

PRICEWATERHOUSECOOPERS 

consolidated financial  
statements for the year  
ended 31 December 2003  
prepared in accordance with  
international financial  
reporting standards



# BANCA COMERCIALA ROMANA GROUP

## CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2003

CONTENTS	PAGE
General information . . . . .	77
Independent auditors' report to the Board of Directors . . . . .	80
Consolidated statement of income . . . . .	81
Consolidated balance sheet . . . . .	82
Consolidated statement of cash flows . . . . .	83
Consolidated statement of changes in shareholders' equity . . . . .	84
Notes to the consolidated financial statements . . . . .	85
1 Basis of presentation . . . . .	85
2 Significant accounting policies . . . . .	87
3 Interest income . . . . .	97
4 Interest expense . . . . .	97
5 Fee and commission income . . . . .	97
6 Fee and commission expense . . . . .	98
7 Foreign exchange gain, net . . . . .	98
8 Other operating income . . . . .	98
9 Other operating expenses . . . . .	99
10 Impairment losses . . . . .	99
11 Income tax expense . . . . .	100
12 Cash . . . . .	102
13 Due from central banks . . . . .	102
14 Treasury bills . . . . .	103
15 Due from other banks . . . . .	103
16 Loans and advances to customers . . . . .	105
17 Investment securities . . . . .	106
18 Equity investments . . . . .	107
19 Premises and equipment . . . . .	110
20 Other assets . . . . .	111
21 Investment property . . . . .	111
22 Due to other banks . . . . .	112
23 Deposits from customers . . . . .	116
24 Other liabilities and provisions . . . . .	117
25 Share capital . . . . .	117
26 Reserves . . . . .	118
27 Analysis of cash and cash equivalents . . . . .	119
28 Assets and liabilities denominated in rol and other currencies . . . . .	120
29 Interest rate risk . . . . .	122
30 Liquidity risk . . . . .	125
31 Economic sector risk . . . . .	127
32 Fair values of financial assets and liabilities . . . . .	128
33 Related party transactions . . . . .	128
34 Risk management . . . . .	130
35 Commitments and contingencies . . . . .	131
36 Operating environment of the parent . . . . .	134
37 Minority interest . . . . .	134
38 Subsidiaries . . . . .	135
39 Subsequent events . . . . .	135

Statement of income and balance sheet of Banca Comerciala Romana SA as at 31 december 2003 . . . . . 137

# BANCA COMERCIALA ROMANA GROUP

## GENERAL INFORMATION

31 DECEMBER 2003

---

### 1 NATURE OF OPERATIONS

Banca Comercială Română Group (the "Group") comprises the parent entity, Banca Comercială Română SA (the "Bank" or the "Parent") and its subsidiaries: Anglo-Romanian Bank (United Kingdom), Frankfurt Bucharest Bank (Germany), Banque Franco-Roumaine (France), Banca Comercială Română Chişinău (Republic of Moldova), Financiară SA (Romania), Bucharest Financial Plazza 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 13,029 members of staff at 31 December 2003 (31 December 2002: 12,400). The Group operates through its head office located in Bucharest and 297 branches and offices (31 December 2002: 290) located in Romania and abroad.

Banca Comercială Română SA 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 Comercială Română 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 ("NBR"). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amount to reflect their relative risk. The regulations require that capital adequacy ratios be calculated on financial information prepared in accordance with Romanian Accounting Regulations ("RAR"). To be "sufficiently capitalised" under NBR regulations a banking institution must have a Tier 1 ratio of at least 8% and a Tier 1 plus Tier 2 ratio of at least 12%. As of 31 December 2003, the Tier 1 and Tier 1 plus Tier 2 capital adequacy ratios based upon the NBR's regulations, were 18.54% and 22.03% respectively (2002: 22.53% and 26.50%, 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 IFRS the Tier 1 and a Tier 1 plus Tier 2 capital adequacy ratios of the Group at 31 December 2003 were 26.50% respectively 27.90% (31 December 2002: 27.72% and 28.94%, respectively).

Under BIS guidelines assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. 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.

# BANCA COMERCIALA ROMANA GROUP

## GENERAL INFORMATION 31 DECEMBER 2003

### 2 CAPITAL ADEQUACY (CONTINUED)

	IFRS Balance sheet (Nominal amount)		IFRS Balance sheet (Risk weighted amount)	
	<u>2003</u> (ROL million)	<u>2002</u> (ROL million)	<u>2003</u> (ROL million)	<u>2002</u> (ROL million)
<b>Balance sheet assets (net of provisions)</b>				
Cash	4,061,506	–	520	–
Balances with NBR	53,975,156	–	7,687	–
Due from other banks	9,692,497	9,426,994	1,873,569	1,817,701
Loans and advances to customers	83,521,376	58,956,180	78,924,080	56,462,732
Investment securities	14,677,203	10,891,460	4,027,414	4,481,263
Investments in associates	604,954	606,540	604,954	255,778
Property and equipment	17,783,418	17,551,009	17,783,418	17,551,009
Other assets	1,258,098	849,398	891,025	790,394
Investment property	1,584,238	1,758,002	1,584,238	1,758,002
Off balance sheet commitments and contingencies	<u>36,174,980</u>	<u>35,995,885</u>	<u>10,771,804</u>	<u>27,302,952</u>
Total risk weighted assets	<u>223,333,426</u>	<u>136,035,468</u>	<u>116,468,709</u>	<u>110,419,831</u>
	<b>Capital</b>	<b>Capital</b>	<b>BIS %</b>	<b>BIS %</b>
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	(ROL million)	(ROL million)		
<b>BIS Capital ratios</b>				
Tier 1 capital	30,859,642	30,610,007	26.50%	27.72%
Tier 1 + Tier 2 capital	32,497,551	31,950,970	27.90%	28.94%

## 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 2003 and the related consolidated statements of income and cash flow for the year ended 31 December 2003 expressed in the current purchasing power of the Romanian Lei ("ROL") as at 31 December 2003. 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 2003 and the results of its operations and its cash flows the year then ended in accordance with Financial Reporting Standards.

Bucharest 21 April 2004  
with the exception of Note 22  
for which the signing date is 17 May 2004



PricewaterhouseCoopers Audit SRL

**BANCA COMERCIALA ROMANA GROUP**

**CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2003**

**(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)**

	<u>Note</u>	<u>Year ended 31 December 2003 (ROL million)</u>	<u>Year ended 31 December 2002 (ROL million)</u>
Interest income	3	21,460,913	27,476,906
Interest expense	4	<u>(9,580,347)</u>	<u>(15,309,903)</u>
<b>Net interest income</b>		11,880,566	12,167,003
Fee and commission income	5	6,218,927	5,406,007
Fee and commission expense	6	(684,024)	(610,564)
Foreign exchange gain, net	7	651,482	281,404
Other operating income	8	<u>845,882</u>	<u>1,119,044</u>
<b>Operating income</b>		18,912,833	18,362,894
Other operating expenses	9	(11,519,759)	(9,708,391)
Impairment losses	10	<u>(1,930,634)</u>	<u>(585,331)</u>
<b>Profit from operations</b>		5,462,440	8,069,172
Loss on net monetary position		<u>(1,812,478)</u>	<u>(2,360,832)</u>
<b>Profit before taxation and minority interest</b>		3,649,962	5,708,340
Taxation	11	<u>(901,808)</u>	<u>(1,710,762)</u>
<b>Profit before minority interest</b>		2,748,154	3,997,578
Less minority interest profit	37	<u>(5,823)</u>	<u>(33,895)</u>
<b>Net profit</b>		<u><u>2,742,331</u></u>	<u><u>3,963,683</u></u>

The financial statements on pages 81 to 84 and accompanying notes on pages 85 to 136 based on the statutory accounts restated in accordance with International Financial Reporting Standards were signed on behalf of the Board of Directors on 21 April 2004 by:

Dr. Nicolae Dănilă  
President



Dr. Ilie Mihai  
Vice President



The accompanying notes set out on pages 85 to 136 form an integral part of these consolidated financial statements.

## BANCA COMERCIALA ROMANA GROUP

### CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

	Note	31 December 2003 (ROL million)	31 December 2002 (ROL million)
<b>Assets</b>			
Cash	12	4,061,506	4,699,755
Due from Central Banks	13	53,975,156	61,890,933
Treasury Bills	14	6,976,566	12,002,392
Due from other banks, net	15	9,692,497	9,426,994
Loans and advances to customers	16	83,521,376	58,956,180
Investment securities			
- available for sale	17	11,047,831	6,101,557
- held to maturity	17	3,629,372	4,789,903
Equity investments	18	604,954	606,540
Premises and equipment	19	17,783,418	17,551,009
Other assets	20	1,258,098	849,398
Investment property	21	<u>1,584,238</u>	<u>1,758,002</u>
<b>Total assets</b>		<u>194,135,012</u>	<u>178,632,663</u>
<b>Liabilities</b>			
Due to other banks	22	14,680,141	9,694,293
Deposits from customers	23	143,507,716	133,535,529
Deferred tax liability	11	87,484	509,462
Other liabilities and provisions	24	<u>2,048,160</u>	<u>1,809,676</u>
Total liabilities		<u>160,323,501</u>	<u>145,548,960</u>
Minority interest	37	790,739	781,972
<b>Shareholders' equity</b>			
Share capital	25	21,196,925	21,196,925
Retained earnings	26	4,891,255	5,272,394
Reserves	26	<u>6,932,592</u>	<u>5,832,412</u>
Total shareholders' equity		<u>33,020,772</u>	<u>32,301,731</u>
<b>Total liabilities and shareholders' equity</b>		<u>194,135,012</u>	<u>178,632,663</u>

The financial statements on pages 81 to 84 and accompanying notes on pages 85 to 136 based on the statutory accounts restated in accordance with International Financial Reporting Standards were signed on behalf of the Board of Directors on 21 April 2004 by:

Dr. Nicolae Dănilă  
President

Dr. Ilie Mihai  
Vice President

The accompanying notes set out on pages 85 to 136 form an integral part of these consolidated financial statements.



**BANCA COMERCIALA ROMANA GROUP**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

**(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)**

	<u>Note</u>	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
<b>Net cash flow from operating activities</b>			
Operating profit (before taxation and loss on net monetary position)		3,649,962	8,069,172
Adjustments for:			
Accrued interest receivable		1,067,582	(270,544)
Accrued interest payable		(188,343)	2,584
Charge for provisions		3,661,614	2,454,652
Profit from disposal of property and equipment		(22,629)	(29,131)
Unrealised foreign exchange loss		260,936	34,931
Mark-to-market adjustment for AFS Tbills		(176,101)	(205,456)
Fair value adjustment for investment property (IAS 40)		173,764	(233,411)
Dividend income		(7,005)	(15,952)
Depreciation charge		1,091,977	908,176
Total change in operating cash flow before changes in operating assets and liabilities		<u>9,511,757</u>	<u>10,715,021</u>
Change in operating assets			
Decrease/(increase) in amounts placed to Central Banks		50,678	(1,246,383)
Decrease in Treasury Bills over 90 days		5,250,560	4,111,266
(Increase)/decrease in placements with other banks		(682,979)	1,020,094
Increase in loans and advances to customers		(20,592,387)	(15,395,156)
(Increase)/decrease in accrued income and other assets		<u>(346,061)</u>	<u>1,394,348</u>
Total change in operating assets		(16,320,189)	(10,115,831)
Change in operating liabilities			
Increase/(decrease) in deposits from banks		5,024,993	(1,863,246)
Increase in amounts owed to customers		10,121,385	19,648,143
Decrease in other liabilities		<u>(172,925)</u>	<u>(95,336)</u>
Change in operating liabilities		14,973,453	17,689,561
Taxation paid		<u>(1,187,589)</u>	<u>(1,838,870)</u>
Net cash from operating activities		6,977,432	16,449,881
<b>Cash flow from investing activities</b>			
Purchase of investments		(73,222)	(4,808)
Sale of investments		111,317	18,351
Purchase of premises and equipment		(2,267,444)	(2,108,554)
Sale of premises and equipment		1,235,076	583,550
Purchase of investment securities		(4,588,614)	(369,716)
Dividends received		66,019	15,952
Net cash used in investing activities		<u>(5,516,868)</u>	<u>(1,865,225)</u>
<b>Cash flow from financing activities</b>			
Dividends paid		(2,009,082)	(1,867,235)
Dividends paid to minority interest		<u>(59,014)</u>	<u>(46,101)</u>
Net cash used in financing activities		(2,068,096)	(1,913,336)
Effect of exchange rate changes		1,849,460	76,530
Effect of inflation on cash and cash equivalents		<u>(9,395,954)</u>	<u>(2,294,266)</u>
<b>Increase in cash and cash equivalents</b>		<u>(8,154,026)</u>	<u>10,453,584</u>
Cash and cash equivalents as at 1 January		76,033,925	65,580,341
Increase in cash and cash equivalents		<u>(8,154,026)</u>	<u>10,453,584</u>
Cash and cash equivalents as at 31 December	27	<u>67,879,899</u>	<u>76,033,925</u>

The accompanying notes set out on pages 85 to 136 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 2003**

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

	<u>Share capital</u> (ROL million)	<u>Reserves</u> (ROL million)	<u>Retained earnings</u> (ROL million)	<u>Total</u> (ROL million)
<b>Balance as at 31 December 2001</b>	<u>21,196,925</u>	<u>4,514,779</u>	<u>4,382,117</u>	<u>30,093,821</u>
Net profit for the year 2002	–	–	3,963,683	3,963,683
Translation reserve	–	111,461	–	111,461
Dividends paid for 2001	–	–	(1,867,234)	(1,867,234)
Transfer to general banking reserves	–	259,821	(259,821)	–
Transfer to statutory reserve	–	<u>946,351</u>	<u>(946,351)</u>	–
<b>Balance as at 31 December 2002</b>	<u>21,196,925</u>	<u>5,832,412</u>	<u>5,272,394</u>	<u>32,301,731</u>
Net profit for the year 2003	–	–	2,742,331	2,742,331
Translation reserve	–	(14,208)	–	(14,208)
Dividends paid for 2002	–	–	(2,009,082)	(2,009,082)
Transfer to general banking reserves	–	471,833	(471,833)	–
Transfer to statutory reserve	–	<u>642,555</u>	<u>(642,555)</u>	–
<b>Balance as at 31 December 2003</b>	<u>21,196,925</u>	<u>6,932,592</u>	<u>4,891,255</u>	<u>33,020,772</u>

The accompanying notes set out on pages 85 to 136 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 2003**

**(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)**

---

## **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 2003.

### **Consolidation**

Banca Comercială Română Group ("the Group") consists of Banca Comercială Română as parent and its subsidiaries: Anglo-Romanian Bank (United Kingdom), Frankfurt Bucharest Bank (Germany), Banque Franco-Roumaine (France), Banca Comercială Română Chişinău (Republic of Moldova), Financiera SA (Romania), Bucharest Financial Piazza 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 Comercială Română Group is set in Note 38.

Subsidiary undertakings, which are those companies in which Banca Comercială Română 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 land and buildings, investments, available-for-sale financial assets as described in Note 2 below.

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

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).

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

### **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***

The Group complies with IFRS requirements that financial statements prepared on a historical cost basis should be adjusted to take account of the effects of hyperinflation. International Accounting Standard No. 29 – “Reporting in Hyperinflationary Economies” (“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.

Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

- (a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
- (b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- (d) interest rates, wages and prices are linked to a price index; and

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

---

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (e) the cumulative inflation rate over three years is approaching, or exceeds, 100%. For information purposes only, the annual increase in the general price index as issued by the National Statistical Bureau over the three year period is calculated as follows:

	<u>Cumulative inflation at beginning of year</u>	<u>Cumulative inflation at end of year</u>
2003	–	14.10%
2002	17.89%	17.89%
2001	30.20%	30.20%
2000	<u>40.70%</u>	<u>–</u>
	<u>115.80%</u>	<u>75.14%</u>

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, 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.

**(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) and components of shareholders' equity 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) Office equipment and other fixed assets**

Office equipment and other fixed assets are restated from the date of their purchase using the general price index.

## **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(d) Income statement**

All income statement items are restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the accounting records to the balance sheet date. In practice this restatement has been calculated by using the monthly inflation indices.

**(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. The statutory increase of share capital by bonus issue from revaluation reserves is not taken in consideration.

**(f) Gain or loss on the net monetary position**

In a period of hyperinflation, an entity holding an excess of monetary assets over monetary liabilities in a hyperinflationary 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.

**(g) Cash flow statement**

All items included in the cash flow statement are expressed in terms of ROL current at the balance sheet date.

**(h) Corresponding figures**

Corresponding figures for the previous reporting period are restated by applying the change in the general price index so that the comparative figures 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 as at 31 December 2003.

## **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 2003 the principal rate of exchange used for translating foreign currency balances was USD 1 = ROL 32,595, EUR 1 = ROL 41,117 (2002: USD 1 = ROL 33,500, EUR 1 = ROL 34,919). 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 investment securities.

#### **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 fair value. All interest income and any gains/losses realised from purchasing and selling transactions with 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 Romanian incorporated companies 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 sub-participation 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 "Impairment losses" line in the consolidated statement of income.

## **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 1.

### **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**

The Group 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 unless fair value cannot be reliably measured for which they are carried at cost less impairment.

## **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

### **Sale and repurchase agreements**

The Treasury Bills sold subject to a linked repurchase agreement ("repos") are retained in the balance sheet and the counter party liability is included in amounts due to customers.

The Treasury Bills 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**

As at 1 January 2003 the Group adopted the alternative treatment allowed by IAS 16 "Property, plant and equipment" regarding measurement of land and buildings.

Prior to adoption of this treatment, land and buildings were stated at restated cost less accumulated depreciation.

Office equipment and other fixed assets are stated at restated cost less accumulated depreciation.

Land and buildings are stated at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

Land is not depreciated.

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

---

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 IFRS 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 main temporary differences arise from the differences between impairment losses made under IFRS and local fiscal regulations and adjustments for fixed assets and fair value of equity investments.

### **Pension obligations and other post retirement benefits**

The Bank and its subsidiaries incorporated in Romania, 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.

## **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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**

Final dividends 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.

**BANCA COMERCIALA ROMANA GROUP****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003****(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)****3 INTEREST INCOME**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Current accounts and deposits to banks	6,990,356	10,307,173
Loans and advances to customers	12,448,790	12,611,334
Treasury Bills and investment securities	2,021,762	4,534,244
Other interest income	<u>5</u>	<u>24,155</u>
	<u>21,460,913</u>	<u>27,476,906</u>

**4 INTEREST EXPENSE**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Customer deposits	8,938,976	13,325,551
Due to banks	92,682	292,673
Transactions with securities	301,216	283,414
Interest expense for loans from banks	230,518	50,655
Repo transactions with customers	<u>16,955</u>	<u>1,357,610</u>
	<u>9,580,347</u>	<u>15,309,903</u>

**5 FEE AND COMMISSION INCOME**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Fee and commission income for loans to customers	2,244,617	1,937,879
Fee and commission income for other customer commitments	391,018	322,369
Commissions for payments and other transactions	3,092,649	2,817,503
Commissions for cards transactions	343,584	232,579
Other commissions income	<u>147,059</u>	<u>95,677</u>
	<u>6,218,927</u>	<u>5,406,007</u>

**BANCA COMERCIALA ROMANA GROUP****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003****(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)****6 FEE AND COMMISSION EXPENSE**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Fee and commission expense for treasury transactions	221,506	198,357
Commissions for cards transactions	83,797	74,851
Other commissions expense	<u>378,721</u>	<u>337,356</u>
	<u>684,024</u>	<u>610,564</u>

**7 FOREIGN EXCHANGE GAIN, NET**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Realised foreign exchange gains	912,418	316,335
Translation of foreign currency denominated assets and liabilities	<u>(260,936)</u>	<u>(34,931)</u>
	<u>651,482</u>	<u>281,404</u>

**8 OTHER OPERATING INCOME**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Dividends received	7,005	15,976
Rent income	62,840	168,179
Income from services	155,454	64,504
Investment property revaluation	–	233,412
Mark-to-market adjustment of Treasury Bills available-for-sale	176,101	205,456
Insurance premium income, net of reinsurance	189,112	68,409
Tax discount	2,022	–
Other income	<u>253,348</u>	<u>363,108</u>
	<u>845,882</u>	<u>1,119,044</u>



## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

#### 9 OTHER OPERATING EXPENSES

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Salaries and wages	7,107,378	5,983,363
Depreciation	1,091,977	908,176
Rent expenses	100,587	102,696
Claims, net of reinsurance	173,722	31,169
Investment property revaluation	173,764	–
Office expenses	1,883,682	1,487,962
Other expenses including taxes and fees	<u>988,649</u>	<u>1,195,025</u>
	<u>11,519,759</u>	<u>9,708,391</u>

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

#### 10 IMPAIRMENT LOSSES

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Provision for loans impairment (see Note 16)	3,745,561	2,363,759
Provision charge/(release) for placements to banks (see Note 15)	20,642	(7,068)
Provision for other assets (see Note 20)	5,142	–
Provision charge/(release) for impairment of investments (see Note 18)	(109,731)	67,462
Provision for off balance sheet items (see Note 35)	–	30,499
Recoveries from loans previously written-off	(1,730,980)	(1,788,254)
Other provisions release	<u>–</u>	<u>(81,067)</u>
	<u>1,930,634</u>	<u>585,331</u>

During the year 2001 loans were written-off based on clear indications of impairment and on the assumption that no recoveries will be possible. Subsequently, due to the improvement in the economy of the country, the Bank started to recover significant amounts related to these loans.

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

## 11 INCOME TAX EXPENSE

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

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Current income tax	1,256,827	1,757,063
Deferred income tax release	<u>(355,019)</u>	<u>(46,301)</u>
	<u>901,808</u>	<u>1,710,762</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 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
<b>IFRS profit before taxation</b>	3,649,962	5,708,340
Theoretical tax charge at the applicable statutory rate of the home country of the Parent	912,491	1,427,085
Effect of different tax rates in other countries	32,656	61,378
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Restatement of opening shareholder's equity	997,928	1,136,821
- Non-deductible expenses	112,615	154,232
- Income exempt from taxation	(541,593)	(87,340)
- Other IFRS adjustments that have non-temporary nature	<u>(612,289)</u>	<u>(981,414)</u>
<b>Income tax expense for the year</b>	<u>901,808</u>	<u>1,710,762</u>

**BANCA COMERCIALA ROMANA GROUP****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003****(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)****11 INCOME TAX EXPENSE (CONTINUED)**

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

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
<b>Deferred income tax liabilities</b>		
- restatement of the fixed assets and investments	366,467	603,831
- other temporary difference	<u>456,039</u>	<u>276,383</u>
	<u>822,506</u>	<u>880,214</u>
<b>Deferred income tax assets</b>		
- loan impairment	547,775	344,590
- other temporary difference	<u>187,247</u>	<u>26,162</u>
	<u>735,022</u>	<u>370,752</u>
Deferred income tax liability	<u>87,484</u>	<u>509,462</u>

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

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
At the beginning of the year	509,462	556,570
Income statement release	(355,019)	(44,926)
Effects of exchange rates	<u>(66,959)</u>	<u>(2,182)</u>
At the end of the year	<u>87,484</u>	<u>509,462</u>

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

## 12 CASH

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Cash	4,058,888	4,692,934
Travellers cheques	<u>2,618</u>	<u>6,821</u>
	<u>4,061,506</u>	<u>4,699,755</u>

## 13 DUE FROM CENTRAL BANKS

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Due from the National Bank of Romania		
- current account in ROL	3,402,732	6,666,135
- current account in other currencies	14,684,005	13,073,980
- term deposits	35,298,956	41,352,130
- restricted deposits	7,687	139,950
Due from other central banks	<u>581,776</u>	<u>658,738</u>
	<u>53,975,156</u>	<u>61,890,933</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 6% to 6.25% (2002: 8% to 15%) for reserves held in ROL, the weighted average being 6.17% (2002: 11.21%) and of 0.75% (2002: 1%) for reserves held in USD the weighted average being 0.77% (2002: 1%).

The interest rates for term placements with National Bank of Romania ranged during 2003 from 5% to 21.25% (2002: from 19.45% to 35%) weighted average being 15% (2002: 27.12%).

Restricted amounts include blocked amounts as a result of Justice Court decisions in relation to various litigations in which the Bank is involved.

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

## 14 TREASURY BILLS

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Romanian Treasury Bills - in ROL	6,063,186	8,059,600
Romanian Treasury Bills - in USD	567,226	3,942,792
Other Treasury Bills	<u>346,154</u>	<u>–</u>
	<u>6,976,566</u>	<u>12,002,392</u>

Treasury Bills in ROL are issued by the Romanian Ministry of Finance with interest rates ranging from 14.5% to 18% during 2003 (2002: 17% to 40%), the weighted average rate being 17% (2002: 26%).

Included in Treasury Bills are securities sold under sale and repurchase agreements, as described in Note 23.

The Bank pledged as collateral Treasury Bills amounting to ROL 623,003 million mainly in favour of the clearing house of the Romanian payment system (TransFonD).

Treasury Bills denominated in other currencies comprise treasury bills in EUR issued by Ministry of Finance of France. There are two series of Treasury bills, with interest rate of 5.5% and 6.75% (2002: 5.5% and 6.75%).

## 15 DUE FROM OTHER BANKS

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
<b>Analysis by maturity</b>		
Payable on demand	1,769,336	1,309,438
Term deposits	9,027,880	9,182,971
Other loans	<u>170,225</u>	<u>149,529</u>
Due from banks, gross	10,967,441	10,641,938
Provision for doubtful amounts	<u>(1,274,944)</u>	<u>(1,214,944)</u>
	<u>9,692,497</u>	<u>9,426,994</u>

**BANCA COMERCIALA ROMANA GROUP****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003****(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)****15 DUE FROM OTHER BANKS (CONTINUED)**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
<b>Provision for doubtful placements</b>		
Provision at 1 January	1,214,944	1,189,002
Charge/(release) for the year (see Note 10)	20,642	(7,068)
Effects of inflation	(150,138)	(179,663)
Write-offs	–	(41,815)
Effects of exchange rates	<u>189,496</u>	<u>254,488</u>
Provision at 31 December	<u>1,274,944</u>	<u>1,214,944</u>

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
<b>Analysis of principal by classification before provision</b>		
Current accounts and money at call with banks	1,757,798	1,219,437
Placements with non-Romanian incorporated banks	7,240,990	7,459,542
Placements with Romanian incorporated banks	971,277	951,021
Collateral deposits and blocked accounts	827,151	424,857
Loans to Romanian incorporated banks	<u>170,225</u>	<u>587,081</u>
	<u>10,967,441</u>	<u>10,641,938</u>

During 2003 interest on placements in USD ranged from 0.10% to 2.88% (2002: 0.14% to 2.88%), the weighted average rate being 1.24% (2002: 1.70%). Interest rates on placements in EUR ranged from 1% to 3.52%, the weighted average rate being 2.27%. Interest rates on placements in ROL ranged from 5% to 36% (2002: 6% to 65%), the weighted average rate being 19.29% (2002: 29.65%).

Included in collateral deposits there are deposits collateralized in favour of DG Bank as guarantee for purchase of shares held by DG Bank in Frankfurt Bukarest Bank and for the guarantee given by DG Bank in favour of Bundesverband der Deutschen Volksbanken und Raiffeisen Banken ("BVR") for Frankfurt Bukarest Bank.

**BANCA COMERCIALA ROMANA GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

**(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)**

**16 LOANS AND ADVANCES TO CUSTOMERS**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Loans and advances to customers, net	83,521,376	58,955,040
Reverse repo	—	1,140
	<u>83,521,376</u>	<u>58,956,180</u>

**Analysis by industrial classification**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Individuals	27,085,336	6,354,216
Trade	10,821,082	11,112,290
Agriculture and food industry	10,510,932	4,936,916
Wood industry	3,730,525	1,225,552
Metallurgy	3,705,219	4,107,586
Textile and leather	3,509,098	2,298,995
Power generating	3,452,731	1,139,672
Chemical and petrochemical	3,430,853	3,087,875
Tourism	2,885,668	—
Construction materials	2,421,379	2,322,224
Manufacturing metallic products	2,367,907	3,109,547
Transport vehicles manufacturing	2,327,537	3,675,822
Mining	2,308,461	2,686,778
Finance lease	1,926,028	7,473,944
Transport	1,492,464	799,803
Machinery and mechanical equipment	1,269,272	1,909,039
Latex and plastic materials	656,922	2,069,274
Electrical engineering and electronics	656,307	470,927
Public institutions	647,698	—
Other	<u>3,189,369</u>	<u>4,237,417</u>
<b>Total portfolio</b>	<u>88,394,788</u>	<u>63,017,877</u>
Provision for loan losses	<u>(4,873,412)</u>	<u>(4,061,697)</u>
	<u>83,521,376</u>	<u>58,956,180</u>

**BANCA COMERCIALA ROMANA GROUP****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003****(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)****16 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 2003 ranged from 20% to 39% (2002: 27% to 40%), the weighted average rate being 23.47% (2002: 35%). Interest rates on foreign currency loans during the year ranged from 6% to 13% (2002: 8% to 11%), the weighted average rate being 7.68% (2002: 8.5%).

**Provision for loan losses**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Provision at 1 January	4,061,697	4,033,055
Charge for the year (see Note 10)	3,745,561	2,363,759
Effects of inflation	(501,927)	(609,409)
Loans written-off	(2,562,945)	(1,897,878)
Effects of exchange rates	<u>131,026</u>	<u>172,170</u>
Provision at 31 December	<u>4,873,412</u>	<u>4,061,697</u>

An analysis of loans and advances by maturity is presented in Note 31.

**17 INVESTMENT SECURITIES****Investments classified as securities available-for-sale:**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Debt securities – at fair value		
- listed	4,422,217	4,469,360
- unlisted	6,538,835	1,567,871
Equity securities – at fair value		
- listed	2,835	2,515
- unlisted	<u>83,944</u>	<u>61,811</u>
Total securities classified as available-for-sale	<u>11,047,831</u>	<u>6,101,557</u>



**BANCA COMERCIALA ROMANA GROUP****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003****(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)****17 INVESTMENT SECURITIES (CONTINUED)****Investment securities classified as held-to-maturity:**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Debt securities at amortised cost		
- listed	2,583,253	2,581,759
- unlisted	<u>1,046,119</u>	<u>2,208,144</u>
Total securities classified as held-to-maturity	<u>3,629,372</u>	<u>4,789,903</u>
Total investment securities	<u>14,677,203</u>	<u>10,891,460</u>

The movement in investment securities may be summarized as follows:

**Investment securities**

	<u>Available for sale</u> (ROL million)	<u>Held to maturity</u> (ROL million)
At 1 January 2003	6,101,557	4,789,903
Less effect of inflation	(754,005)	(591,916)
Exchange difference on monetary assets	145,303	400,770
Additions	6,673,254	1,501,311
Disposals-sale of available for sale securities	(913,096)	-
Disposals-redemption of maturited securities	(660,868)	(2,470,696)
Gain from changes in fair value	<u>455,686</u>	<u>-</u>
At 31 December 2003	<u>11,047,831</u>	<u>3,629,372</u>

**18 EQUITY INVESTMENTS**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
At 1 January	1,288,609	1,283,294
Less effect of inflation	(159,242)	-
Transfers	-	(6,612)
Additions/(disposals)	<u>(154,327)</u>	<u>11,927</u>
At 31 December	<u>975,040</u>	<u>1,288,609</u>
Provision for diminution in value of investments	<u>(370,086)</u>	<u>(682,069)</u>
	<u>604,954</u>	<u>606,540</u>

**BANCA COMERCIALA ROMANA GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

**(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)**

**18 EQUITY INVESTMENTS (CONTINUED)**

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

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
<b>Provision for investments</b>		
At 1 January	682,069	614,607
Effect of inflation	(84,288)	–
Write-offs	(117,964)	–
Charge/(release) for the year (Note 10)	<u>(109,731)</u>	<u>67,462</u>
At 31 December	<u>370,086</u>	<u>682,069</u>

Company's Name	Country of incorporation	Nature of business	Shareholding	
			2003 (%)	2002 (%)
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 Creditorilor pentru Intreprinzatori Privati	Romania	Investment and guaranteeing fund	19.62%	19.62%
OMNIASIG SA*	Romania	Insurance	21.58%	21.58%
Registrul Roman al Actionarilor	Romania	Register for Stock exchange listed companies	–	20.00%
Romcard	Romania	Card operations	39.42%	39.42%
Transfond	Romania	Clearing and settlements of inter-banking payments	2.95%	2.68%
Agentia bursiera SIS & CO SA	Romania	Brokerage house	20.00%	20.00%
Popasul Romanilor SRL Zalau	Romania	Tourism	13.61%	16.00%
Bursa Romana de Marfuri	Romania	Commodity exchange	5.27%	5.27%
Bursa Maritima si de Marfuri Constanta SA	Romania	Commodity exchange	0.61%	0.61%
SNCCDD	Romania	Clearing and settlements for Rasdaq quoted companies	3.43%	3.43%
Romwool	Romania	Textile industry	8.70%	8.70%
Kvaerner IMGB	Romania	Heavy industry	–	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.

**BANCA COMERCIALA ROMANA GROUP****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003****(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)****18 EQUITY INVESTMENTS (CONTINUED)**

<b>Company's Name</b>	<b>Country of incorporation</b>	<b>Nature of business</b>	<b>Shareholding</b>	
			<b>2003 (%)</b>	<b>2002 (%)</b>
Postelecom	Romania	Telecommunication	5.00%	–
Mindbank	Romania	Banking	1.03%	1.03%
Agribac SA Bacău	Romania	Agriculture	13.46%	13.46%
Balli metal SA	Romania	Metallurgy	0.23%	0.23%
Euro-Center SRL	Romania	Tourism	77.68%	77.68%
Hobas Tub Romania SA	Romania	Metallurgy	6.33%	6.33%
Megapower Europe SRL	Romania	Electricity	57.54%	57.54%
Mercur Trading SA	Romania	Trade	2.25%	2.25%
Santierele Navale Rascala SA	Romania	Trade	6.47%	6.47%
VBP SA	Romania	Construction	10.15%	10.15%
WTCB – CCIB SRL	Romania	Construction	7.72%	7.72%

Equity investments where the Group holds 20% or more of the voting power of the investee, are not accounted for as associates as the Group has no significant influence, ie no power to participate in the financial and operating policy decisions of the investee.

**BANCA COMERCIALA ROMANA GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

**19 PREMISES AND EQUIPMENT**

	<u>Land and buildings</u> (ROL million)	<u>Office equipment</u> (ROL million)	<u>Other fixed assets</u> (ROL million)	<u>Total</u> (ROL million)
<b>Restated cost</b>				
At 31 December 2002	15,510,767	2,009,036	3,452,642	20,972,445
Additions	1,173,797	619,948	668,908	2,462,653
Disposals	<u>(1,002,876)</u>	<u>(263,289)</u>	<u>(157,805)</u>	<u>(1,423,970)</u>
At 31 December 2003	<u>15,681,688</u>	<u>2,365,695</u>	<u>3,963,745</u>	<u>22,011,128</u>
<b>Accumulated depreciation</b>				
At 31 December 2002	1,518,487	875,451	1,027,498	3,421,436
Charge for the year	476,106	254,617	361,254	1,091,977
Disposals	<u>(14,149)</u>	<u>(166,244)</u>	<u>(105,310)</u>	<u>(285,703)</u>
At 31 December 2003	<u>1,980,444</u>	<u>963,824</u>	<u>1,283,442</u>	<u>4,227,710</u>
<b>Net book value</b>				
At 31 December 2003	<u>13,701,244</u>	<u>1,401,871</u>	<u>2,680,303</u>	<u>17,783,418</u>
At 31 December 2002	<u>13,992,280</u>	<u>1,133,585</u>	<u>2,425,144</u>	<u>17,551,009</u>

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

**BANCA COMERCIALA ROMANA GROUP****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003****(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)****20 OTHER ASSETS**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Amounts in transit	141,457	151,122
Sundry debtors	696,395	343,850
Petty inventory	114,580	91,669
Other assets and prepayments	<u>503,547</u>	<u>488,808</u>
	<u>1,455,979</u>	<u>1,075,449</u>
Less provision for sundry debtors	<u>(197,881)</u>	<u>(226,051)</u>
	<u>1,258,098</u>	<u>849,398</u>

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
<b>Provision for sundry debtors</b>		
Provision at 1 January	226,051	252,344
Charge of provision for the year (see Note 10)	5,142	–
Effects of inflation	(27,934)	(38,131)
Other assets written-off	–	(533)
Effects of exchange rates	<u>(5,378)</u>	<u>12,371</u>
Provision at 31 December	<u>197,881</u>	<u>226,051</u>

**21 INVESTMENT PROPERTY**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
At the beginning of the year	1,758,002	1,524,591
Fair value adjustment	<u>(173,764)</u>	<u>233,411</u>
At the end of the year	<u>1,584,238</u>	<u>1,758,002</u>

The investment property is valued at 31 December 2003 at fair value comprising present value of future cash flows from rental income.

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

---

## 21 INVESTMENT PROPERTY (CONTINUED)

During the year 2003 the rental income from investment property was ROL 140,596 million (2002: ROL 131,458 million). Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the year were in amount of ROL 51,274 million (2002: ROL 58,321 million).

## 22 DUE TO OTHER BANKS

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Repayable on demand	685,426	668,709
Term deposits	4,222,920	3,612,187
Loans from banks	<u>9,771,795</u>	<u>5,413,397</u>
	<u>14,680,141</u>	<u>9,694,293</u>

A maturity profile of amounts due to other banks is provided in Note 30. An analysis by currency is provided in Note 28.

The interest rates for amounts in USD during the year ranged from 0.5% to 2% (2002: 0.75% to 4.5%), the weighted average rate being 1.12% (2002: 2%).

The interest rates for deposits in EUR during 2003 ranged from 0.5% to 3.4%, the weighted average being 2.3%.

Interest rates on deposits taken in ROL ranged from 5% to 34% (2002: 14% to 34%), the weighted average being 15.89% (2002: 24%).

The largest amounts due to other banks are loans from foreign banks denominated in hard currencies. The interest rates in 2003 for these borrowed funds ranged from 2.64% to 7.77% for EUR, weighted average interest rate being 4.94% and from 1.6% to 6.82% for USD, weighted average interest rate being 3.16%.

## **22 DUE TO OTHER BANKS (CONTINUED)**

The main financing agreements in which the Group is involved are presented below.

### **Agreement with International Financing Corporation (“IFC”)**

This agreement is dated December 17th 2002, its purpose being to improve the structure of Bank's balance sheet by reducing maturity mismatches between Foreign Currency Assets and Foreign Currency Liabilities, and to expand Bank's activities with private sector firms and individuals. Committed amount represents USD 75,000,000 which was fully drawn at 31st December 2003 by the Bank. The reimbursements are due in biannual installments starting with June 15, 2005 and ending on December 15, 2009. Interest payment is biannual at a variable interest rate of LIBOR 6 months + 2.5% margin.

The loan is subject to negative covenants and financial covenants.

IFC monitors the achievement of financial covenants through periodical reports.

At 31 December 2003, by reference to the consolidated financial statements, the targeted levels for the financial covenants were achieved.

In accordance with section 7.01 and 7.02 of the Loan Agreement, if the Bank fails to perform any of its obligations under this agreement or any other agreement between the Bank and IFC and such failure continues for a period of thirty days after IFC notifies the Bank of that failure, IFC may, by notice to the Bank, require the Bank to repay the loan immediately.

### **Agreement with European Bank for Reconstruction and Development (“EBRD”) for mortgage loans**

This agreement is dated 17th January 2003, its purpose being to grant “mortgage Sub-Loan for Real Estate (houses, flats, and the respective land), as the case may be and the like used or to be used by individual sub-borrowers for personal use in Romania or legal entity sub-Borrowers for constructing or buying houses, flats or the like in Romania for their employees”.

Committed amount represents EUR 50,000,000 and drawn-downs can be either in EUR or USD. As at 31st December 2003 the Bank fully drawn the agreement amount, the loan balance being of USD 56,167,500. The loan re-payment is made in disbursement currency and is due starting with 17th May 2005 in 19 biannual equal instalments on 17 May and 17 November. Interest payment is also biannual at a variable interest rate of LIBOR 6 months + 2.5% margin.

## **22 DUE TO OTHER BANKS (CONTINUED)**

### **Agreements with EBRD for financing of small and medium enterprises ("SME")**

There are two agreements dated 22nd January 2001 and 9th December 2002 representing a SME Finance Facility to promote lending to SME in the accession countries to European Union. In each agreement the committed amount is EUR 20,000,000. Each loan can be drawdown in 2 tranches of EUR 5,000,000 each and one tranche of EUR 10,000,000. One agreement was fully drawn as at 31st December 2003 and reimbursements until 31st December 2003 were of EUR 7,555,556, closing balance at that date being EUR 12,444,444.

In the second SME agreement the drawdown amount represents EUR 12,000,000, and closing dates for drawdowns by tranches are 23rd January 2004, 23rd January 2005 and 23rd January 2006. No reimbursements took place during the year.

The loan re-payment is made biannual equal on 10 May and 10 November for first SME agreement, whilst for the second the reimbursements are due starting with 1 year after first drawdown from each tranche. Interest payment is also biannual at a variable interest rate of EURIBOR 6 months + 2.25% margin.

These loans from EBRD are subject to negative covenants and financial covenants. EBRD monitors the achievement of financial covenants through periodical reports.

At 31 December 2003, by reference to the consolidated financial statements, the targeted levels for the financial covenants were achieved.

The other significant loans in balance comprise financing agreements denominated in hard currencies and charged with fixed and variable interest rate, from Eximbank Romania, AMEX New York, Commerzbank Luxembourg, Deutsche Bank London, Standard Bank London.

Loans from banks include the amount of ROL 9,716,341 million (2002: ROL 5,321,881 million) being loans principal and the amount of ROL 55,454 million (2002: ROL 91,516 million) being accrued interest.



**BANCA COMERCIALA ROMANA GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

**(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)**

**22 DUE TO OTHER BANKS (CONTINUED)**

A summary of movements in loan principal during the year 2003 is presented below:

	<u>31 December 2003</u> (ROL million)
Opening balance at beginning of the year	5,321,881
Effect of inflation	(696,327)
Reimbursements	(1,895,180)
Drawdowns in 2003	6,592,634
Foreign exchange differences	<u>393,333</u>
Closing balance at the end of the year	<u>9,716,341</u>

Undrawn commitments as at year end amounted to ROL 4,016,938 million and are presented below:

<b>Banca</b>	<u>Amount approved</u> (million ROL)	<u>Total drawdowns</u> (million ROL)	<u>Undrawn loans commitments</u> (million ROL)
EBRD SME agreement	1,644,680	1,315,744	328,936
EBRD MORTGAGE agreement	2,055,850	2,055,850	–
IFC	2,444,625	2,444,625	–
BANK AUSTRIA CREDITANSTALT AG, Viena und BAYERISCHE HYPO UND VEREINSBANK, Frankfurt am Main	822,340	18,687	803,653
BNP PARIBAS	940,237	160,166	780,071
WEST LB LONDON	822,340	145,823	676,517
DZ BANK AG, Frankfurt am Main	616,755	45,411	571,344
Altele	1,880,050	1,084,626	795,424
Banca Italo-Romana	<u>135,686</u>	<u>74,692</u>	<u>60,994</u>
	<u>11,362,563</u>	<u>7,345,624</u>	<u>4,016,938</u>

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

## 23 DEPOSITS FROM CUSTOMERS

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Repayable on demand - individuals	11,033,122	9,806,376
Repayable on demand - companies	28,521,323	27,885,131
Term deposits - individuals	59,358,039	57,350,196
Term deposits - companies	25,655,895	24,518,342
Certificates of deposits - individuals	11,186,081	11,559,830
Certificates of deposits - companies	1,143,152	1,087,523
Repurchase agreements	<u>6,610,104</u>	<u>1,328,131</u>
	<u>143,507,716</u>	<u>133,535,529</u>

Interest rates during 2003 ranged from 6% to 29.5% (2002: 6% to 33%) for ROL term deposits, the weighted average rate being 13.52% (2002: 22.95%) and ranged from 2.12% to 6.25% (2002: 0.5% to 3.5%) for foreign currency deposits, the weighted average rate being 2.34% (2002: 2.74%).

Assets pledged as collateral for repurchase agreements are Treasury Bills and Treasury bonds issued by the Romanian Ministry of Public Finance in local currency with a carrying amount of ROL 4,583,738 million, in USD with a carrying amount of ROL 560,067 million equivalent and in EUR with a carrying amount of ROL 1,466,299 million equivalent.

The Treasury Bills denominated in local currency are issued for periods of 1 to 12 months (2002: 3 to 12 months) and bear an interest ranging between 14.99% and 18.5% (2002: 21.5% to 35.85%).

The Treasury bonds denominated in USD are issued for periods of 28 months to 29 months (2002: 1 year) and bear an interest ranging between 4.98% and 5% (2002: 5%).

Treasury bonds denominated in local currency are issued for periods of 14 months to 28 months and bear a coupon rate ranging between 14% and 15%.

Treasury bonds denominated in EUR are issued for periods of 4 to 8 years and bear an interest ranging between 5.75% and 10.63%.

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

## 24 OTHER LIABILITIES AND PROVISIONS

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Clearing payments pending	318,662	665,480
Provision for letters of guarantee (see Note 35)	113,449	129,445
Profit tax	63,353	167,839
Other taxes payable	61,693	13,764
Finance lease payable	29,158	–
Unearned premium reserve	530,305	156,168
Other liabilities	<u>931,540</u>	<u>676,980</u>
	<u>2,048,160</u>	<u>1,809,676</u>

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

## 25 SHARE CAPITAL

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Statutory value (not restated)	7,924,688	7,924,688
Restatement of share capital	<u>13,272,237</u>	<u>13,272,237</u>
	<u>21,196,925</u>	<u>21,196,925</u>

### Shareholder

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (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 (2002: 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.

**BANCA COMERCIALA ROMANA GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

**26 RESERVES**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
General banking reserves	1,629,352	1,157,519
Statutory reserve	5,631,479	4,988,924
Translation reserve	<u>(328,239)</u>	<u>(314,031)</u>
	<u>6,932,592</u>	<u>5,832,412</u>

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
<b>General banking reserves</b>		
At 1 January	1,157,519	897,698
Transfer from profit	<u>471,833</u>	<u>259,821</u>
At 31 December	<u>1,629,352</u>	<u>1,157,519</u>
<b>Statutory reserves</b>		
At 1 January	4,988,924	4,042,573
Transfer from profit	<u>642,555</u>	<u>946,351</u>
At 31 December	<u>5,631,479</u>	<u>4,988,924</u>
<b>Translation reserves</b>		
At 1 January	(314,031)	(425,492)
Movement	<u>(14,208)</u>	<u>111,461</u>
At 31 December	<u>(328,239)</u>	<u>(314,031)</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.

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

---

## 26 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.

## 27 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 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Cash	4,061,506	4,699,755
Current account and short term deposits with Central Banks	53,518,506	60,689,760
Treasury Bills - less than 3 months	390,103	341,470
Due from other banks - less than 3 months	<u>9,909,784</u>	<u>10,302,940</u>
	<u>67,879,899</u>	<u>76,033,925</u>

**BANCA COMERCIALA ROMANA GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

**28 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 2003 (see Note 34):

	<u>ROL</u> (ROL million)	<u>EUR</u> (ROL million)	<u>USD</u> (ROL million)	<u>Other</u> (ROL million)	<u>Total</u> (ROL million)
<b>Assets</b>					
Cash	2,475,963	1,196,846	277,778	110,919	4,061,506
Due from the Central Banks	38,712,805	829,034	14,394,161	39,156	53,975,156
Treasury bills	6,063,203	185,506	629,407	98,450	6,976,566
Due from other banks	432,944	5,602,818	1,101,455	2,555,280	9,692,497
Loans and advances to customers, net	47,760,928	19,402,748	16,211,256	146,444	83,521,376
Investment securities	1,245,449	5,961,430	7,470,324	–	14,677,203
Investments in associates	248,562	114,545	241,847	–	604,954
Property and equipment	17,716,878	60,019	–	6,521	17,783,418
Investment property	1,584,238	–	–	–	1,584,238
Other assets	<u>602,461</u>	<u>278,431</u>	<u>369,694</u>	<u>7,512</u>	<u>1,258,098</u>
<b>Total assets</b>	<u>116,843,431</u>	<u>33,631,377</u>	<u>40,695,922</u>	<u>2,964,282</u>	<u>194,135,012</u>
<b>Liabilities</b>					
Due to other banks	757,683	5,276,203	8,506,321	139,934	14,680,141
Due to customers	85,624,525	29,004,359	26,947,996	1,930,836	143,507,716
Other liabilities and provisions	1,535,764	348,615	132,098	31,683	2,048,160
Deferred tax liability	<u>52,745</u>	<u>37,951</u>	<u>–</u>	<u>(3,212)</u>	<u>87,484</u>
<b>Total liabilities</b>	<u>87,970,717</u>	<u>34,667,128</u>	<u>35,586,415</u>	<u>2,099,241</u>	<u>160,323,501</u>
<b>Net on balance sheet position</b>	<u>28,872,714</u>	<u>(1,035,751)</u>	<u>5,109,507</u>	<u>865,041</u>	<u>33,811,511</u>

Other currencies include mainly British Pound and Swiss Franc.

**BANCA COMERCIALA ROMANA GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

**28 ASSETS AND LIABILITIES DENOMINATED IN ROL AND OTHER CURRENCIES (CONTINUED)**

As at 31 December 2002:

	<u>ROL</u> (ROL million)	<u>EUR</u> (ROL million)	<u>USD</u> (ROL million)	<u>Other</u> (ROL million)	<u>Total</u> (ROL million)
<b>Assets</b>					
Cash	3,059,880	1,051,305	494,394	94,176	4,699,755
Due from the Central Banks	48,177,335	427,606	13,267,555	18,437	61,890,933
Treasury bills	8,074,046	48,860	3,813,616	65,870	12,002,392
Due from other banks	527,569	4,365,800	2,863,057	1,670,568	9,426,994
Loans and advances to customers, net	30,274,280	12,800,309	15,310,006	571,585	58,956,180
Investment securities	102,429	5,253,584	5,473,855	61,592	10,891,460
Investments in associates	250,221	114,471	241,848	–	606,540
Property and equipment	17,468,672	75,623	–	6,714	17,551,009
Investment property	1,758,002	–	–	–	1,758,002
Other assets	<u>550,762</u>	<u>180,065</u>	<u>104,803</u>	<u>13,768</u>	<u>849,398</u>
<b>Total assets</b>	<u>110,243,196</u>	<u>24,317,623</u>	<u>41,569,134</u>	<u>2,502,710</u>	<u>178,632,663</u>
<b>Liabilities</b>					
Due to other banks	145,828	5,133,307	4,223,653	191,505	9,694,293
Due to customers	80,874,970	17,811,443	32,573,961	2,275,155	133,535,529
Other liabilities and provisions	693,636	190,344	488,914	436,782	1,809,676
Deferred tax liability	<u>390,081</u>	<u>119,274</u>	<u>–</u>	<u>107</u>	<u>509,462</u>
<b>Total liabilities</b>	<u>82,104,515</u>	<u>23,254,368</u>	<u>37,286,528</u>	<u>2,903,549</u>	<u>145,548,960</u>
<b>Net on balance sheet position</b>	<u>28,138,681</u>	<u>1,063,255</u>	<u>4,282,606</u>	<u>(400,839)</u>	<u>33,083,703</u>

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

---

## 29 INTEREST RATE RISK

The table below summarises the effective interest rate by major currencies for monetary financial instruments (see Note 34).

	<u>EUR</u>	<u>USD</u>	<u>ROL</u>
<b>Assets</b>			
Balances with National Bank of Romania	–	0.77%	15.32%
Treasury bills	–	5.00%	17.00%
Due from banks	2.27%	1.24%	19.29%
Loans and advances to customers	8.20%	7.40%	23.74%
Investment securities	9.65%	5.00%	17.00%
<b>Liabilities</b>			
Due to other banks	2.30%	1.12%	15.89%
Loans from banks	4.94%	3.16%	–



**BANCA COMERCIALA ROMANA GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

**(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)**

**29 INTEREST RATE RISK (CONTINUED)**

The table below summarises 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 2003.

	<b>Up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>No interest bearing</b>	<b>Total</b>
	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>
<b>Assets</b>						
Cash	–	–	–	–	4,061,506	4,061,506
Due from Central Banks	53,967,469	–	–	–	7,687	53,975,156
Treasury Bills	2,132,335	2,501,541	2,280,510	62,180	–	6,976,566
Due from other banks	9,645,962	46,535	–	–	–	9,692,497
Loans and advances to customers	82,943,093	578,283	–	–	–	83,521,376
Investment securities	114,342	2,055,288	10,603,749	1,791,976	111,848	14,677,203
Investment in associates	–	–	–	–	604,954	604,954
Premises and equipment	–	–	–	–	17,783,418	17,783,418
Investment property	–	–	–	–	1,584,238	1,584,238
Other assets	–	–	–	–	1,258,098	1,258,098
<b>Total assets</b>	<u>148,803,201</u>	<u>5,181,647</u>	<u>12,884,259</u>	<u>1,854,156</u>	<u>25,411,749</u>	<u>194,135,012</u>
<b>Liabilities</b>						
Due to other banks	6,900,764	6,775,026	828,354	175,997	–	14,680,141
Due to customers	143,507,716	–	–	–	–	143,507,716
Other liabilities and provisions	–	–	–	–	2,048,160	2,048,160
Deferred tax liability	–	–	–	–	87,484	87,484
<b>Total liabilities</b>	<u>150,408,480</u>	<u>6,775,026</u>	<u>828,354</u>	<u>175,997</u>	<u>2,135,644</u>	<u>160,323,501</u>
<b>Interest sensitivity gap</b>	<u>(1,605,279)</u>	<u>(1,593,379)</u>	<u>12,055,905</u>	<u>1,678,159</u>	<u>23,276,105</u>	<u>33,811,511</u>

**BANCA COMERCIALA ROMANA GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

**(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)**

**29 INTEREST RATE RISK (CONTINUED)**

As at 31 December 2002:

	<u>Up to 3 months</u> (ROL million)	<u>3 months to 1 year</u> (ROL million)	<u>1 year to 5 years</u> (ROL million)	<u>Over 5 years</u> (ROL million)	<u>No interest bearing</u> (ROL million)	<u>Total</u> (ROL million)
<b>Assets</b>						
Cash	–	–	–	–	4,699,755	4,699,755
Due from Central Banks	61,890,933	–	–	–	–	61,890,933
Treasury Bills bonds	3,002,846	8,999,546	–	–	–	12,002,392
Due from other banks	8,905,059	521,935	–	–	–	9,426,994
Loans and advances to customers	58,245,156	711,024	–	–	–	58,956,180
Investment securities	804,980	3,825,190	4,177,370	2,083,920	–	10,891,460
Investment in associates	–	–	–	–	606,540	606,540
Premises and equipment	–	–	–	–	17,551,009	17,551,009
Investment property	–	–	–	–	1,758,002	1,758,002
Other assets	–	–	–	–	849,398	849,398
<b>Total assets</b>	<u>132,848,974</u>	<u>14,057,695</u>	<u>4,177,370</u>	<u>2,083,920</u>	<u>25,464,704</u>	<u>178,632,663</u>
<b>Liabilities</b>						
Due to other banks	5,678,909	2,460,425	1,180,418	374,541	–	9,694,293
Due to customers	129,989,803	3,531,037	14,689	–	–	133,535,529
Deferred tax liability	–	–	–	–	509,462	509,462
Other liabilities and provisions	–	–	–	–	1,809,676	1,809,676
<b>Total liabilities</b>	<u>135,668,712</u>	<u>5,991,462</u>	<u>1,195,107</u>	<u>374,541</u>	<u>2,319,138</u>	<u>145,548,960</u>
<b>Interest sensitivity gap</b>	<u>(2,819,738)</u>	<u>8,066,233</u>	<u>2,982,263</u>	<u>1,709,379</u>	<u>23,145,566</u>	<u>33,083,703</u>

**BANCA COMERCIALA ROMANA GROUP****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003****(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)****30 LIQUIDITY RISK**

The amount of total assets and liabilities at 31 December 2003 analysed over the remaining period to the contractual maturity date is as follows (see Note 34):

	<b>Up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>
<b>Assets</b>					
Cash	4,061,506	–	–	–	4,061,506
Due from Central Banks	53,967,469	7,687	–	–	53,975,156
Treasury Bills	6,976,566	–	–	–	6,976,566
Due from other banks	9,569,845	66,689	49,859	6,104	9,692,497
Loans and advances to customers	20,673,354	27,675,829	29,207,632	5,964,561	83,521,376
Investment securities	11,049,018	778,291	2,562,785	287,110	14,677,203
Equity investments	–	–	–	604,954	604,954
Premises and equipment	–	–	–	17,783,418	17,783,418
Investment property	–	–	–	1,584,238	1,584,238
Other assets	982,928	102,253	159,305	13,612	1,258,098
<b>Total assets</b>	<b>107,280,686</b>	<b>28,630,749</b>	<b>31,979,581</b>	<b>29,243,997</b>	<b>194,135,012</b>
<b>Liabilities</b>					
Due to other banks	5,022,883	1,383,550	6,172,286	2,101,422	14,680,141
Due to customers	123,959,407	18,363,911	1,099,013	85,385	143,507,716
Other liabilities and provisions	1,348,925	80,270	541,422	77,543	2,048,160
Deferred tax liability	–	–	–	87,484	87,484
<b>Total liabilities</b>	<b>130,331,215</b>	<b>19,827,731</b>	<b>7,812,721</b>	<b>2,351,834</b>	<b>160,323,501</b>
<b>Net liquidity gap</b>	<b>(23,050,529)</b>	<b>8,803,018</b>	<b>24,166,860</b>	<b>23,892,163</b>	<b>33,811,511</b>

**BANCA COMERCIALA ROMANA GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

**(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)**

**30 LIQUIDITY RISK (CONTINUED)**

As at 31 December 2002:

	<b>Up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>
<b>Assets</b>					
Cash	4,699,755	–	–	–	4,699,755
Due from Central Banks	61,890,933	–	–	–	61,890,933
Treasury Bills bonds	12,002,392	–	–	–	12,002,392
Due from other banks	8,665,573	663,010	98,411	–	9,426,994
Loans and advances to customers	23,535,078	20,390,397	13,540,085	1,571,620	58,956,180
Investment securities	6,650,607	1,256,195	2,631,577	353,081	10,891,460
Investment in associates	–	–	–	606,540	606,540
Premises and equipment	–	–	–	17,551,009	17,551,009
Investment property	–	–	–	1,758,002	1,758,002
Other assets	582,727	182,544	12,314	71,813	849,398
<b>Total assets</b>	<b>118,027,065</b>	<b>22,492,146</b>	<b>16,282,387</b>	<b>21,912,065</b>	<b>178,632,663</b>
<b>Liabilities</b>					
Due to other banks	4,436,227	2,053,722	2,926,589	277,755	9,694,293
Due to customers	115,698,494	15,873,530	973,251	990,254	133,535,529
Other liabilities and provisions	774,917	907,124	24,254	103,381	1,809,676
Deferred tax liability	–	–	–	509,462	509,462
<b>Total liabilities</b>	<b>120,909,638</b>	<b>18,834,376</b>	<b>3,924,094</b>	<b>1,880,852</b>	<b>145,548,960</b>
<b>Net liquidity gap</b>	<b>(2,882,573)</b>	<b>3,657,770</b>	<b>12,358,293</b>	<b>20,031,213</b>	<b>33,083,703</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.

**BANCA COMERCIALA ROMANA GROUP**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2003**

**(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)**

**31 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 2003 (see Note 34).

	<u>State</u> (ROL million)	<u>Private</u> (ROL million)	<u>Total</u> (ROL million)
<b>Assets</b>			
Due from National Bank of Romania	52,898,537	–	52,898,537
Treasury bills	6,252,197	–	6,252,197
Due from other banks	–	8,164,362	8,164,362
Loans and advances to customers, net	10,404,555	68,417,828	78,822,383
Investment securities	<u>11,384,583</u>	<u>2,835</u>	<u>11,387,418</u>
	<u>80,939,872</u>	<u>76,585,025</u>	<u>157,524,897</u>
<b>Liabilities</b>			
Due to other banks	–	10,401,316	10,401,316
Due to customers	<u>11,994,780</u>	<u>128,087,672</u>	<u>140,082,452</u>
	<u>11,994,780</u>	<u>138,488,988</u>	<u>150,483,768</u>

As at 31 December 2002:

	<u>State</u> (ROL million)	<u>Private</u> (ROL million)	<u>Total</u> (ROL million)
<b>Assets</b>			
Due from National Bank of Romania	61,134,173	–	61,134,173
Treasury bills	11,540,505	–	11,540,505
Due from other banks	–	7,565,082	7,565,082
Loans and advances to customers, net	9,985,527	45,880,633	55,866,160
Investment securities	<u>7,053,523</u>	<u>–</u>	<u>7,053,523</u>
	<u>89,713,728</u>	<u>53,445,715</u>	<u>143,159,443</u>
<b>Liabilities</b>			
Due to other banks	1,181,381	4,955,506	6,136,887
Due to customers	<u>12,890,371</u>	<u>117,480,137</u>	<u>130,370,508</u>
	<u>14,071,752</u>	<u>122,435,643</u>	<u>136,507,395</u>

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

---

## 32 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.

	<u>Carrying value 2003</u>	<u>Fair value 2003</u>	<u>Carrying value 2002</u>	<u>Fair value 2002</u>
	(ROL million)	(ROL million)	(ROL million)	(ROL million)
<b>Financial assets</b>				
Due from central banks	53,975,156	53,365,898	61,890,933	61,940,167
Due from other banks	9,692,497	9,669,418	9,426,994	9,429,067
Loans to customers	83,521,376	76,373,036	58,956,180	57,375,359
Investment securities held to maturity	3,629,372	3,661,561	10,891,460	10,978,219
<b>Financial liabilities</b>				
Due to other banks	14,680,141	13,590,460	9,694,293	9,666,664
Due to customers	143,507,716	147,612,997	133,535,529	133,534,456

## 33 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 2003 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 31 on Economic sector risk details the assets and liabilities of the Parent with the Romanian State.

**BANCA COMERCIALA ROMANA GROUP****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003****(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)****33 RELATED PARTY TRANSACTIONS (CONTINUED)**

The following transactions were carried out with related parties:

	<b>Year ended 31 December 2003 (ROL million)</b>	<b>Year ended 31 December 2002 (ROL million)</b>
<b>Assets</b>		
Loans to employees	1,120,000	728,200
Due from banks	<u>41,199</u>	<u>–</u>
	<u>1,161,199</u>	<u>728,200</u>
<b>Liabilities</b>		
Current accounts of other banks	6,422	12,864
Term deposits received from other banks	205,585	28,592
Current accounts of customers	–	193,664
Term deposits from customers	–	5,230
Loans from banks	<u>309,059</u>	<u>–</u>
	<u>521,066</u>	<u>240,350</u>
	<b>Year ended 31 December 2003 (ROL million)</b>	<b>Year ended 31 December 2002 (ROL million)</b>
<b>Revenues</b>		
Interest income from loans and advances to customers	–	82,247
<b>Expenses</b>		
Interest expenses for customers' accounts	–	24,427
Interest expense for loans from banks	14,048	–

## **34 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.

### **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 2003 and 31 December 2002 analysed over the remaining period to the contractual maturity date is included in Note 30.

### **Currency risk**

Subsidiaries are subject to the currency risk of the currency of the country in which they are domiciled. Most of the Group's operations are 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 28.

### **Economic sector risk**

The Parent takes on exposure to economic sector risk. The amount of total assets and liabilities at 31 December 2003 analysed in transactions with State and private companies is included in Note 31. 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, i.e. the risk that the receivable will not be paid. This is related to the balance sheet items i.e. 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.



## **34 RISK MANAGEMENT (CONTINUED)**

### **Taxation risk**

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

## **35 COMMITMENTS AND CONTINGENCIES**

### **Litigation**

In 1999 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.

## **35 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

On 6 July 2000 the Romanian Government issued the Emergency Ordinance 131/2000 and subsequent Decision 909/2000 stating that the Government will issue 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.

As at 31 December 2003, the Bank was acting as defendant in four cases (the "Cases") arising in connection with the former Bancorex amounting to USD 21,944 thousands which do not fall under the scope of Emergency Ordinance no. 131/2000 and Government Decision no. 909/2000. 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 Emergency Ordinance 18/2004 confirmed that the all off balance sheet, other commitments and all the risks for the Bank arising from litigation related to former Bancorex are guaranteed, remain and will be guaranteed by the State.

The Bank continues to be subject to legal challenges in relation either to the absorption of Bancorex or to the fact that the main shareholder of the Bank is the Romanian State. The management of the Bank believes that such actions shall not impact significantly on the economic results and financial position of the Bank.

### **Credit related commitments**

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the 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 adjusted to fair value based on market rates movements.

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

## 35 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

The Ministry of Public 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 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Letters of guarantee	19,578,211	21,250,427
Letters of Credit	2,593,032	3,022,346
Undrawn loan commitments	<u>14,003,737</u>	<u>11,723,112</u>
	<u>36,174,980</u>	<u>35,995,885</u>
<b>Analysis of movement in provision</b>		
Provision at 1 January	129,445	150,815
Charge/(release) for the year (see Note 10)	–	30,499
Effects of inflation	(15,996)	(22,789)
Effects of exchange rates	<u>–</u>	<u>(29,080)</u>
Provision at 31 December	<u>113,449</u>	<u>129,445</u>

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

---

### 36 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 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.

### 37 MINORITY INTEREST

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
At 1 January	781,972	708,756
Additions	1,268	18,856
Dividends for previous year	(59,014)	(46,101)
Translation difference	60,690	66,566
Share of gain/(loss) of subsidiaries	<u>5,823</u>	<u>33,895</u>
At 31 December	<u>790,739</u>	<u>781,972</u>

## BANCA COMERCIALA ROMANA GROUP

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

## 38 SUBSIDIARIES

Company's Name	Country of incorporation	Nature of business	Shareholding	
			2003	2002
Anglo-Romanian Bank*	United Kingdom	Banking	100.00%	100.00%
Banque Franco-Roumaine*	France	Banking	50.00%	50.00%
Frankfurt -Bukarest Bank*	Germany	Banking	97.50%	93.50%
BCR Chişinău	Moldova	Banking	100.00%	100.00%
Financiara SA *	Romania	Financial services	97.10%	97.10%
BCR Securities SA	Romania	Brokerage	85.51%	85.51%
BCR Leasing SA	Romania	Leasing	89.03%	89.03%
BCR Asigurari SA	Romania	Insurance	72.70%	72.70%
BCR Asset Management SA	Romania	Asset Management	58.29%	58.29%
Bucharest Financial Piazza SRL	Romania	Real Estate	97.10%	97.10%

\* acquired from Bancorex during 1999

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

## 39 SUBSEQUENT EVENTS

### Privatisation

According to Government Decision 772/2003 ("GD 772/2003") and to Emergency Ordinance 18/2004 ("EO 18/2004") the shareholding structure of Banca Comercială Română will change through the sale of 25% plus 2 shares towards EBRD and IFC.

The Sale/Purchase Contract signed on the 4th of November 2003 shall become enforceable after the documents governing the validity of the Sale/Purchase Contract have been agreed upon and signed.

A quota of 8% of the Bank's shares will be also sold to Bank's Employees' Association, which buys these shares on behalf of and for the members of the Association.

## **39 SUBSEQUENT EVENTS (CONTINUED)**

### **Corporate Governance**

In accordance with the provisions of the Emergency Ordinance 18/2004, the supervision, administration and coordination of the Bank will be performed by the Supervision Board elected by the General Shareholders' Meeting. The members of the Supervision Board will not be employees of the Bank.

A Remuneration Committee will supervise the global remuneration system of the Bank, while an Audit and Compliance Committee will supervise realization of financial policies and methodologies, including adequacy of financial controls.

An Executive Committee elected by the General Shareholders' Meeting will manage the operations of the Bank.

It is understood that, during April, the General Shareholders' Meeting of the Bank will approve the modified version of the Bank's Statute disclosing the new shareholding structure and other documents agreed under the Sale/Purchase Contract and the Shareholders' Agreement.

Statement of income and balance sheet  
of Banca Comerciala Romana SA  
as at 31 December 2003



## BANCA COMERCIALA ROMANA SA

### STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2003

(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)

The statement of income and balance sheet of 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 Directors on 21 April 2004.

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Interest income	20,635,959	26,793,772
Interest expense	<u>(9,471,161)</u>	<u>(15,098,373)</u>
<b>Net interest income</b>	11,164,798	11,695,399
Fee and commission income	5,935,512	5,166,934
Fee and commission expense	(632,086)	(569,518)
Gains less losses arising from dealing in foreign currencies	675,718	532,378
Other operating income	<u>421,717</u>	<u>507,429</u>
<b>Total income</b>	17,565,659	17,332,622
Other operating expenses	(10,482,000)	(9,016,834)
Impairment losses	(1,821,758)	(530,992)
Loss on net monetary position	<u>(1,782,331)</u>	<u>(2,314,449)</u>
<b>Profit from operations</b>	3,479,570	5,470,347
Share of profit from subsidiaries	<u>343,231</u>	<u>108,384</u>
<b>Profit before taxation</b>	3,822,801	5,578,731
Taxation	<u>(1,080,470)</u>	<u>(1,615,048)</u>
<b>Net profit</b>	<u><u>2,742,331</u></u>	<u><u>3,963,683</u></u>



**BANCA COMERCIALA ROMANA SA****BALANCE SHEET AS AT 31 DECEMBER 2003****(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
<b>Assets</b>		
Cash	4,039,168	4,671,205
Due from the National Bank of Romania	52,898,537	61,134,173
Treasury bills	6,252,197	11,540,505
Due from other banks	8,164,362	7,565,082
Loans and advances to customers	78,822,383	55,866,160
Investment securities		
- available for sale	9,407,426	3,916,986
- held to maturity	1,979,992	3,136,537
Investments	5,145,153	4,825,320
Premises and equipment	17,432,186	17,190,064
Other assets	<u>682,171</u>	<u>441,706</u>
<b>Total assets</b>	<u><u>184,823,575</u></u>	<u><u>170,287,738</u></u>
<b>Liabilities</b>		
Due to other banks	10,401,316	6,136,889
Due to customers	140,082,452	130,370,509
Other liabilities and provisions	1,306,257	1,423,514
Deferred tax liability	<u>12,778</u>	<u>55,095</u>
Total liabilities	<u><u>151,802,803</u></u>	<u><u>137,986,007</u></u>
<b>Shareholders' equity</b>		
Share capital	21,196,925	21,196,925
Retained earnings	4,891,255	5,272,394
Reserves	<u>6,932,592</u>	<u>5,832,412</u>
Total shareholders' equity	<u><u>33,020,772</u></u>	<u><u>32,301,731</u></u>
<b>Total liabilities and shareholders' equity</b>	<u><u>184,823,575</u></u>	<u><u>170,287,738</u></u>