks                   | –                             | 6,760,304                       | 6,760,304                     |
| Due to customers                     | <u>10,301,613</u>             | <u>86,970,636</u>               | <u>97,272,249</u>             |
|                                      | <u>10,301,613</u>             | <u>93,730,940</u>               | <u>104,032,553</u>            |

## 31 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

|                        | Carrying value<br>2002<br><u>(ROL million)</u> | Fair value<br>2002<br><u>(ROL million)</u> | Carrying value<br>2001<br><u>(ROL million)</u> | Fair value<br>2001<br><u>(ROL million)</u> |
|------------------------|--|--|--|--|
| Financial assets       |  |  |  |  |
| Due from other banks   | 8,262,046                                      | 8,263,862                                  | 15,746,022                                     | 15,761,840                                 |
| Due from central banks | 54,242,711                                     | 54,285,861                                 | 37,374,753                                     | 37,374,753                                 |
| Investment securities  | 9,545,539                                      | 9,621,577                                  | 9,221,511                                      | 9,167,060                                  |
| Financial liabilities  |  |  |  |  |
| Due to other banks     | 8,496,313                                      | 8,472,098                                  | 10,162,267                                     | 10,145,534                                 |
| Due to customers       | 117,033,768                                    | 117,032,827                                | 99,778,434                                     | 99,869,054                                 |

## 32 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2002 are detailed below. Transactions were entered into with related parties during the course of business at both market and preferential rates.

The Parent, being controlled by the Romanian State entered into transactions with the Romanian State. The Note 30 on Economic sector risk details the assets and liabilities of the Parent with the Romanian State.

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32 RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions were carried out with related parties:

|  | Year ended<br>31 December 2002<br>(ROL million) | Year ended<br>31 December 2001<br>(ROL million) |
|--|---|---|
| <b>Assets</b>  |   |   |
| Loans to employees                                   | <u>638,212</u>                                  | <u>191,672</u>                                  |
| <b>Liabilities</b>                                   |   |   |
| Current accounts of other banks                      | 11,274  | 17,513  |
| Term deposits received from other banks              | 25,059  | 66,671  |
| Current accounts of customers                        | 169,732   | 243,708   |
| Term deposits from customers                         | 4,584   | 9,464   |
| Repurchase agreements                                | <u>—</u>  | <u>97,544</u>                                   |
|  | <u>210,649</u>                                  | <u>434,900</u>                                  |
| <br>   |   |   |
|  |   | Year ended<br>31 December 2002<br>(ROL million) |
| <b>Revenues</b>                                      |   |   |
| Interest income from loans and advances to customers |   | <u>72,083</u>                                   |
| <b>Expenses</b>                                      |   |   |
| Interest expenses for customers' accounts            |   | <u>21,408</u>                                   |

33 RISK MANAGEMENT

Interest rate risk

Average rates applicable to the major components of the consolidated balance sheet have been disclosed within the notes relating to these components. In order to manage its interest rate position, the Group sets short-term variable interest rates on its borrowing and lending. Subsidiaries operating in developed economies manage interest rates with regard to the economic indicators relevant to those economies.

### 33 RISK MANAGEMENT (CONTINUED)

#### Liquidity risk

The Group's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due. The amount of total assets and liabilities at 31 December 2002 and 31 December 2001 analysed over the remaining period to the contractual maturity date is included in Note 29.

#### Currency risk

Subsidiaries are subject to the currency risk of the currency of the country in which they are domiciled. The Group operates in developing economies. Romania experiences high rates of inflation and significant currency devaluation. There is a consequent risk of loss in value in respect of net monetary assets held in Romanian Lei. The Group manages its exposure to movements in exchange rates by modifying its asset and liability mix. An analysis of assets and liabilities denominated in ROL and other currencies is included in Note 27.

#### Economic sector risk

The Parent takes on exposure to economic sector risk. The amount of total assets and liabilities at 31 December 2002 analysed in transactions with State and private companies is included in Note 30. Included in transactions with state companies are amounts with companies which are partially owned by private companies.

#### Concentration of credit risk

In granting facilities and loans, the Group incurs a credit risk, ie the risk that the receivable will not be paid. This is related to the balance sheet items ie banks, loans and interest earnings securities, and to off-balance sheet items. Concentration of credit risk could result in a material loss for the Group if a change in economic circumstances were to affect a whole industry or the country of Romania. The relevant analyses are included in the appropriate notes. The Group minimises its credit risk by careful assessment of borrowers, establishment of exposure limits and application of a prudent provisioning policy when the risk of loss to the Group is possible.

#### Taxation risk

Management complies with the fiscal legislation existing in the countries in which it operates, however the taxation system in Romania is subject to varying interpretations and to constant changes, which may be retroactive. In certain circumstances the tax authorities can be aggressive and arbitrary in assessing tax penalties and interest. Although the actual tax due on a transaction may be minimal, penalties can be significant as they may be calculated based on the value of the transaction and can be as high as 0.1% per day. In Romania, tax periods remain open to tax audits for a period of 5 years from the end of the period.

## 34 COMMITMENTS AND CONTINGENCIES

### Litigation

As a result of the distressed financial situation of one of the Romanian State-owned banks, Banca Romana de Comert Exterior - "Bancorex", the Government of Romania launched a series of measures designed to limit the effect of Bancorex's insolvency on the economy of Romania. These measures included placing Bancorex in special administration for a limited period, transferring certain non-performing loans of Bancorex to an Asset Recovery Agency (AVAB) and transferring deposits and other creditor's accounts with individuals (together with Romanian government securities having similar maturity) to the Bank.

These measures culminated in Government Ordinance no. 39/1999, which provided that after the measures described above, the Bank:

- (i) would absorb Bancorex as at 11 September 1999, incorporating all the remaining asset and liabilities including subsidiaries, off-balance sheet items and contingent liabilities;
- (ii) would be provided with a State guarantee for any subsequent losses that may be incurred due to letters of credit and guarantees originating from Bancorex;
- (iii) would have the option to transfer, in exchange for government securities, to various Romanian agencies those assets that in the opinion of the Bank do not satisfy the Bank's risk management policies.

On 21 October 1999 Bancorex was removed from the Romanian Register of Trade.

On 6 July 2000 the Romanian Government issued the Emergency Ordinance 131/2000 and subsequent Decision 909/2000 stating that the Government will issue irrevocable and unconditional letters of guarantee to the Bank against litigations up to an amount of ROL 38 billion and USD 116 million against the individual litigations for which the Bank is acting as defendant, arising in connection with the merger of the former Bancorex with the Bank, before it was removed from the Register of Trade.

## 34 COMMITMENTS AND CONTINGENCIES (CONTINUED)

As at 31 December 2002, the Bank was acting as defendant in eight cases (the "Cases") arising in connection with the former Bancorex amounting to USD 26.1 million which do not fall under the scope of Emergency Ordinance no. 131/2000 and Government Decision no. 909/2000. As mentioned in Note 38 "Subsequent Events", the Romanian Government issued the Emergency Ordinance 55/25 June 2003 stating that the Ministry of Public Finance will cover irrevocably and unconditional the risks for the Bank arising from any litigation in connection with the former Bancorex including the Cases which are not covered by the Decision 909/2000. The Ministry of Public Finance will issue letters of guarantee to the Bank against the litigations not included in the Decision 909/2000.

### Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivatives and accounted for as such unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting, in which case they considered to be "regular way" transactions.

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



## 34 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Ministry of Finance issued on 10 December 1999 a State guarantee that covered off balance sheet items originating from Bancorex in the amount of ROL 58 billion and USD 324 million, respectively. The Bank has not made a provision for those off-balance sheet items transferred from Bancorex on the basis that management believes the State guarantee is sufficient to meet all subsequent liabilities which can be expected to arise. Outstanding amounts are:

|  | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--|--|--|
| Letters of guarantee                       | 18,624,388                               | 16,784,872                               |
| Letters of Credit                          | 2,648,857                                | 1,871,689                                |
| Undrawn loan commitments                   | <u>10,274,419</u>                        | <u>7,654,417</u>                         |
|  | <u>31,547,664</u>                        | <u>26,310,978</u>                        |
| Analysis of movement in provision          |  |  |
| Provision at 1 January                     | 132,178                                  | 231,244                                  |
| Charge/(release) for the year (see Note 9) | 26,730                                   | (51,472)                                 |
| Effects of inflation                       | (19,973)                                 | (53,773)                                 |
| Effects of exchange rates                  | <u>(25,486)</u>                          | <u>6,179</u>                             |
| Provision at 31 December                   | <u>113,449</u>                           | <u>132,178</u>                           |

## 35 OPERATING ENVIRONMENT OF THE PARENT

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

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

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

BANCA COMERCIALA ROMANA GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2002)

36 MINORITY INTEREST

|                                      | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|--------------------------------------|--|--|
| At 1 January                         | 621,171                                  | 844,631                                  |
| Additions                            | 16,526                                   | 2,213                                    |
| Dividends for previous year          | (40,404)                                 | (83,222)                                 |
| Translation difference               | 58,340                                   | (132,769)                                |
| Share of gain/(loss) of subsidiaries | <u>29,706</u>                            | <u>(9,682)</u>                           |
| At 31 December                       | <u>685,339</u>                           | <u>621,171</u>                           |

37 SUBSIDIARIES

| Company's Name             | Country of<br><u>incorporation</u> | Nature of<br><u>business</u> | Shareholding |             |
|----------------------------|------------------------------------|------------------------------|--------------|-------------|
|                            |                                    |                              | <u>2002</u>  | <u>2001</u> |
| Anglo-Romanian Bank*       | United Kingdom                     | Banking                      | 100.00%      | 100.00%     |
| Banque Franco-Roumaine*    | France                             | Banking                      | 50.00%       | 50.00%      |
| Frankfurt - Bukarest Bank* | Germany                            | Banking                      | 93.50%       | 93.50%      |
| BCR Chişinău               | Moldova                            | Banking                      | 100.00%      | 100.00%     |
| Financiara SA *            | Romania                            | Financial services           | 97.10%       | 99.99%      |
| BCR Securities SA          | Romania                            | Brokerage                    | 85.51%       | 68.43%      |
| BCR Leasing SA             | Romania                            | Leasing                      | 89.03%       | 75.00%      |
| BCR Asigurari SA           | Romania                            | Insurance                    | 72.70%       | -           |
| BCR Asset Management SA    | Romania                            | Asset Management             | 58.29%       | -           |

\* acquired from Bancorex during 1999

Financiara SA has a shareholding of 100% in a real estate company, namely Bucharest Financial Plaza, which was consequently consolidated as a Bank's subsidiary.

## 38 SUBSEQUENT EVENTS

### Depreciation of the ROL

On 11 April 2003 the National Bank of Romania's official exchange rate for the US dollar was USD 1 = ROL 34,012 compared to USD 1 = ROL 33,500 at 31 December 2002 (31 December 2001: USD 1 = ROL 31,597).

### Loan agreements with EBRD and IFC

As at 31 December 2002, the following loan agreements were signed with both the European Bank for Reconstruction and Development ("EBRD") and the International Finance Corporation ("IFC"):

Small and Medium Enterprises facility agreement, amounting to EUR 20,000,000 signed on 9 December 2002 with EBRD;

Private Sector Support Facility, amounting to USD 75,000,000 signed on 17 December 2002 with IFC.

As at the Balance sheet date, no draw downs have been made out of those two facilities.

On 14 January 2003, the Bank signed another finance facility with the European Bank for Reconstruction and Development amounting to USD 50,000,000 and aiming at developing the Mortgage loan service offering of the Bank.

The first draw downs for the Mortgage loan facility amounting to USD 6,400,000 were made on 15 and 16 April 2003.

## 38 SUBSEQUENT EVENTS (CONTINUED)

### Privatisation

On 9 April 2003, the Romanian Privatisation Authority (APAPS) and the European Bank for Reconstruction and Development and International Finance Corporation representatives have signed in Bucharest the attorney and confidentiality letters according to which the EBRD and IFC will be allowed to start their due diligence process related to the bank's privatisation.

It is understood that EBRD and IFC are to purchase twenty five percent (25%) of the shares of BCR, another eight percent (8%) being bought by the employees of the bank in a first phase.

### Litigation

The Romanian Government issued the Emergency Ordinance 55/25 June 2003 stating that the Ministry of Public Finance will cover irrevocably and unconditional the risks for the Bank arising from any litigation in connection with the former Bancorex including the Cases which are not covered by the Decision 909/2000. The Ministry of Public Finance will issue letters of guarantee to the Bank against the litigations not included in the Decision 909/2000.

BANCA COMERCIALA ROMANA SA (COMPANY ONLY)

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2002

(expressed in terms of the purchasing power of the Romanian Lei (ROL)

as at 31 December 2002, unless otherwise stated)

The statement of income and balance sheet Banca Comerciala Romana SA (company only) are set out below for the benefit of the user of the financial statements. The statutory financial statements have been restated in accordance with International Accounting Standards and were approved by the Board of Director on 11 April 2003.

|   | <u>31 December 2002</u><br>(ROL million) | <u>31 December 2001</u><br>(ROL million) |
|---|--|--|
| Interest income   | 23,482,710                               | 25,895,458                               |
| Interest expense  | <u>(13,232,579)</u>                      | <u>(14,858,081)</u>                      |
| Net interest income   | 10,250,131                               | 11,037,377                               |
| Fee and commission income, net                                  | 4,029,287                                | 3,743,827                                |
| Gains less losses arising from dealing<br>in foreign currencies | 466,589                                  | 472,738                                  |
| Other operating income  | <u>444,723</u>                           | <u>434,509</u>                           |
| Total income  | 15,190,730                               | 15,688,451                               |
| Other operating expenses  | (7,902,572)                              | (6,584,158)                              |
| Bad and doubtful debts expense                                  | (465,374)                                | (1,929,764)                              |
| Loss on net monetary position                                   | <u>(2,028,439)</u>                       | <u>(1,282,334)</u>                       |
| Profit from operations  | 4,794,345                                | 5,892,195                                |
| Share of profit from subsidiaries                               | <u>94,990</u>                            | <u>11,401</u>                            |
| Profit before taxation  | 4,889,335                                | 5,903,596                                |
| Taxation  | <u>(1,415,467)</u>                       | <u>(1,049,768)</u>                       |
| Net profit  | <u><u>3,473,868</u></u>                  | <u><u>4,853,828</u></u>                  |

BANCA COMERCIALA ROMANA SA (COMPANY ONLY)

BALANCE SHEET AS AT 31 DECEMBER 2002

(expressed in terms of the purchasing power of the Romanian Lei (ROL)  
as at 31 December 2002, unless otherwise stated)

|   | 31 December 2002<br>(ROL million) | 31 December 2001<br>(ROL million) |
|---|-----------------------------------|-----------------------------------|
| <b>Assets</b>                                     |                                   |                                   |
| Cash  | 4,093,957                         | 4,127,734                         |
| Due from the National Bank of Romania             | 53,579,468                        | 36,784,197                        |
| Treasury bills                                    | 10,114,378                        | 13,423,976                        |
| Due from other banks                              | 6,630,221                         | 13,226,644                        |
| Investment securities                             |                                   |                                   |
| - available for sale                              | 3,432,941                         | 220                               |
| - held to maturity                                | 2,748,937                         | 6,327,598                         |
| Loans and advances to customers                   | 48,962,454                        | 37,967,312                        |
| Investments in associates                         | 4,229,027                         | 3,946,721                         |
| Premises and equipment                            | 15,065,787                        | 14,287,403                        |
| Other assets                                      | <u>387,123</u>                    | <u>1,807,362</u>                  |
| <b>Total assets</b>                               | <u><u>149,244,293</u></u>         | <u><u>131,899,167</u></u>         |
| <b>Liabilities</b>                                |                                   |                                   |
| Due to other banks                                | 5,378,518                         | 6,760,304                         |
| Due to customers                                  | 114,259,867                       | 97,272,249                        |
| Other liabilities and provisions                  | 1,247,602                         | 1,429,929                         |
| Deferred tax liability                            | <u>48,287</u>                     | <u>61,731</u>                     |
| <b>Total liabilities</b>                          | <u><u>120,934,274</u></u>         | <u><u>105,524,213</u></u>         |
| <b>Shareholders' equity</b>                       |                                   |                                   |
| Share capital                                     | 18,577,498                        | 18,577,498                        |
| Retained earnings                                 | 4,173,624                         | 3,393,365                         |
| Reserves  | <u>5,558,897</u>                  | <u>4,404,091</u>                  |
| <b>Total shareholders' equity</b>                 | <u><u>28,310,019</u></u>          | <u><u>26,374,954</u></u>          |
| <b>Total liabilities and shareholders' equity</b> | <u><u>149,244,293</u></u>         | <u><u>131,899,167</u></u>         |
| Off balance sheet commitments and contingencies   | 29,635,011                        | 24,527,760                        |