ANNUAL
REPORT
2003

For you ...

we provide
soundness

we build
on tradition

we think
national

we promote
dynamism

we are
flexible

we target
performance

we shape
the future

BANCA
COMERCIALA
ROMANA
GROUP

BANCA
COMERCIALA
ROMANA GROUP

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message from the chief executive officer

Surrounded by a background of positive developments in the Romanian economy, in 2003 Banca Comerciala Romana Group fulfilled the major commitments made to the shareholders. We are proud to say that this performance was driven by a stronger winning team spirit, encouraging staff and management to better work together for the corporate interests, making BCR Group one of the most dynamic and competitive businesses in the region.

In today's ever-changing business climate, we continued to be on the top. Despite a more aggressive competition for market shares, we consolidated our leading position as provider of integrated financial services in terms of business volumes, product development and profitability.

Last year, revenues growth was one of the most critical challenges facing the banking industry. Declining inflation and a lower saving rate pushed down banks' interest margins, while the new National Bank of Romania loans classification and provisioning requirements increased costs.

Pursuing our strategic targets, based on a flexible implementation approach, we significantly increased BCR Group's non-interest revenues and achieved a higher operating income as against previous year. The profit we obtained enabled us to provide shareholders with good returns for their investment. We paid dividends of USD equivalent 51 million and we made equity reserves of about

USD equivalent 100 million. Capital adequacy ratios are strong and we intend to maintain them at prudent levels.

Besides the financial results, we focused our efforts on improving risk management, which we consider to be one of the fundamentals of the sustainable success in our business. We enhanced internal audit activity, we implemented a system of professional insurances and we adjusted our environment procedures in line with the best international standards and practices.

BCR Group's goal to increase customer satisfaction is a long-term commitment to become each day a better partner to trust and rely on for the right solutions to the problems and the prompt answer to the questions. The initiatives we have had by now do make the difference to our customers. The 1 million new customers who decided to bank with BCR last year offers a measure of their trust in our partnership.

In 2003, we were the first bank supplying mortgage loans in the Romanian market and the most determined one to develop funding for retail customers. More than 4 times was the annual increase in consumer and housing loans granted to individuals. But we also designed several other new products and services for all customers and paid special attention to quality and adequacy. Our sales model based on an integrated distribution of a complete range of financial products and services proved to be an important competitive advantage for building on customer satisfaction.

As I said from the very beginning, the good results we are reporting today became possible due to the joined efforts of our talented employees working in the Bank or in the subsidiaries. We consider human capital to be the major non-tangible asset we have and we are aware that the quality of this asset substantiates our brand value creating positive experience for customers. Investing in people and technology is an ongoing process helping us to innovate and successfully compete in the market. Last year we started a few important projects addressing issues like performance based compensation and career development in order to increase employees' motivation and loyalty. Now we are focusing more on developing a Group culture to enhance business synergies and enable excellence in all we do.

2003 was a crucial year in BCR Group's history due both to the change in the shareholders structure in favour of two important international investors – EBRD and IFC – and to the adoption of a new Strategy and Business Plan for the next 4 years, which will boost our capabilities to compete in the enlarged EU market.

We have ambitious but feasible targets for this period aimed at improving efficiency in all our business lines and continuing to deliver high returns to shareholders and best-in-class services to customers. Our priority is to generate growth in areas where BCR Group has competitive advantages while strengthening our leading positions in all markets where we operate to support a balanced development with diversified sources of revenues.

More than ever we perceive this leadership not only as a market strategy but also as a responsible engagement towards our stakeholders to behave as a national leader implementing the highest standards in our current activity and promoting a modern and successful "business doing" model in our relations with shareholders, customers, employees and the entire community we belong to.

This is the rationale for our Strategy to go beyond the basic commercial targets and set up important requirements regarding the best corporate governance practices. We want to be in the forefront of the tremendous restructuring, which takes place in the Romanian corporate sector, as the main provider both of funding and of professional and managerial expertise.

We truly believe that the quick integration of our country in EU largely depends on the competency of national leaders to become European competitors. And certainly, financial institutions have an important role in this respect.

BCR Group is in the best position to deal with such challenge. We safeguard the interests of more than 4 million Romanian companies and individuals who are our partners, we concentrate one third of the financial resources of the economy and we cover about the same share of its funding needs. We are a strong financial Group with good experience in the EU market due to our banking subsidiaries operating in this area and we have a good international reputation based on the long-term mutual interest partnership with important financial institutions all over the world.

We are confident that pursuing our strategic objectives for 2004-2007 and benefiting from the know-how brought by the new shareholders, BCR Group will continue to improve its performance to optimise opportunities and add value to shareholders and customers. And the results we have achieved in the first months of 2004 encourage us to trust our capability of meeting the higher targets of the Strategy in place.

I am confident that the continuation of the powerful team and partnership spirit, which we have enjoyed so far, has paved the road for more solid benefits to our shareholders, our customers and to the employees of the Group. Much appreciation for the stakeholders' dedication to the task!

Dr. Nicolae Dănilă
Chief Executive Officer

board of directors

(as of December 31, 2003)

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

managing committee

(as of December 31, 2003)

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

On April 23, 2004, the Extraordinary General Shareholders Meeting approved the new Charter of BCR, acknowledging the full separation of supervision and executive functions. Consequently, on the same day, the Ordinary General Shareholders Meeting, approved the termination of the mandate and the revocation of the members of BCR Board of Directors and the appointment of the new corporate governance bodies of Banca Comercială Română, which are:

supervisory board

Dr. Florin Georgescu	**Chairman**
Dr. Ionel Desmireanu	Member
József Birtalan	Member
Dr. Thomas Krayenbuehl	Member *
Oliver Greene	Member *
Drd. Teodor Mihăescu	Member
Marioara Mema	Member

* Dr. Krayenbuehl and Mr. Greene were appointed on June 30, 2004 by the General Shareholders Meeting.

executive committee

Dr. Nicolae Dănilă	**Chief Executive Officer**
Dr. Ilie Mihai	Executive Vice President, Risk Management
Dr. Natalița Hurduc	Executive Vice President, Retail Banking
Drd. Jean Andronie	Executive Vice President, Corporate Banking
Petre Preda	Executive Vice President, COO
Drd. Dănuț Bunea	Executive Vice President, CFO

External audit	**PriceWaterhouseCoopers**

For you...

we provide soundness

financial results of 2003

The Business Environment

The Romanian economy was one of the most dynamic in the region in 2003. The Gross Domestic Product (GDP) increased by 4.9% compared to 2002, the inflation continued to decrease towards an annual average rate of approximately 15%, while the consolidated budget deficit and the public and publicly guaranteed debt maintained a reasonable level (of 2.4%, respectively, 19.2% of the GDP).

The economic growth stayed within the previous years' trend, with fixed capital accumulation (+9.2%) and foreign demand (+11.1%) as main catalysts. The key element of 2003 developments was the significant increase in households final consumption (+7.1%) generated, on one hand, by the wage increase (+11.4% in real terms compared to 2002) and, on the other hand, by the spectacular development of retail loans.

Under these conditions, the goods imports outgrew the exports (+12.3% compared to 6.4%), resulting in a current account deficit of 5.8% of GDP. However, it is worth noticing that, by structure, the group of electrical and mechanical machines and equipment reached the highest rate of increase. Besides, in respect of investments in economy, the expenses for equipment purchase saw a faster increase than investments in building (12.6% compared to 5.8%).

Around half of the current account deficit was financed by foreign direct investments. Their net value in 2003 reached EUR 1.4 billion.

The favourable developments in the macroeconomic environment, as well as the progress in aligning the legal framework to the European Union standards reflected well upon the banking system. Total Assets stood at EUR 15 billion (EUR 11 billion in 2002), as a result of an increased lending activity. The Loan/GDP ratio raised to 15.9% from 11.9%, mainly due to retail loan expansion. 2003 was the year of the housing loan that increased 2.6 times in real terms as compared to the precedent year.

This trend, combined with the increased banking funding of investment projects, led to longer maturities, and banks displayed willingness to place funds on medium and long term.

The average interest rates for non-banking customers saw a downward trend in the first part of the year, for both loans and deposits, which encouraged consumption at the expense of saving. Starting with September 2003, the National Bank of Romania increased the reference rate in three instances, which led banks to revise their price policies. In 2003, the average interest rate for ROL loans was 25.43% (35.16% in 2002), while the average interest rate for ROL deposits was 10.83% (18.69% in 2002).

Although maintaining its good level, the banking system profitability eroded in real terms, as a consequence of the interest margin narrowing and provisioning expenses increasing in accordance with the new regulations for loans classification. Furthermore, most banks continued to significantly invest in infrastructure, with a view to extending their branch networks and developing IT platforms and card transactions.

Financial Results of BCR Group in 2003

In 2003 BCR Group operated in line with its objective of increasingly adding value for shareholders and customers, by making the most of the business opportunities in the market, encouraging financial innovation and ensuring an adequate quality for all processes.

As of December 31, 2003, the consolidated balance sheet amounted to ROL 194,135 billion (exceeding EUR 4.7 billion equivalent), an 8.7% increase in real terms as compared to the previous year. The growth was mainly due to granting a larger amount of loans (+ 41.7%), and their share in the Total Assets consequently increased by 10 percentage points as compared to 2002 (to 43% from 33%). Deposits with banks and T-Bills diminished along with the decreasing yield of such instruments. However, the liquidity ratios were good, in line with prudential risk management provisions.

Resources acquired from the domestic market as deposits from customers had a moderate increase compared to the loans (+7.5%), which led the Bank to attract to a larger extent foreign credit lines granted by correspondent banks or foreign financial institutions. At the same time, these facilities also ensured additional medium and long-term funds.

The Group's capital base continued to consolidate based on profit-generated reserves. Consequently, although placements shifted towards those implying higher risks, capital adequacy ratios had insignificant variations compared to last year. Tier1 ratio reached 26.50% (27.72% in 2002), while Tier1+2 ratio was 27.90% (28.94% in 2002).

A key feature of the BCR Group's activity was the increase of non-interest income in terms of both turnover (+13.5%) and share in total operation income (37.2% in 2003, compared to 33.7% in 2002). The change in the income sources represents one of the main objectives of the Group's Strategy for performance improvement, with a view to develop the financial services offered both by the parent company and by subsidiaries. The most dynamic developments were in Fee and Commission Income (+15.0%), Foreign Exchange Income (2.9 times compared to 2002) and Insurance Premium Income (2.8 times).

Under these circumstances, although Net Interest Income marked a slight decrease with respect to the previous year as an effect of interest rate margin narrowing, the Operating Income increased by 3.0%.

The Operating Profit stood at ROL 5,462 billion (EUR 132.8 million equivalent), generating a return on equity of 16.5% and a return on assets of 2.8%. As against the previous year, the Group's Operating Profit declined following an increase in the operating and provisions expenses. In 2003, the Group developed the branch network for both the parent company and its domestic subsidiaries, resulting in an increased staff and higher personnel expenses. The improvement of the insurance system for increased protection against operational and financial risks also generated higher costs compared to 2002. Moreover, BCR Group continued to invest significantly in the IT platforms and branch upgrading, the amounts exceeding EUR 31 million.

The projects carried on by BCR Group in 2003 were intended to streamline processes and, above all, to develop the range of products and services in line with the most demanding quality standards with the aim to ensure prompt response to customers' need for solutions. Thus, as of year-end 2003, the number of customers reached 4 million (3 million in 2002).

In the banking market, the Group consolidated its leading position, accounting for 29.5% share of total assets, 27.2% of total loans and 32% of deposits from customers. In the other financial markets, the Group currently holds smaller shares: 9.5% in investment funds, 7.2% in financial leasing and 3.6% in general insurance. The Group's subsidiaries trend is to attain increasing market shares by developing their businesses, the long-term target being to reach market positions comparable with those of the parent company.

"Corporate Governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

By doing this, it also provides the structure through which the company's objectives are set, and the means of attaining those objectives and monitoring performance."

(OECD definition)

corporate governance

Banca Comerciala Romana is a Romanian joint stock company with an issued capital of ROL 7,924,687.5 million divided in common shares with a nominal value of ROL 10,000.

On December 31, 2003, BCR's shareholders structure was:

- The Authority for Privatisation and Management of State Ownership (APAPS): 69.8825%;
- The Financial Investment Company (FIC) Moldova: 6%;
- The Financial Investment Company (FIC) Banat - Crisana: 6%;
- The Financial Investment Company (FIC) Transilvania: 6%;
- The Financial Investment Company (FIC) Muntenia: 6%;
- The Financial Investment Company (FIC) Oltenia: 6.1175%.

On November 4, 2003, APAPS agreed to sell to each EBRD and IFC a 12.5% plus one share stake in Banca Comerciala Romana, the agreement signed on that date becoming effective in 2004, upon the fulfilment of a series of conditions precedent. This represents the largest equity investment of the two international financial institutions in a Romanian bank, and even in the Central and Eastern Europe, with the aim of boosting corporate governance and risk management while undertaking an enhancement of strategy and a review of operations, for the benefit of all parties involved.

The International Finance Corporation (IFC), a member of the World Bank Group, founded in 1956, is a global investor and advisor committed to promote reliable projects in

the developing member countries, such projects being economically beneficial, financially and commercially sound, environmentally and socially sustainable.

Acting with integrity in its transactions, IFC adds value to developing members by pioneering opportunities in frontier countries and sectors, providing quality advice and sharing knowledge to promote successful investment, entrepreneurship, at the same time with fully integrating best environmental, social and corporate governance practices.

Seeking to be transparent, accountable and equitable, recognizing, in every investment, the importance and value of good governance practices, IFC has a core commitment to sustainable development, working with both communities and lenders, while actively listening and responding to stakeholders and their concerns.

The **European Bank for Reconstruction and Development** (EBRD) was established in 1991, becoming the largest single institutional investor in Central and Eastern Europe and currently providing project financing for banks, industries and businesses, both new ventures and investments in existing companies.

Working only in countries committed to democratic principles, EBRD uses its relationship with governments to promote policies that will encourage and support the business environment, help move a country closer to a full market economy, apply sound banking principles, by providing technical assistance and sound banking and corporate governance principles, including environmental approach.

As direct consequence of the agreement signed on November 4, 2003 with EBRD and IFC, the new improvements will transform BCR into a good practice and successful model for Romanian financial institutions and other companies, representing a key step in the development of the country's economy and its EU accession.

BCR, the strongest Romanian bank, will review and upgrade key business and control functions, set standards for corporate governance, improve its commercial activities, with the purpose to catalyse increased investor interest and to become an active player on the wider European markets.

Subsequently, in 2004, an European – style two-tiered board structure will be adopted within the BCR, by establishing an independent Supervisory Board, composed entirely of non-executives of the Bank, to oversee the Executive Committee consisting of senior executives responsible for the daily banking operations. At the same time, the Supervisory Board shall form its own specialised structures, the Audit and

Compliance Committee and the Compensation Committee, as effective corporate governance instruments.

The involvement of the international financial institutions in BCR is clearly putting the Bank on the tracks for its full privatisation, the sale of a majority interest to a strategic investor being the target of this privatisation mechanism, to be achieved the latest by end of 2006.

The privatisation strategy also sets out the sale of an 8% stake to the Bank's employees, transaction that is to be concluded by mid-2004.

The Bank, acting as a significant presence on the Romanian financial market, is organised and operates under the Companies Law no. 31/1990, as supplemented by Law no. 161/2003 introducing some measures to ensure transparency of public office and business environment, prevention and sanctioning of corruption.

As a banking institution, BCR's activity is also regulated by the Banking Law no. 58/1998 and the Norms and regulations issued by the National Bank of Romania. In 2003, the Banking Law was substantially amended and supplemented by Law 485/2003, which implemented corporate governance principles and therefore set the legal framework for separating the supervisory and executive functions.

The banking legal framework plus the internal regulations are comprised in the Charter of the Bank, approved by the shareholders in 2000, as subsequently completed and amended, governing the day-to-day operations, functioning and corporate citizenship.

Banca Comerciala Romana considers corporate governance as the sum of procedures used by stakeholders with the clear purpose to aggregate an image regarding risk management and control through:

- establishing and communicating the Bank's values and objectives;
- monitoring the fulfilment of such objectives;
- ensuring the basis for an **effective corporate governance framework** and the responsibility within the organization;
- increasing the value of the Bank.

BCR values prompt and extensive communication with its stakeholders, therefore the main priority remains adapting business practices, in ensuring the sustainable development, while managing risk exposure with increased corporate governance, thus entailing trust and confidence, as fundamental requirements in banking activity.

BCR is committed to integrity and professionalism in all business related activities with the aim to increase customers satisfaction, acknowledging, in anticipation of

future changes, the need to mobilise staff, promote diversity and strengthen its reputation.

Corporate governance in BCR is based on the following principles of financial disclosure policy:

- equal access and immediate accessibility of information for all shareholders;
- involvement of investors in the development of the bank by defining the rights of the shareholders and key ownership functions;
- accurate and transparent reporting, in compliance with the laws, rules and regulations.

The highest standards of corporate governance, BCR envisaging to fully comply with, set the basis for ethical behaviour and corporate citizenship, ability and willingness to enhance communication and to apply an equitable treatment to all shareholders. They also promote first-rate management, continuous improvement of the organization and supervision that create value and define all rights and responsibilities for every stakeholder.

Effective corporate governance within the Bank entails responsible management put into action, excellent business judgment in the best interest of the bank, close and efficient cooperation, openness and transparency of communication, all ensuring the highest level of professionalism and integrity.

Starting with 2003, BCR employs adequate and effective internal audit and control systems in order to analyse the operational and financial objectives of the Bank and demonstrate the timeliness, completeness and correctness of financial information.

Beginning with this year, audit and control functions are completely separated, the Bank being interested in presenting a balanced and understandable assessment of its market position and prospects, while safeguarding the investment of the shareholders and the company's assets.

As a result, while the internal control provides reliability for the financial information used within the business activity, controls and reports on the major risks, the internal audit emerges as a complex activity that helps the bank achieve its strategic objectives by improving the efficacy of control, risk management and corporate governance processes, thus assisting the management in examining, evaluating, reporting and proposing the best improvement measures.

Through its internal audit unit, the Bank reviews financial and operational control systems with the purpose to commensurate their compliance with rules, regulations and best practice provisions and assesses economic operations under the consideration of their efficiency and efficacy to reach preset goals.

In addition, following the requirements of the National Bank of Romania regarding "Know Your Customer" (KYC) standards and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) provisions, BCR restated its commitment to improve such procedures, by developing internal policies that include analysis and report of any transaction that raised suspicions of money laundering or financing of terrorism etc., consistent with the Bank's corporate governance structures.

Further to the changes in the Romanian AML/CFT related legal framework, in 2003 the Bank developed and implemented new consistent procedures regarding AML/CFT for:

- Establishing customers' identity;
- Reporting suspicious transactions, cash operations and international transfers exceeding EUR 10,000 or equivalent;
- Keeping records of data and documents;
- Increasing staff awareness towards AML/CFT;
- Monitoring the implementation of AML/CFT provisions.

Moreover, the Bank continued in 2003 its efforts for better implementing the "Know Your Customer" procedures, through:

- New policies for customers acceptance, identification and segmentation;
- Supervision of account transactions aiming to detect suspicious dealings;
- Evaluating the efficiency of KYC programme.

strategic goals for 2004

- **Complete separation of roles and responsibilities between executive management and Supervisory Board and subsequent creation of the Audit and Compliance Committee and the Compensation Committee of the Supervisory Board, entailing a sound devolution and reassignment of attributions;**
- **Draft of the Corporate Governance Code;**
- **Review, reorganisation and reassignment of attributions, according to the new Strategy and Business Plan and establishing more efficient decision – making processes;**
- **Increased coordination among the organisation structures for meeting all requirements of AML/CFT and KYC standards, chiefly in the areas concerning customer identification, customer exposure and monitoring of high-risk classes.**

For you...

we build
on tradition

FOR YOU, BCR achieved in 2003

- **266,686 corporate customers with 639,032 accounts managed;**
- **27% market share of the non-government loans;**
- **Ranking 25th of 160 members of Factors Chain International;**
- **Leader on the Romanian factoring market with a market share of 33%;**
- **20.86% of the Romanian export-import transactions settled.**

corporate banking

Since its establishment in 1990, Banca Comerciala Romana has focused on creating a long-term partnership with its corporate customers as a prerequisite for its success. BCR managed to find the pattern that integrated the major goals, policies and action sequences into a cohesive whole having only one aim: customer satisfaction. The BCR Group's fundamental tenet was to determine its customers to think about it: It is not just some bank; it is our Bank! The personal business relationship approach and the continuous concern for customer satisfaction have been the central elements of the strategy, allowing the Group to create customer value superior to the competition. Segmentation was essential considering the various sizes, areas of activity, and requirements of the corporate customer, allowing the Bank to tailor its offering to perfectly match their needs. The corporate customers base is segmented in strategic customers ("blue chips"), large customers, small and medium enterprises (SMEs) and municipalities.

A special structure was established several years ago within the Head-Office with the role to reinforce the partnership with the strategic and important customers, to monitor permanently the economic environment and the finance requirements of customers with the purpose to update the offering and develop tailored products and services. "Blue chips" are companies with outstanding economic performance and comprehensive activities in foreign trade and significant market shares. Being a key segment for the Bank they are provided with customised products and services that best fit their comprehensive requirements. The large companies are an important segment to the

Bank considering their economic potential, benefiting of the Bank's full support to become "blue chips". SMEs are the segment receiving the most accentuated focus from the Bank as a consequence of its increasing importance in the economy. SMEs play an important role in tightening competition and encouraging performance, therefore being the engine for economic growth. The segment is accounting for 90.7% of the corporate customers portfolio. BCR is proud that 60% of the SMEs operating in the Romanian economy chose to bank with it. The Bank has started recently to treat municipalities as a distinct segment. This new approach was determined by the many opportunities arising from the various and numerous finance requirements they have, satisfied both through direct finance and through bond issuing. In the last 2 years the municipal bonds market knew a rapid evolution following the increasing interest of the municipalities to find new resources for the investment projects they want to undertake. BCR Securities in collaboration with BCR ranked first on the municipal bonds market.

BCR Group's corporate product mix, the most comprehensive offerings on the market, was conceived aiming to meet and even exceed the requirements of the corporate customers. BCR restated its commitment to customer satisfaction, tailoring the banking products and services for each corporate customer segment. The wide range of banking products and services is adjusted on an ongoing basis in order to keep the pace with the market evolution and to reflect the needs arising from the nature, scope, and scale of the customers' activities.

A series of new products have been launched in 2003 to meet the customers needs and the economic reality. The newly launched Specifically Structured Loans for Agriculture along with the foreign currency mortgage loan proves BCR's concern to update its offering on an ongoing basis. BCR also launched the Visa Business Electron credit card, especially designed to support SMEs' current activity. Moreover, BCR launched the Visa Virtuon card for transactions via Internet.

The Bank's offering for corporate customers includes accounts, comprehensive settlements handling, short-, medium- and long-term loans, structured loans and syndicated loans, trade finance, investment banking services, cash management, guarantees and sureties, promissory note transactions. Moreover, "blue-chips" and large companies have the opportunity to negotiate the interest rate for large deposits and to make overnight deposits at attractive interest rates. Furthermore, they are provided with cash management services for improving the allocation of their resources and advisory services for choosing the most appropriate way to finance their projects.

Besides the traditional banking products and services, the corporate customers are provided with additional financial services offered by the Bank and the Group's subsidiaries such as factoring, respectively leasing, asset management, financial advisory, mergers, acquisitions and capital raising. In addition, customers are provided with insurance services such as property insurance, car and cargo insurance, guarantees insurance.

BCR had significant achievements in the e-banking area, the corporate customers being provided with Multicash and e-BCR for increasing the service quality and efficiency. During 2003 the IT department worked hard on improving the 2 products. New modules such as term deposits, discounted deposit certificates, on-line bidding, on-line local tax payments for more than 20 city halls, providing customers with account statements for debit cards, money transfers from the current account into the debit card account of the same person have been introduced. The noteworthy aspect is the multitude of transactions that can be carried on through e-BCR, no other bank offering such a wide range.

The corporate loan continues to be the main product required by the Romanian companies, the highest demand being for credit lines, loans for investments and loans for financing inventories. The outstanding credits as at year-end 2003 increased by 40.8% compared to the year-end 2002, this being the most important and the most dynamic placement of the Bank.

BCR took advantage of its strong capital position, granting loans to the "blue chips" in order to meet their significant and diverse finance requirements. The Bank granted loans to companies acting in strategic areas of the Romanian economy such as power generating, metallurgy, shipbuilding. Considering the significance of the "blue chips" for the Romanian GDP, the BCR's capability to meet their finance requirements represents a significant contribution to the economic growth.

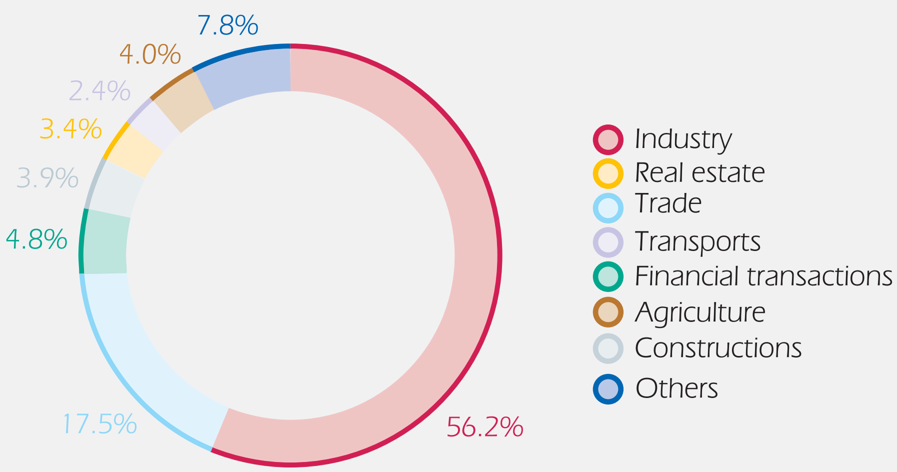
Loans to SMEs represented 46.25% of the total volume of outstanding corporate loans, i.e. a 28.5% increase compared to the year-end 2002. Given their crucial role for the economy, the Bank increased support by loans granted from the Bank's own sources, from the budget of unemployment fund and from foreign funding under EBRD – SME Funding Facility, FIDA, SAPARD, PHARE, MARR. The increasing interest of BCR in SMEs is proved by the loans granted to this segment in collaboration with the National Agency for Employment. 3,177 projects amounting to aproximately ROL 3,000 billion were financed over 2001-

2003 period, 43,200 jobs were created, of which 22,000 were obtained by unemployed people.

Municipalities are a relatively new segment within the corporate customers base. This segment offers many opportunities, as the bonds' issuing is seen by an increasing number of municipalities as a viable alternative to attract resources. In 2003, 6 Selling Public Offerings for Municipal Bonds accounting for ROL 268 billion were organised, with a market share of 55.9% for BCR Securities. In the second half of 2003 the market developed further and two County Councils chose to finance projects by issuing bonds.

The corporate financing represented 70.4% in the outstanding credits as at December 31, 2003, reflecting the Bank's policy to support the Romanian companies to meet their working capital and investment requirements. The loan portfolio structure is illustrated in the figure bellow:

Corporate loan strucuture by main sectors



The loan portfolio structure by sectors reflects the Group's concern to spread risk over all sectors in order to have a balanced risk distribution, with an emphasis on supporting the industrial sectors that demonstrate a high growth potential and sustain exports.

The Bank is also offering loans denominated in foreign currency, mainly for technology upgrading. Such loans accounted for 41% of the total corporate loans, as of year-end 2003.

Following the Stand-by Agreement between Romania and the International Monetary Fund, which envisaged the targets regarding the exposure of the entire banking system to the state owned enterprises, BCR reduced by ROL 5.882 billion its exposure to the state owned enterprises compared to the recommended levels. This led to a decrease by 5.4 percentage points of the loans to the state owned enterprises, their weight in the corporate loan portfolio at the year-end 2003 being of only 13.2%.

Trade Finance

BCR offers to its customers banking products and services associated with international trade transactions.

During 2003 the exports settled by BCR amounted to USD 4.6 billion while imports reached USD 4.2 billion. The export-import transactions settled through BCR in 2003 represented 20.86% of Romania's foreign trade. The activity focused on the continuous improvement in the quality of services, on providing advice and tailored services to customers.

The payment order was the most frequently used instrument for both exports and imports, followed by the letter of credit and the documentary collection.

Given the partnership with numerous foreign banks, BCR was able to provide its customers with services covering settlements and hedging against the transaction risk. BCR issued letters of guarantee upon customers' request to support production and especially exports. Significant weights had the energy sector, shipbuilding sector, oil and gas industry, wholesale, automotive industry, infrastructure and so on so forth.

Factoring showed the same ascending pace as in the previous year, increasing by 160% compared to 2002, with transactions amounting to approximately USD equivalent 82 million. This development ensured the leadership for BCR on the factoring market. Factoring in foreign currency was the main product required by the Romanian companies, accounting for 79% of the total volume.

Given the total amount of the export factoring transactions settled in co-operation with Factors Chain International members, BCR ranked 25th of the 160 members from 53 countries. This represented 3 positions up compared to the year-end 2002, allowing BCR to rank ahead some prestigious peer companies.

strategic goals for 2004

- **Improve in the corporate customers segmenting criteria;**
- **Increase in corporate lending by 15% in real terms;**
- **Increase in lending to local communities;**
- **Enhancement of products and services to support exports.**

For you...

we think national

FOR YOU, BCR achieved in 2003

- **3,704,671 retail customers with 5,970,338 accounts managed;**
- **Leader in retail deposits – 37.6% market share;**
- **First Romanian bank to offer mortgage loans;**
- **Leader in mortgage lending with almost 53.2% market share;**
- **32% market share for loans granted to retail customers;**
- **Renewal of the ISO 9001:2000 certification by Moody International.**

retail banking

In Banca Comerciala Romana, retail banking means banking with individuals and sole traders.

During 2003, the Group's policy focused on diversifying and developing retail products and services, in order to better satisfy the requirements and expectations of its customers and to consolidate its leading position in the Romanian banking system.

According to the Bank's strategy, in 2003, BCR had as priority objective to bring the retail banking activity at higher customer-oriented standards, by offering competitive products and continuously innovating services.

As of year-end 2003 BCR had over 3.7 million retail customers, which is 31% increase compared with year-end 2002. For these customers, BCR managed almost 6 million accounts.

In response to the needs of its customers, BCR offered in 2003 a broad range of products and services tailored for the four customer segments: private banking, important clients, standard clients and sole traders. BCR strived to provide the products and services required to satisfy the basic financial needs of each segment settling current payments, managing financial surplus and advancing loans for current expenses and investments.

The **savings instruments** that have helped the Bank to establish its traditional relations with the retail customers are offered in a variety of terms and purposes, such as: sight deposits, term deposits, special purpose deposits (for pension, holidays), certificates of deposit denominated in ROL, discounted certificates denominated in ROL and foreign currency. Standard deposits are offered in a broad range of terms, from 1 day to 18 months and bear fixed or floating interest rates. Deposit interest rates are negotiable for larger amounts.

As of year-end 2003, BCR's market share in the Romanian banking system was 37.6% for individuals' deposits denominated in ROL and foreign currency, ensuring BCR's leader position.

BCR has also been offering a wide range of day-to-day services for individuals, such as: foreign exchange transactions, foreign currency payment orders using SWIFT, Merchants Bank of California and MoneyGram systems, direct debit and standing order services, safety deposit boxes, as well as payment of the utilities and telephone bills.

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

BCR launched in 2002 and finished in March 2003 the first **Banking Portal** in Romania, which presents integrated information about the entire range of products and services of BCR Group: the parent company and its subsidiaries operating in leasing, insurance, portfolio investment and capital markets. The Portal also presents Anglo-Romanian Bank, the British subsidiary of BCR.

The users of the Portal benefit not only from information regarding the offer addressed to BCR Group customers, but also from many facilities such as: calculation of loan credit instalments, leasing instalments and insurance premiums; access to the integrated newsletter comprising useful information on the entire activity of BCR and access to a poll centre through which they can contribute ideas or suggestions for the improvement of the products and services offered by BCR Group.

Aiming to meet the requirements of an ever larger number of investors in terms of asset liquidity, term, yield and various degrees of risk acceptability, BCR Asset Management decided to enlarge its product range and created the second investment fund: **BCR Dinamic**.

This fund targets the placement in listed shares, credit instruments and other such assets, ensuring the risk dispersion by portfolio diversification. In managing this second fund, BCR Asset Management used the experience gained in the previous year when BCR Clasic was launched.

BCR Group offered a complex range of **insurance services** designed for the individual customers such as: car insurance, home insurance, special property coverages (earthquake and flood coverage), personal possessions coverage, life and health coverages (life insurance, disability insurance and accidental death), personal liability insurance, travel coverage etc.

BCR Asigurari provides integrated services with BCR such as:

- "My family welfare" package including, at customer's choice, earthquake or flood insurance or life insurance combined with disability insurance;
- Free of charge earthquake or flood insurance or accident or life insurance policies for customers with large deposits (ROL 100,000,000, USD 3,000, or EUR 3,000);
- "Private banking" product and services package available to customers with bank deposits over ROL 1 billion or USD 30,000, which includes insurance policies with preferential terms.

Under the special agreements between BCR and Omniasig SA, any BCR customer may also contract a life insurance policy directly at BCR branches.

Moreover, BCR Leasing offered **leasing services** to all individual customers who intend to acquire new cars.

As a result of this broad range of products and services a loyal customer base was formed, accustomed to work with the most complex banking instruments.

The offering of new products and services, alongside with the efforts to strengthen the bank-customer partnership in order to better satisfy customer needs represented one of the main targets of BCR's activity.

In 2003 several new products and services were made available in order to satisfy the customers' requirements and expectations: e-BCR, cash management services and the "Private banking " package.

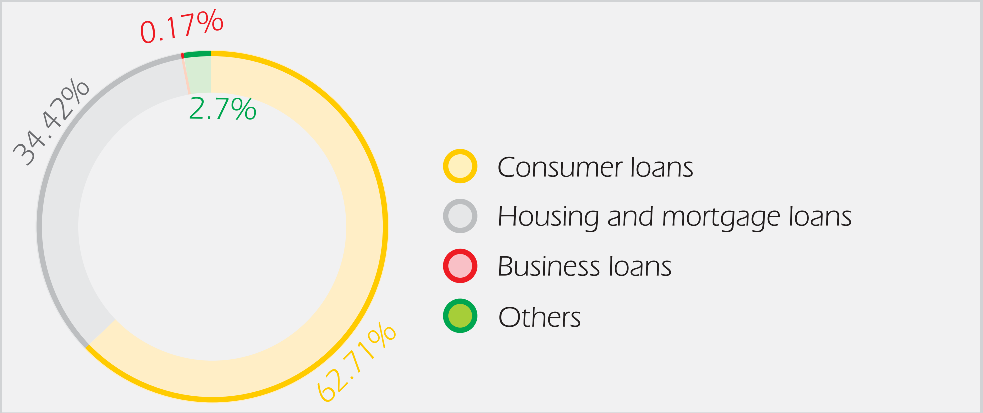
In addition to expanding the scope of products and services offered, BCR enhanced the quality and availability of electronic distribution channels. Accordingly, **e-BCR** gives electronic access to the accounts enabling the electronic banking payments via internet.

Cash management services gave to customers the possibility to forecast, plan, supervise and administer their assets in order to avoid cash transaction, increased the account transaction security and optimized their flow, resulting in higher efficiency for the customers.

BCR has also started to develop a strategy addressing the customers with higher incomes and launched the **"Private banking" package,** a flexible product consisting of 4 mandatory products and 4 optional products, offering a great number of facilities and integrating services of BCR Group subsidiaries.

Loans continued to be the main banking product required by the retail customers for sustaining their current or investment needs: house purchase or modernization, furniture, electronic appliances or personal car purchase. The Bank also granted loans for holidays abroad, education, medical treatments etc.

The structure of retail lending, by credit-product type is presented below:



At the beginning of 2003, BCR was the first Romanian bank to launch the **mortgage loan**, available both for inviduals and for corporate customers.

In 2003, under the Loan Agreement concluded between BCR and EBRD, EUR 50 million were disbursed to the Bank for mortgage loans to the individuals. The mortgage loan extended the access of individuals to a new type of financing, offering them the possibility to buy or build houses. Moreover, customers obtained mortgage loans for repairing, upgrading or extending their household, for acquiring land to build a house or for ensuring the utilities.

In October 2003 a Convention between the National Lodging Authority and BCR was signed for apartment building on National Lodging Authority location via mortgage loans granted to individuals.

BCR made available ROL and foreign currency loans under terms and advantages that customers appreciated: guaranties relinquished, increased repayment period from 15 to 20 years for real estate loans, cutting of exchange risk margin from 20% to 10% for foreign currency real estate loans, possibility to consider for repayment capacity the wages of one or several payers, as well as other income categories. Last but not least, BCR customers have the opportunity to access financing from the Bank with the second largest network in Romania (286 units). All these facilities plus very advantageous interest rates and low commissions charged on mortgage loans created a competitive advantage for BCR who benefited from it and established a leading position on the domestic mortgage market with its 53.2% share.

An important objective for 2003 was the development of the consumer loan offered to individuals. New products were also made available, such as: ROL credit lines for individuals over one year period and loans for second hand cars acquisition.

Responding to our retail customers needs, BCR concluded conventions with 29 dealers of consumer goods to finance the purchase of durables by means of consumer loans.

Aiming to meet customers' expectations and the requirements of the competitive market environment, BCR strives not only to expand and improve its offering but, more importantly, to build and strengthen lasting relationships based on trust and partnership.

strategic goals for 2004

- **Restructuring of retail banking;**
- **Improvement in retail customers segmentation, with an enhanced approach towards private banking customers;**
- **Continuous adjustment of products and services to the specific needs of each customer segment;**
- **Increase in retail lending by 13.6% in real terms.**

FOR YOU, BCR achieved in 2003

- **Leader of the card market with 1,350,000 cards issued – 28% market share;**
- **“The most dynamic card issuer in Romania” award;**
- **“The best sold debit card in Romania – BCR Maestro” award;**
- **“The best sold credit card in Romania – BCR EC/MC” award;**
- **Renewal of the ISO 9001:2000 certification by Moody International.**

the card business

In 2003 BCR remained the leading card issuer in Romania and continued the cards business growth in terms of numbers and amounts.

Striving to improve services and competitiveness in the card market, in 2003 Banca Comerciala Romana launched 4 new card products with the aim to better satisfy customers' requirements and to strengthen their loyalty. Specifically, these products were:

- BCR VISA Clasic International, EUR debit card for individuals;
- BCR MasterCard Business, EUR debit card for corporate customers;
- BCR VISA Business Electron, ROL credit card for corporate customers;
- BCR VISA Virtuon, USD virtual card, used for transactions on the Internet.

Therefore, as of year-end 2003, BCR provided for its corporate and retail customers 12 types of cards, representing the largest supply by a Romanian bank:

- Debit cards:
  - denominated in ROL: BCR Maestro, BCR VISA Electron, BCR VISA Clasic, BCR Eurocard MasterCard Business;
  - denominated in USD: BCR VISA International, BCR VISA Business, BCR VISA Virtuon;
  - denominated in EUR: BCR VISA Clasic International, BCR MasterCard Business.

- Credit cards:
  - denominated in ROL: BCR Eurocard MasterCard, BCR VISA Business Electron;
  - denominated in USD: BCR Eurocard MasterCard Business.

As a result of its efforts, in 2003 BCR issued over 390,000 more cards, which marked a 40.64% increase compared to 2002.

Year	Number of cards as of year-end	Growth compared with the previous year Number	%
2001	567,000	254,131	81.22
2002	960,056	393,056	69.32
2003	1,350,200	390,144	40.64

Debit cards are by far in the highest demand, accounting for almost 97% of total cards issued. The top product in terms of sales was BCR Maestro, which benefited from a series of attractive campaigns. The number of BCR Maestro debit card users increased in 2003, both due to the low operation costs and to the flexible domestic and overseas use.

The reasons for the lower interest in credit cards lay in the fact that they are relatively new and people are not yet accustomed with such type of credit, and also in the fact that for a bank it is difficult to take the decision to promote such product considering the lack of financial information data bases and of appropriate and clear regulations.

Nonetheless, in respect of credit cards, the Bank experienced last year an obvious growth in numbers, marking the beginning of a normal shift process from debit to credit cards. By the end of 2003 the Bank had issued 45,874 credit cards, representing a 129.37% increase compared to year-end 2002.

Banca Comerciala Romana focuses on further expanding its customer base as well as business volumes with a view to increase speed and cut transaction cost, while performing more transactions. From this perspective the ATM is considered an appropriate alternative distribution channel.

As of year-end 2003 the Bank's ATM network was the largest in Romania and consisted of 712 machines. Banking via ATM has become increasingly popular among BCR card holders mainly due to the large range of services available at the ATMs: balance inquiry, payments for telephone bills, mobile telephone bills, recharge of the mobile pre-pay card, payments for electricity bills, loan reimbursements and, of course, cash withdrawals and funds transfers in the current account.

In 2003 ATM services expanded to include payment for an increasing number of utilities. Only in 2003 BCR signed contracts with 75 suppliers of utilities (a threefold increase compare to year-end 2002), which generated a transaction volume of ROL 76.2 billion, as of year-end 2003.

In its constant effort to support the developments in the Romanian economy, Banca Comerciala Romana has always played an important role in shifting from a cash to a non-cash economy, contributing to time and cost savings in terms of customers day-to-day transactions.

In 2003 BCR succeeded to expand its merchant network by 92% and as of year-end the number of merchants had reached 2,768 with 3,455 POS installed, of which 2,668 were electronic.

The dynamic activity of BCR on the card market won unanimous recognition.

- The NO CASH Magazine awarded the Bank with the 3 most important awards in 2003:
  - "The best sold debit card – BCR Maestro";
  - "The best sold credit card – BCR Eurocard MasterCard";
  - "The most dynamic bank – card issuer" based on the number of issued cards, new opened card accounts, contracts signed with merchants, new operating ATMs, POS.
- The Romanian magazine e-Finance awarded the Bank with the "e-IMPACT 2003" award for launching the service "Bill payments via ATM".

BCR endeavours to fully respond to its customers' expectations and requirements, along with increasing its flexibility and developing new products and services, thus consolidating its leading position on the card market.

strategic goals for 2004

- **Increase in number of cards issued to 1.9 million;**
- **100 new ATMs and 2,000 new POS;**
- **Implementation of the e-commerce system;**
- **Payments for utilities bills via ATM for corporate customers as well;**
- **Issue the MasterCard Gold card denominated in EUR, for individuals.**

For you...

we promote dynamism

FOR YOU, BCR achieved in 2003

- **27 equity investments, of which 9 are majority stake ownerships;**
- **A municipal bonds portfolio, amounting to ROL 139 billion;**
- **Leader of the municipal bonds market;**
- **Best bank on the inter-bank market.**

equity investments and capital markets

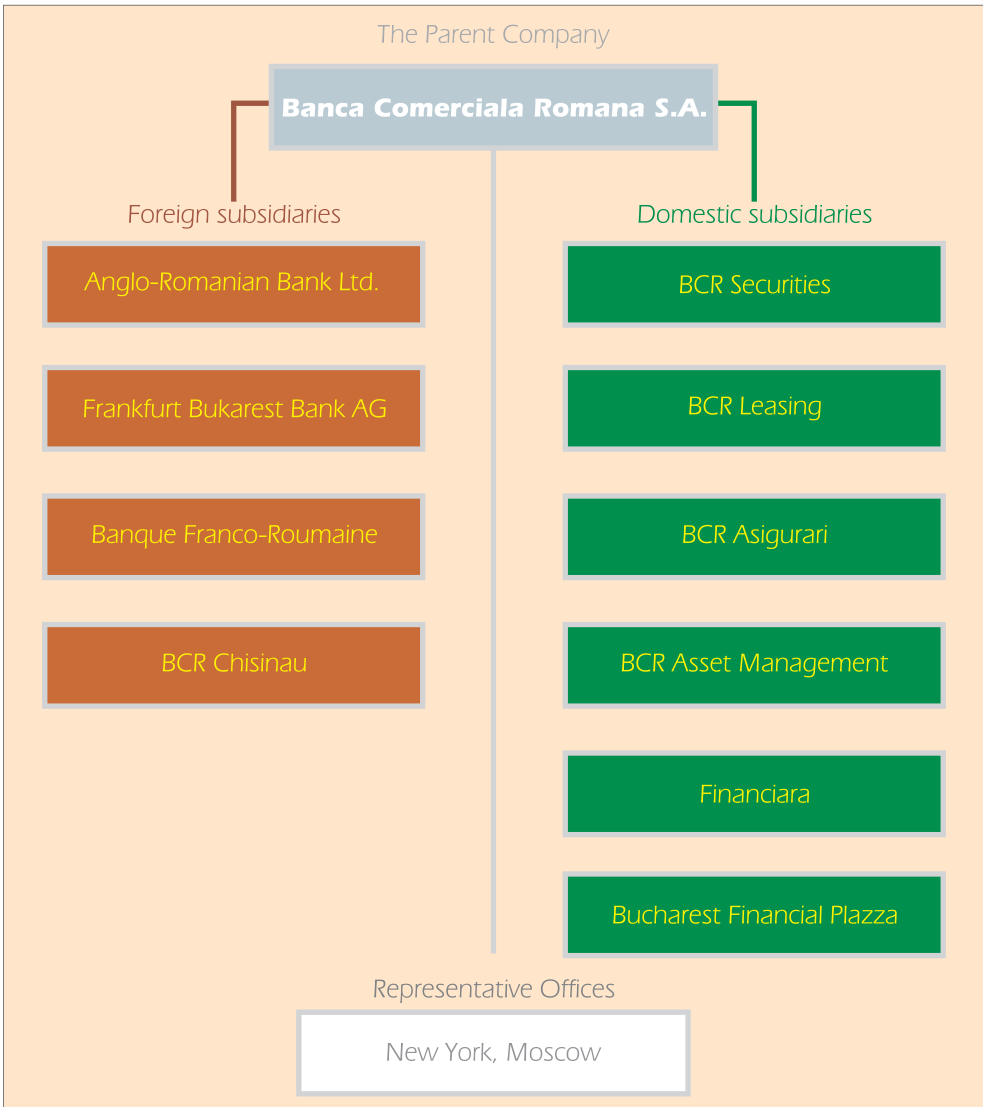
In 2003 the BCR Group continued its industrious activity, consolidating its position of financial market maker and leader of the market. Such position is ascertained by the Bank's irrefutable results and the recognition of its statute by the professionals of the financial market.

The annual poll of Reuters Romania awarded BCR Group in 2003 with the top position in terms of activity on the inter-bank financial market, for the third consecutive year, in appreciation of its professional behaviour. Moreover, on the international market, BCR marked an outstanding presence, entailing a significant increase of profits and improved relationships with foreign partner banks.

BCR Group's activity in the capital markets, mainly involves equity investments, bond issuing, syndicalisations and other specific transactions, on both domestic and foreign markets.

As of December 31, 2003, BCR held a portfolio of 27 **equity investments**, of which 20 in domestic financial and non-financial companies and 7 in companies incorporated abroad. Among these, 5 domestic companies and 4 abroad-headquartered banks are BCR subsidiaries. Together with the 100% investment held by Financiara SA in Bucharest Financial Plazza SRL (BFP), the BCR Group comprises 10 subsidiaries.

Beginning with 1999, BCR Group prepares consolidated financial statements according to the following structure (gradually developed until year-end 2003):



Structure existing as at 31 December 2003

The development and consolidation of BCR Group's structure has been a permanent concern, even from its establishment in 1999. All subsidiaries underwent through several share capital increases, which enabled them to expand activities and increase business turnovers. Therefore, in 2003 only one subsidiary – Bucharest Financial Plazza – benefited from a share capital increase to ROL 8 billion, from ROL 2 million, all the rest consolidating their businesses following the capital increase from the previous years.

Confirming the force of BCR Group and its leading position on the capital market, **BCR Leasing** started in 2003 the actions for launching the largest corporate bond issuing in Romania. This will mark the stepping into the next stage of the domestic capital market evolution by consolidating and maturing the fixed income financial instrument section, respectively, the bond section. The bond issuing was brokered by BCR Securities and insured by BCR Asigurari, while the bond distribution, which took place in 2004 was performed through the BCR branches. The bond offer had an aggregate amount of ROL 75 billion, with a three-year maturity. After the bond issuing completion, BCR Leasing will make arrangements for the bonds to be traded on the Bucharest Stock Exchange. The revenues will be used for funding increase and diversification.

BCR Securities is the leader of the municipal bonds market with the issues brokered in 2002 and 2003. In 2003 BCR Securities brokered 6 issues amounting to ROL 268 billion, which led to an increase with 13.9 percentage points in market share, to 59.9%.

Aiming to meet the requirements of an ever larger number of investors in terms of asset liquidity, term, yield and various degrees of risk acceptability, **BCR Asset Management** decided to enlarge its product range and created in August 2003 a new open-end investment fund: **BCR Dinamic**. This fund targets the placement in listed shares, credit instruments and other such assets, ensuring risk dispersion by diversifying the portfolio elements. In managing this new product, BCR Asset Management used the experience gained in the previous year when BCR Clasic was launched. In only 170 days of activity, the unit net asset of BCR Dinamic had a 9.2% increase. As at year-end 2003 the net asset value of the BCR Dinamic Fund reached approximately ROL 32 billion.

Along with other elements that contribute to increasing the importance, prestige and strength of the BCR Group, the merger between Anglo-Romanian Bank Ltd., Banque Franco-Roumaine SA and Frankfurt Bukarest Bank AG plays a major role. The result will be the integration of Banque Franco-Roumaine and Frankfurt Bukarest Bank into Anglo-Romanian Bank, with Anglo-Romanian Bank, hedquartered in London under British license, operating as a BCR subsidiary with branches in Paris, Frankfurt and Bucharest.

With a view to completing the merger, in 2003 BCR acquired the 8% stake owned by Banque Franco-Roumaine in Frankfurt Bukarest Bank, reaching an aggregate quota of 97.5%. By year-end 2003, BCR had finished the negotiations for purchasing the remaining 2.5% stake owned by DZ Bank AG in Frankfurt Bukarest Bank and was under negotiations for the acquisition of the 50% quota owned by several French banks in Banque Franco-Roumaine. Anglo-Romanian Bank increased its authorised share capital to GBP 50 million from GBP 25 million. The integration of the component companies services in the Group's offer will result mainly in strengthening the institution's structure and in consolidating the leading position the Group already has on the Romanian financial-banking market, thus enhancing the BCR's international prestige and recognition.

The Bank's policy in equities has been to invest in companies that may facilitate or improve its access to the specific markets where such companies operate or that support its activities. In line with this policy, BCR made two new equity investments in 2003, in the Credit Bureau and POSTelecom.

The Credit Bureau was a must by mid-2003 following the steep increase in retail lending. BCR together with other 23 banks, both Romanian and foreign, decided to establish a company that would have as main task to gather, manage and process information about retail credit risk, aiming to ensure high quality loans and diminish fraud risk. The stake held by BCR in this new institution is 32.40% of its share capital.

POSTelecom is the first supplier of fix and mobile telephony services, as an alternative to the existing monopoly on the Romanian market. POSTelecom aims to implement a performant telecommunication system by supplying service packages (voice and data) both to individuals and corporate customers. BCR's stake in POSTelecom is 5% and this investment consolidates the Bank's position of being a hi-tech supporter on markets characterised by ascending trends in services and technologies, also having high development potential.

Two minority stakes in non-financial companies were disposed of in 2003, in line with the Bank's policy to maintain only profitable equity investments that support the Group's activities.

With regard to the securities portfolio, managed on the **domestic capital market**, the BCR Group performed a competitive activity, having as main targets:

- Consolidation of the municipal bonds portfolio, amounting to approximately ROL 140 billion (nominal value), with an annualised average yield of 17.42%;
- Set up and management of a share portfolio, issued by companies listed on the Bucharest Stock Exchange, with a market value of ROL 2.8 billion at year-end 2003;
- Management of the unit funds portfolio of BCR Clasic and BCR Dinamic (open-end investment funds), with a total market value of ROL 83.94 billion at year-end 2003.

On the **international capital markets**, the BCR Group continued to strengthen its financial instruments portfolio, under the following structure as of the end of 2003:

- Bonds issued by the Romanian Government on the international capital markets. The nominal value of this portfolio is EUR 50 million;
- Corporate bonds issued on the international capital market by Romanian companies, with a nominal value of EUR 28 million;
- Instruments such as floating-rate notes, with a nominal value of USD 30 million and 4.85% annualised average yield.

In 2003 BCR mandated a consortium of international banks to attract a syndicated loan amounting to USD 100 million. The launching of the offer on the international capital market raised a considerable interest, and the loan was oversubscribed to an amount of USD 200 million.

During 2003 BCR Group actively participated in a capacity as arranger, co-arranger or co-financer in several syndicated loans granted to the National Infrastructure Company, Electrica SA and Termoelectrica SA, thus directly supporting the national economy. These loans were designed to support local communities projects for building and rehabilitating the road infrastructure, and for expanding and modernising the urban and rural electricity and gas networks.

strategic goals for 2004

- **Strengthening Group management structures;**
- **Completion of the merger between the Anglo-Romanian Bank, Banque Franco-Roumaine and Frankfurt Bukarest Bank;**
- **Maintaining a portfolio of low-risk instruments;**
- **Increase in funding from foreign capital markets.**

For you...

we are flexible

FOR YOU, BCR achieved in 2003

- **Ranking 6 in Top 100 Central and Eastern Europe – The Banker Magazine;**
- **Ranking 372 in Top 1000 World – The Banker Magazine;**
- **39 projects under management with a total amount exceeding USD 2.2 billion;**
- **Over 800 correspondent banks in all major financial centres worldwide.**

international activity

Concerning the banking correspondence, BCR continued the initiation and/or perfecting of correspondent relations with certain banks with the aim to meet the customers' requirements. The BCR's portfolio of correspondent banks consists of over 800 banks despite the numerous mergers and acquisitions on the international market and of 1,563 banks having SWIFT key exchanged. Among the new-comers there are banks from India, China, Russia, Spain and Holland. The enlargement of the correspondent banks portfolio allowed the Bank to extend the area of operations for its customers. In some of these actions the Representative Offices from New York and Moscow were involved as well.

The permanent monitoring of the quality of NOSTRO accounts determined their rationalisation for a better administration of liquidities, without affecting the services offered to the business partners. The number of NOSTRO accounts reduced from 41 in 2002 to 36 in 2003, all of them opened with first rank banks. On the other hand, the application of Anti Money Laundering, Combating the Financing of Terrorism and Know Your Customer programmes led to a reduction in the number of LORO accounts from 55 in 2002 to 48 in the year 2003.

The experience, technical abilities and performances in all activities conferred BCR the status of benchmark for the Romanian banking system. As a result, new facilities have been obtained from banks that previously had no exposure limits for Romanian banks, while others increased their exposure limit for BCR (from 6 months to 1, 3 and 5 years). BCR obtained 115 lines for letters of credit confirmations/

guarantees and 20 credit lines, of which 6 were on an open account basis. The commercial facilities negotiated allowed BCR to exceed USD 1.2 billion in commercial transactions (letters of credit, guarantees, documentary collection), of which 70% represented transactions with European partners.

Given the credibility BCR enjoys on the international market, the Bank was able to provide its customers with alternatives for business proposals in high-risk sectors through the correspondent banks that offered BCR commercial facilities. Moreover, 21 of these banks expressed their willingness to participate at the syndicated loan launched by BCR in 2003.

To support the import of capital goods and the related services, BCR signed 20 Agreements for Foreign Funding, guaranteed by credit export agencies, with a limit of over USD 200 million and covering 9 countries, respectively Austria, Belgium, Switzerland, Germany, Italy, France, Spain, India, and the Czech Republic. BCR entered into 4 Foreign Refunding Agreements for import loans amounting to more than USD 50 million and into 2 General Purposes Loan Agreements with first rank banks and financial institutions, with a total limit of USD 135 million.

In order to support exports BCR signed in 2003 the Purchase Loan Insurance Convention with insurance provided by EXIMBANK – Romania. Moreover, BCR negotiated Purchase Loan Agreements with banks acting within the Russian Federation, insured by EXIMBANK. BCR is also involved in the EBRD – Trade Facilitation Programme, programme designed for Central and Eastern European banks and aiming to facilitate international trade in 27 countries where EBRD operates. Within this programme, EBRD issued guarantees in the favour of the member banks, being prepared to take over the default risk associated with instruments issued or guaranteed by the same (letters of credit, guarantees, promissory notes and bills of exchange).

During 2003, BCR won tenders or was appointed following auction or selection of offers as implementing bank for important projects initiated by the Ministry of Public Finance, the Ministry of Public Works, Transports and Housing, the Ministry of Health and Family, the Ministry of Agriculture and Forestry, the Ministry of Waters and Environment, the Ministry of Industry and Resources, the Ministry of Development and Prognosis, the Ministry of Education, the National Agency of Mineral Resources, national companies and regies autonomes. Such projects were financially sustained by foreign government/sovereign guarantees, repayable/non-repayable loans (grants) provided by International Bank for Reconstruction and Development, European Bank for Investment, European Bank for Reconstruction and Development, Japan Bank of International Cooperation, the Government of the Hellenic Republic, Deutsche Bank AG – UK, ING Bank Netherlands and Bank Leumi Israel.

Moreover, BCR managed and will continue to manage SMEs financing from PHARE grants and EBRD loans.

Within the Protocol signed with the SAPARD Agency, which establishes the co-operation framework between the 2 institutions, BCR effectively supported the rural sector, by co-financing eligible projects in the following areas:

- The processing improvement and the marketing of the agricultural and fish products (Measure 1.1);
- Investments in agricultural exploitations (Measure 3.1);
- The development and diversification of the economic activity (Measure 3.4).

Moreover, BCR involved actively in developing the rural infrastructure and became the main funding provider for the projects initiated within Measure 2.1 – The development and improvement of the long-lasting infrastructure.

BCR is leader in the management of nation-wide foreign financed programs, which by the end of 2003 had reached a total amount of USD 3.2 billion.

BCR is member of the Financial Institutions' Initiative within the United Nations' Programme for Environment since 1992, during the year 2003 establishing a department concerned with the implementation of an administration and management system for the environment, social and work safety risks within the BCR's Head Office.

The international rating agencies improved continuously the ratings granted to BCR, thus confirming the Bank's development into a financial power and its profitability at domestically and internationally competitive standards.

Moody's Investors Service: December 2003	**Standard & Poor's: January 2004**
Long-term foreign currency Bank deposits rating: **B1** **(B2)**	Long-term foreign currency credit rating: **B+** **(B)**
Short-term foreign currency Bank deposits: **Not Prime**	Long-term local currency credit rating: **B+** **(B)**
Bank financial strength rating: **D-**	Outlook: **positive**
Fitch Ratings: December 2003	**Capital Intelligence: March 2003**
Long-term foreign currency senior rating: **BB-**	Long-term foreign currency rating: **B**
Short-term foreign currency senior rating: **B**	Short-term foreign currency rating: **B**
Individual rating: **D**	Domestic strength: **BB+**
Support rating: **3** **(4)**	Support rating: **2**
Outlook: **stable**	Outlook: **stable**

Recognising of Bank's professionalism and excellence, The Banker Magazine ranked BCR 6th in the Top 100 Central and Eastern Europe in 2003, representing an improvement with 2 positions compared to year-end 2002 and ranked 372nd in the Top 1000 world, 15 positions better than previous year.

strategic goals for 2004

- **Better management of correspondent banking relationships;**
- **Partnerships with banks in countries where a significant number of Romanians are working.**

FOR YOU, BCR achieved in 2003

- **Second largest branch network in Romania: 286 outlets;**
- **Best equipped and synchronized backup centre;**
- **3,150 e-banking users;**
- **Largest range of e-banking transactions.**

distribution channels and modern technologies

The Branch remained in 2003 the dominant distribution channel for the Bank's products and services, a basic way to develop, consolidate and improve customer relationships, to explore new business sectors and achieve greater profits. Benefiting from the second largest branch network in the country, BCR continuously adjusts its configuration and organisation, as a natural response to the development of consumers' behaviour, market competition dynamics, segmentation of the Bank's corporate and retail activities, quality performances increase and the need for improved response to customers' needs and expectations.

The Bank's permanent expansion resulted in a branch network of 286 outlets, as of year-end 2003, spread all over the country and organised in 41 regional branches, 130 branches and 115 agencies. Of these, 42 outlets (1 regional branch, 36 branches and 5 agencies) operate in Bucharest. In 2003, 9 more units (4 branches and 5 agencies) added to the branch network of Banca Comerciala Romana, all expressly created to reach those areas with significant economic growth, high demographic concentrations, where the need for banking products and services is continuously increasing.

In the forthcoming years, despite the new and diversified means of distribution (Internet, phone, ATM etc.) added to the traditional ones, the Branch, as main provider of personalised quality services in direct contact with the customers, will remain the most important among the distribution channels. BCR aims to increase the number of branches by 10-15% until 2007, attaining at least 301 branches by year-end 2004 and to further develop its business relationship with customers, by establishing small units (agencies without intrabank settlements identification code) especially in Bucharest and in the large cities.

Augmented performances and functionality, ensuring at the same time a closer partnership with customers, by shortening the response period and increasing the volume of transactions are major goals for Banca Comerciala Romana.

Consequently, in 2003, the Bank aimed and succeded to expand its range of products and improve the quality of provided services, based on the S2K structure implemented in 2002, by consolidating and developing its IT platforms, especially the Bank Trade and Reuters systems, predominantly in the small branches and agencies.

The Bank Trade facility implemented in those branches serves customers that have business relationships with foreign partners, by eliminating the previous transaction loops through the Head-Office.

Moving towards a new technical approach, of a centralised system, BCR updated its IT development strategy, redesigning the processes and the methodology and defining the requirements for business and system analysis, adding another quality touch to the products and services provided to its customers.

Furthermore, BCR continuously focuses on developing its technologies and distribution channels, mostly by upgrading IT programmes and applications (i.e. Multicash and e-BCR, improving already purchased soft packages), for significant enhancement of the user interface, easy exploitation and large database handling.

Therefore, in 2003, BCR endeavoured to ensure better response to customers' requests, solving faster the system errors and increasing staff professionalism, all with the purpose of creating a user-friendly IT system.

The new development of the financial transactions, along with increased competition determined BCR to become a constant presence on the Internet, used both as an information provider and as a future distribution channel for the Bank's products and services.

In pursuing its strategic objectives, targeting to consolidate its number one ranking among Romanian banks in terms of customer support, BCR started in September 2003 the establishment and development of a Contact Centre, designed to ensure:

- On short term: the provision of information to customers, with the purpose of preserving the existing portfolio and attracting new customers;
- On medium term: the construction of an integrated platform and further progress towards full customer service, aiming to increase turnover and profit per client by up-selling and cross-selling.

Business continuity planning, based on systems' support redundancy and ensuring the automatic take-over of system operations through terrestrial Global One network or Digicom satellite, further improved the data processing in respect to foreign payments, card transactions and international financial transfers (SWIFT), strengthening the Bank's position and its reliability.

Since the very beginning of its activity Banca Comerciala Romana had an open approach to its customers, providing them with direct contact with BCR's front-office counsellors in the branch network, its leadership position on the Romanian market being the direct consequence of such business relations; however, the new market challenges and competitors entail the implementation of new and efficient communication and distribution channels, endeavouring a forthcoming and lasting partnership with all customers.

The Bank's e-banking activity developed further in 2003, as figures prove:

- 3,150 e-BCR users;
- 776,084 payment orders, accounting for ROL 122.572 billion;
- 730 USD denominated payment orders, accounting for USD 23.5 million;
- 1,800 EUR denominated payment orders, accounting for EUR 32.4 million.

In 2003 the application for Multicash 3.0 version was upgraded, its 32-bytes interface allowing the processing of larger databases, introducing substantial improvements in communication and working style, ensuring an easy exploitation, and offering detailed history for all modules.

Moreover, the doubling of Romtelecom lines aimed to facilitate the modem-to-modem access, the Bank obtaining the license from the Ministry of Communications and Information Technology, based on the audit conducted by Ernst & Young.

The two shift organisation of the application maintenance led to a better solving of the customers' problems and a quicker elimination of the errors, additional assistance offered to the IT specialists from Bank's branches and, last but not the least, a more efficient monitoring of Multicash and e-BCR functioning, all such facilities being ensured by a service team.

Another significant achievement was the improvement of the users' interface and the implementation of new modules for e-BCR, no other Romanian bank providing such a wide range of operations in relation to term deposits, discounted deposit certificates, online bidding, online tax payments for 20 city halls, account statements for customers debit cards, money transfers from current accounts into debit card accounts belonging to the same individual.

strategic goals for 2004

- **Design, development and implementation of the SIBCOR 2000 V2 IT platform;**
- **Development of the business continuity plan.**


ROM

For you...

we target performance

risk management

The convergence between investors, customers, other stakeholders and the market increased the necessity of improving relationships with all parties involved, implying elements of corporate governance, by providing clear reference to the actual risk position of Banca Comerciala Romana, to enable a correct evaluation of the risks related to its business.

The banking risks management in BCR is recognised as a core competence, leading to strategic advantage over competitors. Taking into consideration the increased focus on capital adequacy and on sizing the regulatory capital requirements for credit, market, operational and other banking risks in line with Basel II provisions, as well as on prudent management of the Bank's exposure to risk, the need to develop comprehensive methods within BCR's risk management framework became clear.

The assessment of the main banking risks is closely related to the performance ratios measuring the Bank's activity, with the purpose of optimising the risk-efficiency balance, starting with each and every single Bank product and extended to the entire BCR portfolio.

The Credit Risk

BCR remains the most consistent and reliable presence on the Romanian financial market, actively involved in the process of collecting temporary available resources and placing them as loans, while ensuring a prudential risk management as an essential factor in developing solid business.

The Bank reengineers and re-integrates its processes on a regular basis, strengthening its risk management capability and consolidating its operations in line with the best international practice, aiming to achieve optimal efficiency and quick response to market dynamics while adding value.

With the intention to assess, mitigate and monitor the credit risk related to its loan portfolio and to other credit-type products (letters of guarantee, letters of credit etc.), BCR uses a complex set of methods and instruments such as scoring and financial analysis, fully complying with international practices.

These methods imply reliable analysis of credit costs, credit risk quantification, risk exposures with the purpose of achieving balanced operations with greater soundness and profitability, and monitor both quantitative criteria asserting economic and financial standing of partner entities (liquidity, capital adequacy, efficiency, indebtedness level etc.) and qualitative criteria (business reputation, shareholders and management attributes, auditing the accounting reports etc.).

In limiting the credit risk exposure, Banca Comerciala Romana utilises a set of exposure limits (risk limits) for the main corporate customers (including sole debtors), financial institutions, insurance-reinsurance companies, factoring companies and public administrations. These limits set out the maximum potential level of exposure towards such entities, enabling the Bank to monitor the classification of their commitments into the appropriate, established risk categories.

For corporate customers, the exposure limits are established based on the analysis of the provisioned cash-flow backed by firm or potential contracts, reimbursement capacity and the interconnected analysis of the financial and non-financial aspects of the client's activity, their reputation in the domestic and international business environment and other business related elements.

With respect to the financial institutions having business relations with BCR, monitoring the risk exposure also implies analysis of their respective category (commercial, universal, investment bank etc.), rating, as granted by specialised institutions, supervision by competent authorities, domestic banking system tendencies and others.

BCR uses a structured system for approving credits, guarantee agreements and other credit-type products, establishing approval limits for branches and Head-Office, based on the exposure per customer/sole debtor, as well as on the customer's performance.

The Bank aims to maintain the balance between its own target for the risk/reward ratio and the general objective to support economic growth of Romania, while financially supporting strategic and potentially competitive sectors on domestic/international markets and avoiding credit risk concentration in those activities with no development perspectives or with accruing losses and arrears.

BCR analyses and adjusts the exposure limits towards the main industries, on a quarterly basis, using a scoring-type model that monitors the economic and financial performance indicators of each industry, consequently directing its resources towards the viable and promising sectors.

Furthermore, irrespective of the amount of exposure per customer, corporate or individual, a mandatory step for granting any type of credit is to check the banking risk information with the Banking Risk Centre (BRC) archive, the Bank limiting the credit availability to those customers having major payment incident record with BRC.

The systemic information provided by the BRC allows the development of statistic analysis by structuring the bank risk information, mainly with respect to the Bank's general orientation towards majority private-owned companies, aimed to sustain private entrepreneurs, in accordance with the organisation's development strategy.

The use of BRC archive improves the Bank's ability to directly monitor and control the exposures and risks in relation with each and every customer and, moreover, to determine the financial standing of potential clients and their behaviour in terms of debt service. The exposures trends and structures are also closely monitored, analysed and reported on an on-going basis to ensure that exposures are kept within regulatory limits and internal guidelines.

While monitoring its exposures, the Bank chiefly concentrates on its first 100 clients in terms of commitments, on the sole debtors, on the related third parties and on its staff and their families.

BCR also monitors the country risk, as being associated to credit risk and in relation to the Bank's exposure towards economic foreign entities (especially credit institutions), by evaluating the macroeconomic indicators, the local, social and political environment, ratings and the market perception on the analysed country risk.

Based on such assessment, BCR establishes risk exposure limits for every country in its business area, itemised by credit institutions and type of transactions (commercial, treasury, securities etc.), permanently reviewing them, in line with the further major events (economic, political and social) in the respective countries.

Moreover, in evaluating the country risk and setting the exposure limits, the Bank also assesses the transfer risk, associated with the case when a foreign debtor, despite possessing the necessary amounts in local currency, is required under contractual terms to pay in a foreign currency and he intends to do so, but is restricted by local regulations.

Liquidity Risk

BCR pays careful attention to liquidity risk management by setting fundamental objectives such as ensuring the necessary funds to cover, at any time, all financial obligations assumed by the Bank, securing an adequate liquidity level on all maturity ranges and setting a corresponding balance sheet structure, for minimising any potential negative effects.

In this respect, the Bank concentrates its efforts on identifying the liquidity risk sources, evaluating its risk exposures and setting appropriate limits to mitigate the consequences.

BCR assesses its liquidity based on:

- Analysing the structure of assets, in terms of their liquidity and marketability;
- Analysing liabilities (in terms of their volatility) and off-balance sheet elements (implying potential ins/outs of funds);
- Analysing main currencies liquidity, both itemised and aggregated.

In order to evaluate and contain the liquidity risk of the Bank's portfolio, BCR employs the following instruments:

- Assets and Liability Management (ALM), focused on suitably determining the appropriate balance sheet structure, by correlating resources and placements in terms of their structure and maturity;
- Computing and monitoring the liquidity ratios by maturity ranges, based on the future cash-flows analysis, in terms of on and off-balance sheet assets and liabilities;
- Establishing minimum limits for the liquidity ratio (of internal use) for the first maturity range(s), over the thresholds set by the norms of the National Bank of Romania;
- GAP analysis (aggregated and separated, for ROL and foreign currencies) and monitoring the GAP ratio;
- Establishing guiding limits for placements in ROL and foreign currencies;
- Monthly computation of certain liquidity ratios, such as liquid assets/resources from customers;
- Monitoring the Bank's liquidity exposure limits towards one single person.

Banca Comerciala Romana takes all necessary actions, for maintaining a firm and secure relationship with the fund providers and for ensuring an appropriate diversity of these sources, avoiding high concentration of fund sources.

For every financial year BCR prepares:

- A strategy for managing liquidity under normal circumstances encompassing the main objectives of the Bank, with the purpose to maintain an adequate portfolio liquidity, by re-evaluating it in line with the business environment requirements;
- A strategy for managing liquidity in crisis, comprising the measures required to successfully overcome a potential crisis.

All these measures imply continuous and proper information flows for quick decision making, also modifying the evolution of assets and liabilities elements by liquidity gathering and reducing clients withdrawal of cash.

Market risk

In terms of market risk, Banca Comerciala Romana has as prime objective the setting of an appropriate structure of its assets and liabilities, enabling it to avoid important negative impact on the Bank's activity and financial performance, should the interests, foreign exchange rates and market prices change.

The Bank focuses on identifying the causes of market risks, evaluating its exposure to such risks and taking all necessary measures to mitigate them.

BCR controls the exchange risk by effectively assessing and managing the foreign currencies positions with the view to mitigate unfavourable effects, monitoring the resources and placements in every currency and the exchange rates of the main currencies in the Bank's portfolio.

BCR consolidates all foreign currency flows generated by its activity and then reviews and manages them with the purpose to balance the structure of currencies portfolio with the need to provide current exchange payments, to benefit from market opportunities, to maintain and adjust a prudent currency position in respect to the exchange rates' fluctuations, so that there is no negative impact on the Bank's profits.

In this respect, the Bank took all necessary precautions to permanently maintain a low foreign currency position with a comfortable margin in respect to the limits provisioned by the National Bank of Romania, respectively:

- Maximum 10% of the Bank's own funds for each and every adjusted currency position;
- Maximum 20% of the Bank's own funds for the total currency position.

BCR assesses the interest rate risk in terms of structure and evolution of the interest bearing assets and liabilities, also evaluating potential influences the changes in interest rates may have on the Bank's profits.

With the purpose of a sound interest rate risk management, BCR applies floating interests to most of its resources and placements, so that the variation of market interests do not induce important negative effects on the Bank's profits.

Furthermore, necessary steps have been taken to correlate, in terms of volume and maturity, the fixed interests liabilities (mainly bearer certificates of deposit and discounted certificates of deposit) with the fixed interests assets (treasury bonds).

The Bank developed specific norms for transaction with derivatives, used both as products offered to customers for risk mitigation and as hedging for the market risk exposure regarding its own portfolio.

Operational risk

The continuous activity expansion and the increased complexity of financial market characteristics, as well as of the provided products and services, entail the identification, monitoring and mitigation of operational risk as an important objective of Banca Comerciala Romana.

In this respect, the Bank uses a set of systems and procedures for internal control, know-your-customer, anti-money laundering and combating the financing of terrorism (AML/CFT).

The Bank has developed "Know Your Customer Procedures" (KYC), setting out gradual filters for accepting customers (in relation with the risk associated to each category of clients), such as verifying the database of terrorism suspected persons, checking the corporate registration with the National Office of the Trade Register and the Payment Incidents Centre (PIC) and Banking Risk Centre (BRC) databases.

Aiming to identify, monitor suspicious activities and mitigate the risks related to money laundering operations, BCR uses Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) procedures and systems for detecting unusual transactions and specific measures for AML/CFT through the banking system.

Furthermore, with the view to eliminate the operational risk related to Bank's IT system, BCR uses internal procedures for:

- Assuring the observance of the flows of documents;
- Solving customers' complaints, requests, suggestions and proposals, both at local branches and Head-Office level;
- Regulating the issues related to classified information, in compliance with the legislation in force.

The Bank has also established the necessary procedural framework to cover operational risks in handling cash and to insure the Bank's fixed assets.

Environment risk

In line with the international environment policy, whose principles BCR has already considered and complied with, as signatory of the "Statement on the Environment and Sustainable Development", the Bank established in 2003 a specialised department with the aim of elaborating and implementing an environment risk management system for all financed projects and transactions. This system has a complex structure and includes plans, responsibilities, processes, practices, reporting and resources that help building, implementing, reviewing and maintaining the Bank's environment principles.

By implementing an environment risk management system, through an integrated approach of environmental issues, social background, work safety and others, the Bank is capable to:

- Control environment risks for the purpose of their prevention and minimisation;
- Ensure a better cost control;
- Develop its activity with customers in compliance with the provisions of the environment legal framework in force.

The implementation of environment risk management system aims to:

- Identify and assess environment, social and work safety impact arisen from the financial and investment activities of the Bank;
- Identify and assess the financial implications for the Bank, closely associated with environment and social risks that may hinder the good progress of its activities;
- Assist the decision making process in the Bank's financing/investment activities;
- Enhance the customers' business opportunities by applying the specific environmental requirements;
- Request customers to comply with the domestic environment laws and regulations, in line with the EU environment policies in respect of the financed activities;
- Encourage those projects that comply with environment requirements, also promoting sustainable development.

strategic goals for 2004

- **Achieving better and consistent co-ordination of all banking risks within one specialised business line;**
- **Enhanced role of the risk management within BCR, ensuring its independence, by focusing on pro-active monitoring and reporting;**
- **Improving credit risk management based on adequate procedures, enhanced credit analysis of customers and better training of staff;**
- **Liquidity monitoring on real-time basis, by implementing the necessary IT systems between branches and Head-Office;**
- **Implementation of interest risk rate monitoring and management, by performing GAP analysis and interest sensitivity reports;**
- **Development of a Value at Risk method for market risk assessment, in compliance with the Basel Framework provisions.**

For you...

we shape
the future

FOR YOU, BCR achieved in 2003

- **Management of projects that created over 15,000 jobs;**
- **Support to the development of local communities and municipalities;**
- **Leader in protecting customers' confidentiality;**
- **USD 2.5 million in sponsoring community development, health care, education and sports.**

corporate citizenship

BCR Group is the national champion in supplying integrated financial services available by multiple distribution channels, a group able to achieve durable performances through efficiency, customer-oriented policies and responsible commitment towards society.

Corporate citizenship is not to be measured only by the Bank's sponsoring activity, but mainly by its services and programs, the way it does business and its leadership in key areas of social interest.

Therefore, BCR Group's long-term strategy is focused on harmonising the specific corporate objectives with those of the community where it operates.

BCR aims to use the best business practice in its relationships with all stakeholders: shareholders, customers, community, staff.

Contribution to the Economy

In 2003, BCR continued to be the main partner of the Romanian economy, being the main provider of loans for the Romanian companies.

This attitude, combined with the advantages deriving from its expertise, technical abilities, network, customer basis and, last but not the least, excellent financial results, also recommended BCR as the Romanian favourite partner for the international financial institutions and banks, BCR Group managing several national foreign financing programs, which contribute directly and indirectly to the development of the local communities.

Moreover, in 2003 BCR managed and continues to manage SMEs financing programs from PHARE grants and EBRD loans, playing an important role in the creation of jobs:

- EBRD program "SMEs Finance Facility" worth EUR 40 million for financing projects for mining, processing industry, building and agriculture, that resulted in 2,448 jobs all over the country, but mostly in Moldavia, a region with several historically disadvantaged areas;
- The Industry Restructuring and Professional Conversion Program–RICOP, worth approximately EUR 37 million, agreed with the European Commission, aimed to support the industrial restructuring process in 17 counties;
- Phare Program 2000-B2 Component – a credit line for SMEs designed to support investment projects in 25 counties, financed by EU grants, amounting to over EUR 11 million;
- SAPARD Program, a pre-accession program for agriculture and rural development, worth over EUR 1 million;
- Program for the recovery of mining areas worth almost EUR 4 million, granted by EU for financing SMEs in the counties Gorj and Hunedoara;
- MARR program – resulting in 653 jobs by financing investment and projects in various economic areas.

During 2001-2003, BCR granted loans from the Unemployment Fund administered by the National Agency for Employment in an aggregated amount of over ROL 3,000 billion. Accordingly, approval was given for 3,177 projects that resulted in 43,200 jobs, of which approximately 22,000 for unemployed persons.

BCR supports the development of house building, through a diversified range of corporate and retail loans. In response to the market demand, BCR started the mortgage lending at the beginning of 2003, thus supporting the improvement in living standards for tens of thousand of families. Moreover, acknowledging that people with lower income cannot afford the common mortgage loan, in October 2003 the Bank entered into an agreement with the National Lodging Authority (NLA) for house building on NLA land via mortgage loans granted to individuals with lower income.

BCR Group also supports local communities in raising funds for specific projects, both through direct funding and through bond issuing, being the leader in the intermediation of municipal bonds issuing.

Environment Protection

Embracing environment best practice is a core responsibility, the Bank being a signatory of the "Statement on the Environmental and Sustainable Development" launched by the United Nations Environment Program in 1992. This is why BCR's activity focused on consolidating business relationship with those companies enhancing non-polluting technologies, waste recycling and environment protection.

Special attention was also paid to the prevention of any negative effects on the environment caused by the investment programs financed by the Bank.

Customers' Protection

In thirteen years of business, BCR learned how to win trust and how vital is to retain such trust. In achieving this objective the Bank built its corporate citizenship through quality, value and honesty.

Therefore, BCR maintains the highest standards of confidentiality in protecting information about its customers, their businesses and accounts, and it is committed to openness and transparency in communicating with its customers.

Aiming to prevent the money laundering and combat corruption and terrorism, the Bank did not open accounts when the origin of the funds' sourcing was suspicious. BCR staff is also trained to provide, where appropriate, advice to customers on protecting their assets from abuse and illegalities.

BCR endeavoured to meet the customer's needs and to facilitate their access to the Bank's products and services via a network of more than 286 modern, conveniently spread branches and agencies, plus the largest domestic ATM network (712) along with the Internet or Multicash.

Employees

BCR indiscriminately promoted the professional development of its employees by respecting diversity and encouraging the social dialogue.

The Bank's employees do represent the central pillar sustaining BCR current activity and perspectives through their expertise and commitment. Therefore, Banca Comerciala Romana permanently endeavours to ensure a friendly and stimulating environment for its employees.

BCR is also concerned to improve the expertise of its employees, this important objective being achieved through the organisation of:

- one-week training courses in the Bank's own training centres;
- specialised training courses for the prospective managers;
- seminars and conferences on various topics, delivered by banking experts, Romanian and foreign.

A special attention is paid for getting the "young new-comers" accustomed with the entire operational system of the Bank, so, in their first year with BCR, the graduates are wheeled to each and every activity performed within branches. This approach enables the identification of the best job for the respective graduates, meeting the needs of the Bank with their personal abilities.

In 2003 the „Day of the young employee" had an outstanding success, being the event marking the integration of the graduates in the large family of BCR.

Social and Cultural Events Sponsorship

Banca Comerciala Romana has always proved its constant commitment to society, local communities and culture.

In 2003, BCR continued to be an active corporate citizen, contributing a volume of USD 2.5 million (including sponsoring of community development projects, culture activities, sport events etc).

In its role as corporate citizen, BCR is dedicated to supporting sectors that have funding requirements larger than the budgets received and which have a large social impact, such as: health care, education or art.

BCR plays an active role in health care providing sponsorship for the acquisition of medical equipment for various hospitals and clinics, such as: Emergency Hospital Marie Curie, Nephrology Hospital Davila, Emergency Hospital Pantelimon, County Hospital Ilfov etc, or developing various programs for disabled persons and also in supporting medical R&D programs.

BCR believes educating the younger generation and nurturing talents are important to the future of our society.

The Bank offered scholarships, supported musical talents in gaining international recognition and financed the publishing of art albums dedicated to well-regarded painters or sculptors.

Permanently endeavouring to develop the education and training of the younger people, BCR provided in 2003 sponsorship for equipment acquisition to a series of schools and universities in Bucharest and throughout in the country, such us: Emil Racovita School, Marin Preda High School, Transilvania University from Brasov, Craiova University, Petru Rares National College of Piatra Neamt or Nichita Stanescu High School of Ploiesti.

Moreover, BCR sponsored various sport events for children as well as the IT competition "Info Kids".

BCR is the traditional sponsor of various cultural events bringing culture to people's hearts and minds. In 2003 BCR sponsored several performances of distinguished theatre companies, the most outstanding being Caragiale's "O scrisoare pierduta" (The Lost Letter) or Mihail Sebastian's "Ultima ora" (The Final Hour) at the National Theatre of Bucharest. In supporting the Romanian cultural environment, Banca Comerciala Romana also sponsored several festivals that promote young talents or Romania's image abroad, such as the theatre festival "Great Directors" of Craiova, the Jazz Festival of Sibiu or the "Golden Stag" festival of Brasov.

As for sports, BCR sponsored the Romanian organisations with outstanding performances as well as internationally recognised contests: Gymnastics Federation, Romanian Athletics Foundation, Open Romania Foundation, Romanian Boxing Friends Foundation, Dinu Pescariu Foundation, as well as the sporting centres promoting and stimulating young talents.

In 2001, BCR began awarding the skilled people, with outstanding achievements for several years, with the “Perseverance in Excellency” award. In 2003, this prize has been awarded to the distinguished economist, professor dr. Iulian Vacarel and the National Foundation for Science and Art.

strategic goals for 2004

Building enduring relationships with our stakeholders by:

- **proactively offering insights into customers’ financial needs, delivering solutions and providing superior services and products;**
- **maximizing long-term shareholder value through strong financial performance and returns;**
- **ensuring a positive and flexible work environment, innovative learning and career development opportunities for our employees;**
- **becoming one of the most socially responsible corporation in Romania.**

strategy 2004-2007

With the Romanian economy on rise and the improvement in the business environment, the banking sector has seen a much faster growth than all the other industries in terms of both business turnover and quality (i.e. modern concepts, competitive management and legislation in line with EU standards).

Competition in the banking market has increased significantly and the banking landscape will change in the near future. On one hand, new specialised institutions are expected to enter the market such as mortgage banks, building societies and car financing companies, and, on the other hand, acquisitions may occur with major banks taking over smaller players. Since customers are now more sophisticated in demand, the amount of information is constantly increasing and the technology is rapidly changing, some banks have decided to review their business strategies to better cope with challenges and make the most of the market opportunities.

As a leading financial group operating in the Romanian market, with a capitalisation of more than EUR 800 million, Banca Comerciala Romana has formulated a new Strategy for 2004-2007 whose main objective is **to consolidate its leadership in Romania and its fore position in Central and Eastern Europe**.

BCR Strategy for 2004-2007 is based on the corporate governance principles, and the core value is **protecting all stakeholders' interests** (shareholders, directors, customers, staff, suppliers, regulators etc), while responsibility and transparency are key elements to securing and perpetuating this value.

Maintaining the basic guidelines from the previous strategy (2001-2004), the new strategic vision emphasises **the consolidation while undergoing a functional restructuring**. Considering its financial group structure and the fact that BCR has already implemented the „one stop shop financial supermarket" concept, the financial targets are established and monitored at consolidated level, facilitating a better monitoring of the Group's development for each segment it operates on (banking, leasing, insurance, asset management).

The BCR Group will develop its businesses through **the diversification and promotion of its products and services offering based on financial innovation**, through **the enhancement of BCR's brand notoriety**, and through **the repositioning as "innovative" and "dynamic"**, with the aim to extend its customer base and create a long-term partnership with customers.

For 2004-2007, **the operational efficiency at consolidated level will continue to improve**, simultaneously with a close monitoring of costs. The effect will be an added value for shareholders through an increase in return on equity (16-18%) and also for customers through a cost competitive offering. Profitability at consolidated level will be positively influenced by the subsidiaries' contribution, which is expected to increase in the following 4 years, as their businesses will continue to grow.

The strategy sets forth **the functional restructuring of the Head-Office and network**, i.e.: (i) a five functional lines organisation of the Bank's Head-Office: financial, corporate banking, retail banking, risk management and operations (project already implemented at the beginning of 2004); (ii) the centralisation of the back-office activity (project implemented); (iii) the integration of the retail activity (project in progress). The functional restructuring focuses on the increase of decisional coherence, and also on strengthening of financial-banking risks' management and group structures.

In the **risk** management area, **the approach will continue to be prudential**, with a greater emphasis on a pro-active type of management. No individual or cumulated risk that cannot be quantified is taken. The financial strength, coupled with the financial discipline, will enable BCR to take those risks for which the reward is considered satisfactory, allowing the Group to take advantage of the most attractive opportunities on the market. Based on the new organisation, all risks will be coordinated unitarily by the Risk Management Department within the specialised functional line and monitored at a global level by the Risk Committee and the Asset and Liability Management Committee.

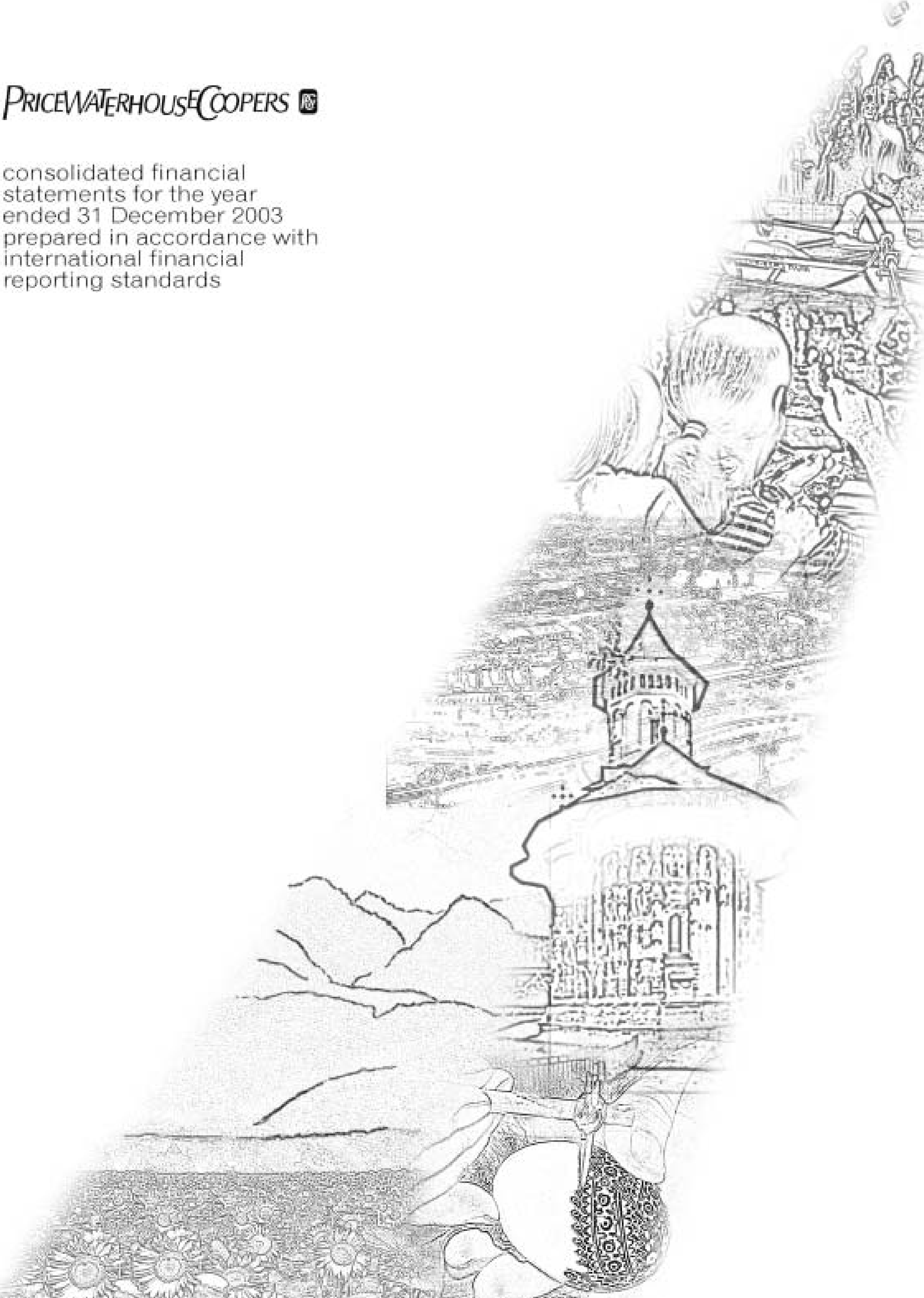
Human Resources – the most important asset – represents an area BCR is placing a great emphasis on with respect to the attraction, development, and motivation of employees possessing adequate skills to accomplish the established business objectives. The main goal of the human resources management is to increase the contribution of employees to the Bank's value added. To this purpose, a series of projects concerning the improvement in training, career development, compensation and work safety and health, have been developed aiming to stimulate initiative, innovation, commitment and work efficiency.

Information Technology in BCR's vision is the basis for all the processes within organisation and it is involved directly in the creation of value added, offering a continuous support for the achievement of the strategic objectives. Based on its experience, BCR embarked on a comprehensive IT project attended both by in house specialists and external consultants. Once implemented, the new IT system – homogenous and centralised – will cover 100% the Bank's activities and will provide customers with complete, innovative, flexible and real time services through diverse distribution channels.

BANCA COMERCIALA ROMANA GROUP

PRICEWATERHOUSECOOPERS

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



CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2003

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1 NATURE OF OPERATIONS

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

The Group is principally engaged in wholesale and retail banking operations in Romania and abroad and in other financial services activities including brokerage, insurance, asset management and leasing and employed approximately 13,029 members of staff at 31 December 2003 (31 December 2002: 12,400). The Group operates through its head office located in Bucharest and 297 branches and offices (31 December 2002: 290) located in Romania and abroad.

Banca Comercială Română SA has been incorporated in Romania since 1990 as a joint stock company and is licensed by the National Bank of Romania to conduct banking activities.

The registered office of the Parent is:

Banca Comercială Română SA
5, Elisabeta Boulevard
Bucharest, Sector 3
ROMÂNIA

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

2 CAPITAL ADEQUACY

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

2 CAPITAL ADEQUACY (CONTINUED)

In addition to the above ratios the Group also monitors the adequacy of its capital using ratios established by the Bank for International Settlements ("BIS"), based upon its financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Based upon financial information prepared in accordance with IFRS the Tier 1 and a Tier 1 plus Tier 2 capital adequacy ratios of the Group at 31 December 2003 were 26.50% respectively 27.90% (31 December 2002: 27.72% and 28.94%, respectively).

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

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

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

2 CAPITAL ADEQUACY (CONTINUED)

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

	Capital 2003 (ROL million)	Capital 2002 (ROL million)	BIS % 2003	BIS % 2002
BIS Capital ratios				
Tier 1 capital	30,859,642	30,610,007	26.50%	27.72%
Tier 1 + Tier 2 capital	32,497,551	31,950,970	27.90%	28.94%

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

We have audited the accompanying consolidated balance sheet of Banca Comerciala Romana SA and its subsidiaries ("the BCR Group" or "the Group" as defined in Note 1 to the consolidated financial statements) as at 31 December 2003 and the related consolidated statements of income and cash flow for the year ended 31 December 2003 expressed in the current purchasing power of the Romanian Lei ("ROL") as at 31 December 2003. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Banca Comerciala Romana Group as at 31 December 2003 and the results of its operations and its cash flows the year then ended in accordance with Financial Reporting Standards.

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

PricewaterhouseCoopers Audit SRL

PricewaterhouseCoopers Audit SRL

Registration Number: J40/17223/1993
Fiscal Code: R4282940

BANCA COMERCIALA ROMANA GROUP

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2003
(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

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

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

Dr. Nicolae Dănilă
President

Dr. Ilie Mihai
Vice President

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2003
(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

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

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

Dr. Nicolae Dănilă
President

Dr. Ilie Mihai
Vice President

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2003
(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003
(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003)

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

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

1 BASIS OF PRESENTATION

Currency of presentation

The accompanying financial statements have been restated in terms of the current purchasing power of the Romanian Lei (ROL) as at 31 December 2003.

Consolidation

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

A summary of the constituent entities within Banca Comercială Română Group is set in Note 38.

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

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

Basis of accounting

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

1 BASIS OF PRESENTATION (CONTINUED)

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

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

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

Reclassification of comparative amounts

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

Use of estimates

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

Offsetting

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

2 SIGNIFICANT ACCOUNTING POLICIES

Accounting for hyperinflation

The Group complies with IFRS requirements that financial statements prepared on a historical cost basis should be adjusted to take account of the effects of hyperinflation. International Accounting Standard No. 29 – “Reporting in Hyperinflationary Economies” (“IAS 29”) provides guidance on how financial information should be prepared in such circumstances. In summary it requires that financial statements should be restated in terms of measuring unit current at the balance sheet date and that any gain or loss on the net monetary position should be included in the income statement and disclosed separately. The restatement of financial statements in accordance with IAS 29 requires the use of a general price index that reflects changes in general purchasing power.

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

(a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;

(b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;

(c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;

(d) interest rates, wages and prices are linked to a price index; and

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(a) Monetary assets and liabilities

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

(b) Non monetary assets and liabilities

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

(c) Office equipment and other fixed assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Income statement

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

(e) Shareholders' equity

All components of shareholders' equity are restated by applying a general price index from the date of contribution or recording in the accounting records. The statutory increase of share capital by bonus issue from revaluation reserves is not taken in consideration.

(f) Gain or loss on the net monetary position

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

(g) Cash flow statement

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

(h) Corresponding figures

Corresponding figures for the previous reporting period are restated by applying the change in the general price index so that the comparative figures are presented in terms of ROL current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current as at 31 December 2003.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other significant accounting policies

Foreign currency translation

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

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

Monetary assets and liabilities denominated in foreign currency are expressed in ROL as at the balance sheet date. At 31 December 2003 the principal rate of exchange used for translating foreign currency balances was USD 1 = ROL 32,595, EUR 1 = ROL 41,117 (2002: USD 1 = ROL 33,500, EUR 1 = ROL 34,919). Foreign currency gains and losses arising from the translation of monetary assets and liabilities are reflected in the statement of income for the year.

Interest income and expense

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

Fee and commission income

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Computer software development costs

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

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

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

Cash and cash equivalents

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

Treasury Bills

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

Investment securities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Originated loans and provisions for loan impairment

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other credit related commitments

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

Sundry debtors

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

Investments in subsidiaries

Investments in subsidiaries have been fully consolidated as described in Note 1.

Investment property

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

Equity investments

The Group classified all its equity investments as “investments available for sale”. This classification includes investments which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investments at the time of purchase.

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

Investments available for sale are initially recognized at cost (which includes transaction costs) and subsequently re-measured to fair value based on quoted bid prices unless fair value cannot be reliably measured for which they are carried at cost less impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Sale and repurchase agreements

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

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

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

Premises and equipment

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

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

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

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

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

Land is not depreciated.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The estimated useful lives are:

	Years
Premises	30 – 50
Office equipment	3 – 10
Other fixed assets	3 – 15

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

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

Income taxes

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

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

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

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

Pension obligations and other post retirement benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Dividends

Final dividends are not accounted for until they have been ratified at the Annual General Meeting.

Provisions

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

3 INTEREST INCOME

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

4 INTEREST EXPENSE

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

5 FEE AND COMMISSION INCOME

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

6 FEE AND COMMISSION EXPENSE

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

7 FOREIGN EXCHANGE GAIN, NET

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

8 OTHER OPERATING INCOME

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

9 OTHER OPERATING EXPENSES

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

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

10 IMPAIRMENT LOSSES

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

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

11 INCOME TAX EXPENSE

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

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Current income tax	1,256,827	1,757,063
Deferred income tax release	(355,019)	(46,301)
	901,808	1,710,762

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

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

11 INCOME TAX EXPENSE (CONTINUED)

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

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

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

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

12 CASH

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

13 DUE FROM CENTRAL BANKS

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Due from the National Bank of Romania		
- current account in ROL	3,402,732	6,666,135
- current account in other currencies	14,684,005	13,073,980
- term deposits	35,298,956	41,352,130
- restricted deposits	7,687	139,950
Due from other central banks	581,776	658,738
	53,975,156	61,890,933

Current accounts due from the National Bank of Romania are required to satisfy the mandatory reserve requirements of the National Bank of Romania and are used for the settlements of the customers payments and receipts in local currency. The interest rates ranged from 6% to 6.25% (2002: 8% to 15%) for reserves held in ROL, the weighted average being 6.17% (2002: 11.21%) and of 0.75% (2002: 1%) for reserves held in USD the weighted average being 0.77% (2002: 1%).

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

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

14 TREASURY BILLS

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

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

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

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

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

15 DUE FROM OTHER BANKS

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

15 DUE FROM OTHER BANKS (CONTINUED)

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

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

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

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

16 LOANS AND ADVANCES TO CUSTOMERS

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

Analysis by industrial classification

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

16 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The major part of the loans and advances are granted to Romanian incorporated companies. Interest rates on ROL loans and advances during 2003 ranged from 20% to 39% (2002: 27% to 40%), the weighted average rate being 23.47% (2002: 35%). Interest rates on foreign currency loans during the year ranged from 6% to 13% (2002: 8% to 11%), the weighted average rate being 7.68% (2002: 8.5%).

Provision for loan losses

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

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

17 INVESTMENT SECURITIES

Investments classified as securities available-for-sale:

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

17 INVESTMENT SECURITIES (CONTINUED)

Investment securities classified as held-to-maturity:

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

The movement in investment securities may be summarized as follows:

Investment securities

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

18 EQUITY INVESTMENTS

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

18 EQUITY INVESTMENTS (CONTINUED)

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

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

Company's Name	Country of incorporation	Nature of business	Shareholding 2003 (%)	Shareholding 2002 (%)
Banca Italo-Romena, Milano*	Italy	Banking	7.69%	7.69%
MISR Romanian Bank, Cairo*	Egypt	Banking	19.00%	19.00%
Eurombank	Romania	Banking	0.02%	0.02%
Fondul de Garantare a Creditului Rural	Romania	Investment fund	26.32%	26.32%
ASIBAN SA	Romania	Insurance	20.00%	20.00%
Fondul de Garantare a Creditelor pentru Intreprinzatori Privati	Romania	Investment and guaranteeing fund	19.62%	19.62%
OMNIASIG SA*	Romania	Insurance	21.58%	21.58%
Registrul Roman al Actionarilor	Romania	Register for Stock exchange listed companies	–	20.00%
Romcard	Romania	Card operations	39.42%	39.42%
Transfond	Romania	Clearing and settlements of inter-banking payments	2.95%	2.68%
Agentia bursiera SIS & CO SA	Romania	Brokerage house	20.00%	20.00%
Popasul Romanilor SRL Zalau	Romania	Tourism	13.61%	16.00%
Bursa Romana de Marfuri	Romania	Commodity exchange	5.27%	5.27%
Bursa Maritima si de Marfuri Constanta SA	Romania	Commodity exchange	0.61%	0.61%
SNCDD	Romania	Clearing and settlements for Rasdaq quoted companies	3.43%	3.43%
Romwool	Romania	Textile industry	8.70%	8.70%
Kvaerner IMGB	Romania	Heavy industry	–	5.87%
Piata de Gros SA	Romania	Trade	0.71%	0.71%
SWIFT Belgium*	Belgium	Banking communications	<1.00%	<1.00%

* acquired from Bancorex during 1999.

18 EQUITY INVESTMENTS (CONTINUED)

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

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

19 PREMISES AND EQUIPMENT

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

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

20 OTHER ASSETS

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

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

21 INVESTMENT PROPERTY

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

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

21 INVESTMENT PROPERTY (CONTINUED)

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

22 DUE TO OTHER BANKS

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

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

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

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

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

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

22 DUE TO OTHER BANKS (CONTINUED)

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

Agreement with International Financing Corporation ("IFC")

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

The loan is subject to negative covenants and financial covenants.

IFC monitors the achievement of financial covenants through periodical reports.

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

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

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

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

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

22 DUE TO OTHER BANKS (CONTINUED)

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

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

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

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

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

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

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

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

22 DUE TO OTHER BANKS (CONTINUED)

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

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

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

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

23 DEPOSITS FROM CUSTOMERS

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

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

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

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

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

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

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

24 OTHER LIABILITIES AND PROVISIONS

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

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

25 SHARE CAPITAL

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

Shareholder

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
APAPS	69.88%	69.88%
SIF Oltenia	6.12%	6.12%
SIF Banat Crisana	6.00%	6.00%
SIF Moldova	6.00%	6.00%
SIF Transilvania	6.00%	6.00%
SIF Muntenia	6.00%	6.00%
	100.00%	100.00%

The share capital of the Group consists of 792,468,750 (2002: 792,468,750) allotted and fully paid ordinary shares of ROL 10,000 each. Each share carries one vote. Share capital is owned 69.88% by the Romanian State through "Autoritatea pentru Privatizare și Administrarea Participațiilor Statului" ("APAPS") (former State Ownership Fund) and 30.12% by the five Financial Investments Funds ("SIF") (former Private Ownership Funds), the latter being closed investment companies. In the above table, the statutory value of share capital is presented in nominal terms as required by the relevant Romanian authorities.

26 RESERVES

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

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

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

26 RESERVES (CONTINUED)

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

(a) legal reserve, appropriated at the rate of 20% of the gross profit, until the total reserve is equal to the issued and fully paid up share capital, 10% until the total reserve is equal to twice the share capital issued and fully paid up and thereafter from the net profit without any limitation;

(b) general reserve for possible credit losses, appropriated from the gross profit at the rate of 2% of the loan risk portfolio.

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

27 ANALYSIS OF CASH AND CASH EQUIVALENTS

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

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

28 ASSETS AND LIABILITIES DENOMINATED IN ROL AND OTHER CURRENCIES

The table below presents the Group's assets and liabilities analysed by currency denominated as at 31 December 2003 (see Note 34):

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

Other currencies include mainly British Pound and Swiss Franc.

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

As at 31 December 2002:

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

29 INTEREST RATE RISK

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

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

29 INTEREST RATE RISK (CONTINUED)

The table below summarises the Group's exposures to interest rate risk. Included in the table are the Group's assets and liabilities at carrying amount categorized by earlier of contractual repricing or maturity dates as at 31 December 2003.

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

29 INTEREST RATE RISK (CONTINUED)

As at 31 December 2002:

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

30 LIQUIDITY RISK

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

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

30 LIQUIDITY RISK (CONTINUED)

As at 31 December 2002:

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

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

31 ECONOMIC SECTOR RISK

The table below analyse assets and liabilities of the Parent into transactions with Romanian State and Private companies as at 31 December 2003 (see Note 34).

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

As at 31 December 2002:

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

32 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

33 RELATED PARTY TRANSACTIONS

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2003 are detailed below. Transactions were entered into with related parties during the course of business at both market and preferential rates.

The Parent, being controlled by the Romanian State entered into transactions with the Romanian State. The Note 31 on Economic sector risk details the assets and liabilities of the Parent with the Romanian State.

33 RELATED PARTY TRANSACTIONS (CONTINUED)

The following transactions were carried out with related parties:

	Year ended 31 December 2003 (ROL million)	Year ended 31 December 2002 (ROL million)
Assets		
Loans to employees	1,120,000	728,200
Due from banks	41,199	–
	1,161,199	728,200
Liabilities		
Current accounts of other banks	6,422	12,864
Term deposits received from other banks	205,585	28,592
Current accounts of customers	–	193,664
Term deposits from customers	–	5,230
Loans from banks	309,059	–
	521,066	240,350

	Year ended 31 December 2003 (ROL million)	Year ended 31 December 2002 (ROL million)
Revenues		
Interest income from loans and advances to customers	–	82,247
Expenses		
Interest expenses for customers' accounts	–	24,427
Interest expense for loans from banks	14,048	–

34 RISK MANAGEMENT

Interest rate risk

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

Liquidity risk

The Group's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due. The amount of total assets and liabilities at 31 December 2003 and 31 December 2002 analysed over the remaining period to the contractual maturity date is included in Note 30.

Currency risk

Subsidiaries are subject to the currency risk of the currency of the country in which they are domiciled. Most of the Group's operations are in developing economies. Romania experiences high rates of inflation and significant currency devaluation. There is a consequent risk of loss in value in respect of net monetary assets held in Romanian Lei. The Group manages its exposure to movements in exchange rates by modifying its asset and liability mix. An analysis of assets and liabilities denominated in ROL and other currencies is included in Note 28.

Economic sector risk

The Parent takes on exposure to economic sector risk. The amount of total assets and liabilities at 31 December 2003 analysed in transactions with State and private companies is included in Note 31. Included in transactions with state companies are amounts with companies which are partially owned by private companies.

Concentration of credit risk

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

34 RISK MANAGEMENT (CONTINUED)

Taxation risk

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

35 COMMITMENTS AND CONTINGENCIES

Litigation

In 1999 as a result of the distressed financial situation of one of the Romanian State-owned banks, Banca Romana de Comert Exterior - "Bancorex", the Government of Romania launched a series of measures designed to limit the effect of Bancorex's insolvency on the economy of Romania. These measures included placing Bancorex in special administration for a limited period, transferring certain non-performing loans of Bancorex to an Asset Recovery Agency (AVAB) and transferring deposits and other creditor's accounts with individuals (together with Romanian government securities having similar maturity) to the Bank.

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

(i) would absorb Bancorex as at 11 September 1999, incorporating all the remaining asset and liabilities including subsidiaries, off-balance sheet items and contingent liabilities;

(ii) would be provided with a State guarantee for any subsequent losses that may be incurred due to letters of credit and guarantees originating from Bancorex;

(iii) would have the option to transfer, in exchange for government securities, to various Romanian agencies those assets that in the opinion of the Bank do not satisfy the Bank's risk management policies.

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

35 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

As at 31 December 2003, the Bank was acting as defendant in four cases (the "Cases") arising in connection with the former Bancorex amounting to USD 21,944 thousands which do not fall under the scope of Emergency Ordinance no. 131/2000 and Government Decision no. 909/2000. The Romanian Government issued the Emergency Ordinance 55/25 June 2003 stating that the Ministry of Public Finance will cover irrevocably and unconditional the risks for the Bank arising from any litigation in connection with the former Bancorex including the Cases which are not covered by the Decision 909/2000.

The Emergency Ordinance 18/2004 confirmed that the all off balance sheet, other commitments and all the risks for the Bank arising from litigation related to former Bancorex are guaranteed, remain and will be guaranteed by the State.

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

Credit related commitments

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

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

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

Commitments to make loans at a specific rate of interest during a fixed period of time are adjusted to fair value based on market rates movements.

35 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

Outstanding amounts are:

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

36 OPERATING ENVIRONMENT OF THE PARENT

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

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

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

37 MINORITY INTEREST

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

38 SUBSIDIARIES

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

* acquired from Bancorex during 1999

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

39 SUBSEQUENT EVENTS

Privatisation

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

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

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

39 SUBSEQUENT EVENTS (CONTINUED)

Corporate Governance

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

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

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

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

PricewaterhouseCoopers

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

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2003

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

The statement of income and balance sheet of Banca Comerciala Romana SA (company only) are set out below for the benefit of the user of the financial statements. The statutory financial statements have been restated in accordance with International Accounting Standards and were approved by the Board of Directors on 21 April 2004.

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

BANCA COMERCIALA ROMANA SA

BALANCE SHEET AS AT 31 DECEMBER 2003

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

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