SANPAOLO IMI BANK ROMANIA SA

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

SANPAOLO IMI BANK ROMANIA SA

FINANCIAL STATEMENTS FOR THE YEAR ENDED

31 DECEMBER 2003

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GENERAL INFORMATION

NATURE OF THE ENTERPRISE

Sanpaolo IMI Bank Romania SA (the "Bank") has been incorporated in Romania in December 1996, initially under the name of "West Bank" and is licensed by the National Bank of Romania to conduct banking activities. The Bank has changed its name from "West Bank" to "Sanpaolo IMI Bank Romania" after approval by National Bank of Romania on 16th October 2003. The Bank is principally engaged in retail banking operations in Romania.
The Bank is member of SANPAOLO IMI Group.
As at 31 December 2003 the Bank had 18 branches and 4 agencies.

The management at the Head office comprises Marco Capellini as General Manager and Ioan Mihail Anca as Deputy General Manager. The Bank's Head office is organised into 3 divisions: Finance Division managed by Luigi Sangalli, Business Division managed by Fiorenzo Chiti and Organisation and Structure Division managed by Roberto Carosiello.

The Bank's registered office is located at the following address:
88, B-dul Revoluției
Arad
Romania

As at 31 December 2003 the number of employees was 403 (31 December 2002: 399).

The Board of Directors formulates policies for the operation of the Bank and supervises their implementation. The Board is composed of 6 members appointed by the General Meeting of Shareholders.

As at 31 December 2003 the Board of Directors of the Bank comprised the following members:

1. Giovanni Ravasio	president
2. Marco Capellini	member
3. Ioan Mihail Anca	member
4. Nicola Calabró	member
5. Gerardo Palmitesta	member
6. Daniele Bordina	member

PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SANPAOLO IMI BANK ROMANIA SA

1 We have audited the accompanying balance sheet of Sanpaolo IMI Bank Romania SA ("the Bank") as at 31 December 2003, 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 Romanian Lei (ROL) as at 31 December 2003. 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 We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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.

3 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2003 and the results of its operations and its cash flows 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.

4 Without qualifying our report, we draw attention to the fact that the Bank has recorded a net loss of ROL 210,844 million during the year ended on 31 December 2003. As of that date, the accumulated losses amounted to ROL 801,759 million compared with share capital of ROL 1,058,470 million. These financial statements have been prepared on a going concern basis, as the management of the Bank is confident that the Bank will return to profitability in the foreseeable future and the shareholders of the Bank will contribute additional capital and support, as described in Note 32.

PricewaterhouseCoopers Audit SRL | Bucuresti, 26 February 2004

SANPAOLO IMI BANK ROMANIA SA

STATEMENT OF INCOME

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

		Year ended 31 December			
	Note	**2003**	**2002**	**2003**	**2002**
		(ROL million)	**(ROL million)**	**EUR Proforma**	**EUR Proforma**
Interest income	3	279,437	352,235	6,796,143	8,566,651
Interest expense	4	(154,472)	(214,711)	(3,756,889)	(5,221,952)
Net interest income		124,965	137,524	3,039,254	3,344,699
Fee and commission income, net	5	134,397	120,902	3,268,648	2,940,438
Foreign exchange gain, net	6	96,672	66,014	2,351,144	1,605,516
Other operating income		14,108	26,127	343,118	635,431
Total income		370,142	350,567	9,002,164	8,526,084
Bad and doubtful debts expenses	7	(135,002)	(303,527)	(3,283,362)	(7,382,031)
Other operating expenses	8	(440,280)	(301,358)	(10,707,979)	(7,329,280)
Loss before (loss) on net monetary position		(205,140)	(254,318)	(4,989,177)	(6,185,227)
Loss on net monetary position		(5,704)	(26,695)	(138,726)	(649,245)
Loss before taxation		(210,844)	(281,013)	(5,127,903)	(6,834,472)
Income tax	21	-	(14,919)	-	(362,843)
Net loss		(210,844)	(295,932)	(5,127,903)	(7,197,315)

The financial statements on pages 1 to 5 and accompanying notes on pages 6 to 41 based on the statutory accounts restated in accordance with International Financial Reporting Standards were signed on behalf of the Board of Directors on 26 February 2004 by:

Marco Capellini
General Manager

Cristian Mihailescu
Finance Manager

The accompanying notes on pages 6 to 41 form an integral part of these financial statements.

SANPAOLO IMI 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 December 2003 (ROL million)	31 December 2002 (ROL million)	31 December 2003 EUR Proforma	31 December 2002 EUR Proforma
ASSETS					
Cash		76,000	83,351	1,848,384	2,027,166
Due from the National Bank of Romania	9	373,171	509,620	9,075,832	12,394,387
Treasury bills	10	40,916	213,409	995,112	5,190,286
Due from other banks	11	118,726	111,548	2,887,516	2,712,941
Loans and advances to customers, net	12	1,171,444	1,207,714	28,490,503	29,372,619
Investment securities available-for-sale	13	296,957	-	7,222,244	-
Equity investments	15	16,072	22,054	390,885	536,372
Premises and equipment	16	309,690	342,800	7,531,921	8,337,184
Other assets, net	14	41,675	63,321	1,013,571	1,540,020
Total assets		2,444,651	2,553,817	59,455,968	62,110,975
LIABILITIES					
Liabilities					
Due to other banks	17	439,199	690,822	10,681,689	16,801,372
Due to customers	18	1,407,768	1,463,388	34,238,101	35,590,826
Other borrowed funds	19	107,552	26,780	2,615,755	651,312
Other liabilities	20	200,972	77,677	4,887,808	1,889,170
Total liabilities		2,155,491	2,258,667	52,423,353	54,932,680
Shareholders' equity					
Share capital	22	1,058,470	854,438	25,742,880	20,780,650
Other reserves	23	32,449	31,627	789,187	769,195
Accumulated losses		(801,759)	(590,915)	(19,499,452)	(14,371,550)
Shareholders' equity		289,160	295,150	7,032,615	7,178,295
Total liabilities and equity		2,444,651	2,553,817	59,455,968	62,110,975
Off balance sheet commitments and contingencies	25	185,665	221,165	4,515,517	5,378,919

The financial statements on pages 1 to 5 and accompanying notes on pages 6 to 41 based on the statutory accounts restated in accordance with International Financial Reporting Standards were approved by the Board of Directors on 26 February 2004, and signed on its behalf by:

Marco Capellini
General Manager

Cristian Mihailescu
Finance Manager

The accompanying notes on pages 6 to 41 form an integral part of these financial statements.

SANPAOLO IMI 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)

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Cash flow from operating activities		
Operating loss (before taxation and loss on net monetary position)	(205,140)	(254,320)
Adjustments for:		
Bad debts expense	76,966	281,536
Provision for off balance sheet commitments	111,394	41,061
Provision for other debtors	(11,276)	44,201
Provision for investments	9,041	8,982
Scrip dividend	-	(4,993)
Depreciation charge	40,876	22,689
Impairment fixed assets	50,990	-
Net cash flow from operating activities	72,851	139,156
Change in operating assets		
Decrease/(increase) in treasury bills over 90 days	172,493	(26,243)
Increase in placements with other banks	(8,920)	-
Increase in loans and advances to customers	(40,696)	(723,546)
Decrease/(increase) in other assets	32,922	(40,026)
Total change in operating assets	155,799	(789,815)
Change in operating liabilities		
Increase/(decrease) in other liabilities	15,233	(8,438)
Decrease in deposits from banks	(251,624)	439,285
Decrease in amounts due to customers	(55,620)	199,682
Decrease in other borrowed funds	(1,741)	(2,565)
Total change in operating liabilities	(293,752)	627,964
Profit tax paid	-	-
Net cash used in operating activities	(65,102)	(22,695)
Cash flow from investing activities		
Purchase of investments	(3,058)	(1,109)
Purchase of investment securities	(296,135)	-
Net purchase of fixed assets	(58,756)	(128,908)
Net cash used in investing activities	(357,949)	(130,017)

The accompanying notes on pages 6 to 41 form an integral part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED)
(expressed in terms of the purchasing power of the Romanian Lei (ROL) as at 31 December 2003, unless otherwise stated)

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Cash flow from financing activities		
Increase of share capital	204,032	247,724
Proceeds from loan from SANPAOLO IMI	82,513	-
Finance lease repayments	(3,332)	(3,304)
Net cash from financing activities	283,213	244,420
Effect of inflation on cash and cash equivalents	(5,704)	(26,695)
Decrease in cash and cash equivalents	(145,542)	65,013
Balance as at 1 January	704,519	639,506
Balance at the end of period	558,977	704,519
Cash	83,351	99,501
Current account and short term deposits with National Bank of Romania	509,620	256,052
Due from banks less than 3 months	111,548	283,953
Cash and cash equivalents 1 January	704,519	639,506
Cash	76,000	83,351
Current account and short term deposits with National Bank of Romania	373,171	509,620
Due from banks less than 3 months	109,806	111,548
Cash and cash equivalents at end of period	558,977	704,519

The accompanying notes on pages 6 to 41 form an integral part of these financial statements.

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)

	Share capital (ROL million)	Other reserves (ROL million)	Accumulated losses (ROL million)	Shareholders' equity (ROL million)
As at 31 December 2001	606,714	31,627	(294,983)	343,358
Increase of share capital	247,724	-	-	247,724
Loss of the period	-	-	(295,932)	(295,932)
As at 31 December 2002	854,438	31,627	(590,915)	295,150
Increase of share capital	204,032	-	-	204,032
Loss of the period	-	-	(210,844)	(210,844)
Other reserve movements	-	822	-	822
As at 31 December 2003	1,058,470	32,449	(801,759)	289,160

The accompanying notes on pages 6 to 41 form an integral part of these financial statements.

1 BASIS OF PRESENTATION

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

The EUR amounts shown in the accompanying financial statements have been included solely for ease of understanding and are derived from ROL as a matter of arithmetic computation only. Such computations should not be contracted 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 underlying accounting records maintained in conformity with Romanian accounting law and National Bank of Romania ("NBR") banking regulations ("statutory accounts") have been restated to reflect the differences between the statutory accounts and the International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB"). 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 the hyperinflation accounting, to income tax, methodologies for determining the specific provision for estimated loan losses, accounting for financial instruments, hedge accounting.

In accordance with IAS 39, the Bank classified its investments and loans into the following categories: available-for-sale (equity investments and investment securities), loans and receivables (for loans and treasury bills).

Reclassification of comparative amounts

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

1 BASIS OF PRESENTATION (CONTINUED)

Use of estimates

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

Offsetting financial instruments

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.

The Bank has recorded a net loss of ROL 210,844 million during the year ended 31 December 2003. As of that date, the accumulated loss amounted to ROL 801,759 million compared with share capital of ROL 1,058,470 million. These financial statements have been prepared on a going concern basis, as the management of the Bank is confident that the Bank will return to profitability in the foreseeable future and the shareholders of the Bank will contribute additional capital and support.

As a result no adjustments have been made to the accompanying financial statements, which may be necessary should the Bank be unable to continue as a going concern.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

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

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

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

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

e) the cumulative inflation rate over three years is approaching, or exceeds, 100%.

The annual increase in the general price index as issued by the "Institutul Național de Statistică" (National Statistical Institute) over the last three years was:

	Movement in consumer price index	Movement in exchange rate of the EUR
Year ended 31 December 2003	14.10%	(17.75%)
Year ended 31 December 2002	17.90%	(25.24%)
Year ended 31 December 2001	30.30%	(15.60%)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The cumulative rate of inflation was 75% over the last 3 years on the basis of the information published by the National Statistical Institute.

The provisions of IAS 29 have been adopted in preparing these financial statements.

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 investment 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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

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 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 = 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 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.

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 origination fees are credited to income upon granting of the applicable loan. During the year 2003 most of the new loans granted by the bank are short term loans or overdrafts, for which loan origination fee was charged entirely in the income statement of the year. 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 loans and receivables and are carried at amortised cost.

Investment securities

Investment securities are classified as available-for-sale ("AFS") and are initially recognised at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Fair values for unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in a special IAS 39 reserve in equity. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from other securities.

Originated loans and provisions for loan impairment

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

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

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

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

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

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the "Bad and doubtful debts expense" line in the statement of income.

Other credit related commitments

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

Sundry debtors

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity investments

The Bank classified its equity investments in non-consolidated subsidiaries and 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.

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation.

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 estimated useful lives applied are as follows:

Category	**Useful lives**
Buildings	10 - 50
Computers	3
Other assets	3 - 31

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.

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

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 Romanian Leu or other foreign currency;
(b) market price of similar products;
(c) interest rates;
(d) devaluation of the purchasing power of the Romanian Leu.

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 which reflect current market conditions.

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.

Derivative financial instruments and hedging

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group's criteria for a derivative instrument to be accounted for as a hedge include:

a) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
b) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
c) the hedge is highly effective on an ongoing basis.

Changes in the fair value of the effective portions of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for hedge accounting, an adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to net profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 14.

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, current accounts with banks, short term placement with banks.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Income taxes

The Bank records profit tax upon net income for the Romanian financial statements in accordance with Romanian profit tax legislation. Romanian profits tax legislation is based on a fiscal year ending on 31 December. In recording both the current and deferred income tax charge for the year period ended, the Bank has computed the annual income tax charge based on Romanian profits tax legislation enacted (or substantially enacted) at the balance sheet date.

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The main temporary differences arise from the differences between provisions for doubtful and bad loans made under IFRS and fiscal regulations and adjustments for fixed assets and investments.

Dividends and participation of staff to profit

Final dividends and participation of staff to profit are not accounted for until they have been ratified at the Annual General Meeting.

3 INTEREST INCOME

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Current accounts and placements with banks	30,850	41,284
Loans and advances to customers	221,309	281,680
Treasury bills and investment securities	27,278	28,677
Reverse repos	-	594
Total	279,437	352,235

4 INTEREST EXPENSE

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Customers deposits	117,736	183,564
Deposits from banks	33,681	30,150
Other borrowed funds	3,055	-
Repo transactions with treasury bills	-	997
Total	154,472	214,711

5 FEE AND COMMISSION INCOME, NET

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Fee and commission income	150,273	140,421
Fee and commission expense	(15,876)	(19,519)
Total	134,397	120,902

6 FOREIGN EXCHANGE GAINS, NET

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Realized foreign exchange gains	60,882	41,937
Net effect of translation of foreign currency denominated assets and liabilities	35,482	24,077
Unrealized gain from revaluation of available-for-sale securities	308	-
Total	96,672	66,014

7 BAD DEBTS EXPENSE

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Provision charge for loans to customers (see Note 12)	76,966	281,536
Provision charge for litigation and off balance sheet commitments (see Note 25)	111,394	41,061
Provision charge/(release) for other debtors (see Note 14)	(11,276)	44,201
Recoveries from loans previously written-off	(42,082)	(63,271)
Total	135,002	303,527

8 OTHER OPERATING EXPENSES

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Staff expenses	156,374	118,880
Administrative and other expenses	134,570	87,349
Depreciation (Note 16)	40,876	22,689
Provision for impairment of fixed assets	50,990	-
Technology and communications	15,030	14,138
Premises maintenance	14,338	17,929
Advertising and marketing	19,061	31,391
Decrease in value of equity investments	9,041	8,982
Total	440,280	301,358

9 DUE FROM THE NATIONAL BANK OF ROMANIA

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Current account	373,171	413,252
Term deposits	-	91,280
Restricted accounts	-	5,088
Total	373,171	509,620

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 2003 ranged from 6.25% to 8% for reserves held in ROL and from 0.75% to 1% for reserves held in USD (2002: 7% to 15% for ROL and 1% for USD).

10 TREASURY BILLS

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Treasury bills in local currency	40,916	213,409

Treasury bills are issued in local currency by the Romanian Ministry of Finance with interest rates ranging for ROL from 19.94% to 24% during 2003 (2002: 24% to 35.90%), the weighted average rate being 24.67% (2002: 27.91%) with maturity September 2004. The treasury bills in Bank's portfolio are classified as originated loans.

Treasury bills amounting to ROL 31,700 million are pledged with TransFonD for settlement of payments in local currency purposes.

11 DUE FROM OTHER BANKS

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Current accounts with other banks	32,225	38,439
Placements to Romanian banks	77,581	63,604
Collateral deposits	8,920	9,505
Total	118,726	111,548

During 2003 interest on placements with banks ranged from 1.03% to 1.6% (2002: 1.6% to 5.3%) for USD and from 8.4% to 30% for ROL (2002: 6% to 50%) and from 1.40% to 3.10% for EUR (2002: 3.15% to 3.70%).

12 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of customer

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Companies	1,131,611	1,264,292
Individuals	108,740	43,412
Less provision to loans losses	(68,907)	(99,990)
Total	1,171,444	1,207,714

(b) Analysis by sector

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Trade	445,336	325,189
Agriculture	75,101	137,616
Constructions	35,602	70,456
Industry	401,485	382,994
Services	125,405	120,150
Others	48,682	271,299
Individuals	108,740	-
Less provision for loans losses	(68,907)	(99,990)
	1,171,444	1,207,714

(c) Provision for loan losses

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
As at 1 January	99,990	166,985
Effect of inflation	(12,356)	(25,231)
Provision charge (see Note 7)	76,966	281,536
Write-offs	(95,693)	(323,300)
As at 31 December	68,907	99,990

The main source of income for the Bank is represented by loans to customers. The interest rates charged for the year ended 31 December 2003 for loans and advances to customers ranged from 10.50% to 60% for ROL (2002: 34% to 90%), from 6.75% to 13.5% for USD (2002: 7% to 15%) and from 5.39% to 16% for EUR (2002: 6.57% to 18%).

13 INVESTMENT SECURITIES

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Investment securities available-for-sale	296,957	-

Investment securities comprise Eurobonds issued by Romanian Ministry of Finance.
A set of Eurobonds have a nominal value of EUR 4,000,000and are redeemable on 27th June 2008.
Another set of Eurobonds held by bank have a nominal value of EUR 2,000,000 and are redeemable on 2nd July 2010.

The bank has hedged the interest rate risk related to the EUR 2,000,000 eurobonds entering into a swap agreement with Sanpaolo IMI SPA Torino, for same amount and maturity (see details in Note 14).

14 OTHER ASSETS

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Assets from execution of collateral	17,510	39,170
Other debtors (net of provision)	6,040	8,783
Other assets and prepayments	16,772	15,368
Financial asset – fair value hedging derivatives	1,353	-
Total	41,675	63,321
Other debtors (gross)	39,141	59,418
Less provision for doubtful debtors	(33,101)	(50,635)
	6,040	8,783

Provision for doubtful debtors

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
As at 1 January	50,635	7,579
Effect of inflation	(6,258)	(1,145)
Charge/(release) of the year (see Note 7)	(11,276)	44,201
As at 31 December	33,101	50,635

The financial asset represents the gain from fair value valuation of the swap agreement between the bank and Sanpaolo IMI SPA Torino.

The agreement was made on the OTC market, on 27th June 2003. Nominal amount is EUR 2,000,000, maturing on 27th June 2010.

15 INVESTMENTS

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
As at 1 January	41,932	35,830
Additions	3,058	6,102
Impairment loss	(28,918)	(19,878)
As at 31 December	16,072	22,054

Investment	Country of incorporation	Nature of business	Shareholding 31 December 2003 (ROL million)	31 December 2002 (ROL million)
West Leasing	Romania	leasing	99.69%	88.30%
Continental Astoria	Romania	hotel	1.36%	1.66%
BMFMS	Romania	commodity exchange	1.25%	1.25%
Casa Română de Compensație	Romania	clearing house BMFMS	1.12%	1.12%
TransFonD	Romania	settlement and clearing interbanking transfer	2.47%	2.38%

The subsidiary West Leasing was not consolidated and is presented at cost less an impairment loss due to the fact that the shareholders intends to reorganise the leasing activity during the year 2004. This company recorded a net loss of ROL 7,976 million for the year ended 31 December 2003. The net shareholders' equity of West Leasing as at 31 December 2003 was ROL 6,992 million (31 December 2002: ROL 13,867 million) and the net lease receivable as at 31 December 2003 was ROL 31,435 million (31 December 2002: ROL 26,072 million).

16 PREMISES AND EQUIPMENT

	Intangibles (ROL mil)	Land and buildings (ROL mil)	Other assets (ROL mil)	Fixed assets in progress (ROL mil)	Total (ROL mil)
Cost					
1 January 2003	34,402	234,519	135,377	24,862	429,160
Additions	11,402	26,657	13,699	27,106	78,864
Disposals/transfers	(922)	-	(13,845)	(23,690)	(38,457)
31 December 2003	44,882	261,176	135,231	28,287	469,566
Depreciation					
1 January 2003	6,637	18,289	61,434	-	86,360
Charge for the year	5,224	9,980	17,979	-	33,183
Disposals	(649)	-	(10,008)	-	(10,657)
31 December 2003	11,212	28,269	69,405	-	108,886
Impairment loss	2,843	31,198	16,949	-	50,990
Net book value					
31 December 2002	27,765	216,230	73,943	24,862	342,800
Net book value					
31 December 2003	30,827	201,710	48,877	28,277	309,690

Included within other assets are motor vehicles, furniture and fittings, household equipment, air conditioning equipment..

An amount of ROL 1,690 million represents net book value of fixed assets purchased under finance lease agreements.

17 DUE TO OTHER BANKS

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Sight deposits	7,833	164,686
Term deposits	431,366	526,136
Total	439,199	690,822

The interest rate during 2003 for time deposits ranged from 1.00% to 2.80% for USD (2002: 1.21% to 2.78%), from 8.00% to 23.90% for ROL (2002: 5% to 75%) and from 1.40% to 4.31% for EUR (2002: 2.25% to 4.83%).

18 DUE TO CUSTOMERS

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Repayable on demand	566,812	518,913
Term deposits		
- individuals	620,621	724,407
- companies	171,971	165,431
Collateral deposits	48,364	54,637
Total	1,407,768	1,463,388

The interest rate during 2003 for time deposits ranged from 8% to 33% for ROL (2002: 2% to 37%), from 0.75% to 3.5% for USD (2002: 0.75% to 6.75%) and from 2.75% to 4.6% for EUR (2002: 1% to 7%).

19 OTHER BORROWED FUNDS

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Loan from Sanpaolo IMI	82,513	-
Funds from Ministry of Agriculture	25,039	26,780
	107,552	26,780

The loan from Sanpaolo Bank (Austria) is a loan granted to the Bank by a bank member of the Sanpaolo Group. Total amount granted is EUR 2,000,000. The loan is repayable in one tranche on 20 February 2007. The loan agreement excludes the possibility of early repayment.
The entire amount of the loan was disbursed on 20 February 2003.
The loan agreement does not bear any covenants.

Other borrowed funds are amounts received from the Ministry of Agriculture in order to grant loans to farmers according to the Act 165/1998.

20 OTHER LIABILITIES

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Other liabilities	40,097	7,010
Taxes due to the state budget	3,142	14,720
Finance lease payables	1,166	5,132
Provision for off balance sheet commitments (see Note 25)	1,316	3,036
Provision for litigations and Off-balance sheet commitments (see Note 25)	154,612	47,779
Other provisions	639	-
Total	200,972	77,677

21 INCOME TAX EXPENSE

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

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Current tax	-	-
Deferred income tax charge	-	14,919
Total	-	14,919

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Deferred tax assets		
- provision for bad and doubtful loans	6,501	14,451
- provision for litigations	37,772	12,704
- provision for investments	4,355	4,969
- other	43,363	29,699
Deferred tax liabilities		
- restatement of property and equipment	37,426	38,796
- restatement of investments	6,611	6,002
- other adjustments	3,144	2,325
Deferred tax asset, net	44,810	14,700

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Deferred income tax asset/(liability)		
At the beginning of the year	-	14,919
Charge for the period	-	(14,919)
At the end of the year	-	-

The deferred tax asset has not been accounted for as deferred tax credit to the income statement as at 31 December 2003 on the grounds of prudence. This situation arises because the Romanian Government has not accepted deductibility for tax on additional loans provision (exceeding the level computed by the Bank according with the NBR Rules 5/2002), losses on net monetary position, impairment loss on investments, other debtors and litigations provisions.

22 SHARE CAPITAL

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Statutory value (not restated)	656,722	469,193
Restatement of share capital	401,748	385,245
Total	1,058,470	854,438

The share capital was made up as at 31 December 2003 of 6,567,224 shares with a nominal value of ROL 100,000 each. All issued shares are fully paid and carry one vote.

The capital structure as at 31 December 2003 and 31 December 2002 is as follows:

Shareholder	**31 December 2003** Number of shares	%	**31 December 2002** Number of shares	%
Sanpaolo IMI	6,426,457	97.86	3,396,383	72.39
Simest Spa Italy	140,757	2.14	140,757	3.00
Chiti Fiorenzo	4	0.00	-	-
Carosiello Roberto	3	0.00	-	-
Sangalli Luigi	3	0.00	-	-
SIF Banat Crisana	-	-	1,055,303	22.49
Pirtea Cornel	-	-	72,108	1.53
Anca Ioan Mihail	-	-	21,000	0.45
Boroianu Vasile	-	-	5,500	0.12
Cuzman Ioan	-	-	509	0.01
Grigore Aurelia Gabriela	-	-	368	0.01
Total	6,567,224	100.00	4,691,928	100.00

23 OTHER RESERVES

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Legal reserve	28,558	28,558
Bank risk general reserve	3,069	3,069
Revaluation reserve for fair value of available-for-sale securities	822	-
	32,449	31,627

Revaluation reserve for fair value of available-for-sale securities

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
As at 1 January	-	-
Revaluation of investment securities	822	-
At 31 December	822	-

24 ACCUMULATED LOSSES

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

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

- legal reserve, appropriated at the rate of 5% of the gross profit, until the total reserve is equal to 20% of the issued and fully paid up share capital
- reserve for general banking risks , appropriated from the gross profit at the rate of 1% of the net risky assets;

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.

25 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. 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

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.

25 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The aggregate amount of outstanding gross commitments and contingencies as at period end was:

	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Letters of guarantee	69,180	90,603
Unused loan facilities and letters of credit	116,485	130,562
	185,664	221,165

Provision for letters of guarantee	31 December 2003 (ROL million)	31 December 2002 (ROL million)
As at 1 January	3,036	-
Effect of inflation	(377)	-
Charge/(release) for the year	(1,343)	3,036
As at 31 December	1,316	3,036

Provision for contingencies (litigations)	31 December 2003 (ROL million)	31 December 2002 (ROL million)
Provision at beginning of period	47,779	11,490
Effect of inflation	(5,904)	(1,737)
Charge for the year	112,737	38,026
Provision at end of period	154,612	47,779

25 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Litigations

Provisions for litigations were computed for litigations in which the Bank was involved as at 31 December and from which contingent liabilities arise as follows:

- litigation related to a letter of guarantee amounting to USD 2,500,000 and related penalties, where the Bank is a defendant and Alfred C. Toepfer Int'l GmbH a plaintiff;
- litigation related to cancellation of rent contract for Bank premises in Bucharest, where claims arisen as at 31 December 2003 amount to USD 299,880; in this litigation the Bank is defendant and HCS Romtrade is plaintiff;
- litigation related to settlement of a promissory note amounting to ROL 14,000 million, where the Bank is defendant and Banca Romana de Scont is plaintiff;
- litigation related to credit approval process amounting toEUR 0.5 million, where the Bank is defendant and various agricultural companies are plaintiffs.
- litigation related allegations of fraud by former Bucharest branch manager – Valentin Nedelcu – amounting to 200,000 EUR, when bank is a defendant and SC Transcomint SA is a plaintiff.
- litigation related to cancellation of rent contract for advertising panels in the whole country, in this litigation Sanpaolo IMI Bank is dependant and Romanian Business Investment is a plaintiff.

26 OFF BALANCE SHEET RECEIVABLES

At 31 December 2003, the Bank's off balance sheet receivables comprising principal and interest for written off loans, amounted to ROL 401,222 million.

The recovery of the off balance sheet receivables depends on success of procedures performed by the Bank.

27 RISK MANAGEMENT

Interest rate risk

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. The Bank is fully in compliance with risk management policies of Sanpaolo IMI Group starting with May 2003.

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 ruled out trading, complying with the Group guidelines in this respect.

Liquidity risk

The Bank's policy on liquidity is to maintain sufficient liquid reserves to meet its obligations as they fall due. The Bank also complies with the National Bank of Romania’s regulations and SANPAOLO IMI’s regulations. The amount of total assets and liabilities as at 31 December 2003 and 31 December 2002 analysed over the remaining period to the contractual maturity date is included in Note 29.

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 Romanian Lei. The Bank manages its exposure to movements in exchange rates by modifying its assets and liabilities mix. Very tight foreign exchange limits have been imposed by the parent bank and fully adopted by the Bank. An analysis of assets and liabilities denominated in ROL and other currencies are included in Note 28.

27 RISK MANAGEMENT (CONTINUED)

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.

Taxation risk

The taxation system in Romania is subject to varying interpretations and to constant changes, which may be retroactive. In certain circumstances the tax authorities can be aggressive and arbitrary in assessing tax penalties and interest. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties (0.06% per day delay, respectively 0.5% per month). In Romania, tax periods remain open for 5 years.

28 CURRENCY RISK

Concentration of assets and liabilities:

As at 31 December 2003

	ROL (ROL mil)	USD (ROL mil)	EUR (ROL mil)	Other (ROL mil)	Total (ROL mil)
Assets					
Cash and cash equivalents	56,976	4,980	13,157	887	76,000
Amounts with National Bank of Romania	160,622	212,549	-		373,171
Treasury bills	40,916	-	-	-	40,916
Due from other banks	20,011	15,359	73,823	9,533	118,726
Loans and advances to customers, net	398,818	66,535	706,091	-	1,171,444
Investment securities available-for-sale		-	296,957	-	296,957
Equity investments	16,072	-	-	-	16,072
Property and equipment	309,690	-	-	-	309,690
Other assets, net	39,245	3	1,791	636	41,675
Total assets	1,042,350	299,426	1,091,819	11,056	2,444,651
Liabilities					
Due to other banks	176,611	131,031	125,657	5,900	439,199
Due to customers	831,511	132,211	442,989	1,057	1,407,768
Other borrowed funds	25,039	-	82,513	-	107,552
Other liabilities	182,726	58	17,551	637	200,972
Total liabilities	1,215,887	263,300	668,710	7,594	2,155,491
Net balance sheet position	(173,537)	36,126	423,109	3,462	289,160

28 CURRENCY RISK (CONTINUED)

As at 31 December 2002

	ROL (ROL mil)	USD (ROL mil)	EUR (ROL mil)	Other (ROL mil)	Total (ROL mil)
Assets					
Cash	58,747	6,285	17,585	734	83,351
Amounts with the National Bank of Romania	284,238	-	225,382	-	509,620
Treasury bills	97,408	116,001	-	-	213,409
Due from other banks	63,604	16,764	24,932	6,248	111,548
Loans and advances to customers, net	258,711	167,946	781,057	-	1,207,714
Equity investments	22,054	-	-	-	22,054
Property and equipment	342,800	-	-	-	342,800
Other assets, net	62,466	52	778	25	63,321
Total assets	1,190,028	307,048	1,049,734	7,007	2,553,817
Liabilities					
Due to other banks	97,089	156,796	436,937	-	690,822
Due to customers	940,624	188,856	330,725	3,183	1,463,388
Other borrowed funds	26,780	-	-	-	26,780
Other liabilities	77,523	101	52	1	77,677
Total liabilities	1,142,016	345,753	767,714	3,184	2,258,667
Net balance sheet position	48,012	(38,705)	282,020	3,823	295,150

29 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:

As at 31 December 2003

	Up to 1 month (ROL mil)	1 to 3 months (ROL mil)	3 to 12 months (ROL mil)	Over 1 year (ROL mil)	Total (ROL mil)
Assets					
Cash	76,000	-	-	-	76,000
Balances with Central Bank	373,171	-	-	-	373,171
Treasury bills	40,916	-	-	-	40,916
Due from other banks	109,806	-	8,920	-	118,726
Loans and advances to customers, net	256,174	258,020	359,450	297,800	1,171,444
Investment securities	-	-	-	296,957	296,957
Equity investments	-	-	-	16,072	16,072
Property and equipment	-	-	-	309,690	309,690
Other assets, net	41,675	-	-	-	41,675
Total assets	897,742	258,020	368,370	920,519	2,444,651
Liabilities					
Due to other banks	185,468	-	253,731	-	439,199
Due to customers	1,062,448	244,740	96,350	4,230	1,407,768
Other borrowed funds	25,318	-	-	82,234	107,552
Other liabilities	200,001	-	699	272	200,972
Total liabilities	1,473,235	244,740	350,780	86,736	2,155,491
Net liquidity gap	(575,493)	13,280	17,590	833,783	289,160

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 for the Bank. The Bank launched new products with maturities over 1 year at competitive terms in order to improve the liquidity gap.

29 LIQUIDITY RISK (CONTINUED)

As at 31 December 2002

	Up to 1 month (ROL mil)	1 to 3 months (ROL mil)	3 to 12 months (ROL mil)	Over 1 year (ROL mil)	Total (ROL mil)
Assets					
Cash	83,351	-	-	-	83,351
Balances with Central Bank	469,884	34,648	-	5,088	509,620
Treasury bills	8,375	-	205,034	-	213,409
Due from other banks	102,043	-	9,505	-	111,548
Loans and advances to customers, net	255,382	196,456	477,899	277,977	1,207,714
Equity investments	-	-	-	22,054	22,054
Property and equipment	-	-	-	342,800	342,800
Other assets, net	32,074	585	-	30,662	63,321
Total assets	951,109	231,689	692,438	678,581	2,553,817
Liabilities					
Due to other banks	389,455	-	180,837	120,530	690,822
Due to customers	797,103	251,293	291,103	123,889	1,463,388
Other borrowed funds	-	-	-	26,780	26,780
Other liabilities	19,903	1,411	-	56,363	77,677
Total liabilities	1,206,461	252,704	471,940	327,562	2,258,667
Net liquidity gap	(255,352)	(21,015)	220,498	351,019	295,150

30 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

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:

	Group companies		Management and employees	
	2003	2002	2003	2002
	(ROL million)	(ROL million)	(ROL million)	(ROL million)
Revenues & expenses				
Interest expenses	9,237	7,622	3,055	31,361
Interest revenues	2,866	555	598	960
Balance sheet position				
Deposits from customers repayable on demand	-	166	-	7,902
Current accounts	6,714	3,054	11,396	-
Term deposits banks	253,751	301,735	-	-
Term deposits individuals	-	-	32,053	113,885
Term deposits companies	-	-	-	35,902
Loans	106,182	35,587	7,449	10,974
Other liabilities	6,126	-	-	-
Other assets	16,963	-	3	-

31 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.

32 POST BALANCE SHEET EVENTS

Increase in share capital

The Bank's share capital was increased in 26 February 2004 with an amount of euro 5 million cash from Sanpaolo IMI Internazionale. All shares held by Sanpaolo IMI were transferred to Sanpaolo IMI Internazionale. Following this injection of capital the main shareholder of the Bank is Sanpaolo IMI Internazionale with 98.36%.

Evolution of the USD and EUR official exchange rate

On 26 February 2004 the National Bank of Romania's reference exchange rate for the USD was USD 1 = ROL 32,309, compared to USD 1 = ROL 32,595 at 31 December 2003 and for the EUR was EUR 1 = ROL 40,179, compared to EUR 1 = ROL 41,117 at 31 December 2003.