

# Board of Directors' Report

BRD – Groupe Société Générale

2006

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## 1. HISTORY AND PROFILE

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### *History*

On 1 December 1990, the Romanian Bank for Development (*Banca Română pentru Dezvoltare*) was set up as an independent bank with the legal status of a joint-stock company, taking over the assets and the liabilities of Banca de Investitii, with a full banking licence. Banca Română pentru Dezvoltare was registered in February 1991 as a joint stock company whose capital stock was held by the Romanian State.

In March 1999, Société Générale (SG) bought a stake in Banca Română pentru Dezvoltare from "Fondul Proprietății de Stat" (a state ownership fund) and at the same time increased the share capital of Banca Română pentru Dezvoltare to reach a 51 per cent. holding of its shares.

Since January 2001, the Bank's shares have been admitted to trading and quoted on the First Tier of the Bucharest Stock Exchange which is governed by Capital Markets Law n° 297/2004 (as amended).

In 2004, SG bought the residual stake in Banca Română pentru Dezvoltare from the Romanian State, thereby increasing its holding of shares in the Issuer to 58.32 per cent.

On 27 May 2004 the legal name of Banca Română pentru Dezvoltare was changed to BRD-Groupe Société Générale SA.

### *Profile of BRD – Groupe Societe Generale*

BRD - Groupe Société Générale is the second bank in Romania holding a market share of 19% as at 31 December 2006 and it is the second issuer on the Bucharest Stock Exchange with a market capitalisation of approximately EUR 4.5 billion

In December 2006, the Bank had 2,000,000 clients, 7,300 employees and a network of 600 units.

### **Ratings 2006**

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▶ Fitch	A-
▶ Moody's	Baa3

### *Profile of the parent Société Générale*

Société Générale was created in 1864 as a banking company, registered in France. Its head office is located on 29 Boulevard Haussmann, 75009, Paris, France, and its shares are listed on the Paris Stock Exchange.

SG is one of the main financial groups worldwide and the seventh largest French company in terms of market capitalisation (EUR 59.3 billion as at 31 December 2006). SG employs about 120,000 people and is located in more than 80 countries.

SG focuses on the three following complementary lines of business which give it a major competitive advantage:

- ▶ Retail Banking and financial services;
- ▶ Asset Management and Private Banking;
- ▶ Corporate & Investment Banking.

SG has over 22.5 million individual retail banking customers worldwide.

SG is the largest bank in France by size, having two distribution networks, Société Générale and Crédit du Nord, with over 2,800 branches and agencies as at 31 December 2006.

The SG retail banking network outside France covers three key geographic regions:

- ▶ Central and Eastern Europe
- ▶ the Mediterranean area
- ▶ Africa and the former French territories.

Société Générale is the fourth largest bank in the euro zone in terms of asset management, with a portfolio of approximately EUR 422 billion under management as at 31 December 2006, and the third largest European bank in terms of assets which as at 31 December 2006 totalled EUR 2,262 billion.

Société Générale is the third largest financing and investment bank in the euro zone, in terms of net banking income. It is present in over 45 countries, in Europe, Asia and on the American continent. It ranks among the first companies in Europe and in the world, offering acknowledged expertise in the fields of capital markets, derivatives and structured finance.

As at 31 December 2006, SG reported a net banking income of EUR 22,4 billion and a net profit of EUR 5.2 billion.

At present, the credit ratings given to SG by the main rating agencies are:

- ▶ Standard and Poor's: A-
- ▶ Moody's: Aa2
- ▶ Fitch IBCA: AA

### ***Position of BRD within SG***

SG has been present in Romania since 1980, being the only significant bank in Western Europe that had a presence in Romania during the communist era.

The Bank is part of the international network of SG, managed by the Division of Retail Banking outside Metropolitan France (BHF<sub>M</sub>) - a structure created in March 1998 to coordinate SG's activities in retail banking in the 3 key geographical regions outside France. The Bank's operational procedures and commercial practices are derived from those of SG.

## 2 GROUP STRATEGY AND BUSINESS

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### *Strategy*

The strategy implemented by BRD since 1999 has combined strong growth with high profitability. The Bank's business mix optimizes its risk/return ratio resulting in a leading position in the Romanian Retail and Corporate Banking markets. Today the Bank continues to build on the current weighting of its different business lines and pursue their long-term growth.

The businesses will continue to develop at a rapid pace through organic growth. The underlying trends that shape the economy and financial services industry in Romania also shape the strategy of the Bank, ensuring it is perfectly placed to best seize on long-term growth opportunities.

BRD is the second largest bank in Romania holding the following market shares as at 31 December 2006 and 31 December 2005:

	<b>31 December 2006</b>	<b>31 December 2005</b>
	<b>(%)</b>	<b>(%)</b>
Total assets	16.5	15.4
Corporate loans	16.7	14.8
Corporate deposits	21.5	17.5
Loans to individuals	22.7	18.7
Deposits to individuals	16.8	16.2

### *Business Activities of the Bank*

#### *Retail banking and financial services*

Retail banking comprises all activities with individuals, self-employed professionals and small and medium sized enterprises.

The retail banking business offers a complete range of financial products and services through a multi-channel platform to a total of 1.9 million individuals and more than 100,000 legal entities in Romania. The Bank is a leader in the debit and credit cards market (with over 1.8 million cards issued as at 31 December 2006).

The financial services business comprises consumer lending at point of sale (BRD Finance IFN), operational leasing of vehicles and fleet management (ALD Automotive SRL) and general finance leasing including special finance structures, sale and lease back transactions, and vendor finance programs (BRD Sogelease IFN).

#### *Corporate and investment banking*

Corporate banking consists of financing activities for corporates and large local authorities and, although in an early stage in Romania, the servicing of financial institutions and institutional investors. The Bank is present in a wide range of industries.

Investment banking covers mergers and acquisitions as well as privatization related consultancy, mainly provided by a subsidiary of the Bank, BRD/SG Corporate Finance.

BRD Securities, a subsidiary of the Bank, provides brokerage services in respect of the Romanian Stock Exchange.

### *Asset management*

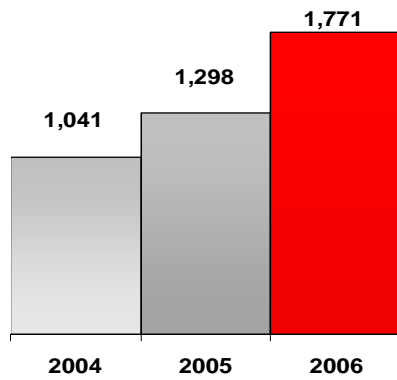
The asset management business is run through a subsidiary of SG, SG Asset Management BRD, managing two local mutual funds distributed through the Bank's network.

### 3. KEY FIGURES\*, SHARE AND DIVIDENDS

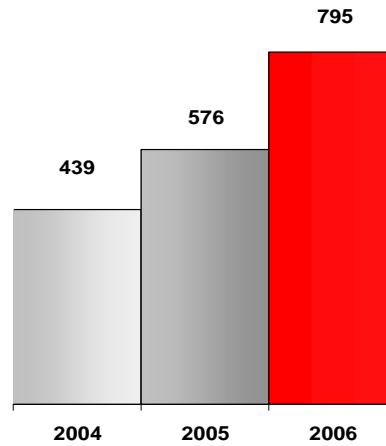
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*\*according to IFRS*

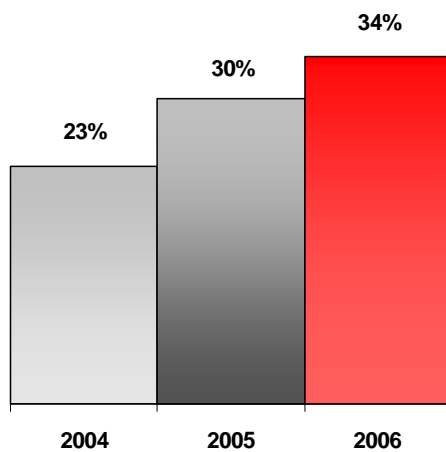
**Net Banking Income**  
(million RON)



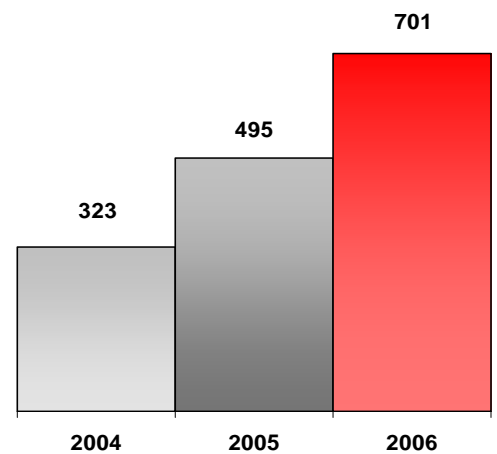
**Gross Operating Profit**  
(million RON)



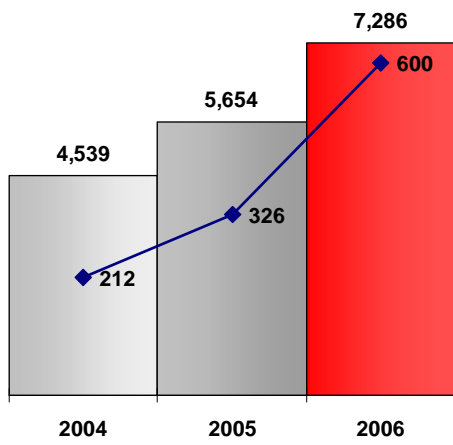
**Return on Equity (ROE)**  
(%)



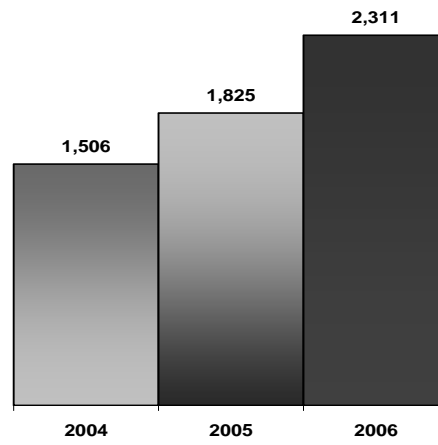
**Net Profit (after minority interest)**  
(million RON)



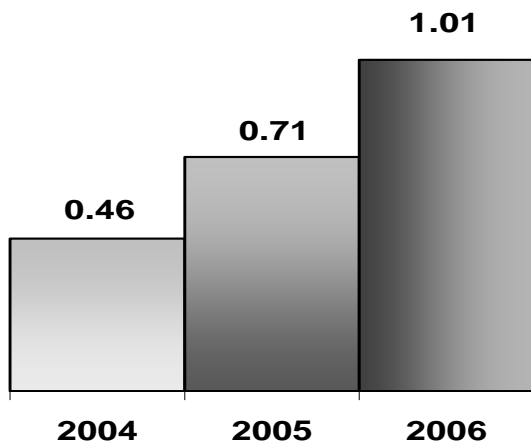
**Number of employees and number of units**



**Own funds**  
*(million RON)*



**Earnings per share**  
*(RON)*





## BRD share

### *Stock exchange information*

The market capitalisation of the Bank reached almost EUR 4 billion as at 31 December 2006, compared to EUR 2.6 billion as at 31 December 2005. In terms of market capitalisation, BRD ranked second among all listed companies and first among financial services entities.

Since January 2001, the date of listing on the stock exchange, the BRD stock price multiplied by 13 (in EUR equivalent).

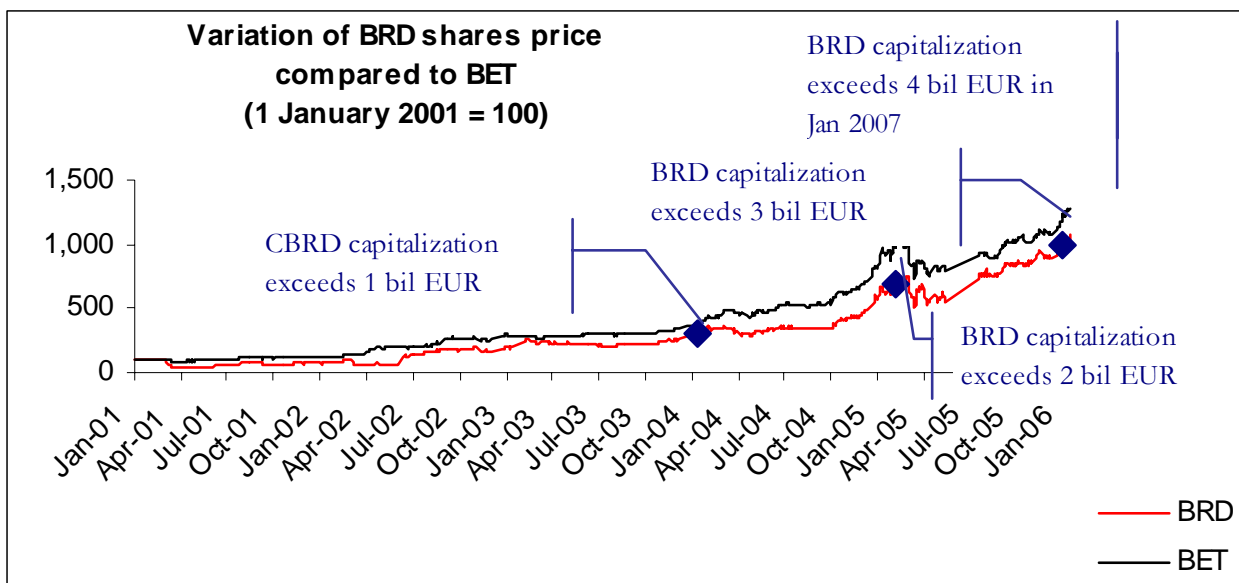
The trades of BRD shares represented 7% of the total amount traded on the stock exchange during 2006 financial year, while the market capitalization of BRD represented 20% of the total market capitalisation.

The daily average value traded in 2006 represented EUR 0.75 million.

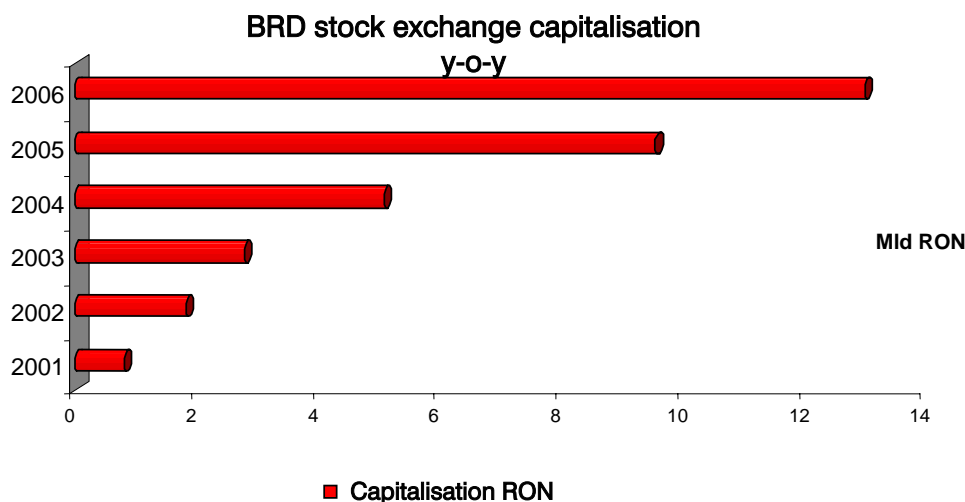
The yield of BRD shares was of 35% in RON and of 46% in EUR, during 2006.

The following table shows the evolution of the main stock exchange indicators over the last three years.

	2006	2005	2004	
<b>Equity IFRS (MRON)</b>	<b>2,311</b>	1,825	1,506	
Market capitalisation (MRON)	<b>12,893</b>	9,548	5,200	
<b>Net earnings per share (RON)</b> nominal (*)	<b>1.01</b>	0.71	0.23	
	basis 2006 (*)	<b>1.01</b>	0.71	0.46
<b>Net Assets per share (RON)</b> nominal (*)	<b>3.32</b>	2.62	1.08	
	basis 2006 (*)	<b>3.32</b>	2.62	2.16
<b>Price (RON)</b> Basis 2006				
	last	<b>18.5</b>	13.7	7.5
	maximum	<b>19.8</b>	14.7	7.6
minimum	<b>14.0</b>	3.7	4.0	



As at 31 December 2006, the market capitalisation of the Bank reached RON 13 billion compared to RON 9.5 billion as at 31 December 2005.



### Stock exchange indexes

The BRD share is part of the BET index, representing 20% of its value.

The BRD shares are also part of the regional index ROTX, on the Vienna Stock Exchange, which takes into consideration the most traded stocks on the Bucharest Stock Exchange and of the index « New Europe Blue Chip Index » (NTX), on the Vienna Stock Exchange. This index summarizes the evolution of the stock exchange markets from the Central and Eastern Europe by analyzing the 30 most important companies quoted on the national stock exchanges.

### *The evolution of dividends*

The following table sets out the evolution of dividend\* distributed in the last three years .

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Number of shares (x 1000)	696,902	696,902	1,393,803
Total dividend (million RON)	256	215	175
Dividend per share (RON), nominal	0.37	0.30	0.12
Distribution rate *	45%	45%	50%

(\*) After incorporation to the credit risk reserve / general risk reserve.

### *Payment of dividends*

The dividends are distributed to the shareholders proportionally to their participation to the share capital. The dividend income is subject to withholding tax.

According to the Articles of Association of the Bank, the dividends are paid within no more than 60 days from the date of publishing in the Official Gazette of the General Assembly Meeting decision, in cash or by bank transfer, depending on the shareholders' choice.

According to the legal provisions, unclaimed dividends are prescribed within three years since their issue. BRD started the payment of the 2005 dividends on May 25, 2006.

## 4. COMMERCIAL ACTIVITY

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### **BRD, a universal bank :**

1.982.000 private customers

- ▶ The direct outstanding loans extended to private customers represent almost RON 9,3 billion (+163 % compared to 31 December 2005).
- ▶ Present in more than 3800 stores with its subsidiary, **BRD Finance**, specialised in the sale of loans to individuals at the point of sale.

123.000 corporate customers

- ▶ The outstanding loans and lease receivables extended to corporate customers represent over RON 9 billion (+ 46% as compared to 31 December 2005).
- ▶ **Factoring**: Leader on the Romanian market, with a market share of over 40%.
- ▶ **BRD Soglease**: among the first 5 leasing companies, subsidiaries of banks or financial institutions, with a market share of 11%.
- ▶ **ALD Automotive**: the management of a fleet of over 1.500 vehicles after 18 months in the business.

Investment banking and financial market banking

- ▶ **BRD/SG Corporate Finance**: Complete consultancy services for mergers – acquisitions and privatisations.
- ▶ **BRD-Securities**: one of the first brokerage companies in Romania
- ▶ **SG Asset Management**: manages assets of over EUR 30 million.

### **BRD network – *at the customers' service***

The year 2006 was marked by the sustained development of the agency network and by an increase in the commercial activity, due to the teams' motivation and to the innovative offers.

In 2006, the network pursued its expansion by the opening of 274 new agencies, continuing thus to cover the territory of large and medium cities, as well as of the rural area (blitz agencies).

This development was accompanied by an ambitious programme of employment and training of the new employees: 80% of the persons recruited in 2006 are destined to the commercial segment.

For the second consecutive year, BRD was designated by Euromoney the best bank in Romania, especially due to the excellent level of ROA (3,17%) and of the operating ratio (50,52%), the best in the Romanian banking system.

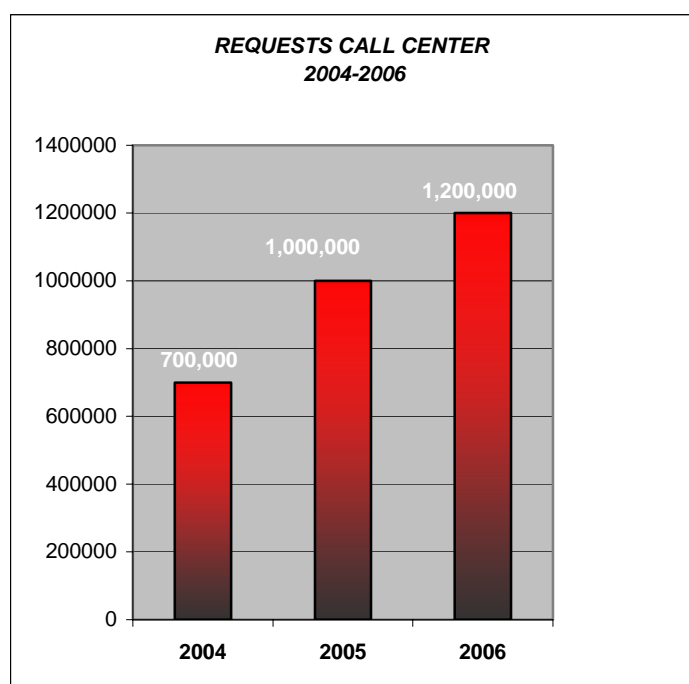
The network thus reaps the fruits of a customer-oriented policy thanks to the periodic renewal of the offers and to the continuous adaptation of the business devices.

### **A proximity bank that also offers alternative communication channels**

Apart from the rapid expansion of the agency network, BRD permanently develops and better the alternative, fast and practical channels of remote banking that facilitate the making of banking operations and satisfy the customers' needs.

#### **▶ Vocalis call-centre**

The platform extended its perimeter, enriched with new functionalities and continued its development. In 2006, the number of requests processed by the call-centre augmented by 20%, meaning over 1.200.000 contracts created and more than 50.000 opportunities transmitted to the agencies for the latter to conclude the sale.



#### **▶ Mobile Banking**

After Orange, BRD extended its remote-banking service, Mobilis, to the Vodafone operator, as well. Thus, BRD covers approximately 90% of the mobile telephony market.

#### **▶ Corporate site: [www.brd.ro](http://www.brd.ro)**

With a new structure and image, enriched with information and allowing the on-line subscription to products and services (simulating loans, ordering cards, subscribing to Mobilis), the website attracted over 1,900,000 visitors in 2006.

#### **▶ BRD-NET**

BRD-NET, the Internet Banking service available 24h/24, allows the users to perform a varied number of banking operations. 50,000 users could check the simplicity and accessibility of the service, as well as the variety of its functionalities.

#### **▶ E Commerce**

In February 2006, BRD launched the service of card-acceptance over the Internet in order to meet the expectations of the e-merchants operating on this developing market. For the purpose of offering a high-quality service to such customers, BRD signed a partnership with

one of the most important service providers, Gecad Epayment. Within 11 months, BRD imposed itself as a leader, with over 85% of the Romanian market, in terms of value.

▶ **Invoice payment**

With a view to simplify the customers' life, BRD signed collaboration agreements facilitating the payments of invoices to the suppliers of electricity, gas etc. by various other channels, such as the ATMs, our network of partner traders or the direct debit, Internet or mobile banking services.

***Individual customers***

With 600 agencies, BRD has become the commercial bank with the second network in the country, in terms of size. We try to be close to our customers, through different concepts:

- ▶ the BRD Express agencies present in the areas with a high potential of development and in small and medium towns;
- ▶ our implantations in the shopping centers and in universities, as well.

With 2,000,000 private customers, BRD registers again a significant increase of its goodwill (+22%). Trading companies have allowed us to obtain excellent results, among the youth, as well as among the employees or the patrimonial customers, and the Romanians abroad or the expatriates. The dynamism of the loans offers and banking cards was also an important manner of approaching the customers.

**Significant growth of goodwill...**

**Young people**, especially students, represented a priority segment to BRD in 2006, through which the bank showed its dynamism.

In 2006, the development of our partnership with ISIC in the universities, with the Ministry of Education and Research in high schools and granting of academic scholarships allowed us to attract more than 160,000 new customers.

In April, BRD, the Students' Consortium in Cluj and the Cluj-Napoca Town Hall launched a unique co-branded card BRD-ISIC STUDCARD, offering discounts for the public transport in Cluj-Napoca, as well as within a network of local merchants.

In 2006, 190 high school students participated in the program „Înveți și Câștigați cu BRD!” (Study and win with BRD!), supported by the Ministry of Education and Research. The series of presentations on banking themes and the promotional tests had great success in the 14-18 years-old segment and promoted our dedicated products – the SPRINT and ATUSPRINT cards.

The Bank pays particular attention to the **patrimonial customers**, by its Private Banking specialised agency, by the international network of the Group Société Générale and its

dedicated customer consultants spread all over the country, as well as by its products and services adapted to the specific needs of such customers.

**The Romanians living abroad** represent another customer segment for which BRD developed in 2006 a special offer of specific products, such as dedicated packages, international money transfers and simplified financing of their real estate projects in Romania, as well as the assistance service Vocalis International – the dedicated remote banking cell.

BRD introduced in 2006 a new **payroll agreement** rewarding the customers' loyalty and equipment degree. **The employees** of the partner company who domicile their salary and hold a debit card have access to BRD products and services in preferential price conditions, depending on the number of products and services they hold.

### **... and of the business.**

The year 2006 was marked by a significant evolution of all the families of products.

First of all, the record level of consumer loan production due to:

- ▶ the transparency of the offer costs, with flat interest rates on the entire loan life;
- ▶ the successful launching of the new product: Espresso Lejer – which placed BRD on the first position in terms of consumer loans, in 2006, Espresso NonStop – the first personal loan guaranteed by mortgage and provided with a recharging option;
- ▶ the partnership with the national automobile manufacturer, DACIA, by the extension of loans intended exclusively for the purchase of new models, such as Dacia Logan Break, with a total franchise period of 3 months.

The BRD offer of **real estate and mortgage loans** was characterised in 2006, as well, by flexibility, illustrated by the launch of the bridge loan „Habitat Extra”, for example, and by a permanent concern to simplify the lending process.

Apart from loans, the BRD **saving products** offer many possibilities adapted to all categories of customers, irrespective of their age and income.

The line of placements was completed with a new diversified investment fund, **CONCERTO**, made together with Société Générale Asset Management.

**Depozitul 1000** – a term deposit in lei with flat interest rate, guaranteed for the investment period – represented one of the commercial successes of 2006.

In 2006, owing to the diversity of its line of debit and credit **banking cards** - VISA and MASTERCARD - in lei and in foreign currency, as well to the associated insurance and assistance services, BRD exceeded the threshold of 1.800.000 issued cards, thus maintaining its top position on a highly competitive card-market.

BRD continued in 2006 the selling campaign of the 3 collection cards printed with the image of the 3 great Romanian sports stars: Nadia Comaneci, Ilie Nastase and Gheorghe Hagi, an unprecedented commercial success in terms of issued cards and entry into relationship.

## *Corporate market*

### **1) Certified freelancers customers**

In the conditions of an intensifying competition, BRD pursued its development on this market due to an organisation and offer specifically conceived for liberal professions, associations and other certified freelancers (traders, craftsmen), as well as micro-enterprises.

The diversification of the range of products and loans, associated to analysis instruments that provide fast answers to the credit demands, contributed to the success obtained by BRD in 2006.

- ▶ The line of investment loans dedicated to **liberal professions** (the **Expert range**) was completed with specific offers dedicated to doctors, lawyers and notaries, for the financing of real estates, as well as of the works in their professional environment.
- ▶ By launching the complete offer of investment loans and working capital loans by means of « **Ristretto** » line, BRD recorded an important success on the **small and medium enterprises** market, both for loans and for Business cards. The « Ristretto » offer is based on an instrument that simplifies the work procedures and favours the rapid decision-making process with respect to financing.

### **2) Corporate customers**

The corporate market is a major development axis for BRD. The operation device is organised so as to allow it to simultaneously maintain the geographic proximity to the customers and bring the expertise of the specialists in the groups and at the Head Office (factoring, leasing, International etc.) and also to look for the synergies with the private customers market, both employees and company heads.

For BRD, the year 2006 also meant attracting companies:

- ▶ Proposal of flexible and fast solutions for short-term and investment loans by its "**Simplis**" line. The Simplis offer is based on an instrument that helps making the credit decision, especially developed for the SMEs market, which simplifies the work procedures.
- ▶ **Exporting SMEs**, stressing once again the BRD's involvement and active support of Romanian companies developing on the export side. By its complete offer of services, particularly designed for exporting companies (consultancy, protection against the foreign exchange risk and the non-payment risk, financings) and a commercial device made up of the export officers within the International service and by its network of correspondents, but also by factoring and providers of international services, BRD recorded excellent results.
- ▶ **Agriculture**, by creating a range of products specific to this market, such as short-term loans, seasonal loans and the investment loan for co-financing of the SAPARD projects



(European pre-accession help). 700 loans were contracted, representing a total value of approximately EUR 85 million.

- ▶ **For the major corporate customers**, the year 2006 was marked by a significant growth of the loan production, following the commercial action achieved sector during the year in the real estate, local and national public sectors, as well as of the value of direct foreign investments. BRD benefits once again from the synergies with the business lines of Société Générale.

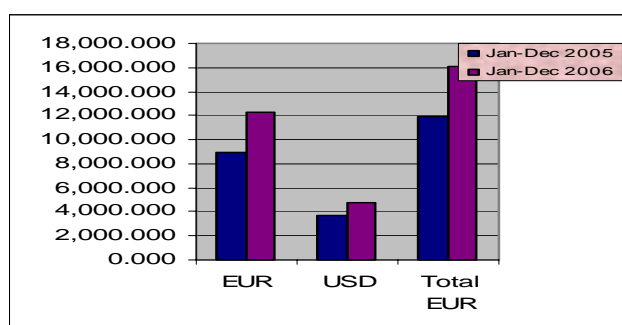
### 3) Specialized services for companies

- ▶ In 2006, the **international activity** saw an increase in the production by 35%, representing over EUR 16 billion, and by almost 39% in terms of commissions, at the international level. The market share for the international activity is estimated at 22%, in growth by 2%.

Throughout 2006, BRD participated in business reunions with importing and exporting customers, providing them with consultancy. By a complete offer of commercial services (letters of credit, collection, international guarantees, stand-by letters of credit, cheques and avals) and various means of making international transfers, BRD offers to its customers the professionalism of its specialists' team, the support of the group Société Générale and its relationships with over 830 correspondent banks in 93 countries.

Following the initiative of the International Division and of the Timis Group, BRD strengthened its relationships with Société Générale Yugoslav Bank, taking part in common actions destined to set the foundations of the Romanian – Serbian partnership as a result of the Free Trade Agreement signed between Romania and Serbia.

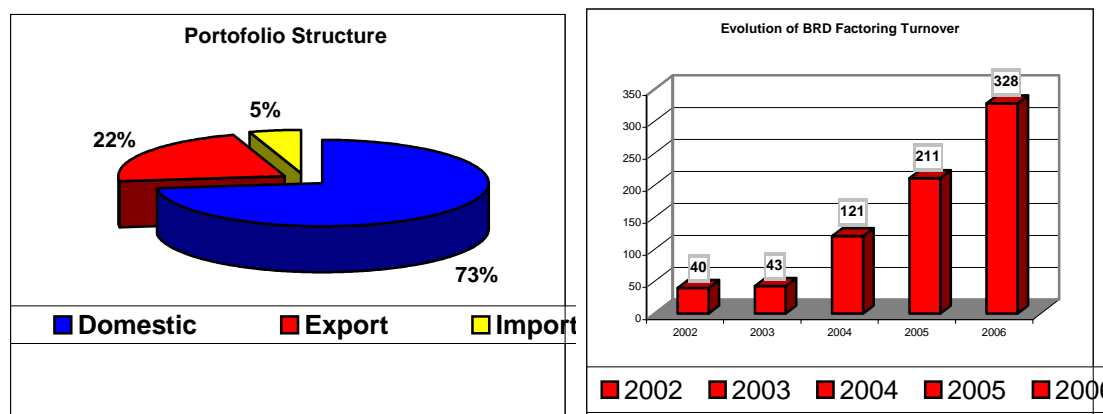
*Evolution of the international activity*



- ▶ Once again, the excellent results in **factoring** allowed BRD to consolidate its leader position on the Romanian market, with a market share of over 40%.

In 2006, the factoring turnover generally progressed by 55%, reaching EUR 328 million, domestic operations representing 73%, export 22% and import 5% of the portfolio.

In October 2004, « Factors Chain International » acknowledged the professionalism and quality of our interventions and offer, the largest on the Romanian market, and designated us a full member of the organization, thus favouring the development of our international activity.



## *Financial services*

### ► **Financing and services to legal entities**

#### □ **LEASING : BRD SOGELEASE**

Despite a highly competitive environment, the production, which increased from EUR 122 million to EUR 169 million in 2006, allowed BRD Sogelease to maintain its position among the top 5 leasing companies, subsidiaries of banks or financial institutions. This increase by 39%, superior to the one recorded on the leasing market (25 %), let us pass from a market share of 6% to one of 11%. In order to achieve this performance, Sogelease relied on a network of 86 employees, on the support of the BRD network countrywide and on partnerships.

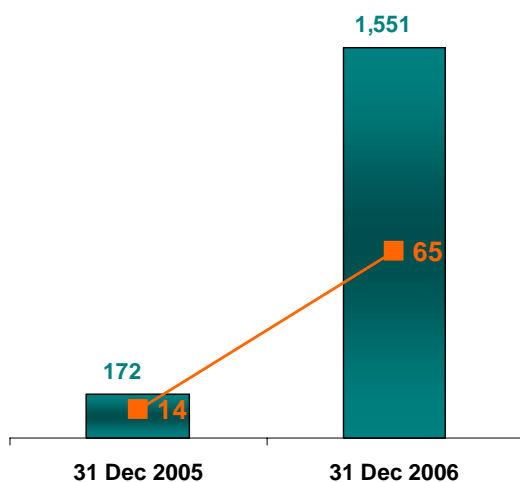
In December 2006, the BRD Sogelease portfolio was made up of 3,600 diversified customers (+24%), representing all markets, and of financings of an extended range of goods (cars, trucks, buses, IT, medical, construction and industrial equipment, as well as carriages and helicopters). The structure of the 17,000 financed goods portfolio is largely made up of 23% passenger cars and 46% heavy vehicles and buses, BRD Sogelease being very active in financing sales (vendor program financing) with Marcom (Komatsu), Cefin (Iveco), Protruck (Iveco), Van Wijk (DAF). Sogelease can also finance real estate and perform sales & lease

back operations and offers other special financial products, such as operational leasing, with or without included maintenance (vehicles, computer and medical equipment).

□ **LONG-TERM LEASE AND MANAGEMENT OF THE VEHICLE FLEET: ALD AUTOMOTIVE**

Created in July 2005, ALD Automotive, a subsidiary of BRD – Groupe Société Générale, is specialised in operational leasing with included services, allowing companies to partially or totally outsource the management of their vehicle fleet.

From 170 cars managed as at end 2005, it had over 1,500 as at end 2006.



2006 was marked by the strengthening of the ALD team, which reached 31 persons, by the creation of the network and the extension of the number of partners to 200: vendors of vehicles, maintenance, tyres, spare vehicles, assistance, insurers and gas stations.

Between October 9 and November 10, ALD Automotive launched the first mass commercial action with the theme „ E mai simplu când se ocupă ALD Automotive” (*It is easier with ALD Automotive in charge*), which presented the advantages of outsourcing the car fleet management and the simplification of its financings.

▶ **Financing of individual customers**

□ **FINANCING AT THE POINT OF SALE: BRD FINANCE IFN**

BRD Finance was created in 2004 by BRD-Groupe Société Générale and Franfinance, one of the main European players on the consumer loan market.

Concerned with maintaining the quality of its services and with satisfying its customers and building their loyalty, BRD Finance has adapted its offer and permanently creates new

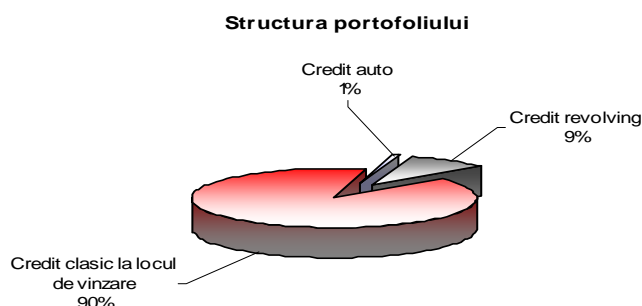
flexible, customised products, adapted to its partners, in order to help them develop their business, but also adapted to their customers. On a highly competitive market, extended loans increased by 76%.

Loans at the point of sale continue to represent the main segment of its activity. As at end 2006, BRD Finance had signed partnerships with 1,085 companies and over 3,800 stores, thus increasing by 70% the loans extended in this activity.

In 2006, BRD Finance pursued the development of the revolving loan, launching 5 new co-branded credits MASTERCARD with Real, Rombiz, Daniel, Diverta and Boom, 4 of which are usable abroad.

It created a new offer, the car loan „Aurorate”, destined to the financing of new and second-hand vehicles. As at end 2006, BRD Finance was thus present at over 120 dealers.

### Portofolio Structure



### *Investment banking and market operations*

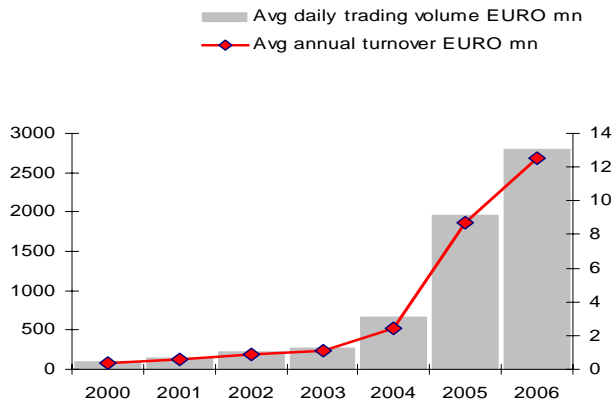
#### **Brokerage**

The Romanian capital market recorded a positive evolution in 2006, reaching a market capitalisation of EUR 21 billion and a total transactions volume of EUR 2,790 billion, which translates into an increase of 30%, respectively of 42%, as against the previous year.

BRD Securities, the brokerage subsidiary of BRD - Groupe Société Générale, ranks sixth among the brokerage companies, with a market share of 4.57% in terms of transactions' volume.

In 2006, BRD Securities acted as lead arranger of the largest initial public offering launched so far on the Bucharest Stock Exchange.

BRD Securities is one of the main institutional brokerage companies in Romania, known as a broker based on research, rather covering the local capital markets. The company provides its customers with investments consultancy and operation capacities of the highest level, structuring and executing share offerings, initial public offerings, issues of bonds for the corporate customers and municipalities. Starting November 2006, BRD Securities deals on the Derivatives Stock Market in Sibiu, granting its customers access to financial derivative instruments.



Source: Bucharest Stock Exchange

## **Market Operations**

In 2006, BRD strengthened its presence on the financial markets. For foreign exchange operations the market share in terms of transactions' volume augmented from 14% in 2005 to 15% in 2006.

The active promotion of derivatives led to significant increases in the volume of forward exchange operations and to the introduction of the interest rate swap transactions.

Exceptional results were obtained by implementing the Internet e-trading platform for market operations – TRADirect - in partnership with Société Générale Paris. The application grants easy and rapid access to the quotations updated in real time for the foreign exchange transactions and for the money market.

## **Asset Management**

The monetary fund Simfonia 1 saw a slight growth of the net asset, of 2.3%, the investors being particularly interested in diversified funds and shares. Simfonia 1 remains, nevertheless, the largest fund on the Romanian market of mutual funds, with a net asset of RON 89.4 million (EUR 26.4 million).

In January 2006, the balanced fund Concerto was launched, in order to meet the individual investors' needs. In 2006, the fund had a net asset of RON 15.3 million (EUR 4.5 million).

## **Securities**

BRD has a 10-year old experience as a depository/custodian bank.

Benefiting from the experience of the Group Société Générale (the 3<sup>rd</sup> custodian in Europe and the 10<sup>th</sup> in the world, with a correspondent network covering 73 countries), BRD developed these services within dedicated departments, whose personnel is specialised and authorized to provide services of deposit, custody and sub-custody for global custodians.

BRD is the first depository for pension funds, being the first bank authorized for this activity by the Surveillance Commission of the Private Pension System. This corroborated with the cautious policy acknowledged on the market regarding the computation and certification of the customers' assets held by the depository, allowed us to attract a large share of the private pensions market.

## **Consultancy**

The consultancy activity for privatization and merger – acquisitions operations completes the range of services made available to the customers of the Bank.

The capacity to provide services adapted to the customers' needs relies on the 9-year experience of the subsidiary BRD/SG Corporate Finance on the local market and, in the case of significant trans border operations, on the expertise of SG Corporate Finance and of the specialists dedicated to economic sectors in Paris, as well as on the support of the international network of mergers – acquisitions of the Group.

BRD/SG Corporate Finance develops a tight and constant cooperation with Major Corporate Division, thus stressing the synergies between the various business lines of the Bank.

## 5. CORPORATE GOVERNANCE

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### General Information

BRD – Groupe Société Générale SA is a public joint-stock company incorporated in Romania. The Bank is registered under the Trade Register n° J40/608/19.12.1991 with fiscal registration no. 361579/10.12.1992.

The Bank is headquartered at BRD Tower, 1-7 Ion Mihalache Bvd., Bucharest, code 011171, sector 1, Romania

The Bank operates under Company Law n° 31/1990 (as subsequently amended) and is also subject to Banking Law n° 58/1998 (as subsequently amended)

Pursuant to Articles 5 and 6 of Chapter II of its Articles of Association, the corporate objects of activity of the Bank can be summarised as the conducting of banking activities.

### Governance

#### *Board of Directors*

As at 31 December 2006, the Board of Directors of the Bank was made up as follows: 11 administrators elected by the General Assembly of the Shareholders, 7 of whom represent the majority shareholder SG, and the remaining 4 the other shareholders.

#### **The Board is chaired by Patrick Gelin, elected as chairman on 12 October 2004.**

The Board of Directors establishes the direction of the Bank's activities and monitors the implementation of such activities. In accordance with the Bank's Articles of Association, the Board regularly examines the strategic direction of the Bank, the investment plan and deliberates on any modifications to the management structure, as well as on the operations likely to significantly affect the results of the institution, the structure of its balance sheet or its risk profile. The Board of Directors meets at least once a month.

The directors of the Bank, their respective business addresses, their position in the Bank or its affiliates and their principal activities are:

<b>Name</b>	<b>Principal Activities</b>	<b>Business address</b>
Patrick GELIN	Chairman of the Board of Directors Chief Executive Officer of BRD <i>Chairman of « Foreign Investment Council »</i>	BRD – Groupe Societe Generale, 1-7 Bvd Ion Mihalache, 011171, sector 1, Bucharest
Petre BUNESCU	Deputy Chairman of the Board of Directors of BRD Deputy Chief Executive Officer of BRD <i>Vice-Chairman of the Romanian Banking Association</i> <i>Member of the Board of Directors of Transfond SA</i>	BRD – Groupe Societe Generale, 1-7 Bvd Ion Mihalache, 011171, sector 1, Bucharest
Sorin-Mihai POPA	Deputy Chairman of the Board of Directors of BRD	BRD – Groupe Societe Generale,

	Deputy Chief Executive Officer of BRD <i>Member of the Board of Directors of BRD Sogelease</i>	1-7 Bvd Ion Mihalache, 011171, sector 1, Bucharest
Didier ALIX	Member of the Board of Directors of BRD Deputy Chief Executive Officer of Société Générale	Société Générale PRES/DGL 75886 PARIS CEDEX 18
Bogdan BALTAZAR	Member of the Board of Directors of BRD	BRD – Groupe Societe Generale, 1-7 Bvd Ion Mihalache, 011171, sector 1, Bucharest
Aurelian DOCHIA	Member of the Board of Directors of BRD <i>Chief Executive Officer of BRD/SG Corporate Finance</i>	BRD – Groupe Societe Generale, 1-7 Bvd Ion Mihalache, 011171, sector 1, Bucharest
Anne FOSSEMALLE	Member of the Board of Directors of BRD Regional Manager for Eastern Europe, EBRD	EBRD One Exchange Square, London EC2A 2JN, U.K.
Jean – Louis MATTEI	Member of the Board of Directors of BRD General Manager of the International Retail Banking Division – Groupé Société Générale	Société Générale BHF 75886 PARIS CEDEX 18
Ioan NICULESCU	Member of the Board of Directors of BRD <i>Member of the Board of Directors of Asiban S.A. and of BRD Sogelease</i>	Bd Aviatorilor no 37, ap.2 011853, sector 1, Bucharest
Dumitru D. POPESCU	Member of the Board of Directors of BRD	BRD – Groupe Societe Generale, 1-7 Bvd Ion Mihalache, 011171, sector 1, Bucharest
Sorin Marian COCLITU	Member of the Board of Directors of BRD <i>President CEO, The Romanian Guarantee Fund for the Loans to Private Entrepreneurs</i>	Fondul Roman de Garantare a Creditelor pentru Întreprinzătorii. Privati. Str. Mătășari, nr. 46, Sector 2, București

### ***Executive Committee***

The Executive Committee provides the strategic management of the Bank, under the authority of the CEO, Patrick Gelin. The Executive Committee meets once a week. Its members are mandated to manage and coordinate the daily activity of the Bank, except for the operations specifically pertaining to the Board of Directors. Its members have the authority to bind the Bank, in compliance with the law.



The Executive Committee had the following members:

<b>Name</b>	<b>Title</b>
Patrick GELIN	Chief Executive Officer of BRD
Petre BUNESCU	Chief Executive Officer of BRD
Sorin-Mihai POPA	Deputy Chief Executive Officer of BRD
Herve BARBAZANGE	Deputy Chief Executive Officer of BRD

### ***Audit Committee***

The Executive Committee has delegated authority to an Audit Committee, comprising three board members that are not members of the Executive Committee. The Audit Committee meets semi-annually or more frequently if circumstances require.

The following directors of the Bank are members of the Bank's Audit Committee:

<b>Name</b>	<b>Title</b>
Jean – Louis MATTEI	Member of the Board of Directors of BRD
Aurelian DOCHIA	Member of the Board of Directors of BRD
Sorin Marian COCLITU	Member of the Board of Directors of BRD

The Audit Committee's main responsibilities are: analysing, independently from the general management of the Bank, the relevance of accounting methods and internal procedures for the collection of information; assessing the quality of the audit and internal controls, and if necessary, proposing any policies and procedures to be implemented; and performing any specific analyses required by the Board of Directors.

### ***Risk Committee***

Managed by the CEO, the Risk Committee meets on a quarterly basis and more frequently if circumstances require. Its objectives are to manage significant risks to the Bank, such as credit risk, market risk, operational risk and reputational risk.

### ***Lending Committee***

The weekly meetings of this Committee are chaired by the Deputy CEO who coordinates this activity and relate to loans (both to individual and corporate customers) exceeding, in terms of amount, the powers of the executive managers. The proposed loans unapproved at these meetings are subject to the approval of the Executive Committee.

### ***Assets and Liabilities Management Committee***

The members of the Assets and Liabilities Committee are appointed by the Executive Committee. The Assets and Liabilities Committee meets on a monthly basis or more frequently, if circumstances require. Meetings are led by the CEO.

## **Investor & Shareholder's relations**

BRD – Groupe Société Générale is concerned with providing to all its shareholders, as well as to financial analysts, rigorous, regular, homogenous and high-quality information, in compliance with the best practices on the market and with the recommendations of the stock market authorities.

### *A dedicated team*

These relationships are the daily task of a dedicated team, who's mission is to inform our 16,000 institutional investors and individual shareholders about Bank's strategy, major events, financial results.

Moreover, for a more efficient management of our relationship with the investors, the brokerage branch – BRD Securities – maintains permanent contacts with them, by specific meetings and the distribution of periodical reports and analyses.

### *Our fundamental principles*

Our policy in terms of financial information resides on three principles:

- ▶ Equal access for all the shareholders to banks information and its immediate availability;
- ▶ Respect of legal time limits for the publication of the results;
- ▶ Transparency of the delivered information.

Any information either financial or of other nature which may influence the stock market price makes the object of an official statement made available to the shareholders through the Bucharest Stock Exchange and the National Securities Commission.

### *Financial communication schedule 2007*

For this purpose, BRD establishes every year a financial communication schedule, in line with the financial communication strategy of Groupe Société Générale. This document, subsequently agreed with Bucharest Stock Exchange and National Securities Commission, manages all the financial events of the company.

The General Assembly is an occasion for the shareholders to be directly informed on the evolution of the Bank, to take part in the debates and to express their opinions on the resolutions proposed to them for approval. A press release is published following the General Assembly, approving the results.

Every year, the bank organises a press conference, followed by a presentation and a questions & answers session for a representative number of investors, financial analysts and journalists, in order to present its results at the end of the year.

### **For 2007, the schedule is as follows:**

February, 20	Reunion with the analysts and the journalists
April, 18	General Assembly of the Shareholders
April, 20	Communication of results as at December 31, 2006
May, 14	Communication of results on the 1st quarter 2007
August,6	Communication of results on the 1st half-year 2007
November, 12	Communication of results on the 3rd quarter 2007

Telephone: (+40) 21 301 61 00 / extension 61 60

E-mail: investor@brd.ro

The Internet site [www.brd.ro](http://www.brd.ro) provides financial information on the Bank, such as press releases, key figures and main events. It is also possible to download the annual reports and the presentations destined especially to financial analysts and institutional investors.

## 6. HUMAN RESOURCES

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The year 2006 was dominated by impressive accomplishments in the field of human resources.

By the over 2,000 people recruited and trained this year, BRD proves its strength and determination to achieve lasting growth. The very high volume of recruitments, followed by adapted training programs, as well as the performances in developing and motivating the employees make BRD one of the main actors on the Romanian labour market.

### **Recruitment**

The Bank focussed its efforts this year, as well, on extending its territorial network by opening numerous BRD Express agencies in which there operate especially our customer-relationship dedicated colleagues.

The rapid development rhythm, the high quality standards and the diversification of the personnel imposed the use of a consistent mix of channels and methods of recruitment and selection.

#### **Benchmarks in the recruiting activity in 2006:**

Total recruitments – 2.010 persons,

Out of which:

- ▶ 80% employments on the commercial segment
- ▶ 17% other business areas
- ▶ 3% employments on manager positions

By age categories:

- ▶ under 25 years old – approximately 35%
- ▶ from 25 to 34 years old – approximately 52%
- ▶ over 35 years old – approximately 12%

**The quality** of the recruiting processes and tools is the major factor in the selection of the best candidates. Therefore, we developed complex instruments to help us identify with precision our candidates' potential.

More than 50 candidates to manager positions were evaluated by means of exercises by our assessment centre.

**Diversity** in recruitment, in the context of an increasingly demanding labour force market, represented another important objective of BRD for 2006. Overall, recruitments were orientated towards attracting candidates with different education, age and even nationalities, and one of the initiated projects has as objective the integration of disabled persons in BRD.

### **Integration of disabled persons**

In 2006, a permanent project was promoted, meant to facilitate the employment and integration of disabled persons in BRD. The accessible positions were inventoried and 4 disabled persons were selected and hired. After employment, these persons participated in training courses, subject to subsequent monitoring in order to benefit from assistance in view of their integration.

## **Professional training**

Apart from the priority represented by the training of the new employees, particular attention was paid in 2006 to turning to professions specialised activities, such as those of the consultants dedicated to business costumers, to liberal professions or of the risk consultants, for which the specific development programs have been created and developed.

### **Benchmarks in the professional training in 2006:**

- ▶ a budget of RON 5,580,000
- ▶ over 4,700 trained persons
- ▶ 4.7 days of training, in average, per employee
- ▶ more than 400 participants in the management seminars

In order to be able to cover the needs of training, the modern concept of the School Agency, implemented in Bucharest, in 2004 and continued afterwards in Predeal, in 2005, was completed in the autumn of 2006 with another school agency created in Iași.

### **July 2006: the series of BRD Express training participants' no. 100.**

A new element is represented by the initiation and implementation of the new professional training project – Local school, launched in July 2006, in addition to the School Agency concept and whose particularity consists in extending and regionalizing the training device. This concept was designed to promptly meet the training needs of all the Bank's employees. In December 2006, 16 local schools were operationally ready to start the training.

## **Career Management**

### **Integration of the new employees**

According to the principle of continuously investing in quality, in 2006 BRD created a Welcome Kit, in an attractive form of presentation and containing general information absolutely necessary to the new-comers in order to integrate more easily

### **Performance assessment**

In addition to previous years, the assessment process carried on in 2006 focussed on estimating the **specific behaviours leading to individual and group performance**, as well as the translation into practice of the **BRD** values - *professionalism, team spirit, and innovation*.

The analysis of the ratings obtained by the employees under the evaluation process is fully agreed with the exceptional results of BRD in 2006, which certifies its correct approach of performance management.

### **Motivation and retention of employees**

In 2006, BRD initiated a project regarding emphasis and development of high performances and associated behaviours for certain categories of employees in the commercial services. About 2.000 persons were examined and evaluated. The purpose of this action was to ensure a high motivation level and to implement retention measures for the highly performing employees.

## **Social dialogue**

The year 2006 brought a qualitative leap in the social dialogue with the Bank employees, both directly and by the representatives of the Impact Union.

In the direct communication with the employees, a new communication interface was launched this year, namely the e-mail address "opinia mea" (my opinion), by which the employees may express their questions, discontents and recommendations with respect to improving social climate.

On the other side, the permanent contact of the Human Resources team with the union's representatives resulted in our familiarisation with various malfunctions in the working hours, the development of the employees' evaluation process, as well as other aspects related to the payment of rights due to the employees according to the BRD Collective Labour Contract. We identified, together with the union's representatives, the causes of these malfunctions and launched the implementation of the agreed solutions.

In addition, based on the results of the employees' satisfaction and loyalty survey, made in December 2005, the measures established by the bank management started being implemented in 2006, in order to improve the working climate and to ensure a balance between the professional and private life.

## **Compensations and benefits**

BRD is constantly concerned with developing an attractive package of compensations and benefits. Our objective is to offer a competitive global remuneration package that rewards both the individual and the collective performance. Besides the basic salary, the global remuneration packages include a series of other elements, fixed or variable, individual or collective, with immediate or deferred payment: variable pay, profit sharing, project premiums, retirement indemnity, risk insurance etc.

In 2006, as well, the Group Société Générale offered the BRD employees the possibility to subscribe shares of Société Générale for a preferential price under the World Employee Stock Ownership Plan. Approximately 44% of the employees chose to subscribe, thus becoming shareholders of the Group.

## 7. CORPORATE SOCIAL RESPONSIBILITY

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BRD - Groupe Société Générale wishes to participate actively in the development of the entire Romanian society.

Partnerships with the civil society are part of our culture of dialogue with the community and reflect our wish to plan our actions starting from the aspirations of the surrounding world.

For over 10 years, BRD has been involved in several large fields: sports, culture, education, solidarity.

Since 2006, BRD has included in its social responsibility strategy the protection of the environment and the volunteering of its employees.

### *Culture and education*

Classical music, contemporary painting, artistic expression, in general, has always presented interest to BRD and the bank gets involved in long-term partnerships.

The year 2006 was very rich in cultural events supported by BRD.

- ▶ *The international festival of classical guitar in Sinaia*
- ▶ In January, BRD renewed its partnership with the *Bucharest National Opera* for the shows of 2006.
- ▶ For the 4<sup>th</sup> year, BRD sponsored *EUROPAFest* – a francophone musical manifestation including contests and concerts of classical music in 4 cities in Romania and a Laureates' Tour.

BRD is acknowledged as traditional partner in a series of prestigious manifestations, such as the awarding of the prizes of the Plastic Artists Union or of UNITER (Romanian Theatres Union) .

The bank encourages the affirmation of the new generation of valuable actors, by various corporate patronage actions to the benefit of the National University of Theatre and Cinematographic Art « Ion Luca Caragiale ».

Modern art is another field in which BRD has been actively present for several years. By encouraging the young artists at the beginning of their career or by supporting the National Art Museum and the collections of consecrated painters, the Bank aims at making art more accessible.

In fact, in 2006, BRD signed for the second consecutive year, a partnership with the National Museum of Contemporary Art in Romania.

As partner of the Cultural Association Goodartofnoon, BRD financed as the end of 2006 the second phase of the project « *The Cultural Patrimony – discover its value* » , destined to promote the historical monuments in Romania.

BRD is also active in the field of academic life and education, with a series of partnerships with the students' associations, such as AIESEC or the Francophone Students' Association, but also with initiatives such as the Academic scholarships destined to encourage the deserving students of the partner universities.

BRD also has an education program for high school students aimed at familiarising them with the banking products.

This year, BRD was partner with the young entrepreneurs, with the Ciel foundation, within a program encouraging young people to start their own business.

### *Francophonie*

The partnership with the *French Cultural Institutes in Romania* targeted promoting the francophonie and the French and Romanian cultures. In this context, BRD contributed every year to the organisation of educational actions, among which the Cup « Le Mot d'Or », but also cultural actions, such as « Fête de la Musique », « Fête du Cinéma » or « Coup de Théâtre ».

In 2006, BRD was the sponsor of the largest French painting exhibition organized by the National Art Museum and the Bourdelle Museum in Paris, occasioned by the year of the francophonie: «*Antoine Bourdelle - vectorul modernității*» (*Antoine Bourdelle - the vector of modernity*).

### *Sports*

In the sports field, BRD continued its traditional partnerships with the Romanian sports federations.

The partnership with the *Romanian Rugby Federation* was renewed in 2006, thus continuing a long tradition of the Group Société Générale, partner of the French national rugby team since 1987. 2006 is the sixth consecutive year of collaboration between BRD and the Federation.

BRD also pursues the partnership with the Romanian Tennis Federation, for the organisation of the national and international tournaments (Davis Cup). Since 2000, BRD has financed the activity of the federation with EUR 600.000.

The Bank continued to support the *Cycling Tour in Romania – Tricol galben* (The Yellow T-shirt)-, a race with international participants crossing several large cities.

### *Solidarity*

No or underprivileged childhood, aged persons or homeless adults remain major axes of BRD in the solidarity field. BRD continues the partnerships signed the previous years with the Association Samusocial, the Association "Valentina", the Organization «*Salvați Copiii*» (Save the Children), the Association Supporting the Physically Disabled Children in Romania, the Humanitarian Association «*Echilibre*» supporting elderly persons etc.

BRD started in 2006 a program of social integration by sport, destined to underprivileged children. «*Șanse egale prin sport*» (Equal chances by sport) is a project for the equality of chances directed at integrating in the society, by sport, 30 underprivileged children (from orphanages in Bucharest), with a focus on their personal development. In this project, BRD is the partner of the foundation Palestra.

### *Employees volunteering*

BRD carries on in-house campaigns to associate the employees to the company's social responsibility actions, whether they are humanitarian or civic involvement actions. This year, we have launched several actions, such as the 2% project that proposes the employees to direct 2% of their taxes to non-governmental organizations partners with the bank, «*Donați pentru viață*» (Donate for life), a periodical blood donation campaign in which over 300 employees participate, environmental campaigns (Cleaning the Botanical Garden in Bucharest) or actions in support of underprivileged children (donations of toys, books etc.).

The participation of a large number of employees represents to us a sign of their solidarity with the bank values and of their support of the company's strategy of social responsibility.



## 8. RISK MANAGEMENT

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### *Framework*

The Bank approaches risk prudently in line with its long-term strategy. The risk management policies and activities are designed in line with SG's practices and focus on identifying and assessing risks as early as possible. Managing the Bank's risk/reward profile effectively in order to optimize the risk-adjusted return is one of the Bank's core objectives for risk management. BRD implements this approach by the means of a risk management function that is independent from the business. The implementation combines centralised policy-making with decentralised risk control and risk monitoring.

### *Risk governance*

The Bank's Board of Directors sets the strategic risk view and approves the policies, which are previously approved by the Executive Committee (the **EC**). Part of the responsibilities of the Board of Directors is delegated to two main committees (Risk Committee and Assets and Liabilities Committee), as described below.

The responsibility for the overall implementation of the risk policy lies with all the bank's departments. The Central Risk Management Unit (CRMU) is responsible for the management of credit, market and operational risk, while the Finance Department (the **FD**) is responsible for protecting the Bank's earnings and capital position against adverse interest movements in the banking book (non-trading portfolio) and for liquidity management.

### *Risk Management Function*

The most senior committee on policy making and assessment of credit, market and operational risk is the Risk Committee (the **RC**), whose members are the Chief Executive Officer (the **CEO**) and his deputies, the Heads of the CRMU and other executives. The RC proposes the risk policies for the approval of the Board of Directors and regularly reviews the main aspects of risk, including:

- the risks involved in new activities,
- concentration of credit risk by industry and counterparties,
- the level of default by clients and portfolios,
- watch list clients,
- cost of risk,
- use of derivatives,
- exposure to sovereign risk,
- operational risk losses, and
- business contingency planning.

The risk management function is accomplished on two levels:

- the transversal risk management extended to local and departmental level,
- risk control performed by CRMU,

The CRMU reports directly to the CEO. The credit risk management function is extended to the local level. This extension is represented by the regional/group risk controllers that have dual reporting lines to regional/group business units and to the head of the CRMU.

## *Assets and Liabilities Management Function*

An Assets and Liabilities Committee (the **ALCO**) manages the Bank's balance sheet. The ALCO members come from the finance, treasury and risk functions, as well as from the business. The main focus is on the sensitivity of the Bank's net interest revenue to changes in market interest rates, as well as focusing on protecting capital and profitability against foreign exchange risk in the banking book and also against liquidity risk.

### *Credit risk*

Credit risk is mainly the risk that a counterparty or an issuer may fail to fulfil its obligations to the Bank and also that a counterparty's or an issuer's credit quality may deteriorate.

The Bank's management of credit risk is well integrated with SG's risk management processes. Some of the main principles employed in managing credit risk are as follows:

- ▶ Review and approval by senior management of new products and activities involving risks;
- ▶ Use of well-defined credit-granting criteria by type of client, including thorough understanding of the borrower as well as the purpose and structure of the credit, and the source of repayment. The Bank may request collateral or personal guarantees to mitigate credit risk;
- ▶ Well formalized processes for approving new credit as well as the extension of existing credit, including a clear system of delegated approval limits;
- ▶ Ongoing administration of exposures including single obligors;
- ▶ Regularly monitoring and reporting to senior management the overall quality of the credit portfolios;
- ▶ Regular internal independent review of lending activity by the Internal Audit Department and the CRMU; and
- ▶ Use of a system for identifying and managing non-performing loans and various other workout situations, using objective indicators.

The Bank's primary exposure to credit risk arises through the loans, other credit facilities and guarantees it issues. The Bank is also exposed to credit risk (i.e. replacement risk and delivery risk) on various other financial assets, including financial investments (interest earning debt securities), deposits with other banks and other financial assets (securities and derivatives).

### *Management of corporate credit risk*

The main features of lending to commercial clients are as follows:

- ▶ Consolidation of the exposures to a single obligor: consolidation of all direct and indirect exposures to a given relationship first at the Romanian level and then worldwide (SG);
- ▶ Use of internal rating: the Bank's internal rating system is a version of SG's rating system customized for retail business units and calibrated to the local business environment. It reflects the estimated probability that the counterparty will default in a one year time horizon. The rating scale has nine notches/grades out of which three are reserved for defaulted clients and one for "watch" clients; and
- ▶ Transfer of non-performing clients to an independent unit: the identification and transfer to an independent recovery unit is based on the internal rating system as well as the number of debt service days.

### *Management of retail credit risk*

Lending to individuals and certain small and medium sized companies is approached in a standardized manner by designing products in line with identified market needs. The credit products have an identified target client or client segment and have standard risk acceptance criteria attached (by means of credit scores). The Bank uses both internal and off-the-shelf credit scoring tools. The risk by portfolio is constantly monitored using objective and verifiable criteria such as delinquency rate (debt service) and write-off rate. Once an individual obligor has reached certain debt service levels, the exposure is transferred to the responsibility of a well equipped recovery unit that is independent from the originating business function.

### *Portfolio analysis*

As of 31 December 2006, the Bank's corporate clients represent 14 per cent. of loan portfolio, while small to medium sized enterprises (SMEs) and individuals represent 35 per cent. and 51 per cent. respectively. Of the total loans to individuals 79.8 per cent. are consumer loans while mortgage loans account for 20.2 per cent.

Loans granted to public companies represented 2.75 per cent. of the total loan portfolio as at 31 December 2006, compared to 2.44 per cent. as at 31 December 2005.

The Bank's exposure to corporates and SMEs (including commitments to extend loans, guarantees issued and letters of credit) by industry was as follows:

	<b>31 December 2006</b>	<b>31 December 2005</b>
Trading and tourism	32%	27%
Services	19%	23%
Constructions, projects, building materials, glass, porcelain	12%	12%
Metallurgy, machinery construction	6%	9%
Food industry and agriculture	9%	8%
Chemistry and petro-chemistry	4%	5%
Transport and telecommunication	5%	5%
Primary resources and electric energy	4%	4%
Wood, cellulose and paper	6%	4%
Textiles, cloth and leather	3%	3%
Total	<b>100%</b>	<b>100%</b>

### *Reflecting the measure of credit risk in the financial reporting*

The impairment reflected by means of provisioning and write offs is the difference between the carrying amount and the recoverable amount of each exposure (i.e. the present value of expected cash flows discounted at the loan's original effective interest rate including the amounts expected to be recovered from collateral, if foreclosure is probable).

Impairment is measured and recognized item by item for loans and receivables that are individually significant, and on a portfolio basis for similar loans and receivables that are not identified as impaired.

The Bank has developed provisioning methods in line with IFRS. For corporates, one of the main inputs in provisioning is the internal rating and the statistical data on recovery of such exposures. The specific impairment identification is connected to defaulted grades of the rating scale while collective impairment is connected to the watch grades, based on a loss history for this category of clients.

### **Market risks**

Market risk is the risk that movements in financial market prices will change the value of the Bank's trading portfolios (trading book). There are several major types of market risk including interest rate, foreign exchange, equity price, volatility risks and correlation risks.

The risks incurred in respect of customers transactions are hedged, to the extent possible, on an individual basis or on a portfolio basis. However, in line with the Bank's strategic orientation the trading portfolio is not material. The risks in the trading portfolio are monitored daily by CRMU.

### **Interest rate risk and foreign exchange risk in banking book (structural risks)**

Structural interest rate and exchange rate risks incurred both on commercial and proprietary activities (transactions involving shareholders' equity, investments and bond issues) are hedged, to the extent possible, on an individual basis or by macro-hedging techniques. Consequently, structural interest rate and exchange rate risks are only borne on the residual positions remaining after this hedging.

One of the core responsibilities of the asset and liability management function is to manage the sensitivity of the Bank's net position to changes in market interest rates. The main tool used in managing interest rate risk in the banking book is the gap analysis (by currency) along with a balance sheet oriented sensitivity measure. Limits are set for the sensitivity of the net present value of the balance sheet to changes in market interest rates. The compliance with these limits is reviewed by the ALCO on a monthly basis. Assumptions about clients' behaviour play an important role in the method employed, this being particularly relevant for current accounts and deposits whose actual maturity is significantly longer than contractual maturity as well as for loans such as mortgages where, due to the length of relationship, the client may choose to reimburse the funds before the scheduled maturity. The assumptions used are regularly reviewed and changed when appropriate with the approval of the ALCO.

The Bank has a limit on its overall foreign exchange position (banking and trading book) which is monitored daily by the CRMU. Furthermore, the Bank applies a stress-test for the foreign exchange position.

## **Liquidity risk**

The Bank defines liquidity risk as the current or prospective risk arising from a bank's inability to meet its liabilities when they become due without incurring unacceptable losses.

The Bank manages centrally the liquidity risk. The Bank's liquidity management has two main processes:

- ▶ assessment of the Bank's financing requirements on the basis of budgets and forecasts in order to plan appropriate funding solutions; and
- ▶ contingency planning including ongoing assessment of potential trends, events and uncertainties that could impact on the Bank's liquidity position.

For foreign currencies funding, the Bank's liquidity management is well integrated with SG's liquidity management.

The ALCO validates the basic principles for the organization and management of liquidity risk, validates the Bank's financing programs, examines the reports on the current and forecast liquidity position, reviews the liquidity contingency scenarios and proposes appropriate actions to the Executive Committee.

A policy of diversifying financing sources and instruments was stepped up in 2006 through the issuance of the bonds in EUR and by taking a loan in EUR. This will enable the Bank to more effectively manage its long-term liquidity position, while also bringing greater diversification to its investor base.

A regulatory liquidity coefficient is calculated on a monthly basis. The Bank maintained a coefficient above the minimum required level.

## **Operational risk**

Operational risk is the risk of losses resulting from inadequate or failed internal processes, human behaviour, systems and from external events. This risk includes operational risk events such as IT problems, shortcomings in the organisational structure, missing or inadequate internal controls, human errors, fraud, and external threats.

The Bank employs or is implementing the following three main methodologies in managing operational risk: Risk and Controls Self-Assessment Methodology (**RCSA**); Operational Loss Data Collection (**OLDC**); and Key Risk Indicators Methodology (**KRI**).

RCSA is a structured preventive approach to identifying and assessing risks and implementing appropriate actions to prevent the risks identified and assessed as unacceptable, given the Bank's tolerance to such risks. OLDC is a methodology that allows for the systematic collection of operational risk losses exceeding a certain threshold, followed by direct reporting to the senior management. KRI is an approach using a set of indicators (by areas assessed as high risk) whose monitoring indicate possible adverse changes in the operational risk profile and triggers appropriate actions.

Besides these risk management methodologies the Bank mitigates certain operational risks through insurance policies.

**President of the Board of Directors and CEO  
Patrick Gelin**

**BRD – GROUPE SOCIETE GENERALE**

**CONSOLIDATED FINANCIAL STATEMENTS**

Prepared in Accordance with  
**International Financial Reporting Standards**

**DECEMBER 31, 2006**

**BRD – GROUPE SOCIETE GENERALE S.A.**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF December 31, 2006**  
*(Amounts in thousands RON)*

	Note	December 31, 2006	December 31, 2005
<b>ASSETS</b>			
Cash in hand	4	792,849	495,543
Accounts with Central Bank	5	7,656,066	7,190,145
Accounts and deposits with banks	6	524,179	598,274
Assets available for sale	7	29,092	41,749
Loans, net	8	17,576,635	9,521,803
Lease receivables	9	713,570	574,409
Investments in associates	10	41,616	39,232
Tangible assets, net	11	1,141,640	1,048,918
Goodwill, net	12	50,151	50,151
Intangible assets, net	13	26,296	14,770
Deferred tax asset, net	18	37,263	8,548
Other assets	14	89,727	66,497
<b>Total assets</b>		<b>28,679,084</b>	<b>19,650,039</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Demand deposits and current accounts	15	8,252,135	5,162,580
Term deposits	16	12,918,346	10,113,375
Borrowings	17	5,002,147	2,393,652
Current tax liability	18	11,454	7,943
Other liabilities	19	184,049	147,938
<b>Total liabilities</b>		<b>26,368,131</b>	<b>17,825,488</b>
Share capital	20	2,515,622	2,515,622
Reserves from revaluation of available for sale instruments		3,035	4,987
Accumulated deficit		(211,208)	(696,887)
Minority interest		3,504	829
<b>Total shareholders' equity</b>		<b>2,310,953</b>	<b>1,824,551</b>
<b>Total liabilities and shareholders' equity</b>		<b>28,679,084</b>	<b>19,650,039</b>

The financial statements have been authorized by the Bank's management on March 14, 2007 and are signed on the Bank's behalf by:

Patrick Gelin  
Chief Executive Officer and Board's President

Petre Bunescu  
Deputy Chief Executive Officer

**BRD – GROUPE SOCIETE GENERALE S.A.**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(Amounts in thousands RON)*

	<b>Note</b>	<b>2006</b>	<b>2005</b>
Interest income	22	2,021,349	1,528,381
Interest expense	23	(836,317)	(549,565)
Net interest income		1,185,032	978,816
Loans impairment	8	(71,793)	(92,467)
Net interest income less provision		1,113,239	886,349
Commission revenues	24	520,395	361,752
Commission expenses	24	(124,536)	(121,906)
<b>Commission revenue, net</b>		<b>395,859</b>	<b>239,846</b>
Foreign exchange income, net	25	214,069	157,772
Income /(loss) from associates		696	(1,218)
Other income	26	47,269	15,292
<b>Total non-interest income</b>		<b>262,034</b>	<b>171,846</b>
Income before non-interest expense		1,771,132	1,298,041
Contribution to the Deposit Guarantee Fund	27	(14,406)	(29,063)
Salaries and related expenses	28	(402,799)	(313,883)
Depreciation, amortisation and impairment	29	(107,429)	(115,720)
Other operating expenses	30	(451,440)	(263,752)
<b>Total non-interest expense</b>		<b>(976,074)</b>	<b>(722,418)</b>
<b>Profit before income tax</b>		<b>795,058</b>	<b>575,623</b>
Current income tax expense	18	(119,772)	(92,751)
Deferred tax income	18	28,344	9,553
<b>Total income tax</b>		<b>(91,428)</b>	<b>(83,198)</b>
<b>Net profit for the year</b>		<b>703,630</b>	<b>492,425</b>
Profit/(loss) attributable to minority interest		2,675	(3,044)
Profit attributable to parent company shareholders		700,955	495,469
<b>Earnings per share (in RON)</b>	38	<b>1.0058</b>	<b>0.7110</b>

*The accompanying notes are an integral part of these financial statements*



**BRD – GROUPE SOCIETE GENERALE S.A.**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(Amounts in thousands RON)*

	Note	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities</b>			
Profit before income tax		795,058	575,623
<i>Adjustments for non-cash items</i>			
Depreciation and amortization expense		105,473	117,222
Net (gain)/loss from disposals of tangible and intangible assets		(3,180)	(1,502)
Loss from investment revaluation		3,648	532
Net expenses/(income) from impairment of loans and from provisions		56,806	92,542
<b>Operating profit before changes in operating assets and liabilities</b>		<b>957,805</b>	<b>784,417</b>
<b>Changes in operating assets and liabilities</b>			
Current account with NBR		(3,376,180)	(2,183,331)
Collaterals at banks		57	(35)
Available for sale securities		10,705	23,719
Loans		(8,126,625)	(3,297,709)
Lease receivables		(139,161)	(161,008)
Other assets		(23,601)	(5,343)
Demand deposits		3,089,555	2,235,454
Term deposits		2,804,971	4,073,076
Other liabilities		49,428	54,974
<b>Total changes in operating assets and liabilities</b>		<b>(5,710,851)</b>	<b>739,797</b>
Income tax paid		(116,261)	(95,337)
<b>Cash flow from operating activities</b>		<b>(4,869,307)</b>	<b>1,428,877</b>
<b>Investing activities</b>			
Acquisition of equity investments		(10,955)	(12,185)
Proceeds from equity investments		4,923	18,285
Acquisition of tangible and intangible assets		(211,677)	(111,801)
Proceeds from sale of tangible and intangible assets		5,136	3,772
<b>Cash flow from investing activities</b>		<b>(212,573)</b>	<b>(101,929)</b>
<b>Cash-flows from financing activities</b>			
Increase in borrowings		2,608,495	942,117
Dividends paid		(213,606)	(174,909)
<b>Net cash from financing activities</b>		<b>2,394,889</b>	<b>767,208</b>
<b>Net movements in cash and cash equivalents</b>		<b>(2,686,991)</b>	<b>2,094,156</b>
<b>Cash and cash equivalents at beginning of the period</b>	31	<b>4,117,642</b>	<b>2,023,486</b>
<b>Cash and cash equivalents at the end of the period</b>	31	<b>1,430,651</b>	<b>4,117,642</b>

*The accompanying notes are an integral part of these financial statements*

**BRD – GROUPE SOCIETE GENERALE S.A.**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(Amounts in thousands RON)*

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	Note	Share capital	Reserves from revaluation of available for sale assets	Minority interest	Accumulated deficit	Total
<b>Balance as of December 31, 2004</b>		2,236,862	3,638	3,873	(738,278)	1,506,095
Increase in share capital		278,760	-	-	(278,760)	-
Net (loss)/profit in 2005		-	-	(3,044)	495,469	492,425
Distribution of dividends for 2004		-	-	-	(175,318)	(175,318)
Revaluation of available for sale assets		-	1,349	-	-	1,349
<b>Balance as of December 31, 2005</b>		2,515,622	4,987	829	(696,887)	1,824,551
Net profit in 2006		-	-	2,675	700,955	703,630
Distribution of dividends for 2005		-	-	-	(215,277)	(215,277)
Revaluation of available for sale assets		-	(1,952)	-	-	(1,952)
<b>Balance as of December 31, 2006</b>	20	<u>2,515,622</u>	<u>3,035</u>	<u>3,504</u>	<u>(211,209)</u>	<u>2,310,952</u>

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*The accompanying notes are an integral part of these financial statements*

**BRD – GROUPE SOCIETE GENERALE S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(Amounts in thousands RON)*

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**1. Corporate information**

BRD Groupe Societe Generale (the “Bank” or the “Group”) is a joint stock company incorporated in Romania. The Bank commenced business as a public limited corporation in 1990 by acquiring assets and liabilities of the former Banca de Investitii. The Bank headquarters is 1-7 Ion Mihalache Blvd, Bucharest.

The ultimate parent is Societe Generale France (the “Parent”).

The Bank has 600 units throughout the country (December 31, 2005: 326). The average number of employees during 2006 was 6,605 (2005: 5,107), and the number of employees as of the year-end was 7,286 (December 31, 2005: 5,654).

BRD Groupe Societe Generale offers a full range of banking services to corporates and individuals, as allowed by law. The Bank accepts deposits from the public and grants loans, carries out funds transfer in Romania and abroad, exchanges currencies and provides other banking services for its commercial and retail customers.

BRD Groupe Societe Generale is quoted on First Tier of Bucharest Stock Exchange (“BVB”) since January 15, 2001.

The shareholding structure of the Bank is as follows:

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Societe Generale France	58.32%	58.32%
SIF Oltenia	5.34%	5.34%
SIF Muntenia	5.27%	5.27%
SIF Moldova	5.05%	5.05%
SIF Banat Crisana	4.60%	4.60%
SIF Transilvania	5.00%	5.00%
European Bank for Reconstruction and Development (“EBRD”)	5.00%	5.00%
Other shareholders	11.42%	11.42%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

**BRD – GROUPE SOCIETE GENERALE S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(Amounts in thousands RON)*

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**2. Basis of preparation**

**a) Basis of accounting**

The consolidated financial statements of the Bank and all its subsidiaries are prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (IASB) and include consolidated balance sheet, income statement, cash flow statement, statement of changes in shareholders’ equity and notes.

The consolidated financial statements are presented in Romanian lei (“RON”), which is the Bank’s and its subsidiaries’ functional and presentation currency, rounded to the nearest thousand and are prepared under the historical cost convention, modified to include the fair value of certain types of financial instruments.

**b) Basis for consolidation**

The consolidated financial statements comprise the financial statements of the credit institution and its subsidiaries as at December 31, 2006. The financial statements of the subsidiaries are prepared for the same reporting period as the parent’s, using consistent accounting policies.

A subsidiary is an entity where the Bank exercises control. Control is presumed to exist when direct or indirect ownership exceeds 50% of the voting power of the enterprise. The consolidated financial statements include the financial statements of BRD Groupe Societe Generale SA and the following subsidiaries: BRD Sogelease IFN S.A (99.96% ownership, 2005: 100%), BRD Finance IFN S.A (49% ownership, 2005: 49%), BRD Securities - Groupe Société Générale SRL (99.82% ownership, 2005: 99.82%), BRD/SG Corporate Finance (51.25 % ownership, 2005: 51.25%), and ALD Automotive (20 % ownership, 2005: 20%). All the subsidiaries have the headquarter on 1-7 Ion Mihalache Blvd, Bucharest. All intercompany transactions, balances and unrealized gains and losses on transactions between consolidated entities have been cancelled.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continue to be consolidated until the date such control ceases.

Equity and net income attributable to minority interests are shown separately in the balance sheet and income statement, respectively.

**BRD – GROUPE SOCIETE GENERALE S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(Amounts in thousands RON)*

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**2. Basis of preparation (continued)**

**c) Changes in accounting policies and adoption of revised/amended IFRSs**

The Bank adopted the following interpretation and amendments to IFRSs as of January 1, 2006 and during the year 2006.

*IFRIC 4: Determining whether an arrangement contains a lease*

The Interpretation is effective for annual periods beginning on or after January 1, 2006. The Interpretation specifies criteria for the determination of whether an agreement is or contains a lease and specifies the circumstances under which agreements that do not have the legal nature of a lease should be recognized in accordance with IAS 17 “Leases”.

*IAS 19 (Amendment), Employee Benefits (effective as of January 1, 2006):* This amendment introduces the option of an alternative recognition approach for actuarial gains and losses on defined benefit plans.

*IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intra-group Transactions (effective as of January 1, 2006):* The amendment allows the foreign currency risk of a highly probable forecast intra-group transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss.

*IFRS 4 (Amendment, Insurance Contracts) and IAS 39 (Amendment), Financial Instruments: Recognition and Measurement:* The amendment requires financial guarantee contracts to be measured at fair value at inception. Subsequent measurement should be at the higher of the amount determined in accordance with IAS 37 or the initial fair value less accumulated amortization in accordance with IAS 18.

The adoption of the above changed Standards and Interpretations did not have a material effect on the financial statements of the Bank.

**d) Standards and Interpretations that are issued but have not yet come into effect**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2007 or later periods but which the Bank has not early adopted, as follows:

– *IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective for financial years beginning on or after 1 January 2007)*

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS.

The amendment to IAS 1 introduces disclosures about the level of an entity’s capital and how it manages capital. The Bank assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital

**BRD – GROUPE SOCIETE GENERALE S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(Amounts in thousands RON)*

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**2. Basis of preparation (continued)**

**d) Standards and Interpretations that are issued but have not yet come into effect (continued)**

**- IFRS 8, Operating Segments** *(effective for financial years beginning on or after 1 January 2009)*

IFRS 8 replaces IAS 14 *Segment Reporting* and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. The Bank is in the process of assessing the impact this new standard will have on its financial statements.

**- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies** *(effective for financial years beginning on or after 1 March 2006)*

IFRIC 7 requires entities to apply *IAS 29 Financial Reporting in Hyper-inflationary Economies* in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency as if the economy had always been hyperinflationary.

IFRIC 7 is not relevant to the Banks's operations.

**- IFRIC 8, Scope of IFRS 2** *(effective for financial years beginning on or after 1 May 2006).*

IFRIC 8 clarifies that *IFRS 2 Share-based payment* will apply to any arrangement when equity instruments are granted or liabilities (based on the value of an entity's equity instrument) are incurred by an entity, when the identifiable consideration appears to be less than the fair value of the instruments given.

IFRIC 8 is not relevant to the Bank's operations.

**- IFRIC 9, Reassessment of Embedded Derivatives** *(effective for financial years beginning on or after 1 June 2006)*

IFRIC 9 requires an entity to assess whether a contract contains an embedded derivative at the date an entity first becomes a party to the contract and prohibits reassessment unless there is a change to the contract that significantly modifies the cash flows.

The Bank is in the process of assessing the impact this new standard will have on its financial statements.

**- IFRIC 10, Interim Financial Reporting and Impairment** *(effective for financial years beginning on or after 1 November 2006).*

This Interpretation may impact the financial statements should any impairment losses be recognised in the interim financial statements in relation to available for sale equity investments, unquoted equity instruments carried at cost and goodwill as these may not be reversed in later interim periods or when preparing the annual financial statements.

**- IFRIC 11, IFRS 2-Group and Treasury Share Transactions** *(effective for financial years beginning on or after 1 March 2007)*

This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by an entity even if the entity chooses or is required to buy those equity instruments from another party, or the shareholders of the entity provide the equity instruments needed. The Interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for schemes when their employees receive rights to equity instruments of the parent.

IFRIC 11 is not relevant to the Bank's operations.

**BRD – GROUPE SOCIETE GENERALE S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(Amounts in thousands RON)*

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**2. Basis of preparation (continued)**

**d) Standards and Interpretations that are issued but have not yet come into effect (continued)**

**- IFRIC 12, Service Concession Arrangements** (*effective for financial years beginning on or after 1 January 2008*)

The interpretation outlines an approach to account for contractual arrangements arising from entities providing public services. It provides for the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and / or an intangible asset. IFRIC 12 is not relevant to the Bank's operations.

**e) Significant accounting judgments and estimates**

In the process of applying the Group's accounting policies, management has used its judgments and makes estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

*Impairment losses on loans and receivables*

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

*Impairment of goodwill*

The Bank determines whether the goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Bank to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2006 was 50,151 (2005: 50,151).

**BRD – GROUPE SOCIETE GENERALE S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(Amounts in thousands RON)*

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**2. Basis of preparation (continued)**

**f) Impact of inflation**

IFRS require that financial statements prepared on a historical cost basis should be adjusted to take account of the effects of inflation, if this has been significant. IAS 29 provides guidance on how financial information should be prepared in such circumstances. The standard requires that financial statements should be restated in terms of measuring unit current at the balance sheet date and that any gain or loss on the net monetary position should be included in the income statement and disclosed separately. The restatement of financial statements in accordance with IAS 29 requires the use of a general price index that reflects changes in general purchasing power.

IAS 29 suggests that economies should be regarded as hyperinflationary if, among other factors, the cumulative inflation rate over a period of three years is approaching, or exceeds, 100%. The annual increase in the general price index as issued by the “National Institute for Statistics and Economic Studies” (“INSSE”) over the years 2003 to 2006 was as follows:

	<b>Movement in consumer price index</b>	<b>Increase / (decrease) in the exchange rate of the EUR vs. ROL</b>
Year ended December 31, 2004	9.3%	(3.54%)
Year ended December 31, 2005	8.6%	(7.29%)
Year ended December 31, 2006	4.9%	(8.03%)

There are other factors to be considered when deciding whether the restatement of financial statements in accordance with IAS 29 is necessary. These include, but are not limited to the following: the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency and amounts of local currency held are immediately invested to maintain purchasing power; the general population regards monetary amounts not in terms of local currency but in terms of a relatively stable foreign currency and prices may be quoted in that currency; sales and or purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short; interest rates, wages and prices are linked to a price index.

However, over the recent years, a significant change in the economic behavior occurred, that together with the decreasing trend of inflation, led to the cessation of hyperinflation accounting starting with January 1, 2004.

The financial statements of the Bank have been restated to take into account the effects of inflation until December 31, 2003 in accordance with the provisions of and guidance on IAS 29.

**g) Segment information**

The operations undertaken by the Bank’s entities are subject to similar risks and returns both from economic environment point of view and type of activity point of view. Therefore, the Bank has not identified reportable segments which should be reported separately.



**BRD – GROUPE SOCIETE GENERALE S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(Amounts in thousands RON)*

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**3. Summary of significant accounting policies**

**a) Foreign currency translation**

Transactions in foreign currencies are initially recorded at the functional currency rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The exchange rates of the currencies with the most significant impact on the Bank's financial statements as of December 31, 2006 and 2005 were as follows:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
RON/ USD	2.5676	3.1078
RON/ EUR	3.3817	3.6771

**b) Cash and cash equivalents**

For the purpose of the cash flow statements, cash and cash equivalents comprise cash in hand, current accounts and short-term placements at other banks, excluding collaterals, treasury bills and other short-term highly liquid investments, with less than 90 days maturity from the date of acquisition.

**c) Current accounts and deposits with banks**

These are stated at amortized cost, less any amounts written off and provisions for impairment.

**BRD – GROUPE SOCIETE GENERALE S.A.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2006**  
*(Amounts in thousands RON)*

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**3. Summary of significant accounting policies (continued)**

**d) Loans and advances to customers and finance lease receivables**

Loans and advances to customers and finance lease receivables originated by the Bank by providing money directly to the borrower are recognized when the cash is advanced to those parties. They are measured initially at fair value including arrangement costs. Loans and advances to customers are subsequently measured at amortized cost using, for the amortization of fees, the linear method.

If there is objective evidence that the Bank will not be able to collect all amounts due (principal and interest) according to the original contractual terms of the loan / finance lease, such loans / finance leases are considered impaired. The amount of the impairment is the difference between the carrying amount and the recoverable amount of each loan / finance lease receivable, being the present value of expected cash flows discounted at the loan's original effective interest rate including the amounts expected to be recovered from collateral, if the loan / finance lease receivable is collateralized and foreclosure is probable.

Impairment and uncollectibility are measured and recognized item by item for loans and receivables that are individually significant, and on a portfolio basis for similar loans and receivables that are not individually identified as impaired. The carrying amount of the asset is reduced to its estimated recoverable amount by a charge to income statement through the use of a allowance for loan impairment account. If the amount of the impairment subsequently decreases due to an event occurring after the impairment, the release of the allowance is credited to the income statement. A write off is made when the entire loan / finance lease receivable is deemed uncollectible. Write offs are charged against previously established impairment allowances and reduce the principal amount of a loan / finance lease receivable. Recoveries of loans and receivables written off in earlier period are included in income.

**e) Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

***Bank as a lessor***

Finance leases, which transfers to the lessee substantially all the risks and benefits incidental to ownership of the leased item, are recognized as assets at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are allocated both to the principal and the income statement on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

Leases where the Bank retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in income on a straight-line basis over the lease term.

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**3. Summary of significant accounting policies (continued)**

**f) Investment in associates**

An associate is an enterprise in which the Bank exercises significant influence and is neither a subsidiary nor a joint venture. Associates are accounted using the equity method.

Under the equity method, an investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Bank's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The Bank does an assessment of any additional impairment loss with respect to the net investment in associate. The income statement reflects the share of the results of operations of associates. Where there has been a change recognized directly in the equity of the associate, the Bank recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of associates and the Bank are identical and the associates' major accounting policies conform to those used by the Bank for like transactions and similar events in similar circumstances.

**g) Investments and other financial assets classified as available for sale**

Available for sale financial assets are recognized initially at fair value plus directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the period generally established by regulation or convention in the marketplace.

After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

If an available-for sale asset carried at fair value is impaired, an amount comprising the difference between its cost and its current fair value less any impairment loss previously recognized in profit or loss account is transferred from equity to income statement. Reversals in respect of equity instruments classified as available-for sale are not recognized in income statement.

If the fair value cannot be reliably determined (for investment where there is no active market), available-for sale financial assets are measured at cost less any impairment loss. If there is objective evidence that the impairment loss has been incurred, for an item carried at cost, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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**3. Summary of significant accounting policies (continued)**

**h) Tangible assets**

Buildings and other tangible assets are stated at cost less accumulated depreciation and any impairment loss.

In accordance with IAS 29 “Reporting in Hyperinflationary Economies”, tangible assets have been restated, as appropriate, by applying the change in the consumer price index from the date of acquisition through December 31, 2003.

Depreciation is computed on a straight-line basis over the estimated useful life of the asset, as stated below:

<u>Asset type</u>	<u>Years</u>
Buildings and special constructions	10-40
Computers and equipment	3-6
Furniture and other equipment	10
Vehicles	5

Land is not depreciated. Construction-in-progress is not depreciated until used. Expenses for repairs and maintenance are charged to operating expenses as incurred. Subsequent expenditure on property and equipment is recognized as an asset under the same general recognition principle used at initial recognition.

The carrying values of tangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Where the carrying amount of a tangible asset is greater than the estimated recoverable amount, it is written down to its recoverable amount.

Tangible assets are derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

**i) Borrowing costs**

Borrowing costs are recognized as an expense when incurred.

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**3. Summary of significant accounting policies (continued)**

**j) Investment properties**

Investment properties are measured initially at cost including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any accumulated depreciation and any accumulated impairment losses.

Investment properties are derecognized when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Transfers are made to investment property when and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party, or ending of construction or development. Transfers are made from investment property when and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

The depreciation of buildings included in investment properties is computed using the linear method over the useful lives as presented in note 3. h).

**k) Held for sale assets**

The Bank classifies an asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets classified as held for sale are those that are available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and their sale is highly probable.

Assets held for sale are initially recognized and subsequently measured at the lower of their carrying amount and fair value less costs to sell.

The Bank recognizes a gain for any subsequent increase in fair value less costs to sell to the extent of the cumulative impairment loss that has been recognized either in accordance with IFRS 5 or previously in accordance with other IFRSs.

**l) Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Starting from January 1, 2004 goodwill is not amortized and is reviewed for impairment at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of cash-generating unit is less than the carrying amount, an impairment loss is recognized.

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**3. Summary of significant accounting policies (continued)**

**m) Intangible assets**

Intangible assets are measured initially at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

In accordance with IAS 29 “Reporting in Hyperinflationary Economies”, intangible assets have been restated, as appropriate, by applying the change in the consumer price index from the date of acquisition through December 31, 2003.

All intangible assets of the Bank carried as of December 31, 2006 and 2005 have finite useful lives and are amortized on a straight-line basis over the estimated useful life of up to 5 years. The amortization period and the amortization method are reviewed at least at each financial year end.

At each balance sheet date, intangibles are reviewed for indication of impairment or changes in estimated future benefits. Where the carrying amount of an asset is greater than the estimated recoverable amount, it is written down to its recoverable amount.

**n) Derivative financial instruments**

The Bank uses derivative financial instruments such as forward currency contracts and currency swaps and interest rate swaps to trade with the clients and to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest swap contracts is determined by reference to market values of similar instruments.

The Bank does not currently apply hedge accounting.

**o) Borrowings**

Borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Subsequently borrowings are stated at amortized cost using the effective interest rate method.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

**p) Offsetting of financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle or realize on a net basis.

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**3. Summary of significant accounting policies (continued)**

**q) Sale and repurchase agreements**

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet as securities and are measured in accordance with the applicable accounting policies. The liability for amounts received under these agreements is included in customers' deposits. The difference between sale and repurchase price is treated as interest expense using the effective yield method. Assets acquired with a corresponding commitment to resell at a specified future date (reverse repos) are recorded as loans and advances.

**r) Customers' deposits and current accounts**

Customers' current accounts and other deposits are carried at amortized cost using the effective interest rates.

**s) De-recognition of financial assets and liabilities**

*Financial assets*

A financial asset is derecognized where:

- the rights to receive cash flows from the assets have expired;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either a) has transferred substantially all the risks and rewards of the asset, or b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

*Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially changed, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts are recognized in profit or loss.

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**3. Summary of significant accounting policies (continued)**

**t) Recognition of income and expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Interest and similar income*

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

*Fee and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(ii) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

*Dividend income*

Revenue is recognised when the Bank's right to receive the payment is established.

*Net trading income*

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.



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**3. Summary of significant accounting policies (continued)**

**u) Employee benefits**

*Short-term employee benefits:*

Short-term employee benefits include wages, salaries and social security contributions. Short-term employee benefits are recognized as expense when services are rendered.

*Social Security Contributions:*

The Bank and its subsidiaries as well as its employees are legally obliged to make contributions described in the financial statements as social security contributions to the National Pension Fund, managed by the Romanian State Social Security (a defined contribution plan financed on a pay-as-you-go basis). The Bank has no legal or constructive obligation to pay future benefits. Its only obligation is to pay the contributions as they fall due. If the members of the Romanian State Social Security plan cease to be employed by either the Bank or its subsidiary, there will be no obligation on the Bank to pay the benefits earned by these employees in previous years. The Bank's contributions are included in salaries & related expenses.

*Post-employment benefits:*

The Bank has a contractual obligation to pay to retiring employees a benefit calculated taking into account the salary at the date of retirement and the number of years served by the individual. The cost of providing benefits under defined benefit plans is estimated annually using the projected unit credit actuarial valuation method and is recognized to the income statement on an accruals basis. The surplus or deficit, arising from changes in the discount rate and from other actuarial assumptions is recognized as income or expense over the expected average remaining working lives of the employees participating in the plan.

*Termination benefits:*

As defined by the Romanian Law, the Bank pays termination indemnities in cases of termination of employment within the framework of reduction in the labor force, connected or not with reorganization. Expenses related to termination indemnities are accrued when Management decides to adopt a plan that will result in future payments of termination benefits and by the balance sheet date either starts to implement the restructuring plan or communicates the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation that the Bank will carry out the restructuring. Until the present time, the Bank's Management has not initiated any action in this direction.

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**3. Summary of significant accounting policies (continued)**

**v) Taxation**

The current tax is the amount of income taxes payable in respect of the taxable profit, reported in the statutory financial statements, computed in accordance with Romanian tax rules and accrued for in the period to which it relates.

Deferred income tax liabilities are recognized for all taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date for financial reporting purposes, which will result in taxable amounts in future periods.

Deferred income tax assets are recognized for all deductible temporary differences and carry-forward of unutilized tax losses to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and carry-forward of unutilized tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilize all or part of the deductible temporary differences or tax losses.

Deferred income tax assets and liabilities are measured at the amount that is expected to be paid to or recovered from the tax authorities after taking into account the tax rates and legislation that have been enacted or substantially enacted until the balance sheet date.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

**w) Provisions**

Provisions are recognized when the Bank has a present obligation (legal or constructive), as a result of a past event, it is probable that an outflow of embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as borrowing cost.

**x) Contingencies**

Contingent liabilities are not recognized in the financial statements but they are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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**3. Summary of significant accounting policies (continued)**

**y) Earnings per share**

Basic earnings per share are calculated by dividing net profit for the reporting period attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year. As of December 31, 2006 and 2005 there were no dilutive equity instruments issued by the Bank.

**z) Related parties**

Parties are considered related with the Bank when one party, either through ownership, contractual rights, family relationship or otherwise, has the ability to directly or indirectly control or significantly influence the other party in making financial and operating decisions.

Related party transaction represents a transfer of resources or obligations between related parties, regardless of whether a price is charged.

**aa) Subsequent events**

Post - balance sheet events that provide additional information about the Bank's position at the balance sheet date (adjusting events), or those that indicate that the going concern assumption is not appropriate are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when significant.

**bb) Financial guarantees**

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received / receivables. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Credit loss expense'. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

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**4. Cash in hand**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Cash in vaults	569,900	246,777
Cash in ATM	222,949	248,766
<b>Total</b>	<b><u>792,849</u></b>	<b><u>495,543</u></b>

**5. Accounts with the Central Bank**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Current accounts	7,542,086	4,165,906
Deposits	113,980	3,024,239
<b>Total</b>	<b><u>7,656,066</u></b>	<b><u>7,190,145</u></b>

The National Bank of Romania (NBR or Central Bank) requires commercial banks to maintain a minimum amount on current account with NBR (“minimum compulsory reserve”), calculated as a percentage of the average funds borrowed by the Bank during the previous month including all customer deposits. As of December 31, 2006 the rate for RON and foreign currency denominated compulsory reserves was 20% and 40% respectively (16%, and 30% respectively for 2005).

The required level of the minimum compulsory reserve for the last calculation period of the year was 6,804,051 (2005: 3,726,780).

The interest paid by the NBR for the compulsory reserves during 2006 was 1.5% to 1.90% p.a. for RON deposits (2005: 1.5% - 4% p.a.), and 0.70% to 0.80% p.a. for EUR deposits (2005: 0.8% - 0.95%).

The deposits at NBR as of December 31, 2006 are placed for an initial period of 30 respective 31 days, all of them maturing in January 2006 and bearing an interest rate of 8.75% p.a.

**6. Current accounts and deposits with banks**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Deposits at Romanian banks	240,409	70,027
Deposits at foreign banks	213,065	452,348
Current accounts at Romanian banks	7,974	425
Current accounts at foreign banks	62,731	75,474
<b>Total</b>	<b><u>524,179</u></b>	<b><u>598,274</u></b>

As of December 31, 2006 the above balances include pledged accounts of 357 (2005: 414).

The interest rates earned on current accounts in foreign currency ranged between 0.1% and 4.65% p.a. (2005: 0.1%-1.71% p.a.). The interest rates earned on bank deposit in RON ranged between 1.20% and 21% p.a. (2005: 1.35%-19.0% p.a.). For foreign currency deposits the rates ranged between 1.30% and 7.80% p.a. (2005: 1.00%-5.90% p.a.).

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**7. Assets available for sale**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Treasury bonds	4,890	27,450
Equity investments	7,766	8,084
Other securities	16,436	6,215
<b>Total</b>	<b><u>29,092</u></b>	<b><u>41,749</u></b>

***Treasury bills***

Treasury bonds consist of RON interest bearing issued by the Romanian Ministry of Public Finance with maturities between 2 and 15 years (2005: between 2 and 3 years).

***Other securities***

The Bank holds units in a monetary fund (“Simfonia 1”) and a balanced fund (“Concerto”) amounting to 6,577 (6,215 as of December 31, 2005) respectively 9,859.

According to the Prospectus, Simfonia 1 invests in monetary market and liquid debt instruments (treasury bills and bonds, corporate bonds, municipal bonds). The Bank held as of the year-end a total number of 309,497 units (2005: 309,497) and the value per unit was RON 21.25 (2005: 20.08)

According to the prospectus Concerto invests in monetary market instruments, debt instruments as well as equities traded on Bucharest Stock Exchange. As of the year-end the Bank held a number of 90,353 units with a unit value of RON 109.12.

***Other equity investments***

Other equity investments represent shares in Romanian Shareholders’ Register, Victoria Business Centre S.A, Romanian Commodities Exchange, Romanian Securities Clearing and Depository Company, Bianca S.A., Thyssen Krupp Bilstein Compa S.A., Regisco S.A. (Shareholders’ Register for the National Securities Commission) and TransFond.

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**8. Loans, net**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Loans, gross	18,143,770	10,075,922
Loans impairment	(567,135)	(554,119)
<b>Total</b>	<b><u>17,576,635</u></b>	<b><u>9,521,803</u></b>

The total loans granted as of December 31, 2006 and 2005 had the following structure:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Working capital loans	5,369,790	3,279,199
Loans for equipment	3,468,645	2,056,407
Trade activities financing	242,793	159,494
Acquisition of real estate	899,175	763,018
Government loans	968	1,441
Consumer loans	7,213,996	3,291,296
Other	948,403	525,067
<b>Total</b>	<b><u>18,143,770</u></b>	<b><u>10,075,922</u></b>

The Government loan is guaranteed by the Ministry of Public Finance through the issuance of a 15-year treasury bond and is repaid in ten equal annual installments commencing 1998. Interest on the bond is paid quarterly at the NBR “credit line” rate.

As of December 31, 2006, balances relating to factoring amount to 189,332 (107,811 as of December 31, 2005) and those relating to forfeiting 53,307 (50,795 as of December 31, 2005).

The annual interest rates for the loans in RON ranged between 5% and 30% p.a. (2005: 8.44% - 30% p.a.) and for foreign currency between 6.5% and 13% p.a. (2005: 9.4%-13% p.a.)

Working capital loans include an amount of 65,656 representing customers’ liabilities under accepted letters of credit.

**The analysis of portfolio by type of ownership is as follows:**

December 31, 2006:

Type of ownership	Total loans	Out of which	
		In RON	In foreign currency
Private companies	8,345,459	3,862,724	4,482,735
Public companies	499,204	355,229	143,975
Individuals	9,299,107	6,890,119	2,408,988
<b>Total</b>	<b><u>18,143,770</u></b>	<b><u>11,108,072</u></b>	<b><u>7,035,698</u></b>

**8. Loans, net (continued)**

*The accompanying notes are an integral part of these financial statements*

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December 31, 2005:

Type of ownership	Total loans	Out of which	
		In RON	In foreign currency
Private companies	5,524,290	2,456,344	3,067,946
Public companies	443,170	140,871	302,299
Individuals	4,108,462	2,464,718	1,643,744
<b>Total</b>	<b>10,075,922</b>	<b>5,061,933</b>	<b>5,013,989</b>

**Sector analysis**

	December 31, 2006	December 31, 2005
Manufacturing	12.0%	13.7%
Food industry	3.8%	4.2%
Transportation and other services	7.6%	11.3%
Trade	16.3%	15.8%
Agriculture	1.5%	1.3%
Constructions	3.2%	3.9%
Individuals	49.2%	41.2%
Other	6.4%	8.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Loans to individuals include mortgage loans, consumer loans and overdrafts.

As of December 31, 2006 the amortized cost of loans granted to the 20 largest corporate clients (groups of connected borrowers) amounts to 1,095,515 (979,563 as of December 31, 2005), while the value of letters of guarantee and letters of credit issued in favor of these clients amounts to 510,048 (542,617 as of December 31, 2005).

**Impairment allowance for loans**

<b>Balance as of December 31, 2004</b>	<b>481,516</b>
Write offs, net of recoveries	(19,864)
Provision expense, net of provision income	92,467
<b>Balance as of December 31, 2005</b>	<b>554,119</b>
Write offs, net of recoveries	(58,777)
Provision expense, net of provision income	71,793
<b>Balance as of December 31, 2006</b>	<b>567,135</b>

The impairment allowance includes the provisions for the loans specifically identified as impaired as well as the provision for the collective impairment.

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**9. Lease receivables**

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>Gross investment in finance lease:</b>		
Maturity under 1 year	278,343	56,923
Maturity between 1 and 5 years	527,713	579,249
Maturity higher than 5 years	18,120	32,631
	<b>824,176</b>	<b>668,803</b>
<b>Unearned finance income</b>	(110,606)	(94,394)
	<b>713,570</b>	<b>574,409</b>
<b>Net investment in finance lease</b>	<b>713,570</b>	<b>574,409</b>
<b>Net investment in finance lease:</b>		
Maturity under 1 year	229,460	48,943
Maturity between 1 and 5 years	467,131	496,325
Maturity higher than 5 years	16,979	29,141
	<b>713,570</b>	<b>574,409</b>

**10. Investments in associates**

		December 31, 2006 (%)	December 31, 2005	Additions in 2006	Disposals in 2006	Change in net assets	December 31, 2006
Fondul Roman de Garantare a Creditului Rural "FGCR"	Loan guarantee	26.32%	13,762	-	-	(1,060)	12,702
Asiban S.A.	Insurance	25.00%	19,243	10,750	-	(2,966)	27,027
Romcard S.A.	Card transaction processing	20.00%	238	3	-	60	301
Biroul de Credit SA	Loan grant supervision	18.80%	774	-	-	812	1,586
RCI Leasing Romania SRL	Leasing	0.00%	5,215	-	(5,215)	-	-
			<b>39,232</b>	<b>10,753</b>	<b>(5,215)</b>	<b>(3,154)</b>	<b>41,616</b>

The associates' headquarters' addresses are as follows:

<b>Associate</b>	<b>Address</b>
Fondul Roman de Garantare a Creditului Rural "FGCR"	5 Occidentului Street, Bucharest
Asiban S.A.	2 Marasti Blvd, Bucharest
Romcard S.A.	38 Stefan Mihaileanu Street, Bucharest
Biroul de Credit SA	15 Calea Victoriei, Bucharest
RCI Leasing Romania SRL	133-137, Calea Floreasca, Bucharest



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**11. Tangible fixed assets, net**

	Land	Buildings and special constructio ns	Computers and equipment	Materials and other assets	Constructi on in progress	Total
<b>Net carrying value as of December 31, 2004</b>	<b>30,436</b>	<b>872,974</b>	<b>27,474</b>	<b>75,510</b>	<b>43,970</b>	<b>1,050,364</b>
Transfers and additions	2,692	47,246	37,792	24,903	(13,903)	98,730
Net book value of disposals	(86)	(900)	(1,639)	(248)	-	(2,873)
Transfers to held for sale assets	(6,929)	6,787	-	(1,250)	-	(1,392)
Depreciation	-	(47,741)	(26,530)	(21,954)	-	(96,225)
Impairment loss	(22)	336	-	-	-	314
<b>Net carrying value as of December 31, 2005</b>	<b>26,091</b>	<b>878,702</b>	<b>37,097</b>	<b>76,961</b>	<b>30,067</b>	<b>1,048,918</b>
Transfers and additions	3	67,884	42,804	40,239	41,463	192,393
Net book value of disposals	(94)	(906)	(148)	(784)	(28)	(1,960)
Depreciation	-	(49,149)	(25,424)	(22,241)	-	(96,814)
Impairment loss	-	(897)	-	-	-	(897)
<b>Net carrying value as of December 31, 2006</b>	<b>26,000</b>	<b>895,634</b>	<b>54,329</b>	<b>94,175</b>	<b>71,502</b>	<b>1,141,640</b>

The balance of tangible fixed assets contains investment properties. The movement of investment properties is presented below.

<b>Net carrying value as of December 31, 2004</b>	<b>14,854</b>
Transfers and additions	39,073
Net book value of disposals	-
Depreciation	(3,120)
Impairment loss	(238)
<b>Net carrying value as of December 31, 2005</b>	<b>50,569</b>
Transfers and additions	6,140
Net book value of disposals	(273)
Depreciation	(3,782)
Impairment loss	(897)
<b>Net carrying value as of December 31, 2006</b>	<b>51,757</b>

The carrying value of investment properties approximates their fair value.

**12. Goodwill**

Goodwill represents the excess of cost of acquisition over the fair value of net identifiable assets transferred from Societe Generale Bucharest to the Bank in 1999. The goodwill is no longer amortized starting with January 1, 2004 (see accounting policies). During 2006 there was no impairment of the goodwill.

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**13. Intangible assets, net**

The balance of the intangible assets as of December 31, 2006 and 2005 represents mainly banking software.

<b>Net book value as of December 31, 2004</b>	<b>21,016</b>
Additions in 2005	10,690
Net book value of intangibles written-off	-
Amortization expense	(16,936)
<b>Net book value as of December 31, 2005</b>	<b>14,770</b>
Additions in 2006	19,283
Net book value of intangibles written-off	-
Amortization expense	(7,757)
<b>Net book value as of December 31, 2006</b>	<b>26,296</b>

**14. Other assets**

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Sundry debtors	21,564	18,813
Fair value of derivatives	5,052	2,412
Materials and consumables	5,833	3,694
Advances to suppliers	36,914	19,726
Held for sale assets	-	4,734
Miscellaneous assets	20,364	17,118
<b>Total</b>	<b>89,727</b>	<b>66,497</b>

The sundry debtors balances are presented net of an impairment allowance of 7,927 (December 31, 2005: 7,790).

Held for sale assets represent buildings and related land that are not used any more and all intended to be sold in less than 1 year. The movement is as follows:

<b>Carrying value as of December 31, 2004</b>	<b>3,556</b>
Additions	1,392
Disposals	(214)
<b>Carrying value as of December 31, 2005</b>	<b>4,734</b>
Additions	
Disposals	(4,734)
<b>Carrying value as of December 31, 2006</b>	<b>-</b>

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**15. Demand deposits and current accounts**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Individuals and legal entities	8,114,562	4,986,869
Ministry of Public Finance	30,556	80,542
Romanian Banks	35,737	94,501
Foreign banks	71,280	668
<b>Total</b>	<b><u>8,252,135</u></b>	<b><u>5,162,580</u></b>

The RON annual interest rates offered by the Bank for current accounts and demand deposits in RON of individuals and companies ranged between 0.25 % p.a. and 7.00% p.a. (between 0.25% p.a. and 14.50% p.a. during 2005).

The deposits from the Ministry of Public Finance represent amounts, relating to financing facilities from the International Bank for Reconstruction and Development (“IBRD”) and the European Investment Bank (“EIB”).

The amounts from other banks are mainly denominated in USD and EUR. The maximum interest rate offered by the Bank for Loro accounts was 0.25% p.a. for USD and EUR (0.25% p.a. in 2005). The average interest rates for interbank deposits paid by the Bank during 2006 were 5.54% p.a. for USD and 2.94% p.a. for EUR (2.48% p.a. for USD and 2.15% p.a. for EUR in 2005).

**16. Term deposits**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Individuals and legal entities	11,972,154	9,922,256
Foreign banks	588,562	183,972
Romanian banks	357,630	7,147
<b>Total</b>	<b><u>12,918,346</u></b>	<b><u>10,113,375</u></b>

The annual interest rates paid by the Bank for the RON deposits ranged between 0.25% and 7.25% p.a. (2005: 0.25%-14.75% p.a.) and for foreign currency deposits between 2.00% and 4.25% p.a. (2005: 1.25%-4.00% p.a.)

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**17. Borrowings**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Borrowings from related parties	3,747,762	1,991,359
Borrowings from international financial institutions	259,463	351,168
Borrowings from other credit institutions	169,713	-
Bonds issued	785,801	51,125
Other borrowings	39,408	-
<b>Total</b>	<b><u>5,002,147</u></b>	<b><u>2,393,652</u></b>

The interest rates for the borrowings in EUR ranged between 2.55% p.a. and 7.17% p.a. The interest rates for the borrowings in USD ranged between 4.49% p.a. and 7.64% p.a. Refer to notes 40 and 41 for the maturity structure, respectively the re-pricing gap of the borrowings.

Borrowings from related parties include an amount of EUR 200,000,000 (2005: EUR 100,000,000) representing two subordinated loans. A EUR 100,000,000 loan granted in 2005, at EURIBOR3M+0.5%, due in 2015 and a EUR 100,000,000 loan granted in 2006, at EURIBOR6M+0.99%, due in 2013.

The bonds represent RON denominated notes issued in December 2006 on the Luxembourg market in an amount of 735,000 for five years at a fix rate of 7.75% and notes issued on the Romanian market in April 2004, and due March 2007, at a variable rate (BUBOR 6M) in an amount of 50,000.

**18. Taxation**

Current income tax is calculated on the taxable income per the statutory financial statements.

	<u>2006</u>	<u>2005</u>
Current income tax expense	119,772	92,751
Deferred tax income	(28,344)	(9,553)
<b>Total</b>	<b><u>91,428</u></b>	<b><u>83,198</u></b>

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**18. Taxation (continued)**

The deferred tax liability/asset is reconciled as follows:

	<u>December 31, 2006</u>		
	<u>Temporary differences</u>	<u>Consolidated Balance Sheet</u>	<u>Consolidated Income statement</u>
<i>Deferred tax liability</i>			
Tangible and intangible assets	(117,666)	(18,827)	19,572
Investments and other securities	(26,414)	(4,226)	447
Others	-	-	919
<b>Total</b>	<b>(144,080)</b>	<b>(23,053)</b>	<b>20,939</b>
<i>Deferred tax asset</i>			
Loans	282,505	45,201	(3,686)
Other	94,471	15,115	11,091
<b>Total</b>	<b>376,976</b>	<b>60,316</b>	<b>7,405</b>
<b>Taxable items according IAS 12</b>	<b>232,896</b>	<b>37,263</b>	
<b>Deferred tax income</b>			<b>28,344</b>

	<u>December 31, 2005</u>		
	<u>Temporary differences</u>	<u>Consolidated Balance Sheet</u>	<u>Consolidated Income statement</u>
<i>Deferred tax liability</i>			
Tangible and intangible assets	(239,997)	(38,399)	(325)
Investments and other securities	(31,533)	(5,045)	(292)
Others	(5,746)	(919)	(919)
<b>Total</b>	<b>(277,276)</b>	<b>(44,363)</b>	<b>(1,536)</b>
<i>Deferred tax asset</i>			
Loans	305,541	48,887	8,383
Other	25,149	4,024	2,706
<b>Total</b>	<b>330,690</b>	<b>52,911</b>	<b>11,089</b>
	<b>53,414</b>	<b>8,548</b>	
<b>Deferred tax income</b>			<b>9,553</b>

Movement in deferred tax is as follows:

**Deferred tax liability, net as of December 31, 2004**

	<u>(751)</u>
Deferred tax recognized as equity	(254)
Net deferred tax income	<u>9,553</u>

**Deferred tax asset, net as of December 31, 2005**

	<u>8,548</u>
Deferred tax recognized as equity	371
Net deferred tax income	<u>28,344</u>

**Deferred tax asset, net as of December 31, 2006**

37,263

*The accompanying notes are an integral part of these financial statements*

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**18. Taxation (continued)**

The IFRS accounting profit before tax and tax expense for 2006 are reconciled as follows:

	<u>2006</u>	<u>2005</u>
Gross profit (before income tax)	795,058	575,623
Income tax (16%)	(127,209)	(92,100)
Non-deductible/ Non-taxable elements	35,781	8,902
Income tax at effective tax rate	<u><b>(91,428)</b></u>	<u><b>(83,198)</b></u>

The effective tax rate for 2006 is 11.5 % (2005: 14.5 %)

**19. Other liabilities**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Sundry creditors	114,758	75,192
Dividends payable	1,681	795
Payables to employees	32,341	31,040
Deferred income	10,306	14,828
Other payables to State budget	24,696	10,829
Provisions	267	15,254
<b>Total</b>	<u><b>184,049</b></u>	<u><b>147,938</b></u>

Payables to employees include, among other, bonuses relating to 2006 profit, amounting to 26,120 (2005: 22,400) and post-employment benefits amounting to 8,563 (2005: 8,499).

Included in deferred income is an amount of 4,983 (2005: 7,043) representing the initial fair value of financial guarantees less subsequent amortization.

The movement in provisions is as follows:

<b>Carrying value as of December 31,2005</b>	<u><b>15,254</b></u>
Additional expenses	-
Reversals of provisions	(14,987)
<b>Carrying value December 31, 2006</b>	<u><u><b>267</b></u></u>

The most significant reversal amounting to 14,000 refers to a single litigation in respect of the implementation of a third party debt order. The litigation was closed in favor of the Bank during the first half of 2006.

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## 20. Equity

### Share capital

The nominal share capital, as registered with the Registry of Commerce is 696,901 (2005: 696,901). Included in the share capital there is an amount of 1,818,721 (2005: 1,818,721) representing hyper inflation restatement surplus.

Share capital as of December 31, 2006 represents 696,901,518 (2005: 696,901,518) authorized common shares, issued and fully paid. The nominal value of each share is RON 1 (2005: 1).

During 2006 and 2005, the Bank did not buy back any of its own shares

### Accumulated deficit

Included in the Accumulated deficit there is an amount of 426,637 (2005: 351,791) representing legal reserves, general banking risk reserves and other reserves with restricted use required by the banking legislation.

## 21. Capital adequacy

The Bank applies the local capital adequacy regulations derived from the European regulations in the field, 2000/12/EC Directive. These requirements apply to the stand alone figures obtained based on the local accounting and financial reporting regulations harmonized with International Accounting Standards and European Economic Community Directive no. 86/635/CEE.

As of December 31, 2006 the capital adequacy ratio determined in accordance with the above-mentioned regulations was 13.3% (2005: 17.91%)

## 22. Interest income

	<u>2006</u>	<u>2005</u>
Interest on loans	1,796,197	1,272,291
Interest on deposit with banks	179,525	192,312
Interest on treasury bills	45,627	63,778
<b>Total</b>	<b><u>2,021,349</u></b>	<b><u>1,528,381</u></b>

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**23. Interest expense**

	<u>2006</u>	<u>2005</u>
Interest for term deposits	604,683	427,622
Interest for demand deposits	130,940	75,646
Interest for borrowings	100,694	46,297
<b>Total</b>	<b><u>836,317</u></b>	<b><u>549,565</u></b>

**24. Bank fees and commissions, net**

	<u>2006</u>	<u>2005</u>
Commission revenue from processing of transactions	483,130	250,886
Other commission revenue	37,265	110,866
Commission expense	(124,536)	(121,906)
<b>Net commission revenue</b>	<b><u>395,859</u></b>	<b><u>239,846</u></b>

**25. Foreign exchange income, net**

	<u>2006</u>	<u>2005</u>
Foreign exchange income	2,463,636	1,898,466
Foreign exchange expenses	(2,249,567)	(1,740,694)
<b>Total</b>	<b><u>214,069</u></b>	<b><u>157,772</u></b>

**26. Other income**

Includes income from non-banking activities, such as incomes from rentals and sale of fixed assets.

**27. Contribution to the Deposit Guarantee Fund**

The deposits of individuals and, starting with 2004 of certain other entities, including small and medium sized enterprises, are insured up to a certain level, by the Deposit Guarantee Fund (“FGDSB”), an entity, whose resources are represented mainly by the contributions made by the banks, calculated as a percentage of qualifying deposits.



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**28. Salaries and related expenses**

	<b>2006</b>	<b>2005</b>
Salaries	235,600	201,759
Social security	90,810	65,965
Bonuses	26,120	22,400
Other	50,269	23,759
<b>Total</b>	<b>402,799</b>	<b>313,883</b>

The Bank has a contractual obligation to pay to retiring employees a lump sum calculated on the basis of salary and the number of years served by the individual. The plan covers substantially all the employees and the benefits are unfunded.

The net present value of the obligations under the plan is estimated annually by an independent actuary using the projected unit credit method.

The main actuarial assumptions used for the computation of the obligations are the increase in real salary by 3% per annum, personnel turnover of 6 % per annum, discount rate of 4.77%.

**29. Depreciation and amortization expense**

	<b>2006</b>	<b>2005</b>
Depreciation and impairment (see Note 11)	97,711	95,911
Amortisation of intangible assets (see Note 13)	7,757	16,936
Loss on disposal of fixed assets	1,961	2,873
<b>Total</b>	<b>107,429</b>	<b>115,720</b>

**30. Other operating expense**

	<b>2006</b>	<b>2005</b>
Administrative expenses	384,247	218,608
Publicity and sponsorships	31,019	27,954
Other expenses	36,174	17,190
<b>Total</b>	<b>451,440</b>	<b>263,752</b>

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**31. Cash and cash equivalents analysis for cash flow purposes**

For the purpose of the cash flow statements, cash and cash equivalents comprise the following balances, with less than 90 days maturity from the date of acquisition:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Cash in hand	792,849	495,543
Current accounts and deposits with banks	523,822	597,860
Deposits and deposit certificates at NBR	113,980	3,024,239
<b>Total</b>	<b><u>1,430,651</u></b>	<b><u>4,117,642</u></b>

**32. Guarantees and other financial commitments**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Letters of guarantee granted	1,701,366	1,059,255
Financing commitments granted	2,916,105	1,857,743
<b>Total commitments granted</b>	<b><u>4,617,471</u></b>	<b><u>2,916,998</u></b>

**Guarantees and letters of credit**

The Bank issues guarantees and letters of credit for its customers. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry a similar credit risk as loans.

The market and credit risk on these financial instruments, as well as the operational risk is similar to that arising from granting of loans. In the event of a claim on the Bank as a result of a customer's default on a guarantee these instruments also present a degree of liquidity risk to the Bank.

**Credit related commitments**

Financing commitments represent unused portions of approved credit facilities. While there is some credit risk associated with the commitment, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorizations being drawn by the client and, these amounts not being repaid subsequently when due.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments does not necessarily represent future cash requirements, since many of these commitments will expire or be terminated without being funded.

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**33. Capital commitments**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Tangible non-current assets	12,124	8,994
Intangible non-current assets	14,182	1,731
<b>Total</b>	<b><u>26,306</u></b>	<b><u>10,725</u></b>

**34. Related parties**

BRD-Groupe Societe Generale enters into related party transactions with its subsidiaries and associates. All related party transactions were made on substantially the same terms, including interest rates and collateral requirements, as those prevailing for similar transactions with unrelated parties. The transactions/balances with related parties can be summarized as follows:

	<u>2006</u>	<u>2005</u>
<i>Amounts from entities under common control</i>		
Nostro accounts	25,579	14,993
Loans	183,100	182,940
<i>Amounts to entities under common control</i>		
Loro accounts	66,116	369
Term deposits	385,217	183,855
Borrowings	3,058,902	1,799,940
Subordinated loans	688,860	372,805
<i>Commitments to entities under common control</i>		
Letters of guarantee issued	5,100	331,458
Notional amount of foreign exchange operations	520,564	213,853
Notional amount of interest rate derivatives	600,705	412,378
Interest and commission revenues	13,049	5,852
Interest and commission expense	100,668	38,400
Net (gain)/loss on interest rate derivatives	4,701	

The interest expenses include an amount of 18,680 (2005: 4,657) relating to subordinated loans.

As of December 31, 2006, the Board of Directors and Managing Committee members own 571,010 shares (2005: 703,010).

The short-term benefits relating to the key management personnel (salaries, bonuses, other emoluments and related social security contributions) amounted to 2,378 (2005: 1,936).

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**35. Contingencies**

As of December 31, 2006 BRD-Groupe Societe Generale is defendant in a number of lawsuits arising in the course of business, amounting to approximately 1,167 (2005: 35,500). The management believes that the ultimate resolution of these matters will not have a material adverse effect on the Bank's overall financial position and performance.

**36. Earnings per share**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
<i>Ordinary shares on the market</i>	696,901,518	696,901,518
<i>Result for the year</i>	700,955	495,469
<i>Earnings per share (in RON)</i>	1.0058	0.7110

**37. Dividends on ordinary shares**

	<u>2006</u>	<u>2005</u>
<i>Declared and paid during the year</i>		
Dividends for 2005: 0.3089 RON (2004: 0.2514)	213,606	174,909
<i>Proposed for approval at AGM</i>		
Dividends for 2006: 0.3672 RON (2005: 0.3089)	255,916	215,277

The dividends payable amounting to 1,681 (2005: 795) are included in other liabilities.

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### **38. Risk management**

The main financial assets and liabilities of the bank are the loans and advances, lease receivables, amounts placed with NBR, demand and term deposits and borrowings. These instruments are exposed to a series of risks such as credit risk, foreign exchange risk, interest rate risk and liquidity risk that are discussed below.

#### Credit risk

Credit risk represents the loss, which the Bank would suffer if a client or counterparty fails to meet its contractual obligations. The credit risk is inherent in traditional banking products – loans, commitments to lend and other contingent liabilities, such as letters of credit and derivative contracts (refer to the notes 8, 9 and 32).

The Bank restricts its credit exposure to both individual counterparties and counterparty groups by using credit limits attributed when the Bank rates the client. The size of limit depends on the assessment of quantitative factors such as their financial strength, industry position, and qualitative factors such as quality of management and shareholders structure, as well as the soundness of the securities provided by the client. The securities could take the form of collateral or personal guarantees. The exposure is monitored against limits on a continuous basis. The Bank grants loans to individuals based on a scoring system that is ongoing validated.

#### Market risk

Market risk is the risk of loss arising from movements in observable market variables such as interest rates, and exchange rates.

##### *Foreign exchange risk*

The foreign exchange risk is the risk of loss resulting from changes in exchange rates. The Bank manages the foreign currency risk by using limits for the open foreign currency positions both by currency and at the level of global foreign currency position.

##### *Interest rate risk*

Interest rate risk is the risk of loss resulting from changes in market interest rates. It is controlled primarily through the monitoring of interest rate gaps of assets and liabilities by maturity ranges, respectively by using a sensitivity based limit of the balance sheet.

#### Liquidity risk

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

The Bank's approach to the management of liquidity begins with the liquidity strategy, approved by the Bank's management. The Bank permanently monitors the liquidity gaps of assets and liabilities and uses stress scenarios as part of liquidity risk management.

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**39. Balance sheet structure by currency**

	<b>December 31, 2006</b>			
	<b>Total</b>	<b>RON</b>	<b>EUR</b>	<b>Other</b>
<b>ASSETS</b>				
Cash and cash equivalents	792,849	662,585	109,889	20,375
Accounts with Central Bank	7,656,066	3,325,058	4,331,008	-
Current accounts and deposits at banks	524,179	443,935	36,345	43,899
Assets available for sale	29,092	29,092	-	-
Loans, net	17,576,635	10,608,142	6,537,730	430,763
Lease receivables	713,570	-	696,773	16,797
Goodwill	50,151	50,151	-	-
Deferred tax asset, net	37,263	37,263	-	-
Non current assets and other assets	1,299,279	1,299,111	165	3
<b>Total assets</b>	<b>28,679,084</b>	<b>16,455,337</b>	<b>11,711,910</b>	<b>511,837</b>
<b>LIABILITIES</b>				
Demand deposits and current accounts	8,252,135	5,484,064	2,304,990	463,081
Term deposits	12,918,346	7,945,556	3,874,552	1,098,238
Borrowings	5,002,147	813,381	4,187,960	806
Current income tax payable, net	11,454	11,454	-	-
Other payables	184,049	147,201	-	36,848
<b>SHAREHOLDERS' EQUITY</b>	2,310,953	2,310,953	-	-
<b>Total liabilities and shareholders' equity</b>	<b>28,679,084</b>	<b>16,712,609</b>	<b>10,367,502</b>	<b>1,598,973</b>

	<b>December 31, 2005</b>			
	<b>Total</b>	<b>RON</b>	<b>EUR</b>	<b>Other</b>
<b>ASSETS</b>				
Cash and cash equivalents	495,543	427,732	48,447	19,364
Accounts with Central Bank	7,190,145	4,832,792	2,357,353	-
Current accounts and deposits at banks	598,274	297,282	48,375	252,617
Assets available for sale	41,749	40,482	-	1,267
Loans, net	9,521,803	4,772,626	4,368,900	380,277
Lease receivables	574,409	-	555,362	19,047
Goodwill	50,151	50,151	-	-
Deferred tax asset, net	8,548	8,548	-	-
Non current assets and other assets	1,169,417	1,074,897	-	94,520
<b>Total assets</b>	<b>19,650,039</b>	<b>11,504,510</b>	<b>7,378,437</b>	<b>767,092</b>
<b>LIABILITIES</b>				
Demand deposits and current accounts	5,162,580	3,265,874	1,393,076	503,630
Term deposits	10,113,375	6,031,914	2,833,596	1,247,865
Borrowings	2,393,652	51,075	2,323,509	19,068
Current income tax payable, net	7,943	7,943	-	-
Other payables	147,938	128,830	17,314	1,794
<b>SHAREHOLDERS' EQUITY</b>	1,824,551	1,824,551	-	-
<b>Total liabilities and shareholders' equity</b>	<b>19,650,039</b>	<b>11,310,187</b>	<b>6,567,495</b>	<b>1,772,357</b>

*The accompanying notes are an integral part of these financial statements*

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**40. Maturity structure**

The maturity structure of the Bank's assets and liabilities, based on the remaining maturity as of December 31, 2006 and 2005 is as follows:

December 31, 2006	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Without defined maturity
<b>ASSETS</b>							
Cash and cash equivalents	792,849	792,849	-	-	-	-	-
Accounts with the Central Bank	7,656,066	7,656,066	-	-	-	-	-
Current accounts and deposits at banks	524,179	341,239	-	18,294	91,470	73,176	-
Assets available for sale	29,092	-	-	-	4,890	24,202	-
Loans, net	17,576,635	986,767	1,013,471	5,044,455	6,451,073	4,080,869	-
Lease receivables	713,570	28,858	121,611	200,515	354,672	7,914	-
Goodwill	50,151	-	-	-	-	-	50,151
Deferred tax asset, net	37,263	3,555	-	4,179	-	29,529	-
Non current assets and other assets	1,299,279	-	89,727	-	-	-	1,209,552
<b>Total assets</b>	<b>28,679,084</b>	<b>9,809,334</b>	<b>1,224,809</b>	<b>5,267,443</b>	<b>6,902,105</b>	<b>4,215,690</b>	<b>1,259,703</b>
<b>LIABILITIES</b>							
Demand deposits	8,252,135	8,252,135	-	-	-	-	-
Term deposits	12,918,346	4,273,759	1,532,726	2,328,327	4,620,065	163,469	-
Borrowings	5,002,147	704,711	185,640	847,369	2,588,087	676,340	-
Current income tax liability	11,454	-	-	11,454	-	-	-
Other liabilities	184,049	69,291	114,758	-	-	-	-
<b>Total liabilities</b>	<b>26,368,131</b>	<b>13,299,896</b>	<b>1,833,124</b>	<b>3,187,150</b>	<b>7,208,152</b>	<b>839,809</b>	<b>-</b>
<b>Total shareholders equity</b>	<b>2,310,953</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,310,953</b>
<b>Gap</b>		<b>(3,490,562)</b>	<b>(608,315)</b>	<b>2,080,293</b>	<b>(306,047)</b>	<b>3,375,881</b>	<b>(1,051,250)</b>
<b>Cumulated gap</b>		<b>(3,490,562)</b>	<b>(4,098,877)</b>	<b>(2,018,584)</b>	<b>(2,324,631)</b>	<b>1,051,250</b>	<b>-</b>

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**40. Maturity structure (continued)**

December 31, 2005	Total	0-1 months	1-3 months	3-12 months	1-5 years	Over 5 years	Without defined maturity
<b>ASSETS</b>							
Cash and cash equivalents	495,543	495,543	-	-	-	-	-
Accounts with the Central Bank	7,190,145	5,998,638	1,191,507	-	-	-	-
Current accounts and deposits at banks	598,274	415,334	-	18,294	73,176	91,470	-
Assets available for sale	41,749	-	-	-	27,450	14,299	-
Loans, net	9,521,803	898,077	876,758	3,204,418	3,511,269	1,031,281	-
Lease receivables	574,409	26,124	32,768	130,960	360,907	23,650	-
Goodwill	50,151	-	-	-	-	-	50,151
Deferred tax asset, net	8,548	-	-	3,584	-	4,964	-
Non current assets and other assets	1,169,417	-	65,922	-	-	-	1,103,495
<b>Total assets</b>	<b>19,650,039</b>	<b>7,833,716</b>	<b>2,166,955</b>	<b>3,357,256</b>	<b>3,972,802</b>	<b>1,165,664</b>	<b>1,153,646</b>
<b>LIABILITIES</b>							
Demand deposits	5,162,580	5,162,580	-	-	-	-	-
Term deposits	10,113,375	5,615,638	1,857,447	2,028,247	506,391	105,652	-
Borrowings	2,393,652	8,797	23,156	46,447	1,763,687	551,565	-
Current income tax liability	7,943	-	-	7,943	-	-	-
Other liabilities	147,938	72,746	75,192	-	-	-	-
<b>Total liabilities</b>	<b>17,825,488</b>	<b>10,859,761</b>	<b>1,955,795</b>	<b>2,082,637</b>	<b>2,270,078</b>	<b>657,217</b>	<b>-</b>
<b>Total shareholders equity</b>	<b>1,824,551</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,824,551</b>
<b>Gap</b>		<b>(3,026,045)</b>	<b>211,160</b>	<b>1,274,619</b>	<b>1,702,724</b>	<b>508,447</b>	<b>(670,905)</b>
<b>Cumulated gap</b>		<b>(3,026,045)</b>	<b>(2,814,885)</b>	<b>(1,540,266)</b>	<b>162,458</b>	<b>670,905</b>	<b>-</b>

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**41. Interest rate risk exposure**

The items are allocated on time slots, based on either the residual maturity of each installment for the fixed rate items, or on the closest interest repricing date, for those instruments with a changing rate before maturity.

<b>December 31, 2006</b>	<b>0-1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	792,849	-	-	-	-	792,849
Accounts with the Central Bank	7,656,066	-	-	-	-	7,656,066
Current accounts and deposits at banks	341,239	-	18,294	91,470	73,176	524,179
Assets available for sale	-	-	-	4,890	24,202	29,092
Loans, net	11,350,165	2,135,581	1,120,033	2,178,918	791,938	17,576,635
Lease receivables	28,858	121,611	200,515	354,672	7,914	713,570
Goodwill	-	-	-	-	50,151	50,151
Deferred tax asset, net	3,555	-	4,179	-	29,529	37,263
Non current assets and other assets	-	-	-	-	1,299,279	1,299,279
<b>Total assets</b>	<b>20,172,732</b>	<b>2,257,192</b>	<b>1,343,021</b>	<b>2,629,950</b>	<b>2,276,189</b>	<b>28,679,084</b>
<b>Liabilities</b>						
Demand deposits	8,252,135	-	-	-	-	8,252,135
Term deposits	9,031,512	1,722,929	1,670,637	492,247	1,021	12,918,346
Borrowings	1,651,587	1,922,312	221,501	1,206,747	-	5,002,147
Current tax liability	-	-	11,454	-	-	11,454
Other liabilities	69,291	114,758	-	-	-	184,049
<b>Total liabilities</b>	<b>19,004,525</b>	<b>3,759,999</b>	<b>1,903,592</b>	<b>1,698,994</b>	<b>1,021</b>	<b>26,368,131</b>
<b>Total shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,310,953</b>	
<b>Net position</b>	<b>1,168,207</b>	<b>(1,502,807)</b>	<b>(560,571)</b>	<b>930,956</b>	<b>(35,785)</b>	

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**41. Interest rate risk exposure (continued)**

<b>December 31, 2005</b>	<b>0-1 months</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	495,543	-	-	-	-	495,543
Accounts with the Central Bank	5,998,638	1,191,507	-	-	-	7,190,145
Current accounts and deposits at banks	415,334	-	18,294	73,176	91,470	598,274
Assets available for sale	-	-	-	27,450	14,299	41,749
Loans, net	5,000,306	1,681,741	816,809	1,869,118	153,829	9,521,803
Lease receivables	26,124	32,768	130,960	360,907	23,650	574,409
Goodwill	-	-	-	-	50,151	50,151
Deferred tax asset, net	-	-	3,584	-	4,964	8,548
Non current assets and other assets	-	-	-	-	1,169,417	1,169,417
<b>Total assets</b>	<b>11,935,945</b>	<b>2,906,016</b>	<b>969,647</b>	<b>2,330,651</b>	<b>1,507,780</b>	<b>19,650,039</b>
<b>Liabilities</b>						
Demand deposits	5,162,580	-	-	-	-	5,162,580
Term deposits	7,083,488	1,058,435	1,565,675	405,389	388	10,113,375
Borrowings	-	1,849,718	543,934	-	-	2,393,652
Current tax liability	-	-	7,943	-	-	7,943
Other liabilities	-	-	-	-	147,938	147,938
<b>Total liabilities</b>	<b>12,246,068</b>	<b>2,908,153</b>	<b>2,117,552</b>	<b>405,389</b>	<b>148,326</b>	<b>17,825,488</b>
<b>Total shareholders' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,824,551</b>	
<b>Net position</b>	<b>(310,123)</b>	<b>(2,137)</b>	<b>(1,147,905)</b>	<b>1,925,262</b>	<b>(465,097)</b>	

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#### **42. Fair value**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value is best evidenced by a quoted market price, if such exists.

##### ***Financial assets***

Deposits with banks, loans originated by the Bank, leases are measured at amortized cost using the effective interest rates less any impairment allowance.

For deposits with banks, amortized cost is estimated to approximate fair value due to their short-term nature, interest rates reflecting current market conditions and no significant transaction costs.

The following table presents the fair value of loans to customers, accompanied by a discussion of the methods used to determine the fair value.

	<b>Carrying value</b>	<b>Fair value</b>
	<b>31.12.2006</b>	<b>31.12.2006</b>
Loans to customers	18,290,205	18,201,177

The following methods and significant assumptions have been applied in determining the fair values of loans which are carried at cost:

- (a) the fair value of variable rate financial instruments is assumed to be approximated by their carrying amount;
- (b) the fair value of fixed rate loans carried at amortized cost is estimated by using current market rates offered to similar clients.

Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of impairment is recognized separately by deducting the amount of the allowance for credit losses from both carrying and fair values.

For the purposes of the fair value disclosure, the interest accrued to date is included in the carrying value of the financial instruments

##### ***Financial liabilities***

The amortized cost of customer deposits and borrowings is considered to approximate their respective fair values, since these items have predominantly short re-pricing, carry interest rates reflecting current market conditions and are settled without significant transaction costs.

#### **43. Subsequent events**

##### ***Change in prudential regulations***

Starting with January, 1 2007 the local capital adequacy ratio changed from 12% to 8%.