CONSOLIDATED FINANCIAL REPORTS

Consolidated Financial Reports

Banca Comerciala Romana S.A.

Financial Statements
The Group and the Bank
31 December 2004

Prepared in accordance with
International Financial Reporting Standards

Contents

General information

1. Nature of operations

Banca Comerciala Romana Group (the "Group") comprises the parent bank, Banca Comerciala Romana S.A. and its subsidiaries: Anglo-Romanian Bank Limited (United Kingdom), Banca Comerciala Romana Sucursala Chisinau (Republic of Moldova), BCR Asigurari SA (Romania), BCR Leasing SA (Romania), BCR Securities SA (Romania), Financiara SA (Romania), Bucharest Financial Plazza SRL (Romania) and BCR Asset Management SA (Romania).

Banca Comerciala Romana SA (the "Bank") was established in Romania in 1990 and is licensed by the National Bank of Romania to conduct banking activities.

The Group provides day-to-day banking services and other financial services to governmental institutions, corporate and individual clients operating in Romania and abroad. These services include: accounts opening, domestic and international payments, foreign exchange transactions, working capital finance, medium and long term facilities, retail loans, finance small and medium-sized enterprises, bank guarantees, letter of credits and also leasing, insurance, brokerage, financial consultancy services and asset management.

The Group and the Bank operate through the Head Office located in Bucharest and through its network of 323 branches (31 December 2003: 297) and 315 branches (31 December 2003: 290) respectively, located in Romania and abroad.

The current registered office of the Bank is located at:

5, Elisabeta Boulevard

Bucharest, Sector 3

Romania.

2. Capital adequacy

The Bank 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 and off-balance-sheet commitments 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 in compliance with the NBR regulations applicable as at 31 December 2004, a credit institution must have a capital adequacy ratio of at least 12%. During 2004 the NBR regulations regarding capital adequacy changed as compared to 31 December 2003 when a credit institution was required to have a Tier 1 ratio of at least 8% and Tier 1 plus Tier 2 capital adequacy ratio of at least 12%. As of 31 December 2004, the capital adequacy ratio based upon the NBR's regulations was 19.01% (31 December 2003: the Tier 1 and the Tier 1 plus Tier 2 ratios were 18.54% and 22.03%, respectively).

In addition to the above ratios the Bank and the Group also monitor the adequacy of its capital using ratios established by the Bank for International Settlements ("BIS") in July 1988, based upon its financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

TRANSLATOR'S EXPLANATORY NOTE: The above translation of the general information is provided as a free translation from Romanian which is the official and binding version

General information

2. Capital adequacy (*continued*)

Based upon financial information prepared in accordance with IFRS the Tier 1 and the Tier 1 plus Tier 2 capital adequacy ratios at 31 December 2004 were:

- 21.30% and 22.26%, respectively (31 December 2003: 25.46% and 26.88%, respectively) for the Bank.
- 22.61% and 23.59%, respectively (31 December 2003: 26.50% and 27.90%, respectively) for the Group.

Under BIS guidelines assets are weighted according to equivalent categories of 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 reserve for banking risks. Tier 2 capital includes the Bank and the Group's eligible long-term debt, general credit risk reserves up to 1.25% of the risk-weighted assets and revaluation reserves.

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General information

2. Capital adequacy (*continued*)

Bank

In ROL million	IFRS Balance sheet (Reported amounts)		IFRS Balance sheet (Risk weighted amounts)	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Balance sheet assets (net of provisions)				
Cash and cash equivalents	4,123,586	4,355,608	69,706	63,808
Due from National Bank of Romania	70,591,884	52,898,537	423	7,687
Placements with banks	7,211,205	7,520,671	1,442,241	1,504,134
Loans and advances to banks	305,196	324,650	-	-
Loans and advances to customers	102,887,780	78,822,383	92,665,497	74,225,087
Investment securities	35,116,928	17,639,615	1,292,960	737,629
Equity investments	6,185,171	5,046,398	1,624,023	1,239,523
Deferred tax asset	56,738	-	-	-
Property and equipment	16,954,793	16,722,042	16,954,793	16,722,042
Intangible assets	889,641	710,144	889,641	710,144
Other assets	570,001	684,772	568,783	438,780
Off balance sheet commitments and contingencies	49,784,225	34,048,114	30,968,683	10,240,088
Total risk weighted assets			**146,476,750**	**105,888,922**

In ROL million	Capital		BIS %	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
BIS Capital ratios				
Tier 1 capital	31,201,852	26,956,956	21.30%	25.46%
Tier 1 + Tier 2 capital	32,598,913	28,463,852	22.26%	26.88%

General information (*continued*)

2. Capital adequacy (*continued*)

Group

In ROL million	IFRS Balance sheet (Reported amounts)		IFRS Balance sheet (Risk weighted amounts)	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Balance sheet assets (net of provisions)				
Cash and cash equivalents	4,276,319	4,426,876	95,065	73,594
Due from central banks	71,482,010	53,975,156	423	7,687
Placements with banks	8,240,031	9,154,300	1,648,006	1,799,975
Loans and advances to banks	306,529	170,225	-	-
Loans and advances to customers	108,004,327	83,521,376	97,782,046	78,924,080
Investment securities	39,007,810	21,623,324	4,328,437	4,027,414
Equity investments	495,090	451,181	145,362	451,181
Property and equipment	18,737,180	18,645,630	18,737,180	18,645,630
Intangible assets	894,884	715,576	894,884	715,576
Other assets	1,124,500	1,156,028	1,123,291	1,051,768
Off balance sheet commitments and contingencies	52,359,765	36,174,980	33,544,222	10,771,804
Total risk weighted assets			**158,298,916**	**116,468,709**

In ROL million	Capital		BIS %	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
BIS Capital ratios				
Tier 1 capital	35,795,967	30,859,642	22.61%	26.50%
Tier 1 + Tier 2 capital	37,340,805	32,497,551	23.59%	27.90%

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Independent Auditor's Report

(free translation[1])

The Shareholders'

Banca Comercială Română S.A.

1 We have audited the accompanying unconsolidated balance sheet of Banca Comercială Română S.A. (the "Parent Bank") as of 31 December 2004 and the related unconsolidated statements of income, changes in equity and cash flows for the year then ended. We have also audited the accompanying consolidated balance sheet of Banca Comercială Română S.A. and its subsidiaries (the "Group") as of 31 December 2004 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements which have been presented together to report the financial position, results of operations, and changes in the cash flows for both the Parent Bank and the consolidated Group are the responsibility of the Parent Bank's management. Our responsibility is to express an opinion on the unconsolidated financial statements of the Parent Bank and the consolidated financial statements of the Group based on our audits.

2 This report is made solely to the Bank's shareholders, as a body. Our audit work has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

3 We did not audit the financial statements of two consolidated companies, which statements reflect total assets constituting ROL 12,518,426 million, total net profit constituting ROL 14,328 million and total interest and commission income constituting ROL 897,948 million as of and for the year ended 31 December 2004, of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us. Our audit report, insofar as it relates to the amounts included for those consolidated companies, is based solely on the furnished reports of the other auditors. However, one of the above-mentioned auditors has not provided any written confirmation of their independence of the company they have audited.

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4 The unconsolidated and consolidated financial statements as at 31 December 2003 were audited by other auditors whose reports dated 21 April 2004 expressed unqualified opinions on those unconsolidated and consolidated financial statements.

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

6 As presented in Note 2a to the financial statements, the Parent Bank and the Group did not apply the requirements of IAS 18 "Revenue" and IAS 39 "Financial Instruments: Recognition and Measurement" to amortise the upfront loan origination commissions and related transactions costs based on the effective yield of the loans to determine the impairment losses on loans to customers based on the expected future cash flows discounted at the original effective interest rate of the loans.

7 As presented in Notes 2o and 2p to the financial statements, the Parent Bank and the Group did not apply the requirements of IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" to depreciate office and other equipment and intangible assets for each individual item.

The Parent Bank

8 In our opinion, based on our audits and the audits of other auditors, except for the effects of not recording the adjustments, if any, as described in paragraphs 6 and 7, the accompanying unconsolidated financial statements of Banca Comercială Română S.A. present fairly, in all material respects, the financial position of the Parent Bank as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The Group

9 In our opinion, based on our audits and the audits of other auditors, except for the effects of not recording the adjustments, if any, as described in paragraphs 6 and 7, the accompanying consolidated financial statements of Banca Comercială Română Group present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Refer to the original signed Romanian version

Bucharest, Romania

25 April 2005

Income statement
Bank and Consolidated
for the year ended 31 December 2004

In ROL million	Note	Group		Bank	
		2004	**2003**	**2004**	**2003**
Interest and similar income		25,632,109	20,872,365	24,310,336	19,928,333
Interest expense and similar charges		(11,205,430)	(9,374,202)	(11,081,999)	(9,265,016)
Net interest income	4	**14,426,679**	**11,498,163**	**13,228,337**	**10,663,317**
Fee and commission income		6,672,734	6,218,927	6,184,648	5,935,512
Fee and commission expense		(566,428)	(665,545)	(522,598)	(613,607)
Net fee and commission income	5	**6,106,306**	**5,553,382**	**5,662,050**	**5,321,905**
Dividend income		34,800	10,782	28,207	7,303
Net trading income	6	1,245,448	651,482	1,187,166	675,718
Net gain on non-trading financial instruments		256,474	324,747	274,364	282,278
Other operating income	7	1,028,951	683,614	693,007	305,397
Operating expenses	8	(12,403,200)	(11,364,573)	(11,049,523)	(10,381,500)
Net charge of provision for impairment losses	9	(2,056,091)	(1,895,157)	(2,064,081)	(1,612,517)
Hyperinflation adjustment, loss on net monetary position	2d	-	(1,812,478)	-	(1,782,331)
Profit from operations		**8,639,367**	**3,649,962**	**7,959,527**	**3,479,570**
Share of profit from subsidiaries	17	-	-	355,809	343,231
Profit before tax and minority interest		**8,639,367**	**3,649,962**	**8,315,336**	**3,822,801**
Income tax expense	10	(2,166,282)	(901,808)	(2,001,102)	(1,080,470)
Profit before minority interest		**6,473,085**	**2,748,154**	**6,314,234**	**2,742,331**
Minority interest		(91,119)	(5,823)	-	-
Net profit for the year		**6,381,966**	**2,742,331**	**6,314,234**	**2,742,331**

The financial statements were approved by the Executive Committee on 25 April 2005 and were signed on its behalf by:

Refer to the original signed Romanian version

Dr. Nicolae Danila
Executive President

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Mr. Petre Preda
Executive Vice President

The accompanying notes from pages 78 to 135 form an integral part of these financial statements
TRANSLATOR'S EXPLANATORY NOTE: The above translation of the financial statements is provided as a free translation from Romanian which is the official and binding version

Balance sheet
Bank and Consolidated
at 31 December 2004

In ROL million	Note	Group		Bank	
		2004	2003	2004	2003
Assets					
Cash and cash equivalents	11	4,276,319	4,426,876	4,123,586	4,355,608
Due from central banks	12	71,482,010	53,975,156	70,591,884	52,898,537
Placements with banks	13	8,240,031	9,154,300	7,211,205	7,520,671
Financial assets held for trading		-	184,218	-	-
Loans and advances to banks	14	306,529	170,225	305,196	324,650
Loans and advances to customers	15	108,004,327	83,521,376	102,887,780	78,822,383
Investment securities, available for sale	16	39,007,810	17,993,952	33,996,368	15,659,623
Investment securities, held to maturity	16	-	3,629,372	1,120,560	1,979,992
Equity investments	17	495,090	451,181	6,185,171	5,046,398
Property and equipment	18	18,737,180	18,645,630	16,954,793	16,722,042
Intangible assets	19	894,884	715,576	889,641	710,144
Deferred tax assets	26	105,466	-	56,738	-
Other assets	20	1,124,500	1,156,028	570,001	684,772
Total assets		**252,674,146**	**194,023,890**	**244,892,923**	**184,724,820**
Liabilities					
Deposits from banks	21	8,627,044	4,908,346	5,100,508	1,307,735
Deposits from customers	22	177,640,542	142,964,141	175,970,877	139,538,879
Loans from banks and other financial institutions	23	24,542,905	10,315,370	23,751,612	9,637,154
Other liabilities evidenced by paper	24	14,058	-	-	-
Other liabilities and provisions	25	4,167,928	2,048,160	2,630,819	1,306,257
Deferred tax liabilities	26	-	87,484	-	34,912
Total liabilities		**214,992,477**	**160,323,501**	**207,453,816**	**151,824,937**
Minority interest		**165,063**	**790,739**	**-**	**-**
Shareholders' equity					
Share capital	27	21,196,925	21,196,925	21,196,925	21,196,925
Reserves	28	7,411,765	6,992,239	7,352,118	6,932,592
Retained earnings		8,907,916	4,720,486	8,890,064	4,770,366
Total shareholders' equity		**37,516,606**	**32,909,650**	**37,439,107**	**32,899,883**
Total liabilities, minority interest and shareholders' equity		**252,674,146**	**194,023,890**	**244,892,923**	**184,724,820**

The financial statements were approved by the Executive Committee on 25 April 2005 and were signed on its behalf by:

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Dr. Nicolae Danila
Executive President

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Mr. Petre Preda
Executive Vice President

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Statement of changes in equity
Bank and Consolidated
for the year ended 31 December 2004

Group

In ROL million	Share capital	Reserves	Retained earnings	Total
Balance as at 31 December 2002	21,196,925	5,832,412	5,272,394	**32,301,731**
Net profit for the year	-	-	2,742,331	**2,742,331**
Translation reserve	-	(14,208)	-	**(14,208)**
Dividends declared	-	-	(2,009,082)	**(2,009,082)**
Distribution to reserves	-	1,114,388	(1,114,388)	-
Balance at 31 December 2003 as previously stated	21,196,925	6,932,592	4,891,255	**33,020,772**
Correction of error (referred to note 2ci)	-	59,647	(170,769)	(111,122)
Balance at 31 December 2003, restated	21,196,925	6,992,239	4,720,486	**32,909,650**
Net profit for the year			6,381,966	6,381,966
Translation reserve	-	(105,659)	-	(105,659)
Distribution to reserves	-	525,185	(525,185)	-
Dividends declared	-	-	(1,669,351)	(1,669,351)
Balance at 31 December 2004	**21,196,925**	**7,411,765**	**8,907,916**	**37,516,606**

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Statement of changes in equity
Bank and Consolidated
for the year ended 31 December 2004

Bank

In ROL million	Share capital	Reserves	Retained earnings	Total
Balance as at 31 December 2002	21,196,925	5,832,412	5,272,394	**32,301,731**
Net profit for the year	-	-	2,742,331	**2,742,331**
Translation reserve	-	(14,208)	-	**(14,208)**
Dividends declared	-	-	(2,009,082)	**(2,009,082)**
Distribution to reserves	-	1,114,388	(1,114,388)	-
Balance at 31 December 2003 as previously stated	21,196,925	6,932,592	4,891,255	**33,020,772**
Correction of error (referred to note 2c) and effect of deferred tax adjustment	-	-	(120,889)	**(120,889)**
Balance at 31 December 2003, restated	21,196,925	6,932,592	4,770,366	**32,899,883**
Net profit for the year	-	-	6,314,234	**6,314,234**
Translation reserve	-	(105,659)	-	**(105,659)**
Distribution to reserves	-	525,185	(525,185)	-
Dividends declared	-	-	(1,669,351)	**(1,669,351)**
Balance at 31 December 2004	**21,196,925**	**7,352,118**	**8,890,064**	**37,439,107**

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Cash flows statement
Bank and Consolidated
for the year ended 31 December 2004

In ROL million	Note	Group		Bank	
		2004	2003	2004	2003
Operating activities					
Net profit before taxation		8,639,367	3,649,962	8,315,336	3,822,801
Adjustments for non-cash items:					
Depreciation and amortization	8	1,029,430	1,091,977	907,513	1,016,154
Net gain on disposal of property and equipment		(5,051)	(22,629)	(7,427)	(22,629)
Loss on disposal of equity securities		92,913	-	-	24,317
Impairment losses and write-off of assets		3,233,791	3,835,378	3,240,241	3,551,925
Provision for litigations	8	74,646	-	74,281	-
Accruals for employees profit sharing	8	675,811	333,870	655,898	333,870
Change in fair value of available-for-sale investments		(513,596)	(176,101)	(438,573)	(133,632)
Share of profit from subsidiaries	17	-	-	(355,809)	(343,231)
Income from negative goodwill	17	(249,887)	-	(249,887)	-
Amortization of goodwill		24,864	-	-	-
Effect of foreign exchange on property and equipment and deferred tax		62,118	-	-	-
Other adjustments for non-cash items		10,272		9,748	-
Dividend income		(34,800)	(10,782)	(28,207)	(7,303)
Operating profit before changes in operating assets and liabilities		**13,039,878**	**8,701,675**	**12,123, 114**	**8,242,272**
(Increase)/decrease in amounts due from central banks		(368,503)	744,523	210,084	826,108
(Increase)/decrease in placements and loans to banks		(524,475)	(679,301)	704,512	(273,503)
Decrease of financial assets held for trading		184,218	-	-	-
Increase in loans and advances to customers		(27,718,063)	(28,310,757)	(27,305,641)	(26,618,704)
(Increase)/decrease in other assets		115,288	(346,061)	191,692	(240,465)
Increase/(decrease) of deposits from banks		3,718,698	627,450	3,792,773	(268,484)
Increase/(decrease) in deposits from customers		34,676,401	9,972,187	36,431,998	9,711,943
Increase/(decrease) in other liabilities		1,228,220	(506,795)	537,600	(781,754)
Cash generated from operations		**24,351,662**	**(9,797,079)**	**26,686,132**	**(9,402,587)**
Income tax paid		(2,239,522)	(1,187,589)	(2,112,334)	(1,105,819)
Cash flows generated in operating activities		**22,112,140**	**(10,984,668)**	**24,573,798**	**(10,508,406)**
Investing activities					
Net (acquisition)/ proceeds from sale of equity investments		(39,839)	38,095	(39,522)	87,154
Acquisition of subsidiaries		(487,379)	-	(694,254)	(50,739)
Acquisition of property and equipment and intangible assets		(1,521,302)	(2,267,444)	(1,096,417)	(1,803,616)
Proceeds from sale of property and equipment		38,184	1,235,076	38,184	1,049,194
Net acquisition of investment debt securities		(5,264,638)	1,464,817	(5,138,230)	813,410
Dividends received		30,937	69,796	123,768	66,317
Effect of foreign exchange rates		(105,659)	-	-	-
Cash flows used in investing activities		**(7,349,696)**	**540,340**	**(6,806,471)**	**161,720**

The accompanying notes from pages 78 to 135 form an integral part of these financial statements
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Cash flows statement (*continued*)

Bank and Consolidated

for the year ended 31 December 2004

In ROL million	Note	Group		Bank	
		2004	2003	2004	2003
Financing activities					
Payment of finance lease liabilities		-	-	(254,653)	(167,566)
Net proceeds from loans from banks and financial institutions		14,227,535	4,358,398	14,114,458	4,532,911
Proceeds from bonds issued		14,058	-	-	-
Dividends paid		(1,669,351)	(2,009,082)	(1,669,351)	(2,009,082)
Dividends paid to minority interest		(34,022)	(59,014)	-	-
Cash flows generated from financing activities		**12,538,220**	**2,290,302**	**12,190,454**	**2,356,263**
Net increase in cash and cash equivalents		**27,300,664**	**(8,154,026)**	**29,957,781**	**(7,990,423)**
Cash and cash equivalents at 1 January 2004		67,879,899	76,033,925	63,143,499	71,133,922
Cash and cash equivalents at 31 December 2004		**95,180,563**	**67,879,899**	**93,101,280**	**63,143,499**

Cash flows from operating activities include:

In ROL million	Group		Bank	
	2004	2003	2004	2003
Interest received	25,347,729	22,949,289	24,040,775	22,113,335
Interest paid	11,055,747	9,611,295	10,922,177	9,601,105

Analysis of cash and cash equivalents

In ROL million	Group		Bank	
	31 December 2004	31 December 2003	31 December 2004	31 December 2003
Cash and current accounts with banks	4,276,319	4,426,876	4,123,586	4,355,608
Current accounts and deposits with central banks	70,656,857	53,518,506	70,445,325	52,541,894
Placements with banks, less than 3 months	8,230,672	9,544,414	6,580,100	6,204,508
Treasury bills less than 3 months	12,016,715	390,103	11,952,269	41,489
Cash and cash equivalents in the cash flows statement	**95,180,563**	**67,879,899**	**93,101,280**	**63,143,499**

Notes to the financial statements
Bank and Consolidated

1. Introduction

Banca Comerciala Romana S.A. (the "Bank") is a bank domiciled in Romania. The consolidated financial statements of the Bank for the year ended 31 December 2004 comprise the Bank and its subsidiaries (together referred to as the "Group").

A summary of the subsidiaries consolidated in the financial statements of the Group is presented in Note 17.

These financial statements comprise both the consolidated financial statements of the Group (as presented in the columns "Group") and the separate financial statements of the Bank (as presented in the columns "Bank") for the year ended 31 December 2004.

2. Significant accounting policies

The significant accounting policies of the Group and of the Bank are defined hereinafter as the significant accounting policies of the Group, unless otherwise stated.

a) Statement of compliance

The financial statements of the Group and of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB") except for the calculation of financial instruments' amortised cost and the estimation of impairment losses for loans to customers originated by the Group and Bank that were measured as presented hereinafter. Financial instruments' amortised cost is calculated using the linear method which represents management's best estimate for the value of the corresponding amortisation. In estimating impairment losses for loans to customers the Group has not assessed the expected future cash flows discounted at the original effective interest rate for the significant individually loans and for groups of loans as the current economic and reporting environment in which the borrowers operate makes it impracticable for the Group to obtain reliable information about the timing and the amounts of the expected future cash flows related to the loans.

b) Basis of preparation

These financial statements are prepared and presented in Romanian Lei ("ROL"), rounded to the nearest million.

The financial statements of the Group are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held-for-trading and available-for-sale instruments, except those for which a reliable measure of fair value is not available.

2. Significant accounting policies (*continued*)

b) Basis of preparation (*continued*)

Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost, revalued amount or historical cost.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The accounting policies have been applied consistently by the Group entities.

Differences between IFRS and statutory accounts

The form of presentation of the financial statements reflects the reporting format applicable under IAS 30 ("Disclosures in the Financial Statements of Banks and Similar Financial Institutions").

The accounts of the Bank are maintained in ROL in accordance with Romanian accounting law and National Bank of Romania banking regulations. Foreign incorporated subsidiaries maintain their accounting records in accordance with the applicable banking laws in their respective countries of incorporation. Romanian incorporated subsidiaries maintain their accounting records in accordance with Romanian accounting law. All these accounts of the Bank and subsidiaries are defined hereafter as the statutory accounts.

These accounts have been restated to reflect the differences between the statutory accounts and IFRS. Accordingly, such adjustments have been made to the statutory accounts as have been considered necessary to bring the financial statements into line, in all material respects, with IFRS.

The major changes from the statutory financial statements prepared under domestic law are:

- grouping of numerous detailed items into broader captions;
- restatement adjustments required in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies");
- fair value adjustments required in accordance with IAS 39 ("Financial Instruments - Recognition and Measurement');
- adjustments to the income statement to account for certain revenues and expenses on an accruals basis;
- provision for deferred taxation, where appropriate; and
- the necessary IFRS disclosure requirements.

In respect of comparative information, certain items from the financial statements as at 31 December 2003 have been reclassified to conform to current presentation.

2. Significant accounting policies (*continued*)

c) Basis of consolidation

i) Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The investments in the consolidated subsidiaries are accounted for using the equity method in the separate financial statements of the Bank.

In the current financial year, the Bank revised the determination of the carrying amount of the investments in the subsidiaries that are accounted for using equity method in its separate financial statements. Management concluded that the initial determination of the carrying amount of the investments in the subsidiaries was based on misinterpretation in applying information related to the indirect investments in subsidiaries. The correction of this error was included in the determination of the opening balances of retained earnings for the year ended 31 December 2004 and applied retrospectively (refer to Statement of changes in equity).

ii) Associates

Associates are those enterprises over whose financial and operating policies the Bank has the ability to exercise significant influence, but not control. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Investments in which the Bank holds between 20% and 50% of the voting power but over whose financial and operating policies the Bank does not have significant influence are classified as available-for-sale financial instruments.

iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, have been eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2. Significant accounting policies (*continued*)

d) Application of IAS 29 and SIC 19

The Group's management considers that the measurement currency, as defined by SIC 19, is the ROL. According to IAS 29 and SIC 19, the financial statements of an enterprise whose measurement currency is the currency of a hyperinflationary economy should be stated in terms of measuring unit current at the balance sheet date i.e. non monetary items are restated using a general price index from the date of acquisition or contribution.

IAS 29 states that economies should be regarded as hyperinflationary if, among other factors, the cumulative inflation rate over a period of three years exceeds 100%. The increase in the General Price Index as published by the National Commission of Statistics of Romania over the three years ended 31 December 2004 was:

	Increase in the general price index	Movement in the exchange rate of the EURO
Year ended 31 December 2004	9.3%	(3.5%)
Year ended 31 December 2003	14.1%	17.7%
Year ended 31 December 2002	17.9%	25.2%

The cumulative rate of inflation was 47% over the three years ended 31 December 2004 on the basis of the information published by the National Commission of Statistics of Romania. The continuously decreasing inflation rates and other factors related to the characteristics of the economic environment in Romania indicate that the economy whose measurement currency was adopted by the Group ceased to be hyperinflationary for financial periods starting at 1 January 2004.

Therefore, the provisions of IAS 29 have no longer been adopted in preparing these financial statements.

Up to 31 December 2003, the ROL was considered a currency of a hyperinflationary economy and as such the Group applied the provisions of IAS 29. The comparative financial statements and figures have been restated for changes in the general purchasing power of the ROL at 31 December 2003 and, as a result, are stated in terms of the measuring unit current at 31 December 2003. Due to the above-mentioned discontinuance of applying IAS 29, no further adjustments have been made to the amounts presented in the past.

Notes to the financial statements
Bank and Consolidated

2. Significant accounting policies (*continued*)

d) Application of IAS 29 and SIC 19 (*continued*)

The amounts shown in the restated currency do not represent appraised value, replacement cost, or any other measure of the current value of assets or the prices at which transactions would take place currently.

e) Foreign currency transactions

Transactions in foreign currencies are translated to ROL at the foreign exchange rate ruling at the settlement date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to ROL at the foreign exchange rate ruling at that date. Foreign exchange differences arising on revaluation or resulting from transactions performed in foreign currencies are recognized in the income statement. Foreign currency denominated non-monetary assets and liabilities are valued at the historical rate at acquisition. Forward foreign exchange contracts and other off-balance sheet instruments used in trading activities are carried at market value.

The exchange rates of major foreign currencies were:

Currencies	31 December 2004	31 December 2003	%
Euro (EUR)	1: ROL 39,663	1: ROL 41,117	-3.5%
US Dollar (USD)	1: ROL 29,067	1: ROL 32,595	-10.8%

f) Foreign entities

In translating the financial information of foreign entities presented in foreign currencies for incorporation in these financial statements, the following procedures were applied:

- assets and liabilities, both monetary and non-monetary, of the foreign entities have been translated at the closing rate;
- income and expense items of the foreign entities have been translated at the average exchange rate of the period, as an estimate for the exchange rates from the dates of the transactions; and
- all resulting exchange differences have been classified as equity until the disposal of the investment in the foreign entities.

2. Significant accounting policies (*continued*)

g) Financial instruments

i) Classification

Trading instruments are those that the Group holds for the purpose of short-term profit taking. These include dealing securities and derivative contracts that are not used in hedging relationships. All trading derivatives in a net receivable position (positive fair value) are reported as trading assets, and those in a net payable position (negative fair value, i.e. in a loss position) are reported as trading liabilities.

Financial assets originated by the Group are loans and advances created by the Group providing money to a debtor other than those created with the intention of short term profit taking. Financial assets originated by the Group comprise loans and advances to banks and customers other than purchased loans.

Held-to-maturity assets are those with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain investment securities.

Available-for-sale financial assets are financial assets that are not loans and advances originated by the Group, financial assets held for trading purposes or investments held to maturity. Available-for-sale instruments include money market placements, treasury bonds and other bonds eligible for discounting with central banks and investment securities that are not held for trading or held-to-maturity.

ii) Recognition

The Group recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognized.

Held-to-maturity assets and originated loans and receivables are recognized on the day they are transferred to the Group.

iii) Measurement

Financial instruments are initially measured at cost, including transaction costs.

Subsequent to initial recognition all trading assets and all available-for-sale assets are measured at fair value, except for any asset that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, in which case it is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are recognized at amortised cost. Amortised cost is calculated using linear method.

2. Significant accounting policies (*continued*)

g) Financial instruments (*continued*)

The linear amortisation method used to determine the amortised cost represents the management's best estimate for the value of the corresponding amortisation.

Management estimates that the effective interest rate of the held-to-maturity financial instruments equals the market rate of the respective instruments at the time of issuance. Premiums and discounts, including initial transaction costs are amortised using linear method. The linear amortisation method used to determine the amortised cost represents the management's best estimate for the value of the corresponding amortisation and the impact of the application of the effective interest rate method would not be material.

iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account the current creditworthiness of the counterparties and the current market conditions.

v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of trading and available-for-sale financial instruments are recognized in the income statement for the period.

vi) Specific instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and nostro accounts with banks.

For the purposes of the statement of cash flows, cash and cash equivalents comprise: cash balances on hand, cash deposited with central banks, nostro accounts with banks, placements with central banks and with other banks and treasury bills issued by the Government of Romania and certificates of deposits issued by central banks with less than 90 days original maturity.

2. Significant accounting policies (*continued*)

g) Financial instruments (*continued*)

vi) Specific instruments (continued)

Due from central banks

Cash and balances with central banks comprise cash balances and placements with central banks.

Securities

Debt securities, such as bonds issued by the Government of Romania and bonds issued by public sector issuers that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets. Consequently, held-to-maturity debt securities are stated at their amortised cost.

Other debt securities such as treasury bills issued by the Government of Romania and bonds issued by public and private sector issuers are classified as available-for-sale assets. Foreign debt securities that are available-for-sale are carried at fair value, determined based on their market prices. Movements in the fair value of these securities are recognized in the income statement.

Debt securities issued by the Government of Romania on the domestic market do not have an active market to support the assessment of their fair value. Consequently, the fair value of these securities was estimated using discounted cash flow techniques applying the prevailing reference rate for placements on the local inter-banking market.

Other equity investments are classified as available-for-sale assets and are carried at the fair value. Where no reliable estimate of fair value is available, equity investments are stated at restated cost less impairment.

Loans and advances to banks and customers

Loans and advances to banks and customers are classified as financial assets originated by the Group. Loans are stated in the balance sheet at the amount of principal and accrued interest receivable outstanding, adjusted for provisions for loan impairment to reflect the estimated recoverable amount (refer to accounting policy 2l).

Finance lease receivables

Leases where the Group transfers substantially all the risks and rewards incident to ownership of an asset to the lessee, are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any residual value, is recognized.

The difference between the gross financial lease receivable and the present value of the receivable is recorded as unearned finance income and recognized over the term of the lease using the effective interest rate method. Finance lease receivables are included in loans and advances to customers.

2. Significant accounting policies (*continued*)

h) Derecognition

A financial asset is derecognized when the Group loses control over the contractual rights that comprise that asset. This occurs when the contractual rights are realised, expire or are surrendered. A financial liability is derecognized when it is extinguished.

i) Repurchase transactions

Debt securities such as treasury bills issued by the Government of Romania, which are sold under repurchase arrangements are not derecognized in the balance sheet and are measured in accordance with the accounting policy for available-for-sale financial assets. The proceeds from the sale of the debt securities under repurchase arrangements are reported as deposits from either banks or customers.

Investments purchased under agreements to resell substantially identical investments at a certain date in the future at a fixed price ("reverse repurchase agreements") are not recognized. The amounts paid are recognised in loans to either banks or to customers.

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest. Based on management's assessment, this method of accrual generates a financial effect that is not significantly different from that provided by the application of the effective interest method.

j) Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates.

k) 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 recognized amounts and there is an intention to settle them on a net basis, or realize the asset and settle the liability simultaneously.

2. Significant accounting policies (*continued*)

l) Impairment and uncollectibility

The carrying amount of the Group's assets, other than deferred tax assets (see accounting policy 2r), is reviewed at each balance sheet date to determine whether there is any objective indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

i) Held-to-maturity securities

The recoverable amount of the investments in held-to-maturity securities is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset.

ii) Loans and advances to customers originated by the Group

Loans and advances are presented net of provision for uncollectibility. Provision for impairment losses are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts.

The Group has not assessed the expected future cash flows discounted at the original effective interest rate for the significant individually loans and for groups of loans as the current economic and reporting environment in which the borrowers operate makes it impracticable for the Group to obtain reliable information about the timing and the amounts of the expected future cash flows related to the loans.

In determining the recoverable amount for the loan to customers, management considers particular factors, including the evaluation of the borrower's remaining ability to repay the receivables (principal and interest) and the assessment of the financial strength and performance of borrowers taken individually, as members of the same group of companies and as members of the same economic sector.

Provisions for impairment losses on loans are estimated also when there is objective evidence for impairment of homogenous components of the loan portfolio at the balance sheet date.

The provision for impairment losses on loans is reported in the income statement as a specific charge or release and is deducted from the relevant asset category in the balance sheet for reporting purposes.

2. Significant accounting policies (*continued*)

l) Impairment and uncollectibility (*continued*)

ii) Loans and advances to customers originated by the Group (continued)

When it is determined that a loan cannot be recovered and the necessary legal procedures have been initiated against the customer, the loan is written off.

iii) Property and equipment and intangible assets

The Group reviews the carrying amount of land and buildings at each balance sheet date. The Bank considered the greater of the net selling price and value in use as the recoverable amount of land and buildings based on the valuation of land and buildings carried out in January 2004 by Colliers International, an independent property appraiser.

The recoverable amount of equipment and intangible assets is the greater of their net selling price and value in use.

Impairment losses are recognized in the income statement whenever the carrying amount of an item of property and equipment and intangible assets exceeds its recoverable amount.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

iv) Other assets

In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

m) Interest income and expenses

Interest income and expense is recognized in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amount of amortization of any upfront loan origination commission, discount or premium or other differences between the initial carrying amount of a loan or a debt security and its amount at maturity. Amortised cost is calculated using linear method.

The linear amortisation method used to determine the amortised cost represents the management's best estimate for the value of the corresponding amortisation.

Notes to the financial statements
Bank and Consolidated

2. Significant accounting policies (*continued*)

n) Fee and commission income and expense

Fee and commission income and expense are recognized in the income statement as and when the related services are provided other than those fees and commissions generated from the origination of the loans and advances, which are deferred and recognized using the linear amortization method.

o) Property and equipment

Items of property and equipment are stated at their restated cost or revalued amount less accumulated depreciation value and impairment losses (refer to accounting policy 2l). Capital expenditure on property and equipment in the course of construction is capitalised and depreciated once the assets enter into use.

Depreciation is provided on a straight-line basis over the estimated useful lives of items of property and equipment and major components that are accounted for separately. Land is not depreciated.

In the statutory accounts, depreciation for office and other equipment is provided for each individual item. However, in these financial statements (refer to accounting policy 2b for major differences between the statutory accounts and these financial statements), where property and equipment was restated in accordance with the provision of IAS 29 up to 31 December 2003 (refer to accounting policy 2d), depreciation of office and other equipment is not provided for each individual item but for all categories of office and other equipment altogether. Management considers that this represents the best estimate for the value of the corresponding depreciation.

The estimated useful lives are as follows:

Buildings	30 - 50 years (mainly 50 years)
Office equipment	3 - 10 years
Other equipment	3 - 15 years

p) Intangible assets

i) Goodwill and negative goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Positive goodwill is stated at cost less accumulated amortization and impairment losses (refer accounting policy 2l). The Group recognizes positive goodwill in relation to the acquisition of the investment in its consolidated subsidiaries (refer accounting policy 2c), which, was determined as insignificant and was written off immediately.

2. Significant accounting policies (*continued*)

p) Intangible assets (*continued*)

Negative goodwill is recognised immediately in the income statement as an operating income, after reassessment of the identification and measurement of the identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the acquisition.

ii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization and impairment losses. Other intangible assets comprise software and licenses. Subsequent expenditure on software development is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of capitalised software and licenses are 3 years. In the statutory accounts, amortisation for intangible assets is provided for each individual item. However, in these financial statements (refer to accounting policy 2b for major differences between the statutory accounts and these financial statements), where intangible assets were restated in accordance with the provision of IAS 29 up to 31 December 2003 (refer to accounting policy 2d), amortisation of intangible assets is not provided for each individual item but for the entire category of other intangibles. Management considers that this represents the best estimate for the value of the corresponding amortization.

q) Pension obligations and other post retirement benefits

The Bank and the subsidiaries 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 and the subsidiaries in Romania are members of the State pension plan. All relevant expenses are carried to the income statement on a regular basis.

The Bank and the subsidiaries in Romania do not operate any independent pension scheme and, consequently, have no obligation in respect of pensions. The Bank and the subsidiaries in Romania do not operate any other post retirement benefit plan. The Bank and the subsidiaries in Romania have no obligation to provide further services to current or former employees.

Certain foreign incorporated subsidiaries operate defined benefits plans for the non-Romanian employees. The defined benefit liabilities have been calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The calculation is performed by a qualified actuary using the projected unit credit method. The defined benefit obligation has been recognized in the consolidated financial statements of the Group.

2. Significant accounting policies (*continued*)

r) Taxation

Income tax for the period comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior periods.

Deferred tax is provided for using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The tax rate used to calculate the deferred tax position for the Bank and its Romanian subsidiaries at 31 December 2004 is 16% (31 December 2003: 25%). In accordance with changes in the fiscal legislation, the profit tax rate was reduced from 1 January 2005 onwards. For the year ended 31 December 2004 the current profit tax rate was 25% (31 December 2003: 25%).

s) Share capital

Dividends

Dividends on redeemable shares are recognized as a liability in the period in which they are declared.

t) Provisions

Provisions are recognized in the balance sheet 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.

u) New and revised International Accounting Standards

The IASB has issued revisions to several International Accounting Standards such as IAS 1 ("Presentation of financial statements"), IAS 32 ("Disclosure and Presentation of Financial Instruments") and IAS 39 ("Recognition and Measurement of Financial Instruments") and has issued new standards such as IFRS 3 ("Business Combinations") and IFRS 4 ("Insurance Contracts").

2. Significant accounting policies (*continued*)

u) New and revised International Accounting Standards (*continued*)

The revisions and the new standards, except for IFRS 3, will be applicable by entities preparing IFRS financial statements for annual periods beginning with 1 January 2005. The Group is currently in the process of designing a plan for IFRS conversion and implementation. This process is driven by the new regulations issued in Romania, which provide for the statutory implementation of the International Financial Reporting Standards from 1 January 2006.

The conversion and implementation will include the writing of an IFRS compliant Group accounting manual, adjusting existing reporting and accounting systems, amending existing applications and implementing new applications to support the accounting changes, preparing an IFRS compliant budgeting process for the year 2005, and training for all relevant Group's employees.

The main changes brought on by the application of the new and revised standards that will impact the opening balances of retained earnings at 1 January 2005 and/or the Group's future results are as follows:

- The investments in subsidiaries will be accounted for either at cost or in accordance with IAS 39 ("Recognition and Measurement of Financial Instruments") in the separate financial statements of the Bank in accordance with the provisions of the new IAS 27 ("Consolidated and Separate Financial Statements"). The investments in subsidiaries are currently accounted for using the equity method in the separate financial statements of the Bank.
- The gains and losses arising from changes in the fair value of available-for-sale financial assets shall be recognized directly in equity in accordance with the new IAS 39. Currently, these gains and losses are recognized in the income statement.
- Application of IFRS 3 ("Business Combinations") will require that goodwill be no longer amortized but will be tested for impairment at each balance sheet date, in accordance with IAS 36 ("Impairment of Assets").
- Application of IFRS 4 ("Insurance Contracts") will lead to changes in the accounting treatment of the insurance contracts by the insurance subsidiary of the Bank.

The impact of these changes has not been and cannot be estimated at this time.

Notes to the financial statements
Bank and Consolidated

3. Risk management policies

The main financial and operational risks associated with the Group's activities arise as a result of the Group's operations in the local and foreign financial sectors. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk and interest rate risk.

a) Derivative financial instruments

The Group enters into certain types of derivative financial instruments for risk management purposes. This note describes the derivatives used by the Group.

Derivative financial instruments used by the Group include foreign exchange swaps and foreign exchange forwards contracts.

Swaps are agreements between the Group and other parties to exchange future cash flows based upon agreed notional amounts.

Foreign exchange forward contracts are commitments to either purchase or sell a designated currency at a specified future date for a specified price and may be settled in cash or another financial asset. Forward contracts result in credit exposure to the counterparty and in exposure to market risk based on changes in market prices relative to contracted amounts.

At 31 December 2004 the Group had a number of foreign currency forward agreements outstanding used to balance the Bank's foreign currency position. The fair value of these derivative instruments is based on pricing models with inputs from the market related measures at the balance sheet date. The net impact of the fair value of these derivative instruments on the Group's income statement is not material.

b) Credit risk

The Group is exposed to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or it issues guarantees.

Credit risk associated with trading and investing activities is managed through the risk management procedures. The risk is mitigated through selecting counterparties of good credit standings and monitoring their activities and ratings and through the use of exposure limits and when appropriate, obtaining collateral.

The Group's primary exposure to credit risk arises through its lending activity. The amount of credit risk exposure in this regard is represented by the carrying amounts of the Group's loans and advances on the balance sheet. The Group is exposed to credit risk on various other financial assets, including derivative instruments and debt investments, the current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the balance sheet. In addition, the Group is exposed to off balance sheet credit risk through commitments to extend credit and guarantees issued (see note 29).

3. Risk management policies (*continued*)

b) Credit risk (*continued*)

In order to minimise this risk, procedures are in place to screen the customers before granting the loans and to monitor their ability to repay the principal and interest during the duration of the loans and establishment of exposure limits.

Concentrations of credit risk that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The major concentrations of credit risk arise by individual and by type of customer exposure in relation to the Group's loans and advances (see note 15).

Maximum credit risk exposure representing the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed to perform as contracted and without considering any collateral or security, is estimated to be ROL 160,250,642 million (Bank: ROL 152,558,556 million). Therefore the maximum credit risk exposure significantly exceeds the provisions for impairment losses.

At the beginning of April 2003, the Bank identified at its Novaci branch a number of loans granted without observance of internal credit regulations amounting to ROL 788 billion, which have been fully provided and subsequently written off and recorded off - balance sheet (also during 2003). The state authorities were also notified, and they are currently carrying out an investigation of the possible implication of a number of Bank's employees in granting these loans. The management of the Bank took necessary measures to update methodological norms, IT systems and dual control procedures in order to prevent such situations from repeating. The management of the Bank considers that these events have no implications on the financial statements for the year ended 31 December 2004.

c) Interest rate risk

The Group incurs interest rate risk principally in the form of exposure to adverse changes in the market interest rates to the extent that interest-earning assets and interest-earning liabilities mature or reprice at different times or in differing amounts.

Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. In general, the Group is liability sensitive because its interest-earning assets have a longer duration and reprice less frequently than interest-bearing liabilities.

3. Risk management policies (*continued*)

c) Interest rate risk (*continued*)

This means that in declining interest rate environments, margins earned will change as liabilities reprice. However the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

The Group attempts to maintain a net positive position for interest-bearing financial instruments. To achieve this, the Group uses a mix of fixed and floating rate interest instruments on which it attempts to control the mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

The interest rates related to the local currency and the major foreign currencies as at 31 December 2004 and 31 December 2003 were as follows:

Currencies	**Interest rate**	**31 December 2004**	**31 December 2003**
Leu (ROL)	BUBOR 3 months	17.56%	22.31%
Euro (EUR)	Euribor 3 months	2.16%	2.14%
Euro (EUR)	Euribor 6 months	2.22%	2.18%
US Dollar (USD)	Libor 6 months	2.78%	1.22%

The interest rates obtained or offered by the Group for its interest-bearing assets and liabilities are presented in note 34.

d) Currency risk

The Group is exposed to currency risk through transactions in foreign currencies against ROL. There is also a balance sheet risk that the net monetary liabilities in foreign currencies will take a higher value or the monetary assets in foreign currencies will take a lower value when translated into ROL as a result of currency movements.

The principal foreign currencies held by the Group are EUR and USD. The Group manages its exposure to movements in exchanges rates by modifying its assets and liabilities mix.

Open foreign exchange positions represent a source of foreign exchange risk. In order to avoid losses arising from adverse movements in exchange rates, the Group is currently pursuing the policy of maintaining an overall long foreign exchange position. In order to minimise the currency risk the Group introduced 'stop loss' limits for trading activities.

The assets and liabilities held in ROL and in foreign currencies at the balance sheet date are presented in note 32.

3. Risk management policies (*continued*)

e) Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of the asset positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a price close to its fair value and in an appropriate time frame.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding, and diversifying the funding base.

The maturity analysis of the assets and liabilities of the Group is presented in note 33.

f) Taxation risk

The Romanian Government has a number of agencies that are authorised to conduct audits (controls) of Romanian companies as well as of foreign companies doing business in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters but to other legal and regulatory matters in which the applicable agency may be interested. In addition, the agencies conducting these controls appear to be subject to significantly less safeguard than is customary in other countries. During 2004 the Bank has performed transactions for which there is an uncertainty regarding the underlying fiscal implications that the fiscal authorities may interprete on the application of the tax regulations on these transactions. It is likely that the Bank and Romanian incorporated subsidiaries will continue to be subject to controls from time to time as new laws and regulations are issued.

g) Business environment

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 fluctuations in the foreign currency exchange rates.

In accordance with the Law no. 348/2004 adopted by the Parliament of Romania in July 2004, from 1 July 2005 the Romanian currency will be re-denominated at a conversion rate of 10,000 ROL to 1 new Romanian Leu.

Notes to the financial statements
Bank and Consolidated

4. Net interest income

ROL million	Group		Bank	
	2004	**2003**	**2004**	**2003**
Interest and similar income				
Current accounts, deposits and loans to Banks	7,455,288	6,990,356	7,273,660	6,815,512
Loans and advances to customers	16,323,767	12,239,549	15,384,228	11,654,337
Treasury bills and other debt securities	1,851,783	1,642,455	1,652,002	1,458,479
Other interest income	1,271	5	446	5
Total interest and similar income	***25,632,109***	***20,872,365***	***24,310,336***	***19,928,333***
Interest expense and similar charges				
Deposits from banks	206,327	92,583	170,280	36,149
Deposits from customers	10,332,429	8,955,931	10,296,202	8,876,769
Loans from banks	634,644	230,518	586,714	302,430
Other interest expense	32,030	95,170	28,803	49,668
Total interest expense and similar charges	***11,205,430***	***9,374,202***	***11,081,999***	***9,265,016***
Net interest income	**14,426,679**	**11,498,163**	**13,228,337**	**10,663,317**

5. Net fee and commission income

ROL million	Group		Bank	
	2004	**2003**	**2004**	**2003**
Fee and commission income				
Collections and payments transactions	3,686,894	3,436,233	3,635,227	3,294,699
Loan administration and guarantee issuance	2,198,066	2,635,635	2,107,638	2,559,073
Other	787,774	147,059	441,783	81,740
Total fee and commission income	***6,672,734***	***6,218,927***	***6,184,648***	***5,935,512***
Fee and commission expense				
Collections and payments transactions	238,453	305,303	234,781	305,400
Other	327,975	360,242	287,817	308,207
Total fee and commission expense	***566,428***	***665,545***	***522,598***	***613,607***
Net fee and commission income	**6,106,306**	**5,553,382**	**5,662,050**	**5,321,905**

Notes to the financial statements
Bank and Consolidated

6. Net trading income

ROL million	Group 2004	Group 2003	Bank 2004	Bank 2003
Net realised foreign exchange gains from foreign exchange transactions	1,327,304	912,418	1,269,022	938,371
Net effect of translation of foreign currency denominated assets and liabilities	(81,856)	(260,936)	(81,856)	(262,653)
Total	**1,245,448**	**651,482**	**1,187,166**	**675,718**

7. Other operating income

ROL million	Group 2004	Group 2003	Bank 2004	Bank 2003
Rent income	83,819	62,840	20,192	21,782
Income from non-banking services	167,265	155,454	127,414	62,621
Income from negative goodwill	249,887	-	249,887	-
Insurance premium income, net of reinsurance	242,317	189,112	-	-
Other income	285,663	276,208	295,514	220,994
Total	**1,028,951**	**683,614**	**693,007**	**305,397**

Income from non-banking services is mainly related to the services of cash transportation and collection and insurance brokerage fees.

Income from negative goodwill relates to the excess of the net fair value of the identifiable assets, liabilities and contingent liabilities of Banque Franco-Roumaine over the acquisition price for the remaining 50% of the shares of this subsidiary (refer to note 17).

8. Operating expenses

ROL million	Group 2004	Group 2003	Bank 2004	Bank 2003
Salaries and other personnel costs	6,865,016	6,773,508	6,206,906	6,222,100
Accruals for employees profit sharing	675,811	333,870	655,898	333,870
Rent expenses	277,988	100,587	232,708	202,836
Depreciation and amortization	1,029,429	1,091,977	907,513	1,016,154
Administrative expenses	2,011,561	1,883,682	1,816,710	1,603,644
Other taxes and duties	804,342	799,495	737,147	799,495
Provision for litigation	74,646	-	74,281	-
Claims paid, net of reinsurance	240,743	173,722	-	-
Other operating costs	423,664	207,732	418,360	203,401
Total	**12,403,200**	**11,364,573**	**11,049,523**	**10,381,500**

Notes to the financial statements
Bank and Consolidated

8. Operating expenses (*continued*)

The number of employees of the Bank at 31 December 2004 was 12,282 employees (31 December 2003: 12,198 employees). The number of the employees of the Group at 31 December 2004 was 13,573 employees (31 December 2003: 13,029 employees).

9. Net charge of provisions for impairment losses

ROL million	Group		Bank	
	2004	**2003**	**2004**	**2003**
Net charge of provision for impairment losses on loans	1,300,816	1,213,376	1,317,602	1,129,471
Net charge / (release) of provision for impairment losses on placements to banks	(11,300)	20,642	-	-
Net charge / (release) of provisions for impairment losses on other assets	93,012	178,906	(314)	-
Net release of provision for impairment losses on investments	(83,030)	(109,731)	(207)	(109,731)
Loans written-off	1,934,293	2,532,185	1,923,161	2,532,185
Recoveries from loans previously written-off	(1.177.700)	(1,940,221)	(1,176,161)	(1,939,408)
Net charge of provisions for impairment losses	**2,056,091**	**1,895,157**	**2,064,081**	**1,612,517**

10. Income tax expense

ROL million	Group		Bank	
	2004	**2003**	**2004**	**2003**
Current income tax	2,380,623	1,256,827	2,092,752	1,122,787
Deferred tax income	(214,341)	(355,019)	(91,650)	(42,317)
Income tax expense	**2,166,282**	**901,808**	**2,001,102**	**1,080,470**

Notes to the financial statements
Bank and Consolidated

10. Income tax expense (*continued*)

Reconciliation of profit before tax to income tax expense in the income statement

ROL million	Group		Bank	
	2004	**2003**	**2004**	**2003**
Profit before tax	**8,634,409**	**3,649,962**	**8,315,336**	**3,822,801**
Taxation at statutory rate of the Bank	**2,158,602**	**912,491**	**2,078,834**	**955,700**
Restatement of opening shareholders's equity (non-temporary difference)	-	997,928	-	997,928
Non-deductible expenses	293,431	112,615	158,668	98,267
Non-taxable revenues	(210,115)	(541,593)	(196,171)	(531,826)
Effect of utilisation of tax losses	(4,121)	-	-	-
Tax effect of other non-temporary differences	57,513	(612,289)	-	(439,599)
Reversal of temporary differences	(129,028)	32,656	(40,229)	-
Income tax expense	**2,166,282**	**901,808**	**2,001,102**	**1,080,470**
Effective tax rate	**25.1%**	**24.7%**	**24.1%**	**28.3%**

11. Cash and cash equivalents

ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Cash on hand	3,800,994	4,058,905	3,775,057	4,036,567
Current accounts held with other banks	475,325	367,971	348,529	319,041
Total	**4,276,319**	**4,426,876**	**4,123,586**	**4,355,608**

Current accounts held with other banks are at immediate disposal of the Group and unencumbered.

12. Due from central banks

ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Current account				
In ROL	17,322,362	3,408,547	17,306,687	3,200,107
In other currencies	21,666,580	15,259,966	21,538,638	14,391,787
Term deposits	32,492,645	35,298,956	31,746,136	35,298,956
Restricted amounts	423	7,687	423	7,687
Total	**71,482,010**	**53,975,156**	**70,591,884**	**52,898,537**

Notes to the financial statements
Bank and Consolidated

12. Due from central banks (*continued*)

The current accounts held by the Bank with the National Bank of Romania are for compliance with the mandatory minimum reserve requirements. These funds are not available for the Bank's daily business. At 31 December 2004 the mandatory minimum reserve was set at 18% for ROL and 30% for USD and EUR denominated funds attracted with residual maturity of less than 2 years (31 December 2003: 18% for ROL and 25% for USD and EUR).

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

13. Placements with banks

ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Sight deposits	2,851,688	1,401,366	3,063,705	463,197
Term deposits	5,384,227	6,946,828	3,878,360	6,241,862
Collateral deposits and restricted amounts	4,116	827,150	269,140	815,612
	8,240,031	**9,175,344**	**7,211,205**	**7,520,671**
Less provision for impairment losses on placements with banks	-	(21,044)	-	-
Total	**8,240,031**	**9,154,300**	**7,211,205**	**7,520,671**

14. Loans and advances to banks

Bank

Loans and advances to banks as at 31 December 2004 include two subordinated loans granted to a subsidiary of the Bank, Anglo-Romanian Bank Ltd. ("ARB") in amount of EUR 5,112,919 equivalent of ROL 202,794 million with an interest rate of 2.54% p.a. (31 December 2003: EUR 5,112,919 equivalent of ROL 210,228 million with an interest rate of 2.53% p.a.) and USD 3,470,240 equivalent of ROL 100,869 million with an interest rate of 2.34% p.a. (31 December 2003: USD 3,470,240 equivalent of ROL 113,112 million with an interest rate of 1.62% p.a.).

Group

Loans and advances to banks as at 31 December 2004 include loans granted by ARB denominated in USD, equivalent of EUR 3,504,360, i.e. ROL 138,993 million, with interest rates between 6.09% and 6.48% p.a. and maturities between 31 January 2005 and 6 October 2005 and loans of EUR 1,443,627, equivalent of ROL 57,259 million, with interest rates between 3.44% and 3.78% p.a. and maturities between 29 July 2005 and 28 June 2007 and loans granted by BCR Chisinau, in amount of USD 2,900,000, equivalent of MDL 36,146,979, i.e. ROL 84,548 million with interest rates between 5.50% and 7.50% p.a. and MLD 11,000,000, equivalent of ROL 25,729 million, with interest rates between 12.70% and 13% p.a..

Notes to the financial statements
Bank and Consolidated

15. Loans and advances to customers

The Group's commercial lending is concentrated mainly on companies and individuals domiciled in Romania. Economic sector risk concentrations within the customer's loan portfolio as at 31 December 2004 and 31 December 2003, was as follows:

a) Analysis by sector

ROL million	**Group**		**Bank**	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Individuals	34,456,155	24,569,384	33,981,192	24,463,038
Trade	16,618,832	13,337,034	12,621,983	10,221,996
Agriculture and food industry	11,511,514	10,510,932	10,767,646	9,441,437
Leasing	2,132,493	1,926,028	5,181,562	4,774,694
Wood industry	4,528,619	3,730,525	4,231,075	3,628,675
Metallurgy	3,521,584	3,705,219	3,520,736	3,371,349
Textile and leather	3,754,131	3,509,098	3,518,096	3,346,437
Chemical and petrochemical	4,317,890	3,430,853	4,256,774	3,180,361
Power generating	3,042,646	3,452,731	2,541,332	3,105,627
Tourism	1,225,526	2,885,668	1,205,452	2,839,905
Manufacturing metallic products	3,183,494	2,367,907	3,164,240	2,349,980
Transport vehicles manufacturing	4,556,367	2,327,537	4,552,696	2,316,764
Mining	255,510	2,308,461	254,249	2,308,461
Construction materials	2,829,856	2,421,379	2,734,957	2,258,638
Transport	2,380,833	1,492,464	2,183,506	1,419,952
Machinery and mechanical equipment	1,447,917	1,269,272	1,426,824	1,145,926
Public institutions	7,634,129	647,698	7,631,647	647,698
Electric engineering and electronics	495,607	656,307	492,079	572,963
Latex and plastic materials	496,507	656,922	490,428	415,191
Other	5,570,171	3,189,369	3,561,882	1,195,749
Total loans and advances to customers before provisions	**113,959,781**	**88,394,788**	**108,318,358**	**83,004,841**
Provision for impairment losses on loans	**(5,955,454)**	**(4,873,412)**	**(5,430,578)**	**(4,182,458)**
Net loans and advances to customers	**108,004,327**	**83,521,376**	**102,887,780**	**78,822,383**

As at 31 December 2004, 8% (31 December 2003: 13%) of the Group's portfolio of corporate loans was concentrated towards local state-owned corporate customers or state entities (e.g. National Highways and Roads Company, Electrica, Distrigaz, SNP Petrom, Termoelectrica).

The Group included in loans and advances to customers an amount of equivalent ROL 29,798 million (31 December 2003: ROL 5,012 million) representing the outstanding balance receivable under reverse repurchase agreements concluded by Banca Comerciala Romana Sucursala Chisinau with its customers.

15. Loans and advances to customers (*continued*)

ROL million	**Group**	**Bank**
Provision as at 1 January 2004	**4,873,412**	**4,182,458**
Exchange differences	(218,774)	(69,482)
Net charge for the year	1,300,816	1,317,602
Provision as at 31 December 2004	**5,955,454**	**5,430,578**

c) Finance lease receivables

The Group acts as a lessor under finance leases through the subsidiary BCR Leasing SA, mainly on motor vehicles and equipment. The leases are mainly denominated in EUR and typically run for a period of between one to four years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease based on fixed interest rates. The receivables are secured by the underlying assets and by other collateral. Loans and advances to customers include the following finance lease receivables:

ROL million	**31 December 2004**	**31 December 2003**
Gross investment in finance leases	4,630,545	3,269,729
Unearned finance income	(588,796)	(515,540)
Net investment in finance leases	**4,041,749**	**2,754,189**
Net investment in finance leases, with remaining maturities		
Less than one year	1,743,631	1,045,879
Between one and five years	2,298,118	1,708,310
Net investment in finance leases	**4,041,749**	**2,754,189**

The loans granted by the European Bank for Reconstruction and Development to the subsidiary BCR Leasing SA are secured by the assignment of receivables of all present and future rights in respect of receivables under leasing contracts concluded for assets financed from these loans.

16. Investment securities

a) Investment securities, available-for-sale

ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Debt securities - available-for-sale				
Listed (i)	9,633,867	4,237,999	6,676,602	3,562,074
Unlisted (ii)	29,058,818	13,515,401	27,175,250	12,010,770
Total	**38,692,685**	**17,753,400**	**33,851,852**	**15,572,844**
Equity securities - available-for-sale				
Listed	52,766	2,835	42,153	2,835
Unlisted	545,911	604,305	102,363	83,944
	598,677	607,140	144,516	86,779
Less provision for impairment of equity securities available-for-sale	(283,551)	(366,588)	-	-
Total	**315,126**	**240,552**	**144,516**	**86,779**
Total	**39,007,810**	**17,993,952**	**33,996,368**	**15,659,623**

(i) Listed debt securities available-for-sale of the Bank and of the Group include Eurobonds issued by Romanian Government and listed corporate and municipality bonds.

(ii) Unlisted debt securities available-for-sale of the Bank include treasury bills denominated in ROL and bonds denominated in ROL and USD issued by Romanian Government, certificates of deposit issued by National Bank of Romania and unlisted corporate and municipality bonds.

Unlisted debt securities available-for-sale of the Group include treasury bills denominated in ROL and foreign currencies, bonds denominated in ROL and foreign currencies issued by Romanian Government, certificates of deposit issued by National Bank of Romania and unlisted corporate and municipality bonds.

16. Investment securities (*continued*)

Provision for impairment losses on equity securities available-for-sale

ROL million	**Group**
Provision as at 1 January 2004	**366,588**
Exchange differences	(214)
Net release for the year	(82,823)
Provision as at 31 December 2004	**283,551**

Treasury bills held by the Bank and by the Group amounting to ROL 976,253 million (31 December 2003: ROL 623,003 million) are pledged as security in order to comply with central banks' prudential regulations for settlement of inter-banking operations, for the settlement of transactions at Bucharest Stock Exchange and for card transactions at two major international cards operators (VISA and Mastercard). Listed corporate bonds held by the Group amounting to EUR 27,312,100 equivalent of ROL 1,083,279 million (31 December 2003: EUR 29,725,650 equivalent of ROL 1,222,230 million) are pledged to Deutsche Bundesbank as security for Eurosystems credit operations. Mortgage bonds held by the Group amounting to EUR 7,667,040 equivalent of ROL 304,098 million (31 December 2003: EUR 7,689,962 equivalent of ROL 316,188 million) are pledged as security for a credit line granted by DZ Bank AG Frankfurt.

a) Investment securities, available-for-sale

ROL million	**Group**		**Bank**	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Debt securities at amortised cost				
Listed	-	2,583,253	409,461	1,013,596
Unlisted	-	1,046,119	711,099	966,396
Total	**-**	**3,629,372**	**1,120,560**	**1,979,992**

The Bank classified as held-to-maturity assets certain debt securities where the Bank's management had positive intent and ability to hold them until maturity at the acquisition date and at the balance sheet date. These are listed debt securities held-to-maturity i.e. Eurobonds issued by the Government of Romania and unlisted debt securities held-to-maturity i.e. bonds denominated in USD issued by the Government of Romania.
The Group has not classified any debt securities as held-to-maturity assets as one of the Bank's subsidiaries has, during the current financial year, sold more than an insignificant amount of its held-to-maturity securities before maturity. Accordingly, all the debt securities that were held-to-maturity were reclassified as available-for-sale assets in the consolidated financial statements of the Group.

17. Equity investments

In ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Investments in subsidiaries	-	-	5,690,082	4,595,217
Other equity investments	498,381	454,679	498,380	454,679
Less provision for impairment of other equity investments	(3,291)	(3,498)	(3,291)	(3,498)
Total other equity investments	**495,090**	**451,181**	**6,185,171**	**5,046,398**

The Bank had the following subsidiaries consolidated in the financial statements of the Group as at 31 December 2004 and 31 December 2003:

			Shareholding	
Company's Name	**Country of incorporation**	**Nature of the business**	**31 December 2004**	**31 December 2003**
Anglo-Romanian Bank Ltd*	United Kingdom	Banking	100.00%	100.00%
Frankfurt Bukarest Bank AG* (i)	Germany	Banking	-	97.50%
Banque Franco-Roumaine* (ii)	France	Banking	-	50.00%
BCR Chișinău	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	81.13%	72.70%
BCR Asset Management SA	Romania	Asset Management	58.29%	58.29%
Bucharest Financial Plazza SRL	Romania	Real Estate	97.10%	97.10%

* acquired following the merger with Bancorex in 1999

(i) During 2004 the Bank acquired the remaining 2.5% of Frankfurt Bukarest Bank AG. The shares of the Bank's subsidiary Frankfurt Bukarest Bank AG were transferred as contribution to the share capital of Anglo-Romanian Bank Ltd on 7 May 2004, and upon completion of legal formalities, it became a branch of the latter in July 2004.

(ii) In July 2004, the Bank purchased the remaining 50% of the shares of Banque Franco-Roumaine from the other shareholders for EUR 10,750,000, and, subsequently transferred as contribution to the share capital of Anglo-Romanian Bank Ltd the 100% shares held in Banque Franco-Roumaine. Upon completion of legal formalities in October 2004, this subsidiary became a branch of Anglo-Romanian Bank Ltd.

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17. Equity investments (*continued*)

The investment in subsidiaries can be further analysed as follows:

ROL million	Bank **31 December 2004**	**31 December 2003**
At the beginning of the period, as previously stated	4,693,972	4,373,224
Correction of error (refer to note 2c)	(98,755)	(98,755)
At the beginning of the year, as restated	4,595,217	4,274,469
Additions	694,252	50,739
Share of profit from subsidiaries	355,809	343,231
Dividends receivable from subsidiaries	(99,424)	(59,014)
Income from negative goodwill	249,887	-
Foreign exchange differences	(105,659)	(14,208)
At the end of the year	**5,690,082**	**4,595,217**

17. Equity investments (*continued*)

The Bank and the Group held the following other equity investments available-for-sale as at 31 December 2004 and 31 December 2003:

	Nature of business	Carrying amount *In ROL million* 31 December 2004	31 December 2003	Effective holding % 31 December 2004	31 December 2003
Banca Italo-Romena, Milano	Banking	107,880	107,880	7.69%	7.69%
MISR Romanian Bank, Cairo	Banking	241,848	241,848	19.00%	19.00%
ASIBAN SA	Insurance	58,198	41,198	20.00%	20.00%
Fondul de Garantare a Creditului Rural	Guarantee fund	17,205	28,332	26.32%	26.32%
Other equity investments		73,250	35,421		
Less provision for impairment of other equity investments		(3,291)	(3,498)		
Total		**495,090**	**451,181**		

Provision for impairment losses on other equity investments

ROL million	Group	Bank
Provision as at 1 January 2004	**3,498**	**3,498**
Net charge / (release) for the period	(207)	(207)
Provision as at 31 December 2004	**3,291**	**3,291**

18. Property and equipment

Group

ROL million	**Land and buildings**	**Office equipment**	**Other fixed assets**	**Total**
Cost or revalued amount				
At 1 January 2004	15,085,210	2,889,099	2,707,126	20,681,435
Additions	282,582	313,164	645,631	1,241,377
Transfers	447	162,290	(162,737)	-
Disposals	(26,867)	(70,409)	(125,272)	(222,548)
Effects of movements in foreign exchange	(11,244)	(17,403)	(8,278)	(36,925)
At 31 December 2004	15,330,128	3,276,741	3,056,470	21,663,339
Accumulated depreciation and impairment losses				
At 1 January 2004	6,014	1,120,228	909,563	2,035,805
Depreciation charge for the year	416,147	270,344	249,846	936,337
Impairment charge for the year	73,946	-	-	73,946
Disposals	(1,014)	(67,951)	(43,529)	(112,494)
Effects of movements in foreign exchange	(487)	(6,535)	(413)	(7,435)
At 31 December 2004	494,606	1,316,086	1,115,467	2,926,159
Net book value				
At 31 December 2003	15,079,196	1,768,871	1,797,563	18,645,630
At 31 December 2004	14,835,522	1,960,655	1,941,003	18,737,180

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18. Property and equipment (*continued*)

The Group has included in other fixed assets motor vehicles, furniture, other sundry equipment and fixed assets under construction.

The net carrying amount of property and equipment held for disposal by the Group at 31 December 2004 is of ROL 9,458 million.

Bank

ROL million	**Land and buildings**	**Office equipment**	**Other fixed assets**	**Total**
Cost or revalued amount				
At 1 January 2004	13,322,301	2,635,905	2,539,471	18,497,677
Additions	278,434	273,966	605,733	1,158,133
Transfers	447	162,290	(162,737)	-
Disposals	(26,867)	(65,728)	(124,218)	(216,813)
At 31 December 2004	13,574,315	3,006,433	2,858,249	19,438,997
Accumulated depreciation and impairment losses				
At 1 January 2004	-	922,566	853,069	1,775,635
Charge for the year	345,465	248,718	223,542	817,725
Disposals	(1,014)	(65,155)	(42,987)	(109,156)
At 31 December 2004	344,451	1,106,129	1,033,624	2,484,204
Net book value				
At 31 December 2003	13,322,301	1,713,339	1,686,402	16,722,042
At 31 December 2004	13,229,864	1,900,304	1,824,625	16,954,793

18. Property and equipment (*continued*)

The Bank's net book value of land and buildings at 31 December 2003 represented the recoverable amount of the underlying assets based on the valuation of land and buildings carried out in January 2004 by Colliers International, an independent property appraiser. The Bank eliminated the accumulated depreciation at 31 December 2003 against the gross carrying amount of each individual item of buildings and the net book value was restated to the revalued amount as per the independent valuation report.

The Bank leases a number of IT equipment and motor vehicles under finance lease agreements. At the end of each of the leases the Bank has the option to purchase the equipment at a beneficial price. At 31 December 2004 the net carrying amount of leased fixed assets was ROL 824,307 million (31 December 2003: ROL 544,024 million). The leased equipment secures lease obligations (refer to note 25).

The carrying amount of property and equipment held for disposal by the Bank at 31 December 2004 is of ROL 9,458 million.

19. Intangible assets

ROL million	**Group**	**Bank**
Cost		
At 1 January 2004	1,043,545	1,034,016
Additions	272,444	269,306
Disposals	(210)	(210)
Effects of movements in foreign exchange	(90)	-
At 31 December 2004	1,315,689	1,303,112
Accumulated amortisation and impairment losses		
At 1 January 2004	327,969	323,872
Charge for the year	93,092	89,788
Disposals	(238)	(189)
Effects of movements in foreign exchange	(18)	-
At 31 December 2004	420,805	413,471
Net book value		
At 31 December 2003	715,576	710,144
At 31 December 2004	894,884	889,641

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20. Other assets

ROL million	Group 31 December 2004	Group 31 December 2003	Bank 31 December 2004	Bank 31 December 2003
Amounts in transit	202,497	141,457	202,497	135,130
Sundry debtors	646,697	696,395	296,751	503,318
Inventories	133,094	114,580	133,054	112,218
Prepayments	80,122	63,404	64,509	63,404
Re-insurer share of technical insurance provisions	134,206	89,295	-	-
Other assets	124,247	248,778	42,122	63,441
Total other assets, gross	**1,320,863**	**1,353,909**	**738,933**	**877,511**
Less provision for impairment of sundry debtors	(196,363)	(197,881)	(168,932)	(192,739)
Total other assets, net	**1,124,500**	**1,156,028**	**570,001**	**684,772**

The Group has included in provision for impairment of sundry debtors an amount of ROL 168,932 million (31 December 2003: ROL 192,739 million) representing a receivable taken over as a result of the merger with the former Bancorex (refer to note 29) related to the printing of an album.

21. Deposits from banks

ROL million	Group 31 December 2004	Group 31 December 2003	Bank 31 December 2004	Bank 31 December 2003
Repayable on demand	730,107	4,222,920	636,145	1,097,849
Term deposits	3,767,042	685,426	334,468	209,886
Repurchase agreements	4,129,895	-	4,129,895	-
Total	**8,627,044**	**4,908,346**	**5,100,508**	**1,307,735**

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22. Deposits from customers

ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Repayable on demand				
Retail customers	12,596,587	11,033,122	12,507,808	10,381,160
Corporate customers	29,652,195	27,977,750	28,828,085	27,563,005
Term deposits				
Retail customers	69,050,363	59,358,038	68,767,921	58,969,623
Corporate customers	41,565,727	25,655,895	40,728,858	23,685,755
Certificates of deposits				
Retail customers	14,393,132	11,186,081	14,393,132	11,186,081
Corporate customers	2,162,195	1,143,151	2,162,195	1,143,151
Repurchase agreements	8,220,343	6,610,104	8,582,878	6,610,104
Total	**177,640,542**	**142,964,141**	**175,970,877**	**139,538,879**

23. Loans from banks and other financial institutions

ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Loans from banks and other financial institutions	24,329,785	9,771,797	23,538,490	9,093,581
Other funds from international financial institutions	213,120	543,573	213,122	543,573
Total	**24,542,905**	**10,315,370**	**23,751,612**	**9,637,154**

Loans from banks and other financial institutions include the amount of ROL 23,380,116 million (31 December 2003: ROL 9,716,341 million) representing outstanding loans principal and the amount of ROL 158,374 million (31 December 2003: ROL 55,456 million) representing outstanding accrued interest payable on these loans.

23. Loans from banks and other financial institutions (*continued*)

The outstanding loans principal arising from the main financing agreements obtained by the Group is presented below:

	31 December 2004 Currency nominal amount	31 December 2004 *ROL million*	31 December 2003 *ROL million*
Depfa Investment Bank Ltd *(v)*	EUR 150,000,000	5,949,450	-
Syndicated loan *(i), (v)*	USD 200,000,000	5,813,400	-
International Finance Corporation ("IFC") *(ii)*	USD 75,000,000	2,180,025	2,444,625
European Bank for Reconstruction and Development ("EBRD") *(iii)*	USD 56,167,500	1,632,621	1,830,780
European Bank for Reconstruction and Development ("EBRD") *(iv)*	EUR 25,777,778	1,022,424	1,005,082
Commerzbank International S.A. Luxembourg *(v)*	USD 40,000,000	1,162,680	1,303,800
Other loans *(v)*		5,619,516	3,132,054
Total		**23,380,116**	**9,716,341**

i) Syndicated loan

This loan was contracted by the Bank with a syndicate of 19 banks and the mandated lead arranger was Raiffeisen Zentralbank Oesterreich AG Austria.

ii) International Finance Corporation ("IFC")

This agreement is dated 17 December 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 has been fully drawn by the Bank. The reimbursements are due in biannual installments starting with 15 June 2005 and ending on 15 December 2009. Interest payment is biannual at a variable interest rate of LIBOR 6 months + 2.5% margin.

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 require the Bank to repay the loan immediately.

23. Loans from banks and other financial institutions (*continued*)

iii) European Bank for Reconstruction and Development ("EBRD") for mortgage loans

This agreement is dated 17 January 2003, its purpose being to grant mortgages 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 31 December 2004 the Bank has 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 17 May 2005 in 19 biannual equal installments on 17 May and 17 November of each year. Interest payment is also biannual at a variable interest rate of LIBOR 6 months + 2.5% margin.

iv) European Bank for Reconstruction and Development ("EBRD") - Small and Medium Enterprises (SME)

There are two agreements dated 22 January 2001 and 9 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. As at 31 December 2004 the outstanding loan principal is EUR 8,000,000 and EUR 17,777,778 for the first and for the second agreement, respectively.

The loan re-payment is made in equal biannual instalments 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 instalment. Interest payment is also made in equal biannual instalments at a variable interest rate of EURIBOR 6 months + 2.25% margin.

v) Other loans

The other loans from banks and other financial institutions outstanding at 31 December 2004 bear interest rates between 2.35% - 6.5% and final maturities September 2007 to December 2013.

24. Other liabilities evidenced by paper

In April 2004 BCR Leasing S.A. issued corporate bonds in nominal value of ROL 75,000 million (equivalent of EUR 1,834,144). The interest rate is 6% p.a. and is paid semi-annually. The bonds were issued in ROL but are repayable in the ROL equivalent of the EUR amount of the principal from the moment of the closing of subscription by The National Securities Commission ("NSC"). The maturity is in 1,080 days less 7 calendar days since the closing of the subscription offer (8 April 2004), which was intermediated by BCR Securities. The full issue was subscribed (90% of the subscription was made by companies within the Banca Comerciala Romana Group). BCR Asigurari S.A insures the financial risk related to the repayment of the interest and principal. The bonds are publicly listed on the Bucharest Stock Exchange since July 2004 (symbol BCL 07).

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25. Other liabilities and provisions

ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Finance lease payable *(i)*	-	29,158	323,149	246,784
Accrual for employees' profit sharing bonuses	675,811	333,870	655,898	333,870
Amounts in transit	252,098	318,662	250,027	318,662
Provision for letters of guarantee	113,449	113,449	113,449	113,449
Provision for litigation	78,247	-	74,281	-
Profit tax due	204,452	63,353	28,510	33,102
Other taxes payable	237,883	61,693	203,133	7,147
Technical insurance provisions	893,411	530,305	-	-
Other liabilities	1,712,577	597,670	982,372	253,243
Total	**4,167,928**	**2,048,160**	**2,630,819**	**1,306,257**

(i) Finance lease liabilities are analysed as follows:

ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Up to 1 year	-	29,158	247,817	214,623
Between 1 year and 5 years	-	-	75,332	32,161
Total	**-**	**29,158**	**323,149**	**246,784**

26. Deferred tax

ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Deferred tax liabilities				
- restatements of property and equipment and investments	(259,705)	(366,467)	(276,859)	(366,370)
- investments in subsidiaries	472	-	(49,410)	(22,134)
- other temporary differences	(161,457)	(456,039)	(140,050)	(289,318)
	(420,690)	**(822,506)**	**(466,319)**	**(677,822)**
Deferred tax assets				
- impairment for loan losses	452,366	547,775	452,367	547,775
- other temporary differences	73,790	187,247	70,690	95,135
	526,156	**735,022**	**523,057**	**642,910**
Deferred tax asset/(liability)	**105,466**	**(87,484)**	**56,738**	**(34,912)**

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27. Share capital

	31 December 2004 No of shares	31 December 2004 %	31 December 2003 No of shares	31 December 2003 %
Autoritatea pentru Valorificarea Activelor Statului ("AVAS")	292,282,131	36.88%	553,796,821	69.88%
IFC	99,058,595	12.50%	-	-
EBRD	99,058,595	12.50%	-	-
SIF Oltenia	48,479,429	6.12%	48,479,429	6.12%
SIF Banat Crisana	47,548,125	6.00%	47,548,125	6.00%
SIF Moldova	47,548,125	6.00%	47,548,125	6.00%
SIF Transilvania	47,548,125	6.00%	47,548,125	6.00%
SIF Muntenia	47,548,125	6.00%	47,548,125	6.00%
Individuals - employees	63,397,500	8.00%	-	-
Total	**792,468,750**	**100.00%**	**792,468,750**	**100.00%**

In July 2004, 8% of the Bank's share capital was sold by AVAS to the Bank's Association of Employees ("Association") for ROL 10,350 ROL/share, in accordance with the Law no. 227/2004 adopted by the Parliament of Romania in May 2004.

28. Reserves

Reserves include the statutory legal reserve, the reserve for banking risks and translation reserve. As at 31 December 2004, the legal reserve amounted to ROL 5,631,479 million (31 December 2003: ROL 5,631,479 million) and the reserve for banking risks amounted to ROL 2,154,537 million (31 December 2003: ROL 1,629,352 million). The legal reserves and the reserve for banking risks are not distributable.

29. Commitments and contingencies

Litigations related to the merger with Bancorex

In 1999 as a result of the distressed financial situation of one of the Romanian banks having the State as majority shareholder, Banca Romana de Comert Exterior - "Bancorex", the Government of Romania launched a series of measures designated to limit the effect of Bancorex's insolvency on the economy of Romania.

29. Commitments and contingencies *(continued)*

These measures included placing Bancorex under special administration for a limited period, transferring certain non-performing loans of Bancorex to an Asset Recovery Agency (AVAB) and transferring all other activities to the Bank. The Bank received Romanian government securities having similar maturity as the deposits and other creditor's accounts transferred from Bancorex.

On 6 July 2000 the Romanian Government issued the Emergency Ordinance No. 131/2000 and subsequent Decision 909/2000 stating that the Government will issue unconditional letters of guarantee in favor of the Bank against litigations up to an amount of ROL 38 billion and USD 116 million against litigations for which the Bank is the defendant, arising from activities of the former Bancorex, before it was removed from the Register of Trade. As at 31 December 2004, the Bank was the defendant in 1 case from this category with the value of probable claims amounting to ROL 1.9 billion.

Based on the Emergency Ordinance No. 18/2004, all off-balance sheet, other commitments and all the risks to the Bank arising from litigations related to former Bancorex are guaranteed, remain and will be guaranteed by the State. According to the Emergency Ordinance No. 18/2004 and Government Ordinance No. 832/2004, the Ministry of Public Finance issued Letters of Guarantee for 56 litigations in which the Bank is involved following the merger with Bancorex.

As at 31 December 2004, the Bank was the defendant in 19 cases from this category, the total value of probable claims were ROL 71,602 million, USD 17,087,475, EUR 3,455,650 and Greek Drahmas (GRD) 10 billion (for the latter value as at year 1948).

The Bank continues to be subject to a number of litigations resulting from the activity of former Bancorex, which, according to Emergency Government Ordinance No. 85/2004, are to be transferred to AVAS at the first hearing in court established in each case. The management of the Bank believes that such actions will not significantly impact the economic results and financial position of the Bank.

Other litigations

As at 31 December 2004 the Bank was involved in the normal course of its business in a number of 391 other litigations as defendant for which the probable claims are estimated at ROL 2,637 billion (out of which for a litigation with claims in amount of ROL 1,957 billion at the first hearing the Court rejected the claim against the Bank), EUR 15.5 million and USD 33.4 million. The management of the Bank, based upon legal advice, has recorded a provision of ROL 74,281 million for these claims (referred to Note 25). In the opinion of management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amount provided at 31 December 2004.

Credit related commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and overdraft facilities. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one month to one year.

29. Commitments and contingencies (*continued*)

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table as commitments assume that amounts are fully advanced. The amounts reflected in the table as guarantees and letters of credit represent the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted.

Commitments to extend credit represent unused portions of authorisations to extend credit for loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group 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 Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

ROL million	**Group**		**Bank**	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Letters of guarantee	33,214,372	19,578,211	31,692,584	18,789,711
Letters of credit	3,330,401	2,593,032	3,288,001	2,579,397
Undrawn commitments	15,814,992	14,003,737	14,803,640	12,679,006
Total	**52,359,765**	**36,174,980**	**49,784,225**	**34,048,114**

As at 31 December 2004 the Bank recorded a provision for letter of guarantee in amount of ROL 113,449 million (31 December 2003: ROL 113,449 million).

30. Related party transactions

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

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30. Related party transactions *(continued)*

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 2004 are detailed below. Transactions were entered into with related parties during the course of business at market rates.

Transactions with shareholders

The Romanian State, through AVAS as the Bank's shareholder, has a significant influence over the Bank's operating and financial policies. The Bank entered into a number of banking transactions with organizations and companies controlled by the Romanian State in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates.

The Group entered into a number of banking transactions with the other shareholders in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates.

The following transactions were carried out with its shareholders AVAS, SIF Banat-Crisana SA, SIF Moldova SA, SIF Muntenia SA, SIF Oltenia SA, SIF Transilvania SA, EBRD and IFC:

ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Assets				
Investment securities available-for-sale	23,720	2,835	23,720	2,835
Total	**23,720**	**2,835**	**23,720**	**2,835**
Liabilities				
Deposits from customers	85,180	35,307	85,180	35,307
Loans from banks and other financial institutions	4,887,665	-	4,835,070	-
Other liabilities	5,343	-	5,343	-
Total	**4,978,188**	**35,307**	**4,925,593**	**35,307**

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30. Related party transactions *(continued)*

Transactions with shareholders *(continued)*

ROL million	Group		Bank	
	2004	**2003**	**2004**	**2003**
Income *				
Interest and dividend income	1,173	-	1,173	-
Commission income	26,298	522	26,298	522
Total	**27,471**	**522**	**27,471**	**522**
Expenses *				
Interest expense	25,220	3,474	24,974	3,474
Commission expense	1,791	-	1,741	-
Total	**27,011**	**3,474**	**26,715**	**3,474**

* information available for 10 months of 2004

Transactions with management

The Group entered into a number of banking transactions with the management in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates. The following transactions were carried out with the management:

ROL million	Group		Bank	
	31 December 2004	**31 December 2003**	**31 December 2004**	**31 December 2003**
Assets				
Loans and advances to customers	13,270	11,742	10,547	11,742
Other assets	200	-	200	-
Total	**13,470**	**11,742**	**10,747**	**11,742**
Liabilities				
Deposits from customers	64,857	60,298	64,857	60,298
Other liabilities	23	-	-	-
Total	**64,880**	**60,298**	**64,857**	**60,298**

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30. Related party transactions *(continued)*

Transactions with shareholders *(continued)*

ROL million	Group		Bank	
	2004	**2003**	**2004**	**2003**
Interest and commission income *	1,221	992	932	992
Interest and other expenses *	5,566	1,142	3,554	786

* information available for 10 months of 2004

Transactions with subsidiaries

The Bank holds investments in subsidiaries (refer to Note 17) with whom it entered into a number of banking transactions in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates. The following transactions were carried out with subsidiaries:

ROL million	**31 December 2004**	**31 December 2003**
Assets		
Cash and cash equivalents	15,707	4,172
Placements with banks	1,884,819	1,819,494
Loans and advances to banks	305,196	324,650
Loans and advances to customers	3,668,720	2,851,427
Investment securities, available for sale	12,944	-
Other assets	-	28,999
Total	**5,887,386**	**5,028,742**
Liabilities		
Deposits from banks	14,754	15,252
Deposits from customers	831,463	203,746
Loans from banks and other financial institutions	51,840	-
Other liabilities and provisions	323,148	217,626
Total	**1,221,205**	**436,624**

30. Related party transactions *(continued)*

Transactions with subsidiaries *(continued)*

ROL million	**2004**	**2003**
Interest income	262,300	191,429
Commission income	21,543	12,299
Other income	196,991	85,393
Total	**480,834**	**289,121**
Interest expense	98,687	36,651
Commission expense	3,516	-
Insurance expense	215,137	136,273
Other expenses	479,263	190,563
Total	**796,603**	**363,487**

31. Fair value of financial instruments

Fair value is the amount for which an instrument could be exchanged between knowledgeable and willing parties in an arms length transaction. It represents a general approximation of possible value and may never be effectively realized.

The Group is subject to fluctuations of many economic variables including:

a) Exchange rate of foreign currency against the ROL or other foreign currency
b) Market price of similar products
c) Interest rates.

The Group's financial instruments, as defined in accordance with applicable requirements, include financial assets and liabilities recorded in balance sheet.

The Group's short-term funds, including current accounts and placements with banks, are carried in the financial statements at cost, which approximates their fair value because these instruments have short maturity terms and are convertible into cash or are settled without significant transaction costs.

Financial instruments held-for-trading are carried in the financial statements at fair value.

31. Fair value of financial instruments *(continued)*

The Group's listed equity investments are reported at their fair value, which is based on quoted market prices at the balance sheet date without any deduction for transaction costs. The Group's unlisted equity investments are carried at revalued cost, as the Group's management do not consider the fair value of these investments carried at cost to be significantly different from the carrying value.

The Group's debt instruments available-for-sale are reported at their fair value, which is based on quoted market prices at the balance sheet date or discounted cash flow models where quoted market prices are not available, without any deduction for transaction costs.

Financial instruments held-to-maturity are carried in the financial statements at amortised cost. Fair value of the Bank's financial instruments held-to-maturity is based on quoted market prices at the balance sheet date without any deduction for transaction costs. Fair value of the held-to-maturity securities amounted to ROL 1,143,691 million at 31 December 2004.

The Group's management estimates the fair value of loans and advances to customers to be their amortised cost reported in the financial statements since a market does not presently exist for these financial instruments which would facilitate obtaining prices for comparative instruments. In addition, the present value of expected future cash flows is considered not to be materially different from the carrying amount of the loans and advances to customers since the Group charges for these instruments variable interest rates matching the market.

Customers' term deposits are reported at cost. These items have predominantly short-term maturities and carry interest rates, which reflect current market conditions. Because of the short-term maturity of these financial instruments, the Group's management estimates fair value based on their nominal or face value.

32. Foreign currency positions

The amounts of assets and liabilities held by the Group in ROL and in foreign currencies as at 31 December 2004, can be analysed as follows:

In ROL million	ROL	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	2,484,631	404,453	1,217,949	169,286	**4,276,319**
Due from the central banks	49,276,806	21,551,855	569,925	83,424	**71,482,010**
Placements with banks	562,616	922,567	5,189,854	1,564,994	**8,240,031**
Loans and advances to banks	-	223,774	56,996	25,759	**306,529**
Loans and advances to customers	54,117,451	15,951,758	37,790,116	145,002	**108,004,327**
Investment securities, available-for-sale	24,276,534	6,630,293	8,029,873	71,110	**39,007,810**
Equity investments	142,220	241,848	111,022	-	**495,090**
Deferred tax asset	102,149	-	-	3,317	**105,466**
Property and equipment	18,702,783	-	31,254	3,143	**18,737,180**
Intangible assets	894,632	-	-	252	**894,884**
Other assets	626,411	237,388	249,746	10,956	**1,124,500**
Total assets	**151,186,233**	**46,163,936**	**53,246,735**	**2,077,242**	**252,674,146**
Liabilities					
Deposits from banks	431,471	4,635,212	3,465,128	95,234	**8,627,044**
Deposits from customers	111,084,108	24,262,881	40,478,705	1,814,848	**177,640,542**
Loans from banks and other financial institutions	28,587	14,125,428	10,372,012	16,878	**24,542,905**
Other liabilities evidenced by paper	-	-	14,058	-	**14,058**
Other liabilities and provisions	3,387,836	230,785	497,154	52,153	**4,167,928**
Total liabilities	**114,932,002**	**43,254,306**	**54,827,057**	**1,979,112**	**214,992,477**
Net assets/(liabilities)	**36,254,231**	**2,909,630**	**(1,580,322)**	**98,130**	**37,681,669**

32. Foreign currency position *(continued)*

The amounts of assets and liabilities held by the Bank in ROL and in foreign currencies as at 31 December 2004, can be analysed as follows:

In ROL million	ROL	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	2,432,074	365,664	1,173,258	152,590	**4,123,586**
Due from the central banks	49,049,716	21,542,168	-	-	**70,591,884**
Placements with banks	329,832	775,846	4,579,759	1,525,767	**7,211,205**
Loans and advances to banks	-	102,030	203,166	-	**305,196**
Loans and advances to customers	54,017,872	14,726,325	34,080,696	62,886	**102,887,780**
Investment securities, available-for-sale	23,486,871	5,151,505	5,357,994	-	**33,996,368**
Investment securities, held-to-maturity	-	711,099	409,461	-	**1,120,560**
Equity investments	2,069,264	241,848	3,874,059	-	**6,185,171**
Deferred tax asset	56,738	-	-	-	**56,738**
Property and equipment	16,954,793	-	-	-	**16,954,793**
Intangible assets	889,641	-	-	-	**889,641**
Other assets	265,033	224,399	79,341	1,228	**570,001**
Total assets	**149,551,834**	**43,840,884**	**49,757,732**	**1,742,473**	**244,892,923**
Liabilities					
Deposits from banks	439,449	2,981,680	1,631,939	47,440	**5,100,508**
Deposits from customers	111,122,642	23,731,152	39,368,782	1,748,301	**175,970,877**
Loans from banks and other financial institutions	7,937	14,089,205	9,639,952	14,518	**23,751,612**
Other liabilities and provisions	2,054,846	240,381	315,428	20,164	**2,630,819**
Total liabilities	**113,624,874**	**41,042,418**	**50,956,101**	**1,830,423**	**207,453,816**
Net assets/(liabilities)	**35,926,960**	**2,798,466**	**(1,198,369)**	**(87,950)**	**37,439,107**

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32. Foreign currency position *(continued)*

The amounts of assets and liabilities held by the Group in ROL and in foreign currencies as at 31 December 2003, can be analysed as follows:

In ROL million	ROL	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	2,526,464	379,674	1,354,091	166,647	**4,426,876**
Due from the central banks	38,712,805	14,394,161	829,034	39,156	**53,975,156**
Placements with banks	288,643	999,559	5,366,546	2,499,552	**9,154,300**
Financial assets held-for trading	-	62,634	121,584	-	**184,218**
Loans and advances to banks	91,198	-	79,027	-	**170,225**
Loans and advances to customers	47,760,928	16,211,256	19,402,748	146,444	**83,521,376**
Investment securities, available-for-sale	7,420,492	7,028,468	3,446,542	98,450	**17,993,952**
Investment securities, held-to-maturity	37,491	1,008,629	2,583,252	-	**3,629,372**
Equity investments	99,231	110,103	241,847	-	**451,181**
Property and equipment	18,512,127	-	130,743	2,760	**18,645,630**
Intangible assets	715,239	-	-	337	**715,576**
Other assets	500,391	369,694	278,431	7,512	**1,156,028**
Total assets	**116,665,009**	**40,564,178**	**33,833,845**	**2,960,858**	**194,023,890**
Liabilities					
Deposits from banks	757,683	2,154,855	1,882,506	113,302	**4,908,346**
Deposits from customers	85,606,981	26,947,859	28,478,479	1,930,822	**142,964,141**
Loans from banks and other financial institutions	17,542	6,351,603	3,919,579	26,646	**10,315,370**
Other liabilities and provisions	1,535,764	132,098	348,615	31,683	**2,048,160**
Deferred tax liability	52,745	-	37,951	(3,212)	**87,484**
Total liabilities	**87,970,715**	**35,586,415**	**34,667,130**	**2,099,241**	**160,323,501**
Net assets/(liabilities)	**28,694,294**	**4,977,763**	**(833,285)**	**861,617**	**33,700,389**

32. Foreign currency position *(continued)*

The amounts of assets and liabilities held by the Bank in ROL and in foreign currencies as at 31 December 2003, can be analysed as follows:

In ROL million	**ROL**	**USD**	**EUR**	**Other**	**Total**
Assets					
Cash and cash equivalents	2,467,457	371,499	1,350,830	165,822	**4,355,608**
Due from central banks	38,504,376	14,394,161	-	-	**52,898,537**
Placements with banks	52,033	366,912	6,002,512	1,099,214	**7,520,671**
Loans and advances to banks	-	114,008	210,642	-	**324,650**
Loans and advances to customers	47,636,168	14,624,019	16,489,323	72,873	**78,822,383**
Investment securities, available-for-sale	6,880,568	6,229,463	2,549,592	-	**15,659,623**
Investment securities, held-to-maturity	-	966,397	1,013,595	-	**1,979,992**
Equity investments	1,446,110	402,866	1,789,574	1,407,848	**5,046,398**
Property and equipment	16,722,042	-	-	-	**16,722,042**
Intangible assets	710,144	-	-	-	**710,144**
Other assets	296,666	333,544	53,910	652	**684,772**
Total assets	**114,715,564**	**37,802,869**	**29,459,978**	**2,746,409**	**184,724,820**
Liabilities					
Deposits from banks	727,743	440,406	81,464	58,122	**1,307,735**
Deposits from customers	85,079,249	27,173,984	25,415,556	1,870,090	**139,538,879**
Loans from banks and other financial institutions	17,542	3,241,363	6,351,603	26,646	**9,637,154**
Other liabilities and provisions	876,130	176,656	239,274	14,197	**1,306,257**
Deferred tax liability	34,912	-	-	-	**34,912**
Total liabilities	**86,735,576**	**31,032,409**	**32,087,897**	**1,969,055**	**151,824,937**
Net assets/(liabilities)	**27,979,988**	**6,770,460**	**(2,627,919)**	**777,354**	**32,899,883**

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33. Maturity analysis

The assets and liabilities of the Group analysed over the remaining period from 31 December 2004 to contractual maturity are as follows:

In ROL million	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Total
Assets						
Cash and cash equivalents	4,276,319	-	-	-	-	**4,276,319**
Due from the central banks	71,482,010	-	-	-	-	**71,482,010**
Placements with banks	8,120,218	119,813	-	-	-	**8,240,031**
Loans and advances to banks	165,525	113,048	27,956	-	-	**306,529**
Loans and advances to customers	23,331,006	37,928,921	35,650,745	11,093,655	-	**108,004,327**
Investment securities, available-for-sale	23,232,572	3,242,220	8,207,317	4,002,155	323,546	**39,007,810**
Investment securities, held-to-maturity	-	-	-	-	-	**-**
Equity investments	-	-	-	-	495,090	**495.090**
Deferred tax asset	-	-	-	-	105,466	**105,466**
Property and equipment	-	-	-	-	18,737,180	**18,737,180**
Intangible assets	-	-	-	-	894,884	**894,884**
Other assets	775,614	121,083	2,856	-	224,947	**1,124,500**
Total assets	**131,383,264**	**41,525,085**	**43,888,874**	**15,095,810**	**20,781,113**	**252,674,146**
Liabilities						
Deposits from banks	3,973,606	2,887,880	1,706,300	59,258	-	**8,627,044**
Deposits from customers	154,892,831	19,514,651	3,156,821	28,089	48,150	**177,640,542**
Loans from banks and other financial institutions	1,754,409	2,600,323	19,283,795	904,378	-	**24,542,905**
Other liabilities evidenced by paper	1,455	-	12,603	-	-	**14,058**
Other liabilities and provisions	3,751,852	84,681	3,217	65,999	262,179	**4,167,928**
Total liabilities	**164,374,153**	**25,087,535**	**24,162,736**	**1,057,724**	**310,329**	**214,992,477**
Liquidity surplus/ (shortfall)	**(32,990,889)**	**16,437,550**	**19,726,138**	**14,038,086**	**20,470,784**	**37,681,669**

33. Maturity analysis *(continued)*

The assets and liabilities of the Bank analysed over the remaining period from the 31 December 2004 to contractual maturity are as follows:

In ROL million	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Total
Assets						
Cash and cash equivalents	4,123,586	-	-	-	-	**4,123,586**
Due from the central banks	70,591,884	-	-	-	-	**70,591,884**
Placements with Banks	7,129,034	82,171	-	-	-	**7,211,205**
Loans and advances to banks	1,533	-	-	303,663	-	**305,196**
Loans and advances to customers	21,848,799	35,512,311	34,417,323	11,109,347	-	**102,887,780**
Investment securities, available-for-sale	22,087,136	1,563,001	6,483,094	3,718,621	144,516	**33,996,368**
Investment securities, held-to-maturity	145,527	646,898	328,135	-	-	**1,120,560**
Equity investments	-	-	-	-	6,185,171	**6,185,171**
Deferred tax asset	-	-	-	-	56,738	**56,738**
Property and equipment	-	-	-	-	16,954,793	**16,954,793**
Intangible assets	-	-	-	-	889,641	**889,641**
Other assets	360,927	-	-	-	209,074	**570,001**
Total assets	**126,288,426**	**37,804,381**	**41,228,552**	**15,131,631**	**24,439,933**	**244,892,923**
Liabilities						
Deposits from banks	1,852,043	1,542,164	1,706,301	-	-	**5,100,508**
Deposits from customers	153,164,272	19,674,090	3,106,331	26,184	-	**175,970,877**
Loans from banks and other financial institutions	1,667,362	2,335,085	18,844,787	904,378	**-**	23,751,612
Other liabilities and provisions	2,120,337	169,261	82,770	-	258,451	**2,630,819**
Total liabilities	**158,804,014**	**23,720,600**	**23,740,189**	**930,562**	**258,451**	**207,453,816**
Liquidity surplus/ (shortfall)	**(32,515,588)**	**14,083,781**	**17,488,363**	**14,201,069**	**24,181,482**	**37,439,107**

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33. Maturity analysis *(continued)*

The assets and liabilities of the Group analysed over the remaining period from 31 December 2003 to contractual maturity are as follows:

In ROL million	**Up to 3 Months**	**3 Months to 1 Year**	**1 Year to 5 Years**	**Over 5 Years**	**No fixed maturity**	**Total**
Assets						
Cash and cash equivalents	4,426,876	-	-	-	-	**4,426,876**
Due from the central banks	53,967,469	7,687	-	-	-	**53,975,156**
Placements with banks	9,154,300	-	-	-	-	**9,154,300**
Financial assets held-for trading	184,218	-	-	-	-	**184,218**
Loans and advances to banks	47,573	66,689	49,859	6,104	-	**170,225**
Loans and advances to customers	20,673,354	27,675,829	29,207,632	5,964,561	-	**83,521,376**
Investment securities, available-for-sale	17,993,952	-	-	-	-	**17,993,952**
Investment securities, held-to-maturity	1,187	778,291	2,562,784	287,110	-	**3,629,372**
Equity investments	-	-	-	-	451,181	**451,181**
Property and equipment	-	-	-	-	18,645,630	**18,645,630**
Intangible assets	-	-	-	-	715,576	**715,576**
Other assets	880,858	102,253	159,305	13,612	-	**1,156,028**
Total assets	**107,329,787**	**28,630,749**	**31,979,580**	**6,271,387**	**19,812,387**	**194,023,890**
Liabilities						
Deposits from banks	4,529,962	172,300	205,320	764	-	**4,908,346**
Deposits from customers	123,415,832	18,363,911	1,099,013	85,385	-	**142,964,141**
Loans from banks and other financial institutions	1,036,496	1,211,250	5,966,966	2,100,658	-	**10,315,370**
Other liabilities and provisions	1,235,476	80,270	541,422	77,543	113,449	**2,048,160**
Deferred tax liability	-	-	-	-	87,484	**87,484**
Total liabilities	**130,217,766**	**19,827,731**	**7,812,721**	**2,264,350**	**200,933**	**160,323,501**
Liquidity surplus/ (shortfall)	**(22,887,979)**	**8,803,018**	**24,166,859**	**4,007,037**	**19,611,454**	**33,700,389**

33. Maturity analysis *(continued)*

The assets and liabilities of the Bank analysed over the remaining period from the 31 December 2003 to contractual maturity are as follows:

In ROL million	Up to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	No fixed maturity	Total
Assets						
Cash and cash equivalents	4,355,608	-	-	-	-	**4,355,608**
Due from the central banks	52,890,850	7,687	-	-	-	**52,898,537**
Placements with banks	7,145,200	369,367	-	6,104	-	**7,520,671**
Loans and advances to banks	1,310	-	323,340	-	-	**324,650**
Loans and advances to customers	19,073,640	25,990,120	27,786,351	5,972,272	-	**78,822,383**
Investment securities, available-for-sale	15,659,623	-	-	-	-	**15,659,623**
Investment securities, held-to-maturity	-	581,458	1,398,534	-	-	**1,979,992**
Equity investment	-	-	-	-	5,046,398	**5,046,398**
Property and equipment	-	-	-	-	16,722,042	**16,722,042**
Intangible assets	-	-	-	-	710,144	**710,144**
Other assets	684,772	-	-	-	-	**684,772**
Total assets	**99,811,003**	**26,948,632**	**29,508,225**	**5,978,376**	**22,478,584**	**184,724,820**
Liabilities						
Deposits from banks	1,306,253	1,482	-	-	-	**1,307,735**
Deposits from customers	120,254,353	18,284,653	961,318	38,555	-	**139,538,879**
Loans from banks	845,878	1,032,840	5,657,778	2,100,658	-	**9,637,154**
Other liabilities and provisions	1,105,966	168,129	32,162	-	-	**1,306,257**
Deferred tax liability	-	-	-	-	34,912	**34,912**
Total liabilities	**123,512,450**	**19,487,104**	**6,651,258**	**2,139,213**	**34,912**	**151,824,937**
Liquidity surplus/ (shortfall)	**(23,701,447)**	**7,461,528**	**22,856,967**	**3,839,163**	**22,443,672**	**32,899,883**

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34. Interest rate risk

The following table shows the interest rates obtained or offered by the Group as at 31 December 2004 for its interest-bearing assets and liabilities:

	ROL		USD		EUR	
	Min.	Max.	Min.	Max.	Min.	Max.
Assets						
Current accounts with central banks	6.00	6.00	0.75	0.75	-	-
Placements to banks	3.00	22.00	0.10	7.50	1.00	4.00
Investment securities, available-for-sale	11.50	21.00	1.98	6.75	2.74	11.63
Loans and advances to customers	17.00	36.00	2.69	14.00	1.60	17.00
Liabilities						
Deposits from banks	12.00	21.50	0.50	2.70	0.50	3.93
Deposits from customers	14.00	38.00	1.25	3.75	1.25	4.00
Loans from banks and other financial institutions	-	-	2.35	5.23	2.25	6.50

The following table shows the interest rates obtained or offered by the Bank as at 31 December 2004 for its interest-bearing assets and liabilities:

	ROL		USD		EUR	
	Min.	Max.	Min.	Max.	Min.	Max.
Assets						
Current accounts with central bank	6.00	6.00	0.75	0.75	-	-
Placements to banks	16.75	17.75	0.10	4.28	1.98	2.92
Investment securities, available-for-sale	17.24	18.75	4.98	5.00	-	-
Investment securities, held-to-maturity	11.50	21.00	6.22	6.51	5.75	11.50
Loans and advances to customers	17.00	36.00	6.00	14.00	6.00	14.00
Liabilities						
Deposits from banks	16.00	17.25	0.50	2.30	0.50	2.28
Deposits from customers	14.00	18.00	2.00	3.75	2.75	4.00
Loans from banks and other financial institutions	-	-	2.40	5.23	2.71	6.50

34. Interest rate risk *(continued)*

The following table shows the interest rates obtained or offered by the Group as at 31 December 2003 for its interest-bearing assets and liabilities:

	ROL Average	USD Average	EUR Average
Assets			
Current accounts with central banks	15.32	0.77	-
Placements and loans to banks	17.00	5.00	-
Investment securities, available-for-sale	17.00	5.00	9.65
Investment securities, held-to-maturity	17.00	5.00	-
Loans and advances to customers	23.74	7.40	8.20
Liabilities			
Deposits from banks	15.00	1.12	2.30
Deposits from customers	17.50	3.33	2.84
Loans from banks and other financial institutions	-	3.16	4.94

The following table shows the interest rates obtained or offered by the Bank as at 31 December 2003 for its interest-bearing assets and liabilities:

	ROL		USD		EUR	
	Min.	Max.	Min.	Max.	Min.	Max.
Assets						
Current accounts with central bank	6.00	7.00	0.75	0.75	-	-
Placements to banks	20.25	21.25	0.10	1.71	2.07	2.82
Investment securities, available-for-sale	14.99	18.50	4.98	5.00	-	-
Investment securities, held-to-maturity	11.25	21.50	8.50	10.63	4.92	4.97
Loans and advances to customers	19.00	38.00	6.00	14.00	6.00	14.00
Liabilities						
Deposits from banks	19.75	20.00	0.50	1.12	0.50	0.50
Deposits from customers	12.00	23.00	2.00	3.75	2.75	4.00
Loans from banks and other financial institutions	-	-	2.66	6.83	1.68	6.82

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35. Subsequent events

Loan from banks

In March 2005, the Bank concluded a 5-year loan agreement for USD 400,000,000 with a syndicate of 16 banks and the mandated lead arrangers were Bank Austria Creditanstalt AG, CALYON, Citibank, N.A. and WestLB AG, London Branch.

Distribution of dividends

In April 2005, the general shareholders' meeting of the Bank has approved the statutory distribution of dividends for the year ended 31 December 2004 in the amount of ROL 3,275,489 million.