# REPORT ON TRANSPARENCY AND DISCLOSURE REQUIREMENTS

# 2013

according to NBR-RNSC Regulation no. 25/30/2006 regarding the disclosure requirements for credit institutions and investment companies as subsequently amended

BANCA TA. ECHIPA TA

BRD

GROUPE SOCIETE GENERALE

# CONTENT

# 1. INTRODUCTION

The current report is prepared according to the NBR Regulation no. 25/30/2006 *regarding the disclosure requirements for credit institutions and investment companies*, amended by the NBR Regulation no. 21/26/2010 and the NBR Regulation no. 23/15/2011.

According to art. 8 para (1) of the NBR - RNSC Regulation no. 17/22/2006 *on the supervision on consolidated basis of the credit institutions and investment companies*, BRD as parent credit institution in Romania and, at the same time, subsidiary of Société Générale, must publish at consolidated level, the information according to art. 8 and art. 9 of the NBR- RNSC Regulation no. 25/30/2006.

Starting January 1, 2014, the text of CRD IV published in the Official Journal OJ L 176/27.06.2013 comprising Directive 2013/36/UE and Regulation no 575/2013 will be applied for preparing the Report on transparency and disclosure requirements, all previous regulations being taken in the CRD IV. Last reporting date for which NBR Regulation no. 25/30/2006 *regarding the disclosure requirements for credit institutions and investment companies* was applied is December 31, 2013.

Information presented in this report refers to BRD - Groupe Société Générale S.A (individual level) and to BRD Group (consolidated level).

For the scope of prudential consolidation, the BRD Group includes the following entities, consolidated using the “global consolidation” method:

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

This report complements and / or details information provided in the BRD Groupe Société Générale Board of Directors Report for the year 2013. Both, Board of Directors Report and the current report, are available electronically at www.brd.ro.

## 2. OWN FUNDS

BRD own funds components at consolidated level, determined in accordance with NBR Regulation no. 18/2006, *on the own funds of credit institutions and investment companies,* as subsequently amended, were the following:

### ORIGINAL OWN FUNDS / TIER 1 CAPITAL

- **Eligible Capital** representing nominal share capital, registered with the National Trade Register Office is in amount of 696.901 RON thousands. Share capital as at December 31, 2013 represents authorised common shares issued and outstanding.
- **Eligible Reserves** which include:
  - *Reserves*:
    - Legal reserves, reserves for general banking risks and other reserves established by the law.
    - The amount of 1.818.721 RON thousands, representing hyperinflation adjustment of share capital, accounted according to IAS 29 "Reporting in Hyperinflationary Economies", until December 31, 2003.
    - Retained earnings which represent the undistributed profits of previous periods and which also include retained earnings arising from adjustments from IFRS implementation as accounting basis, from January 1, 2012.
    - Share based payment reserve represents the value of the Société Générale shares allocated on November 2, 2010 under the program of share based payment according to which shares are granted to each employee of the Group.
  - *Minority interest* represents the value of 51% uncontrolled part in the subsidiary BRD Finance IFN SA;
- **Other deductions from Tier 1 Capital:** represents the net book value of goodwill and other intangible fixed assets.

### ADDITIONAL OWN FUNDS / TIER 2 CAPITAL

- **Core Additional Own Funds:** represented 45% of the gains from equity financial assets classified as financial assets available for sale (AFS).
- **Supplementary Additional Own Funds:** represented subordinated liabilities in total amount of 100 EUR million maturing in 2015. In accordance with NBR Regulation no. 18/2006 *on own funds of credit institutions and investment companies*, the total amount of subordinated loans considered as additional Tier 2 had to be reduced gradually since at least 5 years before maturity by applying an equal percentage, so that for the last reporting semester before final maturity the loan will not be considered at all. Thus on December 31, 2013 the value considered in determining own funds was 30 EUR million.

Own funds at consolidated level as at December 31, 2013 and December 31, 2012 were as follows:

- ths RON-

| INDICATORS | 2013 | 2012 |
|---|---|---|
| **ORIGINAL OWN FUNDS / TIER 1** | **4,815,053** | **5,402,261** |
| *Eligible Capital* | *696,902* | *696,902* |
| Paid in capital | 696,902 | 696,902 |
| *Eligible Reserves* | *4,257,635* | *4,841,415* |
| Reserves | 4,627,032 | 5,095,626 |
| Minority interest | 50,275 | 51,762 |
| Losses of the current financial year | (387,538) | (299,508) |
| Valuation differences in available for sale equities | 18,250 | 13,852 |
| Adjustment to Valuation differences in available for sale equities | (24,926) | (20,317) |
| Valuation differences in available for sale other assets | 60,051 | - |
| Adjustment to Valuation differences in available for sale other assets | (85,509) | - |
| *Other deductions from Original Own Funds* | *(139,483)* | *(136,056)* |
| Intangible assets | (139,483) | (136,056) |
| **ADDITIONAL OWN FUNDS / TIER 2** | **145,758** | **274,865** |
| *Core Additional Own Funds* | *11,217* | *9,143* |
| 45% of adjustments made to valuation differences in original own funds transferred to core additional own funds | 11,217 | 9,143 |
| *Supplementary Additional Own Funds* | *134,541* | *265,722* |
| Subordinated loan capital | 134,541 | 265,722 |
| **DEDUCTIONS FROM TIER 1 & TIER 2** | **(133,450)** | **(123,163)** |
| Holdings in other credit and financial institutions amounting to more than 10% of their capital | (83,925) | (82,332) |
| Participations hold in insurance undertakings, reinsurance undertakings and insurance holding companies | (22,480) | (16,620) |
| Qualified participating interest in non financial institutions | (27,044) | (24,210) |
| ***TOTAL ORIGINAL OWN FUNDS AFTER DEDUCTIONS*** | **4,748,328** | **5,340,679** |
| ***TOTAL ADDITIONAL OWN FUNDS AFTER DEDUCTIONS*** | **79,033** | **213,283** |
| **TOTAL OWN FUNDS** | **4,827,361** | **5,553,963** |

Own funds at individual level as at December 31, 2013 and December 31, 2012 were as follows:

- ths RON-

| INDICATORS | 2013 | 2012 |
|---|---|---|
| **ORIGINAL OWN FUNDS / TIER 1** | **4,586,919** | **5,261,423** |
| *Eligible Capital* | *696,902* | *696,902* |
| Paid in capital | 696,902 | 696,902 |
| *Eligible Reserves* | *4,022,111* | *4,602,643* |
| Reserves | 4,440,021 | 4,941,038 |
| Losses of the current financial year | (385,776) | (331,930) |
| Valuation differences in available for sale equities | 18,250 | 13,852 |
| Adjustment to Valuation differences in available for sale equities | (24,926) | (20,317) |
| Valuation differences in available for sale other assets | 60,051 | - |
| Adjustment to Valuation differences in available for sale other assets | (85,509) | - |
| *Other Tier 1 capital including elements specific to Romania* | - | *88,271* |
| Other elements | - | 88,271 |
| *Other deductions from Original Own Funds* | *(132,094)* | *(126,392)* |
| Intangible assets | (132,094) | (126,392) |
| **ADDITIONAL OWN FUNDS / TIER 2** | **145,758** | **363,136** |
| *Core Additional Own Funds* | *11,217* | *97,414* |
| 45% of adjustments made to valuation differences in original own funds transferred to core additional own funds | 11,217 | 9,143 |
| Other elements | - | 88,271 |
| *Supplementary Additional Own Funds* | *134,541* | *265,722* |
| Subordinated loan capital | 134,541 | 265,722 |
| **DEDUCTIONS FROM TIER 1 & TIER 2** | **(874,637)** | **(1,260,963)** |
| Holdings in other credit and financial institutions amounting to more than 10% of their capital | (127,488) | (127,605) |
| Participations hold in insurance undertakings, reinsurance undertakings and insurance holding companies | (17,697) | (17,697) |
| Qualified participating interest in non financial institutions | (12,275) | (12,275) |
| Other country specific deductions from Original and Additional Own Funds | (717,177) | (1,103,386) |
| ***TOTAL ORIGINAL OWN FUNDS AFTER DEDUCTIONS*** | **3,858,040** | **4,363,596** |
| ***TOTAL ADDITIONAL OWN FUNDS AFTER DEDUCTIONS*** | **-** | **-** |
| **TOTAL OWN FUNDS FOR SOLVENCY PURPOSES** | **3,858,040** | **4,363,596** |

The reconciliation for 2013 between the own funds at consolidated level and the own funds at individual level is presented below:

| | - ths RON- |
|---|---|
| **TOTAL OWN FUNDS CONSOLIDATED** | **4,827,361** |
| Prudential filter | (717,177) |
| Consolidation differences: | (252,144) |
| *- Retained earnings* | *(185,249)* |
| *- Minority interest* | *(50,275)* |
| *- Intangible assets deduction* | *7,389* |
| *- Equity investments deduction* | *(24,010)* |
| **TOTAL OWN FUNDS INDIVIDUAL** | **3,858,040** |

At the individual level, the tier 1 and tier 2 capital were subject to a deduction of the **prudential filter** resulting from the positive difference between **prudential adjustments** and **impairment adjustments calculated under IFRS** related to the loans to customer's portfolio. The deferred tax liability on the prudential filter was allocated 50% to tier 1 and 50% tier 2 capital and is presented under the "Other elements". At the end of 2013 no deferred tax liability on the prudential filter was registered, because the prudential filter for the year was lower than the prudential filter registered when IFRS was adopted which was a permanent difference between fiscal and accounting base and did not generate a temporary difference. The tier 2 capital was fully absorbed by the prudential filter.

The deduction of the **Equity investments** at individual level was made entirely from tier 1 capital**.**

## 3. CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY

From a regulatory perspective, the capital requirements refer to credit risk, market risk and operational risk.

Capital requirement for **credit risk** was calculated in accordance with NBR-RNSC Regulation no. 14/19/2006 *on credit risk for credit institutions and investment companies,* based on standardized approach, by applying 8% of the risk weighted exposure amounts for each class of exposure according to art. 4 in the regulation above.

Capital requirements for **market risk** were calculated according to Article 2, letter b) and letter. c) from NBR-RNSC Regulation no. 22/27/2006 on capital adequacy of *credit institutions and investment companies*. The requirement for both interest rate risk in trading book and foreign exchange risk is calculated based on the standardized approach.

Capital requirement for **operational risk** was calculated according to advanced measurement approach (AMA) under the NBR-RNSC Regulation no 24/29/2006 *on determining the minimum capital requirements for credit institutions and investment companies for operational risk* as subsequently amended. BRD, as a member of the Société Générale Group, uses since 2008 this approach to measure operational risk, capital requirements being allocated by the group.

Regulatory capital requirement as at December 31, 2013 and December 31, 2012 is presented in the tables below:

**Consolidated level:**

| ths RON | 2013 | 2012 |
|---|---|---|
| **Capital requirement for credit risk** | **2,159,472** | **2,522,413** |
| Regional governments or local authorities | 26,563 | 28,886 |
| Institutions | 33,464 | 40,018 |
| Corporates | 1,050,043 | 1,351,738 |
| Retail | 644,049 | 605,229 |
| Secured by real estate property | 130,044 | 173,360 |
| Past due items | 145,209 | 205,646 |
| Collective investments undertakings | 5,897 | 5,416 |
| Other elements | 124,204 | 112,121 |
| **Capital requirement for market risk** | **20,910** | **33,075** |
| General and specific position risk in traded debt instruments | 16,189 | 27,398 |
| Foreign exchange risk | 4,722 | 5,677 |
| **Capital requirement for operational risk** | **123,946** | **108,060** |
| **TOTAL CAPITAL REQUIREMENT** | **2,304,329** | **2,663,549** |
| **CAPITAL ADEQUACY RATIO** | **16.76%** | **16.68%** |

**Individual level:**

| ths RON | 2013 | 2012 |
|---|---|---|
| **Capital requirement for credit risk** | **2,032,517** | **2,361,555** |
| Regional governments or local authorities | 26,178 | 27,735 |
| Institutions | 32,540 | 39,568 |
| Corporates | 1,059,881 | 1,375,824 |
| Retail | 570,801 | 543,871 |
| Secured by real estate property | 127,270 | 173,239 |
| Past due items | 93,423 | 85,509 |
| Collective investments undertakings | 5,897 | 5,416 |
| Other elements | 116,528 | 110,394 |
| **Capital requirement for market risk** | **19,018** | **30,598** |
| General and specific position risk in traded debt instruments | 16,189 | 27,398 |
| Foreign exchange risk | 2,830 | 3,200 |
| **Capital requirement for operational risk** | **122,034** | **106,630** |
| **TOTAL CAPITAL REQUIREMENT** | **2,173,570** | **2,498,783** |
| **CAPITAL ADEQUACY RATIO** | **14.20%** | **13.97%** |

Capital adequacy ratio computed on consolidated and individual level as at December 31, 2013 and December 31, 2012 was comfortably above the minimum 8% level set by to the NBR-RNSC Regulation 13/18/2006 *on determining the minimum capital requirements for credit institutions and investment companies.*

## 4. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (PILLAR 2 - ICAAP)

In accordance with Article 148 of the Emergency Ordinance no. 99/2006 *on credit institutions and capital adequacy, as subsequently amended* and Regulation no. 18/2009 *on governance arrangements of the credit institutions, internal capital adequacy assessment process and the conditions for outsourcing their activities*, BRD Groupe Société Générale has implemented a comprehensive internal capital adequacy assessment process.

During 2013 the Bank has periodically performed an evaluation of internal capital adequacy to risks by comparing the available own funds with internal capital requirements. The general framework for ICAAP has been updated annually and the capital adequacy monitoring has been performed on a monthly basis by reporting to the management.

The capital adequacy ratio including the internal capital requirements was maintained, during 2013, at a satisfactory level, above the minimum threshold. As at December 31, 2013 the ratio was 11.34% (12.13% as at December 31, 2012)

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

The adequacy of internal capital to risks is determined using „Pillar 1 +" approach, where internal capital requirements for the following risks are computed and added to the regulatory capital requirements:

- Risks arisen from applying less sophisticated approaches (underestimations);
- Residual risk arising from usage of eligible credit risk mitigation;
- Risk arisen from lending in foreign currency to un-hedged borrowers;
- Structural risks including interest rate risk in the banking book and foreign exchange risk in the banking book;
- Credit risk concentration: individual concentration and sector concentration
- Liquidity risk;
- Strategic and business risk;
- Other significant risks including reputational risk and compliance risk.

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

Based on the Risk and Business General 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.