

BRD – Groupe Société Générale S.A.

INTERIM FINANCIAL STATEMENTS

JUNE 30, 2020

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF FINANCIAL POSITION
for the period ended June 30, 2020
(Amounts in thousands RON)

	Note	Group		Bank	
		Unaudited (*) June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
ASSETS					
Cash in hand	4,32	1,913,701	2,077,373	1,913,697	2,077,340
Due from Central Bank	5	3,104,144	4,765,273	3,104,144	4,765,273
Due from banks	6	5,516,104	3,409,594	5,499,239	3,391,780
Derivatives and other financial instruments held for trading	7	2,841,329	1,244,032	2,841,329	1,244,069
Loans and advances to customers	8	29,976,415	30,292,869	29,213,637	29,466,780
Finance lease receivables	9	1,023,276	992,665	-	-
Financial assets at fair value through profit and loss	10	113,834	108,054	88,456	87,375
Financial assets at fair value through other comprehensive income	11	13,848,206	12,958,113	13,848,206	12,958,113
Investments in associates and subsidiaries		90,818	85,574	147,016	133,982
Property, plant and equipment	12	1,152,260	1,193,499	1,136,710	1,175,272
Investment property		17,499	17,818	17,499	17,818
Goodwill	13	50,130	50,130	50,130	50,130
Intangible assets	14	203,319	185,289	199,907	181,424
Current tax assets	19	167	136	-	-
Deferred tax asset	19	76,782	88,955	71,067	83,113
Other assets	15	379,504	301,130	255,065	220,770
Total assets		60,307,488	57,770,504	58,386,102	55,853,239
LIABILITIES AND SHAREHOLDERS' EQUITY					
Due to banks	16	413,416	421,112	413,416	421,112
Due to customers	17	47,557,438	45,898,751	47,721,250	46,039,649
Borrowed funds	18	1,693,452	1,696,495	8,145	10,367
Derivatives and other financial instruments held for trading	7	595,830	209,530	595,830	209,530
Current tax liability	19	39,689	15,117	38,260	11,438
Other liabilities	20	1,324,776	1,345,581	1,224,594	1,265,855
Total liabilities		51,624,601	49,586,586	50,001,495	47,957,951
Share capital	21	2,515,622	2,515,622	2,515,622	2,515,622
Other reserves		263,439	179,152	263,439	179,152
Retained earnings and capital reserves		5,851,321	5,441,455	5,605,546	5,200,514
Non-controlling interest		52,505	47,689	-	-
Total equity		8,682,887	8,183,918	8,384,607	7,895,288
Total liabilities and equity		60,307,488	57,770,504	58,386,102	55,853,239

The financial statements have been authorized by the Group's management on July 30, 2020 and are signed on the Group's behalf by:

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

The accompanying notes are an integral part of this financial statements

(*) Unaudited / unreviewed by the financial auditor

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE PROFIT OR LOSS
for the period ended June 30, 2020
(Amounts in thousands RON)

	Note	Group		Bank	
		Unaudited (*)		Unaudited (*)	
		Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Interest and similar income	22	1,130,858	1,143,825	1,052,690	1,070,047
Interest and similar expense	23	(88,979)	(99,081)	(75,906)	(86,769)
Net interest income		1,041,879	1,044,744	976,784	983,278
Fees and commissions, net	24	332,561	386,681	313,003	367,955
Gain on derivative, other financial instruments held for trading and foreign exchange	25	136,688	152,104	136,014	152,353
Gain from financial instruments at fair value through other comprehensive income		1,274	6,921	1,274	6,921
Gain from financial instruments at fair value through profit and loss		118	16,610	219	15,920
Net gain or loss/Income from associates		(2,000)	572	5,791	9,146
Other income/expense from banking activities	26	1,598	951	(230)	30,038
Operating income		1,512,118	1,608,583	1,432,855	1,565,611
Personnel expenses	28	(412,291)	(403,350)	(385,401)	(376,823)
Depreciation, amortisation and impairment on tangible and intangible assets	29	(116,084)	(112,153)	(111,702)	(108,534)
Contribution to Guarantee Scheme and Resolution Fund	27	(43,304)	(72,218)	(43,304)	(72,218)
Other operating expenses	30	(227,929)	(216,003)	(214,978)	(202,587)
Total operating expenses		(799,608)	(803,724)	(755,385)	(760,161)
Net operating profit		712,510	804,859	677,470	805,450
Cost of risk	31	(225,113)	144,317	(202,648)	153,787
Profit before income tax		487,397	949,176	474,822	959,237
Current tax expense	19	(76,585)	(158,144)	(73,782)	(153,137)
Deferred tax Income/(expense)	19	3,866	(4,129)	3,993	(3,440)
Total income tax		(72,719)	(162,273)	(69,789)	(156,577)
Profit for the period		414,678	786,903	405,033	802,660
Profit attributable to equity holders of the parent		409,862	782,846	-	-
Profit attributable to non-controlling interests		4,816	4,057	-	-
Basic earnings per share (in RON)	37	0.5881	1.1233	0.5812	1.1518

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BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the period ended June 30, 2020
(Amounts in thousands RON)

	Group		Bank	
	Unaudited (*) June 30, 2020	Unaudited (*) June 30, 2019	June 30, 2020	June 30, 2019
Profit for the period	414,678	786,903	405,033	802,660
Other comprehensive income				
Net comprehensive income that may be reclassified to profit and loss in subsequent periods	84,287	124,343	84,287	124,343
Net gain/(loss) on financial assets at fair value through other comprehensive income	84,287	124,343	84,287	124,343
Reclassifications to profit and loss during the period	1,193	7,631	1,193	7,631
Revaluation differences	99,133	140,532	99,133	140,532
Income tax	(16,039)	(23,820)	(16,039)	(23,820)
Other comprehensive income for the period, net of tax	84,287	124,343	84,287	124,343
Total comprehensive income for the period, net of tax	498,965	911,246	489,320	927,003
Attributable to:				
Equity holders of the parent	494,149	907,189		-
Non-controlling interest	4,816	4,057		-

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BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
for the period ended June 30, 2020
(Amounts in thousands RON)

Group Unaudited (*)

	Attributable to equity holders of the parent				Non-controlling interest	Total equity	
	Other reserves						
	Issued capital	Reserves from financial assets at fair value through other comprehensive income	Reserves from defined pension plan	Foreign currency translation reserve			Retained earnings and capital reserves
December 31, 2018	2,515,622	(26,520)	23,398	6,174	5,092,159	46,594	7,657,426
Total comprehensive income	-	124,343	-	-	782,846	4,057	911,246
Net Profit for the period	-	-	-	-	782,846	4,057	786,903
Other comprehensive income	-	124,343	-	-	-	-	124,343
Equity dividends	-	-	-	-	(1,142,919)	(5,843)	(1,148,762)
June 30, 2019	2,515,622	97,823	23,398	6,174	4,732,085	44,808	7,419,910

	Attributable to equity holders of the parent			Non-controlling interest	Total equity	
	Other reserves					
	Issued capital	Reserves from financial assets at fair value through other comprehensive income	Reserves from defined pension plan			Retained earnings and capital reserves
December 31, 2019	2,515,622	159,619	19,533	5,441,455	47,689	8,183,918
Total comprehensive income	-	84,287	-	409,862	4,816	498,965
Net Profit for the period	-	-	-	409,862	4,816	414,678
Other comprehensive income	-	84,287	-	-	-	84,287
June 30, 2020	2,515,622	243,906	19,533	5,851,321	52,505	8,682,887

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BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CHANGES IN EQUITY
for the period ended June 30, 2020
(Amounts in thousands RON)

Bank

	Other reserves			Retained earnings and capital reserves	Total equity
	Issued capital	Reserves from financial assets at fair value through other comprehensive income	Reserves from defined pension plan		
December 31, 2018	2,515,622	(26,521)	23,398	4,814,909	7,327,408
Total comprehensive income	-	124,343	-	802,660	927,003
Net Profit for the period	-	-	-	802,660	802,660
Other comprehensive income	-	124,343	-	-	124,343
Equity dividends	-	-	-	(1,142,919)	(1,142,919)
June 30, 2019	2,515,622	97,822	23,398	4,474,650	7,111,493

	Other reserves			Retained earnings and capital reserves	Total equity
	Issued capital	Reserves from financial assets at fair value through other comprehensive income	Reserves from defined pension plan		
December 31, 2019	2,515,622	159,619	19,533	5,200,514	7,895,288
Total comprehensive income	-	84,287	-	405,033	489,320
Net Profit for the period	-	-	-	405,033	405,033
Other comprehensive income	-	84,287	-	-	84,287
June 30, 2020	2,515,622	243,906	19,533	5,605,546	8,384,607

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(*) Unaudited / unreviewed by the financial auditor

BRD – Groupe Société Générale S.A.
CONSOLIDATED AND SEPARATE STATEMENT OF CASH FLOWS
for the year ended June 30, 2020
(Amounts in thousands RON)

Note	Group		Bank	
	Unaudited (*)		Unaudited (*)	
	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash flows from operating activities				
	487,397	949,176	474,822	959,237
<i>Adjustments for:</i>				
Depreciation and amortization expense	116,084	112,153	111,702	108,534
Loss/(gain) from revaluation of investment in associates	7,791	8,573	-	-
(Gain) from revaluation of equity investments	(981)	(17,027)	(1,082)	(16,712)
Impairment adjustments and provisions	271,215	(36,718)	247,125	(50,912)
Adjusted profit	881,506	1,016,158	832,567	1,000,150
Changes /re-classifications in operating assets and liabilities				
Due from Central Bank	1,661,129	(953,841)	1,661,129	(953,841)
Accounts and deposits with banks	(2,432)	(63,308)	(3,379)	(64,261)
Financial assets at fair value through profit and loss	(4,799)	9	1	9
Financial assets at fair value through other comprehensive income	(805,806)	802,660	(805,806)	802,660
Loans and advances to customers	69,774	(99,639)	23,088	(35,079)
Lease receivables	(38,953)	(116,291)	-	-
Other assets including trading	(1,690,916)	(545,169)	(1,647,256)	(559,031)
Due to banks	(7,696)	222,661	(7,696)	222,661
Due to customers	1,658,687	169,700	1,681,601	121,149
Other liabilities	406,990	194,299	386,766	221,497
Total changes in operating assets and liabilities	1,245,978	(388,918)	1,288,448	(244,234)
Income tax paid	(49,046)	(63,776)	(46,960)	(60,769)
Cash flow from operating activities	2,078,438	563,464	2,074,056	695,147
Investing activities				
Acquisition of equity investments	(13,035)	-	(13,034)	-
Acquisition of tangible and intangible assets	(80,563)	(63,399)	(79,644)	(60,763)
Proceeds from sale of tangible and intangible assets	995	2,285	995	2,285
Cash flow from investing activities	(92,603)	(61,114)	(91,683)	(58,478)
Financing activities				
Proceeds from borrowings	12,427,039	15,723,480	12,001,384	15,257,629
Repayment of borrowings	(12,430,077)	(15,584,354)	(12,003,607)	(15,261,034)
Repayment of principal lease liabilities	(42,391)	(42,517)	(39,713)	(40,125)
Dividends paid	-	(1,148,762)	-	(1,142,919)
Net cash from financing activities	(45,429)	(1,052,154)	(41,935)	(1,186,449)
Net movements in cash and cash equivalents	1,940,405	(549,804)	1,940,437	(549,781)
Cash and cash equivalents at beginning of the period	5,337,054	5,373,530	5,337,018	5,373,497
Cash and cash equivalents at the end of the period	7,277,459	4,823,725	7,277,455	4,823,716

	Group		Bank	
	Unaudited (*)		Unaudited (*)	
	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Interest paid	93,801	97,200	76,842	85,101
Interest received	1,207,498	1,230,039	1,129,690	1,152,735
Dividends received	5,791	9,146	5,791	39,952

The amount of undrawn borrowing facilities that may be available for future operating activities is 484,230 (December 31, 2019: 716,895) and represents a stand by line concluded with the parent for contingency funding purposes as requested by the Romanian banking regulations on liquidity management.

The accompanying notes are an integral part of this financial statements

(*) Unaudited / unreviewed by the financial auditor

BRD – Groupe Société Générale S.A.
NOTES TO THE CONSOLIDATED AND SEPARATE INTERIM FINANCIAL STATEMENTS
as of and for the period ended June 30, 2020
(Amounts in thousands RON)

1. Corporate information

BRD – Groupe Société Générale (the “Bank” or “BRD”) is a joint stock company incorporated in Romania. The Bank commenced business as a state owned credit institution in 1990 by acquiring assets and liabilities of the former Banca de Investitii. The Bank headquarters and registered office is 1-7 Ion Mihalache Blvd, Bucharest.

BRD together with its subsidiaries (the “Group”) offers a wide range of banking and financial services to corporates and individuals, as allowed by law. The Group accepts deposits from the public and grants loans and leases, carries out funds transfer in Romania and abroad, exchanges currencies and provides other financial services for its commercial and retail customers.

The ultimate parent is Société Générale S.A. as at June 30, 2020 (the “Parent” or “SG”).

The Bank has as at June 30, 2020 625 units throughout the country (December 31, 2019: 648).

The average number of active employees of the Group during first semester was 7,201 (2019: 7,407), and the number of active employees of the Group as of the period-end was 7,092 (December 31, 2019: 7,356).

The average number of active employees of the Bank during first semester was 6,634 (2019: 6,808), and the number of active employees of the Bank as of the period-end was 6,572 (December 31, 2019: 6,751).

The active employees are the full time employees (excluding maternity leave and long-term sick leave).

BRD – Groupe Société Générale has been quoted on Bucharest Stock Exchange (“BVB”) since January 15, 2001.

The shareholding structure of the Bank is as follows:

	June 30, 2020	December 31, 2019
Societe Generale	60.17%	60.17%
Fondul De Pensii Administrat Privat Nn/Nn Pensii S.A.F.P.A.P. S.A.	5.23%	4.74%
S.I.F. Oltenia	4.11%	4.09%
Fondul De Pensii Administrat Privat Azt Viitorul Tau/Allianz Pp	3.44%	2.91%
S.I.F. Transilvania	3.29%	3.26%
Fondul De Pensii Administrat Privat Metropolitan Life	2.62%	2.18%
Legal entities	16.52%	18.30%
Individuals	4.63%	4.35%
Total	100.00%	100.00%

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BRD – Groupe Société Générale S.A.
NOTES TO THE CONSOLIDATED AND SEPARATE INTERIM FINANCIAL STATEMENTS
as of and for the period ended June 30, 2020
(Amounts in thousands RON)

2. Basis of preparation

a) Basis of preparation

The separate interim financial statements as at 30 June 2020 are of the Bank BRD – Groupe Société Générale. These are reviewed by Ernst & Young Assurance Services SRL in accordance with International Standards of Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. The consolidated interim financial statements as at 30 June 2020 and 30 June 2019 are not audited nor reviewed (references included in the financial statements and selected explanatory notes).

The interim financial statements for the six months ended 30 June 2020 has been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim financial statements does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual financial statements for the year ended December 31, 2019. In accordance with European Regulation 1606/2002 of July 19, 2002 on the application of International Accounting Standards, and Order of the National Bank of Romania Governor no. 27/2010, as amended, BRD prepared consolidated and separate financial statements for the year ended December 31, 2019 in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (“EU”).

The consolidated interim financial statements includes the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in shareholders’ equity, the consolidated cash flow statement, and selected explanatory notes.

The separate interim financial statements includes the separate statement of financial position, the separate income statement, the separate statement of comprehensive income, the statement of changes in shareholders’ equity, the separate cash flow statement, and selected explanatory notes.

The consolidated and separate interim financial statements is presented in Romanian lei (“RON”), which is the Group’s and its subsidiaries’ functional and presentation currency, rounded to the nearest thousand, except when otherwise indicated. The consolidated and separate interim financial statements has been prepared on a historical cost basis, except for financial assets at fair value through profit and loss, financial assets through other comprehensive income, derivative financial instruments, other financial assets and liabilities held for trading, which have all been measured at fair value.

The Bank’s management has made an assessment of the Bank’s ability to continue as a going concern and is satisfied that the bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern. Therefore, the financial statements are prepared on the going concern basis.

b) Basis for consolidation

The consolidated interim financial statements comprise the financial statements of the credit institution and its subsidiaries as at June 30, 2020. The financial statements of the subsidiaries are prepared for the same reporting period, using consistent accounting policies.

The accompanying notes are an integral part of this financial statements

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BRD – Groupe Société Générale S.A.
NOTES TO THE CONSOLIDATED AND SEPARATE INTERIM FINANCIAL STATEMENTS
as of and for the period ended June 30, 2020
(Amounts in thousands RON)

2. Basis of preparation

b) Basis for consolidation (continued)

A subsidiary is an entity over which the Bank exercises control. An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidated financial statements include the financial statements of BRD – Groupe Société Générale S.A. and the following subsidiaries: BRD Sogelease IFN S.A. (99.98% ownership, 2019: 99.98%), BRD Finance IFN S.A (49% ownership, 2019: 49%) and BRD Asset Management SAI SA (99.98% ownership, 2019: 99.98%). According to IFRS 12 9(b), the Group controls BRD Finance IFN S.A even though it holds less than half of the voting rights, through the power to govern the financial and operating policies of the entity under various agreements. All intercompany transactions, balances and unrealized gains and losses on transactions between consolidated entities are eliminated on consolidation.

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 non-controlling interest are shown separately in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of comprehensive income, respectively.

The Bank is accounting the investments in subsidiaries and associates in the separate financial statements at cost less impairment adjustment.

Group			
Associates	Field of activity	Address	%
ALD Automotive SRL	Operational leasing	1-7, Ion Mihalache Street, floor 3, district 1, Bucharest 58-60 Gheorghe Polizu Street, Bucharest Corporate Center building, floor 8 (zone 3) and floor 9, district 1, Bucharest	20.00%
BRD Asigurari de Viata SA	Insurance	58-60 Gheorghe Polizu Street, Bucharest Corporate Center building, floor 8 (zone 3) and floor 9, district 1, Bucharest	49.00%
Fondul de Garantare a Creditului Rural IFN SA	Loans guarantee	5 Occidentului Street, district 1, Bucharest	33.33%
Biroul de Credit S.A.	Financial institution	29 Sfanta Vineri Street, floor 4, district 3, Bucharest	16.38%
BRD Societate de Administrare a Fondurilor de	Pension fund management	58-60 Gheorghe Polizu Street, floor 8 (zone 1, 2 and 4), district 1, Bucharest	49.00%
BRD Sogelease Asset Rental SRL	Operational leasing	1-7, Ion Mihalache Street, Bucharest	20.00%
Bank			
Associates	Field of activity	Address	%
ALD Automotive SRL	Operational leasing	1-7, Ion Mihalache Street, floor 3, district 1, Bucharest 58-60 Gheorghe Polizu Street, Bucharest Corporate Center building, floor 8 (zone 3) and floor 9, district 1, Bucharest	20.00%
BRD Asigurari de Viata SA	Insurance	58-60 Gheorghe Polizu Street, Bucharest Corporate Center building, floor 8 (zone 3) and floor 9, district 1, Bucharest	49.00%
Fondul de Garantare a Creditului Rural IFN SA	Loans guarantee	5 Occidentului Street, district 1, Bucharest	33.33%
Biroul de Credit S.A.	Financial institution	29 Sfanta Vineri Street, floor 4, district 3, Bucharest	16.38%
BRD Societate de Administrare a Fondurilor de	Pension fund management	58-60 Gheorghe Polizu Street, floor 8 (zone 1, 2 and 4), district 1, Bucharest	49.00%
Subsidiaries	Field of activity	Address	%
BRD Sogelease IFN SA	Financial lease	1-7, Ion Mihalache Street, floor 12, district 1, Bucharest	99.98%
BRD Finance IFN SA	Financial institution	1-7, Ion Mihalache Street, floor 15, district 1, Bucharest	49.00%
BRD Asset Management SAI SA	Fund administration	2 Doctor Staicovici Street, district 5, floor 5, Bucharest	99.98%

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NOTES TO THE CONSOLIDATED AND SEPARATE INTERIM FINANCIAL STATEMENTS
as of and for the period ended June 30, 2020
(Amounts in thousands RON)

2. Basis of preparation (continued)

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group/Company as of 1 January 2020.

The impact of the application of these new and revised IFRSs has been reflected in the financial statements and was estimated as not being material, except disclosures already presented in the Notes.

- **Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of ‘material’ (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity’. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards.

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BRD – Groupe Société Générale S.A.
NOTES TO THE CONSOLIDATED AND SEPARATE INTERIM FINANCIAL STATEMENTS
as of and for the period ended June 30, 2020
(Amounts in thousands RON)

2. Basis of preparation (continued)

c) Changes in accounting policies and adoption of revised/amended IFRS (continued)

• Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR).

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

• Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU.

• IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The IASB has issued an exposure draft to defer the effective date to 1 January 2023. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU.

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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 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The amendments have not yet been endorsed by the EU.

• **IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)**

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

The amendment has not yet been endorsed by the EU.

e) Significant accounting judgments and estimates

In the process of applying the Group and Bank's accounting policies, management is required to use its judgments and make estimates in determining the amounts recognized in the consolidated and separate financial statements. The most significant use of judgments and estimates are as follows:

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2. Basis of preparation (continued)

e) Significant accounting judgments and estimates (continue)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in Note 38.

Expected credit losses on financial assets at amortised cost and FVOCI

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank reviews its loans and advances to customers at each reporting date to assess whether there is any objective evidence of impairment. The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days, whether a severe alteration in the counterparty's financial standing is observed, entailing a high probability that the debtor will not be able to fully meet its credit obligations, whether concessions in the form of restructuring were consented under the circumstances of financial hardship experienced by the debtor, whether legal procedures were initiated or the debtor was transferred to specialized recovery structures (regardless of the number of days past due).

The Bank's expected credit loss model (ECL) relies on several underlying assumptions regarding the choice of variable inputs and their interdependencies, which affect the level of allowances:

- The internal credit grading model, which assigns probabilities of default (PDs) to the individual grades
- The criteria defined (both in relative and absolute terms) for the assessment of significant increase in credit risk since initial recognition and consequently the computation of allowances based on life time expected credit loss (LTECL)
- The grouping of financial assets when their ECL is measured on a collective basis
- The development of ECL model, including the various formulas and the choice of inputs
- The macroeconomic scenarios and their probability weightings based on which ECL is derived
- The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, the Bank assesses the need/opportunity for additional amounts of provisions in the form of overlays, in order to address:
 - Sector of activity specific risks (adjustment of ECL on sectors that have a different default behaviour from the whole calibration segment)
 - Visible macroeconomic threat impossible to be captured by the models (typically, when the predicted stress did not occur in the observed past serving as a base for models)The overlays booked by the Bank represent 4.5% (2019: 6.6%) of total stock of expected credit losses.
- For individually significant loans and advances, the Group and Bank identify and quantify the expected future cash flows to be used for a total or partial reimbursement of the obligations, based on the capacity of the client/business to generate revenues, proceeds resulting from sale of collaterals and other clearly identified sources of repayment. The individual assessment threshold is defined in between 500 -1,500 thousands EUR, depending on the client type and customers' management departments.

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2. Basis of preparation (continued)

e) Significant accounting judgments and estimates (continued)

Provisions for other risks and charges

The Bank operates in a regulatory and legal environment that, by nature has a heightened element of litigation risk inherent to its operations and, as a result it is involved in various litigations or is subject to various obligations arising from legislation in force.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case, as mentioned in this note. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

Generally, the first step is to establish the existence of the present obligation followed by the estimation of the amount needed to settle that obligation taking into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgment is required to conclude on these estimates.

In case of litigations:

i. For a single individual litigation the Bank assess whether there is more likely than not to have an unfavourable court decision considering the factors mentioned above; then it estimates the amount at risk; in case there are several scenarios possible with different outcomes, the amount at risk is the weighted average of the amounts at risk for each scenario using the probability distribution for all scenarios (100% is allocated to the possible scenarios) and provisions 100% of the estimated amount;

ii. For multiple litigations, the assessment of “more likely than not” could be substantiated for the entire population using statistics and provision computation to be made at pool level.

In case of obligations arising from various legislation, the bank assesses first if there is no realistic alternative of settling that obligation, and if not, it estimates the amount needed to settle that obligation (using similar approach as above) and books provisions representing 100% of the estimated amount.

Please refer to note 20 for more details.

COVID - 19

The outbreak of the COVID-19 pandemic has prompted rapid social and economic responses worldwide. Within the EU, Member States have implemented a broad range of support measures aimed at minimizing the medium- and long-term economic impacts of the pandemic. The response included some forms of moratorium on payments of credit obligations (with the aim of supporting the operational and liquidity challenges faced by borrowers), introduced either jurisdiction-wide (legislative moratorium) or voluntary industry-wide or individual initiatives by institutions (non-legislative moratorium). In Romania, the moratorium reflects a combination of statewide legislation (GEO 37/2020) doubled by various initiatives of the banking system.

The state moratorium introduced through GEO 37 has the following main features:

- ✓ validity period from 31st of March to 15th of May and further prolonged to 15th of June;
- ✓ grace period up to 9 months (not beyond 2020 end);
- ✓ interest is accrued (capitalized for consumer loans, repaid in 60 equal installments for housing loans);

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2. Basis of preparation (continued)

e) Significant accounting judgments and estimates (continued)

- ✓ available to debtors without day past due (at request date) and affected by the crisis (based on declaration for individuals, loss of 25% of revenues for companies)
- ✓ no reclassification triggered as non-performing, consistent with EU regulators' position.

In addition to legislative moratorium provisions as adopted through the GEO 37/2020 and its implementation norms, BRD has also designed internal deferral programs in order to support its debtors under the temporary distress. These measures fall into the non-legislative category.

For the eligible debtors the moratorium-related changes to the contract are not automatically considered forbearance measures, hence no automatically default trigger. As at 30 June 2020, 44,000 customers benefited from payment deferrals which represent 14% of the retail portfolio and 2% of the corporate portfolio.

An additional measure within the relief package to support the economy at national level was the approval of an envelope of 3 billion EUR of state guarantee and interest subsidies to support SME sector financing within IMM INVEST loan facility program. BRD has approved 741 customer financing requests, amounting to approx. 380 MRON.

In addition to the specific moratorium measures, the impact of Covid-19 pandemic has led to a reassessment of the macroeconomic assumptions used in the ECL computation. As such, the key indicators FX, GDP growth and unemployment rate have been updated to reflect current conditions/perspectives. Cumulatively, there was a reassessment of the likelihood/ probability of occurrence of the scenarios used. The Bank continues to use 3 scenarios: optimistic, base and stress, however, the distribution of the weights has changed with a reduced likelihood for optimistic scenario, assumed at 5% (down from 10% at Dec 2019), and increased likelihood for stress scenario, assumed at 30% (up from 16% at Dec 2019). These changes have resulted in an approximate 170 MRON impact in net cost of risk (due to an increase in ECL level). In the coming periods, it is expected that the macroeconomic assumptions will continue to be adjusted as more clarity is expected once moratoriums are slowly lifted and government-related economic programs start to produce desired effects.

The values of the key forward looking economic variables as at 30 June 2020 are:

GDP growth [%]	Base	Stress	Optimistic
2020	-6.5	-12.5	-2.5
2021	6.5	10.8	2.5
2022	0.6	0	1.7
Unemployment rate [%]	Base	Stress	Optimistic
2020	5	6.7	4.5
2021	6	7.6	5
2022	6.5	7.9	5.2
Exchange rate RON/EUR [RON]	Base	Stress	Optimistic
2020	5	6.2	4.9
2021	5.1	6.1	4.9
2022	5.1	6.1	4.9

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2. Basis of preparation (continued)

f) Segment information

A segment is a component of the Group and Bank:

- That engages in business activity from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and;
- For which distinct financial information is available;

The Group and Bank's segment reporting is based on the following segments: *Retail* including Individuals and Small Business, *Non-retail* including Small and medium enterprises ("SMEs") and Large corporate and *Corporate Center* including: treasury activities, ALM and other categories unallocated to the business lines mentioned above (fixed assets, taxes, equity investments, etc).

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3. Segment information

The segments used for management purposes are based on customer type and size, products and services offered as follows:

In Retail (Individuals & Small Business) category the following customer's segments are identified:

- Individuals – the Bank provides individual customers with a range of banking products such as: saving and deposits taking, consumer and housing loans, overdrafts, credit card facilities, funds transfer and payment facilities, etc.
- Small business – business entities with annual turnover lower than EUR 1 million and having an aggregated exposure at group level less than EUR 0.3 million. Standardised range of banking products is offered to small companies and professional: saving and deposits taking, loans and other credit facilities, etc.

Retail customers include clients with similar characteristics in terms of financing needs, complexity of the activity performed and size of business for which a range of banking products and services with medium to low complexity is provided.

In Non –Retail category the following customer's segments are identified:

- Small and medium enterprises (companies with annual turnover between EUR 1 million and EUR 50 million and the aggregated exposure at group level higher than EUR 0.3 million);
- Large corporate (corporate banking and companies with annual turnover higher than 50 million EUR, municipalities, public sector and other financial institutions).

The Bank provides these customers with a range of banking products and services, including saving and deposits taking, loans and other credit facilities, transfers and payment services, provides cash-management, investment advices, securities business, project and structured finance transaction, syndicated loans and asset backed transactions.

The Corporate Center includes: treasury activities, ALM and other categories unallocated to Retail and Non-Retail business lines.

The Executive Committee monitors the activity of each segment separately for the purpose of making decisions about resource allocation and performance assessment.

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3. Segment information (continued)

	Group							
	June 30, 2020 Unaudited (*)				December 31, 2019			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Total assets	60,307,488	22,060,959	8,938,732	29,307,796	57,770,504	22,291,550	8,993,984	26,484,970
Loans and advances to customers, net & Finance lease receivables	30,999,691	22,060,959	8,938,732	-	31,285,534	22,291,550	8,993,984	-
Other assets	29,307,796	-	-	29,307,796	26,484,970	-	-	26,484,970
Total liabilities	60,307,488	31,954,382	15,603,056	12,750,050	57,770,504	30,352,256	15,546,495	11,871,753
Due to customers	47,557,438	31,954,382	15,603,056	-	45,898,751	30,352,256	15,546,495	-
Other liabilities	12,750,050	-	-	12,750,050	11,871,753	-	-	11,871,753
	Bank							
	June 30, 2020				December 31, 2019			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Total assets	58,386,102	21,047,233	8,166,404	29,172,465	55,853,239	21,283,853	8,182,927	26,386,459
Loans and advances to customers, net	29,213,637	21,047,233	8,166,404	-	29,466,780	21,283,853	8,182,927	-
Other assets	29,172,465	-	-	29,172,465	26,386,459	-	-	26,386,459
Total liabilities	58,386,102	31,954,382	15,766,868	10,664,852	55,853,239	30,352,256	15,687,393	9,813,590
Due to customers	47,721,250	31,954,382	15,766,868	-	46,039,649	30,352,256	15,687,393	-
Other liabilities	10,664,852	-	-	10,664,852	9,813,590	-	-	9,813,590

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3. Segment information (continued)

	Unaudited (*)				Group			
	Six months ended June 30, 2020				Six months ended June 30, 2019			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Net interest income	1,041,879	671,778	227,525	142,576	1,044,744	690,538	225,929	128,277
Fees and commissions, net	332,561	252,436	84,889	(4,764)	386,681	303,943	83,920	(1,183)
Total non-interest income	137,678	40,987	36,082	60,609	177,158	46,002	42,933	88,223
Operating income	1,512,118	965,201	348,496	198,421	1,608,583	1,040,485	352,782	215,317
Total operating expenses	(799,608)	(569,744)	(209,085)	(20,778)	(803,724)	(579,229)	(203,277)	(21,217)
Cost of risk	(225,113)	(122,974)	(100,202)	(1,936)	144,317	(1,105)	155,710	(10,288)
Profit before income tax	487,397	272,482	39,208	175,706	949,176	460,151	305,215	183,812
Total income tax	(72,719)	(40,605)	(5,843)	(26,271)	(162,273)	(78,698)	(52,220)	(31,356)
Profit for the period	414,678	231,877	33,365	149,435	786,903	381,453	252,995	152,456
Cost Income Ratio	52.9%	59.0%	60.0%	10.5%	50.0%	55.7%	57.6%	9.9%

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3. Segment information (continued)

	Bank							
	Six months ended June 30, 2020				Six months ended June 30, 2019			
	Total	Retail	Non retail	Corporate Center	Total	Retail	Non retail	Corporate Center
Net interest income	976,784	626,746	203,435	146,603	983,278	623,130	189,168	170,982
Fees and commissions, net	313,003	236,949	83,054	(6,999)	367,955	288,885	82,521	(3,452)
Total non-interest income	143,068	40,688	34,472	67,908	214,378	45,830	41,360	127,189
Operating income	1,432,854	904,382	320,960	207,511	1,565,610	957,843	313,049	294,718
Total operating expenses	(755,385)	(537,689)	(197,117)	(20,578)	(760,161)	(547,074)	(192,414)	(20,673)
Cost of risk	(202,648)	(110,379)	(90,334)	(1,936)	153,787	2,205	154,973	(3,391)
Profit before income tax	474,822	256,315	33,510	184,998	959,237	412,975	275,608	270,655
Total income tax	(69,789)	(37,673)	(4,925)	(27,191)	(156,577)	(67,410)	(44,988)	(44,179)
Profit for the period	405,033	218,642	28,584	157,807	802,660	345,565	230,620	226,475
Cost Income Ratio	52.7%	59.5%	61.4%	9.9%	48.6%	57.1%	61.5%	7.0%

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4. Cash in hand

	Group		Bank	
	Unaudited (*)			
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Cash in vaults	1,558,272	1,496,734	1,558,267	1,496,701
Cash in ATM	355,430	580,639	355,430	580,639
Total	1,913,701	2,077,373	1,913,697	2,077,340

5. Due from Central Bank

	Group		Bank	
	Unaudited (*)			
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Current accounts	3,104,144	3,765,134	3,104,144	3,765,134
Deposits	-	1,000,139	-	1,000,139
Total	3,104,144	4,765,273	3,104,144	4,765,273

6. Due from banks

	Group		Bank	
	Unaudited (*)			
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Deposits at Romanian banks	352,232	116,969	352,232	116,968
Deposits at foreign banks	4,320,432	2,655,043	4,303,568	2,637,231
Current accounts at Romanian banks	27	30	26	28
Current accounts at foreign banks	577,638	637,553	577,638	637,553
Reverse repo	265,775	-	265,775	-
Total	5,516,104	3,409,594	5,499,239	3,391,780

The Due from banks portfolio is classified as Stage 1. The Group and Bank registered an impairment allowance for Due from banks of 123 as at June 30, 2020 (December 31, 2019: 252).

7. Derivative and other financial instruments held for trading

Group Unaudited (*)	June 30, 2020		
	Assets	Liabilities	Notional (total)
Interest rate swaps	115,897	37,775	4,351,209
Currency swaps	15,133	5,225	3,090,466
Forward foreign exchange contracts	11,174	10,722	1,246,225
Options	22,256	22,691	5,761,019
Total derivative financial instruments	164,460	76,413	14,448,919

	June 30, 2020	
	Assets	Liabilities
Treasury notes	1,171,314	4,053
Trading loans/deposits	15,081	478,462
Reverse repo/Repo	1,490,474	36,902
Total financial assets and liabilities held for trading	2,676,869	519,417

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7. Derivative and other financial instruments held for trading (continued)

Group	December 31, 2019		
	Assets	Liabilities	Notional (total)
Interest rate swaps	84,780	29,903	3,676,254
Currency swaps	11,352	5,164	3,980,119
Forward foreign exchange contracts	7,436	10,887	1,466,409
Options	23,448	23,569	5,201,684
Total derivative financial instruments	127,016	69,523	14,324,466

	December 31, 2019	
	Assets	Liabilities
Treasury notes	1,067,010	-
Trading deposits	50,006	140,007
Total financial assets and liabilities held for trading	1,117,016	140,007

Bank

	June 30, 2020		
	Assets	Liabilities	Notional (total)
Interest rate swaps	115,897	37,775	4,351,209
Currency swaps	15,133	5,225	3,090,466
Forward foreign exchange contracts	11,174	10,722	1,246,225
Options	22,256	22,691	5,761,019
Total derivative financial instruments	164,460	76,413	14,448,919

	June 30, 2020	
	Assets	Liabilities
Treasury notes	1,171,314	4,053
Trading loans/deposits	15,081	478,462
Reverse repo/Repo	1,490,474	36,902
Total financial assets and liabilities held for trading	2,676,869	519,417

	December 31, 2019		
	Assets	Liabilities	Notional (total)
Interest rate swaps	84,780	29,903	3,676,254
Currency swaps	11,352	5,164	3,980,119
Forward foreign exchange contracts	7,473	10,887	1,487,916
Options	23,448	23,569	5,201,684
Total derivative financial instruments	127,052	69,522	14,345,973

	December 31, 2019	
	Assets	Liabilities
Treasury notes	1,067,010	-
Trading deposits	50,006	140,007
Total financial assets and liabilities held for trading	1,117,016	140,007

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7. Derivative and other financial instruments held for trading (continued)

The Group continue to apply hedge accounting (fair value hedge) as at June 30, 2020 and has 3 hedging relationships (3 hedging relationships as at December 31, 2019).

- On September 30, 2013, the Bank initiated a macro fair value hedge of interest rate risk associated with the current accounts, using several interest rate swaps (pay variable, receive fixed). The change in the fair value of the macro fair value hedge swaps offsets the change in the fair value of the hedged portion of the current accounts. The hedged item is represented by the portion of the current accounts portfolio equal to the swaps nominal of 20.82 million EUR with a fixed interest rate of 1.058%. The remaining period for the hedging instrument is of 0.75 years.
- On June 30, 2018, the Bank initiated two macro fair value hedges one in EUR and one in USD of interest rate risk associated with the current accounts, using several interest rate swaps (pay variable, receive fixed). The change in the fair value of the macro fair value hedge swaps offsets the change in the fair value of the hedged portion of the current accounts. The hedged items are represented by the portion of the current accounts portfolio equal to the swaps nominal values of:
 - 162 million EUR yearly with a fixed interest rate of 0.42%, the remaining period of 8 years.
 - 64 million EUR yearly with a fixed interest rate of -0.0125%, the remaining period of 3 years.
 - 60 million EUR yearly with a fixed interest rate of 0.171%, the remaining period of 5 years.
 - 56 million EUR yearly with a fixed interest rate of -0.0125%; the remaining period of 3 years.
 - 36 million USD yearly with a fixed interest rate of 2.813%; he remaining period of 8 years.
 - 24 million USD yearly with a fixed interest rate of 2.765%; the remaining period of 3 years.

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7. Derivative and other financial instruments held for trading (continued)

All hedging relationships have quarterly settlement periods for both fixed and variable legs. The hedging relationships were effective throughout the reporting period.

Main source of hedge ineffectiveness that might be expected to affect the hedging relationships is the amortization model of current accounts. However, the amortization of the hedged item is based on a behavioral ALM model that is reviewed / back tested on a yearly basis. In order to avoid inefficiency generated by the underestimated amortization of the current accounts, maximum 70% of the current accounts portfolio per each time band is designated as hedged item.

The hedging relationship were designated on the date of the IRS origination. At that date, the theoretical derivative was built as to match the interest rate behavior of the current accounts, the hedged item (i.e. a spread was added to the variable leg so that the fair value of the theoretical swap on the designation date to be zero). Consequently no other major sources of ineffectiveness were identified.

As at 30 June 2020, the accumulated amount of fair value hedge adjustments on the current accounts hedged item are included in the carrying amount and presented in due to customer line in the statement of financial position and amounts to 57,439 The change in value of the hedged item during the period is explained by loss from revaluation in amount of -17,995 and by the exchange rate evolution effect in amount of -455. During 2020, the difference between the hedging gains or losses of the hedging instrument and the hedged item recognized in profit or loss amounts -289.

The fair value of hedging instrument for Group and Bank was the following:

	June 30, 2020		
	Assets	Liabilities	Notional (total)
Interest rate swaps	53,656	-	1,692,195
	December 31, 2019		
	Assets	Liabilities	Notional (total)
Interest rate swaps	35,465	-	2,089,274

Forwards

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts concluded by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

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7. Derivative and other financial instruments held for trading (continued)

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Bank purchases and sells options in the over-the-counter markets.

Options purchased by the Bank provide the Bank with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option.

The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options written by the Bank provide the purchaser the opportunity to purchase from or sell to the Bank the underlying asset at an agreed-upon value either on or before the expiration of the option. The options are kept in order to neutralize the customer deals.

Trading treasury notes are treasury discount notes and coupon bonds held for trading purposes. All the treasury notes in Bank's portfolio are issued by the Romanian Government in RON, EUR and USD.

8. Loans and advances to customers

	Group		Bank	
	Unaudited (*)		June 30, 2020	December 31, 2019
	June 30, 2020	December 31, 2019		
Loans, gross	31,702,109	31,883,889	30,821,118	30,955,516
Loans impairment	(1,725,694)	(1,591,020)	(1,607,481)	(1,488,736)
Total	29,976,415	30,292,869	29,213,637	29,466,780

The structure of loans is the following:

	Group		Bank	
	Unaudited (*)		June 30, 2020	December 31, 2019
	June 30, 2020	December 31, 2019		
Working capital loans	4,253,641	4,213,769	4,253,641	4,213,769
Loans for equipment	2,646,846	2,655,312	2,413,725	2,428,421
Trade activities financing	705,565	1,030,273	705,565	1,030,273
Acquisition of real estate, including mortgage for individuals	12,975,161	12,879,426	12,975,161	12,879,426
Consumer loans	8,935,912	9,193,807	8,288,042	8,492,325
Other	2,184,983	1,911,302	2,184,983	1,911,302
Total	31,702,108	31,883,889	30,821,118	30,955,516

During the first half of 2020 the gross loan portfolio decreased by 134 million RON as compared with 31 December 2019.

As at 30 June 2020 the Bank's gross loan portfolio and movements were distributed as follows:

- Stage 1: 24,179 million RON, with a 62 million RON decrease compared to 31 December 2019.
- Stage 2: 5,353 million RON, with a 132 million RON decrease compared to 31 December 2019.
- Stage 3: 1,246 million RON, with a 82 million RON increase compared to 31 December 2019.
- POCI: 43 million RON, with a 22 million RON decrease compared to 31 December 2019.

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8. Loans and advances to customers (continued)

As of June 30, 2020 the amortized cost of loans granted to the 20 largest corporate clients (groups of connected borrowers) amounts to 3,288,099 (December 31, 2019: 3,383,804), while the value of letters of guarantee and letters of credit issued in favour of these clients amounts for the Group and Bank to 2,732,094 (December 31, 2019: 3,275,635).

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8. Loans and advances to customers (continued)

Sector analysis of loans granted and impairment allowance

Group Unaudited (*) %	June 30, 2020									
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance
Individuals	70.5%	62.7%	70.0%	77.0%	63.5%	60.4%	56.7%	21.7%	70.1%	65.1%
Agriculture, forestry and fishing	2.1%	4.0%	2.7%	1.6%	0.9%	0.8%	2.7%	8.8%	2.1%	1.5%
Mining and quarrying	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Manufacturing	4.6%	5.0%	8.1%	4.4%	4.7%	5.2%	1.9%	5.7%	5.2%	4.9%
Electricity, gas, steam and air conditioning supply	2.0%	3.4%	2.3%	6.1%	0.4%	0.5%	0.0%	0.0%	2.0%	2.4%
Water supply	0.3%	0.7%	0.2%	0.3%	0.2%	0.2%	0.1%	0.1%	0.3%	0.3%
Construction	0.8%	0.6%	1.6%	0.5%	12.2%	15.0%	1.9%	3.2%	1.4%	9.0%
Wholesale and retail trade	5.7%	5.9%	4.4%	2.3%	4.0%	4.7%	20.7%	36.2%	5.4%	4.4%
Transport and storage	1.4%	1.8%	2.1%	2.3%	0.5%	0.6%	0.3%	0.3%	1.5%	1.2%
Accommodation and food service activities	0.4%	0.5%	0.2%	0.2%	2.9%	2.4%	5.6%	11.9%	0.5%	1.6%
Information and communication	2.0%	2.2%	0.1%	0.0%	0.1%	0.1%	0.0%	0.1%	1.6%	0.3%
Financial institutions	3.8%	4.5%	5.3%	1.6%	0.0%	0.0%	0.0%	0.0%	3.9%	1.0%
Real estate activities	2.0%	3.4%	0.0%	0.0%	1.1%	1.5%	9.3%	12.1%	1.6%	1.4%
Professional, scientific and technical activities	0.3%	0.3%	0.4%	0.4%	2.9%	3.7%	0.0%	0.0%	0.4%	2.3%
Administrative and support service activities	0.1%	0.1%	0.1%	0.1%	0.4%	0.6%	0.0%	0.0%	0.1%	0.4%
Public administration and defence, compulsory social security	3.3%	3.9%	1.1%	1.0%	5.6%	3.7%	0.0%	0.0%	3.0%	2.9%
Education	0.0%	0.1%	0.7%	1.1%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
Human health services and social work activities	0.6%	1.0%	0.4%	0.4%	0.3%	0.4%	0.8%	0.0%	0.5%	0.5%
Arts, entertainment and recreation	0.0%	0.0%	0.2%	0.7%	0.2%	0.3%	0.0%	0.0%	0.0%	0.4%
Other services	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

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8. Loans and advances to customers (continued)

Sector analysis of loans granted and impairment allowance (continued)

Bank %	June 30, 2020									
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance
Individuals	70.2%	59.6%	70.8%	77.6%	60.9%	56.9%	56.7%	21.7%	69.9%	63.2%
Agriculture, forestry and fishing	1.8%	4.1%	2.2%	1.2%	0.7%	0.7%	2.7%	8.8%	1.8%	1.3%
Mining and quarrying	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Manufacturing	4.7%	5.5%	8.2%	4.5%	5.0%	5.7%	1.9%	5.7%	5.3%	5.3%
Electricity, gas, steam and air conditioning supply	2.0%	3.7%	2.3%	6.2%	0.4%	0.5%	0.0%	0.0%	2.0%	2.6%
Water supply	0.3%	0.8%	0.2%	0.3%	0.3%	0.2%	0.1%	0.1%	0.3%	0.3%
Construction	0.8%	0.6%	1.6%	0.4%	13.2%	16.5%	1.9%	3.2%	1.5%	9.7%
Wholesale and retail trade	5.9%	6.5%	4.4%	2.3%	4.3%	5.2%	20.7%	36.2%	5.6%	4.7%
Transport and storage	1.2%	1.8%	1.5%	2.0%	0.4%	0.5%	0.3%	0.3%	1.2%	1.1%
Accommodation and food service activities	0.4%	0.6%	0.2%	0.2%	3.2%	2.7%	5.6%	11.9%	0.5%	1.7%
Information and communication	2.1%	2.4%	0.1%	0.0%	0.1%	0.1%	0.0%	0.1%	1.7%	0.3%
Financial institutions	4.1%	4.9%	5.4%	1.6%	0.0%	0.0%	0.0%	0.0%	4.2%	1.1%
Real estate activities	2.0%	3.8%	0.0%	0.0%	1.2%	1.6%	9.3%	12.1%	1.7%	1.5%
Professional, scientific and technical activities	0.3%	0.3%	0.4%	0.4%	3.2%	4.0%	0.0%	0.0%	0.4%	2.5%
Administrative and support service activities	0.1%	0.1%	0.2%	0.1%	0.5%	0.6%	0.0%	0.0%	0.1%	0.4%
Public administration and defence, compulsory social security	3.4%	4.3%	1.1%	1.1%	6.0%	4.1%	0.0%	0.0%	3.1%	3.2%
Education	0.0%	0.1%	0.7%	1.1%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
Human health services and social work activities	0.6%	1.1%	0.4%	0.4%	0.3%	0.4%	0.8%	0.0%	0.5%	0.5%
Arts, entertainment and recreation	0.0%	0.0%	0.2%	0.7%	0.3%	0.3%	0.0%	0.0%	0.0%	0.4%
Other services	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

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8. Loans and advances to customers (continued)

Sector analysis of loans granted and impairment allowance (continued)

Group %	December 31, 2019									
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance
Individuals	67.9%	81.9%	83.8%	81.9%	62.4%	57.4%	35.3%	5.0%	70.4%	65.3%
Agriculture, forestry and fishing	1.8%	1.7%	2.6%	2.9%	2.0%	1.9%	2.2%	2.8%	1.9%	2.2%
Mining and quarrying	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Manufacturing	5.3%	3.3%	2.1%	1.0%	5.1%	5.8%	2.5%	3.5%	4.7%	4.2%
Electricity, gas, steam and air conditioning supply	3.0%	1.1%	2.5%	6.5%	0.6%	0.6%	0.0%	0.0%	2.8%	2.1%
Water supply	0.2%	0.3%	0.5%	0.5%	0.3%	0.3%	0.1%	0.0%	0.3%	0.3%
Construction	0.3%	0.3%	0.7%	0.6%	11.6%	13.7%	11.2%	14.8%	0.9%	8.7%
Wholesale and retail trade	5.9%	3.6%	3.9%	1.4%	6.1%	7.1%	6.1%	9.2%	5.5%	5.3%
Transport and storage	1.8%	1.2%	0.8%	0.6%	0.6%	0.6%	0.2%	0.1%	1.5%	0.7%
Accommodation and food service activities	0.4%	0.3%	0.2%	0.1%	4.3%	4.0%	0.0%	0.0%	0.5%	2.4%
Information and communication	2.7%	1.1%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	2.1%	0.2%
Financial institutions	4.0%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.2%	0.2%
Real estate activities	1.8%	1.4%	0.0%	0.0%	1.3%	1.6%	42.4%	64.6%	1.6%	2.9%
Professional, scientific and technical activities	0.4%	0.4%	0.3%	0.4%	3.4%	4.3%	0.0%	0.0%	0.5%	2.7%
Administrative and support service activities	0.1%	0.1%	0.1%	0.0%	0.5%	0.6%	0.0%	0.0%	0.1%	0.4%
Public administration and defence, compulsory social security	3.7%	1.7%	1.5%	2.7%	1.2%	1.2%	0.0%	0.0%	3.2%	1.6%
Education	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Human health services and social work activities	0.6%	0.5%	0.2%	0.3%	0.4%	0.4%	0.0%	0.0%	0.5%	0.4%
Arts, entertainment and recreation	0.0%	0.0%	0.1%	0.1%	0.3%	0.3%	0.0%	0.0%	0.0%	0.2%
Other services	0.0%	0.0%	0.7%	0.9%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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8. Loans and advances to customers (continued)

Sector analysis of loans granted and impairment allowance (continued)

Bank %	December 31, 2019									
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance	Gross carrying amount	Impairment allowance
Individuals	67.5%	80.4%	84.5%	82.3%	59.9%	54.1%	35.3%	5.0%	70.2%	63.4%
Agriculture, forestry and fishing	1.5%	1.7%	2.2%	2.6%	2.0%	2.0%	2.2%	2.8%	1.7%	2.1%
Mining and quarrying	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Manufacturing	5.4%	3.7%	2.1%	1.0%	5.4%	6.3%	2.5%	3.5%	4.8%	4.5%
Electricity, gas, steam and air conditioning supply	3.1%	1.2%	2.5%	6.7%	0.6%	0.6%	0.0%	0.0%	2.9%	2.2%
Water supply	0.2%	0.3%	0.5%	0.5%	0.4%	0.3%	0.1%	0.0%	0.3%	0.4%
Construction	0.3%	0.3%	0.6%	0.6%	12.4%	14.8%	11.2%	14.8%	0.9%	9.3%
Wholesale and retail trade	6.0%	3.9%	3.9%	1.3%	6.5%	7.7%	6.1%	9.2%	5.7%	5.6%
Transport and storage	1.5%	1.1%	0.4%	0.3%	0.5%	0.5%	0.2%	0.1%	1.2%	0.5%
Accommodation and food service activities	0.4%	0.3%	0.2%	0.1%	4.6%	4.3%	0.0%	0.0%	0.5%	2.6%
Information and communication	2.8%	1.2%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	2.2%	0.2%
Financial institutions	4.3%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.4%	0.2%
Real estate activities	1.9%	1.5%	0.0%	0.0%	1.4%	1.8%	42.4%	64.6%	1.6%	3.1%
Professional, scientific and technical activities	0.4%	0.5%	0.3%	0.3%	3.6%	4.6%	0.0%	0.0%	0.5%	2.8%
Administrative and support service activities	0.1%	0.1%	0.1%	0.0%	0.5%	0.7%	0.0%	0.0%	0.1%	0.4%
Public administration and defence, compulsory social security	3.8%	1.9%	1.5%	2.8%	1.3%	1.3%	0.0%	0.0%	3.3%	1.7%
Education	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Human health services and social work activities	0.6%	0.5%	0.2%	0.3%	0.4%	0.5%	0.0%	0.0%	0.5%	0.4%
Arts, entertainment and recreation	0.0%	0.0%	0.1%	0.1%	0.3%	0.3%	0.0%	0.0%	0.0%	0.2%
Other services	0.0%	0.0%	0.7%	1.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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8. Loans and advances to customers (continued)

Rating analysis of loans

Considering the internal rating quality, the exposures of the counterparties not impaired and without overdues are split in 3 categories which are defined below:

Very good – The counterparty is considered to be very reliable. The capacity to service its debt is very strong.

Good – The counterparty is judged to be of good quality. The capacity to service its debt is strong but counterparty is somewhat more sensitive to adverse changes in circumstances and economic conditions.

Standard grade – The counterparty has an average solvency. The ability to service its debt is still sufficient, but more likely to be undermined by unfavourable economic conditions and changes in circumstances.

Sub-standard grade - The counterparty reflected credit behaviour or financial deterioration implying increased credit risk. Timely debt service repayment is uncertain and depends on favourable economic and financial conditions. Close and more frequent monitoring of the client's capacity to service the bank debt is needed, in order to be able to react to a potential deterioration via implementation of corrective measures.

The corresponding PD interval is depicted below:

Category	PD Interval
Very good grade	[0,00%;0,74%)
Good grade	[0,74%;3,88%)
Standard grade	[3,88%;12,79%)
Sub-standard grade	>12,79%

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(*) Unaudited / unreviewed by the financial auditor

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8. Loans and advances to customers (continued)

Rating analysis of loans (continued)

Group	Retail lending				
	June 30, 2020				
Unaudited (*)	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	14,520,469	23,035	-	-	14,543,503
Good grade	2,054,758	1,900,150	-	-	3,954,908
Standard grade	689,880	1,408,178	-	-	2,098,058
Sub-standard grade	-	650,537	-	13,641	664,178
Non- performing	-	-	794,693	12,019	806,712
(out of which) Individual assessment	-	-	54,003	-	54,003
Not rated internally	713,700	16,759	101,736	-	832,194
Total	17,978,807	3,998,658	896,429	25,660	22,899,554
Less allowance	(132,607)	(394,607)	(642,274)	(3,734)	(1,173,222)
Net Carrying amount	17,846,200	3,604,051	254,155	21,926	21,726,332

	Non-Retail lending				
	June 30, 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	421,051	-	-	-	421,051
Good grade	3,557,091	478,056	-	-	4,035,147
Standard grade	2,920,156	525,450	-	-	3,445,606
Sub-standard grade	-	429,198	-	-	429,198
Non- performing	-	-	453,776	17,777	471,554
(out of which) Individual assessment	-	-	377,891	16,148	394,039
Total	6,898,298	1,432,703	453,776	17,777	8,802,555
Less allowance	(72,170)	(100,065)	(370,716)	(9,520)	(552,472)
Net Carrying amount	6,826,128	1,332,638	83,060	8,257	8,250,083

	Total				
	June 30, 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	14,941,519	23,035	-	-	14,964,554
Good grade	5,611,849	2,378,206	-	-	7,990,056
Standard grade	3,610,036	1,933,628	-	-	5,543,664
Sub-standard grade	-	1,079,735	-	13,641	1,093,376
Non- performing	-	-	1,248,470	29,796	1,278,266
(out of which) Individual assessment	-	-	431,895	16,148	448,043
Not rated internally	713,700	16,759	101,736	-	832,194
Total	24,877,105	5,431,362	1,350,205	43,437	31,702,109
Less allowance	(204,777)	(494,673)	(1,012,990)	(13,254)	(1,725,694)
Net Carrying amount	24,672,328	4,936,689	337,216	30,183	29,976,415

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8. Loans and advances to customers (continued)

Rating analysis of loans (continued)

Bank	Retail lending				
	June 30, 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	14,520,469	23,035	-	-	14,543,503
Good grade	2,054,758	1,900,150	-	-	3,954,908
Standard grade	689,880	1,408,178	-	-	2,098,058
Sub-standard grade	-	650,537	-	13,641	664,178
Non- performing	-	-	794,693	12,019	806,712
(out of which) Individual assessment	-	-	54,003	-	54,003
Not rated internally	41,315	15	-	-	41,330
Total	17,306,422	3,981,914	794,693	25,660	22,108,690
Less allowance	(115,542)	(389,356)	(552,824)	(3,735)	(1,061,457)
Net Carrying amount	17,190,881	3,592,558	241,869	21,925	21,047,233

	Non-Retail lending				
	June 30, 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	421,051	-	-	-	421,051
Good grade	3,597,313	477,977	-	-	4,075,290
Standard grade	2,853,747	493,053	-	-	3,346,800
Sub-standard grade	-	400,029	-	-	400,029
Non- performing	-	-	451,480	17,777	469,258
(out of which) Individual assessment	-	-	377,891	16,148	394,039
Total	6,872,111	1,371,060	451,480	17,777	8,712,428
Less allowance	(71,721)	(95,602)	(369,181)	(9,520)	(546,024)
Net Carrying amount	6,800,390	1,275,458	82,299	8,257	8,166,403

	Total				
	June 30, 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	14,941,519	23,035	-	-	14,964,554
Good grade	5,652,071	2,378,128	-	-	8,030,198
Standard grade	3,543,628	1,901,231	-	-	5,444,859
Sub-standard grade	-	1,050,566	-	13,641	1,064,207
Non- performing	-	-	1,246,174	29,796	1,275,970
(out of which) Individual assessment	-	-	431,895	16,148	448,043
Not rated internally	41,315	15	-	-	41,330
Total	24,178,533	5,352,974	1,246,174	43,437	30,821,117
Less allowance	(187,263)	(484,959)	(922,005)	(13,254)	(1,607,481)
Net Carrying amount	23,991,270	4,868,015	324,169	30,183	29,213,636

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(*) Unaudited / unreviewed by the financial auditor

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8. Loans and advances to customers (continued)

Rating analysis of loans (continued)

Group	Retail lending December 31, 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	13,335,446	751,272	-	-	14,086,718
Good grade	2,416,141	1,854,944	-	-	4,271,085
Standard grade	916,937	1,506,657	-	-	2,423,594
Sub-standard grade	-	703,916	-	12,449	716,365
Non- performing	-	-	738,339	12,044	750,383
(out of which) Individual assessment	-	-	66,838	-	66,838
Not rated internally	738,524	25,621	81,282	-	845,427
Total	17,407,048	4,842,410	819,620	24,493	23,093,572
Less allowance	(177,032)	(331,521)	(573,551)	(3,391)	(1,085,494)
Net Carrying amount	17,230,016	4,510,890	246,070	21,102	22,008,078

Group	Non-Retail lending December 31, 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	440,463	-	-	-	440,463
Good grade	4,274,977	37,417	-	-	4,312,394
Standard grade	2,894,789	181,908	-	-	3,076,697
Sub-standard grade	-	492,847	-	-	492,847
Non- performing	-	-	427,369	40,547	467,916
(out of which) Individual assessment	-	-	355,176	39,999	395,175
Total	7,610,229	712,172	427,369	40,547	8,790,317
Less allowance	(36,036)	(64,211)	(366,292)	(38,987)	(505,526)
Net Carrying amount	7,574,193	647,961	61,077	1,560	8,284,791

Group	Total December 31, 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	13,775,909	751,272	-	-	14,527,181
Good grade	6,691,118	1,892,361	-	-	8,583,479
Standard grade	3,811,726	1,688,566	-	-	5,500,291
Sub-standard grade	-	1,196,763	-	12,449	1,209,212
Non- performing	-	-	1,165,708	52,591	1,218,299
(out of which) Individual assessment	-	-	422,013	39,999	462,012
Not rated internally	738,524	25,621	81,282	-	845,427
Total	25,017,277	5,554,582	1,246,989	65,040	31,883,889
Less allowance	(213,068)	(395,732)	(939,843)	(42,378)	(1,591,020)
Net Carrying amount	24,804,209	5,158,850	307,147	22,663	30,292,869

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(*) Unaudited / unreviewed by the financial auditor

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8. Loans and advances to customers (continued)

Rating analysis of loans (continued)

Bank	Retail lending				
	December 31, 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	13,335,446	751,272	-	-	14,086,718
Good grade	2,416,141	1,854,944	-	-	4,271,085
Standard grade	916,937	1,506,657	-	-	2,423,594
Sub-standard grade	-	703,916	-	12,449	716,365
Non- performing	-	-	738,339	12,044	750,383
(out of which) Individual assessment	-	-	66,838	-	66,838
Not rated internally	23,473	-	-	-	23,473
Total	16,691,997	4,816,789	738,339	24,493	22,271,617
Less allowance	(157,955)	(322,838)	(503,580)	(3,391)	(987,765)
Net Carrying amount	16,534,041	4,493,951	234,759	21,102	21,283,853

	Non-Retail lending				
	December 31, 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	440,463	-	-	-	440,463
Good grade	4,289,933	37,314	-	-	4,327,247
Standard grade	2,818,597	152,011	-	-	2,970,608
Sub-standard grade	-	479,326	-	-	479,326
Non- performing	-	-	425,707	40,547	466,255
(out of which) Individual assessment	-	-	355,176	39,999	395,175
Total	7,548,993	668,651	425,707	40,547	8,683,899
Less allowance	(35,587)	(61,187)	(365,211)	(38,987)	(500,972)
Net Carrying amount	7,513,406	607,464	60,497	1,560	8,182,927

	Total				
	December 31, 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount					
Internal rating grade					
Very good grade	13,775,909	751,272	-	-	14,527,181
Good grade	6,706,074	1,892,258	-	-	8,598,333
Standard grade	3,735,533	1,658,668	-	-	5,394,202
Sub-standard grade	-	1,183,242	-	12,449	1,195,691
Non- performing	-	-	1,164,046	52,591	1,216,637
(out of which) Individual assessment	-	-	422,013	39,999	462,012
Not rated internally	23,473	-	-	-	23,473
Total	24,240,990	5,485,440	1,164,046	65,040	30,955,516
Less allowance	(193,543)	(384,025)	(868,791)	(42,378)	(1,488,736)
Net Carrying amount	24,047,447	5,101,415	295,255	22,663	29,466,780

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(*) Unaudited / unreviewed by the financial auditor

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8. Loans and advances to customers (continued)

Impairment allowance movement

Group Unaudited (*)	Retail lending				
	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance as at 1 st January 2020	177,032	331,521	573,551	3,391	1,085,494
New assets originated or purchased	30,972	15,207	18,257	70	64,506
Assets derecognised or repaid (excluding write offs)	(9,599)	(8,336)	(12,995)	(150)	(31,080)
Net provision movement for assets that did not change classification	(55,685)	23,057	10,816	858	(20,954)
Movements due to change in classification	(10,491)	31,542	97,435	(25)	118,462
Amounts written off	-	-	(47,357)	(421)	(47,778)
Other adjustments	378	1,616	2,567	12	4,573
Impairment allowance as at 30 June 2020	132,607	394,607	642,273	3,735	1,173,222

	Non-Retail lending				
	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance as at 1 st January 2020	36,035	64,211	366,292	38,987	505,526
New assets originated or purchased	13,455	9,180	1,105	23	23,762
Assets derecognised or repaid (excluding write offs)	(4,310)	(4,095)	(39,843)	(25,660)	(73,908)
Net provision movement for assets that did not change classification	28,993	19,206	4,871	1,915	54,984
Movements due to change in classification	(2,330)	10,744	47,786	(5,497)	50,703
Amounts written off	-	-	(10,903)	(287)	(11,190)
Other adjustments	327	818	1,409	41	2,595
Impairment allowance as at 30 June 2020	72,170	100,065	370,716	9,520	552,472

	Total				
	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance as at 1 st January 2020	213,067	395,732	939,843	42,378	1,591,020
New assets originated or purchased	44,427	24,387	19,362	93	88,269
Assets derecognised or repaid (excluding write offs)	(13,909)	(12,431)	(52,839)	(25,811)	(104,989)
Net provision movement for assets that did not change classification	(26,692)	42,263	15,687	2,772	34,029
Movements due to change in classification	(12,821)	42,287	145,221	(5,522)	169,165
Amounts written off	-	-	(58,260)	(708)	(58,968)
Other adjustments	705	2,434	3,976	53	7,168
Impairment allowance as at 30 June 2020	204,777	494,672	1,012,990	13,255	1,725,694

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8. Loans and advances to customers (continued)

Impairment allowance movement (continued)

Bank

	Retail lending				Total
	Stage 1	Stage 2	Stage 3	POCI	
Impairment allowance as at 1 st January 2020	157,955	322,838	503,580	3,391	987,765
New assets originated or purchased	30,609	7,899	274	70	38,851
Assets derecognised or repaid (excluding write offs)	(9,589)	(8,301)	(12,976)	(150)	(31,016)
Net provision movement for assets that did not change classification	(55,695)	22,805	9,396	858	(22,636)
Movements due to change in classification	(8,113)	42,503	97,339	(25)	131,704
Amounts written off	-	-	(47,340)	(421)	(47,761)
Other adjustments	374	1,612	2,552	12	4,551
Impairment allowance as at 30 June 2020	115,541	389,357	552,824	3,735	1,061,457

	Non-Retail lending				Total
	Stage 1	Stage 2	Stage 3	POCI	
Impairment allowance as at 1 st January 2020	35,587	61,187	365,211	38,987	500,971
New assets originated or purchased	13,296	8,698	1,105	23	23,122
Assets derecognised or repaid (excluding write offs)	(4,249)	(4,004)	(39,843)	(25,660)	(73,757)
Net provision movement for assets that did not change classification	29,420	17,808	4,499	1,915	53,642
Movements due to change in classification	(2,656)	11,135	47,722	(5,497)	50,703
Amounts written off	-	-	(10,903)	(287)	(11,190)
Other adjustments	323	777	1,392	41	2,533
Impairment allowance as at 30 June 2020	71,721	95,602	369,181	9,520	546,024

	Total				Total
	Stage 1	Stage 2	Stage 3	POCI	
Impairment allowance as at 1 st January 2020	193,542	384,025	868,791	42,378	1,488,736
New assets originated or purchased	43,905	16,597	1,378	93	61,973
Assets derecognised or repaid (excluding write offs)	(13,838)	(12,305)	(52,820)	(25,811)	(104,773)
Net provision movement for assets that did not change classification	(26,275)	40,614	13,895	2,772	31,005
Movements due to change in classification	(10,769)	53,638	145,060	(5,522)	182,407
Amounts written off	-	-	(58,243)	(708)	(58,951)
Other adjustments	697	2,390	3,944	53	7,083
Impairment allowance as at 30 June 2020	187,262	484,959	922,005	13,255	1,607,481

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8. Loans and advances to customers (continued)

Impairment allowance movement (continued)

Group

	Retail lending				Total
	Stage 1	Stage 2	Stage 3	POCI	
Impairment allowance as at 1 st January 2019	161,473	276,981	680,251	3,648	1,122,353
New assets originated or purchased	69,640	17,832	24,862	188	112,522
Assets derecognised or repaid (excluding write offs)	(25,289)	(21,196)	(128,969)	(370)	(175,823)
Net provision movement for assets that did not change classification	(30,033)	38,966	14,956	264	24,153
Movements due to change in classification	229	16,544	130,317	98	147,189
Amounts written off	-	-	(152,265)	(452)	(152,717)
Other adjustments	1,013	2,392	4,399	14	7,818
Impairment allowance as at 31 December 2019	177,032	331,521	573,551	3,391	1,085,494

	Non-Retail lending				Total
	Stage 1	Stage 2	Stage 3	POCI	
Impairment allowance as at 1 st January 2019	82,662	114,961	611,178	42,006	850,807
New assets originated or purchased	25,032	21,422	-	-	46,454
Assets derecognised or repaid (excluding write offs)	(7,562)	(12,692)	(31,095)	(2,181)	(53,530)
Net provision movement for assets that did not change classification	(55,986)	(44,063)	(40,322)	1,487	(138,884)
Movements due to change in classification	(8,485)	(16,235)	23,095	-	(1,625)
Amounts written off	-	-	(200,275)	(2,922)	(203,197)
Other adjustments	374	818	3,711	597	5,501
Impairment allowance as at 31 December 2019	36,035	64,211	366,292	38,987	505,526

	Total				Total
	Stage 1	Stage 2	Stage 3	POCI	
Impairment allowance as at 1 st January 2019	244,135	391,943	1,291,429	45,653	1,973,160
New assets originated or purchased	94,672	39,254	24,862	188	158,976
Assets derecognised or repaid (excluding write offs)	(32,851)	(33,888)	(160,064)	(2,550)	(229,353)
Net provision movement for assets that did not change classification	(86,019)	(5,097)	(25,366)	1,751	(114,731)
Movements due to change in classification	(8,256)	309	153,412	98	145,564
Amounts written off	-	-	(352,540)	(3,374)	(355,914)
Other adjustments	1,387	3,211	8,110	611	13,319
Impairment allowance as at 31 December 2019	213,067	395,732	939,843	42,378	1,591,020

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8. Loans and advances to customers (continued)

Impairment allowance movement (continued)

Bank

	Retail lending				Total
	Stage 1	Stage 2	Stage 3	POCI	
Impairment allowance as at 1 st January 2019	142,803	267,941	613,505	3,648	1,027,898
New assets originated or purchased	68,326	15,331	-	188	83,845
Assets derecognised or repaid (excluding write offs)	(25,281)	(21,162)	(128,969)	(370)	(175,781)
Net provision movement for assets that did not change classification	(29,998)	38,926	14,129	264	23,320
Movements due to change in classification	1,095	19,413	130,375	98	150,981
Amounts written off	-	-	(129,857)	(452)	(130,309)
Other adjustments	1,010	2,389	4,398	14	7,811
Impairment allowance as at 31 December 2019	157,955	322,838	503,580	3,391	987,765

	Non-Retail lending				Total
	Stage 1	Stage 2	Stage 3	POCI	
Impairment allowance as at 1 st January 2019	82,082	112,830	610,313	42,006	847,230
New assets originated or purchased	24,831	20,276	-	-	45,107
Assets derecognised or repaid (excluding write offs)	(7,551)	(12,505)	(31,095)	(2,181)	(53,331)
Net provision movement for assets that did not change classification	(55,470)	(44,196)	(40,487)	1,487	(138,665)
Movements due to change in classification	(8,672)	(16,013)	23,057	-	(1,628)
Amounts written off	-	-	(200,275)	(2,922)	(203,197)
Other adjustments	367	794	3,697	597	5,456
Impairment allowance as at 31 December 2019	35,587	61,187	365,211	38,987	500,971

	Total				Total
	Stage 1	Stage 2	Stage 3	POCI	
Impairment allowance as at 1 st January 2019	224,885	380,771	1,223,818	45,653	1,875,128
New assets originated or purchased	93,156	35,607	-	188	128,952
Assets derecognised or repaid (excluding write offs)	(32,832)	(33,667)	(160,064)	(2,550)	(229,112)
Net provision movement for assets that did not change classification	(85,468)	(5,270)	(26,359)	1,751	(115,345)
Movements due to change in classification	(7,577)	3,400	153,432	98	149,353
Amounts written off	-	-	(330,132)	(3,374)	(333,506)
Other adjustments	1,377	3,183	8,095	611	13,267
Impairment allowance as at 31 December 2019	193,542	384,025	868,791	42,378	1,488,736

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9. Finance lease receivables

The Group acts as a lessor through the subsidiary BRD Soglease IFN SA, having in the portfolio vehicles, equipment (industrial, agricultural) and real estate leases. The leases are denominated mainly in EUR and RON, with transfer of ownership of the leased asset at the end of the lease term. The receivables are secured by the underlying assets and by other collateral. The payment timing analysis of lease receivables is as follows:

	Group	
	Unaudited (*) June 30, 2020	December 31, 2019
Gross investment in finance lease:		
Under 1 year	425,498	440,905
Between 1 and 5 years	734,794	695,844
Higher than 5 years	9,839	11,814
	1,170,131	1,148,563
Unearned finance income	(70,027)	(84,639)
Net investment in finance lease	1,100,104	1,063,924
Net investment in finance lease:		
Under 1 year	391,537	400,999
Between 1 and 5 years	698,974	651,492
Higher than 5 years	9,592	11,433
	1,100,103	1,063,924
	June 30, 2020	December 31, 2019
Net investment in the lease	1,100,103	1,063,924
Accumulated allowance for uncollectible minimum lease payments receivable	(76,826)	(71,258)
Total	1,023,277	992,665

As at June 30, 2020 and December 31, 2019, the future minimum lease receipts regarding operating leases (rents) concluded by the Group and Bank as a lessor are:

	Group		Bank	
	Unaudited (*) June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Less than one year	822	753	822	753
Between one and five years	1,472	1,435	1,472	1,435
More than five years	573	715	573	715
Total	2,867	2,903	2,867	2,903

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10. Financial assets at fair value through profit or loss

	Group		Bank	
	Unaudited (*)			
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Equity investments	71,413	68,709	71,413	68,709
Other securities	42,421	39,345	17,043	18,666
Total	113,834	108,054	88,456	87,375

Equity investments

Other equity investments represent shares in Visa Inc, Romanian Commodities Exchange (Bursa de Valori Bucuresti), SWIFT, Shareholders' Register for the National Securities Commission (Depozitarul Central S.A.), Bucharest Stock Exchange (Bursa Romana de Marfuri SA), Investor Compensating Fund (Fondul de Compensare a Investitorilor), Romanian Clearing House (SC Casa Romana de Compensatie SA),

Other securities

The Group holds fund units in:

	Unaudited (*)			
	June 30, 2020	Unit value RON	No of units	Market value
BRD Simfonia		43	483,269	20,867
BRD Obligatiumi		178	21,980	3,911
BRD Simplu		100	6,000	600
BRD Diverso		180	37,578	6,752
BRD Actiumi		207	44,358	9,177
BRD Global		171	6,514	1,114
Total				42,421

	December 31, 2019	Unit value RON	No of units	Market value
BRD Simfonia		43	385,312	16,753
BRD Obligatiumi		179	21,980	3,926
BRD Diverso		192	37,578	7,233
BRD Actiumi		231	44,358	10,262
BRD Index		180	6,514	1,171
Total				39,345

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10. Financial assets at fair value through profit or loss (continued)

The Bank holds fund units in:

June 30, 2020	Unit value RON	No of units	Market value
BRD Diverso	180	37,578	6,752
BRD Actiumi	207	44,358	9,177
BRD Global	171	6,514	1,114
Total			17,043

December 31, 2019	Unit value RON	No of units	Market value
BRD Diverso	192	37,578	7,233
BRD Actiumi	231	44,358	10,262
BRD Index	180	6,514	1,171
Total			18,666

11. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include treasury notes, respectively treasury discount notes and coupon bonds issued by the Ministry of Public Finance, in amount of 12,822,482 rated as BBB- by Standard&Poors, bonds issued by Frech State in amount of 306,652 rated as AA by Standard&Poors and bonds issued by the Belgian State in amount of 719,072 rated as AA by Standard&Poors.

As at June 30, 2020, these financial assets at fair value through other comprehensive income are classified as Stage 1 and ECL impairment allowance amounts to 2,597 (December 31, 2019: 2,516).

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12. Property, plant and equipment

	Group						Total
	Land & Buildings	Investment properties	Office equipments	Materials and other assets	Construction in progress	Right of use	
Cost:							
as of December 31, 2018	1,323,843	37,151	245,962	548,198	44,182	-	2,199,336
as at 1 st January 2019 (under IFRS 16)	1,323,843	37,151	245,962	548,198	44,182	482,209	2,681,545
Additions	182	-	1,234	123	84,872	48,280	134,691
Transfers	13,887	71	22,433	21,305	(57,699)	-	(3)
Disposals	(14,580)	-	(27,962)	(59,379)	(64)	(37,564)	(139,549)
as of December 31, 2019	1,323,332	37,222	241,667	510,247	71,291	492,925	2,676,684
Additions	-	-	362	186	42,777	23,411	66,736
Transfers	8,434	-	16,799	23,750	(48,983)	-	-
Disposals	(3,135)	-	(17)	(7,636)	-	(48,252)	(59,040)
as of June 30, 2020 Unaudited (*)	1,328,631	37,222	258,811	526,547	65,085	468,084	2,684,380
Depreciation and impairment:							
as of December 31, 2018	(747,395)	(18,080)	(180,734)	(432,276)	-	-	(1,378,485)
as at 1 st January 2019 (under IFRS 16)	(747,395)	(18,080)	(180,734)	(432,276)	-	-	(1,378,485)
Depreciation	(40,296)	(1,323)	(26,936)	(30,824)	-	(92,640)	(192,019)
Impairment	80	-	-	1,045	-	-	1,125
Disposals	13,328	-	27,867	55,948	-	6,871	104,014
Transfers	329	-	(141)	(188)	-	-	-
as of December 31, 2019	(773,954)	(19,403)	(179,944)	(406,295)	-	(85,769)	(1,465,365)
Depreciation	(19,213)	(319)	(13,815)	(15,664)	-	(45,839)	(94,850)
Impairment	293	-	-	139	(1,954)	-	(1,522)
Disposals	2,535	-	17	6,735	-	37,829	47,116
Transfers	83	-	(32)	(51)	-	-	-
as of June 30, 2020 Unaudited (*)	(790,256)	(19,722)	(193,774)	(415,136)	(1,954)	(93,779)	(1,514,621)
Net book value:							
as of December 31, 2018	576,448	19,071	65,228	115,922	44,182	-	820,851
as at 1 st January 2019	576,448	19,071	65,228	115,922	44,182	482,209	1,303,060
as of December 31, 2019	549,378	17,819	61,723	103,952	71,291	407,156	1,211,319
as of June 30, 2020	538,375	17,500	65,037	111,411	63,131	374,305	1,169,759

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12. Property, plant and equipment (continued)

The Group and Bank holds investment property as a consequence of the ongoing rationalisation of its retail branch network. Investment properties comprise a number of commercial properties that are leased to third parties. The investment properties have a fair value of 24,258 as at June 30, 2020 (December 31, 2019: 24,577). The fair value has been determined based on a valuation by an independent valuer in 2019. Rental income from investment property of 501 (June 30, 2019: 836) has been recognised in other income

	Bank						Total
	Land & Buildings	Investment properties	Office equipments	Materials and other assets	Construction in progress	Right of use	
Cost:							
as of December 31, 2018	1,313,822	37,151	234,328	547,736	44,182	-	2,177,218
as at 1 st January 2019 (under IFRS 16)	1,313,822	37,151	234,328	547,736	44,182	467,125	2,644,343
Additions	99	-	-	-	84,872	46,776	131,747
Transfers	13,879	71	22,602	21,152	(57,704)	-	-
Disposals	(14,580)	-	(23,261)	(59,238)	(58)	(37,197)	(134,334)
as of December 31, 2019	1,313,220	37,222	233,669	509,650	71,292	476,704	2,641,756
Additions	-	-	-	-	42,743	23,078	65,821
Transfers	8,433	-	16,761	23,756	(48,950)	-	-
Disposals	(3,135)	-	(1)	(7,638)	-	(48,253)	(59,027)
as of June 30, 2020	1,318,518	37,222	250,429	525,768	65,085	451,529	2,648,550
Depreciation and impairment:							
as of December 31, 2018	(742,661)	(18,080)	(171,076)	(431,745)	-	-	(1,363,562)
as at 1 st January 2019 (under IFRS 16)	(742,661)	(18,080)	(171,076)	(431,745)	-	-	(1,363,562)
Depreciation	(40,039)	(1,323)	(26,223)	(30,787)	-	(87,089)	(185,461)
Impairment	80	-	-	1,045	-	-	1,125
Disposals	13,328	-	23,261	55,773	-	6,871	99,233
Transfers	311	-	-	(311)	-	-	-
as of December 31, 2019	(768,981)	(19,403)	(174,038)	(406,025)	-	(80,218)	(1,448,665)
Depreciation	(19,086)	(319)	(13,350)	(15,644)	-	(42,855)	(91,254)
Impairment	293	-	-	139	(1,954)	-	(1,522)
Disposals	2,535	-	-	6,735	-	37,830	47,100
Transfers	83	-	(32)	(51)	-	-	-
as of June 30, 2020	(785,156)	(19,722)	(187,420)	(414,846)	(1,954)	(85,243)	(1,494,341)
Net book value:							
as of December 31, 2018	571,161	19,071	63,252	115,991	44,182	-	813,656
as at 1 st January 2019	571,161	19,071	63,252	115,991	44,182	467,125	1,280,781
as of December 31, 2019	544,239	17,819	59,631	103,625	71,292	396,486	1,193,091
as of June 30, 2020	533,362	17,500	63,009	110,922	63,131	366,286	1,154,209

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12. Property, plant and equipment (continued)

Group	Right-of-use assets			
	Land & Buildings	IT Office equipments	Cars and other assets	Total
Unaudited (*)				
as of January 1, 2020	391,651	6,087	9,418	407,156
Additions	3,800	392	510	4,703
Depreciation expense	(42,043)	(1,274)	(2,522)	(45,839)
Disposals and other decreases	(10,674)	226	25	(10,423)
Contractual changes	18,609	99	-	18,708
as of June 30, 2020	361,343	5,530	7,431	374,305
	Lease liabilities			
as of January 1, 2020	417,309			
Additions	4,625			
Disposals and other decreases	(14,786)			
Other movements (FX, other contractual changes)	18,298			
Interest expense	2,619			
Payments	(45,010)			
as of June 30, 2020	383,055			
	Bank			
	Right-of-use assets			
	Land & Buildings	IT Office equipments	Cars and other assets	Total
as of January 1, 2020	382,680	6,087	7,719	396,486
Additions	3,762	392	431	4,586
Depreciation expense	(39,534)	(1,274)	(2,047)	(42,855)
Disposals and other decreases	(10,674)	226	25	(10,423)
Contractual changes	18,573	(81)	-	18,492
as of June 30, 2020	354,807	5,350	6,128	366,286
	Lease liabilities			
as of January 1, 2020	406,523			
Additions	4,586			
Disposals and other decreases	(11,885)			
Other movements (FX, other contractual changes)	15,432			
Interest expense	2,552			
Payments	(42,264)			
as of June 30, 2020	374,943			

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12. Property, plant and equipment (continued)

Group	Right-of-use assets			
	Land & Buildings	IT Office equipments	Cars and other assets	Total
as of January 1, 2019	464,877	6,788	10,544	482,209
Additions	42,475	1,347	4,459	48,281
Depreciation expense	(85,159)	(1,979)	(5,501)	(92,639)
Disposals and other decreases	(25,671)	3	(74)	(25,743)
Contractual changes	(4,869)	(72)	(9)	(4,950)
as of December 31, 2019	391,653	6,087	9,418	407,158
	Lease liabilities			
as of January 1, 2019	482,208			
Additions	46,851			
Disposals and other decreases	(13,420)			
Other movements (FX, other contractual changes)	(14,303)			
Interest expense	5,948			
Payments	(89,975)			
as of December 31, 2019	417,309			
	Right-of-use assets			
	Land & Buildings	IT Office equipments	Cars and other assets	Total
as of January 1, 2019	450,803	6,788	9,534	467,125
Additions	42,402	1,347	3,027	46,776
Depreciation expense	(80,275)	(1,979)	(4,835)	(87,089)
Disposals and other decreases	(25,671)	3	(4)	(25,673)
Contractual changes	(4,579)	(72)	(2)	(4,653)
as of December 31, 2019	382,680	6,087	7,719	396,486
	Lease liabilities			
as of January 1, 2019	467,125			
Additions	46,776			
Disposals and other decreases	(13,420)			
Other movements (FX, other contractual changes)	(14,834)			
Interest expense	5,738			
Payments	(84,862)			
as of December 31, 2019	406,523			

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13. Goodwill

Goodwill represents the excess of the acquisition cost over the fair value of net identifiable assets transferred from Société Générale Bucharest to the Group in 1999.

Following the acquisition, the branch became the present Sucursala Mari Clienti Corporativi (“SMCC”) – the branch dedicated to large significant clients, most of them taken over from the former Societe Generale Bucharest.

As at June 30, 2020, the branch had a number of 3,414 active customers (2019: 3,504), with loans representing approximately 13 % from total loans managed by the network (2019: 12%) and with deposits representing about 13 % of networks’ deposits (2019: 14%). Most of the SMCC non-retail clients are large multinational and national customers.

Taking into account the stable base of clients and the contribution to the bank’s net banking income, the branch which generated the goodwill is considered profitable, without any need of impairment.

14. Intangible assets

The balance of the intangible assets as of June 30, 2020 and December 31, 2019 represents mainly software.

	Group Unaudited (*)	Bank
Cost:		
as of December 31, 2018	<u>532,364</u>	<u>500,738</u>
Additions	83,855	78,994
Disposals	(4,605)	-
as of December 31, 2019	<u>611,614</u>	<u>579,732</u>
Additions	38,060	37,727
as of June 30, 2020	<u>649,674</u>	<u>617,459</u>
Amortization:		
as of December 31, 2018	<u>(389,546)</u>	<u>(360,146)</u>
Amortization expense	(39,437)	(38,162)
Disposals	2,962	-
Transfers	(304)	-
as of December 31, 2019	<u>(426,325)</u>	<u>(398,308)</u>
Amortization expense	(20,030)	(19,244)
as of June 30, 2020	<u>(446,355)</u>	<u>(417,552)</u>
Net book value:		
as of December 31, 2018	142,818	140,592
as of December 31, 2019	185,289	181,424
as of June 30, 2020	203,319	199,907

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15. Other assets

	Group		Bank	
	Unaudited (*)		June 30, 2020	December 31, 2019
	June 30, 2020	December 31, 2019		
Advances to suppliers	75,368	62,354	-	-
Sundry receivable	189,706	179,530	175,851	172,343
Prepaid expenses	54,755	36,849	47,079	29,392
Repossessed assets	16,595	16,422	14,196	14,235
Other assets	43,079	5,975	17,939	4,800
Total	379,504	301,130	255,065	220,770

The sundry receivables balances includes various commissions, sundry debtors, dividends and are net of impairment allowance, which at Group level is 106,242 (December 31, 2019: 88,787) and at Bank level is 96,718 (December 31, 2019: 78,491). In addition, sundry receivable include an amount of 43,108 (December 31, 2019: 43,108) paid to the fiscal authorities following a tax inspection carried out in 2016; the amount is under litigation with the authorities and the Bank estimates that is more likely than not that it will win the litigation.

As of June 30, 2020 the carrying value of repossessed assets for Group is 16,595 (December 31, 2019: 16,422). As of June 30, 2020 the carrying value of repossessed assets for Bank is 14,196 (December 31, 2019: 14,235), representing 8 residential buildings (December 31, 2019: 7 residential buildings).

Group Unaudited (*)		
Sundry receivables		Total (Stage3)
Impairment allowance as at January 1, 2020		88,787
Additional expenses		23,973
Reversals of provisions		(5,733)
Receivables written off		(982)
Foreign exchange adjustments		194
Impairment allowance as at as at June 30, 2020		106,239
		Total (Stage3)
Impairment allowance as at 1 st January 2019		165,891
Additional expenses		58,758
Reversals of provisions		(18,777)
Receivables written off		(117,494)
Foreign exchange adjustments		409
Impairment allowance as at 31 December 2019		88,787

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15. Other assets (continued)

Bank	Total (Stage3)
Sundry receivables	
Impairment allowance as at January 1, 2020	78,491
Additional expenses	23,826
Reversals of provisions	(4,767)
Receivables written off	(982)
Foreign exchange adjustments	149
Impairment allowance as at as at June 30, 2020	96,717
	Total (Stage3)
Impairment allowance as at 1 st January 2019	155,095
Additional expenses	57,210
Reversals of provisions	(16,820)
Receivables written off	(117,494)
Foreign exchange adjustments	500
Impairment allowance as at 31 December 2019	78,491

16. Due to banks

	Group		Bank	
	Unaudited (*)			
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Demand deposits	363,067	373,268	363,067	373,268
Term deposits	50,349	47,843	50,349	47,843
Due to banks	413,416	421,112	413,416	421,112

17. Due to customers

	Group		Bank	
	Unaudited (*)			
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Demand deposits	35,825,301	32,935,428	35,888,533	33,045,752
Term deposits	11,732,136	12,963,323	11,832,717	12,993,897
Due to customers	47,557,437	45,898,751	47,721,250	46,039,649

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18. Borrowed funds

	Group		Bank	
	Unaudited (*)		June 30, 2020	December 31, 2019
	June 30, 2020	December 31, 2019		
Borrowings from related parties	1,482,169	1,442,614	242	235
Borrowings from international financial institutions	211,283	253,881	7,903	10,132
Total	1,693,452	1,696,495	8,145	10,367

Funds borrowed from related parties are senior unsecured and are used in the normal course of business.

19. Taxation

Current income tax is calculated based on the taxable income as per the tax statement derived from the stand alone accounts of each consolidated entity. As at June 30, 2020 the Group has a current tax liability in total amount of 39,689 (December 31, 2019: 15,117) and 167 current tax asset (December 31, 2019: 136).

The deferred tax liability/asset is reconciled as follows:

	Group June 30, 2020 Unaudited (*)			
	Temporary differences Asset / (Liability)	Consolidated Statement of Financial Position Asset / (Liability)	Consolidated Income Statement (Expense) / Income	Consolidated OCI (Expense) / Income
<i>Elements generating deferred tax</i>				
Defined benefit obligation	23,028	(3,685)	-	-
Investments and other securities	287,273	(45,964)	-	(16,039)
Tangible and intangible assets	(147,952)	23,672	934	-
Provisions and other liabilities	(642,230)	102,757	2,932	-
Taxable items	(479,880)			
Deferred tax		76,782	3,866	(16,039)

	Bank June 30, 2020			
	Temporary differences Asset / (Liability)	Individual Statement of Financial Position Asset / (Liability)	Individual Income Statement (Expense) / Income	Consolidated OCI (Expense) / Income
<i>Elements generating deferred tax</i>				
Defined benefit obligation	23,028	(3,685)	-	-
Investments and other securities	287,273	(45,964)	-	(16,039)
Tangible and intangible assets	(148,022)	23,683	919	-
Provisions and other liabilities	(606,446)	97,031	3,073	-
Taxable items	(444,166)			
Deferred tax		71,067	3,992	(16,039)

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19. Taxation (continued)

	Group December 31, 2019			
	Temporary differences Asset / (Liability)	Consolidated Statement of Financial Position Asset / (Liability)	Consolidated Income Statement (Expense) / Income	Consolidated OCI (Expense) / Income
<i>Elements generating deferred tax</i>				
Defined benefit obligation	23,028	(3,685)	-	736
Investments and other securities	178,826	(28,612)	-	(35,683)
Tangible and intangible assets	(142,116)	22,739	2,136	-
Provisions and other liabilities	(615,705)	98,512	8,286	-
Taxable items	(555,967)			
Deferred tax		88,955	10,422	(34,947)

	Bank December 31, 2019			
	Temporary differences Asset / (Liability)	Individual Statement of Financial Position Asset / (Liability)	Individual Income Statement (Expense) / Income	Consolidated OCI (Expense) / Income
<i>Elements generating deferred tax</i>				
Defined benefit obligation	23,028	(3,685)	-	736
Investments and other securities	187,028	(29,924)	-	(35,683)
Tangible and intangible assets	(142,280)	22,765	2,185	-
Provisions and other liabilities	(587,234)	93,957	8,483	-
Taxable items	(519,458)			
Deferred tax		83,113	10,668	(34,947)

Movement in deferred tax is as follows:

	Group	Bank
Deferred tax asset, net as of December 31, 2018	113,480	107,392
Deferred tax recognized in other comprehensive income	(34,947)	(34,947)
Deferred tax recognized in profit and loss	10,422	10,668
Deferred tax asset, net as of December 31, 2019	88,955	83,113
Deferred tax recognized in other comprehensive income	(16,039)	(16,039)
Deferred tax recognized in profit and loss	3,866	3,992
Deferred tax asset, net as of June 30, 2020	76,782	71,067

The accompanying notes are an integral part of this financial statements

(*) Unaudited / unreviewed by the financial auditor

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19. Taxation (continued)

Reconciliation of total tax charge

	Group		Bank	
	Unaudited (*)	Unaudited (*)	Six months ended June 30, 2020	Six months ended June 30, 2019
	Six months ended June 30, 2020	Six months ended June 30, 2019		
Profit before income tax	487,397	949,176	474,821	959,237
Income tax (16%)	77,984	151,868	75,971	153,478
Fiscal credit	(12,345)	(13,027)	(11,120)	(12,623)
Non-deductible elements	10,919	33,782	7,200	24,166
Non-taxable elements	(3,839)	(10,351)	(2,262)	(8,444)
Expense from income tax at effective tax rate	72,719	162,273	69,789	156,577
Effective tax rate	14.9%	17.1%	14.7%	16.3%

Recognition of deferred tax asset is based on the management's profit forecasts, which indicates that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised.

At the Bank level, as at June 30, 2020, permanent non-deductible elements include the impact of provisions for overdue commissions 3,810 (June 30, 2019: 4,493), sponsorship expenses with an impact of 894 (June 30, 2019: 751), and debt sales and other operations with limited deductibility in amount of 491 (June 30, 2019: 10,692); permanent non-taxable elements are mainly a result of releases for provisions for over-due commissions in amount of 758 (June 30, 2019: 1,240), provisions and risk and charges/litigations 238 (June 30, 2019: 337), and dividends income with an impact of 1,069 (June 30, 2019: 6,536).

20. Other liabilities

	Group		Bank	
	Unaudited (*)	December 31, 2019	June 30, 2020	December 31, 2019
	June 30, 2020			
Sundry creditors	310,663	276,775	218,101	210,376
Other payables to State budget	28,511	47,409	27,355	45,916
Deferred income	26,922	19,165	26,723	18,735
Payables to employees	121,451	156,546	115,464	147,811
Financial guarantee and loan commitments provisions	404,242	376,372	416,948	389,419
Other provisions	49,932	52,005	45,060	47,075
Creditors - Lease liabilities	383,055	417,309	374,943	406,523
Total	1,324,776	1,345,581	1,224,594	1,265,855

Sundry creditors are expected to be settled in no more than twelve months after the reporting period.

Payables to employees include, among other, gross bonuses, amounting 42,012 as of June 30, 2020 (December 31, 2019: 69,310) and post-employment benefits amounting 59,064 as of June 30, 2020 (December 31, 2019: 57,584).

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20. Other liabilities (continued)

The movement in other provisions is as follows:

Group	TOTAL
Carrying value as of December 31,2018	38,792
Additional expenses	23,632
Reversals of provisions	(7,408)
Usage	(3,011)
Carrying value as of December 31,2019	52,005
Additional expenses	1,961
Reversals of provisions	(3,532)
Usage	(502)
Carrying value as of June 30, 2020	49,932
Bank	
Carrying value as of December 31,2018	37,254
Additional expenses	19,782
Reversals of provisions	(7,187)
Usage	(2,774)
Carrying value as of December 31,2019	47,075
Additional expenses	1,959
Reversals of provisions	(3,533)
Usage	(441)
Carrying value as of June 30, 2020	45,060

The movement in financial guarantee and loan commitments provisions is as follows:

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20. Other liabilities (continued)

Financial guarantees and loan commitments provisions

Group	Retail lending			Total
	Stage 1	Stage 2	Stage 3	
Provision as at 1 st January 2020	2,166	2,045	2,555	6,766
New commitments originated or purchased	1,404	254	-	1,658
Commitments derecognised or transferred into assets	(133)	(359)	(81)	(573)
Net provision movement not resulting from changes in classification	(1,195)	246	(205)	(1,154)
Movements due to change in classification	267	(208)	471	530
Other adjustments	1	2	8	11
Provision as at 30 June 2020 unaudited	2,510	1,980	2,748	7,238
	Non-Retail			Total
	Stage 1	Stage 2	Stage 3	
Provision as at 1 st January 2020	10,190	31,173	328,242	369,605
New commitments originated or purchased	6,505	3,260	-	9,765
Commitments derecognised or transferred into assets	(2,735)	(1,053)	(36,110)	(39,898)
Net provision movement not resulting from changes in classification	9,841	(3,040)	41,954	48,755
Movements due to change in classification	1,778	5,047	(32)	6,793
Other adjustments	80	172	1,732	1,984
Provision as at 30 June 2020 unaudited	25,659	35,559	335,786	397,004
	Total			Total
	Stage 1	Stage 2	Stage 3	
Provision as at 1 st January 2020	12,356	33,218	330,798	376,372
New commitments originated or purchased	7,909	3,514	-	11,423
Commitments derecognised or transferred into assets	(2,868)	(1,412)	(36,191)	(40,471)
Net provision movement not resulting from changes in classification	8,646	(2,794)	41,749	47,601
Movements due to change in classification	2,045	4,839	439	7,323
Other adjustments	81	174	1,740	1,995
Provision as at 30 June 2020 unaudited	28,169	37,539	338,535	404,243

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20. Other liabilities (continued)

Financial guarantees and loan commitments provisions (continued)

Bank	Retail lending			Total
	Stage 1	Stage 2	Stage 3	
Provision as at 1 st January 2020	2,160	2,037	2,555	6,752
New commitments originated or purchased	1,400	254	-	1,654
Commitments derecognised or transferred into assets	(128)	(353)	(81)	(562)
Net provision movement not resulting from changes in classification	(1,193)	246	(205)	(1,152)
Movements due to change in classification	266	(207)	471	530
Other adjustments	1	2	8	11
Provision as at 30 June 2020	2,506	1,979	2,748	7,233
	Non-Retail			Total
	Stage 1	Stage 2	Stage 3	
Provision as at 1 st January 2020	10,105	31,113	341,449	382,667
New commitments originated or purchased	6,335	3,236	-	9,571
Commitments derecognised or transferred into assets	(2,697)	(918)	(36,110)	(39,725)
Net provision movement not resulting from changes in classification	9,831	(3,055)	41,954	48,730
Movements due to change in classification	1,778	5,047	(32)	6,793
Other adjustments	80	171	1,427	1,678
Provision as at 30 June 2020	25,432	35,594	348,688	409,714
	Total			Total
	Stage 1	Stage 2	Stage 3	
Provision as at 1 st January 2020	12,265	33,150	344,004	389,419
New commitments originated or purchased	7,735	3,490	-	11,225
Commitments derecognised or transferred into assets	(2,825)	(1,271)	(36,191)	(40,287)
Net provision movement not resulting from changes in classification	8,638	(2,809)	41,749	47,578
Movements due to change in classification	2,044	4,840	439	7,323
Other adjustments	81	173	1,435	1,689
Provision as at 30 June 2020	27,938	37,573	351,436	416,947

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20. Other liabilities (continued)

Financial guarantees and loan commitments provisions (continued)

Group	Retail lending			Total
	Stage 1	Stage 2	Stage 3	
Provision as at 1 st January 2019	1,499	1,287	2,852	5,638
New commitments originated or purchased	4,453	773	-	5,226
Commitments derecognised or transferred into assets	(288)	(414)	(124)	(826)
Net provision movement not resulting from changes in classification	(3,600)	225	(152)	(3,527)
Movements due to change in classification	100	171	(39)	232
Other adjustments	2	3	18	23
Provision as at 31 December 2019	2,166	2,045	2,555	6,766
	Non-Retail			
	Stage 1	Stage 2	Stage 3	Total
Provision as at 1 st January 2019	39,141	112,777	187,110	339,028
New commitments originated or purchased	13,217	17,169	-	30,386
Commitments derecognised or transferred into assets	(16,727)	(16,264)	(25,699)	(58,690)
Net provision movement not resulting from changes in classification	(24,627)	(17,624)	21,316	(20,935)
Movements due to change in classification	(1,153)	(66,294)	142,104	74,657
Other adjustments	340	1,410	3,410	5,160
Provision as at 31 December 2019	10,191	31,174	328,241	369,606
	Total			
	Stage 1	Stage 2	Stage 3	Total
Provision as at 1 st January 2019	40,640	114,064	189,962	344,666
New commitments originated or purchased	17,670	17,942	-	35,612
Commitments derecognised or transferred into assets	(17,015)	(16,678)	(25,823)	(59,516)
Net provision movement not resulting from changes in classification	(28,227)	(17,399)	21,164	(24,462)
Movements due to change in classification	(1,053)	(66,123)	142,065	74,889
Other adjustments	342	1,413	3,428	5,183
Provision as at 31 December 2019	12,357	33,219	330,796	376,372

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20. Other liabilities (continued)

Financial guarantees and loan commitments provisions (continued)

Bank	Retail lending			Total
	Stage 1	Stage 2	Stage 3	
Provision as at 1 st January 2019	1,484	1,287	2,852	5,623
New commitments originated or purchased	4,447	766	-	5,213
Commitments derecognised or transferred into assets	(280)	(414)	(124)	(818)
Net provision movement not resulting from changes in classification	(3,593)	225	(152)	(3,520)
Movements due to change in classification	100	171	(39)	232
Other adjustments	2	3	18	23
Provision as at 31 December 2019	2,160	2,038	2,555	6,753
	Non-Retail			Total
	Stage 1	Stage 2	Stage 3	
Provision as at 1 st January 2019	39,064	112,894	201,001	352,959
New commitments originated or purchased	13,131	17,033	-	30,164
Commitments derecognised or transferred into assets	(16,644)	(16,201)	(25,699)	(58,544)
Net provision movement not resulting from changes in classification	(24,634)	(17,597)	21,316	(20,915)
Movements due to change in classification	(1,153)	(66,294)	142,104	74,657
Other adjustments	340	1,278	2,727	4,345
Provision as at 31 December 2019	10,104	31,113	341,449	382,666
	Total			Total
	Stage 1	Stage 2	Stage 3	
Provision as at 1 st January 2019	40,548	114,181	203,853	358,582
New commitments originated or purchased	17,578	17,799	-	35,377
Commitments derecognised or transferred into assets	(16,924)	(16,615)	(25,823)	(59,362)
Net provision movement not resulting from changes in classification	(28,227)	(17,372)	21,164	(24,435)
Movements due to change in classification	(1,053)	(66,123)	142,065	74,889
Other adjustments	342	1,281	2,745	4,368
Provision as at 31 December 2019	12,264	33,151	344,004	389,419

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20. Other liabilities (continued)

Post-employment benefit plan

This is a defined benefit plan under which the amount of benefit that an employee is entitled to receive on retirement depends on years of service and salary. The plan covers substantially all the employees and the benefits are unfunded. A full actuarial valuation by a qualified independent actuary is carried out annually. During 2020, the movements in service cost, benefits paid from defined benefit obligation and changes in financial assumptions resulted in a change of obligation carrying value: 59,064 as of June 30, 2020 and 57,584 as of December 31, 2019.

21. Share capital

The nominal share capital, as registered with the Registry of Commerce is 696,901 (2019: 696,901). Included in the share capital there is an amount of 1,818,721 (2019: 1,818,721) representing hyperinflation restatement surplus.

Share capital as of June 30, 2020 represents 696,901,518 (2019: 696,901,518) authorized common shares, issued and fully paid. The nominal value of each share is RON 1 (2019: RON 1). During 2020 and 2019, the Bank did not buy back any of its own shares.

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22. Interest and similar income

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Interest on loans	875,589	911,788	797,756	838,528
Interest on deposit with banks	16,378	28,981	16,043	28,462
Interest on financial assets at FVOCI	231,312	196,236	231,312	196,236
Interest from hedging instruments	7,579	6,821	7,579	6,821
Total	1,130,858	1,143,825	1,052,690	1,070,047

The interest income on loans includes the accrued interest on net (after impairment allowance) impaired loans in amount of 32,112 for Bank (2019: 32,100).

23. Interest and similar expense

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Interest on term deposits	42,924	57,369	43,286	57,682
Interest on demand deposits	29,321	25,729	30,065	26,133
Interest on borrowings	14,120	12,822	3	15
Interest expense on lease liabilities	2,614	3,161	2,552	2,939
Total	88,979	99,081	75,906	86,769

24. Fees and commissions, net

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Services	271,588	324,760	264,858	318,942
Management fees	54,621	56,390	54,621	56,390
Packages	25,209	25,279	25,209	25,279
Transfers	33,937	53,821	33,937	53,821
OTC withdrawal	26,388	33,915	26,388	33,915
Cards	90,484	106,197	90,484	106,197
Brokerage and custody	18,747	15,185	18,747	15,185
Other	22,202	33,973	15,473	28,154
Loan activity	46,341	46,606	33,512	33,699
Off balance sheet	14,632	15,315	14,632	15,315
Total	332,561	386,681	313,003	367,955

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25. Gain on derivative and other financial instruments held for trading and foreign exchange

	Group		Bank	
	Unaudited (*)	Unaudited (*)	Six months ended June 30, 2020	Six months ended June 30, 2019
	Six months ended June 30, 2020	Six months ended June 30, 2019		
FX position revaluation	(8,453)	(6,691)	(8,453)	(6,691)
FX Spot	77,696	90,460	77,022	90,711
Gain on instruments held for trading	18,822	26,804	18,822	26,803
Derivative financial instruments	48,623	41,531	48,623	41,530
Gain on interest rate derivatives	48,623	18,645	4,057	18,644
Gain on currency and interest swap	2,163	23,562	2,163	23,562
Gain/ (loss) on forward foreign exchange contracts	41,121	(4,189)	41,121	(4,189)
Gain on currency options	2,606	4,246	2,606	4,246
Loss on hedging	(289)	(376)	(289)	(376)
Other	(1,037)	(357)	(1,037)	(357)
Gain/ (loss) on derivative, other financial instruments held for trading and foreign exchange	136,688	152,104	136,014	152,353

26. Other income/expense from banking activities

	Group		Bank	
	Unaudited (*)	Unaudited (*)	Six months ended June 30, 2020	Six months ended June 30, 2019
	Six months ended June 30, 2020	Six months ended June 30, 2019		
Dividend income	844	1,047	844	31,849
Provision for litigations	(708)	(936)	(708)	(936)
Other income/(expenses)	1,462	840	(366)	(875)
Total income / (expense) from banking activity	1,598	951	(230)	30,038

For the Bank, other income includes dividends from subsidiaries in amount 30,806 as of June 30, 2019 and 0 as of June 2020, income from banking activities offered to the clients and income from non-banking activities, such as income from rentals. The income from rental of investment properties, for the Bank, is 501 (2019: 836).

27. Contribution to Guarantee Scheme and Resolution Fund

According to the Romanian legislation (Law no. 311/2015 on Deposit Guarantee Schemes and the Bank Deposit Guarantee Fund), the deposits of individuals and certain entities, including small and medium enterprises and large companies are covered up to EUR 100,000 by the Bank Deposit Guarantee Fund (“Fund”).

Each credit institution participating to deposit guarantee scheme shall pay the annual contribution as determined and notified by the Fund. The amount of the contribution refers to the total covered deposits at the end of the previous year and reflects also the degree of risk associated to each credit institution in the scheme.

The degree of risk is determined based on the financial and prudential indicators reported by the credit institutions to the National Bank of Romania. For this purpose, the Bank Deposits Guarantee Fund uses a methodology approved by the National Bank of Romania considering also the guidelines issued by the European Banking Authority.

For the year 2020 the expense related to the Deposit Guarantee Fund amounts to 14,403 (2019: 46,930).

According to Law no. 312/2015 on recovery and resolution of credit institution and investment firms, each credit institution shall pay an annual contribution to Bank Resolution Fund as determined and notified by the National Bank of Romania.

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27. Contribution to Guarantee Scheme and Resolution Fund (continued)

The National Bank of Romania as the local resolution authority establish the credit institutions annual contributions to Bank Resolution Fund, in compliance with Commission Delegated Regulation EU 2015/63, supplementing Directive 2014/59 of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements.

For the year 2020 the expense related to the Bank Resolution Fund was 29,088 (2019: 25,348).

Both contributions to the Bank Deposit Guarantee Fund and Bank Resolution Fund meet the criteria for recognition as taxes and accounted in accordance with IFRIC 21 “Levies” requirements. The liability is recognized at the date when the obligating event occurs and the contribution is recognized as an expense in full on 1st of January of the year in which the payment is made.

28. Personnel expenses

	Group		Bank	
	Unaudited (*) Six months ended June 30, 2020	Unaudited (*) Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Salaries	371,575	353,890	346,009	331,049
Social security	8,725	8,690	8,314	7,769
Bonuses	26,070	28,358	24,787	27,292
Post-employment benefits	2,398	2,431	2,398	2,431
Other	3,522	9,982	3,893	8,282
Total	412,291	403,351	385,401	376,823

In 2020, the expense related to the Bank defined benefit plan contribution was 1,552 (June 30, 2019: 1,301).

29. Depreciation, amortisation and impairment on tangible and intangible assets

	Group		Bank	
	Unaudited (*) Six months ended June 30, 2020	Unaudited (*) Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Depreciation and impairment	96,054	94,042	92,458	90,994
Amortisation	20,030	18,111	19,244	17,540
Total	116,084	112,153	111,702	108,534

The difference as at June 30, 2020 between the amount presented in note 12 and the amount presented in note 29 represents depreciation of investment property in total amount of 319 (June 30, 2019: 727).

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30. Other operating expense

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Administrative expenses	183,542	173,994	173,466	163,612
Publicity and sponsorships	9,333	15,028	9,163	14,662
Other expenses	35,054	26,981	32,349	24,313
Total	227,929	216,003	214,978	202,587

31. Cost of risk

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Net impairment allowance for loans	217,632	(90,171)	201,767	(88,239)
Net impairment allowance for sundry debtors	18,266	20,246	19,085	20,470
Net impairment allowance for finance lease	8,342	19	-	-
Income from recoveries of derecognized receivables & sales of bad debts	(48,175)	(105,665)	(46,492)	(100,730)
Write-offs	3,092	32,426	2,367	15,908
Financial guarantee and loan contracts provisions	25,875	(463)	25,840	(487)
Net impairment allowance for debt securities	81	(710)	81	(710)
Total	225,113	(144,317)	202,648	(153,787)

The net cost of risk registered an expense of 225 million (for the Group) and 203 million (for the Bank). Cost of risk was primarily affected by worsening of the macroeconomic assumptions with significant impact in the computation for Expected Credit Losses. Overall, ECL levels increased resulting in a net charge to Profit or Loss.

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32. Cash and cash equivalents details

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. The amounts in transit in amount of 97,523 (December 31, 2019: 95,449) and loans to banks, with more than 90 days maturity from the date of acquisition in amount of 37,958 (December 31, 2019: 36,653) for the Bank and also the ones amounting 54,822 (December 31, 2019: 54,464) for the Group are excluded. The Group and Bank did not include in cash and cash equivalents the amounts representing minimum compulsory reserve held at National Bank of Romania.

	Group		Bank	
	Unaudited (*)			
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Cash in hand	1,913,701	2,077,373	1,913,697	2,077,340
Current accounts and deposits with banks	5,363,759	3,259,680	5,363,758	3,259,678
Total	7,277,460	5,337,054	7,277,455	5,337,018

Impairment and provisions adjustment for non-cash items:

	Group		Bank	
	Unaudited (*)			
	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Net impairment allowance for loans	217,632	(90,171)	201,767	(88,239)
Net impairment allowance for sundry debtors	18,266	20,246	19,085	20,470
Net impairment allowance for financial leases	8,342	19	-	-
Write-offs	3,092	32,426	2,367	15,908
Financial guarantee and loan contracts provisions	25,875	(463)	25,840	(487)
Net movement in other provisions	(2,073)	1,933	(2,015)	2,145
Net impairment allowance for debt securities	81	(710)	81	(710)
Total	271,215	(36,719)	247,125	(50,912)

33. Guarantees and other credit facilities

Guarantees and letters of credit

The Group and Bank issues guarantees and letters of credit for its customers. The primary purpose of letters of credit is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group and Bank will make payments in the event that a customer cannot meet its obligations (delivery of goods, documents submitting, etc) to third parties with which it entered previously into a contractual relationship, carry a similar credit risk as loans once they are executed.

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

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33. Guarantees and other credit facilities (continued)

Credit related commitments

Financing commitments represent unused amounts of approved credit facilities.

The Group and 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.

	Group		Bank	
	Unaudited (*)			
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Letters of guarantee granted	4,513,176	5,192,938	4,527,533	5,207,647
Financing commitments granted	3,571,437	3,650,105	3,034,169	3,187,034
Total commitments granted	8,084,613	8,843,044	7,561,702	8,394,681
Uncommitted facilities granted	8,502,211	7,752,222	8,569,742	7,825,212
Letters of guarantee received	14,385,332	14,474,866	14,385,332	14,474,866
Financing commitments received	484,230	716,895	484,230	716,895
Total commitments received	14,869,562	15,191,761	14,869,562	15,191,761

34. Other commitments

	Group		Bank	
	Unaudited (*)			
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Tangible non-current assets	2,635	2,700	2,635	2,700
Intangible non-current assets	27,496	35,999	27,496	35,999
Commitments relating to short-term and low value leases	20,965	16,314	20,965	16,314
Total	51,096	55,013	51,096	55,013

Other commitments include short term and low value leases, software maintenance contracts and other IT services.

As at June 30, 2020 and December 31, 2019 the future minimum lease payments regarding rents concluded by the Group and Bank as a lessee are:

	Group		Bank	
	Unaudited (*)			
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Less than one year	9,857	6,196	9,857	6,196
Between one and five years	8,987	7,150	8,987	7,150
More than five years	80	320	80	320
Total	18,925	13,666	18,925	13,666

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35. Related parties

The Group entered into related party transactions with its parent, other SG entities, subsidiaries, associates and key management personnel. 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 subsidiaries were eliminated for consolidation purposes. The transactions/balances with related parties can be summarized as follows:

	Group							
	2020 Unaudited (*)				2019			
	Parent	Other related parties	Associates	Key management of the institution	Parent	Other related parties	Associates	Key management of the institution
Assets	222,811	51,111	12,991	1,065	171,390	53,030	19,797	1,154
Nostro accounts	43,029	29,361	-	-	17,743	34,457	-	-
Deposits	37,355	-	-	-	33,386	-	-	-
Loans	37,958	21,583	6,578	1,062	36,653	18,402	7,083	1,152
Derivative financial instruments	98,601	-	-	1	76,974	-	-	1
Other assets	5,868	167	6,413	1	6,635	172	12,714	-
Liabilities	1,701,832	158,891	123,485	9,788	1,649,535	79,930	159,883	7,929
Loro accounts	43	4,243	-	-	15,338	3,019	-	-
Deposits	96,140	154,454	115,688	9,788	86,531	76,658	148,625	7,929
Borrowings	1,482,170	-	-	-	1,442,612	-	-	-
Derivative financial instruments	57,279	-	-	-	49,823	-	-	-
Other liabilities	66,200	195	7,797	-	55,230	253	11,258	-
Commitments	8,383,350	105,004	22,454	350	8,991,486	41,659	21,592	72
Total commitments granted	97,343	43,736	376	350	110,294	20,604	2,021	72
Total commitments received	658,095	48,099	-	-	1,003,758	18,126	-	-
Uncommitted facilities granted	-	13,169	22,078	-	-	2,929	19,571	-
Notional amount of foreign exchange transactions	4,746,612	-	-	-	4,535,538	-	-	-
Notional amount of interest rate derivatives	2,881,301	-	-	-	3,341,896	-	-	-
Income statement	12,954	(995)	11,644	6	34,380	(656)	18,917	10
Interest and commission revenues	8,939	1,215	8,051	19	9,294	1,237	8,302	25
Interest and commission expense	(16,697)	(495)	(453)	(13)	(13,592)	(415)	(555)	(14)
Net gain/(loss) on interest rate derivatives	6,474	-	-	(0)	19,755	-	-	(1)
Net gain/(loss) on foreign exchange derivatives	34,042	-	-	-	31,072	-	-	-
Dividend income	-	-	5,791	-	-	-	9,146	-
Other income	-	27	101	-	-	32	495	-
Other expenses	(19,804)	(1,742)	(1,845)	-	(12,148)	(1,510)	1,530	-

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35. Related parties (continued)

	Bank									
	2020					2019				
	Parent	Other related parties	Subsidiaries	Associates	Key management of the institution	Parent	Other related parties	Subsidiaries	Associates	Key management of the institution
Assets	185,456	51,111	50,512	12,005	1,065	138,004	53,030	36,197	15,901	1,154
Nostro accounts	43,029	29,361	-	-	-	17,743	34,457	-	-	-
Loans	37,958	21,583	48,659	6,578	1,062	36,653	18,402	29,778	7,083	1,152
Derivative financial instruments	98,601	-	-	-	1	76,974	-	37	-	1
Other assets	5,868	167	1,853	5,427	1	6,635	172	6,382	8,818	-
Liabilities	218,268	158,875	162,983	122,308	9,788	205,823	79,914	141,139	156,547	7,929
Loro accounts	43	4,243	-	-	-	15,338	3,019	-	-	-
Deposits	96,140	154,454	162,741	115,688	9,788	86,531	76,658	140,906	148,625	7,929
Lease payable	-	-	242	-	-	-	-	232	-	-
Derivative financial instruments	57,279	-	-	-	-	49,823	-	-	-	-
Other liabilities	64,805	179	-	6,620	-	54,131	237	-	7,922	-
Commitments	8,383,350	105,004	84,803	22,454	350	8,991,486	41,659	124,206	21,592	72
Total commitments granted	97,343	43,736	17,272	376	350	110,294	20,604	29,709	2,021	72
Total commitments received	658,095	48,099	-	-	-	1,003,758	18,126	-	-	-
Uncommitted facilities granted	-	13,169	67,531	22,078	-	-	2,929	72,990	19,571	-
Notional amount of foreign exchange transactions	4,746,612	-	-	-	-	4,535,538	-	21,507	-	-
Notional amount of interest rate derivatives	2,881,301	-	-	-	-	3,341,896	-	-	-	-
Income statement	26,014	(1,323)	7,469	6,309	6	45,722	(1,102)	37,831	13,702	10
Interest and commission revenues	8,604	766	7,148	1,942	19	8,951	674	6,453	2,269	25
Interest and commission expense	(3,761)	(495)	(1,106)	(451)	(13)	(2,259)	(415)	(717)	(555)	(14)
Net gain/(loss) on interest rate derivatives	6,474	-	-	-	(0)	19,755	-	-	-	(1)
Net gain/(loss) on foreign exchange derivatives	34,042	-	(53)	-	-	31,072	-	163	-	-
Dividend income	-	-	-	5,791	-	-	-	30,806	9,146	-
Other income	-	27	262	63	-	-	32	127	459	-
Other expenses	(19,345)	(1,621)	1,219	(1,036)	-	(11,797)	(1,392)	999	2,383	-

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35. Related parties (continued)

Other liabilities and other expenses include mainly corporate and technical assistance with Societe Generale Paris.

The Bank has collateral received from SG Paris regarding derivative instruments in total amount of 60,754 at June 30, 2020 (December 31, 2019: 49,892).

As of June 30, 2020 the Board of Directors and Managing Committee members own 301,030 shares (2019: 301,730).

Key management personnel benefits for 2020 and 2019:

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Short-term benefits	8,759	7,817	7,088	6,104
Long-term benefits	2,574	2,408	2,405	2,336

36. Contingencies

As of June 30, 2020 the Bank is the defendant in a number of lawsuits arising in the course of business, amounting to approximately 758,914 (December 31, 2019: 899,484.). The amounts disclosed represent the additional potential loss in the event of a negative court decision, the amounts not being provisioned. The management believes that the ultimate resolution of these matters will not have a material adverse effect on the Group's overall financial position and performance. The Bank already booked a provision of 19,335 (December 31, 2019: 19,084) and the Group 24,207 (December 31, 2019: 24,014) in relation with the litigations.

37. Earnings per share

Basic earnings per share are calculated by dividing net profit/ (loss) 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 June 30, 2020 and June 30, 2019 there were no dilutive equity instruments issued by the Group and Bank.

	Group		Bank	
	Unaudited (*)	Unaudited (*)		
	Six months ended June 30, 2020	Six months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Ordinary shares on market	696,901,518	696,901,518	696,901,518	696,901,518
Profit attributable to shareholders	409,862	782,846	405,033	802,660
Earnings per share (in RON)	0.5881	1.1233	0.5812	1.1518

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38. Fair value

Determination of fair value and fair value hierarchy

To determine and disclose the fair value hierarchy of the financial instruments, the Group follows the three-level classification of the inputs to valuation techniques used to measure fair value:

- **Level 1: quoted (unadjusted) prices** in active markets for identical assets or liabilities;

Level 1 instruments contain the government bonds, priced directly by external counterparties on various dealing platforms (Bloomberg, Reuters etc);

- **Level 2: other inputs** than those quoted prices included within Level 1, **that are observable** for that particular asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices);

Level 2 instruments include in particular securities that cannot directly be quoted on the market (e.g. corporate bonds) and firm derivatives, with standard features and common maturities, whose value can be retrieved or derived from market data;

- **Level 3:** inputs that are not based on observable market data (**unobservable inputs**).

Level 3 instruments include options traded over-the-counter and other derivatives with specifically-tailored return profiles and/or maturities extended over the normal spectrum;

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

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38. Fair value (continued)

Assets measured at fair value	Group				Bank			
	June 30, 2020 Unaudited (*)				June 30, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	115,897	-	115,897	-	115,897	-	115,897
Currency swaps	-	15,133	-	15,133	-	15,133	-	15,133
Forward foreign exchange contracts	-	11,174	-	11,174	-	11,174	-	11,174
Options	-	-	22,256	22,256	-	-	22,256	22,256
	-	142,204	22,256	164,460	-	142,204	22,256	164,460
Financial assets at fair value through other comprehensive income	13,848,206	-	-	13,848,206	13,848,206	-	-	13,848,206
Equity investments (listed)	2,739	-	-	2,739	2,739	-	-	2,739
Equity investments (not listed)	-	-	68,674	68,674	-	-	68,674	68,674
Other securities quoted	-	42,421	-	42,421	-	17,043	-	17,043
Total	13,850,945	42,421	68,674	13,962,040	13,850,945	17,043	68,674	13,936,662
Other financial instruments held for trading	2,676,869	-	-	2,676,869	2,676,869	-	-	2,676,869
Total	16,527,814	184,625	90,930	16,803,368	16,527,814	159,247	90,930	16,777,991
Assets for which fair value is disclosed								
Cash in hand	1,913,701	-	-	1,913,701	1,913,697	-	-	1,913,697
Due from Central Bank	3,104,144	-	-	3,104,144	3,104,144	-	-	3,104,144
Due from banks	5,516,104	-	-	5,516,104	5,499,239	-	-	5,499,239
Loans and advances to customers	-	-	30,007,868	30,007,868	-	-	29,322,080	29,322,080
Financial lease receivables	-	-	1,017,988	1,017,988	-	-	-	-
Total	10,533,949	-	31,025,856	41,559,805	10,517,080	-	29,322,080	39,839,160

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38. Fair value (continued)

	Group				Bank			
	June 30, 2020 Unaudited (*)				June 30, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value								
Financial liabilities								
Derivative financial instruments								
Interest rate swaps	-	37,775	-	37,775	-	37,775	-	37,775
Currency swaps	-	5,225	-	5,225	-	5,225	-	5,225
Forward foreign exchange contracts	-	10,722	-	10,722	-	10,722	-	10,722
Options	-	-	22,691	22,691	-	-	22,691	22,691
Total	-	53,722	22,691	76,413	-	53,722	22,691	76,413
Other financial instruments held for trading	519,417	-	-	519,417	519,417	-	-	519,417
Total	519,417	53,722	22,691	595,830	519,417	53,722	22,691	595,830
Liabilities for which fair value is disclosed								
Due to banks	413,416	-	-	413,416	413,416	-	-	413,416
Due to customers	-	47,556,782	-	47,556,782	-	47,720,593	-	47,720,593
Borrowed funds	-	1,693,452	-	1,693,452	-	8,145	-	8,145
Total	413,416	49,250,234	-	49,663,650	413,416	47,728,738	-	48,142,154

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38. Fair value (continued)

	Group				Bank			
	December 31, 2019				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value								
Financial assets								
Derivative financial instruments								
Interest rate swaps	-	84,780	-	84,780	-	84,780	-	84,780
Currency swaps	-	11,352	-	11,352	-	11,352	-	11,352
Forward foreign exchange contracts	-	7,436	-	7,436	-	7,473	-	7,473
Options	-	-	23,448	23,448	-	-	23,448	23,448
	-	103,568	23,448	127,016	-	103,605	23,448	127,053
Financial assets at fair value through other comprehensive income	12,958,113	-	-	12,958,113	12,958,113	-	-	12,958,113
Equity investments (listed)	2,933	-	-	2,933	2,933	-	-	2,933
Equity investments (not listed)	-	-	65,776	65,776	-	-	65,776	65,776
Other securities quoted	-	39,345	-	39,345	-	18,666	-	18,666
Total	12,961,046	39,345	65,776	13,066,167	12,961,046	18,666	65,776	13,045,488
Other financial instruments held for trading	1,117,016	-	-	1,117,016	1,117,016	-	-	1,117,016
Total	14,078,062	142,913	89,224	14,310,199	14,078,062	122,271	89,224	14,289,557
Assets for which fair value is disclosed								
Cash in hand	2,077,373	-	-	2,077,373	2,077,340	-	-	2,077,340
Due from Central Bank	4,765,273	-	-	4,765,273	4,765,273	-	-	4,765,273
Due from banks	3,409,594	-	-	3,409,594	3,391,780	-	-	3,391,780
Loans and advances to customers	-	-	30,359,664	30,359,664	-	-	29,628,720	29,628,720
Financial lease receivables	-	-	1,003,703	1,003,703	-	-	-	-
Total	10,252,240	-	31,363,367	41,615,607	10,234,393	-	29,628,720	39,863,113

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38. Fair value (continued)

	Group				Bank			
	December 31, 2019				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<u>Liabilities measured at fair value</u>								
Financial liabilities								
Derivative financial instruments								
Interest rate swaps	-	29,903	-	29,903	-	29,903	-	29,903
Currency swaps	-	5,164	-	5,164	-	5,164	-	5,164
Forward foreign exchange contracts	-	10,887	-	10,887	-	10,887	-	10,887
Options	-	-	23,569	23,569	-	-	23,569	23,569
Total	-	45,954	23,569	69,523	-	45,954	23,569	69,523
Other financial instruments held for trading	140,007	-	-	140,007	140,007	-	-	140,007
Total	140,007	45,954	23,569	209,530	140,007	45,954	23,569	209,530
<u>Liabilities for which fair value is disclosed</u>								
Due to banks	421,112	-	-	421,112	421,112	-	-	421,112
Due to customers	-	45,897,284	-	45,897,284	-	46,038,177	-	46,038,177
Borrowed funds	-	1,696,495	-	1,696,495	-	10,367	-	10,367
Total	421,112	47,593,779	-	48,014,891	421,112	46,048,544	-	46,469,656

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38. Fair value (continued)

Financial instruments measured at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Treasury notes are represented by treasury bills and bonds, and are classified as financial assets at fair value through other comprehensive income or financial instruments held for trading measured at fair value through profit and loss, being measured using a valuation technique based on market quotes published by Bloomberg or by Reuters (market approach).

Derivatives

The fair value of the derivatives is determined using valuation techniques commonly known on the market, such as discounted cash flows for swaps or Black-Sholes formula for options.

Firm derivatives – interest rate swaps, currency swaps and forward foreign exchange contracts, are the main derivative products measured using as valuation technique the income approach (discounting cash flows) and incorporating observable inputs from market (foreign exchange spot rate, forward rates, interest rate rates, futures), both directly observable ones (explicit parameters) and indirectly observable ones.

The directly observable parameters are variables that come directly from the market and are presumed to be easily available, accessible to each market participant. The main explicit parameters used in valuation of firm financial instruments are interbank fixing FX rates published by NBR, interbank swap points, interbank bid/ask interest rates, futures quotes on EUR and USD. Implicit parameters are variables obtained through standard intermediary calculation, using market prices for relevant financial instruments. The yield curves designated at the level of each product and currency are fed with explicit parameters according to the pre-set configuration, facilitating the computation of implicit parameters used in computing the fair value such as Zero-coupons, Discount Factors and Forward Interest Rates.

Conditional derivatives - FX options, interest rate options and equity options, are valued daily, using the mark-to-model approach. The model is calibrated to derive the value of the option based on the current market conditions (spot rates) and the future values presumed to be attained by the underlying (forward exchange rates, FRAs etc), integrating in the calculation the standard option-sensitivities (delta, gamma, vega, theta), along with information regarding the size of the positions and the liquidity of the instrument. The fair value is determined through SG's computation module, the values of the specific parameters being daily retrieved from the market and stored in the database, serving as direct input in the daily final formula or further used for the statistical calculation implied by the valuation process.

BRD manages the group of these financial assets and liabilities (options) on the basis of the entity's net exposure to a particular market risk (foreign exchange, interest rate, price risk) and, according to the trading book policy in place, BRD assumes no residual market risk induced by option-trading. Any bought option is perfectly matched on the same day with a sold option, identical in terms of option type, underlying, exercise prices, maturity. The perfect back-to-back system is subject to daily controls performed at back-office level, to ensure that no mismatch occurred and there is no residual open position on options. Therefore, the impact of a specific change on the estimated value on one non-observable parameter used on the valuation of an option classified/ accounted as financial asset is offset by same specific change on estimated value of the same non-observable parameter on the valuation of the mirror-replicated option classified/ accounted as financial liability.

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38. Fair value (continued)

Equities

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the financial performance of the investee.

The fair value of equity instruments not listed classified as at fair value through profit and loss and consisting of ordinary shares of other entities is determined by using the net assets of the entities as at the end of the last closed reporting period. The entities net assets represent the best estimation of the current replacement cost that would be paid in order to replace the holding as it consists of the initial capital investment adjusted by the financial performance of the entity.

In the case of Visa share, following the acquisition of VISA Europe by VISA Inc, transaction which was closed in June 2016, the Bank, as principal member, received a share of the sale proceeds, having both a cash component and a share in VISA Inc component. Following the SG approach, in order to determine the fair value of the share, the Bank adjusted the sale proceeds using some prudential haircuts (liquidity, litigation risks etc.).

Fair value of financial assets and liabilities not carried at fair value

Financial assets

Deposits with banks, loans originated by the Group and leases are measured at amortized cost using the effective interest rate method 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.

For loans and lease receivables the fair value is determined by using discounted cash-flows based on interest rate offered to similar products and similar time horizons.

Financial liabilities

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

For due to customers and borrowings amounts the fair value is determined by using discounted cash-flows based on interest rate offered to similar products and customers and with similar time horizons.

The accompanying notes are an integral part of this financial statements

(*) Unaudited / unreviewed by the financial auditor

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38. Fair value (continued)

The following table presents the fair value and the carrying amount per type of financial instrument.

	Group				Bank			
	June 30, 2020 Unaudited (*)		December 31, 2019		June 30, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets								
Cash in hand	1,913,701	1,913,701	2,077,373	2,077,373	1,913,697	1,913,697	2,077,340	2,077,340
Due from Central Bank	3,104,144	3,104,144	4,765,273	4,765,273	3,104,144	3,104,144	4,765,273	4,765,273
Due from banks	5,516,104	5,516,104	3,409,594	3,409,594	5,499,239	5,499,239	3,391,780	3,391,780
Loans and advances to customers	29,976,415	30,007,868	30,292,869	30,359,664	29,213,637	29,322,080	29,466,780	29,628,720
Financial lease receivables	1,023,276	1,017,988	992,665	1,003,703	-	-	-	-
	41,533,640	41,559,805	41,537,774	41,615,607	39,730,717	39,839,160	39,701,173	39,863,113
Financial liabilities								
Due to banks	413,416	413,416	421,112	421,112	413,416	413,416	421,112	421,112
Due to customers	47,557,438	47,556,782	45,898,751	45,897,284	47,721,250	47,720,593	46,039,649	46,038,177
Borrowed funds	1,693,452	1,693,452	1,696,495	1,696,495	8,145	8,145	10,367	10,367
	49,664,306	49,663,650	48,016,358	48,014,891	48,142,811	48,142,154	46,471,128	46,469,656

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38. Fair value (continued)

The methods and significant assumptions applied in determining the fair value of the elements in the table above are listed below.

The fair value of fixed rate instruments is estimated by discounting the maturing cash flows with discount factors derived from the rates offered to similar clients, for similar products on similar maturities. The fair value of floating instruments is estimated by discounting from the next re-pricing date using as discount factors rates offered to similar clients, for similar products on similar time horizons.

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.

The transfers between levels of fair value hierarchy are deemed to have occurred the date of the event or change in circumstances that caused the transfer, but not later than the end of the reporting period.

Movement in level 3:

Fair value of equity investments not listed is estimated based on net assets of the investments.

	Equity investments (not listed)	Options (A)	Options (L)
Closing balance as at December 31, 2018	44,976	45,877	47,106
Acquisitions	-	6,630	6,630
Sales	(4)	(1,407)	(1,407)
Reimbursements	-	(5,330)	(5,330)
Gain losses from change in fair value	19,983	(22,322)	(23,430)
Translation differences	821	-	-
Closing balance as at December 31, 2019	65,776	23,448	23,569
Acquisitions	-	7,561	7,561
Sales	-	(266)	(266)
Reimbursements	-	(2,411)	(2,412)
Gain losses from change in fair value	1,969	(6,075)	(5,760)
Translation differences	929	-	-
Closing balance as at June 30, 2020	68,674	22,256	22,691

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(*) Unaudited / unreviewed by the financial auditor

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39. Subsequent events

No subsequent event was identified after the reporting date.

The accompanying notes are an integral part of this financial statements

(*) Unaudited / unreviewed by the financial auditor