

# **ALPHA BANK ROMANIA SA**

**FINANCIAL STATEMENTS**  
**for the year ended 31 December 2003**

prepared in accordance with  
**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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## **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 19 branches located in Bucharest (7) 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, certificate of deposits, mortgage and consumer loans.

The number of employees as at 31 December 2003 is 578 (31 December 2002: 529).

## **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 capitalized" 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 2003, the Tier 1 and Tier 1 plus Tier 2 capital adequacy ratios based upon the BNR's regulations, were 16.31% and 16.01% respectively (31 December 2002: 19.64% and 19.31%, 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 Financial Reporting Standards ("IFRS"). Based upon financial information prepared in accordance with IFRS the Tier 1 and the Tier 1 plus Tier 2 capital adequacy ratios of the Bank at 31 December 2003 were 15.43%, respectively 16.93% (31 December 2002: 20.61% and 20.09%, respectively).

The main reason for the difference in the capital adequacy ratios between IFRS 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.

**ALPHA BANK ROMANIA SA**  
**GENERAL INFORMATION**  
*(all amounts are expressed in ROL million, unless otherwise stated)*

**2 CAPITAL ADEQUACY (CONTINUED)**

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.

	<b>IFRS Balance sheet (Nominal amount)</b>		<b>Risk weighted amount</b>	
	<b>31 Dec. 2003</b>	<b>31 Dec. 2002</b>	<b>30 Dec. 2003</b>	<b>31 Dec. 2002</b>
<b>Balance sheet assets (net of provisions)</b>				
Due from other banks	5,617,975	4,854,325	153,159	222,628
Treasury bills	520,016	1,183,134	-	-
Loans and advances to customers, net	15,290,839	10,074,419	11,732,249	6,583,771
Investments	87,797	82,151	10,766	76,247
Property and equipment	478,300	510,264	478,300	445,177
Other assets	49,610	36,873	10,516	7,608
	<u>22,044,537</u>	<u>16,741,166</u>	<u>12,384,990</u>	<u>7,335,431</u>
<b>Off balance sheet positions</b>				
Off balance sheet commitments and contingencies	<u>6,597,608</u>	<u>5,512,681</u>	<u>2,176,354</u>	<u>3,264,143</u>
Total risk weighted assets	<u>28,642,145</u>	<u>22,253,847</u>	<u>14,561,344</u>	<u>10,599,574</u>
	<b>Capital 31 Dec. 2003</b>	<b>Capital 31 Dec. 2002 (restated)</b>	<b>BIS % 31 Dec 2003</b>	<b>BIS % 31 Dec. 2002</b>
<b>BIS Capital ratios</b>				
Tier 1 +Tier 2 capital	2,465,706	2,184,290	16.93%	20.61%
Tier 1	2,247,123	2,129,298	15.43%	20.09%

## REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Alpha Bank Romania S.A.

1. We have audited the accompanying financial statements of Alpha Bank Romania S.A. (“the Bank”) on pages 4 to 32, which comprise the balance sheet as of December 31, 2003, and the income statement, statement of cash flows and statement of changes in shareholders’ equity for the year then ended and the related notes, all expressed in Romanian Lei (ROL). 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.
2. The financial statements of the Bank as of and for the year ended December 31, 2002 had been audited by other auditors whose report thereon dated March 26, 2003 expressed an unqualified opinion on those statements. These financial statements have been restated for the correction of a fundamental error related to the accrual of employee bonuses, as discussed in Note 1 to the financial statements.
3. This report is made solely to the Bank’s shareholders, as a body. Our audit work has been undertaken so that we might state to the Bank’s shareholders those matters we are required to state to them in an audit report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank’s shareholders as a body, for our work, or for this report, or for the opinions we have formed.
4. 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.
5. In our opinion, the financial statements referred to in paragraph 1 above present fairly, in all material respects, the financial position of Alpha Bank Romania S.A. as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
6. We have also reviewed the translation of the balance sheet and income statement expressed in ROL to EUR on the basis described in Note 1 to the financial statements. In our opinion, such statements have been properly translated on such basis.

Ernst & Young Assurance Services SRL

March 31, 2004  
Bucharest, Romania

**ALPHA BANK ROMANIA SA****Income Statement****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)*

	Note	Year ended 31 December			
		2003 (ROL million)	2002 (ROL million) (Restated)	2003 EUR '000 Proforma	2002 EUR '000 Proforma (Restated)
Interest and discount income	3	1,351,726	1,310,596	32,875	31,875
Interest expense	4	<u>(505,293)</u>	<u>(568,767)</u>	<u>(12,289)</u>	<u>(13,833)</u>
<b>Net interest income</b>		<b>846,433</b>	<b>741,829</b>	<b>20,586</b>	<b>18,042</b>
					-
Fee and commission income, net	5	339,650	228,198	8,261	5,550
Foreign exchange gains, net	6	90,091	160,317	2,191	3,899
Other operating income		<u>10,444</u>	<u>12,216</u>	<u>254</u>	<u>297</u>
<b>Total income</b>		<b>1,286,618</b>	<b>1,142,560</b>	<b>31,292</b>	<b>27,788</b>
Impairment gain/(loss) on loans and advances	7	(33,663)	2,339	(819)	57
Staff costs and other operating expenses	8	<u>(704,238)</u>	<u>(673,372)</u>	<u>(17,128)</u>	<u>(16,377)</u>
<b>Total operating profit</b>		<b>548,717</b>	<b>471,527</b>	<b>13,345</b>	<b>11,468</b>
Loss on net monetary position		<u>(264,417)</u>	<u>(238,977)</u>	<u>(6,431)</u>	<u>(5,812)</u>
<b>Profit before tax</b>		<b>284,300</b>	<b>232,550</b>	<b>6,914</b>	<b>5,656</b>
Taxation	20	<u>(83,288)</u>	<u>(84,715)</u>	<u>(2,026)</u>	<u>(2,060)</u>
<b>Profit for the year</b>		<b><u>201,012</u></b>	<b><u>147,835</u></b>	<b><u>4,888</u></b>	<b><u>3,596</u></b>

The financial statements on pages 4 to 32 were authorized for issue by the Board of Directors on 31 March 2004 and signed on its behalf by:

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Eleftherios P. Ioannou  
President & CEO

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Radu Gratian Ghetea  
First Vice President

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The accompanying notes on pages 8 to 32 form an integral part of these financial statements.

**ALPHA BANK ROMANIA 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)*

	Note	31-Dec 2003 (ROL million)	31-Dec 2002 (ROL million) (Restated)	31-Dec 2003 EUR '000 Proforma	31-Dec 2002 EUR '000 Proforma (Restated)
<b>ASSETS</b>					
Cash and balances with National Bank of Romania	9	4,835,698	3,655,019	117,608	88,893
Treasury bills	10	520,016	1,183,134	12,647	28,775
Due from other banks	11	782,277	1,199,306	19,026	29,168
Loans and advances to customers, net	12	15,290,839	10,074,419	371,886	245,018
Investment securities					
– available for sale	14	87,797	82,151	2,135	1,998
Premises and equipment	15	478,300	510,264	11,633	12,410
Other assets	13	49,610	36,873	1,207	897
<b>Total assets</b>		<b><u>22,044,537</u></b>	<b><u>16,741,166</u></b>	<b><u>536,142</u></b>	<b><u>407,159</u></b>
<b>LIABILITIES AND EQUITY</b>					
Due to other banks	16	10,181,580	7,130,265	247,625	173,413
Due to customers	17	8,830,959	6,982,250	214,776	169,814
Other borrowed funds	18	335,466	132,397	8,159	3,220
Other liabilities	19	92,365	82,543	2,246	2,008
Deferred tax liability	20	50,884	61,440	1,238	1,494
<b>Total liabilities</b>		<b><u>19,491,254</u></b>	<b><u>14,388,895</u></b>	<b><u>474,044</u></b>	<b><u>349,949</u></b>
Statutory share capital	21	1,452,415	1,272,679	35,324	30,953
Restatement of share capital		243,336	274,912	5,918	6,686
<b>Total share capital</b>		<b><u>1,695,751</u></b>	<b><u>1,547,591</u></b>	<b><u>41,242</u></b>	<b><u>37,639</u></b>
Share premium		-	1	-	-
Retained earnings	22	857,532	804,679	20,856	19,571
<b>Shareholders' equity</b>		<b><u>2,553,283</u></b>	<b><u>2,352,271</u></b>	<b><u>62,098</u></b>	<b><u>57,210</u></b>
<b>Total liabilities and equity</b>		<b><u>22,044,537</u></b>	<b><u>16,741,166</u></b>	<b><u>536,142</u></b>	<b><u>407,159</u></b>

Eleftherios P. Ioannou  
President&CEO

Radu Gratian Ghetea  
First Vice President

The accompanying notes on pages 8 to 32 form an integral part of these financial statements.

**ALPHA BANK ROMANIA SA****Cash Flow Statement**

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)*

	<u>31-Dec-2003</u>	<u>31-Dec-2002</u>
	(ROL million)	(ROL million) (Restated)
<b>Cash flow from operating activities</b>		
Profit before translation adjustments and taxation	548,716	471,526
Adjustments:		
Provisions for loans charge/(release)	33,664	(2,339)
Provision for tax to be recovered charge/(release)	-	-
Dividends received	(5,331)	(9,135)
Depreciation	66,359	61,775
<b>Net cash flow from operating activities</b>	<b>643,408</b>	<b>521,827</b>
<b>Change in operating assets</b>		
Decrease/(increase) in treasury bills	961,189	(970,053)
Decrease/(increase) in placements with other banks	-	4,806
Decrease/(increase) in loans and advances to customers	(5,250,084)	(1,671,590)
Decrease/(increase) in accrued income and other assets	8,617	(16,211)
<b>Total change in operating assets</b>	<b>(4,280,278)</b>	<b>(2,653,048)</b>
<b>Change in operating liabilities</b>		
(Decrease)/increase in loans and deposits from banks	3,051,315	1,952,098
(Decrease)/increase in amounts due to customers	1,848,709	1,440,085
(Decrease)/increase in borrowed funds	203,069	132,397
(Decrease)/increase in accruals and other liabilities	22,798	43,552
<b>Total change in operating liabilities</b>	<b>5,125,891</b>	<b>3,568,132</b>
Taxation paid	(99,974)	(67,589)
<b>Net cash from operating activities</b>	<b>1,389,047</b>	<b>1,369,321</b>
<b>Cash flow from investing activities</b>		
Net purchase of investments	(5,645)	(11,000)
Net purchase of fixed assets	(34,395)	(98,261)
Dividends received	5,331	9,135
<b>Net cash used in investing activities</b>	<b>(34,709)</b>	<b>(100,126)</b>
<b>Cash flow from financing activities</b>		
Issue of share capital and share premium	-	384,517
Finance lease repayments	(6,845)	(4,836)
Dividends paid	-	-
<b>Net cash from/(used in) financing activities</b>	<b>(6,845)</b>	<b>379,681</b>
Effects of inflation and exchange rate	(264,416)	(237,824)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>1,083,077</b>	<b>1,411,052</b>
Balance at the beginning of the period	<b>4,896,084</b>	<b>3,485,032</b>
<b>Balance at the end of the period</b>	<b>5,979,161</b>	<b>4,896,084</b>

The accompanying notes on pages 8 to 32 form an integral part of these financial statements.

**ALPHA BANK ROMANIA SA**

**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, 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)
<b>1 January 2002</b>	<b>1,010,769</b>	<b>179</b>	<b>803,120</b>	<b>1,814,068</b>
Share premium	-	1	-	1
Profit for the year	-	-	176,973	176,973
Issuance of shares	536,822	(179)	(146,276)	390,367
<b>31 December 2002, as previously reported</b>	<b>1,547,591</b>	<b>1</b>	<b>833,817</b>	<b>2,381,409</b>
Correction of fundamental error	-	-	(29,138)	(29,138)
<b>31 December 2002, as restated</b>	<b>1,547,591</b>	<b>1</b>	<b>804,679</b>	<b>2,352,271</b>
Issuance of shares	148,160	(1)	(148,159)	-
Profit for the year	-	-	201,012	<b>201,012</b>
<b>31 December 2003</b>	<b>1,695,751</b>	<b>-</b>	<b>857,532</b>	<b>2,553,283</b>

As of December 31, 2003, statutory non-distributable reserves set-up in accordance with Romanian law amount to 690,679 million ROL .

**ALPHA BANK ROMANIA SA**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2003**

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

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**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 International Accounting Standards Board ("IASB").

**Currency of presentation**

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

The proforma Euro ("EUR") 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 translating all the ROL figures into EUR at the period end official rate of ROL 41,117 per EUR. Such computations should not be held as a representation that the ROL amounts have been or could be converted into EUR at this rate or any other rate.

**Basis of accounting**

The Bank maintains its accounting records and prepares a separate set of financial statements in accordance with Romanian accounting law and National Bank of Romania banking regulations ("statutory accounts"). These IFRS financial statements incorporate adjustments 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 provision for loan losses and overdue interest and the accounting for hyperinflation.

**Reclassification of comparative amounts**

Where necessary, comparative figures have been adjusted to conform to 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 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 recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

**1. BASIS OF PRESENTATION (CONTINUED)****Restatement of 2002 comparatives**

The Bank omitted to include in the 2002 financial statements the accrual of the employee bonuses of ROL 27,985 million, recorded for statutory purposes as a profit distribution and the translation of its leasing liabilities using the current foreign exchange rate. The financial statements as of and for the year ended 31 December 2002 have been restated to correct these errors.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Set out below are the principal accounting policies adopted by the Bank in the preparation of the IFRS 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 IFRS financial statements.

**Accounting for hyperinflation**

IFRS 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 "Institutul National de Statistica si Studii Economice" ("INSSE") over the years 2000 to 2003 was:

	<b>Movement in consumer price index</b>	<b>Increase in the exchange rate of the EUR vs. ROL</b>
Year ended 31 December 2001	30.3%	15.6%
Year ended 31 December 2002	17.8%	25.2%
Year ended 31 December 2003	14.1%	17.7%

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 fact that the cumulative rate of inflation was 75.14% over the years 2001, 2002 and 2003, on the basis of the information published by the INSSE, together with other factors that are still valid, led to the adoption of IAS 29 in preparing these financial statements.

**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**

All tangible fixed assets are 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.

**(f) Income statement**

All items in the income statement are 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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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 2003 the principal rate of exchange used for translating foreign currency balances was USD 1= 32,595 (31 December 2002 USD 1=ROL 33,500) and EUR 1= 41,117 (31 December 2002 EUR 1=ROL 34,919). 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 recognized in the income statement 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.

### **Fee and commission income**

Fees and commission income consist mainly of fees received for foreign currency transactions, loans, guarantees given, opening letters of credit and commissions from managing funds on behalf of legal entities and citizens.

Corporate loan origination fees are credited to income upon granting of the applicable loan to match the costs of providing the facility. Retail loan origination fees are considered an integral part of the effective yield and therefore are deferred over the duration of the 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 foreign currency 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 realized from trading in treasury bills and changes in market value are included in the income statement.

### **Sale and repurchase agreements and lending of treasury bills**

Securities sold subject to linked repurchase agreements ("repos") are retained in the financial statements as securities and the counterparty 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**

**ALPHA BANK ROMANIA SA**

**Notes to the Financial Statements**

**for the year ended 31 December 2003**

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

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

A 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 the quality and financial performance of borrowers, debt servicing history, the present value of future cash flows including amounts recoverable from guarantees and collateral, the historical pattern of credit losses, credit ratings allocated to the borrowers when available, business and economic current climate in which borrowers operate.

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**

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. They are initially recognized at cost and subsequently re-measured at market value where a market does not presently exist for these investments or reliable comparative information for estimating market value, they are re-measured at restated cost less an estimate for impairment.

All regular way purchases and sales of equity investments are recognized 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 restating the ROL historical costs by the general price index between the month of acquisition and the year-end.

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

**ALPHA BANK ROMANIA SA****Notes to the Financial Statements****for the year ended 31 December 2003***(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)*

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The depreciation rates and the useful lives applied are as follows:

<b>Category</b>	<b>%</b>	<b>Useful lives</b>
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 branch es 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.

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

**Pension obligations and other post retirement benefits**

The Bank makes contributions to the Romanian State funds on behalf of its employees for pension, health care and unemployment benefits. All employees of the Bank are members of the State pension plan. The Bank does not operate any other pension or post retirement benefit plan and has no obligation to provide further benefits 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 realized.

The fair value is subject to fluctuations of many economic variables including:

- a) exchange rate of foreign currency against the ROL ;
- 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.

**ALPHA BANK ROMANIA SA****Notes to the Financial Statements****for the year ended 31 December 2003***(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)*

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**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 placements with and due 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 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.

**Dividends**

Dividends payable are recognized when declared.

**3. INTEREST AND DISCOUNT INCOME**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Loans to and placements with banks	313,307	352,611
Loans and advances to customers	930,062	673,084
T-bills	<u>108,357</u>	<u>284,901</u>
<b>Total interest income</b>	<b><u>1,351,726</u></b>	<b><u>1,310,596</u></b>

**ALPHA BANK ROMANIA SA****Notes to the Financial Statements****for the year ended 31 December 2003***(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)***4. INTEREST EXPENSE**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Deposits from banks	226,395	260,062
Sight and term deposits of customers	273,848	302,197
Securities	5,050	6,508
<b>Total interest expense</b>	<b><u>505,293</u></b>	<b><u>568,767</u></b>

**5. FEE AND COMMISSION INCOME, NET**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Fee and commission income	409,020	301,036
Fee and commission expense	(69,370)	(72,838)
<b>Net fee and commission income</b>	<b><u>339,650</u></b>	<b><u>228,198</u></b>

**6. FOREIGN EXCHANGE GAINS, NET**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Dealing foreign exchange gains , net	294,053	110,144
Foreign exchange gains/(expenses) on translation , net	(203,962)	50,173
<b>Net foreign exchange gains</b>	<b><u>90,091</u></b>	<b><u>160,317</u></b>

**7. IMPAIRMENT GAIN/(LOSSES) ON LOANS AND ADVANCES**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Loans and advances to customers release of/(additional) provision (Note 12(c))	(33,663)	2,339
<b>Total</b>	<b><u>(33,663)</u></b>	<b><u>2,339</u></b>

**ALPHA BANK ROMANIA SA****Notes to the Financial Statements****for the year ended 31 December 2003***(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)***8. STAFF COSTS AND OTHER OPERATING EXPENSES**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million) (restated)
Staff costs and related taxes	325,838	321,429
Depreciation	66,359	61,775
Rent	70,349	71,147
Other expenses	241,692	219,021
<b>Total</b>	<b><u>704,238</u></b>	<b><u>673,372</u></b>

**9. CASH AND BALANCES WITH NATIONAL BANK OF ROMANIA**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Cash in hand	442,121	309,624
Cash in ATMs	32,263	21,356
Current account at National Bank of Romania	3,413,750	2,330,016
Deposit with National Bank of Romania	940,000	969,850
Accrued interest on deposit with National Bank of Romania	7,564	24,173
<b>Total</b>	<b><u>4,835,698</u></b>	<b><u>3,655,019</u></b>

The current account with the National Bank of Romania includes a mandatory reserve of ROL 462,971 million and of USD 83,453 calculated as a 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 2003 ranged from 6.25% to 6% for reserves held in ROL and from 1% to 0.75% for reserves held in USD (2002: 15% to 8% for ROL and 1% for USD).

**10. TREASURY BILLS AND TREASURY BONDS**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
In local currency	467,520	1,136,146
In foreign currency	52,496	46,988
<b>Total</b>	<b><u>520,016</u></b>	<b><u>1,183,134</u></b>

During 2003, the Bank held treasury bills issued by the Romanian Ministry of Finance in ROL at a discount, with interest rates ranging from 13.84% to 33.59% for the year 2003 (2002: 26.54% to 35.97%). The weighted average rate in December 2003 is 17.59% (2002: 31.19%), with maturity between January 2004 and June 2005.

Treasury bonds in foreign currency at 31 December 2003 are denominated in USD and EUR and carry an interest of 3.3% and 3.55% (2002: 5%) and mature in September 2004 and May 2006.

**ALPHA BANK ROMANIA SA****Notes to the Financial Statements****for the year ended 31 December 2003***(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)*

Treasury bills amounting to ROL 70,195 million are pledged as at 31 December 2003 with the National Bank of Romania for settlement purposes (31 December 2002: ROL 101,135 million).

**11. DUE FROM OTHER BANKS**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Current accounts with other banks	103,286	117,116
Placements with other banks	675,889	1,079,842
Collateral deposits with banks	2,607	1,911
Accrued interest for deposits with other banks	495	437
<b>Total due from banks</b>	<b><u>782,277</u></b>	<b><u>1,199,306</u></b>

**12. LOANS AND ADVANCES TO CUSTOMERS**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Corporate	11,363,665	8,459,454
SMEs	1,810,614	1,114,845
Individuals	2,179,101	533,069
-Consumer loans	1,157,199	-
-Housing loans	927,147	421,528
-Other	94,755	111,541
	<b><u>15,353,380</u></b>	<b><u>10,107,368</u></b>
Provisions for impairment losses	(62,541)	(32,949)
<b>Total loans, net</b>	<b><u>15,290,839</u></b>	<b><u>10,074,419</u></b>

**(a) Analysis by type of customer**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Individuals		
in ROL	1,195,807	21,176
in foreign currencies	983,294	511,893
Legal entities		
in ROL	888,403	298,562
in foreign currencies	12,285,876	9,275,737
<b>Total loans, gross</b>	<b><u>15,353,380</u></b>	<b><u>10,107,368</u></b>
Provision	(62,541)	(32,949)
<b>Total</b>	<b><u>15,290,839</u></b>	<b><u>10,074,419</u></b>

**ALPHA BANK ROMANIA SA****Notes to the Financial Statements****for the year ended 31 December 2003***(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)***12. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)****(b) Analysis by sector**

	<b>31-Dec-2003</b>	
	<b>(ROL million)</b>	<b>%</b>
Services (financial services, other)	5,052,055	32.92%
Trade	2,401,205	15.64%
Agriculture and food industry	2,235,850	14.56%
Constructions	1,377,390	8.97%
Manufacturing industry	742,269	4.83%
Chemical and petrochemical	263,507	1.72%
Tourism	256,960	1.67%
Other sectors and individuals	3,024,144	19.69%
<b>Total</b>	<b>15,353,380</b>	<b>100%</b>

During the year 2003, the Bank has revised and refined the classification of its loan portfolio by industry and therefore the comparatives as of 31 December 2002 are not available.

**(c) Provision for loan losses**

	<b>31 December 2003</b>	<b>31 December 2002</b>
	<b>(ROL million)</b>	<b>(ROL million)</b>
At 1 January	32,949	41,570
Effect of inflation	(4,071)	(6,282)
Additional/(released) provision -(see Note 7)	33,663	(2,339)
<b>At 31 December</b>	<b>62,541</b>	<b>32,949</b>

**(d) Maturity analysis (see Note 26).**

**ALPHA BANK ROMANIA SA**  
**Notes to the Financial Statements**  
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**13. OTHER ASSETS**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Sundry debtors	4,342	1,133
Prepayments	23,102	7,799
Tax on profit paid in advance	29,464	33,618
Provision for tax paid in advance	(12,484)	(13,103)
Other assets	5,186	7,426
<b>Other assets</b>	<b>49,610</b>	<b>36,873</b>

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
As at 1 January	13,103	15,435
Effect of inflation	(1,619)	(2,332)
Additional provision	1,000	-
<b>As at period end</b>	<b>12,484</b>	<b>13,103</b>

**14. INVESTMENT SECURITIES**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
As at 1 January	82,151	71,152
Additions	5,646	11,020
Disposals	-	(21)
<b>As at period end</b>	<b>87,797</b>	<b>82,151</b>

**Investment**

	<u>Percentage interest</u>	
	<u>31 December 2003</u>	<u>31 December 2002</u>
Victoria Bank Chi sinau	12.50%	12.50%
Alpha Consulting SRL	20.00%	20.00%
Alpha Finance Romania	24.73%	24.73%
Alpha Leasing Romania	20.00%	20.00%
Alpha Insurance Romania	20.00%	20.00%
SNCDD	1.61%	1.61%
TransFond	2.80%	2.53%
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%

All investments are stated at cost in the opinion of the management, the result of Alpha Finance Romania and Alpha Consulting SRL are 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 and SWIFT), the major area of operation is Romania.

**ALPHA BANK ROMANIA SA**

**Notes to the Financial Statements**

**for the year ended 31 December 2003**

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

**15. PREMISES AND EQUIPMENT**

	<u>Land and Buildings</u>	<u>Office equipment</u>	<u>Others</u>	<u>Fixed assets in progress</u>	<u>Intangible fixed assets</u>	<u>Total</u>
<b>Cost</b>						
1 January 2003	364,667	245,185	225,065	21,502	124,162	980,581
Additions	18,976	28,933	10,268	4,679	33,006	95,862
Disposals	(53,579)	(139,625)	(10,481)	-	-	(203,685)
Impairment	-	-	-	-	-	-
<b>31 December 2003</b>	<b><u>330,064</u></b>	<b><u>134,493</u></b>	<b><u>224,852</u></b>	<b><u>26,181</u></b>	<b><u>157,168</u></b>	<b><u>872,758</u></b>
<b>Depreciation</b>						
1 January 2003	101,853	175,574	100,425	-	92,465	470,317
Depreciation charge	11,903	28,480	19,528	-	6,448	66,359
Disposals	(2,286)	(130,350)	(9,582)	-	-	(142,218)
<b>31 December 2003</b>	<b><u>111,470</u></b>	<b><u>73,704</u></b>	<b><u>110,371</u></b>	<b><u>-</u></b>	<b><u>98,913</u></b>	<b><u>394,458</u></b>
<b>Net book value</b>						
<b>31 December 2003</b>	<b><u>218,594</u></b>	<b><u>60,789</u></b>	<b><u>114,481</u></b>	<b><u>26,181</u></b>	<b><u>58,255</u></b>	<b><u>478,300</u></b>
<b>31 December 2002</b>	<b><u>262,813</u></b>	<b><u>69,612</u></b>	<b><u>124,639</u></b>	<b><u>21,502</u></b>	<b><u>31,698</u></b>	<b><u>510,264</u></b>

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 50,045 (2002: ROL 39,265) represents fixed assets purchased under finance lease agreements

**16. DUE TO OTHER BANKS**

	<u>31 December 2003 (ROL million)</u>	<u>31 December 2002 (ROL million)</u>
Demand deposits	30,627	183,169
Time deposits	8,695,786	5,464,792
Collateral deposits	1,439,917	1,472,560
Accrued interest on due to other banks	15,250	9,744
<b>Total due to other banks</b>	<b><u>10,181,580</u></b>	<b><u>7,130,265</u></b>

**ALPHA BANK ROMANIA SA**  
**Notes to the Financial Statements**  
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**17. DUE TO CUSTOMERS**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Sight deposits	3,154,245	2,653,160
Term deposits	4,401,387	3,209,461
Collateral deposits	738,323	403,802
Certificates of deposit	508,335	671,977
Accrued interest	28,669	43,850
<b>Due to customers</b>	<b><u>8,830,959</u></b>	<b><u>6,982,250</u></b>

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Individuals		
in ROL	540,472	503,467
in foreign currencies	2,800,624	2,296,600
Legal entities		
in ROL	2,666,096	1,676,241
in foreign currencies	2,795,098	2,462,092
<b>Total deposits</b>	<b><u>8,802,290</u></b>	<b><u>6,938,400</u></b>
Accrued interest	28,669	43,850
<b>Total</b>	<b><u>8,830,959</u></b>	<b><u>6,982,250</u></b>

**18. OTHER BORROWED FUNDS**

Other borrowed funds represent a credit facility for financing small and medium enterprises of EUR 10 million from the European Bank for Reconstruction and Development received in November 2001 maturing in May 2007. As at 31 December 2003 the Bank has drawn EUR 9 million (EUR 3.3 million as at 31 December 2002), and has reimbursed EUR 0.88 million, the net balance being equivalent to ROL 335,466 million equivalent (ROL 132,397 million equivalent as 31 December 2002).

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
EBRD loan	333,504	131,480
Accrued interest	1,962	917
<b>Borrowed funds</b>	<b><u>335,466</u></b>	<b><u>132,397</u></b>

**ALPHA BANK ROMANIA SA**  
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*(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)*

**19. OTHER LIABILITIES**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million) (Restated)
Accrued staff bonuses	15,800	27,987
Deferred income	37,833	1,656
Lease payable	26,085	32,234
Other liabilities	12,647	20,666
<b>Other liabilities</b>	<b><u>92,365</u></b>	<b><u>82,543</u></b>

**20. TAXATION**

**Tax charge**

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

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Statutory current tax charge	93,844	75,180
Deferred tax charge	(10,556)	9,535
<b>Total tax charge for the period</b>	<b><u>83,288</u></b>	<b><u>84,715</u></b>

**Deferred tax liability**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
At 1 January	61,440	51,905
Charge/(release) for the year	(10,556)	9,535
<b>At 31 December</b>	<b><u>50,884</u></b>	<b><u>61,440</u></b>

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

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Profit before tax	284,301	232,550
Tax calculated at a tax rate of 25% (2002:25%)	71,075	58,138
Effect on tax of:		
- statutory non-taxable/non-deductible items (net)	(53,727)	(50,533)
- IAS adjustments	76,496	67,575
<b>Statutory income tax charge</b>	<b><u>93,844</u></b>	<b><u>75,180</u></b>

**ALPHA BANK ROMANIA SA**  
**Notes to the Financial Statements**  
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*(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)*

**21. SHARE CAPITAL**

	<u>31 December 2003</u> (ROL million)	<u>31 December 2002</u> (ROL million)
Statutory value (not restated)	1,452,415	1,272,679
Restatement of share capital	<u>243,336</u>	<u>274,912</u>
<b>Total</b>	<b><u>1,695,751</u></b>	<b><u>1,547,591</u></b>

The authorized, issued and fully paid share capital of the Bank at 31 December 2003 is 2,856,346 shares with a par value of ROL 508,487 (31 December 2002 of 2,856,346 shares with a par value of ROL 445,562).

All issued shares are fully paid and carry one vote.

The capital structure as at 31 December 2003 is as follows:

<b>Shareholder</b>	<u>Number of shares</u>	<u>%</u>	<u>Amount</u>
Alpha Bank A.E	2,726,413	95.45%	1,618,613
Alpha Finance A.E	27,203	0.95%	16,150
Alpha Advisory Romania SRL	10	0.0004%	6
<i>Alpha Bank Group (Greece)</i>	<u>2,753,626</u>	<u>96.40%</u>	<u>1,634,769</u>
Monte dei Paschi di Sienna	100,000	3.50%	59,368
Other shareholders (Greek)	<u>2,720</u>	<u>0.09%</u>	<u>1,614</u>
<b>Total</b>	<b><u>2,856,346</u></b>	<b><u>100%</u></b>	<b><u>1,695,751</u></b>

In November 2003, the structure of the shareholders was changed following the absorption of Alpha Romanian Holdings by Alpha Bank A.E. Also, Alpha Advisory Romania became a new shareholder, with 10 shares previously owned by Alpha Romanian Holdings.

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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 was required until the end of 2003 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 issued and fully paid up share capital and thereafter from the net profit without limit;
- (b) reserve for latent credit losses, appropriated from the profit before tax up to the rate of 2% of the loan risk portfolio.

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

Below is a reconciliation of the total reserves and results for the year between the statutory and IFRS financial statements.

	31 December 2003		31 December 2002	
	Reserves (ROL million)	Profit (ROL million)	Reserves (ROL million)	Profit (ROL million)
Per statutory accounts	458,068	483,544	353,003	416,601
Loss on net monetary position	-	(264,417)	-	(238,977)
Other adjustments in IFRS statements	198,452	(18,115)	303,841	(29,789)
<b>Total</b>	<b>656,520</b>	<b>201,012</b>	<b>656,844</b>	<b>147,835</b>

## **23. COMMITMENTS AND CONTINGENCIES**

### **Guarantees and letters of credit**

The Bank issues guarantees and letters of credit on behalf of its customers. 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 collateralized 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.

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, such as cash collateral and letters of guarantee from Alpha Bank AE and other parties. At 31 December 2003 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**

Commitments to extend credit represent unused portions of authorizations 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 authorizations 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.

The aggregate amount of outstanding guarantees, letters of credit and commitments to extend credit at the end of the year were:

	<u>31 December 2003</u> <u>(ROL million)</u>	<u>31 December 2002</u> <u>(ROL million)</u>
Letters of guarantee issued in ROL:	390,887	272,280
Letters of guarantee issued in foreign currency:	1,917,663	1,683,476
<b>Total letters of guarantee issued</b>	<b>2,308,550</b>	<b>1,955,756</b>
<b>Letters of credit issued</b>	<b>233,190</b>	<b>376,590</b>
<b>Commitments to extend credit</b>	<b>4,055,868</b>	<b>3,180,334</b>

## **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.

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.

### **Market risk**

Market risk arises from adverse changes in the price of securities. In order to manage market risk, the Bank has established limits on trading.

### **Liquidity risk**

The liquidity risk is associated either with the difficulty of an enterprise to raise the necessary funds in order to meet commitments or to its inability to sell a financial asset quickly at close to its fair value.

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 2003 and 31 December 2002 analyzed 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, such as due from 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 minimizes 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.

### **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.

**ALPHA BANK ROMANIA SA****Notes to the Financial Statements****for the year ended 31 December 2003***(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)***25. CURRENCY RISK****Concentration of assets and liabilities:**

As at 31 December 2003:

	<b>Local Currency</b>	<b>USD</b>	<b>EUR</b>	<b>Other currencies</b>	<b>Total</b>
	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>
<b>Assets</b>					
Cash and balances with National Bank of Romania	1,721,647	2,917,005	185,027	12,019	<b>4,835,698</b>
Treasury bills	467,520	4,515	47,981	-	<b>520,016</b>
Due from other banks	352,095	3,848	258,657	167,677	<b>782,277</b>
Loans and advances to customers, net	2,095,397	4,491,726	8,683,402	20,314	<b>15,290,839</b>
Investment securities - available for sale	47,944	39,324	529	-	<b>87,797</b>
Premises and equipment	478,300	-	-	-	<b>478,300</b>
Other assets	48,855	233	522	-	<b>49,610</b>
<b>Total assets</b>	<b>5,211,758</b>	<b>7,456,651</b>	<b>9,176,118</b>	<b>200,010</b>	<b>22,044,537</b>
<b>Liabilities</b>					
Due to other banks	323,334	3,673,442	6,061,827	122,977	<b>10,181,580</b>
Due to customers	3,179,898	2,811,563	2,733,713	105,785	<b>8,830,959</b>
Other borrowed funds	-	-	335,466	-	<b>335,466</b>
Other liabilities	85,360	2,874	3,770	361	<b>92,365</b>
Deferred tax liabilities	50,884	-	-	-	<b>50,884</b>
<b>Total liabilities</b>	<b>3,639,476</b>	<b>6,487,879</b>	<b>9,134,776</b>	<b>229,123</b>	<b>19,491,254</b>
<b>Net balance sheet position</b>	<b>1,572,282</b>	<b>968,772</b>	<b>41,342</b>	<b>(29,113)</b>	<b>2,553,283</b>

**ALPHA BANK ROMANIA SA****Notes to the Financial Statements****for the year ended 31 December 2003***(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)***25. CURRENCY RISK (CONTINUED)****Concentration of assets and liabilities:**

As at 31 December 2002 (restated):

	<u>Local currency (ROL million)</u>	<u>USD (ROL million)</u>	<u>EUR (ROL million)</u>	<u>Other currencies (ROL million)</u>	<u>Total (ROL million)</u>
<b>Assets</b>					
Cash and balances with National Bank of Romania	1,485,337	2,071,217	92,072	6,393	3,655,019
Treasury bills	1,136,146	46,988	-	-	1,183,134
Due from other banks	135,572	1,055,068	3,480	5,186	1,199,306
Loans and advances to customers, net	320,631	5,391,490	4,351,631	10,667	10,074,419
Investment securities - available for sale	42,327	39,325	499	-	82,151
Premises and equipment	510,264	-	-	-	510,264
Other assets	36,811	-	62	-	36,873
<b>Total assets</b>	<b><u>3,667,088</u></b>	<b><u>8,604,088</u></b>	<b><u>4,447,744</u></b>	<b><u>22,246</u></b>	<b><u>16,741,166</u></b>
<b>Liabilities</b>					
Due to other banks	292,389	4,594,542	2,234,138	9,196	7,130,265
Due to customers	2,205,752	2,695,651	1,992,594	88,253	6,982,250
Other borrowed funds	-	-	132,397	-	132,397
Other liabilities	73,996	792	6,727	1,028	82,543
Deferred tax liabilities	61,440	-	-	-	61,440
<b>Total liabilities</b>	<b><u>2,633,577</u></b>	<b><u>7,290,985</u></b>	<b><u>4,365,856</u></b>	<b><u>98,477</u></b>	<b><u>14,388,895</u></b>
<b>Net balance sheet position</b>	<b><u>1,033,511</u></b>	<b><u>1,313,103</u></b>	<b><u>81,888</u></b>	<b><u>(76,231)</u></b>	<b><u>2,352,271</u></b>

**ALPHA BANK ROMANIA SA****Notes to the Financial Statements****for the year ended 31 December 2003***(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)***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 2003:

	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>Over 1 year</b>	<b>No specified maturity</b>	<b>Total</b>
	<b>(ROL mil)</b>	<b>(ROL mil)</b>	<b>(ROL mil)</b>	<b>(ROL mil)</b>	<b>(ROL mil)</b>	<b>(ROL mil)</b>
<b>Assets</b>						
Cash and balances with National Bank of Romania	4,835,698	-	-	-	-	<b>4,835,698</b>
Treasury bills	13,829	96,397	350,697	59,093	-	<b>520,016</b>
Due from other banks	782,277	-	-	-	-	<b>782,277</b>
Loans and advances to customers, net	1,503,409	1,543,806	4,292,997	7,950,627	-	<b>15,290,839</b>
Investment securities - available for sale	-	-	-	-	87,797	<b>87,797</b>
Premises and equipment	-	-	-	-	478,300	<b>478,300</b>
Other assets	284	509	3,820	16,497	28,500	<b>49,610</b>
<b>Total assets</b>	<b><u>7,135,497</u></b>	<b><u>1,640,712</u></b>	<b><u>4,647,514</u></b>	<b><u>8,026,217</u></b>	<b><u>594,597</u></b>	<b><u>22,044,537</u></b>
<b>Liabilities</b>						
Due to other banks	4,994,228	275,663	671,898	4,239,791	-	<b>10,181,580</b>
Due to customers	6,996,050	1,242,237	581,160	11,512	-	<b>8,830,959</b>
Other borrowed funds	-	-	1,962	333,504	-	<b>335,466</b>
Other liabilities	31,998	1,618	9,245	49,504	-	<b>92,365</b>
Deferred tax liabilities	-	-	-	-	50,884	<b>50,884</b>
<b>Total liabilities</b>	<b><u>12,022,276</u></b>	<b><u>1,519,518</u></b>	<b><u>1,264,265</u></b>	<b><u>4,634,311</u></b>	<b><u>50,884</u></b>	<b><u>19,491,254</u></b>
<b>Net balance sheet position</b>	<b><u>(4,886,779)</u></b>	<b><u>121,194</u></b>	<b><u>3,383,249</u></b>	<b><u>3,391,906</u></b>	<b><u>543,713</u></b>	<b><u>2,553,283</u></b>

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.

**ALPHA BANK ROMANIA SA****Notes to the Financial Statements****for the year ended 31 December 2003***(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)***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 2002 (restated):

	<u>Up to 1 month</u> (ROL mil)	<u>1 to 3 months</u> (ROL mil)	<u>3 to 12 months</u> (ROL mil)	<u>Over 1to year</u> (ROL mil)	<u>No specified maturity</u> (ROL mil)	<u>Total</u> (ROL mil)
<b>Assets</b>						
Cash and balances with National Bank of Romania	3,249,964	405,055	-	-	-	3,655,019
Treasury bills	349,616	450,581	382,937	-	-	1,183,134
Due from other banks	1,199,306	-	-	-	-	1,199,306
Loans and advances to customers, net	1,894,196	804,164	4,686,864	2,689,195	-	10,074,419
Investment securities						
- available for sale	-	-	-	-	82,151	82,151
Premises and equipment	-	-	-	-	510,264	510,264
Other assets	36,873	-	-	-	-	36,873
<b>Total assets</b>	<b><u>6,729,955</u></b>	<b><u>1,659,800</u></b>	<b><u>5,069,801</u></b>	<b><u>2,689,195</u></b>	<b><u>592,415</u></b>	<b><u>16,741,166</u></b>
<b>Liabilities</b>						
Due to other banks	3,274,352	458,908	325,855	3,071,150	-	7,130,265
Due to customers	5,445,059	889,103	632,813	15,275	-	6,982,250
Other borrowed funds	-	-	917	131,480	-	132,397
Other liabilities	-	-	-	-	82,543	82,543
Deferred tax liabilities	-	-	-	-	61,440	61,440
<b>Total liabilities</b>	<b><u>8,719,411</u></b>	<b><u>1,348,011</u></b>	<b><u>959,585</u></b>	<b><u>3,217,905</u></b>	<b><u>143,983</u></b>	<b><u>14,388,895</u></b>
<b>Net balance sheet position</b>	<b><u>(1,989,456)</u></b>	<b><u>311,789</u></b>	<b><u>4,110,216</u></b>	<b><u>(528,710)</u></b>	<b><u>448,432</u></b>	<b><u>2,352,271</u></b>

**ALPHA BANK ROMANIA SA****Notes to the Financial Statements****for the year ended 31 December 2003***(Expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)***27. INTEREST RATE RISK**

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

As at 31 December 2003:

	<u>ROL</u>	<u>EUR</u>	<u>USD</u>
<b>Assets</b>			
Balances with National Bank of Romania	6.25%	-	0,75%
Treasury bills	17.59%	-	3.3%
Due from other banks	21%	2.3%	0.91%
Loans and advances to customers	22%	7.25%	6.5%
<b>Liabilities</b>			
Due to other banks	19.85%	2.87%	1.66%
Due to customers	8.47%	1.6%	1.44%

As at 31 December 2002:

	<u>ROL</u>	<u>EUR</u>	<u>USD</u>
<b>Assets</b>			
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%
<b>Liabilities</b>			
Due to other banks	18.93%	3.57%	2.62%
Due to customers	11.31%	2.08%	1.60%

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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 Bank A.E. that owns 95.45% of the Bank's ordinary shares.

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:

	<b>Employees and Directors</b>		<b>Associated companies</b>	
	<b>31 December 2003</b>	<b>31 December 2002</b>	<b>31 December 2003</b>	<b>31 December 2002</b>
	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>	<b>(ROL million)</b>
Loans outstanding as at end of year	63,915	31,780	952,983	571,380
Interest income earned	5,414	4,089	49,403	36,890
No provisions have been recognized in respect of loans given to related parties (2002: nil).				
Deposits at end of year	105,903	86,550	8,159,847	4,775,289
Interest expense on deposits	2,733	2,660	155,783	174,875
Net commission income	235	119	3,615	31,891

**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 formalized 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 31 March 2004 the National Bank of Romania's official exchange rate for the EUR was EUR 1 = ROL 40,891, compared to EUR 1 = ROL 41,117 at 31 December 2003.