

Half Year Report

June 30, 2020

according to Financial Supervisory Authority Regulation
no 5/2018

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1. THE COMPANY AND ITS SHAREHOLDERS

BRD – GROUPE SOCIÉTÉ GÉNÉRALE PROFILE

BRD - Groupe Société Générale („BRD” or „the Bank”) was set up on December 1st, 1990 as an independent bank with the legal status of a joint-stock company and with the share capital mainly held by the Romanian State, by taking over the assets and liabilities of Banca de Investitii (the Investment Bank).

In March 1999, Société Générale (“SG”) bought a stake representing 51% of the share capital, increasing its holding to 58.32% in 2004, through the acquisition of the residual stake from the Romanian State. As at June 30, 2020, SG was holding 60.17% of the share capital.

Starting 2001, BRD-Groupe Société Générale operates as an open joint-stock company, admitted to trading on a regulated market, according to the companies’ legislation, banking legislation, capital market regulations, provisions of the Articles of Incorporation and other internal regulations.

BRD identification data are the following:

- **Head Office:** Blvd. Ion Mihalache No. 1-7, sect. 1, Bucuresti
- **Phone/Fax:** 021.3016100 / 021.3016800
- **Sole registration number with the Trade Registry:** 361579/10.12.1992
- **Fiscal Code:** RO 361579/10.12.1992
- **Order number with the Trade Registry:** J40-608-1991
- **Number and date of registration in the Credit Institutions Register:** RB - PJR - 40 – 007/18.02.1999
- **Share capital subscribed and paid:** 696.901.518 RON
- **Regulated market on which the issued securities are traded:** Bucharest Stock Exchange Premium Tier
- **The main characteristics of securities issued by the company:** ordinary shares with a nominal value of 1 RON

EXTERNAL RATING

As at June 30, 2020, the Bank had the following ratings:

Fitch Ratings (last rating update: Apr-2020*)	Rating
Foreign-Currency Short-Term Issuer Default Rating	F2
Foreign-Currency Long-Term Issuer Default Rating	BBB+
Support Rating	2

Moody's (last rating update: Apr-2020*)	Rating
Domestic Currency Short-Term Deposit	Prime-2
Domestic Currency Long-Term Deposit	Baa1
Foreign Currency Short-Term Deposit	Prime-3
Foreign Currency Long-Term Deposit	Baa3

* outlook revised to negative from stable, following a similar action on Romanian’s sovereign rating

BRD GROUP („GROUP”) consolidates the following entities:

- BRD - Groupe Société Générale S.A.;
- BRD Sogelease IFN SA;
- BRD Finance IFN SA;
- BRD Asset Management SAI SA.

SOCIÉTÉ GÉNÉRALE PROFILE

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

Société Générale is one of the largest European financial services groups. Based on a diversified integrated banking model, the Group combines financial strength and proven expertise in innovation with a strategy of sustainable growth, and aims to be the trusted partner for its clients, committed to the positive transformations of the world.

Société Générale has been playing a vital role in the economy for over 150 years. With more than 149,000 employees, based in 67 countries, Société Générale accompanies 31 million clients throughout the world on a daily basis. Société Générale's teams offer advice and services to individual, corporate and institutional customers in three core businesses:

- *French Retail Banking* which encompasses the Societe Generale, Crédit du Nord and Boursorama brands, each offering a full range of financial services with omnichannel products at the cutting edge of digital innovation;
- *International retail banking, insurance and financial services to corporates* with a presence in emerging economies and leading specialised businesses;
- *Global Banking and Investors Solutions*, which offers recognised expertise, key international locations and integrated solutions.

The latest credit ratings of Société Générale are available at <https://www.societegenerale.com/en/measuring-our-performance/investors/debt-investors/ratings>.

BRD POSITION WITHIN SOCIÉTÉ GÉNÉRALE

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

In 1999, it takes part in the process of privatization of Banca Romana pentru Dezvoltare and acquires 51% of the bank's share capital.

Starting with this period, BRD lined up its operational procedures and business practices to those of the parent company.

BRD is part of the international network of Société Générale, managed by the International retail banking and financial services division (IBFS) that aims to offer a broad range of products and services to individuals, professionals and corporates. Its global development is built upon:

- The international universal banking and consumer credit networks, organised around three regions: Europe, Russia and Africa / Asia / Mediterranean Basin & Overseas;
- Three specialised businesses, leaders in their markets: Insurance, Car Renting and Fleet Management, Equipment and Vendor Finance.

KEY FIGURES

		6 months to 30-Jun-2019	6 months to 30-Jun-2020	Change
	The Group			
Financial results	Net banking income (RONm)	1,609	1,512	-6.0%
	Operating expenses (RONm)	(804)	(800)	-0.5%
	Cost of risk (RONm)	144	(225)	n.a.
	Net profit (RONm)	787	415	-47.3%
	Cost / income ratio	50.0%	52.9%	2.9 pt
	ROE	20.9%	9.8%	-11.0 pt
	RON bn	Jun-19	Jun-20	Change
Loans and deposits	Total net loans (incl. leasing)	30.6	31.0	+1.2%
	Total deposits	45.4	47.6	+4.8%
	The Bank			
Financial results	Net banking income (RONm)	1,566	1,433	-8.5%
	Operating expenses (RONm)	(760)	(755)	-0.6%
	Cost of risk (RONm)	154	(203)	n.a.
	Net profit (RONm)	803	405	-49.5%
	Cost / income ratio	48.6%	52.7%	4.2 pt
	ROE	22.2%	10.0%	-12.3 pt
	RON bn	Jun-19	Jun-20	Change
Loans and deposits	Total net loans	29.0	29.2	+0.7%
	Total deposits	45.4	47.7	+5.0%
	RON m	Jun-19	Jun-20	Change
Capital adequacy	Own funds (RONm)	5,789	7,385	+27.6%
	RWA (RON bn)	28,924	27,314	-5.6%
	CAR	20.0%	27.0%	+7.0 pt
Franchise	No of branches	699	625	(74)

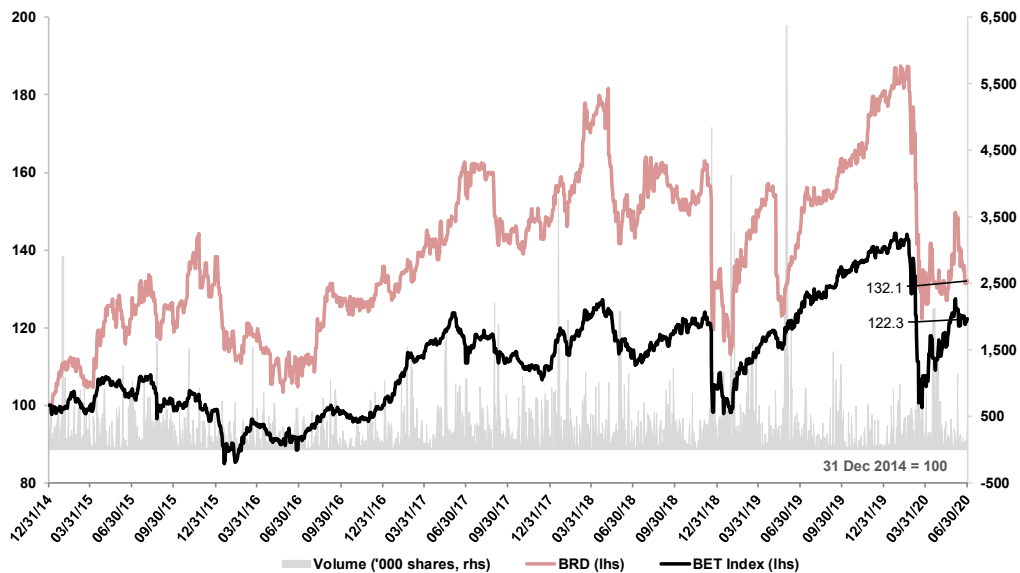
BRD SHARE

Starting with January 15th, 2001, the Bank's shares are listed in the Premium category of the Bucharest Stock Exchange. The shares are included in the BET, BET Plus, BET-XT, BET-XT-TR, BET-BK, BET-TR and ROTX indexes. The Bank's shares are ordinary, nominative, dematerialized and indivisible. According to the Articles of Incorporation, article 17, letter k, the shares of the Bank are traded freely on those capital markets set by General Assembly of Shareholders („AGA”), while complying with the legislation on the trade of shares issued by bank institutions.

The closing price for BRD share as at June 30, 2020, was of RON 11.56 /share (RON 15.84 /share at December 31, 2019 and RON 12.64 /share at June 30, 2019). On the same date, the market capitalization was RON 8,056.18 million (RON 11,038.92 million at December 31, 2019 and RON 8,808.84 million at June 30, 2019). The evolution of the share price starting end of February 2020 reflects the turmoil on the financial markets generated by the COVID-19 outbreak.

During January – June 2020, neither the Bank, nor its subsidiaries bought back own shares.

Evolution of BRD's share price versus the BET Index and BRD's volume of shares for the period December 31, 2014 – June 30, 2020



Source: Bloomberg

DIVIDENDS

In the context of COVID-19 pandemic and its expected effects on the economies, ECB and NBR have recommended to the banks not to distribute dividends in 2020 (based on 2019 results).

Considering the above mentioned, at the April 23rd 2020 Annual Shareholders' Meeting, shareholders decided the consolidation of own funds by including the entire net profit realized for the financial year 2019, in the retained earnings of the Bank.

2. ECONOMIC AND BANKING ENVIRONMENT

Romania's GDP growth rate tempered to +2.7% YoY in Q1-20 (seasonally adjusted, vs. +3.9% in Q4-19) with domestic demand being again the main driver of economic expansion, followed by gross fixed capital formation. Net exports kept their negative contribution to growth given the decrease in annual net growth of exports (-5.5% YoY) and the increase in imports (0.8%).

In Q2, the lockdown led to a strong contraction of activity and consumption.

CPI dropped at a fast pace in the first half of the year, printing at 2.6% at Jun-20 end (vs 4.0% at Dec-19 end), behind its decline stood disinflationary base effects and the plunge in the oil price, alongside the removal of the special excise duty on motor fuels, these factors outpacing strong food inflation generated by Covid-19 outbreak.

To support the economy in the context driven by the COVID-19 epidemic, the central bank further reduced the monetary policy rate by 25 basis points, to 1.75% starting June 2020, after a 50 basis points cut, to 2.00% in March 2020.

As a measure to support the debtors (both individuals and companies) within the lockdown context, a state moratorium was introduced through GEO 37 from March 30th 2020.

An additional important measure within the relief package to support the economy was the approval of an envelop of 3 bn EUR of state guarantee and interest subsidies to support SME sector financing within IMM INVEST loan facility program.

Gross loans outstanding increased by +8.1%* YoY as of May-20 end on 1) still high individuals' gross loans increase (+5.8%*) driven by housing (+10.3%*), while consumer loans' performance (+0.1%*) was visibly impacted by the crisis; and on 2) lending to companies, +10.5%*. The propensity to save increased due to the incidence of the pandemic and its consequence in terms of spending behavior: +12.7%* YoY (individuals +14.4%*, corporates +10.5%*).

The ratio of non-performing loans for the banking system (according to European Banking Authority definition) has maintained its decreasing trend, reaching 4.0% at May 2020 end compared to 4.7% at June 2019 end, standing in the EBA defined medium risk bucket [3-8%], amid stronger lending along with the reduction in non-performing exposures.

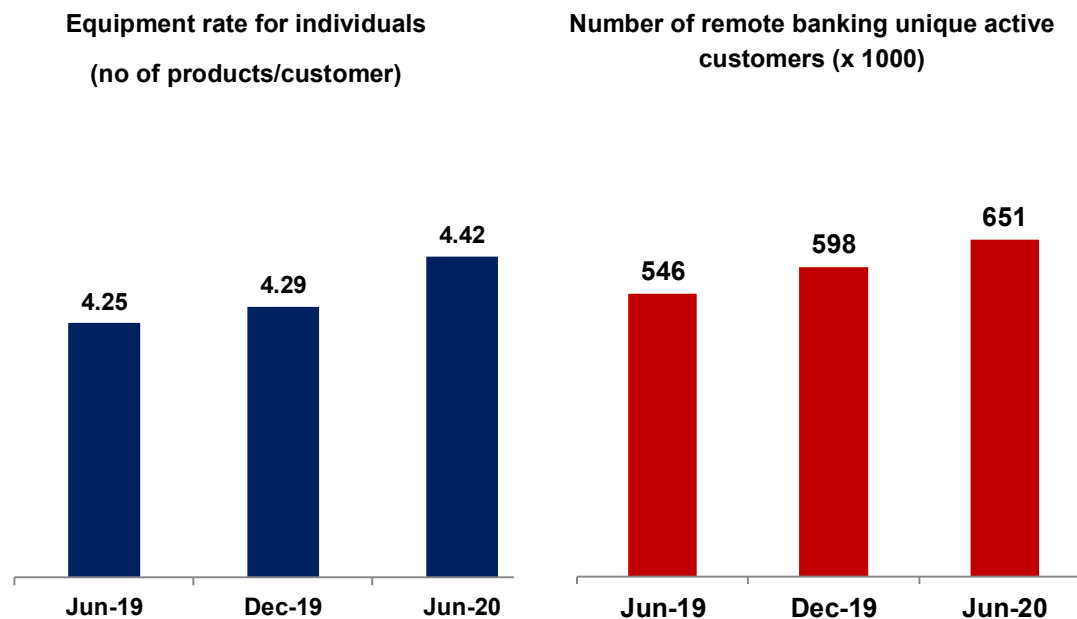
The capitalisation of the Romanian banking system remained comfortable, with a capital adequacy ratio of 20.25% as of March 2020 end (20.0% as of December 2019 end).

* variation at constant FX rate

3. COMMERCIAL ACTIVITY

As at June 30, 2020, the Bank had 625 branches (30.06.2019: 699 branches, 31.12.2019: 648 branches), ensuring the distribution of its products and services throughout the whole country.

The equipment rate for individuals reached 4.42 at June 30, 2020 compared to 4.25 at June 30, 2019.



BRD held a market share of 11.3% of total assets at December 31, 2019.

	Jun-19	Dec-19	May-20
TOTAL ASSETS	12.0%	11.3%	n.a.
LOANS	11.8%	11.0%	11.2%
<i>Individuals</i>	<i>15.7%</i>	<i>15.2%</i>	<i>14.9%</i>
<i>Companies</i>	<i>7.7%</i>	<i>6.6%</i>	<i>7.6%</i>
DEPOSITS	12.4%	11.5%	11.6%
<i>Individuals</i>	<i>12.7%</i>	<i>12.0%</i>	<i>12.0%</i>
<i>Companies</i>	<i>12.0%</i>	<i>11.0%</i>	<i>11.2%</i>

The structure of the customers' **net loans** at Group level evolved as follows:

RON bln	Jun-19	Dec-19	Jun-20	vs. Dec-19	vs. Jun-19
Retail	21.9	22.0	21.8	-1.2%	-0.6%
Individuals	21.3	21.5	21.2	-1.4%	-0.6%
Small business	0.6	0.5	0.5	7.2%	-1.4%
Non-retail	7.9	8.3	8.2	-0.8%	4.5%
SMEs	2.0	2.2	2.1	-4.4%	4.2%
Large corporate	5.8	6.1	6.1	0.6%	4.6%
Total net loans	29.8	30.3	30.0	-1.0%	0.7%
Financial lease receivables	0.9	1.0	1.0	3.1%	16.6%
Total net loans, including leasing	30.6	31.3	31.0	-0.9%	1.2%

Net loans outstanding (including leasing) reached RON 31.0 billion, increasing by 1.2% versus June 30, 2019, but decreasing by 0.9% compared to year end, mainly due to weaker performance on individuals segment as effect of the lockdown driven by COVID-19 pandemic. The positive performance YoY registered by non-retail (both SMEs and large corporate clients) more than compensated the decrease seen on retail segment.

The customers' **deposits** structure at Group level evolved as follows:

RON bln	Jun-19	Dec-19	Jun-20	vs. Dec-19	vs. Jun-19
Retail	29.7	30.4	32.1	5.8%	8.1%
Individuals	25.8	25.6	27.7	8.0%	7.5%
Small business	3.9	4.7	4.4	-6.3%	12.5%
Non-retail	15.7	15.5	15.5	-0.6%	-1.6%
SMEs	5.9	6.5	6.9	7.1%	18.6%
Large corporate	9.8	9.1	8.5	-6.1%	-13.6%
Total deposits	45.4	45.9	47.6	3.6%	4.8%

Deposits to customers reached RON 47.6 billion, higher by 4.8% on an annual basis and by 3.6% compared to December 31, 2019. Still benefiting from dynamic real wage growth in Q1 2020 (quasi-stable in April-May 2020) and a strong savings' propensity triggered by the pandemic, deposits' inflows from individuals continued to grow YoY, +7.5% (o/w current accounts were up by 32% YoY), with a higher contribution of foreign currency resources (+10.4% YoY). The non-retail deposits' YOY decrease was driven by a double digit compression of large corporate deposits mainly linked to the reduction of EUR non transactional accounts driven by an assumed balance sheet management choice, while SMEs resources strongly increased (+18.6% YoY).

For the evolution of the main components of the net banking income please refer to "Financial results" section.

SUBSIDIARIES' ACTIVITY

BRD SOGELEASE IFN SA

As of June 30, 2020, net outstanding of leasing financing granted by BRD Sogelease increased by 16.6% year-on-year to RON 1,023.3 million. New leasing production decreased to RON 252.2 million in H1 2020, -25.4% YoY. The COVID 19 pandemic generated a negative impact for BRD Sogelease in Q2, with the demand for leasing financing facing an important decline as sectors who use leasing as a financing method (transportation, logistics, services) were directly or indirectly affected by the evolution of the pandemic. During this period, the company has implemented support programs for the affected clients in accordance with the legislative initiatives and recommendations of the regulatory bodies and remains deeply engaged in the financing of SME's, supporting BRD Group clients.

BRD FINANCE IFN SA

BRD Finance results for Q2 2020 compared with Q2 2019 are in line with the expected evolution due to the situation generated by COVID-19 pandemic: the net loan portfolio is stable at RON 589 million, while the new loan production decreased by 19% due to the sanitary imposed restrictions. Net banking income reached RON 51.5 million, +3% vs. Q2 2019.

BRD ASSET MANAGEMENT SA

BRD Asset Management is one of the most important actors on the Romanian UCITS market, with a market share of 18.12%* at the end of June 2020. BRD Asset Management now offers investment solutions to more than 73 thousands clients across its 8 investment funds. The company had RON 4.80 billion assets under management at the end of 2019, reaching a market share of 19.28%*, + 6.5 pts YoY, becoming the 3rd largest asset manager in Romania. The crisis impacted the activity in line with the market evolution, driving down assets under management to RON 3.62 billion at March 2020 end. The activity was back on an upward trend starting May (assets under management reaching RON 3.72 billion at the end of June 2020). At the beginning of June, BRD Asset Management launched a new investment fund, BRD Simplu with an investment strategy suitable for short term investments and cash management.

** market share computation based on total open-end funds assets under management*

4. FINANCIAL RESULTS AND RATIOS

FINANCIAL POSITION ANALYSIS

The below financial position analysis is made based on the separate and consolidated financial statements prepared according to the International Financial Reporting Standards, for the period ended June 30, 2020 and the comparative periods.

FINANCIAL POSITION – ASSETS

Total assets increased by approximately 6% versus June 30, 2019 and by near 4.5% versus 2019 end, both for the Group and for the Bank.

The asset structure is presented below:

THE GROUP

Assets (RONm)	Jun-19	Dec-19	Jun-20	% total	vs. Dec-19	vs. Jun-19
Cash and current accounts with Central Bank	6,413	6,843	5,018	8.3%	-26.7%	-21.8%
Loans and advances to credit institutions	3,393	3,410	5,516	9.1%	61.8%	62.6%
Net loans and advances to customers	29,762	30,293	29,976	49.7%	-1.0%	0.7%
Financial lease receivables	877	993	1,023	1.7%	3.1%	16.6%
Other financial instruments	14,430	14,396	16,894	28.0%	17.4%	17.1%
Tangible and intangible assets	1,453	1,447	1,423	2.4%	-1.6%	-2.1%
Other assets	416	390	456	0.8%	17.0%	9.7%
Total assets	56,744	57,771	60,307	100.0%	4.4%	6.3%

THE BANK

Assets (RONm)	Jun-19	Dec-19	Jun-20	% total	vs. Dec-19	vs. Jun-19
Cash and current accounts with Central Bank	6,413	6,843	5,018	8.6%	-26.7%	-21.8%
Loans and advances to credit institutions	3,375	3,392	5,499	9.4%	62.1%	62.9%
Net loans and advances to customers	29,002	29,467	29,214	50.0%	-0.9%	0.7%
Other financial instruments	14,420	14,424	16,925	29.0%	17.3%	17.4%
Tangible and intangible assets	1,429	1,425	1,404	2.4%	-1.4%	-1.7%
Other assets	318	304	326	0.6%	7.3%	2.5%
Total assets	54,957	55,853	58,386	100.0%	4.5%	6.2%

LOANS AND ADVANCES TO CUSTOMERS

The net loans' outstanding amount to customers increased year-on-year (Group: +1.2%, o/w leasing +16.6%; Bank: +0.7%) driven by favourable dynamic on SME and large corporate client segments that more than compensated the decrease seen on retail segment, induced by the lockdown period.

CASH, CURRENT ACCOUNTS WITH THE CENTRAL BANK AND LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Cash and current accounts with the central bank and loans and advances to credit institutions increased by 7% versus June 30, 2019 and by 3% versus December 2019 end, for both the Bank and the Group, mainly driven by placements at credit institutions. These items represented approximately 17% of total assets for the Group and 18% for the Bank.

The minimum compulsory reserve held with the National Bank of Romania accounted for 33% of this aggregate at June 30, 2020 (36% at December 2019 end and 37% at June 2019 end), at Group level, and amounted to RON 3,510 million, slightly down vs June 30, 2019, driven by a mix of increased deposits and NBR's decision to lower the FX minimum reserve requirements for liabilities with residual maturity of less than 2 years to 6%, down from 8%, starting February 2020. RON minimum reserves requirements were kept unchanged at 8% since May 2015.

OTHER FINANCIAL INSTRUMENTS

Other financial instruments include financial assets at fair value through other comprehensive income, financial assets at fair value through profit and loss, derivatives and other financial instruments held for trading, investments in associates and subsidiaries as well as non-current assets held for sale.

These items amounted to RON 16.9 billion at June 2020 end and represented 28% of Group assets. They rose by app. +17% compared to June 2019 end and December 2019 end, mainly driven by the increase in government bonds portfolio (both banking and trading books).

TANGIBLE AND INTANGIBLE ASSETS

The tangible and intangible assets accounted for 2.4% of the total assets with land and buildings representing the largest part of the item (81%).

The total value of investments during the first 6 months of 2020 was RON 79 million for the Group and RON 78 million for the Bank, compared to RON 62 million in the same period in 2019 for the Group and RON 61 million for the Bank. There is no capitalized research and development expenditure.

FINANCIAL POSITION – LIABILITIES

The comparative statement of liabilities is as follows:

THE GROUP

Liabilities and shareholders equity (RONm)	Jun-19	Dec-19	Jun-20	% total	vs. Dec-19	vs. Jun-19
Amounts owed to credit institutions	1,966	2,118	2,107	3.5%	-0.5%	7.2%
Amounts owed to customers	45,387	45,899	47,557	78.9%	3.6%	4.8%
Other liabilities	1,971	1,570	1,960	3.3%	24.8%	-0.5%
Shareholders equity	7,420	8,184	8,683	14.4%	6.1%	17.0%
Total liabilities and shareholders equity	56,744	57,771	60,307	100.0%	4.4%	6.3%

THE BANK

Liabilities and shareholders equity (RONm)	Jun-19	Dec-19	Jun-20	% total	vs. Dec-19	vs. Jun-19
Amounts owed to credit institutions	534	431	422	0.7%	-2.3%	-21.0%
Amounts owed to customers	45,437	46,040	47,721	81.7%	3.7%	5.0%
Other liabilities	1,875	1,487	1,859	3.2%	25.0%	-0.9%
Shareholders equity	7,111	7,895	8,385	14.4%	6.2%	17.9%
Total liabilities and shareholders equity	54,957	55,853	58,386	100.0%	4.5%	6.2%

AMOUNTS OWED TO CUSTOMERS

At June 30, 2020, amounts owed to customers increased by 3.6% compared to 2019 end at Group level, with an advance of approximately 5% on an annual basis for both the Bank and the Group. The year on year increase was pushed by higher inflows from individuals, small and medium companies, still driven by sight deposits, especially foreign currency, with a visible contribution of March 2020 collections. Deposits from large corporate customers compressed, on both RON and FX, but with a significantly more pronounced decrease rate of the latter, on EUR deposits' decrease, as the approach was pragmatically adjusted given the liquidity situation of the Bank.

AMOUNTS OWED TO THE CREDIT INSTITUTIONS

Amounts owed to credit institutions represent interbank deposits, borrowings from International Financial Institutions and the parent, and stood at 3.5% of the total assets for the Group and 0.7% for the Bank at June 30, 2020.

BRD Group's borrowings from Société Générale totalled RON 1.5 billion (3.0% of liabilities).

SHAREHOLDERS' EQUITY

Shareholders' equity increased by 17% for the Group and 17.9% for the Bank compared to June 30, 2019, on higher retained earnings given the fully retained 2019 profit, according to General Shareholders Meeting's decision. Compared to December 2019 end, shareholders' equity increased by approximately 6% both for the Group and the Bank, mainly on the positive effect of the half year 2020 profit.

The structure of the shareholders' equity evolved as follows:

THE GROUP

Shareholders' equity (RONm)	Jun-19	Dec-19	Jun-20	vs. Dec-19	vs. Jun-19
Share capital	2,516	2,516	2,516	0.0%	0.0%
Other reserves	127	179	263	47.0%	106.8%
Retained earnings and capital reserves	4,732	5,441	5,851	7.5%	23.7%
Non-controlling interest	45	48	53	10.1%	17.2%
Total shareholders' equity	7,420	8,184	8,683	6.1%	17.0%

THE BANK

Shareholders' equity (RONm)	Jun-19	Dec-19	Jun-20	vs. Dec-19	vs. Jun-19
Share capital	2,516	2,516	2,516	0.0%	0.0%
Other reserves	121	179	263	47.0%	117.3%
Retained earnings and capital reserves	4,475	5,201	5,606	7.8%	25.3%
Total shareholders' equity	7,111	7,895	8,385	6.2%	17.9%

LIQUIDITY POSITION

Both the Bank and the Group maintained a balanced structure of resources and placements and a comfortable liquidity level over the analysed period.

The net loans to deposits ratio reached 61.2% at June 30, 2020 (from 64.0% at December 31, 2019 and 63.8% at June 30, 2019) for the Bank and 65.2% for the Group, including financial leasing receivables (68.2% at December 31, 2019 and 67.5% at June 30, 2019).

H1-2020 FINANCIAL RESULTS

The comparative income statement of the Group for the periods January – June 2020 and January – June 2019 is presented below:

RONm	H1-2019	H1-2020	Variation
Net banking income	1,609	1,512	-6.0%
- net interest income	1,045	1,042	-0.3%
- net commissions	387	333	-14.0%
- other banking income	177	138	-22.3%
Operating expenses	(804)	(800)	-0.5%
- staff expenses	(403)	(412)	2.2%
- non-staff expenses	(400)	(387)	-3.3%
Operating profit	805	713	-11.5%
Net cost of risk	144	(225)	n.a.
Gross result	949	487	-48.7%
Net result	787	415	-47.3%
Profit attributable to equity holders of the parent	783	410	-47.6%

The comparative income statement of the Bank for the periods January – June 2020 and January – June 2019 is presented below:

RONm	H1-2019	H1-2020	Variation
Net banking income	1,566	1,433	-8.5%
- net interest income	983	977	-0.7%
- net commissions	368	313	-14.9%
- other banking income	214	143	-33.3%
Operating expenses	(760)	(755)	-0.6%
- staff expenses	(377)	(385)	2.3%
- non-staff expenses	(383)	(370)	-3.5%
Operating profit	805	677	-15.9%
Net cost of risk	154	(203)	n.a.
Gross result	959	475	-50.5%
Net result	803	405	-49.5%

BRD Group's net banking income stepped back with 6.0% in H1 2020 versus the same period of the last year, mainly due to lower fees and commissions and other revenues categories, despite a quite resilient net interest income. The net interest income slight decrease of -0.3% YoY was due to the drop in private individuals loan production (especially consumer loans) within the lockdown context, unfavorable structure shifts and lower interest rates (average ROBOR 3M at 2.72% in H1 2020, -48 bps YoY). Net fees and commissions decreased with -14%, mainly due to the contraction of commissions on transfers as effect of price alignment for EUR denominated payments to domestic ones (starting with 15th of December 2019, according to SEPA rules), the cancellation from March 15th 2020 (for 3 months) of commissions on transfers and subscription fees for individual clients using digital solutions, free withdrawals under the new individual packages and cease of the Western Union business in August 2019. Other non-interest revenues were mainly influenced by a base effect generated by significant revaluation gains in H1 2019.

Operating expenses reduced by -0.5% compared to the same period of the last year, benefitting from lower contributions to Deposit Guarantee and Resolution Funds (43m RON vs 72m in 2019). Excluding these contributions, operating expenses inched up by +3.4%, on the impact of both slightly higher staff expenses (+2.2%), and on increase in other costs categories (+4.8%), mainly as a result of costs related

to the management of the health crisis and IT&C costs, driven by the acceleration of the digital roadmap. A cost saving plan was launched with already visible results, as operating expenses slightly decreased in Q2 2020 vs. Q2 2019, excluding the sanitary costs and an unfavourable base effect related to previous year adjustments recognized in June 2019.

In this context, the BRD Group cost/income ratio increased to 52.9%, up from 50.0% in the same period of the previous year.

Considering the strongly deteriorated context, BRD Group registered resilient operational performance, with gross operating income of RON 713 million in H1-2020 (-11.5% YoY).

The quality of the loan portfolio kept being solid with a NPL ratio* (non-performing loans, according to EBA definition) of 4.0% at June 2020 end vs. 3.8% at June 2019 end and a high level of coverage of non-performing exposures (coverage ratio* of 74.5% at June 2020 end vs. 75.7% at June 2019 end). Risk costs turned negative to RON 225 million versus a release of RON 144 million in H1-2019, mainly reflecting probability of default recalibration and update of macro scenario, within the worsened economic landscape.

As a result of all the above, BRD Group recorded a net result of RON 415 million, -47% YoY, from RON 787 million in H1-2019 on lower revenues and negative cost of risk.

These results led to a return on equity of 9.8% in H1-2020, 11 ppts lower compared to H1-2019 and return on assets of 1.4%, 1.4 ppt lower compared to H1-2019.

The Bank recorded similar trends, which led to a net result of RON 405 million versus RON 803 million in H1-2019.

CASH FLOW

The statement on the modifications of the cash flows from operation, investment and financing activities is part of the interim financial statements accompanying this report.

CAPITAL ADEQUACY (THE BANK)

RONm	Jun-19	Dec-19	Jun-20
Tier 1 capital	5,789	7,322	7,385
TOTAL OWN FUNDS**	5,789	7,322	7,385
Capital requirements	2,314	2,352	2,191
Credit risk (including counterparty risk)	26,123	26,118	24,152
Market risk	350	317	237
Operational risk	2,304	2,849	2,886
CVA risk	146	120	112
Total risk exposure amount	28,924	29,404	27,387
Regulatory CAR	20.0%	24.9%	27.0%

At Bank level, the capital adequacy ratio stood at a very solid level, reaching 27.0% at June 30, 2020 (Basel 3), compared to 24.9% at December 31, 2019 and 20.0% at June 30, 2019. The year on year variation in solvency ratio is explained by the increase in own funds as a result of retaining the full 2019 profit, and by the decrease of capital requirements mainly driven by the implementation of Regulation 873/2020 as regards adjustments in response to the COVID-19 pandemic, that includes among the provisions a temporary relief on the RW for debt issued in the currency of another Member State.

The Tier 1 ratio was also 27.0% at June 30, 2020 compared to 24.9% at December 31, 2019 and 20.0% at June 30, 2019.

* at Bank level

** at June 2020, with full 2019 retained profit according to BRD's GSM decision

OTHER STATEMENTS

Neither the Bank's nor the Group's revenues depend on a single or group of connected customers; hence there is no risk that the loss of a customer might significantly affect the income level.

Except for the changes in the economic environment presented in chapter 2, no events, transactions or modifications of the economic situation, which would have significant consequences on the Bank's incomes occurred.

In the period January – June 2020 the Bank found itself in no such cases as to be unable to meet its financial obligations.

In the period January – June 2020, no modifications occurred with respect to the rights of the Bank-issued securities holders.

The major transactions in which the persons able to take concerted actions were involved are presented in Note 35 in the interim financial statements accompanying this report. These transactions were made in normal market conditions, during the current activity and with no significant influence on BRD's financial position.

No subsequent events were identified after the reporting date.

5. CONCLUSIONS

In Q1 2020, Romania and the entire world entered in an unprecedented sanitary crisis, with strong, complex and difficult to quantify economic implications.

In order to ensure the business continuity, BRD quickly and successfully adapted its organization, swiftly implementing efficient internal measures to address the effects of the crisis. Adequate prevention and security measures were applied in all of the business outlets, flexible working schedule was organized, teams were split and a significant part of BRD's employees quickly switched to telework.

In these difficult times, the Bank's first priority was to continuously stand by its clients. Fully committed in this respect, BRD granted repayment flexibility for more than 44k clients, took an active participation in IMM Invest Programme, and increased its corporate lending activity, with financing volume progressing by +5% y/y.

As expected, revenues were hit and cost of risk was directly impacted by the deteriorated economic environment.

Cost adjustments measures were immediately taken (freeze of hiring, reduction of communication and marketing expenses, ban on travels, etc.), but without compromising on our strategic priority, the Bank digital transformation.

Considering the significantly deteriorated context, BRD delivered an overall resilient financial performance and continued to build on solid fundamentals with strong capital, high liquidity and elevated asset quality.

The interim financial report as at June 30, 2020 has been reviewed for the Bank only.

Giovanni Luca SOMA

Chairman of the Board of Directors

François BLOCH

Chief Executive Officer

Stephane FORTIN

Deputy Chief Executive Officer

Etienne LOULERGUE

Chief Financial Officer