

ALPHA BANK ROMANIA SA

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS**

ALPHA BANK ROMANIA SA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

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ALPHA BANK ROMANIA SA

GENERAL INFORMATION

1 NATURE OF THE ENTERPRISE

Alpha Bank Romania SA (the "Bank") has been incorporated in Romania in 1994 and is licensed by the Central Bank of Romania to conduct banking activities. The Bank is principally engaged in wholesale and retail banking operations in Romania. The Bank operates through its head office located in Bucharest and 15 branches located in Bucharest (3) and other cities in Romania (12).

The registered office of the Bank is:
Alpha Bank Romania SA
Calea Dorobantilor no. 237B, sector 1
Bucharest
Romania

The Bank serves a broad client base that includes corporations and individuals and offers banking services to local and international firms which include but are not limited to wholesale and retail banking operation, issuing of cards under the VISA network, mortgage loans, certificate of deposits.

The number of employees as at 31 December 2002 is 529 (2001: 432).

2 CAPITAL ADEQUACY

The Bank calculates capital adequacy based upon the regulations issued by the National Bank of Romania ("BNR"). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amount to reflect their relative risk. The regulations require that capital adequacy ratios be calculated on financial information prepared in accordance with Romanian Accounting Regulations ("RAR"). To be "sufficiently capitalised" under BNR regulations a banking institution must have a Tier 1 ratio of at least 8% and a Tier 1 plus Tier 2 ratio of at least 12%. As of 31 December 2002, the Tier 1 and Tier 1 plus Tier 2 capital adequacy ratios based upon the NBR's regulations, were 19.64% and 19.31% respectively (2001: 18.11% and 17.57%, respectively).

In addition to the above ratios the Bank 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 Accounting Standards (IAS). Based upon financial information prepared in accordance with IAS the Tier 1 and a Tier 1 plus Tier 2 capital adequacy ratios of the Bank at 31 December 2002 were 20.85% respectively 20.34% (31 December 2001: 21.03% and 20.51%, respectively).

GENERAL INFORMATION

2 CAPITAL ADEQUACY (CONTINUED)

The main reason for the difference in the capital adequacy ratios between IAS and RAS is the effect of restating shareholders' equity for the effects of hyperinflation.

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 100% 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 Bank's eligible long-term debt and general credit risk reserves.

	IAS Balance sheet		Risk	
	(Nominal amount)		weighted amount	
	2002	2001	2002	2001
	(ROL million)	(ROL million)	(ROL million)	(ROL million)
Balance sheet assets (net of provisions)				
Due from other banks	4,235,731	3,042,442	210,225	150,996
Treasury bills	1,036,927	148,190	-	-
Loans and advances to customers, net	8,829,465	7,362,392	6,216,970	5,183,980
Investments	71,999	62,359	71,999	62,359
Property and equipment	447,207	409,482	420,375	409,482
Other assets	<u>51,033</u>	<u>36,824</u>	<u>7,184</u>	<u>6,222</u>
	<u>14,672,362</u>	<u>11,061,689</u>	<u>6,926,753</u>	<u>5,813,039</u>
Off balance sheet positions				
Off balance sheet commitments and contingencies	<u>4,831,447</u>	<u>2,736,283</u>	<u>3,082,288</u>	<u>1,745,649</u>
Total risk weighted assets	<u>19,503,809</u>	<u>13,797,972</u>	<u>10,009,041</u>	<u>7,558,688</u>

ALPHA BANK ROMANIA SA

GENERAL INFORMATION

2 CAPITAL ADEQUACY (CONTINUED)

	Capital 2002 (ROL million)	Capital 2001 (ROL million)	BIS % 2002	BIS % 2001
BIS Capital ratios				
Tier 1 +Tier 2 capital	2,087,124	1,589,893	20.85%	21.03%
Tier 1	2,035,195	1,550,415	20.34%	20.51%

**INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF
ALPHA BANK ROMANIA SA**

We have audited the accompanying balance sheet of Alpha Bank Romania SA (the "Bank") as at 31 December 2002 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended expressed in the current purchasing power of the Romanian Lei ("ROL") as at 31 December 2002. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Alpha Bank Romania SA as at 31 December 2002 and the results of its operations, its cash flows and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards including International Accounting Standards and interpretations issued by the International Accounting Standards Board.

ALPHA BANK ROMANIA SA

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2002
(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at
31 December 2002, unless otherwise stated)

	<u>Note</u>	<u>Year ended 31 December</u>			
		<u>2002</u> <u>(ROL million)</u>	<u>2001</u> <u>(ROL million)</u>	<u>2002</u> <u>USD '000</u> <u>Proforma</u>	<u>2001</u> <u>USD '000</u> <u>Proforma</u>
Interest and discount income	3	1,148,638	1,038,189	34,288	30,991
Interest expense	4	<u>(498,481)</u>	<u>(428,962)</u>	<u>(14,880)</u>	<u>(12,805)</u>
Net interest income		650,157	609,227	19,408	18,186
Fee and commission income, net	5	199,998	170,322	5,970	5,084
Foreign exchange gains, net	6	141,516	264,744	4,224	7,903
Other operating income		<u>10,706</u>	<u>15,751</u>	<u>320</u>	<u>470</u>
Total income		1,002,377	1,060,044	29,922	31,643
Other operating expenses	8	<u>(565,633)</u>	<u>(451,446)</u>	<u>(16,885)</u>	<u>(13,476)</u>
Total operating profit		436,744	608,598	13,037	18,167
Profit/(loss) on loans and advances	7	2,050	(27,250)	61	(813)
Taxation	20	<u>(74,246)</u>	<u>(52,046)</u>	<u>(2,216)</u>	<u>(1,553)</u>
Profit before loss on net monetary position		364,548	529,302	10,882	15,801
Loss on net monetary position		<u>(209,445)</u>	<u>(281,499)</u>	<u>(6,252)</u>	<u>(8,403)</u>
Profit before appropriation		<u>155,103</u>	<u>247,803</u>	<u>4,630</u>	<u>7,398</u>

The financial statements on pages 1 to 5 and accompanying notes on pages 6 to 38 based on the statutory accounts restated in accordance with International Accounting Standards, were approved by the Board of Directors on 26 March 2003 and signed on its behalf by:

Eleftherios P. Ioannou
 President&CEO

Radu Gratian Ghetea
 First Vice President

The accompanying notes on pages 6 to 38 from an integral part of these financial statements.

ALPHA BANK ROMANIA SA

BALANCE SHEET AS AT 31 DECEMBER 2002

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

	<u>Note</u>	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)	<u>31 December 2002</u> USD '000 Proforma	<u>31 December 2001</u> USD '000 Proforma
ASSETS					
Cash and balances with National Bank of Romania	9	3,184,630	2,163,190	95,064	64,573
Treasury bills	10	1,036,927	148,190	30,953	4,424
Due from other banks	11	1,051,101	879,252	31,376	26,246
Loans and advances to customers, net	12	8,829,465	7,362,392	263,567	219,773
Investment securities – available for sale	14	71,999	62,359	2,149	1,861
Premises and equipment	15	447,207	409,482	13,349	12,223
Other assets	13	<u>51,033</u>	<u>36,824</u>	<u>1,523</u>	<u>1,100</u>
Total assets		<u>14,672,362</u>	<u>11,061,689</u>	<u>437,981</u>	<u>330,200</u>
LIABILITIES AND FUNDS EMPLOYED					
Due to other banks	16	6,249,136	4,538,270	186,541	135,471
Due to customers	17	6,119,413	4,857,288	182,669	144,994
Other borrowed funds	18	116,036	-	3,464	-
Other liabilities	19	46,806	30,747	1,398	918
Deferred tax liability	20	<u>53,847</u>	<u>45,490</u>	<u>1,607</u>	<u>1,358</u>
Total liabilities		12,585,238	9,471,795	375,679	282,741
Statutory share capital	21	1,272,679	725,014	37,990	21,642
Restatement of share capital		<u>83,667</u>	<u>160,848</u>	<u>2,498</u>	<u>4,801</u>
Total share capital		1,356,346	885,862	40,488	26,443
Share premium		1	157	-	5
Reserves	22	<u>730,777</u>	<u>703,874</u>	<u>21,814</u>	<u>21,011</u>
Shareholders' equity		<u>2,087,124</u>	<u>1,589,893</u>	<u>62,302</u>	<u>47,459</u>
Total liabilities and funds employed		<u>14,672,362</u>	<u>11,061,688</u>	<u>437,981</u>	<u>330,200</u>

Eleftherios P. Ioannou

President&CEO

Radu Gratian Ghetea

First Vice President

The accompanying notes on pages 6 to 38 from an integral part of these financial statements.

ALPHA BANK ROMANIA SA**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002**
(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at
31 December 2002, unless otherwise stated)

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Cash flow from operating activities		
Profit before translation adjustments and taxation	438,794	581,348
Adjustments:		
Provisions for loans	(2,050)	27,250
Dividends received	(8,006)	(4,966)
Depreciation	<u>54,141</u>	<u>46,242</u>
Net cash flow from operating activities	482,879	649,874
Change in operating assets		
Decrease/(increase) in treasury bills	(850,178)	(31,778)
Decrease/(increase) in placements with other banks	4,212	(1,945)
Decrease/(increase) in loans and advances to customers	(1,465,022)	(2,202,847)
Decrease/(increase) in accrued income and other assets	<u>(14,208)</u>	<u>(29,585)</u>
Total change in operating assets	(2,325,196)	(2,266,155)
Change in operating liabilities		
(Decrease)/increase in loans and deposits from banks	1,710,866	2,899,977
(Decrease)/increase in amounts due to customers	1,262,125	449,173
(Decrease)/increase in borrowed funds	116,036	(6,011)
(Decrease)/increase in accruals and other liabilities	<u>13,643</u>	<u>58,019</u>
Total change in operating liabilities	3,102,670	3,401,158
Taxation paid	(59,237)	(68,801)
Net cash from operating activities	<u>1,201,116</u>	<u>1,716,076</u>
Cash flow from investing activities		
Net purchase of investments	(9,641)	(11,405)
Net purchase of fixed assets	(86,118)	(109,809)
Dividends received	<u>8,006</u>	<u>4,966</u>
Net cash used in investing activities	(87,753)	(116,248)

The accompanying notes on pages 6 to 38 from an integral part of these financial statements.

ALPHA BANK ROMANIA SA

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002
(CONTINUED)**

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

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Cash flow from financing activities		
Issue of share capital and share premium	337,000	-
Finance lease repayments	(4,238)	(1,367)
Dividends paid	<u>-</u>	<u>(165,771)</u>
Net cash from/(used in) financing activities	332,762	(167,138)
Effects of inflation and exchange rate	<u>(209,445)</u>	<u>(281,499)</u>
Increase/(decrease) in cash and cash equivalents	1,236,680	1,151,191
Balance as at 1 January	<u>3,054,366</u>	<u>1,903,175</u>
Balance as at 31 December	<u>4,291,046</u>	<u>3,054,366</u>
Cash	118,777	86,305
Current account and short term deposits with National Bank of Romania	2,043,795	1,382,258
Treasury bills under 90 days	16,754	39,791
NOSTRO account and short term deposits to banks	<u>875,040</u>	<u>394,821</u>
Cash and cash equivalents 1 January	<u>3,054,366</u>	<u>1,903,175</u>
Cash	271,362	118,777
Current account and short term deposits with National Bank of Romania	2,913,268	2,043,795
Treasury bills under 90 days	55,315	16,754
NOSTRO account and short term deposits to banks	<u>1,051,101</u>	<u>875,040</u>
Cash and cash equivalents 31 December	<u>4,291,046</u>	<u>3,054,366</u>

The accompanying notes on pages 6 to 38 from an integral part of these financial statements.

ALPHA BANK ROMANIA SA

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2002**

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

	<u>Share capital</u> (ROL million)	<u>Share premium</u> (ROL million)	<u>Retained earnings</u> (ROL million)	<u>Shareholders equity</u> (ROL million)
1 January 2001	797,444	88,575	456,072	1,342,091
Profit for the year	-	-	299,200	299,200
Dividend to shareholders	-	-	-	-
Increase of share capital	88,418	(88,418)	-	-
Issuance of share premium	-	-	-	-
As previously reported	885,862	157	755,272	1,641,291
Prior year adjustment	-	-	(51,398)	(51,398)
As restated	885,862	157	703,874	1,589,893
1 January 2002	885,862	157	703,874	1,589,893
Share premium	-	1	-	1
Profit for the year	-	-	155,103	155,103
Issuance of shares	470,484	(157)	(128,200)	342,127
Dividend to shareholders	-	-	-	-
31 December 2002	<u>1,356,346</u>	<u>1</u>	<u>730,777</u>	<u>2,087,124</u>

Retained earnings are non-distributable.

ALPHA BANK ROMANIA SA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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

1 BASIS OF PRESENTATION

These financial statements of Alpha Bank Romania (the "Bank") are prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") and interpretations issued by the IASB.

Currency of presentation

The accompanying financial statements have been restated in terms of the purchasing power of the Romania Lei (ROL) at 31 December 2002. The pro-forma US Dollar ("USD") figures shown in the accompanying financial statements have been included solely to facilitate the understanding of these financial statements by an international reader, and are derived from ROL as a matter of arithmetic computation only, by converting the ROL figures into USD at the year end official rate of ROL 33,500 per USD. Such computations should not be held as a representation that the ROL amounts have been or could be converted into US Dollars at this rate or any other rate.

Basis of accounting

The underlying accounting records maintained in conformity with Romanian accounting law and National Bank of Romania banking regulations ("statutory accounts") have been restated to reflect the differences between the statutory accounts and the International Financial Reporting Standards ("IFRS") issued by the International Financial Reporting Standards Committee. Accordingly, such adjustments have been made to the statutory accounts as have been considered necessary to bring the financial statements into line, in all material respects, with IFRS.

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

In 2001 the Bank adopted IAS 39 "Financial Instruments: Recognition and Measurement". The effect of adopting this standard is summarised in the statement of changes in shareholders' equity and further information is disclosed in accounting policies. Information regarding the effects of adopting IAS 39 is disclosed in accounting policies for equity investments, loans and provisions for bad and doubtful debts, fair value of financial instruments and in related notes.

Reclassification of comparative amounts

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. IAS 39 has been applied prospectively in accordance with the requirements of this Standard and therefore comparative financial information has not been restated.

ALPHA BANK ROMANIA SA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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

1 BASIS OF PRESENTATION (CONTINUED)

The comparative figures were adjusted to take into account the following matter: pursuant to the issue of the NBR circular 4/2002 completed by the clarifications letter issued by the NBR on 30 March 2002, related to the reserves from revaluation of assets and liabilities denominated in foreign currencies, the Bank had to re-compute retroactively starting April 2001 its revaluation reserve as at 31 December 2001 and to adjust retroactively the tax effect on its retained earnings as at 31 December 2001.

Use of estimates

The preparation of the financial statements in accordance with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported 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.

Going concern

The nature of the Bank's business and the uncertainty in Romania regarding the outcome of the current economic policies on operating conditions is such that there can be considerable unpredictable variation in the timing of future cash inflows. Management has addressed the issue of the appropriateness of the preparation of the financial statements under the going concern basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These restated IAS financial statements are prepared on an accrual basis of accounting. In this context, income and expenses are recognised when they occur and they are recorded in the reporting period to which they relate. The IAS financial statements have also been prepared under the exercise of prudence to the extent that losses are recognised as soon as they are foreseeable.

Set out below are the principal accounting policies adopted by the Bank in the preparation of the IAS financial statements prior to the inflation adjustments. This financial information is then adjusted for the effects of inflation in accordance with the procedures described in Note 1, in order to prepare IAS financial statements.

ALPHA BANK ROMANIA SA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for hyperinflation

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

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

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

Other factors to be considered when deciding whether the restatement of financial statements in accordance with IAS 29 is necessary include, but are not limited to the following: the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency and amounts of local currency held are immediately invested to maintain purchasing power; the general population regards monetary amounts not in terms of local currency but in terms of a relatively stable foreign currency and prices may be quoted in that currency; sales and or 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; interest rates, wages and prices are linked to a price index.

The cumulative rate of inflation was 115.96% over years 2000, 2001 and 2002 on the basis of the information published by the National Statistical Bureau together with other factors that are still valid led to the adoption of IAS 29 in preparing these financial statements.

ALPHA BANK ROMANIA SA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(a) Monetary assets and liabilities

Cash, amounts due from banks, treasury bills and trading securities, 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) are restated from their historical cost by applying the general price index from either the date of acquisition, valuation or contribution to the balance sheet date.

(c) Gains and losses on net monetary position

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

(d) Property and equipment

IAS 29 states that all tangible fixed assets should be restated from the date of their purchase using a general price index except during the first period of application of the standard when a professional valuation of fixed assets is permissible.

(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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Income statement

IAS 29 requires all items in the income statement to be expressed in terms of the measuring unit current at the balance sheet date. Therefore, all income statement items, except for depreciation and provision, 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.

(g) Comparative figures

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

Foreign currency translation

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

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

Interest income and expense

Interest income and expense are recognised in the statement of income on an accrual basis. Interest income deemed as non-collectible is provided for in full. Interest income includes coupons earned on fixed income investment securities and accrued discount on treasury bills.

ALPHA BANK ROMANIA SA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fee and commission income

Fees and commission income consist mainly of fees received for foreign currency transactions and loans. Fees arising from guarantees given, opening letters of credit and commissions from managed funds on behalf of legal entities and citizens are also included under fee and commission income.

Loan fees are credited to income upon granting of the applicable loan. Commissions on foreign currency transactions are credited to income on receipt.

Foreign exchange gains

Foreign exchange gains include dealing profits and exchange differences from the revaluation of the hard currencies positions.

Treasury bills

Treasury bills are classified as held for trading securities and are carried at market value. All interest income and any gains/losses realised from trading in treasury bills are included in the statement of income.

Sale and repurchase agreements and lending of treasury bills

Securities sold subject to linked repurchase agreements (“repos”) are retained in the financial statements as held-to-maturity securities including treasury bills and the counter party liability is included in amounts due to customers.

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

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

Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower are categorised as loans originated by the Bank and are carried at amortised cost. All loans and advances are recognised when cash is advanced to borrowers.

ALPHA BANK ROMANIA SA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The amount of provision is the difference between the carrying amount and the recoverable amount, being based on management's assessment of historical pattern of credit losses, credit ratings allocated to the borrowers when available, business and economic current climate in which borrowers operate, quality and financial performance of borrowers, debt servicing history and other pertinent indicators which include the present value of future cash flows including amounts recoverable from guarantees and collateral.

The Bank has ascribed values to collateral which management considers to approximate fair values. However, the market in Romania for many of the types of collateral accepted by the Bank is in the early stages of development. As a result, the fair value of collateral on foreclosure may differ from the value ascribed in estimating provisions. Where appropriate, provisions also take into account current economic conditions. Changes in conditions can affect these estimates.

During its ordinary course of business the Bank makes commitments and guarantees that give rise to off-balance sheet credit risks. A provision is established to provide for management's estimate of the credit losses inherent in off-balance sheet credit risks using the same methodology as applied for loans.

When a loan is uncollectable, it is written off against the related provision for impairments; subsequent recoveries are credited in the income statement to recoveries from bad and doubtful debts.

Investment securities

At 1 January 2001 the Bank adopted IAS 39 and classified its equity investments as available-for-sale assets.

Investments intended to be held for an indefinite, period of time which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available-for sale.

A market does not presently exist for these investments which would facilitate obtaining prices for comparative instruments. These financial investments generally represent equity in companies for which there is no reliable comparative information for estimating market value. Investments are initially recognised at cost and subsequently re-measured at restated cost less an estimate for impairment.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prior to adoption of IAS 39, all investments were carried at amortised cost less any provision for impairment.

All regular way purchases and sales of equity investments are recognised at trade date, which is the date on which the Bank commits to purchase or sell the asset.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation. Cost has been obtained by uplifting the ROL historical costs by the general price between the month of acquisition and the year-end.

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

The depreciation rates and the lives applied are as follows:

Category	<u>%</u>	<u>Useful lives</u>
Buildings	2	50
Buildings improvements	10 – 33.3	3 – 10
Office equipment	10 – 33.3	3 – 10
Furniture and fixtures	6.7 – 10	10 – 15
Motor vehicles	20	5
Intangible assets	20	5

Building improvements represent refurbishment works carried out at branches and are depreciated over the duration of the lease contract.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

Expenses for repairs and maintenance are charged to operating expenses as incurred.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension obligations and other post retirement benefits

The Bank, in the normal course of business makes payments to the Romanian State funds on behalf of its employees for pension, health care and unemployment benefit. All employees of the Bank are members of the State pension plan. The Bank does not operate any other pension scheme and, consequently, has no obligation in respect of pensions. The Bank does not operate any other defined benefit plan or post retirement benefit plan. The Bank has no obligation to provide further services to current or former employees.

Fair value of financial instruments

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

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

- (a) exchange rate of foreign currency against the ROL or other foreign currency;
- (b) market price of similar products;
- (c) interest rates;
- (d) devaluation of the purchasing power of the ROL.

The Bank's financial instruments, as defined in accordance with applicable requirements, include financial assets and liabilities recorded in the balance sheet as well as off-balance sheet instruments such as guarantees and letters of credit.

The Bank's short term funds, treasury bills and customer settlement accounts are carried in the financial statements at cost, because these instruments have short maturity terms and are convertible into cash or are settled without significant transaction costs. The loans and advances, bills of exchange, guarantees, letters of credit and term deposits are reported at cost less an estimate for impairment. These items have predominantly short re-pricing terms and carry interest rates that reflect current market conditions.

A market does not presently exist for most of these financial instruments which would facilitate obtaining prices for comparative instruments and if sold or settled prior to their stated maturity dates, these instruments would bear transaction costs in the form of fees or discounts. Because of the short-term maturity of these financial instruments, the Bank's management estimates fair value based on their nominal or face value. The Bank's investments in companies which have no quoted market price are carried at restated cost less an estimate for impairment. These financial investments generally represent equity in companies for which there is no reliable comparative information for estimating market value.

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31 December 2002, unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and short term funds

For the purposes of the cash flow statement, cash and short term funds comprise balances with less than 90 days maturity including: cash, treasury bills and other eligible bills, current accounts with banks, short term placement with and from banks and dealing securities.

Deferred income taxes

A provision is made for all foreseeable taxation liabilities. Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from the restatement of premises and equipment.

Dividends

Dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date.

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NOTES TO THE FINANCIAL STATEMENTS
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3 INTEREST AND DISCOUNT INCOME

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Loans to and placements with banks	309,037	223,916
Loans and advances to customers	589,907	693,946
Debt securities	<u>249,694</u>	<u>120,327</u>
Total	<u>1,148,638</u>	<u>1,038,189</u>

4 INTEREST EXPENSE

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Loans and deposits from banks	227,925	192,696
Current and deposit accounts from customers	264,853	235,697
Other	<u>5,703</u>	<u>569</u>
Total	<u>498,481</u>	<u>428,962</u>

5 FEE AND COMMISSION INCOME, NET

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Fee and commission income	263,835	219,654
Fee and commission expense	<u>(63,837)</u>	<u>(49,332)</u>
Total	<u>199,998</u>	<u>170,322</u>

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NOTES TO THE FINANCIAL STATEMENTS
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6 FOREIGN EXCHANGE GAINS, NET

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Foreign exchange gains, net	44,983	143,037
Dealing profits, net	<u>96,533</u>	<u>121,707</u>
Total	<u>141,516</u>	<u>264,744</u>

7 PROFIT/(LOSSES) ON LOANS AND ADVANCES

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Loans and advances to customers release (Note 13(c))	2,050	(27,047)
Interest receivable (Note 13)	<u>-</u>	<u>(203)</u>
Total	<u>2,050</u>	<u>(27,250)</u>

8 OPERATING EXPENSES

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Staff costs	257,181	186,460
Depreciation	54,141	46,243
Rent	62,355	34,589
Administrative and other expenses	<u>191,956</u>	<u>184,154</u>
Total	<u>565,633</u>	<u>451,446</u>

ALPHA BANK ROMANIA SA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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9 CASH AND BALANCES WITH NATIONAL BANK OF ROMANIA

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Cash in hand	271,362	118,777
Current account at National Bank of Romania	2,042,082	1,476,024
Deposit with National Bank of Romania	850,000	560,728
Accrued interest to deposit with National Bank of Romania	<u>21,186</u>	<u>7,661</u>
Total	<u>3,184,630</u>	<u>2,163,190</u>

It is the policy of the National Bank of Romania that mandatory reserves calculated according to a prescribed formula are held with the National Bank of Romania. The formula is based upon a set percentage of each type of deposit taken by the Bank. The mandatory reserve is denominated in USD for the foreign currency deposits and in ROL for domestic currency deposits. The interest rate paid by National Bank of Romania during 2002 ranged from 15% to 8% for reserves held in ROL and was 1% for reserves held in USD (2001: 25.5% to 19% ROL for and 1% to 3.10% for USD).

ALPHA BANK ROMANIA SA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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10 TREASURY BILLS

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
In local currency	995,746	99,802
In foreign currency	<u>41,181</u>	<u>48,388</u>
Total	<u>1,036,927</u>	<u>148,190</u>

Treasury bills both in local and foreign currency are issued at nominal value by the Romanian Ministry of Finance with interest rates ranging for ROL from 26.54% to 35.97% during 2002 (2001: 33.67% to 49.86%), the weighted average rate being 31.19% (2001: 40.94%) with maturity between January 2003 and September 2003.

Treasury bills in foreign currency held in balance as at 31 December 2002 and denominated in USD carry an interest of 5% (2000: 8.5% to 10%) and mature in May 2003.

Treasury bills amounting to ROL 95,500 million are pledged with the National Bank of Romania for settlement purposes.

11 DUE FROM OTHER BANKS

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Current accounts with other banks	102,643	36,033
Placements with other banks	946,400	839,007
Collateral deposits	1,675	1,945
Accrued interest for deposits with other banks	<u>383</u>	<u>2,267</u>
Total	<u>1,051,101</u>	<u>879,252</u>

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12 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of customer

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Individuals		
in ROL	18,560	13,413
in foreign currencies	442,955	107,285
Enterprises		
in ROL	260,404	100,144
in foreign currencies	7,448,062	6,680,997
Other		
in ROL	1,263	11,063
in foreign currencies	<u>687,098</u>	<u>485,923</u>
	<u>8,858,342</u>	<u>7,398,825</u>
Provision	<u>(28,877)</u>	<u>(36,433)</u>
Total	<u><u>8,829,465</u></u>	<u><u>7,362,392</u></u>

(b) Analysis by sector industry

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Trade	3,167,526	2,225,909
Services (tourism, financial services)	2,499,508	2,139,512
Agriculture and food industry	1,071,826	50,811
Constructions	322,298	592,070
Light industry	248,754	1,319,742
Wood industry	199,694	35,471
Heavy industry	187,519	520,526
Chemical and petrochemical	151,813	281,617
Transport	32,939	17,512
Other sectors	<u>976,465</u>	<u>206,108</u>
	<u>8,858,342</u>	<u>7,388,978</u>

ALPHA BANK ROMANIA SA

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12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Provision for losses

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
As at 1 January	36,433	17,412
Effect of inflation	(5,506)	(4,049)
Provision expense/(release)-(see Note 7)	(2,050)	27,048
Loans written-off	—	<u>(3,978)</u>
As at 31 December	<u>28,877</u>	<u>36,433</u>

(d) Maturity analysis (Note 29).

13 OTHER ASSETS

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Sundry debtors	993	3,744
Prepayments	6,835	4,211
Tax on profit paid in advance	29,464	34,708
Provisions for tax paid in advance	(11,484)	(13,528)
Other assets	<u>25,225</u>	<u>7,689</u>
Total	<u>51,033</u>	<u>36,824</u>

Provision for tax paid in advance

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
As at 1 January	13,528	3,078
Effect of inflation	(2,044)	(716)
Provision/(release) of provision (see Note 7)	—	<u>11,166</u>
As at 31 December	<u>11,484</u>	<u>13,528</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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14 INVESTMENT SECURITIES

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
As at 1 January	62,359	50,954
Additions	9,658	11,405
Disposals	<u>(18)</u>	<u>-</u>
As at 31 December	<u>71,999</u>	<u>62,359</u>

Investment	Percentage interest	
	<u>31 December 2002</u>	<u>31 December 2001</u>
Victoria Bank Chisinau	12.50%	12.50%
Alpha Consulting SRL	20.00%	20.00%
Alpha Finance Romania	24.73%	19.73%
Alpha Leasing Romania	17.76%	9.09%
SNCDD	1.67%	1.67%
TransFond	2.53%	2.38%
SWIFT	less than 1%	less than 1%
Bursa Romana de Marfuri	less than 1%	less than 1%
Bucharest Corporate Center	less than 1%	less than 1%

In the opinion of the management, the effect of consolidating Alpha Finance Romania and Alpha Consulting SRL is not material to these financial statements and there has been no diminution in the value of these investments which is material to the financial statements.

For all investments (except for Victoria Bank Chisinau, for which the area of operation is the Republic of Moldova), the major area of operation is Romania.

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NOTES TO THE FINANCIAL STATEMENTS
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15 PREMISES AND EQUIPMENT

	<u>Buildings</u>	<u>Office equipment</u>	<u>Others</u>	<u>Fixed assets in progress</u>	<u>Intangible fixed assets</u>	<u>Total</u>
Cost						
1 January 2002	306,784	203,256	170,774	24,123	89,193	794,130
Additions	12,880	37,647	26,990	51,695	19,626	148,838
Disposals	<u>(61)</u>	<u>(26,017)</u>	<u>(512)</u>	<u>(56,973)</u>	<u>-</u>	<u>(83,563)</u>
31 December 2002	319,603	214,886	197,252	18,845	108,819	859,405
Depreciation						
1 January 2002	79,168	157,508	71,397	-	76,574	384,647
Depreciation charge	10,160	22,386	17,130	-	4,465	54,141
Disposals	<u>(61)</u>	<u>(26,017)</u>	<u>(512)</u>	<u>-</u>	<u>-</u>	<u>(26,590)</u>
31 December 2002	89,267	153,877	88,015	-	81,039	412,198
Net book value						
31 December 2002	<u>230,336</u>	<u>61,009</u>	<u>109,237</u>	<u>18,845</u>	<u>27,780</u>	<u>447,207</u>
31 December 2001	<u>227,616</u>	<u>45,748</u>	<u>99,376</u>	<u>24,123</u>	<u>12,619</u>	<u>409,482</u>

Office equipment consists mainly of computer equipment. Intangible assets consist mainly of packaged software. Included within other assets are motor vehicles, furniture and fittings, household equipment, air conditioning equipment, etc.

An amount of ROL 34,413 million represents fixed assets purchased under finance lease agreements.

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16 DUE TO OTHER BANKS

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Demand deposits	160,534	18,273
Time deposits	4,789,476	3,114,740
Collateral deposits	1,290,587	1,398,362
Accrued interest to due to other banks	<u>8,539</u>	<u>6,895</u>
Total	<u>6,249,136</u>	<u>4,538,270</u>

17 DUE TO CUSTOMERS

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Individuals		
in ROL	441,251	137,638
in foreign currencies	2,012,796	1,857,427
Enterprises		
in ROL	1,382,991	849,978
in foreign currencies	1,845,897	1,611,702
Other		
in ROL	86,107	76,490
in foreign currencies	<u>311,940</u>	<u>307,086</u>
	6,080,982	4,840,321
Accrued interest	<u>38,431</u>	<u>16,967</u>
Total	<u>6,119,413</u>	<u>4,857,288</u>

ALPHA BANK ROMANIA SA**NOTES TO THE FINANCIAL STATEMENTS
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17 DUE TO CUSTOMERS (CONTINUED)

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Sight deposits	2,325,294	1,783,868
Term deposits	2,812,849	2,199,521
Collateral deposits	353,902	625,357
Certificates of deposit	588,937	231,575
Accrued interest	<u>38,431</u>	<u>16,967</u>
Total	<u>6,119,413</u>	<u>4,857,288</u>

18 OTHER BORROWED FUNDS

Other borrowed funds represent a credit facility for financing small and medium enterprises of EURO 10 million from European Bank for Reconstruction and Development received in November 2001 having maturity in May 2007. As at 31 December 2002 the Bank has drawn EURO 3.3 million, the equivalent of ROL 115,233 million.

19 OTHER LIABILITIES

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Other liabilities	11,551	1,990
Deferred income	1,452	9,774
Finance lease payables	27,241	18,983
Current tax on profit due	<u>6,562</u>	<u>-</u>
Total	<u>46,806</u>	<u>30,747</u>

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20 DEFERRED TAX LIABILITY

The movements in net tax charge for the period were as follows:

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Statutory current tax charge	65,889	51,398
Deferred tax charge for the year	<u>8,357</u>	<u>648</u>
Total tax charge for the period	<u>74,246</u>	<u>52,046</u>

Deferred tax liability

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
1 January	45,490	44,842
Charge for the year	<u>8,357</u>	<u>648</u>
31 December	<u>53,847</u>	<u>45,490</u>

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of Romania as follows:

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Profit before tax	229,350	299,849
Tax calculated at a tax rate of 25% (2001:25%)	57,338	74,962
Income not subject to tax	(47,449)	(69,832)
Expenses not deductible for tax purposes	3,161	8,314
IAS adjustments	<u>52,839</u>	<u>37,954</u>
Statutory income tax charge	<u>65,889</u>	<u>51,398</u>

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21 SHARE CAPITAL

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Statutory value (not restated)	1,272,679	725,014
Restatement of share capital	<u>83,667</u>	<u>160,848</u>
Total	<u>1,356,346</u>	<u>885,862</u>

On 9 September 2002 European Bank for Reconstruction and Development sold its stake to Alpha Bank AE.

On 15 October 2002 the Bank increased the share capital through capitalization of the share capital revaluation reserve and appropriation of profit of 2001.

On 20 December 2002 the share capital increased by ROL 336,999 million the equivalent of US Dollar 9,999,971 contributed by Alpha Bank AE, Alpha Finance AE and one individual.

The share capital of the Bank was made as at 31 December 2002 of 2,856,346 shares having a par value of ROL 445,562.

All issued shares are fully paid and carry one vote.

The capital structure as at 31 December 2002 is as follows:

Shareholder	Number of shares	%	Amount
Alpha Romanian Holdings Company A.E.	1,540,000	53.92%	731,274
Alpha Bank A.E.	1,186,423	41.54%	563,377
Alpha Finance A.E.	<u>27,203</u>	<u>0.95%</u>	<u>12,917</u>
<i>Alpha Bank - group of companies</i>	<u>2,753,626</u>	<u>96.41%</u>	<u>1,307,568</u>
Monte dei Paschi di Siena	100,000	3.50%	47,485
Other minor shareholders	<u>2,720</u>	<u>0.09%</u>	<u>1,293</u>
Total	<u>2,856,346</u>	<u>100.00%</u>	<u>1,356,346</u>

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22 RESERVES

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 Standards ("RAS"). Amounts transferred to reserves must be used for the purposes designated when the transfer is made.

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 limit;
- (b) reserve for latent credit losses, appropriated from the profit before tax at the rate of 2% of the loan risk portfolio.

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

	31 December 2002		31 December 2001	
	<u>Reserves</u> (ROL million)	<u>Profit</u> (ROL million)	<u>Reserves</u> (ROL million)	<u>Profit</u> (ROL million)
Statutory	309,380	365,119	309,125	432,660
Loss on net monetary position	-	(209,445)	-	(281,499)
Other adjustments	<u>266,294</u>	<u>(571)</u>	<u>146,946</u>	<u>96,642</u>
Total	<u>575,674</u>	<u>155,103</u>	<u>456,071</u>	<u>247,803</u>

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23 COMMITMENTS AND CONTINGENCIES

The Bank issues guarantees and letters of credit on behalf of its customers. The market and credit risk on these financial instruments, as well as the operating risk is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank. All letters of credit and guarantees issued by the Bank are backed-up by collateral guarantees as cash collateral and letters of guarantee from Alpha Bank and other parties. At 31 December 2002 the probability of material losses arising in connection with letters of credit is considered to be remote and accordingly no provision has been established.

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 Bank 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 are collateralised and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

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, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, second, from these drawings subsequently not being repaid as due.

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 total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

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23 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The aggregate amount of outstanding guarantees at the end of the year were:

	<u>31 December 2002</u> (ROL million)	<u>31 December 2001</u> (ROL million)
Letters of guarantee issued in ROL:	<u>238,633</u>	<u>216,122</u>
out of which:		
- on cash collateral	28,149	73,882
- on other collateral	210,484	142,240
Letters of guarantee issued in foreign currency:	<u>1,475,439</u>	<u>552,273</u>
out of which:		
- on cash collateral	46,485	56,221
- on other collateral	1,428,954	496,052
Total letters of guarantee issued	<u>1,714,072</u>	<u>768,395</u>
Letters of credit issued	<u>330,053</u>	<u>110,062</u>
Commitments to extend credit	<u>2,787,322</u>	<u>1,857,826</u>

Most of non-cash collateral is secured with letters of guarantee issued by other banks.

24 RISK MANAGEMENT

Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Bank takes an exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The management sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

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24 RISK MANAGEMENT (CONTINUED)

Market risk

Romanian economy is at early stage of development and there is a considerable degree of uncertainty surrounding the likely future direction of domestic economic policy and political development. Management are unable to predict what changes in condition will take place in Romania and what effect these might have on the financial position and the results of operations and cash flows of the Bank. The Bank has established limits on trading.

Liquidity risk

The Bank's policy on liquidity is to maintain sufficient liquid reserves to meet its obligations as they fall due. The amount of total assets and liabilities as at 31 December 2002 and 31 December 2001 analysed over the remaining period to the contractual maturity date is included in Note 26.

Currency risk

The Bank operates in a developing economy. 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 ROL. The Bank manages its exposure to movements in exchange rates by modifying its assets and liabilities mix. An analysis of assets and liabilities denominated in ROL and other currencies are included in Note 25.

Concentration of credit risk

In granting facilities and loans, the Bank 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 Bank 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 Bank 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 Bank is possible.

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24 RISK MANAGEMENT (CONTINUED)

Taxation risk

The taxation system in Romania is subject to varying interpretations and to constant changes, which may be retroactive. In certain circumstances due to inconsistencies in the legal framework the tax authorities can be arbitrary in assessing tax penalties and interest. Although the actual tax due on a transaction may be minimal, penalties can be significant as they may be calculated based on the value of the transaction and can be as high as 0.06% per day. In Romania, tax periods remain open to tax audits for a period of 5 years from the end of the period.

25 CURRENCY RISK

Concentration of assets and liabilities:

As at 31 December 2002

	<u>Local</u> <u>currency</u> <u>(ROL million)</u>	<u>USD</u> <u>(ROL million)</u>	<u>EUR</u> <u>(ROL million)</u>	<u>Other</u> <u>currencies</u> <u>(ROL million)</u>	<u>Total</u> <u>(ROL million)</u>
Assets					
Cash and balances with National					
Bank of Romania	1,283,058	1,815,265	80,694	5,603	3,184,630
Treasury bills	995,746	41,181	-	-	1,036,927
Due from other banks	118,819	924,687	3,050	4,545	1,051,101
Loans and advances to customers, net	281,009	4,725,232	3,813,875	9,349	8,829,465
Investment securities					
- available for sale	37,097	34,465	437	-	71,999
Premises and equipment	447,207	-	-	-	447,207
Other assets	<u>50,979</u>	<u>-</u>	<u>54</u>	<u>-</u>	<u>51,033</u>
Total assets	<u>3,213,915</u>	<u>7,540,830</u>	<u>3,898,110</u>	<u>19,497</u>	<u>14,672,362</u>
Liabilities					
Due to other banks	256,257	4,026,767	1,958,053	8,059	6,249,136
Due to customers	1,933,174	2,362,534	1,746,358	77,347	6,119,413
Other borrowed funds	-	-	116,037	-	116,036
Other liabilities	39,314	694	5,896	901	46,806
Deferred tax liabilities	<u>53,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,847</u>
Total liabilities	<u>2,282,592</u>	<u>6,389,995</u>	<u>3,826,344</u>	<u>86,307</u>	<u>12,585,238</u>
Net balance sheet position	<u>931,323</u>	<u>1,150,835</u>	<u>71,766</u>	<u>(66,810)</u>	<u>2,087,124</u>

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25 CURRENCY RISK (CONTINUED)

Concentration of assets and liabilities:

As at 31 December 2001

	<u>Local</u> <u>currency</u> <u>(ROL million)</u>	<u>USD</u> <u>(ROL million)</u>	<u>EUR</u> <u>(ROL million)</u>	<u>Other</u> <u>currencies</u> <u>(ROL million)</u>	<u>Total</u> <u>(ROL million)</u>
Assets					
Cash and balances with National Bank of Romania	824,960	1,301,667	88	36,474	2,163,189
Treasury bills	99,765	48,425	-	-	148,190
Due from other banks	464,595	303,197	95,408	16,052	879,252
Loans and advances to customers, net	125,135	4,816,142	2,391,090	30,025	7,362,392
Investment securities					
- available for sale	27,430	34,465	464	-	62,359
Premises and equipment	409,482	-	-	-	409,482
Other assets	<u>34,562</u>	<u>1,925</u>	<u>337</u>	<u>-</u>	<u>36,824</u>
Total assets	<u>1,985,929</u>	<u>6,505,821</u>	<u>2,487,387</u>	<u>82,551</u>	<u>11,061,688</u>
Liabilities					
Due to other banks	133,720	2,955,611	1,426,575	22,364	4,538,270
Due to customers	1,070,942	2,620,737	1,111,519	54,090	4,857,288
Other borrowed funds	-	-	-	-	-
Other liabilities	20,1116	1,567	9,019	45	30,747
Deferred tax liabilities	<u>45,490</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,490</u>
Total liabilities	<u>1,270,268</u>	<u>5,577,915</u>	<u>2,547,113</u>	<u>76,499</u>	<u>9,471,795</u>
Net balance sheet position	<u>715,661</u>	<u>927,906</u>	<u>(59,726)</u>	<u>6,052</u>	<u>1,589,893</u>

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26 LIQUIDITY RISK

The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity as at 31 December 2002:

	Up to 1 <u>month</u> (ROL mil)	1 to 3 <u>months</u> (ROL mil)	3 to 12 <u>months</u> (ROL mil)	1 to 5 <u>years</u> (ROL mil)	Over 5 <u>years</u> (ROL mil)	<u>Total</u> (ROL mil)
Assets						
Cash and balances with National						
Bank of Romania	2,829,630	355,000	-	-	-	3,184,630
Treasury bills	306,412	394,900	335,615	-	-	1,036,927
Due from other banks	1,051,101	-	-	-	-	1,051,101
Loans and advances to customers, net	1,660,119	704,789	4,107,681	1,954,726	402,150	8,829,465
Investment securities						
- available for sale	-	-	-	-	71,999	71,999
Premises and equipment	-	-	-	-	447,207	447,207
Other assets	<u>51,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,033</u>
Total assets	<u>5,898,295</u>	<u>1,454,689</u>	<u>4,443,296</u>	<u>1,954,726</u>	<u>921,356</u>	<u>14,672,362</u>
Liabilities						
Due to other banks	2,869,721	402,198	285,587	2,691,630	-	6,249,136
Due to customers	4,772,181	779,231	554,613	13,388	-	6,119,413
Other borrowed funds	-	-	804	115,233	-	116,037
Other liabilities	-	-	-	-	46,806	46,806
Deferred tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,847</u>	<u>53,847</u>
Total liabilities	<u>7,641,902</u>	<u>1,181,429</u>	<u>841,004</u>	<u>2,820,250</u>	<u>100,653</u>	<u>12,585,238</u>
Net balance sheet position	<u>(1,743,607)</u>	<u>273,260</u>	<u>3,602,292</u>	<u>(865,524)</u>	<u>820,703</u>	<u>2,087,124</u>

Management believes 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 Bank would indicate that these deposits provide a long - term and stable source of funding.

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26 LIQUIDITY RISK (CONTINUED)

The tables below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity as at 31 December 2001:

	<u>Up to 1</u> <u>month</u> (ROL mil)	<u>1 to 3</u> <u>months</u> (ROL mil)	<u>3 to 12</u> <u>months</u> (ROL mil)	<u>1 to 5</u> <u>years</u> (ROL mil)	<u>Over 5</u> <u>years</u> (ROL mil)	<u>Total</u> (ROL mil)
Assets						
Cash and balances with National						
Bank of Romania	2,151,410	11,780	-	-	-	2,163,190
Treasury bills	2,295	16,756	80,751	48,388	-	148,190
Due from other banks	879,252	-	-	-	-	879,252
Loans and advances to customers, net	1,444,109	903,879	3,261,920	1,546,857	205,627	7,362,392
Investment securities						
- available for sale	-	-	-	-	62,359	62,359
Premises and equipment	-	-	-	-	409,482	409,482
Other assets	<u>16,831</u>	<u>2,037</u>	<u>13,829</u>	<u>1,922</u>	<u>2,205</u>	<u>36,824</u>
Total assets	<u>4,493,897</u>	<u>934,452</u>	<u>3,356,500</u>	<u>1,597,167</u>	<u>679,673</u>	<u>11,061,689</u>
Liabilities						
Due to other banks	2,386,926	752,983	1,398,361	-	-	4,538,270
Due to customers	3,869,633	406,330	467,642	113,683	-	4,857,288
Other borrowed funds	-	-	-	-	-	-
Other liabilities	4,975	3,487	5,885	16,400	-	30,747
Deferred tax liabilities	-	-	-	-	45,490	45,490
Total liabilities	<u>6,261,534</u>	<u>1,162,800</u>	<u>1,871,888</u>	<u>130,083</u>	<u>45,490</u>	<u>9,471,795</u>
Net liquidity gap	<u>(1,767,637)</u>	<u>(228,348)</u>	<u>1,484,612</u>	<u>1,467,084</u>	<u>634,183</u>	<u>1,589,894</u>

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27 INTEREST RATE RISK

The tables below summaries the effective interest rate by major currencies for interest bearing financial instruments.

As at 31 December 2002:

	ROL	EUR	USD
Assets			
Balances with National Bank of Romania	8%	-	1%
Treasury bills	26.54%	-	5%
Due from other banks	20.72%	3%	1.37%
Loans and advances to customers	31.20%	6.45%	6.22%
Liabilities			
Due to other banks	18.93%	3.57%	2.62%
Due to customers	11.31%	2.08%	1.60%

As at 31 December 2001:

	ROL	EUR	USD
Assets			
Balances with National Bank of Romania	22.46%	-	3.17%
Treasury bills	40.94%	-	8.92%
Due from other banks	40.37%	3.31%	3.80%
Loans and advances to customers	47.13%	8.14%	7.83%
Liabilities			
Due to other banks	38.26%	4.46%	5.70%
Due to customers	17.26%	4.05%	4.41%

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28 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. The Bank is controlled by Alpha Romanian Holding (incorporated in Greece) that owns 53.92% of the Bank's ordinary shares. The ultimate parent of the Bank is Alpha Bank (incorporated in Greece).

A number of banking transactions is entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out both on preferential and commercial terms and conditions and at market rates. The volumes of related party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

	Employees and Directors		Associated companies	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	(ROL million)	(ROL million)	(ROL million)	(ROL million)
Loans outstanding as at end of year	<u>27,853</u>	<u>15,100</u>	<u>500,772</u>	<u>311,217</u>
Interest income earned	<u>3,384</u>	<u>1,695</u>	<u>32,331</u>	<u>20,514</u>
No provisions have been recognised in respect of loans given to related parties (2001: nil).				
Deposits at end of year	<u>75,855</u>	<u>52,496</u>	<u>4,185,179</u>	<u>2,241,217</u>
Interest expense on deposits	<u>2,331</u>	<u>2,563</u>	<u>153,265</u>	<u>99,964</u>
Net commission income	104	186	27,950	4,653

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29 OPERATING ENVIRONMENT OF THE BANK

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

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

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

30 POST BALANCE SHEET EVENTS

On 26 March 2003 the National Bank of Romania's official exchange rate for the USD was USD 1 = ROL 33,637, compared to USD 1 = ROL 33,500 at 31 December 2002 (31 December 2001: USD 1 = ROL 31,597).