BRD - Groupe Société Générale

REPORT ON TRANSPARENCY AND DISCLOSURE REQUIREMENTS

according to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

2018

BRD

GROUPE SOCIETE GENERALE

CONTENTS

Introduction

THE SCOPE OF THE REPORT

BRD's Report on Transparency and Disclosure Requirements is prepared according to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and the Guidelines on disclosure requirements in Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11).

BRD applies article 13 (1) of Regulation (EU) No 575/2013, according to which significant subsidiaries of EU parent institutions and those subsidiaries which are of material significance for their local market shall disclose the information specified in articles 437 (own funds), 438 (capital requirements), 440 (capital buffers), 442 (credit risk adjustments), 450 (remuneration policy), 451 (leverage) and 453 (credit risk mitigation techniques) on an individual or sub-consolidated basis. Additionally, as per the Guidelines on disclosure requirements in Part Eight of Regulation (EU) No 575/2013, BRD also discloses information according to article 435 point 2 (governance arrangements) and article 443 (unencumbered assets).

CONSOLIDATION PERIMETER

As BRD is parent credit institution in Romania and, at the same time, subsidiary of Société Générale, the prudential consolidation perimeter is applied for the purpose of this report.

For the scope of prudential consolidation, the BRD Group includes the following entities:

- BRD - Groupe Société Générale SA;
- BRD Sogelease IFN SA;
- BRD Finance IFN SA.

Amounts are in RON thousand at December 31, 2018, unless otherwise stated.

LOCATION OF PILLAR 3 DISCLOSURES

This report complements and/or details information provided in BRD's Annual Board of Directors Report for the year 2018 and the Consolidated and Separate Financial Statements as at December 31, 2018. The documents are available electronically at www.brd.ro.

The disclosure index below provides information on where information required in Part Eight of Regulation (EU) No 575/2013 can be found.

Table 1: Disclosure index

CRR article number	CRR article description	Reference to the chapter in the present document	Reference to external documents
435 (2)	Governance arrangements	Chapter 1: Governance arrangements ✓ the number of directorships held by members of the management body; ✓ the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise; ✓ the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved; ✓ whether or not the institution has set up a separate risk committee and the number of times the risk committee has met; ✓ the description of the information flow on risk to the management body.	Annual Board of Directors Report for 2018: ✓ Chapter 2: Corporate Governance ✓ Chapter 6: Risk Management
437	Own Funds	Chapter 2: Own Funds ✓ Accounting and Regulatory Balance Sheet reconciliation with cross reference to Own Funds disclosure template ✓ Capital instruments' main features template ✓ Own Funds disclosure template	Annual Board of Directors Report for 2018 - Chapter 7: Capital Management and Adequacy Consolidated and separate financial statements, as at Dec 31, 2018 – Note 42 - Capital management
438	Capital requirements	Chapter 3: Capital requirements ✓ Capital requirements – regulatory and SREP ✓ **EU OV1** – Overview of RWA	Annual Board of Directors Report for 2018 - Chapter 7: Capital Management and Adequacy Consolidated and separate financial statements, as at Dec 31, 2018 – Note 42 - Capital management
440	Capital buffers	Chapter 4: Capital buffers	Annual Board of Directors Report for 2018 - Chapter 7: Capital Management and Adequacy
442	Credit risk adjustments	Chapter 5: Credit risk adjustments ✓ **EU CRB-A** – Additional disclosure related to the credit quality of assets ✓ **EU CRB-B** – Total and average net amount of exposures ✓ **EU CRB-C** – Geographical breakdown of exposures ✓ **EU CRB-D** – Concentration of exposures by industry or counterparty types ✓ **EU CR1-A** – Credit quality of exposures by exposure class and instrument ✓ **EU CR1-C** – Credit quality of exposures by geography ✓ **EU CR1-D** – Ageing of past-due exposures ✓ **EU CR1-E** – Non-performing and forborne exposures ✓ **EU CR2-A** – Changes in the stock of general and specific credit risk adjustments for impaired loans and advances ✓ **EU CR2-B** – Changes in the stock of defaulted and impaired loans and debt securities and off-balance-sheet exposures	Consolidated and separate financial statements, as at Dec 31, 2018 – Note 41 – Risk management and Note 11 – Loans and advances to customers

443	Unencumbered assets	Chapter 6: Unencumbered assets	
450	Remuneration policy	Chapter 7: Remuneration policy ✓ Information on the decision-making process used for determining the remuneration policy, including the number of meetings held by the Remuneration Committee ✓ Link between pay and performance ✓ Most important design characteristics of the remuneration system ✓ Ratios between fixed and variable remuneration ✓ Performance criteria on which the entitlement to shares, options or variable remuneration is based ✓ Main parameters and rationale for the variable component scheme	Annual Board of Directors Report for 2018 – Chapter 3: Human Resources
451	Leverage ratio	Chapter 8: Leverage ratio ✓ **LRQua** - Description of the processes used to manage the risk of excessive leverage and of the factors that had an impact on the leverage ratio ✓ **LRSum** - Summary reconciliation of accounting assets and leverage ratio exposures ✓ **LRCom** - Leverage ratio common disclosure	Annual Board of Directors Report for 2018 - Chapter 7: Capital Management and Adequacy
453	Use of credit risk mitigation techniques	Chapter 9: Credit risk mitigation techniques ✓ **EU CRC** – Qualitative disclosure requirements related to CRM techniques ✓ **EU CR3** – CRM techniques – Overview ✓ **EU CR4** – Standardised approach – Credit risk exposure and CRM effects	

1 Governance arrangements

BRD-Groupe Société Générale adopted a unitary management system that is fully consistent with the principles of good corporate governance, transparency of relevant corporate information, protection of shareholders and of other categories of concerned persons (stakeholders), as well as of an efficient operation on the banking market.

The internal governance of BRD-Groupe Société Générale S.A. is aligned with that of the parent company, Société Générale. BRD has adopted, and applies, on a voluntary basis, the provisions of Corporate Governance Code of the Bucharest Stock Exchange (BSE) and reports annually the compliance with its provisions.

The structure, the size and the skills of the management body (in its supervisory function - Board of Directors and the senior management - Management Committee) are well suited for the dimension and the complexity of the Bank's activity.

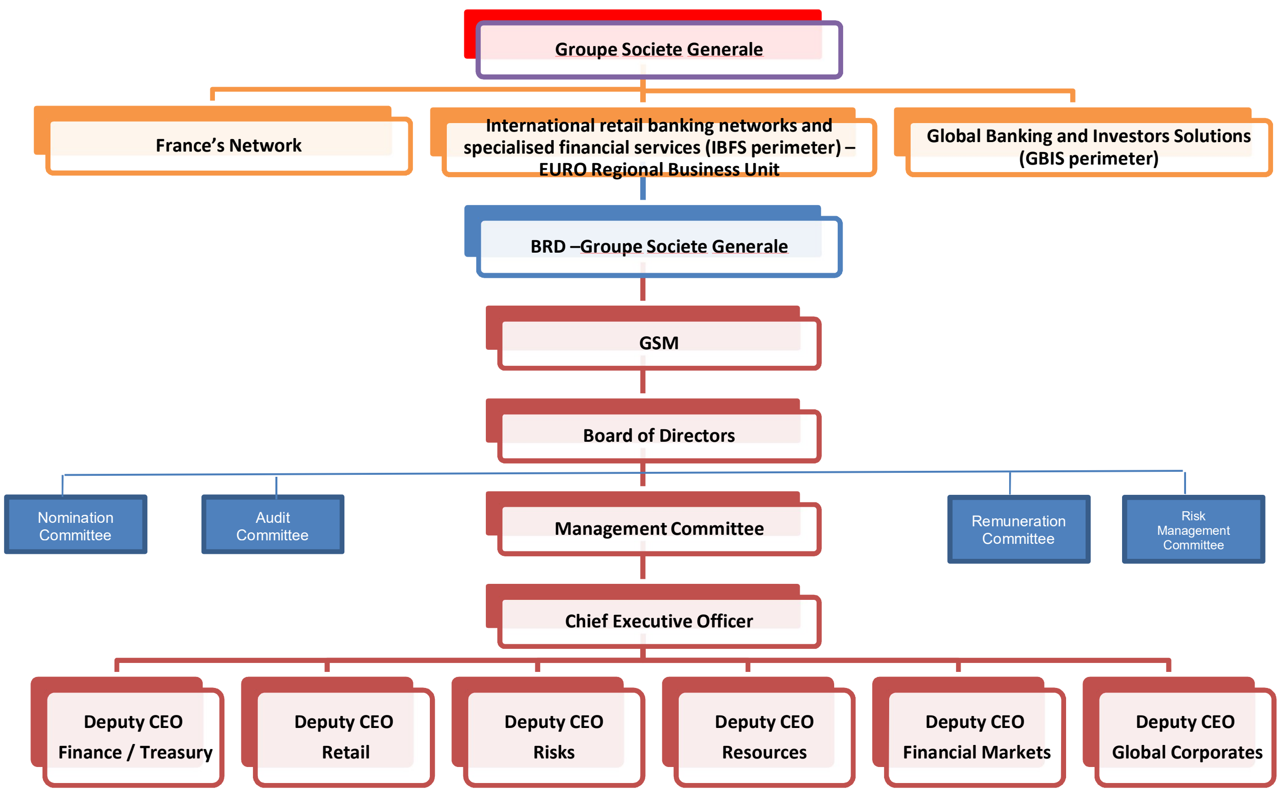
The members of the management body commit sufficient time to their responsibilities as stipulated by the law and the statutory bodies.

The members of the management body have the necessary expertise to carry out their responsibilities and take decisions independently.

The management body promotes both high ethical and professional standards, as well as a strong culture of internal control.

An overview of the organizational chart of the Bank is presented in the chart below.

Table 2: BRD-Groupe Societe Generale Organizational Chart



The structure and organization of the management body are presented in Chapter 2 - Corporate governance of BRD's Annual Board of Directors' Report and also in BRD's Corporate Governance Code in Chapter 2 "Corporate governance structures" and in BRD's Articles of Incorporation, documents, available to the interested parties on the institutional site in the section: Investors and shareholders.

At the same time, information on the professional experience of members of the Bank's management body can be found on the institutional site at: https://www.brd.ro/en/about-brd/about-us/about-brd/management.

All members of the management body comply with the legal provisions on the cumulative mandate established by the applicable law in force. Information on the number of directorships held by each member of the management body are presented in BRD's Annual Board of Directors' Report 2018 (Chapter 2 - Corporate Governance) and can be consulted on the institutional site at: https://www.brd.ro/_files/pdf/2.2%20BoD%20report%202018%20EN.pdf.

BRD's Annual Board of Directors Report 2018 (Chapter 2 - Corporate Governance) contains information on the main changes in the management body on 2018 and the year of expiry of the current mandates of BRD's members of Board of Directors.

In order to support the Board of Directors and the Management Committee activity, several committees are set up and operate within the Bank.

The mission, the structure, the rules regarding the organization and functioning of the committees supporting the Board of Directors and the Management Committee are presented in BRD's Corporate Governance Code, Chapter 2 "Corporate governance structures" and also in BRD's Annual Board of Directors' Report, Chapter 2 - Corporate Governance, available on the institutional site at: Investors and shareholders.

THE ATTENDANCE OF THE MEMBERS OF THE MANAGEMENT BODY TO THE MEETINGS IN 2018

BRD's Annual Board of Directors' Report 2018, Chapter 2 - Corporate Governance, that can be consulted on the institutional site at: https://www.brd.ro/_files/pdf/2.2%20BoD%20report%202018%20EN.pdf, contains details regarding the meetings, their frequency and the subjects discussed.

As at December 31, 2018, the members of the Board of Directors had a 98% attendance rate to the Board meetings, while members of the Management Committee had an 88% attendance rate.

THE RECRUITMENT POLICY FOR THE SELECTION OF MEMBERS OF THE MANAGEMENT BODY

The Bank has a policy setting out the criteria, processes and measures applied by the Bank for the selection, assessment of adequacy (monitoring) and succession planning of members of the Board of Directors and the Management Committee. The responsibility for the process of selection, monitoring and planning of the succession of the members of the management body rests to the Nomination Committee. The Nomination Committee actively contributes to those processes.

The criteria for nominating candidates are at least the following:

- to have a good reputation;
- to have the professional experience adequate to the nature, extent and complexity of the banking business and of the entrusted responsibilities;
- to ensure collective competence of the management body by the co-optation of the new member, as well as the balance of knowledge, skills, diversity and experience of the Management Body for an efficient and performant management of the Bank's activity;
- to ensure diversity within the Management Body in terms of skills and competences, to ensure that the Management Body's decision-making process is not dominated by any person or small group of persons in a way that is detrimental to the Bank's interests, the diversity in terms of age, experience, etc .;

- to achieve the gender target.

The main objective of the selection process is to ensure suitable candidates for the vacant positions in the Management Body or to ensure the succession of the existing members.

The selection of the candidates excludes any discrimination on gender, age, ethnicity or any other kind of discrimination, stipulated by the law.

Criteria such as reputation, theoretical and practical professional experience in specific areas of BRD–Groupe Société Générale's activities, as well as diversity of the management body, ensure a suitable structure of the management body.

The selection of independent directors is subject to compliance with the criteria stipulated by the Companies' Law no. 31/1990, NBR Regulation no. 5/2013 on prudential requirements for credit institutions (article 7 paragraph 4) and by the Bucharest Stock Exchange Code of Corporate Governance.

The exercise of the responsibilities by members of the Management Body is subject to obtaining NBR approval.

THE DIVERSITY POLICY

According to the Nomination Committee Report on assessing that the adequacy of the management body and its members, size, structure and balance of knowledge, skills and experience are adequate to the responsibilities of the management body:

- the number of directors (9) and executive officers (7) is appropriate to the size, complexity and nature of the Bank's activity;
- the structure of the Board of Directors ensures a proper balance between executive and non-executive members (7 non-executive members and 2 executive members);
- the Board of Directors has 2 independent directors (as stipulated by the legal provisions in force);
- the structure of the management body ensures age and geographical diversity;
- the professional experience of the members of the management body in areas such as: financial-banking, capital markets, risk, audit / control, retail, their access to international information and, also, the academic experience of some members, offers professional diversity.

THE INFORMATION FLOW ON RISK TO THE MANAGEMENT BODY

The information flow on risk to the management body is detailed in ''BRD's Annual Board of Directors' Report 2018'' in Chapter 6 - Risk management , subchapter Risk management governance, document that can be consulted on the institutional site at:

https://www.brd.ro/_files/pdf/2.2%20BoD%20report%202018%20EN.pdf.

2 Own funds

CONSOLIDATION PERIMETER

The basis for calculation of own funds is the consolidated prudential perimeter.

BRD Group consolidation perimeter for prudential purposes is defined in accordance with Regulation (EU) No 575/2013 (CRR), Part One, Title II, Chapter 2, Section 3.

The consolidated entities for prudential scope are identified based on the criteria as per Articles 4 (1) (3), (16) to (27), 18 and 19 of CRR. According to Article 4 of CRR, entities consolidated in the prudential reporting must have one of the following types of activity: credit institution, investment firm, ancillary services undertaking and/or other financial institution. In contrast, in accordance with IFRS financial statements, all entities controlled directly or indirectly (including non-financial entities, insurance companies, etc.) are fully consolidated.

Additional exclusion of subsidiaries from prudential consolidation perimeter is based on criteria from Article 19 of CRR.

Based on the above, the prudential consolidation perimeter of BRD Group includes the parent company BRD - Groupe Société Générale S.A and two of its subsidiaries:

- BRD Sogelease IFN S.A.
- BRD Finance IFN S.A.

Table 3: EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation		Description of the entity
		Full consolidation	Recognised under the equity method	
BRD Sogelease IFN SA	Full consolidation	X		Financial lease company
BRD Finance IFN SA	Full consolidation	X		Financial institution
BRD Asset Management SAI SA	Full consolidation		X	Fund administration company

OWN FUNDS

BRD Group regulatory own funds as at December 31, 2018 amounted to RON 5,956 million (RON 5,704 million as at December 31, 2017, fully-loaded) and consist of common equity capital (CET1).

The basis for calculating own funds is the prudential consolidation perimeter as presented above. The reconciliation of consolidated balance sheet according to IFRS financial statements and the balance sheet prepared for prudential consolidation purposes is presented in Table 4. The structure of own funds is presented in Table 5.

Common Equity Capital (CET1) includes:

- Eligible Capital includes the nominal share capital and the hyperinflation adjustment of share capital accounted until December 31, 2003. As at December 31, 2018, the share capital amounted to RON 696.9 million, unchanged versus previous periods. The hyperinflation adjustment amounted to RON 1,819 million.
- Eligible Reserves include:
  - Retained earnings, which represent the undistributed profits of previous periods and retained earnings arising from adjustments from IFRS implementation as accounting basis, starting with January 1, 2012;

- Other reserves: legal reserves, reserves for general banking risks or other reserves established by the law and defined pension plan reserve.

- Other comprehensive income (OCI) includes unrealized gains and losses from changes in the fair value of debt instruments at fair value through other comprehensive income and from re-measurement of defined benefit liability arising from the post-employment benefit plan.

Regulatory deductions from CET 1 applicable as at December 31, 2018 essentially involved the following elements:

- Goodwill and intangible assets net of associated tax – deducted 100% from CET 1.
- Contingent or any foreseeable tax charges related to CET 1 reserves taxable upon utilization to cover losses or risks.

Other regulatory deductions/adjustments have been applied to CET 1 elements during the transitional period ended 31 December 2017:

- Minority interests related to consolidation of a not eligible or not regulated entity are excluded from the calculation of consolidated regulatory capital. In accordance with the CRR transitional arrangements, not eligible minority interests (i.e. related to consolidation of BRD Finance) was phased-out 20% yearly until 31 December 2017.
- OCI unrealized gains or losses were fully included in regulatory CET 1 capital starting 2018 as the transitional period ended at 31 December 2017.

As at December 31, 2018 and December 31, 2017, the Bank had no Additional Tier 1 or Tier 2 capital instruments issued and outstanding.

Further details on transitional own funds are presented in Table 5 - Regulatory own funds and solvency ratios.

A description of the main features of regulatory capital instruments is provided in Table 6 - Own funds disclosure template.

Table 4: Reconciliation of consolidated balance sheet as per IFRS financial statements and consolidated balance sheet within prudential scope

	Consolidated balance sheet	Prudential restatements (1)	Accounting balance sheet within the prudential scope	*Cross ref. Table 5*
ASSETS				
Cash in hand	2,236,045	0	2,236,045	
Due from Central Bank	3,785,491	0	3,785,491	
Due from banks	3,316,344	0	3,316,344	
Derivatives and other financial instruments held for trading	2,252,463	0	2,252,463	
Loans, gross	31,576,437	0	31,576,437	
Impairment allowance for loans	-1,973,161	0	-1,973,161	
Loans and advances to customers	29,603,276	0	29,603,276	
Finance lease receivables	761,012	0	761,012	
Financial assets at fair value through profit and loss	82,476	0	82,476	
Financial assets at fair value through other comprehensive income	12,059,561	-19,878	12,039,683	
Investments in associates and subsidiares	84,919	21,400	106,319	
Property, plant and equipment	801,782	-146	801,636	
Investment property	19,071	0	19,071	
Goodwill	50,130	0	50,130	*1*
Intangible assets	142,818	-131	142,687	*2*
Current tax assets	10,312	0	10,312	
Deferred tax asset	113,480	-118	113,362	
Other assets	327,899	-1,035	326,864	
Non-current assets held for sale	72,290	0	72,290	
Total assets	**55,719,369**	**92**	**55,719,461**	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Due to banks	297,817	0	297,817	
Due to customers	45,216,995	1,258	45,218,253	
Borrowed funds	1,306,638	0	1,306,638	
Current tax liability	2,305	-39	2,266	
Deferred tax liability	0	0	0	
Other liabilities	897,125	-1,121	896,004	
Total liabilities	**48,061,941**	**98**	**48,062,039**	
Share capital	2,515,622	0	2,515,622	*3*
Other comprehensive income	3,052	0	3,052	*4*
Retained earnings and other reserves	5,092,160	-6	5,092,154	*5*
Non-controlling interest	46,594	0	46,594	*6*
Total equity	**7,657,428**	**-6**	**7,657,422**	
Total liabilities and equity	**55,719,369**	**92**	**55,719,461**	

(1) Prudential restatements refers to treatment differences of subsidiaries excluded from prudential consolidation scope.

Table 5: Regulatory own funds and solvency ratios

REGULATORY OWN FUNDS	Fully Loaded	*Cross ref. Table 4*	*Cross ref. Table 6*
Common Equity Tier 1 (CET1): instruments and reserves			
Eligible capital	2,515,622	*3*	*1*
Reserves and accumulated profits	3,365,702	*5*	*2*
Other comprehensive income	3,052	*4*	*3*
Funds for general banking risk	170,762	*5*	*3a*
Accounting minority interest	-	*6*	*5*
Current year result (net of any foreseeable charge or dividend)	412,778	*5*	*5a*
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**6,467,916**		
Additional value adjustments (negative amount)	(48,824)		
Intangible assets (net of related tax liability)	(188,369)	*1,2*	*8*
Foreseeable tax charges relating to CET1 items	(275,078)		*25b*
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-		
- of which related to OCI gains	-		
- of which related to minority interest eligibility	-		
Total regulatory adjustments to Common equity Tier 1 (CET1)	**(512,271)**		
Common Equity Tier 1 (CET1) capital	**5,955,645**		
Tier 1 capital (T1 = CET1 + AT1)	**5,955,645**		
Total capital (TC = T1 + T2)	**5,955,645**		
Total risk weighted aseets	**28,460,930**		
Common Equity Tier 1 Ratio	**20.93**		
Tier 1 Ratio	**20.93**		
Total capital ratio	**20.93**		

Table 6: Own Funds disclosure template

	OWN FUNDS DISCLOSURE TEMPLATE		REGULATION (EU) NO 575/2013 ARTICLE REFERENCE
	Common Equity Tier 1 capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	2,515,622	26 (1), 27, 28, 29, EBA list 26 (3)
	of which: Instrument type 1	2,515,622	EBA list 26 (3)
	of which: Instrument type 2	-	EBA list 26 (3)
	of which: Instrument type 3	-	EBA list 26 (3)
2	Retained earnings and other reserves	3,365,702	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	3,052	26 (1)
3a	Funds for general banking risk	170,762	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	486 (2)
	Public sector capital injections grandfathered until 1 January 2018	-	483 (2)
5	Minority Interests (amount allowed in consolidated CET1)	-	84, 479, 480
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	412,778	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**6,467,916**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-48,824	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-188,369	36 (1) (b), 37, 472 (4)
9	Empty Set in the EU	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 472 (5)
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (a)
12	Negative amounts resulting from the calculation of expected loss amounts	-	36 (1) (d), 40, 159, 472 (6)
13	Any increase in equity that results from securitised assets (negative amount)	-	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	33 (b)
15	Defined-benefit pension fund assets (negative amount)	-	36 (1) (e) , 41, 472 (7)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	36 (1) (f), 42, 472 (8)
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	36 (1) (g), 44, 472 (9)
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)
20	Empty Set in the EU	-	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amount)	-	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258
20d	of which: free deliveries (negative amount)	-	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)	-	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty Set in the EU	-	
25	of which: deferred tax assets arising from temporary differences	-	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)	-	36 (1) (a), 472 (3)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-275,078	36 (1) (l)
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-	
	Of which: ... filter for unrealised loss 1	-	467
	Of which: ... filter for unrealised loss 2	-	467
	Of which: ... filter for unrealised gain - reserves from reevaluation of avaible for sale asset	-	468
	Of which: ... filter for unrealised gain - reserves from defined pension plan	-	468
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	481
	Of which: ...	-	481
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	36 (1) U)
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**-512,271**	
29	**Common Equity Tier 1 (CET1) capital**	**5,955,645**	

	Additional Tier 1 (AT1) capital: Instruments		
30	Capital instruments and the related share premium accounts	-	51, 52
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	486 (3)
	Public sector capital injections grandfathered until 1 January 2018	-	483 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase out	-	486 (3)
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**		
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	-	52 (1) (b), 56 (a), 57, 475 (2)
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	56 (b), 58, 475 (3)
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short posi- lions) (negative amount)	-	56 (c), 59, 60, 79, 475 (4)
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the insti- tution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)	-	56 (d), 59, 79, 475 (4)
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	-	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	477, 477 (3), 477 (4) (a)
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	-	
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	-	467, 468, 481
	Of which: ... possible filter for unrealised losses	-	467
	Of which: ... possible filter for unrealised gains	-	468
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	
44	**Additional Tier 1 (AT1) capital**	**0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**5,955,645**	
	Tier 2 (T2) capital: Instruments and provisions		
46	Capital instruments and the related share premium accounts	-	62, 63
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	486 (4)
	Public sector capital injections grandfathered until 1 January 2018	-	483 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	87, 88, 480
49	of which: instruments issued by subsidiaries subject to phase out	-	486 (4)
50	Credit risk adjustments	-	62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustments	-	
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	63 (b) (i), 66 (a), 67, 477 (2)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	66 (b), 68, 477 (3)
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	66 (c), 69, 70, 79, 477 (4)
54a	Of which new holdings not subject to transitional arrangements	-	
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	66 (d), 69, 79, 477 (4)
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regu- lation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
56a	Residual amounts deducted from Tier 2capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	472 , 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	-	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regu- lation (EU) No 575/2013	-	475, 475 (2) (a), 475 (3), 475 (4) (a)
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non significant investments in the capital of other financial sector entities , etc	-	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	-	467, 468, 481
	Of which: ... possible filter for unrealised losses	-	467
	Of which: filter for unrealised gain - reserves from reevaluation of avaible for sale asset	-	468
	Of which: filter for unrealised gain - reserves from defined pension plan	-	468
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	
58	**Tier 2 (T2) capital**	**-**	
59	**Total capital (TC = T1 + T2)**	**5,955,645**	

59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/ 2013(i.e. CRR residual amounts)	-	
	Of which: ... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability , indirect holdings of own CET1, etc)	-	472 , 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)
	Of which: ... items not deducted from AT1 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non- significant investments in the capital of other financial sector entities, etc.)	-	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)
	Items not deducted from T2 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	-	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
60	**Total risk weighted assets**	**28,460,930**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	20.93	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	20.93	92 (2) (b), 465
63	**Total capital (as a percentage of risk exposure amount)**	**20.93**	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conser- vation and countercyclical buffer requirements , plus systemic risk buffer, plus the systemically important institution buffer (G-SII or 0-SII buffer), expressed as a percentage of risk exposure amount)	2.88	CRD 128, 129, 130
65	of which: capital conservation buffer requirement	1.875	
66	of which: countercyclical buffer requirement	0.00	
67	of which: systemic risk buffer requirement	1.00	
67a	of which: Global Systemically Important Institution (G-811) or Other Systemically Important Institution (0-811) buffer	1.00	CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.87	CRD 128
69	[non relevant in EU regulation]		
70	[non relevant in EU regulation]		
71	[non relevant in EU regulation]		
	Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	47,363	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the insti- tution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	157,197	36 (1) (i), 45 , 48, 470, 472 (11)
74	Empty Set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	117,811	36 (1) (c), 38, 48, 470, 472 (5)
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	62
	Capital Instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements	-	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements	-	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	484 (5), 486 (4) & (5)

Table 7: Capital instruments main features template

Ref	Heading	
1	Issuer	BRD-Groupe Societe Generale
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ROBRDBACNOR2
3	Governing law(s) of the instrument	Romanian law
	Governing law(s) of the instrument	Romanian law
4	Transitional CRR rules	CET1
5	Post-transitional CRR rules	CET1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (RON million, as of most recent reporting date)	2,516
9	Nominal amount of instrument	10
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Capital
11	Original date of issuance	NA
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full discretion
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Ful discretion
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The most subordinated claim in case of liquidation
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

3 Capital requirements

MINIMUM CAPITAL REQUIREMENTS

From a regulatory perspective, capital requirements cover:

- credit risk, in respect of all business activities, but excluding the trading book business
- operational risk, foreign exchange risk and settlement risk in respect of all business activities
- position risk in trading book and
- credit valuation adjustment risk of OTC derivative instruments.

The calculation of credit risk capital requirement takes into account the transaction risk profile and is computed according to the standardized approach (CRR Part 3, Title 2, Chapter 2) using the Financial Collateral Comprehensive Method and information regarding credit assessments performed by external credit assessment institutions (ECAI).

The capital requirement for general position risk is calculated using the Maturity-based method. Capital requirement for credit valuation adjustment is determined using the standardized method.

The capital requirement for operational risk is calculated according the CRR, Part 3, Title 2, Chapter 4, using advanced measurement approaches (AMA). BRD, as a member of the Société Générale Group, uses AMA to measure operational risk since 2008 based on the SG internal methodology and calculation. The allocation of operational risk capital requirements to the sub-consolidated entities is based on net banking income and history of operational risk losses.

An overview of RWA and minimum capital requirements is presented below.

Table 8: EU OV1 – Overview of RWAs

	RWAs	Minimum capital requirements
Credit risk (excluding CCR)	25,508,055	2,040,644
Of which the standardised approach	25,508,055	2,040,644
CCR	361,056	28,885
Of which mark to market	189,476	15,158
Of which the standardised approach	189,476	15,158
Of which CVA	171,581	13,726
Market risk	263,324	21,066
Of which the standardised approach	263,324	21,066
Operational risk	2,328,494	186,280
Of which advanced measurement approach	2,328,494	186,280
Amounts below the thresholds for deduction (subject to 250% risk weight)	687,525	55,002
Floor adjustment	0	0
Total	**28,460,930**	**2,276,874**

SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) REQUIREMENTS

On top of the total regulatory ratio of 8% set by Art 92 from CRR, starting 2016, based on NBR requirements, BRD Group maintained additional own funds to cover risks resulting from internal assessment and SREP (supervisory review and evaluation process) amounting to 5.06% of RWA during 2018 (3.94% during 2017). Thus, the TSCR ratio (total SREP capital requirements) requirement for BRD Group was 13.06% for 2018.

Overall capital requirements (OCR) represent the total of SREP requirements and capital buffers, namely:

- A Conservation Buffer in CET 1 capital intended to absorb losses during periods of stress, phased in by 0.625% of total RWA yearly starting 1 January 2016. This buffer is mandatory and fully effective from 1 January 2019 and amounts to 2.5% of total RWA. As at 31 December 2018 the buffer requirement was 1.875%

- A Countercyclical Buffer that may be imposed during periods of excessive credit growth when system-wide risk is building up and is capped at 2.5% of total RWA. Starting with 1 January 2016, according to NBR Order 12/2015 the level of countercyclical buffer was established at 0%.

- Other systemically important institutions (O-SIIs) identified by NBR which have been authorized in Romania, may be subject to an O-SII Capital Buffer of up to 2% of the total RWA. BRD was identified as O-SII by NBR and O-SII Capital Buffer is 1% starting with 1 January 2016.

  A Systemic Risk Buffer was imposed, according to NBR Order 4/2018, starting with 30 June 2018, with the aim of supporting the adequate management of credit risk and enhancing banking sector resilience to unanticipated shocks, amid unfavourable structural circumstances. The buffer is applied to all exposure and is calibrated at 0%, 1% or 2%, depending on the past 12-months averages of the non-performing loans ratio and the coverage ratio. The value applicable for BRD for 2018 was 1%. The capital requirement for structural buffers is determined as the max of O-SII buffer and systemic risk buffer. Therefore, as an O-SII buffer of 1% was already applied, the systemic risk buffer introduction had no effect on the capital requirements for BRD.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

In accordance with Article 148 of the Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy, as subsequently amended and NBR Regulation no. 5/2013 on prudential requirements for credit institutions, BRD has in place a process for internal assessment of capital adequacy to risks.

The Bank performs periodically an evaluation of internal capital adequacy to risks by comparing the available own funds with internal capital requirements. The general framework for ICAAP is updated annually and the capital adequacy monitoring is performed on a quarterly basis.

A risk assessment is performed annually, and involves the evaluation of all risks to which the Bank may be exposed and the identification of the significant risks.

The internally evaluated capital requirement is determined using „Pillar 1 plus" approach, where the capital requirements for the following risks are added to the regulatory capital requirements:

- Credit risk concentration, residual risk from usage of credit risk mitigation techniques, risk related to foreign currency lending to unhedged borrowers and risks arisen from applying less sophisticated approaches
- Interest rate risk in banking book
- Funding risk
- Strategic risk
- Other significant risks: reputational risk, compliance risk, model risk, risks external to credit institutions.

For the purposes of the internal capital adequacy assessment, the available own funds are considered equal to the regulatory own funds.

Based on the Business and Risk Management Strategy and on the Risk Appetite, the Bank makes projections of the own funds and capital requirements on a three years horizon in order to ensure their adequacy, both in normal course of business and under stress situations.

4 Capital buffers

In accordance with NBR requirements, the countercyclical buffer for credit exposure in Romania as at 31 December 2018 is 0%. The institution specific countercyclical buffer requirement was 3.3 million RON at 2018 end (0.014% of relevant risk exposure amount).

5 Credit risk adjustments

According to Article 442 of Regulation (EU) No 575/2013, credit institutions should disclose information regarding credit quality of assets. Qualitative comments as per Table EU CRB-A – Additional disclosure related to the credit quality of assets, are presented below.

The definitions of 'past due' and 'impaired' used by the Bank for accounting purposes are presented below:

- **Past due**

Past due exposures include all receivables (outstanding principal, interest and past due amounts) that are not individually impaired but are at least one day past due. The past due status is measured in number of days passed since the due date. For the purpose of default classification (further explained), the reference to number of days past due envisages clearly defined materiality thresholds (considering principal, interest, fees and other obligations related to loans and commitments), by type of client: Retail and Non-Retail.

- **Impaired assets**

According to IFRS 9, a financial asset is considered "credit-impaired financial asset" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The concepts of *impairment* for accounting purposes and *default* for regulatory purposes are convergent, comprising of the following events:

- past due event (more than 90 days past due on any material credit obligation)
- indications of unlikeliness to pay (such as: severe alteration in the counterparty's financial standing leading to a high probability of it being unable to fulfil its overall commitments, recovery actions initiated by the Bank, ongoing legal procedures that may lead to avoiding or deferring the payment of a credit obligation, restructuring under the circumstances of financial hardship experienced by the debtor).

The Bank assesses on an forward-looking basis the expected credit losses ("ECL") for the following categories of financial assets: loans and placed deposits measured at amortised cost, debt instruments measured at fair value to other comprehensive income, loan commitments and financial guarantee contracts, contract assets and trade receivables.

Financial assets subject to loss allowances are classified in Stage 1, Stage 2, Stage 3 or POCI, as described below:

- ***Stage 1*** when there is insignificant or no impairment of credit quality since initial recognition; Loss allowance shall be equal to 12 months ECL
- ***Stage 2*** when a financial asset shown significant increase in credit risk since initial recognition, though not impaired; Loss allowance shall be equal to lifetime expected credit losses ("LTECL")
- ***Stage 3*** financial assets classified as impaired; Loss allowance is represented by LTECL
- ***POCI*** financial assets that are credit impaired on initial recognition. Loss allowance shall be equal to LTECL. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

The Bank established criteria to perform the assessment of significant increase in credit risk since initial recognition considering both relative and absolute thresholds.

The approaches adopted by the Bank for determining credit risk adjustments are described below:

Stages 1 and 2 ECL

ECL for non-defaulted financial assets (Stages 1 and 2) are computed collectively, based on homogenous groups. The Bank groups financial assets on the basis of similar credit risk characteristics (type of client, client rating, type of product, type of collateral) that are indicative of the debtors' ability to pay all amounts due, according to the contractual terms.

The key elements of ECL calculation are outlined below:

- PD *Probability of Default* models are based on a two-step approach: building of the through-the-cycle (TTC) marginal PD curve and Adjustment of the TTC curve to incorporate point in time and forward looking information;
  Two different PDs are needed:
  - 12-month PD (exposures in Stage 1): estimated probability of default for the next 12 months horizon (or over the remaining life of the financial instrument, if less than 12 months);
  - Lifetime PD (LT PD - exposures in Stage 2): estimated probability of default over the remaining life of the financial instrument.
- LGD *Loss Given Default* model takes into account cashbacks, portfolio sales and collateral recoveries;
- EAD *Exposure at Default* estimation at each time step is based on ALM models: prepayment models for contracts with repayment schedule and drawing rate models for contracts with no repayment schedule.
- Point in time and forward looking transformation for ECL parameters.

Stage 3 ECL

ECL for impaired financial assets is measured either individually or collectively (based on homogenous groups). The **individual assessment** entails the assessment of the counterparty risk (translated into a rating / classification based on debtor's financial position and its economic perspectives) and the estimation of the possible recoveries: the analysis shall identify and quantify the future cash flows, which will be used for a total or partial reimbursement of the obligations towards the Bank. The cash flow estimation relies on the capacity of the client/business to generate revenues, the proceeds resulting from sale of collaterals, or other clearly identified sources of repayment. An impaired financial asset is classified as individually significant if the total exposure exceeds a predefined materiality limit.

For impaired financial assets that are not individually significant the ECL is computed for **homogeneous pools of receivables** and estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Statistical methods are used to determine impairment losses at homogeneous group level, considering the cash flows for the remaining life of an asset.

Overlays

The inputs and models used for calculating ECL may not always capture all characteristics of the market at reporting date. To reflect this, the Bank assesses the need/ opportunity for additional amounts of provisions in the form of overlays, in order to address:

- Sector of activity specific risks (adjustment of ECL on sectors that have a different default behaviour from the whole calibration segment)
- Visible macroeconomic threat impossible to be captured by the models (typically, when the predicted stress did not occur in the observed past serving as a base for models)

The table below shows the year-end and average net exposures to credit risk (excluding CCR) by exposure class (on-balance-sheet and off-balance-sheet exposures). The end-of-period exposure is further broken down by geographical areas and by sectors of activity on the following pages, and moreover, an overview on credit quality for these exposures is presented, by exposure class and geographical areas.

Table 9: EU CRB-B – Total and average net amount of exposures

	Net value of exposures at the end of the period	Average net exposures over the period
Central governments or central banks	16,692,346	16,123,228
Regional governments or local authorities	1,070,378	1,094,908
Institutions	3,595,784	4,080,260
Corporates	20,837,913	20,275,026
Of which: SMEs	*4,689,478*	*4,317,807*
Retail	16,301,806	17,145,291
Of which: SMEs	*881,629*	*889,910*
Secured by mortgages on immovable property	6,829,710	5,623,863
Of which: SMEs	*78,296*	*86,389*
Exposures in default	623,660	737,146
Collective investments undertakings	15,235	19,751
Equity exposures	225,975	219,248
Other exposures	3,491,816	3,259,117
Total standardised approach	***69,684,623***	***68,577,837***

The table below presents the breakdown of on-balance-sheet and off-balance-sheet net exposures to credit risk (excluding CCR) by geographical areas and exposure classes. BRD Group's exposure is focused on Romania (92%).

Table 10: EU CRB-C – Geographical breakdown of exposures

	Net value								
	European countries	Romania	Germany	Austria	Switzerland	France	Other European countries	Other geographical areas	Total
Central governments or central banks	16,692,346	16,692,343	0	0	0	0	3	0	16,692,346
Regional governments or local authorities	1,070,378	1,070,378	0	0	0	0	0	0	1,070,378
Institutions	3,532,560	35,243	15,430	1,208,121	1,076,223	1,022,583	174,959	63,224	3,595,784
Corporates	20,828,701	18,866,263	1,275,975	0	115,174	10,420	560,869	9,212	20,837,913
Retail	16,299,318	16,286,194	406	253	1,543	1,205	9,715	2,488	16,301,806
Secured by mortgages on immovable property	6,828,992	6,820,952	103	46	1,195	1,527	5,168	718	6,829,710
Exposures in default	623,515	620,637	2,166	2	417	170	122	145	623,660
Collective investments undertakings	15,235	15,235	0	0	0	0	0	0	15,235
Equity exposures	225,975	225,975	0	0	0	0	0	0	225,975
Other exposures	3,491,816	3,491,816	0	0	0	0	0	0	3,491,816
Total standardised approach	***69,608,836***	***64,125,038***	***1,294,081***	***1,208,421***	***1,194,553***	***1,035,906***	***750,836***	***75,787***	***69,684,623***

Exposures to non-financial entities (32% of the total net exposure at year end) split by industry and exposure classes are shown below. The most representative sectors are wholesale and trade (21%), manufacturing (19%) and electricity & gas (16%).

Table 11: EU CRB-D – Concentration of exposures by industry or counterparty types

	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Financial and insurance activities	Total
Corporates	580,577	429,402	4,111,834	3,530,824	250,575	1,794,418	4,325,060	485,897	254,589	1,048,075	352,274	338,198	141,515	10	4,992	124,679	13,948	183,917	2,867,129	20,837,913
Retail	185,609	3,679	95,235	1,123	4,232	72,100	201,563	82,672	30,550	13,949	5,626	92,072	22,414	759	2,102	45,923	3,425	12,667	3,080	875,702
Secured by mortgages on immovable property	6,140	614	8,311	0	0	8,540	28,474	2,946	2,078	1,330	463	9,706	2,362	127	0	7,206	683	109	632	79,089
Exposures in default	22,105	293	41,157	241	667	153,953	27,562	4,821	18,079	3,805	9,304	7,649	3,193	8,880	842	1,345	673	749	147	305,318
Total standardised approach	***794,431***	***433,989***	***4,256,537***	***3,532,189***	***255,474***	***2,029,011***	***4,582,660***	***576,336***	***305,296***	***1,067,159***	***367,666***	***447,624***	***169,484***	***9,776***	***7,937***	***179,153***	***18,729***	***197,443***	***2,870,988***	***22,098,023***

The table below presents the credit quality of exposures by material exposure class and instrument (on-balance-sheet and off-balance-sheet exposures) at December 31, 2018. Credit risk charges refer to IFRS provision charges booked during 2018.

Table 12: EU CR1-A – Credit quality of exposures by exposure class and instrument

	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Central governments or central banks	0	16,692,348	2	0	0	2	16,692,346
Regional governments or local authorities	0	1,096,559	26,180	0	0	1,365	1,070,378
Institutions	0	3,595,922	138	0	0	0	3,595,784
Corporates	0	21,176,540	338,627	0	0	51,513	20,837,913
Retail	0	16,591,349	289,544	0	0	62,548	16,301,806
Secured by mortgages on immovable property	0	6,984,885	155,175	0	0	81,200	6,829,710
Exposures in default	2,111,102	0	1,487,442	0	4,402,347	-222,490	623,660
Collective investments undertakings	0	15,235	0	0	0	0	15,235
Equity exposures	0	232,203	6,228	0	0	0	225,975
Other exposures	100,314	3,560,235	168,734	0	0	0	3,491,816
Total standardised approach	***2,211,417***	***69,945,276***	***2,472,069***	***0***	***4,402,347***	***-25,862***	***69,684,623***

The table below shows the credit quality of on-balance-sheet and off-balance sheet credit risk exposures (excluding CCR) by geographical areas.

Table 13: EU CR1-C – Credit quality of exposures by geography

	a	b	c	d	e	f	g
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					(a +b-c-d)
European countries	2,211,064	69,869,612	2,471,840	0	4,400,657	-25,984	69,608,836
Romania	2,200,367	64,402,680	2,459,539	0	4,393,646	-27,402	64,125,038
Switzerland	3,500	1,291,870	1,335	0	1	1,145	1,294,081
Austria	7	1,208,427	12	0	7	10	1,208,421
France	1,259	1,176,467	1,596	0	41	160	1,194,553
Germany	346	1,035,801	240	0	7	-46	1,035,906
Other European countries	5,586	754,368	9,118	0	6,956	149	750,836
Other geographical areas	353	75,664	229	0	1,690	122	75,787
Total	***2,211,417***	***69,945,276***	***2,472,069***	***0***	***4,402,347***	***-25,862***	***69,684,623***

Table 14: EU CR1-D – Ageing of past-due exposures

	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans and advances	3,015,629	347,567	176,713	217,049	205,040	807,020
Debt securities	0	0	0	0	0	0
Total exposures	***3,015,629***	***347,567***	***176,713***	***217,049***	***205,040***	***807,020***

The templates below provide an overview of non-performing and forborne exposures. The accumulated impairment and provisions, and negative fair value adjustments due to credit risk amounted to RON 2.2bn of which 23% were forborne exposures.

Changes in the stock of defaulted and impaired exposures are also presented.

Specific credit risk adjustments for the purpose of calculation of exposures values as per Art 111 from CRR include specific and collective IFRS provisions. There are no general credit risk adjustments.

Table 15: EU CR1-E – Non-performing and forborne exposures

`	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
				Of which non-performing				On performing exposures		On non-performing			
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne		Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne	On non-performing exposures	Of which forborne exposures
Debt securities	12,504,309	-	-	-	-	-	-	6,326	-	-	-	-	-
Loans and advances	39,401,609	424,491	70,739	2,031,297	2,031,297	2,031,297	692,117	650,803	4,253	1,562,962	514,229	456,533	145,110
Off-balance-sheet exposures	15,969,925	-	-	281,218	281,218	281,218	444	154,772	-	189,895	125	20,369	-

Table 16: EU CR2-A – Changes in the stock of general and specific credit risk adjustments for impaired loans and advances

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	**2,336,120**	**-**
New assets originated or purchased	53,846	-
Assets derecognised or repaid (excluding write offs)	-288,836	-
Movements not resulting from changes in classification	-28,074	-
Movements due to change in classification	196,151	-
Amounts written off	-706,231	-
Foreign exchange adjustments	-16	-
Closing balance	**1,562,962**	-
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	176,033	**-**
Specific credit risk adjustments directly recorded to the statement of profit or loss	-614,234	-

Table 17: EU CR2-B – Changes in the stock of defaulted and impaired loans and advances and off-balance sheet exposures

`	Gross carrying value defaulted exposures
Opening balance	**3,250,825**
Loans and advances and debt securities that have defaulted or impaired since the last reporting period	637,557
Returned to non-defaulted status	-150,091
Amounts written off	-740,116
Other changes	-685,660
Closing balance	**2,312,515**

6 Unencumbered assets

The level of asset encumbrance is low for BRD's activity (encumbered assets represented 0.4% of total assets in 2018) and refers mainly to repo and reverse repo agreements with governmental securities.

7 Remuneration policy

BRD's Remuneration Committee is a permanent consultative committee that supports the Board of Directors in performing their responsibilities regarding the elaboration and supervision of the implementation of the Remuneration Policy.

Beginning of 2018, the Committee consisted of 3 non-executive directors, of which one is independent: Mr. Bernardo Sanchez Incera (Chairman), Mr. Jean-Luc André Joseph Parer (Member) and Mr. Aurelian Dochia (Independent member). During the year 2018 Mr. Bernardo Sanchez Incera was replaced by Mr Philippe Heim (Chairman) and Mr. Aurelian Dochia was replaced by Mr Jean Pierre Vigroux (Independent member).

The Remuneration Committee meets annually, or whenever necessary. In 2018, 4 meetings of the Remuneration Committee took place.

The members attended to the Remuneration Committee's meetings as follows: Mr. Bernardo Sanchez Incera one meeting, Mr. Aurelian Dochia 3 meetings, Mr. Jean-Luc André Joseph Parer 4 meetings, Mr. Jean Pierre Vigroux and Mr. Philippe Heim one meeting.

The Remuneration Committee analyses the Bank's remuneration policy which it submits to the Board of Directors for approval; it submits proposals regarding the individual remuneration of non-executive directors and the additional individual compensation of the directors entrusted with specific functions within the Board as well as the remuneration of the officers; it supervises directly the remuneration of the coordinators of the risks management and compliance functions; and it supervises the application of the principles of the staff remuneration policy and informs the Board of Directors in this respect.

During 2018, the Remuneration Committee did not use external consultants, basing their decisions on their expertise and that of the Human Resources Department.

Variable remuneration reflects sustainable and risk-adjusted performance as well as the performance that exceeds the necessary performance to fulfil the duties provided for in the employee's Job Description as part of the employment terms.

Variable remuneration:

- It is not guaranteed or carried forward automatically from one year to another. The variable component distribution mechanisms do not guarantee the granting of amounts over several years. Thus, variable remuneration is subject to a fair annual review process;
- Guaranteed bonuses are prohibited. BRD personnel is not overly dependent on bonuses;
- It does not limit the Bank's ability to strengthen its capital base;
- It is not paid through means or methods that facilitate the circumvention of the regulations in force;
- It does not encourage taking risks which influence the Bank's risk profile;
- It also takes into consideration all current or future types of risks;
- Payments relating to the early termination of a contract reflect performance achieved over time and do not reward failure or misconduct

The Bank may decide to reduce partially or completely the granting of variable remuneration if it cannot be supported in accordance with the overall financial situation of the Bank, of the structure in which the activity is carried out and the employee concerned.

The variable remuneration is considerably reduced if the Bank records a poor or negative financial performance, taking into account both the current remuneration as well as the reductions in payments related to the amounts due, as previously determined, including malus or clawback agreements signed. Up to 100% of the variable remuneration is subject to malus or clawback signed agreements.

For different types of jobs, it is possible to use different schemes for granting the variable remuneration. There is a maximum limit defined for the variable component, which may not exceed 100% of the fixed component of the total remuneration.

For sales staffs, commercial objectives are set to take into account the rights and interests of the consumers, so that:

- the sales process is in the client's interest;
- they do not promote the provision of a specific product/ service or of a category of products/ services over others products/ services as well as products/ services which are more profitable for the institution or for an employee, to the detriment of the client.

The special principles applicable to the categories of identified staff are:

- The variable remuneration may decrease or not even be paid at all.
- The personnel members are paid, or receive the rights related to the variable remuneration, including the deferred part thereof only if the variable remuneration can be supported in accordance with the Bank's overall financial situation and if it can be justified in accordance with the performance of the Bank, the structure in which the activity is carried out and the individual concerned.
- The personnel members receive the rights of the deferred part of the variable remuneration, subject to the fulfillment of the minimum performance requirements.
- A major part, which, in all cases, accounts for at least 40% of the variable remuneration component, is deferred for a period of at least three years. For identified staff, at least 50% of any variable remuneration shall consist of shares or equivalent, which are subject to an appropriate retention policy, designed to harmonize the incentives with the Bank's long-term interests.
- Personal strategies for risk hedging or insurance policies related to remuneration and liability to counteract the risk alignment effects stipulated in the personnel remuneration agreements are prohibited. One may insure against currency risk using derivatives.

For Executive Committee members, 60% of the variable remuneration is deferred for a period of 5 years.

For Identified Staff not members of the Executive Committee, between 40 and 60% of the variable remuneration is deferred for a period between 3 and 5 years.

The Ratio between fix and variable remuneration in BRD is maximum 1:1, in line with NBR's Regulation no 5/2013.

Aggregate financial information regarding remuneration for 2018 will be published on 31 July 2019.

8 Leverage ratio

Following CRD IV implementation, BRD computes and reports leverage ratio which is designed specifically to limit the risk of excessive leverage in credit institutions and was introduced as a complementary tool to the regulatory capital adequacy ratio.

The leverage ratio reached 9.65% as at 31 December 2018, versus 9.22% at 31 December 2017 and well above the 3% minimum requirement tested by the Basel Committee during the parallel run period.

The sustainable level of leverage ratio results from the strong capital base, namely high level Common Equity Tier 1 capital and a balance-sheet structure specific to the universal bank business model with core focus on retail activities.

Table 18: LRSum - Summary reconciliation of accounting assets and leverage ratio exposures

Summary reconciliation of accounting assets and leverage ratio exposures		Applicable Amount 31-Dec-2018
1	Total assets as per published financial statements	55,719,368
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	55
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	136,310
5	Adjustment for securities financing transactions (SFTs)	21,353
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	6,096,556
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	-237,193
8	**Leverage ratio total exposure measure**	**61,736,450**

Table 19: LRCom - Leverage ratio common disclosure

		CRR leverage ratio exposures 31-Dec-2018
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	54,247,561
2	(Asset amounts deducted in determining Tier 1 capital)	-237,193
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	54,010,368
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	136,526
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	156,098
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivatives exposures (sum of lines 4 to 10)**	**292,624**
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1,315,549
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	21,353
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**1,336,902**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	15,969,925
18	(Adjustments for conversion to credit equivalent amounts)	-9,873,369
19	Other off-balance sheet exposures (sum of lines 17 and 18)	6,096,556
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposure measure		
20	**Tier 1 capital**	**5,955,645**
21	**Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**61,736,450**
Leverage ratio		
22	**Leverage ratio**	**9.65%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully-loaded
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

9 Use of credit risk mitigation techniques

MAIN TYPES OF SECURITIES ACCEPTED

BRD has a cash flow based lending approach, meaning the Bank expects debt to be serviced primarily through the future cash flow (legal entities)/ income (individuals) generated by the debtor. Collateralization, in the form of collateral (funded protection) or guarantee (unfunded protection), is accepted only to mitigate credit risk and it cannot serve as a substitute for the borrower's ability to meet obligations.

The Bank accepts the following main types of securities:

- Financial collateral (cash, deposits, Romanian Government bonds, shares, agricultural warehouse receipts, bill of lading)
- Non-financial collateral (real estate, machinery and equipment, inventories, intangibles, receivables, payment instruments)
- Guarantees (surety ship contracts, letters of guarantee, letters of comfort, financial guarantees issued by guarantee funds and Eximbank, sovereign guarantees, endorsements, credit risk insurance).

The most frequent type of accepted collaterals is represented by mortgages.

POLICIES AND PROCESSES FOR COLLATERAL VALUATION AND MANAGEMENT

In order to minimize credit risk and favor healthy commercial development, the client's risk profile determines the securities coverage ratio. As a rule, the Bank will ask from riskier borrowers to bring more securities of higher quality, as to offset the higher risk they present. Also, the collateral structure is differentiated for each type of financing (e.g. for working capital financing, receivables and inventories are customary collateral).

The Bank has implemented a set of risk management principles regarding concentration on credit risk mitigations techniques and also concentration limits defined on single protection provider in order to ensure an appropriate monitoring.

The risks associated with the valuation activity are monitored via implemented internal controls.

Real Estate collaterals

The Bank accepts as risk mitigation real estate assets in accordance with NBR, EU and Romanian requirements and legislation. Risk department is responsible for approving the operational procedures for regular valuation of guarantees and collaterals.

The market value is estimated by certified evaluators that can be either external or internal valuators. The valuation is performed in accordance with the International Valuation Standards and ANEVAR Standards and Recommendations. Real estate valuations are verified by the competent units, independently from the credit approval process.

The Bank uses the following valuation methods for real estate: market approach and income approach.

Depending on the collateral type, revaluation is performed:

- Yearly, for commercial / industrial / agricultural real-estate, plots of land
- At least once every 3 years, for residential real estate

or with higher frequency if the real estate market displays a significant negative evolution.

Movable assets collaterals

Other non-financial collaterals (machinery & equipment, inventory, other movables) are appraised based on the value recognized for financial or other related purposes (balance sheet, insurance, etc).

The Bank monitors the market value of the movable assets on a frequent basis but at least yearly. If the market is subject to significant changes in conditions the market value is monitored more frequent.

Guarantees

Before a personal guarantee is accepted, the protection provider is assessed in order to measure its solvency and risk profile, using the same principles as for direct credit exposures of BRD towards its clients/ counterparties. The credit risk mitigation effect of guarantees is closely linked to the guarantor's creditworthiness and the secured amount must be reasonably proportionate to the economic performance capabilities of the protection provider.

The main guarantor for BRD's clients is the Romanian State, which intervenes to sustain credit activity by national wide guarantee programs implemented through the intermediation of Guarantee Funds (FNGCIMM or FGCR) or Eximbank, main exposure of this type being generated by Prima Casa program.

RESIDUAL CREDIT RISK ARISING FROM USAGE OF CRM'S

In order to manage the residual risk arising from the use of credit risk mitigation techniques the Bank systematically resorts to:

- A collateral policy structured along the following dimensions:
  - Setting strict criteria for the validation, acceptance and eligibility of the collateral
  - Defining the common principles, governing the management of securities as well as of the roles and responsibilities in the process of their management
- Revaluation of the collateral portfolio, in order to reduce the discrepancies between the market value of collaterals and the value used by the Bank in its internal processes (monitoring, provisioning, etc)
- Computation of the recovery value of a collateral by applying discount coefficients to its market value, when determining the level of provisions on individual assessment basis
- Regular monitoring through specific risk indicators
- Capital requirement for the residual risk, embedded in the methodologies developed as part of ICAAP Policy

The table below shows the amount of unsecured loans and secured loans, either by collateral (82% of secured loans) or financial guarantees.

Table 20: EU CR3 – Eligible CRM techniques – Overview

	Exposures unsecured – Carrying amount	Exposures secured – Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	21,411,308	11,649,783	7,306,189	4,343,594	0
Total debt securities	12,497,983	0	0	0	0
Total exposures	57,799,633	11,884,990	7,540,654	4,344,337	0

The breakdown of net exposures to credit risk (excluding CCR) by exposure class before and post CCF and CRM is presented below.

Table 21: EU CR4 – Standardised approach – Credit risk exposure and CRM effects

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	16,684,113	8,233	20,937,536	3,631	689,871	3.29%
Regional government or local authorities	1,060,851	9,528	1,081,580	4,280	416,501	38.36%
Multilateral development banks	0	0	15,021	0	0	0.00%
Institutions	3,221,678	374,106	3,221,116	235,413	752,274	21.76%
Corporates	7,405,350	13,432,563	6,805,086	3,947,357	10,458,241	97.26%
Retail	14,663,479	1,638,327	10,476,565	787,207	8,308,560	73.76%
Secured by mortgages on immovable property	6,811,333	18,377	6,811,333	7,784	2,381,061	34.92%
Exposures in default	479,362	144,298	454,210	57,187	590,054	115.38%
Collective investment undertakings	15,235	0	15,235	0	15,235	100.00%
Equity	225,975	0	225,975	0	461,774	204.35%
Other items	3,491,816	0	3,491,816	0	1,432,487	41.02%
Total	***54,059,191***	***15,625,432***	***53,535,473***	***5,042,858***	***25,506,057***	***43.54%***

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