



BRD
GROUPE SOCIETE GENERALE

THE DIRECTORS' REPORT
on unconsolidated financial statements

31.12.2006

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on the financial statements of 2006

BRD – Groupe Société Générale, a Romanian legal entity, is set up as a joint-stock company with full private capital, headquartered in Bucharest.

BRD is the second bank in Romania holding, as at December 31, 2006, 16.5% of the assets in the banking system. In terms of transactions on the Bucharest Stock Exchange, BRD represents the second issuer, with a market capitalisation of EUR 4.48 billion.

In December 2006, the bank had over 2,000,000 customers and held a territorial network of 600 agencies.

In the commercial area, the bank promotes a policy based on the diversification of the offer, the synergies among the various services and markets, the development of the agency network, the continuous improvement of the services provided to its customers and the integration of the principles of lasting development in its activities.

1. Economic environment

The year 2006 pursued the tradition of solid economic growth and marked the achievement of the process of preparation to join the European Union.

On the macroeconomic level, it is noticeable the blend of an economic growth of 8,3% with an inflation decrease from 8,6% in 2005 to 4,8% in 2006 and with a budgetary deficit of 1,7% of GDP. On the external level, Romania's joining the European Union strengthens the premises of the continuation of economic growth.

Inflation decreased on the background of a BNR-promoted policy of sterilization of available funds, as well as of the appreciation of the rate of exchange, the increase beyond expectations of the agricultural production and the decrease of the oil price.

The low budgetary deficit recorded as at end 2006, after a period of budget surplus, led to the lack of government bonds issues and to the decrease of public debt from 16% of the GDP in 2005 to 12,7% of GDP in 2006.

The current account deficit rose to EUR 9,97 bn. (10,3% of GDP), superior by 44,8% to 2005. This deficit was largely financed by direct foreign investments summing up EUR 9,1 bn, out of which EUR 2,2 bn. Come from the privatization of BCR. Foreign investments represented capital subscriptions and reinvested profits, as well as intra-group loans.

At the monetary level, the BNR policy was more restrictive as compared to 2005, being rather oriented to the control of the liquid assets on the market. To this end, BNR increased the monetary policy interest rate in two stages, from 7,50% to 8,75%, and it attracted more deposits. Consequently, the interest rates BUBOR on 6 months increased from 7,3% as at 31.12.2005 to 8,6% as at 31.12.2006.

Competition on the banking market intensified, contributing to the decrease of the interest margins, an increasingly obvious trend being that of concentration of the assets in the banking system.

After almost two years since its launching, the privatization process of CEC came to a stop, the state not accepting the price offered by the only banking group remained in the race.

2. Commercial activity

The main coordinates of the commercial activity in 2006 are marked by the intensification of the competition in the banking system, BRD acting dynamically to consolidate its markets shares, as follows:

		31.12.2005	31.12.2006
➤ Loans	Private customers	18,3%	22,7%
	Corporate customers	14,8%	16,7%
➤ Deposits	Private customers	16,3%	16,8%
	Corporate customers	17,5%	21,5%

In 2006, BRD continued the development of its agency network (BRD Express), relying on three key-elements: proximity, simplicity and fastness of the operations.

Attracting and building the customers' loyalty remain at the core of the concerns of BRD, which is present in all the areas with potential, promoting an active policy with respect to the diversification of the offer of products and services, as well as to the fast reaction to the changes in the banking environment.

Private customers:

- BRD is one of the major players on the markets of banking cards and consumer loan.
- The range of traded products and services enriches permanently along with the living standard of the population, the balance of the main products offered to individuals recording the following evolution:

	<u>31.12.2005</u> mil RON	<u>31.12.2006</u> mil RON	<u>2006/2005</u> %
➤ Deposits	5.249	7.217	+ 37%
➤ Loans	4.091	8.844	+ 116%

Corporate customers:

- By reorganizing its specific activities, the bank aims at consolidating its position on the corporate market, confirming its natural vocation of one of the main players in financing both Romanian companies and subsidiaries of international groups.
- The offer of products and services destined to this segment of clientele is based on the long experience of the bank in the field of investment financing – by tradition, to which there are added the multiple openings and connections from which it benefits due to its belonging to the group Société Générale.
- In June 2006, BRD launched its first complete offer of products and services destined to small and medium-sized enterprises, including credit, investment, financing of current business, export included, products, as well as consultancy services. These packages are addressed to both older and recent companies, BRD maintaining its position as a reference bank for this customer segment.
- Apart from classic financing, the range of products and services covers the management of current operations, domestic and external factoring, cash-management, market operations, placements etc.

The evolution of the deposits and loans of corporate customers is presented below:

	<u>31.12.2005</u> mil RON	<u>31.12.2006</u> mil RON	<u>2006/2005</u> %
➤ Deposits (mil. RON)	9.483	12.591	+ 33%
➤ Loans (mil. RON)	5.838	9.134	+ 56%

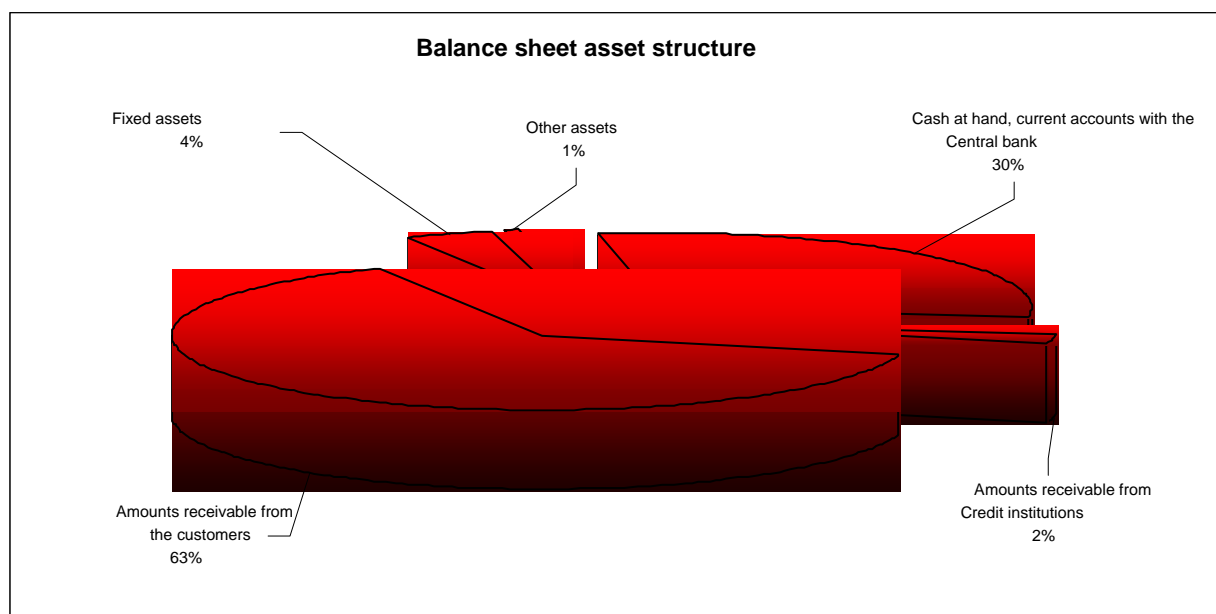
Balance sheet asset

The balance sheet asset as at 31.12.2006, as against the previous year, increased by 46%, the evolution of the main elements being the following:

Asset	2005	2006	2006/2005 %
Cash at hand, current accounts with the central bank	4.661	8.333	79
Amounts receivable from the credit institutions	928	637	-31
Amounts receivable from the customers	9.836	17.797	81
Fixed assets	951	1.068	12
Other assets	2.845(*)	191	-93
Total asset	19.221	28.026	46

(*) Other assets in 2005 include BNR deposit certificates of RON 2.692 mil.

In terms of structure of the balance sheet asset as at end 2006, the situation is presented here below:



Amounts receivable from the customers

The amounts receivable from the customers, of RON 17.797 million represent 63 % of the total banking operations recorded in the balance sheet.

In 2006, BRD maintained its rhythm of sustained development of the credit activity, translated in the growth both of the number of customers and of the portfolio of loans extended to the customers.

Cash at hand, current accounts with the central bank and amounts receivable from the credit institutions

The liquid assets of the bank, including the cash and the current account with the central bank, recorded an increase of 79% as compared to 31.12.2005, representing 30% of the total balance sheet, while the amounts receivable from the credit institutions, of RON 637 million as at 31.12.2006 decreased as compared to the previous year and represent 2% of the total balance sheet.

The augmentation of the available funds is also due to the BNR decisions in terms of monetary policy, namely the rise of the level of the obligatory minimum reserves up to 20% RON and 40% foreign currency.

Fixed assets

Fixed assets represent 4% of the total assets and include:

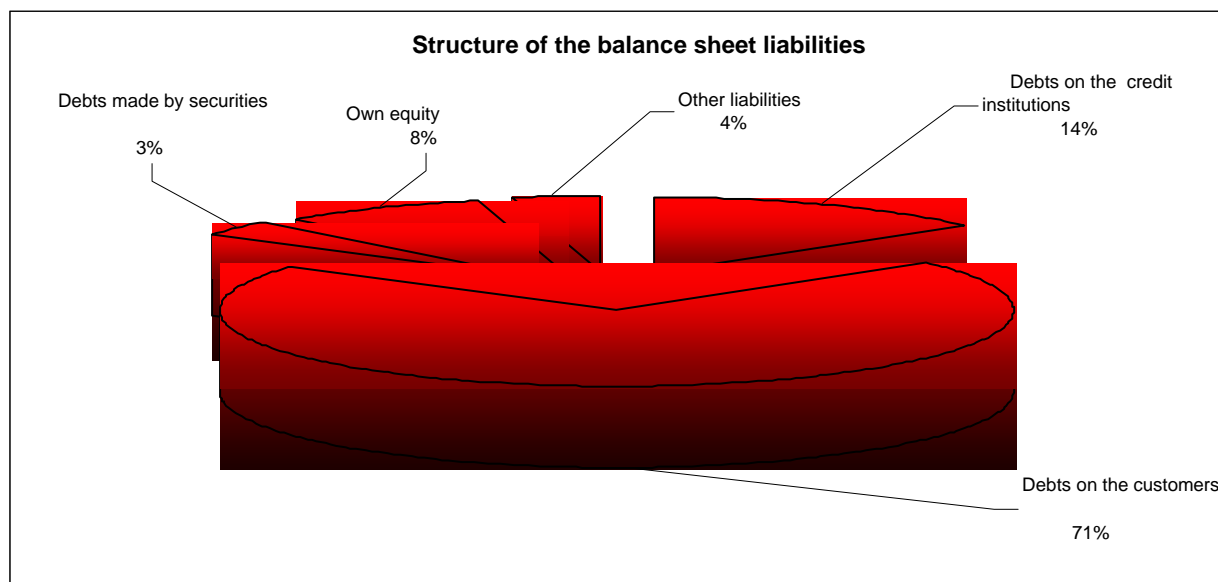
- **Tangible assets**, with a net value of RON 1.026 million, out of which land and buildings of RON 736 million;
- **Intangible assets**, with a net value of RON 36 million, out of which 38% represent the goodwill resulting from the acquisition in 1999 of the Société Générale branch in Bucharest;
- **Financial assets**, materialized in:
 - Shares in related trading companies, of RON 16 million; in 2006, the share capital of ALD Automotive was increased by the shareholders' contribution in cash.
 - Interests of RON 26 million as at end 2006, whose increase is the result of the additional contribution to the share capital of SC Asiban SA and SC ROMCARD SA.

Balance sheet liabilities

The comparative situation 2006/2005 of the liabilities is presented below:

	million RON		
Liabilities	2005	2006	2006/2005 %
Debts on the credit institutions	1.728	3.977	130
Debts on the customers	14.823	19.746	33
Debts made by securities	179	969	441
Own equity	1.883	2.331	24
Other liabilities	608	1.003	65
Total liabilities	19.221	28.026	46

As at 31.12.2006, the balance sheet liabilities had the following structure:



Customer operations

These operations hold 71% of the total balance sheet assets and recorded a growth of 33% as compared to the previous year. As at 31.12.2006, their value was of RON 19.746 million, containing:

	million RON		
	2005	2006	2006/2005 %
Debts on the customers			
Customer cash and deposits on demand	4.849	7.886	63
Customer term deposits	9.339	11.136	19
Collateral deposits	406	569	40
Other loans, leasing, factoring, carduri	229	155	-32
Total	14.823	19.746	33

The growth of the customers' deposits on demand as at end 2006 as compared to the same period of the previous year is a consequence of the BRD policy of attraction of the customers' resources by offering new advantageous saving instruments.

Debts on the credit institutions

The debts on the credit institutions hold 14% of the total balance sheet liabilities and represent the amounts receivable on demand in the correspondent accounts, deposits of the banks, amounts due from operations with cheques and cards, term receivables from attracted deposits and financial loans taken from banks.

Debts made by securities

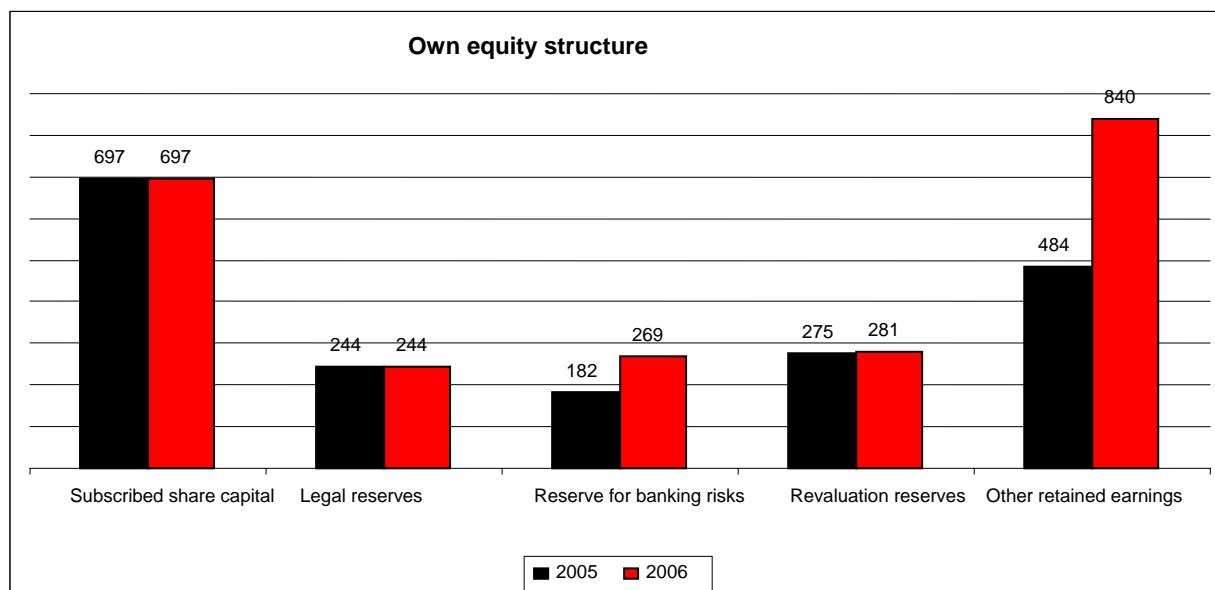
The debts made by securities represent 3% of the balance sheet liabilities and include bonds issued in 2004 and 2006, as well as deposit certificates.

In November 2006, BRD launched the largest bond issue in RON ever made so far. This issue destined to non-resident investors was made on the Luxemburg market and summed up RON 735 million. The duration of the loan is of 5 years and the interest rate is of 7,75%.

The bond issue of 2006 is the second made by BRD. The previous issue was launched on the Romanian market, in 2004, and had a value of RON 50 million, representing the first significant issue launched by a Romanian bank after 1990.

Own equity totalise RON 2.331 million, in growth by 24% as against 2005, following the augmentation of the reserves and profit made in 2006.

The evolution of the elements making up the own equity in the period 2005-2006 is presented here below:



4. Financial results

The net result of the fiscal year 2006 is of RON 656 million.
The comparative statement of the bank results in 2005 (nominal values) and 2006 is presented here below:

	million RON		
	December 31, 2005	December 31, 2006	Gap (%)
Net banking income, out of which	1.332	1.656	24
- Interest margin *	719	837	16
- Fees	465	616	32
General expenses	-620	-810	31
Gross operating income	712	846	19
Net risk cost**	-72	-83	15
Gross income	640	763	19
Net result	553	656	19

* The difference between the incomes from interests on receivables and placements and the expenses with the interests for attracted resources

**Expenses and entry under incomes of the provisions for the commercial activity, out of balance sheet included, other provisions for contingencies and expenses

5. Synthesis ratios:

The performances and financial position in 2006 can be synthetically presented by means of the following ratios:

		2005	2006
Intermediation margin*			
- global	%	4,5	3,9
- lei	%	5,6	5,6
- foreign currency	%	2,7	1,8
Return on equity (ROE)**	%	37,0	35,0
Operating ratio (C/E)***	%	46,7	48,9
Capital adequacy ratio (solvency)	%	16,9	13,3
Bad loans/total loans ratio	%	1,0	0,4
Net cost of commercial risk/Total gross loans	%	0,72	0,60

Synthesis ratios reflect the continuing strengthening of the financial position of the bank, high profitability and productivity, associated to prudent risk management.

*Interest margin referred to the average balance of the interest-bearing assets.

** Net income referred to the average level of own equity

*** General expenses/ Net banking income

6. Risk management

The risk profile accepted by the bank is a prudent one, in line with its long-term development strategy. Risk management policies are optimized in order to allow identifying and undertaking, as soon as possible, all the risks likely to influence the profitability of the institution. One of the main objectives of risk management is to optimize profitability depending on the risk, by managing the ratio between the undertaken risk and its profitability.

The risk management strategy is defined by the bank management and transposed by means of policies and procedures by the Risk Committee, which meets periodically or whenever necessary.

The permanent risk control is made on several levels, also involving a line independent from operational structures and subordinated directly to the bank management.

Credit risk

Credit risk management is made by coordination at all the relevant levels, independent from operative structures.

The objectives of the credit risk management are:

- to continuously ensure the loan policy compliance with the risk profile chosen by the Bank.
- to formulate and implement the credit risk policies, the methodologies proper to each line of business
- to continuously and periodically supervise the portfolio of commitments so as to ensure that risks fall between acceptable parameters.

The credit risk is regulated by the implementation standards and instructions, covering the aspects related to:

- the risks approval
- the risks follow-up and audit
- the risks measurement
- the portfolio management
- the risks provisioning an coverage policy

In order to avoid the concentration risk, the bank settles limits by business sectors, customer types and geographical areas.

The assessment of the risks taken at the level of the territorial agencies is performed by the Division of Central Risk Control, which computes on a monthly basis the Net Risk Cost of each Group and the provisions required. Every month, the evolution of NRC and the risk computed on BP on each group are presented in the Executive Committee.

The Bank monitors and supervises large exposures and special relations.

The global limits on customers/large groups of customers of the bank are settled only with the consent of Société Générale and with the approval of the Executive Committee or of the Board of Directors.

The market risk

The market risk is monitored on the 3 main components:

- the foreign exchange risk, by identifying the opened positions and their meaning;
- the interest rate risk, by identifying the difference between the assets and the liabilities sensitive to the interest rate variation;
- the price risk, by assessing the bank's participations in other companies.

In order to monitor the different components of the market risk, the bank defined a control system based on exposure limits, stress scenarios and VaR. The limits are permanently monitored, any excess being justified and approved. The bank management is informed on these excesses on a regular basis.

The bank's policy is one of prudence and moderate risks, limiting the taking of positions in its own name and focusing mainly on managing the positions resulted from the commercial activity. In order to provide an optimal management of the market risk, the bank separated clearly the positions generated by the commercial activity and the positions taken in its own name.

Liquidity risk

In order to ensure the necessary liquidity, the bank elaborates every year a liquidity strategy that takes into account the development strategy of the bank, but also the potential events that could have a negative influence over this indicator.

The bank's liquidity is monitored at the head office level, in order to ensure the capacity to fulfil all the obligations likely to appear as a result of the current activity, but also because of unexpected evolutions (crises).

During December 2006, in order to ensure stable and long-term financing resources, the bank issued bonds of RON 735 million.

8. Proposals

Considering the information presented in this report, **we propose** for approval to the General Meeting of BRD Shareholders:

- a) The financial statements of 2006 composed of:
 - Balance sheet,
 - Profit and loss account,
 - Statement on the modification of our own equity,
 - Statement on the cash-flow,
 - Accounting policies and explanatory notes.
- b) The distribution of the RON 656 million profit, as follows:

millions of RON

Increase of the banking risks reserve	87
Dividends due to shareholders	256
Other retained earnings	313

Considering the above, the evolution of the dividend per share is the following:

		2005	2006	2006/2005 %
Dividend per share	Lei share	0,3089	0,3672	+18,88%
Distribution rate		45%	45%	

- c) The coverage of the loss of RON 1,4 million representing the impact of implementing IAS 18 before 01.01.2005 of the retained earnings non-distributed in 2004 .
- d) Discharge of the Board of Directors.

**CHAIRMAN OF THE
BOARD OF DIRECTORS**

**HEAD OF
FINANCIAL DEPARTMENT**

PATRICK GELIN

BERTRAND ISNARD