



**National Bank of Romania**

Financial Statements  
31 December 2005

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## **Independent Auditors' Report (free translation<sup>1</sup>)**

To the Board of Directors  
of National Bank of Romania

We have audited the accompanying balance sheet of National Bank of Romania (the "Bank") as of 31 December 2005 and the related statement of income for the year then ended presenting the following:

• Net assets	72.263.763 RON thousand
• Total equity:	507.129 RON thousand
• Loss for the year:	3.062.404 RON thousand

These financial statements in nominal terms are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements in nominal terms, referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 2005, and the results of its operations for the year then ended in accordance with the accounting standards applicable to the National Bank of Romania as issued based on the provisions of the Law no 312/2004 and of other regulations in force that are applicable to the Bank.

The Bank applied for the first time the provisions of the accounting standards applicable to the National Bank of Romania issued based on the provisions of the Law no 312/2004 starting with the year ended 31 December 2005. Hence, these financial statements disclose as comparative information the balance sheet prepared in accordance with the accounting standards applicable to the National Bank of Romania issued based on the provisions of the Law no 312/2004, at 1 January 2005 and the income statement presented for the year 2004 is not comparable.

<sup>1</sup> TRANSLATOR'S EXPLANATORY NOTE: The above translation of the auditor's report is provided as a free translation from Romanian, which is the official and binding.



The Bank prepared these financial statements based on the legal and accounting regulations applicable to the National Bank of Romania in force at 31 December 2005 and may be analysed only by those who are informed about these Romanian legal and accounting regulations.

**Refer to the original signed  
Romanian version**

KPMG Audit SRL  
Bucharest, Romania  
27 April 2006

# National Bank of Romania

## Balance sheet

at 31 December 2005

<i>In RON thousand</i>	<i>Note</i>	<b>Closing balance sheet 31 December 2005</b>	<b>Opening balance sheet 1 January 2005</b>
<b>Cash and other cash equivalents</b>		<b>7,347</b>	<b>4,632</b>
<b>Precious metals and stones</b> , out of which:		<b>80,654</b>	<b>68,789</b>
Non-monetary gold		65,763	57,742
Other precious metals and stones		14,891	11,047
<b>Foreign assets</b> , out of which:		<b>71,178,408</b>	<b>51,622,096</b>
Current account in SDR with IMF		1,678	1,625
Monetary gold	4	5,305,039	4,243,650
Demand deposits placed	5	4,150,051	999,592
Term deposits placed	6	22,260,270	8,941,767
Foreign currency placements	7	817,219	747,605
Foreign currency securities	8	33,989,306	31,794,590
Quota in international financial institutions	9	4,654,845	4,893,267
<i>out of which IMF</i>		<i>4,576,023</i>	<i>4,650,449</i>
<b>Loans to domestic credit institutions</b> , out of which:	10	-	<b>63,333</b>
Loan to Banking Deposits Guarantee Fund		-	63,333
Loans to domestic credit institutions		16,800	19,000
Loans in litigation		13,209	13,209
Credit risk provision – principal		(30,009)	(32,209)
<b>Other assets</b> , out of which:		<b>389,529</b>	<b>437,516</b>
Loans to employees		741	910
Property and equipment	11	228,848	230,735
Inventory		5,514	4,374
Equity investments	12	2,240	2,240
State budget receivables	13	26,602	6,222
Other settlements accounts		220,991	191,583
Other assets		19,371	1,452
Provisions for other assets	14	(114,778)	-
<b>Accrued interest receivables</b> , out of which:		<b>607,825</b>	<b>562,489</b>
Accrued interest receivables	15	613,893	568,557
Credit risk provisions – interest	16	(6,068)	(6,068)
<b>TOTAL ASSETS</b>		<b>72,263,763</b>	<b>52,758,855</b>

The financial statements were approved by the Board of Directors on 27 April 2006 and were signed on its behalf by:

Mr. Mugur Isarescu

Governor

# National Bank of Romania

## Balance sheet

at 31 December 2005 (continued)

<i>In RON thousand</i>	<i>Note</i>	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005
<b>Currency in circulation</b>	<i>17</i>	<b>12,739,492</b>	<b>8,250,883</b>
<b>Certificates of deposits issued by the Bank</b>	<i>2p</i>	<b>16,492,600</b>	<b>4,908,500</b>
<b>Foreign liabilities</b> , out of which:		<b>6,024,700</b>	<b>6,740,571</b>
Due to international financial institutions		5,463,672	6,019,711
<i>out of which: due to IMF</i>	<i>18</i>	5,137,882	5,938,596
Sight deposits taken		221,134	79,096
Term deposits taken		-	290,670
Borrowings from banks		2,533	8,246
SDR allocations from IMF	<i>19</i>	337,361	342,848
<b>Due to domestic financial institutions</b> , out of which:		<b>32,725,122</b>	<b>26,074,315</b>
Current accounts from domestic banks		9,479,744	5,458,529
Amounts withheld at court disposition		1,980	1,076
Term deposits taken from domestic banks		6,731,800	11,215,200
Foreign currency minimum reserves		16,508,971	9,396,465
Accounts of bankrupt credit institutions		2,627	3,045
<b>Current accounts with the State Treasury</b>	<i>20</i>	<b>3,721,491</b>	<b>5,053,720</b>
<b>Other liabilities</b> , out of which:		<b>23,767</b>	<b>16,823</b>
Borrowings and other similar liabilities		2,291	2,001
Sundry creditors		7,454	4,784
Salaries and other personal related accounts		1,668	1,006
Due to State budget		4,282	3,488
Settlements accounts		2,440	1,320
Other liabilities		5,632	4,224
<b>Accrued interest payables</b>	<i>21</i>	<b>29,462</b>	<b>104,402</b>
<b>Equity</b> , out of which:		<b>507,129</b>	<b>1,609,641</b>
Issued share capital	<i>2u</i>	30,000	30,000
Other reserves	<i>25</i>	607,575	1,891
Special revaluation account	<i>23</i>	2,931,958	2,816,868
Funds for quota in international financial institutions	<i>24</i>	-	561,350
Other funds		-	242,546
Loss for the year		(3,062,404)	(2,043,014)
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>72,263,763</b>	<b>52,758,855</b>

The financial statements were approved by the Board of Directors on 27 April 2006 and were signed on its behalf by:

Mr. Mugur Isarescu

Governor

# National Bank of Romania

## *Income statement*

*for the year ended 31 December 2005*

<i>In RON thousand</i>	<i>Note</i>	<b>2005</b>	<b>2004*</b>
Interest revenue and similar income	26	1,682,754	1,009,604
Interest expense and similar charges	27	(2,510,912)	(2,719,099)
<b>Net interest expense</b>		<b>(828,158)</b>	<b>(1,709,495)</b>
Fee and commission income	28	119,737	132,613
Fee and commission expense	29	(74,101)	(103,301)
<b>Net fee and commission income</b>		<b>45,636</b>	<b>29,312</b>
Realized gains/(losses) from foreign currency operations	30	(374,909)	141
Realized losses from foreign currency securities operations	31	(14,575)	(134,724)
Realized losses from precious metals operations	32	(446)	(819)
Unrealized losses from revaluation differences	33	(1,539,490)	-
<b>Net loss from financial operations</b>		<b>(1,929,421)</b>	<b>(135,402)</b>
Currency issuance expenses	34	(81,631)	(33,367)
Income/(expenses) from credit risk provisions	35	(97,362)	2,000
Losses from unrecoverable receivables not covered by provisions		-	(37,988)
Other income from specific operations		32,057	2,956
<b>Net loss from specific operations</b>		<b>(146,936)</b>	<b>(66,398)</b>
Other income		8,162	10,897
Salary and other personnel costs		(109,550)	(81,811)
Administrative expenses		(30,100)	(28,449)
Depreciation and amortisation expenses		(19,217)	(16,334)
Other operating expenses		(52,820)	(45,334)
<b>Net loss for the year</b>		<b>(3,062,404)</b>	<b>(2,043,014)</b>

*\*Not restated – see Note 2b*

The financial statements were approved by the Board of Directors on 27 April 2006 and were signed on its behalf by:

Mr. Mugur Isarescu

Governor

## Notes to financial statements

### 1. General information

The National Bank of Romania (the “Bank”) was set up in 1880 as the Central Bank of Romania. The current registered office is located in 25 Lipscani Street, Bucharest, Romania. The Bank is managed by the Board of Directors. The executive management of the Bank comprises the Governor, the first vice-governor and two vice-governors. Parliament appoints the Directors for a period of five years. The Bank is 100% owned by the Romanian State.

The operations of the Bank during the financial year 2005 were governed by the “Law on the National Bank of Romania” (Law no. 312/2004), which was effective from 31 July 2004, except for a number of provisions related to statutory financial reporting that became effective commencing 1 January 2005. The purpose of the Law no. 312/2004 is to ensure the compliance of the Central Bank’s Statute with European Union legislation and, in particular, with the provisions on central bank independence of the European Community Treaty.

In accordance with the Law no. 312/2004, the primary objective of the Bank is to ensure and maintain price stability. In addition to its role of central bank, the Bank has the exclusive right to issue bank notes and coins and the duty to regulate and supervise the Romanian banks’ activities.

### 2. Significant accounting policies

#### a) Basis of preparation

The financial statements are prepared under the going concern assumption and presented in Romanian Lei (“RON”), rounded to the nearest thousand.

The 2005 financial statements have been prepared in accordance with the “Norms for organizing and conducting the accounting of the National Bank of Romania” (Norm no. 2/2005). These norms set up the basic accounting principles and rules, the form and the content of the annual financial statements complying with the International Accounting Standards applicable to central banks and recognised by the European Central Bank (*Guideline of the European Central Bank of 5 December 2002 on the Legal Framework for Accounting and Financial Reporting in the European System of Central Banks no. 10/2002*). The accounting policies have been consistently applied by the Bank for the year ended 31 December 2005.

#### b) Comparatives

The financial year 2005 represents the first year of adoption of Norm no. 2/2005, and the accounting policies applied in 2005 are different from those used in the previous year. The amounts from 2004 in the closing balance sheet as at 31 December 2004 were reclassified in the 2005 opening balance sheet in accordance with the disclosure requirements applicable commencing 1 January 2005, without restating them according to the new accounting policies. Therefore, the amounts presented in the 2004 income statement have limited comparability to the 2005 income statement.



## Notes to financial statements

### 2. Significant accounting policies (*continued*)

#### b) Comparatives (*continued*)

In addition, in accordance with the Law no. 348/2004 adopted by the Parliament of Romania in July 2004, from 1 July 2005 the Romanian national currency was denominated at a conversion rate of 10,000 ROL to 1 RON (new Romanian Leu) and the 2004 amounts presented in these financial statements were converted from ROL into RON.

#### c) Changes in accounting policies

The provisions related to the statutory financial reporting stated in the Law no. 312/2004 became effective commencing 1 January 2005. In accordance with these legal provisions, the financial statements are prepared in accordance with the accounting principles and rules established by the international accounting standards, applicable to central banks, recognized by the European Central Bank and include the following: balance sheet, income statement and the notes to financial statements. In accordance with the legal provisions, the Bank issued its own Norm no. 2/2005 on organizing and conducting the accounting activity, after obtaining the agreement from the Ministry of Public Finance.

The significant changes in accounting policies are the following:

- introduction of the concept of foreign currency position (the net position of the respective currency, computed as the difference between total assets and total liabilities denominated in the respective foreign currency, excluding sundry items such as accrued interest receivables and payables, cash in foreign currency, cash in transit, sundry creditors and debtors, settlement accounts, prepayments);
- application of the average cost method for foreign currency operations; the average cost is determined for each foreign currency position as an indirect quotation (RON/1 FCY);
- accounting for gains/losses on foreign currency sale transactions based on the average cost of the foreign currency position;
- for the foreign currency securities:
  - amortization of the premium/discount resulted from acquisitions of securities – booked on a monthly basis;
  - application of the average cost method for transactions with securities per each ISIN/CUSIP number/type (serial number of the security);
  - monthly mark-to-market of the foreign currency securities;
  - revaluation on a currency-by-currency basis for foreign currency assets and liabilities or gold - without netting of unrealized losses against unrealized gains from securities, currencies or gold held by the Bank;
  - setting up provisions for credit risk according to the norms approved by the Bank, after obtaining agreement from Ministry of Public Finance;

## Notes to financial statements

### 2. Significant accounting policies (*continued*)

#### c) Changes in accounting policies (*continued*)

- recording in income statement the unrealized revaluation losses as at year end, without reversing them in subsequent years against new unrealized gains;
- booking in the special revaluation account the unrealized revaluation gains at the end of the year;
- coverage of loss for the year from the available sources in the following priority order: a) special revaluation account as at 31 December 2004; b) statutory reserves; c) future profits.

#### d) Change in fiscal status

Starting from 1 January 2005 the following legal provisions related to the Bank's fiscal statute entered into force:

- the provision of the Ordinance no. 83/2004 for the modification and completion of the Law no. 571/2003 regarding the Fiscal Code whereby the Bank is exempted from paying income tax; and
- the Law no. 312/2004 providing for the transfer to the State budget of a share of 80 % of the net revenues after deducting the expenses related to the financial year and the loss related to the previous financial years which remained uncovered by other available sources.

#### e) Significant accounting principles

*Substance over form:* Transactions shall be recorded and disclosed in accordance with their substance and economic reality and not merely with their legal form.

*Prudence:* the valuation of assets and liabilities and income recognition shall be carried out prudently. However, prudence does not allow the deliberate understatement of assets and incomes and overstatement of liabilities and expenses.

*Post-balance-sheet events:* assets and liabilities shall be adjusted for events that occur between the annual balance sheet date and the date on which the financial statements are approved by the Board of Directors if they affect the condition of assets or liabilities existing at the balance sheet date. No adjustment shall be made, but disclosure is required for those events occurring after the balance sheet date that do not affect the condition of assets and liabilities at the balance sheet date, but which are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and to take decisions.

*Materiality:* deviations from the accounting rules, including those affecting the income statement, shall not be allowed unless they can reasonably be judged to be immaterial in the overall context and presentation of Bank's financial statements.

*Accrual principle:* income and expenses shall be recognized in the accounting period to which they refer and not according to the period in which they are collected or paid.

## Notes to financial statements

### 2. Significant accounting policies (*continued*)

#### f) Estimates

In preparing the financial statements in accordance with Norms no. 2/2005, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ from those estimates.

#### g) Recognition of assets and liabilities

Financial assets/liabilities shall be recognized in the balance sheet only when:

- it is probable that future economic benefits associated with the asset/liability will flow to or from the Bank;
- substantially all of the risks and rewards associated with the asset/liability have been transferred to the Bank; and
- the value of the asset/liability can be measured reliably.

Financial assets and liabilities are initially recognized at the acquisition value as presented hereinafter.

#### h) Foreign currency position

The foreign currency position represents the net position determined as the difference between the total assets and the total liabilities denominated in the respective currency, with minor exceptions. The gold in standard form is considered as a foreign currency, determining the gold position.

The items not included in the foreign currency position are the amounts related to the foreign currency amounts recorded in the following accounts: Accrued interest receivables, Accrued interest payables, Cash in foreign currency, Foreign currency in transit, Sundry debtors, Sundry suppliers, Prepayments, Settlement accounts and the operations with the international financial institutions denominated in SDR, XBR, XDS.

During 2005, the Bank held long positions both for all foreign currencies and gold (total receivables exceeded total payables in the respective currency).

#### i) Average cost method

The average cost method is applied to the following:

- foreign currency position;
- monetary gold position;
- foreign currency securities portfolio.

## Notes to financial statements

### 2. Significant accounting policies (*continued*)

#### i) Average cost method (*continued*)

In accordance with these legal provisions, the market prices (for securities) and exchange rates (for foreign currencies and gold) applied by the Bank in the opening balance sheet on 1 January 2005 were the new average costs at the beginning of 2005.

*The average cost of the foreign currency position* is computed on a daily basis as an indirect quotation (RON/1 FCY). In case of the long position, net acquisitions of currencies and gold made during the day are added, at the average cost of purchases made during the day for each respective currency and gold, to the previous day's ending balance, to determine a new average cost. In case of net sales, the average cost remains unchanged (the average cost of the respective currency or gold balance for the preceding day).

*The average cost of the foreign currency securities* is computed for each ISIN/CUSIP (serial number of the securities) by dividing the transaction value to the nominal value of the respective foreign currency. All purchases made during the day are added at cost to the previous day's ending balance to produce a new average cost for each ISIN/CUSIP.

*The net average cost of the foreign currency securities* is computed for each ISIN/CUSIP (serial number of the securities) by dividing the average cost adjusted with the cumulated premium/discount amortization to the nominal value for the respective security. Premiums/discounts arising on issued and purchased securities are amortized over the remaining life of the securities using the straight-line method. However, the internal rate of return method is used for discount securities with a remaining maturity of more than one year at the time of acquisition.

Gains/losses arising from transactions in foreign currency, gold/silver in standard form and foreign currency securities are determined based on the average cost of the respective holding.

#### j) Foreign currency transactions

Transactions in foreign currencies are translated into RON at the foreign exchange rate ruling at the settlement date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RON at the foreign exchange rate ruling at that date.

In accordance with the average cost method for the long position, any sale of foreign currency (outflow from the foreign currency position) generates a gain/loss determined as follows:

- if daily acquisitions are greater than daily sales, then the gain/loss arising from the daily sales is computed as the total sales multiplied by the difference between the average price of the daily sales and the average cost of the daily acquisitions;
- if daily sales are greater than daily acquisitions, then the gain/loss arising from the daily sales is computed as the sum of the following:
  - the gain/loss arising from the sales covered by the daily acquisitions: computed as the total daily acquisitions multiplied by the difference between the average rate of the daily sales and the average cost of the daily acquisitions;
  - the gain/loss arising from the sales covered by the previous day holding: computed as the net sales multiplied by the difference between the average price of the daily sales and the average cost for the preceding day for the respective foreign currency position.

## Notes to financial statements

### 2. Significant accounting policies (*continued*)

#### k) Foreign currency securities

Premiums/discounts arising on acquisition of securities are amortized over the remaining life of the securities using the straight-line method. The internal rate of return method is, however, used for discount securities with a remaining maturity of more than one year at the time of acquisition. Amortisation of discount/premium is booked during the year as interest income/expense.

The gain/loss arising from the sale of securities is determined as the nominal value of the security sold multiplied by the difference between the selling price and the average cost of the respective security. The components of this gain/loss are the following:

- *the market price effect* representing the nominal value of the security sold multiplied by the difference between the selling price and the net average cost of the respective security;
- *the interest rate effect* representing the nominal value of the security sold multiplied by the difference between the net average cost and the average cost of the respective security.

The accruals principle is applied for monthly recording of interest receivables using the revaluation rate as conversion rate for determining the RON equivalent.

The gain/loss from marking to market the foreign currency securities is determined as the difference between the market price and the net average cost.

#### l) Loans granted to the financial institutions and other entities

Loans are stated in the balance sheet at the amount of principal outstanding, adjusted with the provision for loan impairment to reflect the estimated recoverable amount.

#### m) Tangible and intangible assets

Tangible and intangible assets are stated at historical cost less accumulated depreciation.

The Bank performed subsequent revaluations of the tangible assets in accordance with the statutory legal provisions and considering the inflation, value in use, condition and market price of the respective asset.

Capital expenditure on property and equipment in the course of construction is capitalized and depreciated once the assets enter into use. The last revaluation of tangible assets was carried on 31 December 2001.

Expenditure incurred to replace a component of an item of tangible and intangible assets that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. All other expenditure is recognized in the income statement as an expense as incurred.

Depreciation is provided on a straight-line basis over the estimated useful lives of items of property and equipment.

## Notes to financial statements

### 2. Significant accounting policies (*continued*)

#### m) Tangible and intangible assets (*continued*)

The depreciation is recognized as write downs of the costs of the items of property and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	20 – 50 years
Equipment	5 – 20 years
Motor vehicles	5 years
Computer equipment	3 years

#### n) Provision for impairment of assets

As part of its monetary and exchange rate policies, the Bank is entitled to grant loans to domestic financial institutions. The Bank records the credit risk provisions in accordance with the own norms approved by the Board of Directors, after obtaining the agreement from the Ministry of Public Finance.

The provision for impairment losses on loans is recognised in the income statement as a specific charge or release and is deducted from the total loans and accrued interest receivables. When it is determined that a loan cannot be recovered, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off and recorded by the Bank in the income statement.

Other provisions than the ones recorded for credit risk are deducted from the profit remained after transferring to the State its 80% share from the Bank's net revenues. The financial assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, the asset recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

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

#### o) Currency in circulation

The Bank prepares the program for issuing banknotes and coins, ensures the printing, distribution and administration of the currency reserve to meet cash requirements in accordance with the real needs of money circulation.

Currency in circulation is booked at the acquisition value of the banknotes and coins produced/received by/from the National Printing and Minting Units and other foreign suppliers, less the value of the banknotes and coins destroyed and other similar items (the banknotes and coins withdrawn, the banknotes and coins withdrawn and not exchanged within the legal period), the banknotes and coins recorded as collections, the banknotes and coins sold as numismatic products, the banknotes and coins from the reserve fund of the Central Treasury, the Bank's branches and those in course of expedition.

## Notes to financial statements

### 2. Significant accounting policies (*continued*)

#### p) Certificates of deposit issued

The certificates of deposit issued by the Bank are certificates denominated in RON sold to the domestic financial institutions. These are discount instruments, being redeemed at nominal value on the maturity date.

At the issuance date of the certificates of deposit, their nominal value is recorded as a liability and the discount as a prepayment. The discount is amortized during the life of the certificates of deposits using the straight-line method and the accruals principle.

#### q) Revaluation

In accordance with the statutory legal provisions, in the opening balance sheet as at 1 January 2005, the revaluation differences as at 31 December 2004 are recorded separately from those subsequently recorded. These revaluation differences are to be used for covering future losses of the Bank.

*The revaluation of the foreign currency assets and liabilities* is recorded monthly in the special revaluation account as the difference between the revaluation rate (the official rate on the last working day of the month) and the average cost of the foreign currency position. The exceptions are the assets and liabilities denominated in SDR which are revalued at the exchange rates communicated by the International Monetary Fund for 30 April and 31 December. The SDR balances as at the end of the year are revalued based on the exchange rate communicated for 31 December 2005.

*The marking-to-market* is carried on a monthly basis for the gold balances in standard form and the foreign currency securities; the mark-to-market differences are recorded in adjustments accounts in the balance sheet. The revaluation of the gold is performed based on the RON price per defined unit of weight of gold derived from the RON/USD exchange rate and the fixing quotation on the London precious metals market. The revaluation of the foreign currency securities is performed as a comparison between the mid market price at the end of the last working day of the month and the net average cost of the respective security. Offsetting unrealized losses for securities, currencies or gold balances against unrealized gains in such securities, currencies or gold is not permitted.

*At the end of the financial year*, the unrealized revaluation losses are charged to the income statement without the possibility of cancellation in subsequent years against new unrealized gains. Subsequently, the average cost of the foreign currency position and the net average cost of the foreign currency securities – which generated the respective unrealized revaluation losses – is written down to the revaluation rate and the market price respectively. The unrealized revaluation gains are booked in the special revaluation account in the balance sheet.

## Notes to financial statements

### 2. Significant accounting policies (*continued*)

#### r) Pension obligations and employee benefits

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

The Bank does not operate any independent 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.

In compliance with the collective labour agreement currently in force, the Bank pays on the retirement of its employees a benefit calculated taking into account the salary on the date of the retirement. The Bank recognizes the benefits related to the retirement on the date these are due to the employees of the Bank.

#### s) Income and expense recognition

The revenues and expenses are recognized according to the accrual principle. The losses/gains arising from sale of the foreign currency, gold or securities are charged to the income statement. These are determined as the difference against the average cost of the respective asset.

The unrealized gains are not recognized as income, but transferred directly to the special revaluation account.

At the end of the year, the unrealized losses are charged to the income statement if these losses exceed revaluation gains previously recorded in the corresponding revaluation account. There is no netting of unrealized losses for securities, currencies or gold balances against unrealized gains in such securities, currencies or gold.

#### t) Share capital and statutory reserves

The entire *share capital* is owned by the State of Romania and is not divided into shares. As at 31 December 2005, the Bank's share capital was in amount of RON 30,000 thousand. In accordance with the Law no. 312/2004, the share capital has been increased to RON 30,000 thousand on 31 December 2004 by incorporating an amount of RON 12,800 thousand existing at that time in the reserve fund.

*The statutory reserves* have been set up on 1 January 2005 in accordance with the Law no. 312/2004 – through the incorporation of the remaining balance of the reserve fund after the aforementioned increase in share capital. The statutory reserves are increased annually via a maximum distribution of 60% of the profit after the transfer to the State of 80% share of the net revenues.



## **Notes to financial statements**

### **3. Risk management policies**

The main risks associated with the Bank's activities are financial and operational risks arising as a result of the Bank's responsibility to ensure monetary and financial stability in Romania. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes interest rate risk and currency risk.

#### **a) Credit risk**

The Bank is exposed to credit risk through its trading, lending and investing activities and in cases where it issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process. The risk is mitigated through selecting counterparties of high credit standing and monitoring their activities and ratings and through the use of exposure limits.

The Bank's primary exposure to credit risk arises as a result of granting short-term loans to domestic credit institutions. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. Short-term loans in RON extended to banks are normally secured with treasury securities issued by the Romanian Government or by term deposits. However, the Bank may, in special circumstances, grant unsecured loans to banks and other credit institutions in order to prevent systemic crises. Nevertheless, this risk has been constantly decreased due to the reduction of the Bank's loans portfolio.

Maximum credit risk exposure representing the maximum accounting loss that would be recognized at the balance sheet date if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value, is estimated to be in the magnitude of RON 741 thousand (31 December 2004: RON 64,243 thousand).

#### **b) Liquidity risk**

The Bank is the lender of last resort to credit institutions in Romania. The main objective of its day-to-day operations is to ensure that adequate liquidity exists on the domestic market.

The Bank is also managing the international foreign currency portfolio, through cash budgeting and diversification, in order to ensure the foreign obligations are timely met.

#### **c) Interest rate risk**

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

For financial receivables and liabilities in RON, the Bank endeavours to match the current market rates. Obtaining a positive margin is not always possible given that the levels of such assets and liabilities are dictated by the objectives of the monetary policy. However, the Bank is constantly monitoring the costs of implementing the policies against the estimated benefits.

## Notes to financial statements

### 3. Risk management policies (*continued*)

#### c) Interest rate risk (*continued*)

For financial instruments in foreign currency, the Bank attempts to maintain a net positive position. The Bank uses a mix of fixed and variable interest instruments. The interest rates obtained or offered by the Bank for the interest bearing assets and liabilities are presented in the notes that refer to the above mentioned assets and liabilities.

#### d) Currency risk

The principal foreign currencies held by the Bank are EUR and USD. Due to the appreciation of the local currency against EUR and the high volatility of financial markets from recent periods, there is a consequent risk of loss in value in respect of net monetary assets held in EUR. Open foreign exchange positions represent also a source of foreign exchange risk.

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

In order to avoid losses arising from adverse movements in exchange rates, the Bank, within the framework of its objectives for managing international reserves, is currently pursuing the policy of diversifying its portfolio of currencies, whilst maintaining an overall long foreign exchange position.

The assets and liabilities held in EUR, USD and other foreign currencies at the balance sheet date are presented in Note 36.

The exchange rates of major foreign currencies at 31 December were:

Currencies	2005	2004	Increase (decrease) %
Euro (EUR)	1: RON 3.6771	1: RON 3.9663	(7.3%)
US Dollar (USD)	1: RON 3.1078	1: RON 2.9067	6.9%

## Notes to financial statements

### 4 Monetary gold

	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005
<i>In RON thousand</i>		
Gold bullion in standard form	1,428,857	1,142,174
Coins	738,554	590,594
Gold deposits	3,137,628	2,510,882
<b>Total</b>	<b>5,305,039</b>	<b>4,243,650</b>

At 31 December 2005 the Bank had placed gold deposits with Bank of England, the Bank of Nova Scotia and Fortis Bank Bruxelles. At 31 December 2004 the Bank had placed gold deposits with Bank of England, the Bank of Nova Scotia and Fortis Bank Bruxelles, Barclays and Morgan Stanley NY. The gold revaluation price at 31 December 2005 was 51.23 RON/g for a total gold stock of 103,553.37 kg (at 31 December 2004 the revaluation price was 40.9513 RON/g for a total gold stock of 103,626.74 kg).

### 5 Demand deposits placed

	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005
<i>In RON thousand</i>		
Demand deposits at international financial institutions	4,008,003	181,044
Demand deposits at central banks	141,919	818,051
Demand deposits at foreign banks	129	497
<b>Total</b>	<b>4,150,051</b>	<b>999,592</b>

At 31 December 2005, the Bank included in demand deposits the current account at Bank for International Settlements (BIS) of RON 4,008,003 thousand (at 31 December 2004: RON 181,044 thousand) which represents the RON equivalent of EUR 1,089,781 thousand (31 December 2004: EUR 45,472 thousand), USD 235 thousand (31 December 2004: USD 228 thousand) and CHF 17 thousand (31 December 2004: CHF 10 thousand); demand deposits at central banks, of which the most significant is at the Bundesbank of RON 56,602 thousand equivalent of EUR 15,393 thousand (31 December 2004: RON 705,527 thousand, equivalent of EUR 177,880 thousand), Bank of Japan RON 45,088 thousand equivalent of JPY 1,701,465 thousand (31 December 2004: RON 99,490 thousand equivalent of JPY 3,507,974 thousand), Bank of England RON 35,613 thousand equivalent of GBP 6,649 thousand (31 December 2004: RON 37 thousand equivalent of GBP 7 thousand) and demand deposits at Banque Centrale de Bruxelles in amount of RON 129 thousand equivalent of EUR 35 thousand (31 December 2004: RON 497 thousand equivalent of EUR 125 thousand).

The average interest rate for Bank placements at other banks is 2.8% per annum (at 31 December 2004: 3.3% per annum).

## Notes to financial statements

### 6 Term deposits placed

	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005
<i>In RON thousand</i>		
Term deposits at central banks	362,882	4,488,354
Term deposits at foreign banks	21,897,388	4,453,413
	<hr/>	<hr/>
<b>Total</b>	<b>22,260,270</b>	<b>8,941,767</b>
	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2005 term deposits placed at foreign banks were in amount of RON 21,897,388 thousand (31 December 2004: RON 4,453,413 thousand) which represent the equivalent of EUR 3,430,000 thousand (31 December 2004: EUR 320,000 thousand), USD 2,059,000 thousand (31 December 2004: USD 405,000 thousand) and GBP 538,800 thousand (31 December 2004: GBP 357,700 thousand).

At 31 December 2005 term deposits placed at central banks include the overnight deposits held with Federal Reserve Bank of New York in amount of RON 346,520 thousand equivalent of USD 111,150 thousand (31 December 2004: RON 2,106,195 thousand equivalent of USD 724,600 thousand) and with Bank of Netherlands in amount of RON 16,363 thousand equivalent of EUR 4,450 thousand (31 December 2004: RON 2,382,159 thousand equivalent of EUR 600,600 thousand).

The average interest rate for the Bank placements at other banks is 2.8% per annum (at 31 December 2004: 3.3% per annum).

### 7 Foreign currency placements

	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005
<i>In RON thousand</i>		
Placements at World Bank out of which:		
- in deposits, out of which:	297,167	228,578
- demand deposits at the Federal Reserves	683	693
- in securities	520,052	519,027
	<hr/>	<hr/>
<b>Total</b>	<b>817,219</b>	<b>747,605</b>
	<hr/> <hr/>	<hr/> <hr/>

## Notes to financial statements

### 7 Foreign currency placements *(continued)*

During October 2002 the Bank concluded an investment management agreement with the International Bank for Reconstruction and Development (IBRD), by which IBRD became the Bank's investment advisor and agent for certain foreign assets limited to 20% of the international foreign exchange reserves. As at 31 December 2005 placements with banks managed by IBRD amounted to RON 296,484 thousands - the equivalent of USD 95.2 million (31 December 2004: RON 227,885 thousands - the equivalent of USD 78.6 million).

At 31 December 2005, the Bank's placements managed by the World Bank (in securities) according to investment management contract is in amount of RON 520,052 thousand – USD 167.3 thousand (1 January 2005: RON 519,027 thousand – USD 178.6 millions).

Interest rates for US bonds administrated by IBRD range between 1.125% and 5.375% per annum (2004: between 1.1% and 5.3% per annum).

### 8 Foreign currency securities

	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005
<i>In RON thousand</i>		
Discount treasury bills – US Treasury	913,381	2,226,006
Discount treasury bills – European Treasuries	3,416,608	2,632,349
Coupon treasury bills – US Treasury	8,854,768	8,894,208
Coupon treasury bills – Bank for International Settlements (BIS)	228,950	28,532
Coupon treasury bills – European Treasuries	20,575,599	18,013,495
<b>Total</b>	<b>33,989,306</b>	<b>31,794,590</b>

Coupon treasury bills issued by the European Treasuries, USA and BIS had fixed interest rates. The interest rates ranged between 2.0% and 6% per annum for securities denominated in EUR (2004: between 2,0% and 7,25% per annum) and between 2,25% and 6,63% per annum for securities denominated in USD (2004: between 1,1% and 4,6% per annum).

Interest rates for discount treasury notes denominated in USD ranged between 0.8% and 2.2% per annum (2004: between 0.8% and 1.2% per annum).

## Notes to financial statements

### 9 Quotas in international financial institutions

	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005
<i>In RON thousand</i>		
Romania's quota at IMF (i)	4,576,023	4,650,449
Romania's quota at IBRD	-	97,693
Romania's quota at EBRD	-	86,329
Participation in the share capital of Bank for International Settlements	78,822	45,222
Romania's quota at other international financial institutions (IFC, MIGA) (ii)	-	13,574
<b>Total</b>	<b>4,654,845</b>	<b>4,893,267</b>

The Bank presented in this caption the governmental funds representing the participation quota at other international financial institutions.

The Bank, in accordance with the Law no. 97/1997 exercises all the rights and obligations arising from Romania's membership at IMF.

(i) Romania's quota at IMF is recorded as an asset denominated in SDR. At 31 December 2005 and 1 January 2005, Romania's total quota at IMF was SDR 1,030 million. The IMF maintains ROL deposits with the Bank in relation to the participation.

The current account in SDR with IMF is held by each member state of IMF and is used to conduct borrowing and other related operations with IMF. This account bears the same interest rates as the SDR allocation from IMF.

(ii) At 1 September 2005, Romania quota at IBRD, EBRD, MIGA and IFC was transferred to the Ministry of Finance according to the Law no. 53/2005 regarding certain budgeting and accounting financial measures.

### 10 Loans to domestic credit institutions

	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005
<i>In RON thousand</i>		
Loans to Banking Deposits Guarantee Fund	-	63,333
Loans to financial institutions	16,800	19,000
Loans in litigation	13,209	13,209
Specific provision for credit risk	(30,009)	(32,209)
<b>Balance at the end of year</b>	<b>-</b>	<b>63,333</b>

## Notes to financial statements

### 10 Loans to domestic credit institutions (continued)

The outstanding loans balance at 31 December 2005 decreased because the loan granted to Banking Deposits Guarantee Fund was reimbursed, and the only outstanding loan was the one granted to Credit Bank SA according to the Law no. 26/2000 (31 December 2005: RON 16,800 thousand). The Bank also included in this caption the loan granted to Credit Bank S.A. before this entity going bankruptcy (31 December 2005: RON 13,209 thousand). The loans granted to Credit Bank SA are fully provisioned. The outstanding provisions as at 1 January 2005 were kept, with the exception that the provision for the loan granted to Credit Bank SA which was set up in accordance with the Law no. 26/2000 decreased along with the amounts reimbursed during 2005.

### 11 Property and equipment

	Land and buildings	Equipment	Assets in the course of construction	Intangible assets	Total
<i>In RON thousand</i>					
<i>Cost</i>					
At 1 January 2005	235,923	68,723	12,069	9,902	326,617
Additions	10,494	7,223	5,527	3,452	26,696
Disposals	(269)	(1,932)	-	(168)	(2,369)
Transfers	-	-	(8,335)	-	(8,335)
At 31 December 2005	246,148	74,014	9,261	13,186	342,609
<i>Accumulated depreciation</i>					
At 1 January 2005	60,096	32,530	-	3,256	95,882
Depreciation during the year	9,040	7,176	-	2,524	18,740
Disposals	(11)	(850)	-	-	(861)
At 31 December 2005	69,125	38,856	-	5,780	113,761
<b>Net book value at 31 December 2005</b>	<b>177,023</b>	<b>35,158</b>	<b>9,261</b>	<b>7,406</b>	<b>228,848</b>
At opening balance sheet at 1 January 2005	175,827	36,193	12,069	6,646	230,735

As at 31 December 2005, the gross book value of fixed assets acquired in financial leasing was RON 21,209 thousand (this represented the inventory value of the fixed assets acquired under leasing contracts), and the accumulated depreciation of these assets was RON 7,429 thousand (31 December 2004: gross book value – RON 20,841 thousand and accumulated depreciation – RON 7,369 thousand).

During 2005 the Bank acquired only one fixed asset item under financial leasing, i.e. telephone system Ericsson Business with an inventory value of RON 64 thousand, and the total depreciation for the year 2005 was RON 4 thousand.

## Notes to financial statements

### 12 Equity investments

Equity investments of RON 2,240 thousand at 31 December 2005 and at 1 January 2005 represent the shares held by the Bank in TRANSFOND SA – a joint stock company that provides settlement services for inter-bank operations between local banks. The shares held by the Bank represent 33% of the share capital of TRANSFOND SA.

### 13 State budget receivables

The balance of the Bank's liability to the state budget increased during 2005 because of gold returns to individuals according to court decisions and returns of confiscated foreign currency were made, and the value represents either price differences for gold, or foreign exchange rate differences for foreign currency amounts.

### 14 Provisions for other assets

These provisions set up at 31 December 2005 were recorded in accordance to the Board of Directors decision, and include the following:

	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005
<i>In RON thousand</i>		
Provisions for :		
NBR receivables from KOLAL BV Amsterdam	89,958	-
Guarantees paid by the Bank as guarantor for Credit Bank SA	15,216	-
Guarantee to be paid by the Bank to Credem Lux Company as guarantor for Credit Bank SA (see Note 37)	9,582	-
Liability to SC Logic Telecom (amounts in litigation)	22	-
	<u>114,778</u>	<u>-</u>

The liability of KOLAL BV Amsterdam to the Bank will be recorded as an expense spread over five years starting 2006 according to the Law no. 68/2001 regarding settlement of receivables of the National Bank of Romania and Savings House against "Dacia Felix"-SA Bank.

The provision created by the Bank for the receivable from SC Logic Telecom company is recorded due to the bankruptcy of the company and due to the Bank's legal action against this company.

As at 1 January 2005, the provision for the guarantees paid by the Bank as guarantor for Credit Bank SA in amount of RON 15,216 thousand was presented as a reduction of "Other assets".



## Notes to financial statements

### 15 Accrued interest receivables

	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005
<i>In RON thousand</i>		
<i>Accrued interest receivables regarding:</i>		
Foreign currency securities	560,787	542,634
Foreign deposits and placements	43,929	15,223
Gold	18	37
Loans to banks	6,068	7,022
Other	3,091	3,641
	<hr/>	<hr/>
<b>Total</b>	<b>613,893</b>	<b>568,557</b>
	<hr/> <hr/>	<hr/> <hr/>

### 16 Credit risk provisions - interest

At 31 December 2005 the Bank maintained the provision for credit risk for the accrued interest receivables in amount of RON 6,068 thousand for the loan granted to Credit Bank SA in accordance to the Law 26/2000.

### 17 Currency in circulation

	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005
<i>In RON thousand</i>		
Banknotes	12,624,139	8,159,874
Coins	115,353	91,009
	<hr/>	<hr/>
<b>Total</b>	<b>12,739,492</b>	<b>8,250,883</b>
	<hr/> <hr/>	<hr/> <hr/>

## Notes to financial statements

### 18 Due to IMF

<i>In RON thousand</i>	<b>Closing balance sheet 31 December 2005</b>	<b>Opening balance sheet 1 January 2005</b>
Deposits from IMF	4,364,480	4,650,472
Stand-by facilities	773,402	1,288,124
<b>Total</b>	<b>5,137,882</b>	<b>5,938,596</b>

Between 1992 and 2004, Romania and the International Monetary Fund (IMF) agreed to five stand-by arrangements (SBA) for a total amount of SDR 1,886 millions, mainly to support short-term balance of payments. As at 31 December 2005 the outstanding amounts drawn from SBA facilities were SDR 182.5 millions (2004: SDR 285.3 millions).

The stand-by facilities bear variable interest set by IMF which is 4.25 % per annum as at 31 December 2005 (31 December 2004: 3.1% per annum).

At 31 December 2005, balance account with IMF in amount of SDR 1,212,761,036 (equivalent RON 5,137,882 thousand) was revalued using the SDR exchange rate confirmed by IMF. The revaluation difference of RON 249,055 thousand was recorded separately in settlement account with IMF.

### 19 SDR allocations from IMF

The Bank recorded in SDR allocations a non reimbursable loan with the same interest rate as the current account at IMF. At 31 December 2005, SDR allocations from IMF have an interest rate of 3.03% per annum (31 December 2004: 2.2% per annum).

## Notes to financial statements

### 20 Current account with the State Treasury

	<b>Closing balance sheet 31 December 2005</b>	<b>Opening balance sheet 1 January 2005</b>
<i>In RON thousand</i>		
State Treasury current account denominated in RON	1,570,029	2,457,384
State Treasury current account denominated in foreign currency	2,151,462	2,596,336
	<hr/>	<hr/>
<b>Total</b>	<b>3,721,491</b>	<b>5,053,720</b>
	<hr/> <hr/>	<hr/> <hr/>

The amounts due to State Treasury bears variable market interest rates.

### 21 Accrued interest payables

	<b>Closing balance sheet 31 December 2005</b>	<b>Opening balance sheet 1 January 2005</b>
<i>In RON thousand</i>		
<i>Accrued interest payables to:</i>		
External borrowings	5,874	7,553
Minimum compulsory reserves from financial institutions	5,731	9,511
Deposits from credit institutions	14,065	74,008
Current account with State treasury	1,337	9,179
Other interest payable	2,455	4,151
	<hr/>	<hr/>
<b>Total</b>	<b>29,462</b>	<b>104,402</b>
	<hr/> <hr/>	<hr/> <hr/>

### 22 Related party transactions

The Government of Romania, through the State Treasury, maintains accounts with the Bank which are subject to commission starting from 1 January 2005. Furthermore, the Bank acts as a registry agent on behalf of the State Treasury with regards to treasury bills and notes, manages the international reserves and ensures timely servicing of Romania's foreign public debt.

The Bank exercises influence, through board representations, over two other state institutions: the National Printing and Minting Units.

## Notes to financial statements

### 22 Related party transactions (continued)

The total purchases of banknotes and coins made by the Bank made during 2005 from these two entities amounted to RON 48,135 thousand (31 December 2004: RON 9,500 thousand). As at 31 December 2005 the Bank had no outstanding balances payable to the National Printing and Minting Units. The transactions with these two entities were carried out on normal commercial terms and conditions.

The Bank exercises significant influence over TransFonD SA, an entity created in 2000 to outsource the Bank's settlement activities of domestic inter-bank operations. Starting with 8 April 2005 the national settlements inter-banking electronic system REGIS was established and during the year there were added SENT and GSRS modules to this system.

TransFonD SA receives for its agent services 95% of the commissions cashed in by the Bank from the domestic banks for settlement at varying percentages according to the contracts regarding the other modules of the Electronic Payment System. The total commissions paid to TransFonD S.A. by the Bank during 2005 amounted to RON 71,241 thousand (31 December 2004: RON 101,000 thousand). At 31 December 2005, according to the invoices issued by the Bank, TransFonD S.A. had an outstanding amount payable of RON 225 thousand, and the Bank had an outstanding amount payable of RON 2,285 thousand according to the invoices issued by the TransFonD S.A..

### 23 Special revaluation account

	Closing balance sheet 31 December 2005	Opening balance sheet 1 January 2005 *)
<i>In RON thousand</i>		
Net favourable revaluation differences at 31 December 2004	773,854	2,816,868
Favourable revaluation differences from gold, precious metals and stones	1,081,602	-
Favourable revaluation differences from foreign currencies (revaluation at exchange rate from balance sheet date)	1,075,485	-
Foreign currency denominated bonds (revaluation at market value)	1,017	-
<b>Total</b>	<b>2,931,958</b>	<b>2,816,868</b>

The amounts recorded in special revaluation account represent the favourable differences at 31 December 2005. Offsetting between unfavourable revaluation differences and favourable revaluation differences related to securities, foreign currency or gold balances are not permitted. The unfavourable revaluation differences at 31 December 2005 were recorded as an expense (see note 32).

\*) At 1 January 2005 special revaluation account includes: net differences from gold, precious metals and stones revaluations and from foreign currency assets and liabilities revaluations.

## Notes to financial statements

### 24 Funds for quota in international financial institutions

At 1 September 2005 the funds for quota at IBRD, EBRD, MIGA and IFC was taken over by Ministry of Public Finance according to the Law no. 53/2005 regarding certain budgeting and accounting financial measures.

### 25 Other funds

At 31 December 2005 the funds for quota at IMF and BIS were reclassified to "Reserves".

At 31 December 2005 the funds for property and equipment and other funds were reclassified to "Reserves"

### 26 Interest revenue and similar income

	2005	2004*)
<i>In RON thousand</i>		
<b><i>Foreign currency/gold operations</i></b>		
Interest and similar income from:		
Foreign securities	1,274,980	859,381
Foreign currency placements	401,915	139,344
Amounts in SDR	1,437	66
Gold deposits	310	545
	<hr/>	<hr/>
<b><i>Total interest income from foreign currency and gold operations</i></b>	<b>1,678,642</b>	<b>999,336</b>
	<hr/>	<hr/>
<b><i>Operations denominated in RON</i></b>		
Interest and similar incomes from:		
Loans to financial institutions	4,033	10,061
Other income	79	207
	<hr/>	<hr/>
<b><i>Total interest income from operations denominated in RON</i></b>	<b>4,112</b>	<b>10,268</b>
	<hr/>	<hr/>
<b>Total interest revenue and similar income</b>	<b>1,682,754</b>	<b>1,009,604</b>
	<hr/> <hr/>	<hr/> <hr/>

\*) Not restated, see Note 2b

For 2005, the interest income from foreign currency securities comprises the amortization of discounts from acquisitions, favourable interest rate effect from sales of securities and income from accumulated coupon.

## Notes to financial statements

### 27 Interest expense and similar charges

	2005	2004*
<i>In RON thousand</i>		
<b><i>Foreign currency operations</i></b>		
Interest and similar expenses from:		
Foreign securities	304,629	-
Deposits from financial institutions and Ministry of Finance	124,110	58,852
Loans from International Monetary Fund	47,919	53,255
	<hr/>	<hr/>
<b><i>Total interest expenses from foreign currency operations</i></b>	<b>476,658</b>	<b>112,107</b>
	<hr/>	<hr/>
<b><i>Operations denominated in RON</i></b>		
Interest and similar expenses from:		
Term deposits from financial institutions	1,207,212	1,645,293
Minimum compulsory reserve from financial institutions	181,533	301,040
State Treasury current account	103,817	339,467
Certificates of deposit issued by the Bank	541,504	320,939
Other expenses	188	253
	<hr/>	<hr/>
<b><i>Total interest expenses from operations denominated in RON</i></b>	<b>2,034,254</b>	<b>2,606,992</b>
	<hr/>	<hr/>
<b>Total interest expense and similar charges</b>	<b>2,510,912</b>	<b>2,719,099</b>
	<hr/> <hr/>	<hr/> <hr/>

\*) Not restated, see Note 2b

For 2005, interest expenses with foreign securities comprise amortization of premium from acquisitions and from in favourable interest rate effect from sales of securities.

During the year, similar expenses with foreign securities are included in losses from operations with foreign securities (see Note 31).

### 28 Fee and commission income

Fee and commission income represents the commissions income from settlement of inter-banking operations between local financial institutions and payments to the State budget, and for analysis and expertise of precious metals.

## Notes to financial statements

### 29 Fee and commission expense

	2005	2004
<i>In RON thousand</i>		
Fees and commission expenses denominated in RON	71,240	101,186
Fees and commission expenses denominated in foreign currency	2,861	2,115
<b>Fee and commission expense</b>	<b>74,101</b>	<b>103,301</b>

Fee and commission expense includes the commissions for services received by the Bank, including agent services provided by TransFonD SA - an entity created in 2000 to outsource the Bank's settlement activities of domestic inter-bank operations. TransFonD SA receives for its agent services 95% of the commissions received by the Bank from domestic banks (see Note 22).

### 30 Realized gains /(losses) from foreign currency operations

	2005	2004
<i>In RON thousand</i>		
<b><i>Income from foreign currency operations</i></b>		
Income from exchange rate differences	42,236	34,431
Dividends from Bank for International Settlements' shares	8,199	8,821
Other income from foreign currency operations	95	523
<b><i>Total income from foreign currency operations</i></b>	<b>50,530</b>	<b>43,775</b>
<b><i>Expenses from foreign currency operations</i></b>		
Expenses from exchange rate differences	(423,894)	(42,395)
Other expenses from foreign currency operations	(1,545)	(1,239)
<b><i>Total expenses from foreign currency operations</i></b>	<b>(425,439)</b>	<b>(43,634)</b>
<b>Realized gains/(loses) from foreign currency operations</b>	<b>(374,909)</b>	<b>141</b>

Income and expenses from exchange rate differences recorded during 2005 are related to disposals of foreign currency from foreign currency position, and are calculated using the average cost method (see Note 2i).

## Notes to financial statements

### 31 Realized losses from foreign currency securities operations

	2005	2004*
<i>In RON thousand</i>		
<b><i>Income from operations with foreign securities</i></b>		
Gains from operations with foreign securities	84,010	77,355
Other income	-	91
	<hr/>	<hr/>
<b><i>Total income from operations with foreign securities</i></b>	<b>84,010</b>	<b>77,446</b>
	<hr/>	<hr/>
<b><i>Expenses from operations with foreign securities</i></b>	<b>(98,586)</b>	<b>(212,170)</b>
	<hr/>	<hr/>
<b>Realized losses from foreign currency securities operations</b>	<b>(14,576)</b>	<b>(134,724)</b>
	<hr/> <hr/>	<hr/> <hr/>

\*) Not restated, see Note 2b

Gains/losses from sales of the securities denominated in foreign currency are calculated using average cost method (see Note 2i). Other income/expenses are generated by operations with securities denominated in RON.

### 32 Realized losses from precious metals operations

	2005	2004
<i>In RON thousand</i>		
Gains form precious metals operations	126	285
Expenses from precious metals operations	(572)	(1,104)
	<hr/>	<hr/>
<b>Gains/(losses) from precious metals operations</b>	<b>(446)</b>	<b>(819)</b>
	<hr/> <hr/>	<hr/> <hr/>

Expenses from precious metals operations were generated by unfavourable differences between market price and average cost at the maturity of deposits placed, storage fees paid for the gold stock held at Bank of England (approx. 61 tones), and by the fees for expertise of precious metals in the central vault.



## Notes to financial statements

### 33 Unrealized losses from revaluation differences

<i>In RON thousand</i>	2005	2004*
<i>Expenses from unfavourable revaluation differences :</i>		
Revaluation of net assets denominated in EUR	1,262,785	-
Revaluation of net assets denominated in other currencies (GBP, DKK, AUD)	61,482	-
Market value revaluation of securities denominated in foreign currency	215,223	-
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<b>Unrealized losses from revaluation differences</b>	<b>1,539,490</b>	<b>-</b>
	<hr/> <hr/>	<hr/> <hr/>

\*) Not restated, see Note 2b

Starting with 1 January 2005 the net revaluation losses representing the unfavourable revaluation differences and determined at 31 December 2005 based on average cost method are recorded in the income statement (see Notes 2c and 2i).

Offsetting is not permitted between unfavourable revaluation differences from securities, foreign currency or gold balances and favourable revaluation differences from bonds, foreign currency or gold balances. The favourable revaluation differences at 31 December 2005 are recorded in the balance sheet in the special revaluation account (see Note 32).

The net revaluation differences booked at the end of the year in the income statement will not be reversed in the next years as a result of subsequent revaluation gains.

### 34 Currency issuance expenses

Romania national currency was denominated so that 10,000 lei (*ROL*) – on circulation at 1 July 2005 – can be exchanged for 1 leu (*RON*), the denomination generated expenses with printing and /issuing of the new banknotes and coins.

### 35 Income/(expenses) from credit risk provisions

Expenses incurred on credit risk provisions during the year 2005 refer to the liability of Banca "Dacia Felix" to the Bank, which was transferred to KOLAL B.V. Amsterdam according to the Law no. 68/2001 settlement of regarding receivables of National Bank of Romania and Savings House against Banca „Dacia Felix”-SA.

## Notes to financial statements

### 36 Foreign currency positions

The amounts of the Bank's assets held in RON and in foreign currencies at 31 December 2005 can be analysed as follows:

	RON	EUR	USD	SDR	Gold	Other	Total
<i>In RON thousand</i>							
Cash and cash equivalents	7,282	52	13	-	-	-	7,347
Non monetary gold	-	-	-	-	65,763	-	65,763
Other precious metals and stones	-	-	-	-	-	14,891	14,891
Current account in SDR with IMF	-	-	-	1,678	-	-	1,678
Monetary gold	-	-	-	-	5,305,039	-	5,305,039
Demand deposits placed	-	4,064,267	2,301	-	-	83,483	4,150,051
Term deposits placed	-	12,628,816	6,745,480	-	-	2,885,974	22,260,270
Foreign currency placements	-	-	817,219	-	-	-	817,219
Foreign currency securities	-	23,992,207	9,997,099	-	-	-	33,989,306
Quota in international financial institutions	-	-	-	4,576,023	-	78,822	4,654,845
Loan to Banking Deposits Guarantee Fund	-	-	-	-	-	-	-
Loans to domestic credit institutions	16,800	-	-	-	-	-	16,800
Loans in litigation	13,209	-	-	-	-	-	13,209
Credit risk provision – principal	(30,009)	-	-	-	-	-	(30,009)
Loans to employees	741	-	-	-	-	-	741
Property and equipment	228,848	-	-	-	-	-	228,848
Inventory	5,514	-	-	-	-	-	5,514
Equity investments	2,240	-	-	-	-	-	2,240
State budget receivables	26,602	-	-	-	-	-	26,602
Settlement accounts	220,991	-	-	-	-	-	220,991
Other assets	19,371	-	-	-	-	-	19,371
Provisions for other assets	(105,196)	-	(9,582)	-	-	-	(114,778)
Accrued interest receivables	9,159	487,562	101,031	-	-	18,141	613,893
Credit risk provisions - interest	(6,068)	-	-	-	-	-	(6,068)
<b>Total assets</b>	<b>409,484</b>	<b>41,170,904</b>	<b>17,653,561</b>	<b>4,577,701</b>	<b>5,370,802</b>	<b>3,081,311</b>	<b>72,263,763</b>

## Notes to financial statements

### 36 Foreign currency positions (continued)

The amounts of the Bank's liabilities and capital held in RON and in foreign currencies at 31 December 2005 can be analysed as follows:

	RON	EUR	USD	DST	Gold	Other	Total
<i>In RON thousand</i>							
Currency in circulation	12,739,492	-	-	-	-	-	12,739,492
Certificates of deposit issued by the Bank	16,492,600	-	-	-	-	-	16,492,600
Due to international financial institutions	325,323	-	467	5,137,882	-	-	5,463,672
Sight deposit taken	-	221,134	-	-	-	-	221,134
Borrowings from banks	-	2,533	-	-	-	-	2,533
SDR allocations from IMF	-	-	-	337,361	-	-	337,361
Current account of domestic banks	9,479,744	-	-	-	-	-	9,479,744
Amounts withheld at court disposition	1,980	-	-	-	-	-	1,980
Term deposit taken from domestic banks	6,731,800	-	-	-	-	-	6,731,800
Foreign currency minimum reserves	-	13,559,799	2,949,172	-	-	-	16,508,971
Accounts of bankrupt financial institutions	2,627	-	-	-	-	-	2,627
Current accounts with the State Treasury	1,570,029	2,076,762	74,700	-	-	-	3,721,491
Borrowings and other similar liabilities	2,291	-	-	-	-	-	2,291
Sundry creditors	7,454	-	-	-	-	-	7,454
Salaries and other personal related accounts	1,668	-	-	-	-	-	1,668
Due to State budget	4,282	-	-	-	-	-	4,282
Settlement accounts	2,440	-	-	-	-	-	2,440
Other liabilities	5,632	-	-	-	-	-	5,632
Accrued interest payables	18,063	3,165	676	7,558	-	-	29,462
<b>Total liabilities and equity</b>	<b>47,385,425</b>	<b>15,863,393</b>	<b>3,025,015</b>	<b>5,482,801</b>	-	-	<b>71,757,101</b>
<b>Net assets /(net liabilities)*</b>	<b>(46,975,941)</b>	<b>25,307,511</b>	<b>14,628,546</b>	<b>(905,100)</b>	<b>5,370,802</b>	<b>3,081,311</b>	<b>507,129</b>

\*) represent the Bank's equity

## Notes to financial statements

### 36 Foreign currency positions (continued)

The amounts of Bank's assets held in RON and in foreign currencies at 1 January 2005 can be analysed as follows:

<i>In RON thousand</i>	RON	EUR	USD	DST	Gold	Other	Total
Cash and cash equivalents	4,568	36	28	-	-	-	4,632
Non monetary gold	-	-	-	-	57,742	-	57,742
Other precious metals and stones	-	-	-	-	-	11,047	11,047
Current account in SDR with IMF	-	-	-	1,625	-	-	1,625
Monetary gold	-	-	-	-	4,243,650	-	4,243,650
Demand deposits placed	-	886,409	2,368	-	-	110,815	999,592
Term deposits placed	-	3,651,376	3,283,408	-	-	2,006,983	8,941,767
Foreign currency placements	-	-	747,605	-	-	-	747,605
Foreign currency securities	-	20,645,843	11,148,747	-	-	-	31,794,590
Quota in international financial institutions	-	-	-	4,650,449	-	242,818	4,893,267
Loans to Banking Deposits Guarantee Fund	63,333	-	-	-	-	-	63,333
Loans to domestic credit institutions	19,000	-	-	-	-	-	19,000
Loans in litigation	13,209	-	-	-	-	-	13,209
Credit risk provision - principal	(32,209)	-	-	-	-	-	(32,209)
Loans to employees	910	-	-	-	-	-	910
Property and equipment	230,735	-	-	-	-	-	230,735
Inventory	4,374	-	-	-	-	-	4,374
Equity investments	2,240	-	-	-	-	-	2,240
State budget receivables	6,222	-	-	-	-	-	6,222
Other settlement accounts	191,583	-	-	-	-	-	191,583
Other assets	1,452	-	-	-	-	-	1,452
Provisions for other assets	-	-	-	-	-	-	-
Accrued interest receivables	10,714	486,874	58,963	-	-	12,006	568,557
Credit risk provisions - interest	(6,068)	-	-	-	-	-	(6,068)
<b>Total assets</b>	<b>510,063</b>	<b>25,670,538</b>	<b>15,241,119</b>	<b>4,652,074</b>	<b>4,301,392</b>	<b>2,383,669</b>	<b>52,758,855</b>

## Notes to financial statements

### 36 Foreign currency position (continued)

The amounts of the Bank's liabilities and capital held in RON and in foreign currencies at 1 January 2005 can be analysed as follows:

	RON	EUR	USD	DST	Gold	Other	Total
<i>In RON thousand</i>							
Currency in circulation	8,250,883	-	-	-	-	-	8,250,883
Certificates of deposit issued by the Bank	4,908,500	-	-	-	-	-	4,908,500
Due to international financial institutions	80,688	-	467	5,938,596	-	-	6,019,711
Demand deposit taken	-	79,096	-	-	-	-	79,096
Term deposits taken	-	-	290,670	-	-	-	290,670
Borrowings from banks	-	8,246	-	-	-	-	8,246
SDR allocations from IMF	-	-	-	342,848	-	-	342,848
Current account of domestic banks	5,458,529	-	-	-	-	-	5,458,529
Amounts withheld at court disposition	1,076	-	-	-	-	-	1,076
Term deposit taken domestic banks	11,215,200	-	-	-	-	-	11,215,200
Foreign currency minimum reserves	-	801,434	8,595,031	-	-	-	9,396,465
Accounts of bankrupt financial institutions	3,045	-	-	-	-	-	3,045
Current accounts with the State Treasury	2,457,385	2,519,633	76,702	-	-	-	5,053,720
Borrowings and other similar liabilities	2,001	-	-	-	-	-	2,001
Sundry creditors	4,784	-	-	-	-	-	4,784
Salaries and other personal related accounts	1,006	-	-	-	-	-	1,006
Due to State budget	3,488	-	-	-	-	-	3,488
Settlement accounts	1,320	-	-	-	-	-	1,320
Other liabilities	4,224	-	-	-	-	-	4,224
Accrued interest payables	91,112	1,367	3,790	8,133	-	-	104,402
<b>Total liabilities and equity</b>	<b>32,483,201</b>	<b>3,409,776</b>	<b>8,966,660</b>	<b>6,289,577</b>	-	-	<b>51,149,214</b>
<b>Net assets /(net liabilities)*</b>	<b>(31,973,138)</b>	<b>22,260,762</b>	<b>6,274,459</b>	<b>(1,637,503)</b>	<b>4,301,392</b>	<b>2,383,669</b>	<b>1,609,641</b>

\*) represent the Bank's equity

## Notes to financial statements

### 37 Commitments and contingency

The Bank has outstanding guarantees issued amounting to RON 9,582 thousand at 31 December 2005. The Bank, based upon legal advice, has recorded a provision for the claims related to the full nominal value of the outstanding guarantees since it considered highly probable that the Bank will have to make the payments (see note 14). Also, at 31 December 2005 the Bank has in custody promissory notes issued by Ministry of Finance in favour of EBRD amounting to EUR 1,620,000, MIGA - USD 600,510, IBRD - RON 4,065 thousand.

### 38 Coverage of losses

In accordance to the legislation in place, the loss for the year 2005 will be covered as presented hereinafter.

	<b>2005</b>
<i>In RON thousand</i>	
Loss for 2005 financial year	(3,062,404)
<b>Loss cover sources:</b>	
Special revaluation account at 31 December 2004	773,854
Legal reserve at 31 December 2005	1,891
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<b>Net loss for the year 2005</b>	<b>(2,286,659)</b>
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The net loss for 2005 not covered by the sources presented above is carried forward according to the statutory regulation and will be covered from future profits.

### 39 Subsequent events

According to the Law no. 312/2004, the financial statements of the Bank are prepared in accordance with the International Accounting Standards for central banks, recognized by European Central Bank. Those are presented in the ECB Guide nr. 10/2002. Currently, the European Central Bank is in process of modifying the ECB Guide no. 10/2002; the revised version will be applicable starting with 1 January 2007. The impact of the revised ECB Guide no. 10/2002 on the financial statements will be determined when the relevant modifications will be available.

On 25 April 2005 at Luxembourg, the Treaty on the accession of Romania to the European Union was signed. The estimated accession date is 1 January 2007, which will be finalised later. At the accession date of Romania to the European Union, the Bank will be member of the European System of Central Banks, which involve rights and obligations. The effect of the accession of Romania to the European Union on the Bank's financial statements will be determined later, when new information will be available.