

Half Year Report

June 30, 2017

according to National Securities Commission Regulation
no 1/2006

YOUR BANK. YOUR TEAM



GRUPE SOCIETE GENERALE

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1. THE COMPANY AND ITS SHAREHOLDERS

BRD – GROUPE SOCIÉTÉ GÉNÉRALE PROFILE

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

In March 1999, Société Générale (“SG”) bought a stake representing 51% of the share capital, increasing its holding to 58.32% in 2004, through the acquisition of the residual stake from the Romanian State. As at June 30, 2017, SG was holding 60.17% of the share capital.

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

BRD identification data are the following:

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

EXTERNAL RATING

As at June 30, 2017 the Bank had the following ratings:

Fitch Ratings (rating date: 20-Oct-2016)	Rating
Foreign-Currency Short-Term Issuer Default Rating	F2
Foreign-Currency Long-Term Issuer Default Rating	BBB+
Support Rating	2

Moody's (rating date: 28-Feb-2017)	Rating
Global Local Currency Short-Term Deposit	Prime
Global Local Currency Long-Term Deposit	Baa3
Foreign Currency Short-Term Deposit	Prime
Foreign Currency Long-Term Deposit	Baa3

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

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

SOCIÉTÉ GÉNÉRALE PROFILE

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

Société Générale is one of the largest European financial services groups. Based on a diversified universal banking model, the Group combines financial solidity with a strategy of sustainable growth, and aims to be the reference for relationship banking, recognised on its markets, close to clients, chosen for the quality and commitment of its teams.

Société Générale has been playing a vital role in the economy for 150 years. With more than 148,000 employees, based in 76 countries, Société Générale accompanies 30 million clients throughout the world on a daily basis. Société Générale's teams offer advice and services to individual, corporate and institutional customers in three core businesses:

- *Retail banking in France* with the Société Générale branch network, Credit du Nord and Boursorama, offering a comprehensive range of multi channel financial services on the leading edge of digital innovation;
- *International retail banking, financial services and insurance* with a presence in emerging economies and leading specialised businesses;
- *Corporate and investment banking, private banking, asset management and securities services*, with recognized expertise, top international rankings and integrated solutions.

As at June 30, 2017, the ratings of Société Générale were:

- Standard and Poor's: A
- Moody's: A2
- Fitch: A

BRD POSITION WITHIN SOCIÉTÉ GÉNÉRALE

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

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

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

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

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

KEY FIGURES

	The Bank	H1-2016	H1-2017	Variation
Financial results	Net banking income (RONm)	1,381	1,293	-6.4%
	Operating expenses (RONm)	(667)	(681)	+2.1%
	Cost of risk (RONm)	(270)	274	n.a.
	Net profit (RONm)	382	750	+96.3%
	Cost / income ratio	48.3%	52.7%	+4.4 pt
	ROE	12.7%	23.1%	+10.4 pt
		Jun-16	Jun-17	Variation
Capital adequacy*	Own funds (RONm)	5,098	5,319	+4.3%
	RWA (RON bn)	26.7	27.5	3.0%
	CAR	19.1%	19.4%	+0.3 pt
Loans and deposits	Total net loans (RON bn)	27.4	28.6	+4.5%
	Total deposits (RON bn)	40.3	43.1	+7.1%
Franchise	No of branches	818	790	(28)
	No of active customers (x 1000)	2,249	2,272	24
	The Group	H1-2016	H1-2017	Variation
Financial results	Net banking income (RONm)	1,434	1,342	-6.4%
	Operating expenses (RONm)	(705)	(720)	+2.1%
	Cost of risk (RONm)	(282)	270	n.a.
	Net profit (RONm)	381	750	+96.8%
	Cost / income ratio	49.2%	53.7%	+4.5 pt
	ROE	12.1%	22.1%	+10.0 pt
		Jun-16	Jun-17	Variation
Loans and deposits	Total net loans including leasing (RON bn)	28.4	29.8	+4.8%
	Total deposits (RON bn)	40.2	43.1	+7.1%

(*) according to Basel 3 including the impact of prudential filters;

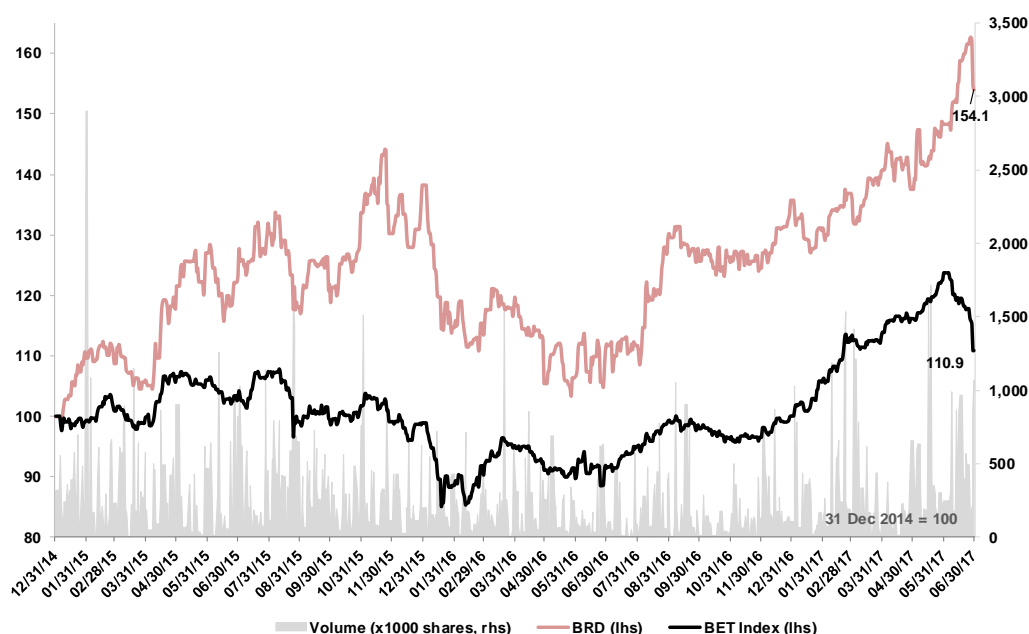
BRD SHARE

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

The closing price for BRD share as at June 30, 2017, was of 13.48 RON/share (RON 11.88 /share at December 31, 2016 and RON 9.80/share at June 30, 2016). On the same date, the market capitalization was RON 9,394.23 million (RON 8.279,19 million at December 31, 2016 and RON 6.829,63 million June 30, 2016).

During January – June 2017, neither the Bank, nor its subsidiaries bought back own shares.

Evolution of BRD's share price versus the BET Index and BRD's volume of shares for the period December 31, 2014 – June 30, 2017



Source: Bloomberg

DIVIDENDS

At the April 20, 2017 Annual Shareholders' Meeting, shareholders approved the distribution of a gross dividend per share of RON 0.73. The total amount of approved dividends was RON 508.7 million corresponding to a payout ratio of 70% out of the 2016 distributable profit of RON 728.28 million. Dividend payment started on May 30, 2017 for shareholders registered on May 9, 2017.

As at June 30, 2017, the amount of dividends effectively paid was RON 505.9 million, representing 99.45% out of the total approved dividends.

2. ECONOMIC AND BANKING ENVIRONMENT

GDP remains on a strong growth path in Q1 2017, increasing by 5.6% (seasonally adjusted) compared to Q1 2016, driven by the continued acceleration of private consumption which benefitted from wage increases (average nominal wage increasing by 14% as of January 2017) and dynamic employment (at 5.4% at May-17 end, unemployment rate is near the minimum level of the last 13 years). In light of budgetary capital expenditure cutbacks and in the absence of a vigorous drawdown of EU structural funds, investments had a negative contribution to GDP performance (-0.2 pts in Q1 2017). After -0.8% negative contribution to GDP growth in 2016 and -0.1% in Q1 2017, net exports contribution was revised on the upside at the 2nd estimate of the GDP for Q1 2017, as exports rose by +10.9% YoY outpacing imports advance (+10.6% YoY).

The annual inflation rate entered into positive territory beginning with 2017, reaching +0.9% at Jun-17 end versus -0.7% at Jun-16 end and -0.54% at Dec-16 end, as the favourable base effect related to VAT rate cut in January 2016 faded out.

NBR kept unchanged the monetary policy rate at 1.75% in the last two years, while continuing the cycle of reduction of the minimum reserve requirements (reserve requirements for FCY liabilities were reduced to 8% in May 2017 from 10% previously).

Domestic lending accelerated, supported by ongoing economic growth and rising disposable income. Gross loans increased by +3.5% YoY vs Jun 16 end (variation at constant exchange rate) with loans to individuals up by +5.1% and loans to companies higher by +2.0% YoY, showing first signs of recovery (variation at constant exchange rate). Loans to individuals' growth continue to be backed by housing loans (+10.1% YoY) while consumer loans remained quasi stable on a yearly basis, as the increase in local currency originated loans only slightly outpaced the decrease of FX component.

Banking system deposits growth remained strong, above 8% YoY (variation at constant exchange rate) for both segments: individuals' and companies, in spite of the low level of interest rates.

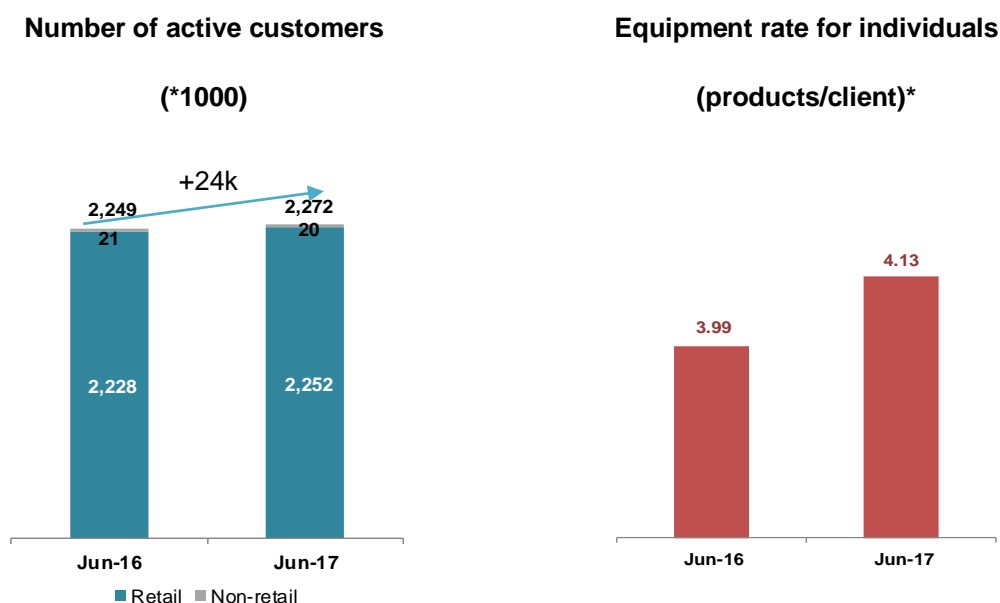
The ratio of non-performing loans (NPLs) for the banking system kept its downward trend, decreasing by 314 bps, from 13.11% at Apr 2016 end to 9.26% at Apr 2017 end (according to EBA definition), following banks activity of selling and removing off balance sheet non-performing loans portfolios, confirming, at the same time, the overall improving trend of asset quality.

3. COMMERCIAL ACTIVITY

As at June 30, 2017 the Bank had 790 branches (30.06.2016: 818 branches, 31.12.2016: 810 branches), ensuring the distribution of its products and services throughout the whole country.

The Bank's number of active individual customers rose by circa 21,000 at June 30, 2017 compared to June 30, 2016, reaching 2.14 million customers.

The equipment rate for individuals continued to rise, benefitting from growing demand for remote banking solutions (My BRD Net and My BRD Mobile).



(*) Bank only (active clients are the clients who have at least one of the following types of bank products: active current account, active card, loan, deposit, savings account)

BRD held a market share of 12.7% in terms of total assets at March 31, 2017 (based on BRD own computation).

	Jun-16	Dec-16	Jun-17
TOTAL ASSETS	12.7%	12.9%	n.a.
LOANS	13.4%	13.2%	13.1%
<i>Individuals</i>	16.9%	16.9%	16.9%
<i>Companies</i>	10.2%	9.7%	9.5%
DEPOSITS	14.3%	14.1%	14.1%
<i>Individuals</i>	14.0%	14.0%	14.0%
<i>Companies</i>	14.8%	14.3%	14.3%

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

RON bln	Jun-16	Dec-16	Jun-17	vs. Dec-16	vs. Jun-16
Retail	18.6	19.1	19.8	3.5%	6.3%
Individuals	18.0	18.5	19.2	4.0%	6.6%
Small business	0.6	0.7	0.6	-7.9%	-0.7%
Non-retail	9.1	8.7	9.3	6.5%	1.6%
SMEs	2.9	2.6	2.6	0.2%	-7.4%
Large corporate	6.3	6.0	6.6	9.3%	5.7%
Total net loans	27.8	27.8	29.1	4.5%	4.8%
Financial lease receivables	0.6	0.7	0.7	2.9%	6.7%
Total net loans, including leasing	28.4	28.5	29.8	4.4%	4.8%

The net loans outstanding as of June 2017 end increased with nearly +5% compared to both year-end and the same period of last year, benefitting from a strong advance from individuals and large corporate clients. Segment wise, retail loans outstanding growth reached 6.3% vs Jun-16 end with the share of individual loans the main contributor to growth. The high demand from individuals for unsecured consumer loans and housing loans (mostly Prima Casa) drove the individual's loan production higher by 9.1% versus H1-2016, to RON 3.1 billion, pushed by the +14.2% increase in new unsecured consumer loans.

Non-retail loans rebounded in the first half of the year as compared to the year-end, to RON 9.3 billion with loans to large corporate customers higher by 9.3% versus Dec-16 end and by 5.7% versus Jun-16 end, confirming once again BRD strong position on the segment. Lending to SMEs contracted on a yearly basis but stabilized in the first half of 2017.

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

RON bln	Jun-16	Dec-16	Jun-17	vs. Dec-16	vs. Jun-16
Retail	24.7	26.0	26.5	1.8%	7.4%
Individuals	21.4	22.5	23.2	3.2%	8.5%
Small business	3.3	3.5	3.3	-7.1%	-0.1%
Non-retail	15.5	16.2	16.58	2.5%	6.8%
SMEs	6.1	6.3	6.2	-1.8%	3.0%
Large corporate	9.5	9.8	10.3	5.3%	9.3%
Total deposits	40.2	42.2	43.1	2.1%	7.1%

Deposits inflow remained strong on both segments compared to Jun-16 end, retail deposits up +7.4% YoY and non-retail deposits higher by +6.8%, driven by increased collection in current accounts, in a context of persistently low interest rates environment.

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

SUBSIDIARIES ACTIVITY

BRD SOGELEASE IFN SA

As of June 30, 2017, BRD Sogelease's net outstanding of leasing financing was RON 640 million (+6.7% YoY). New leasing production was RON 195 million at the end of June 2017 end, with commercial vehicles and passenger cars having the largest weight, followed by agricultural, construction and industrial equipment.

According to the latest statistics issued by the Financial Companies Association in Romania (ALB) at December 31, 2016, BRD Sogelease had a market share of 7.7%, compared to 7.1% at March 31, 2016 end and 6.4% at December 31, 2015.

BRD FINANCE IFN SA

BRD Finance results for the first half of the year continued the positive trend from previous periods: increase of net loans outstanding by +17%, higher loan production by +21% particularly driven by the favourable dynamic of credit cards and car loans. The net banking income amounted to RON 47 million, up by 10% compared to the same period of the last year, while the net result reached RON 11.5 million, up 89% versus H1 2016.

The performance was sustained by the continuation of the commercial strategy based on the consolidation and development of key partnerships, combined with the constant optimization of internal processes and a strict control of costs and risks.

BRD ASSET MANAGEMENT SA

BRD Asset Management is one of the important actors on the Romanian UCITS market, with a market share of 12.1% and RON 3.1 billion assets under management at June 2017.

BRD Asset Management offers 7 different open-end funds, all with their specific portfolio structure, risks and target yield and recommended investment period. Among those, BRD Simfonia, BRD Obligatiuni (denominated in RON), BRD Euro Fond (denominated in Euro) and BRD USD Fond (denominated in USD) invest in bonds, fixed income and money market instruments and have no stock holdings. BRD Diverso is a balanced fund with investments in Central and Eastern Europe stock markets, the rest being invested mainly in money market and fixed income instruments for risk spread purposes. BRD Actiuni fund is focused on stocks, as well as BRD Index which is an index tracker fund.

4. FINANCIAL RESULTS AND RATIOS

FINANCIAL POSITION ANALYSIS

The below financial position analysis is made based on the separate and consolidated financial statements prepared according to the International Financial Reporting Standards, for the period ended June 30, 2017 and the comparative periods.

FINANCIAL POSITION – ASSETS

The total assets increased by +1.7% at June 30, 2017 for the Bank and by +1.8% for the Group compared to December 31, 2016 and by around +7% versus June 30, 2016. They had the following structure:

THE BANK

Assets (RONm)	Jun-16	Dec-16	Jun-17	% total	vs. Dec-16	vs. Jun-16
Cash and current accounts with Central Bank	5,183	7,140	5,820	11.3%	-18.5%	12.3%
Loans and advances to credit institutions	3,502	1,971	2,744	5.3%	39.2%	-21.6%
Net loans and advances to customers	27,367	27,384	28,587	55.5%	4.4%	4.5%
Other financial instruments	11,133	12,947	13,058	25.3%	0.9%	17.3%
Tangible and intangible assets	955	976	977	1.9%	0.1%	2.2%
Other assets	225	239	352	0.7%	47.0%	56.5%
Total assets	48,365	50,658	51,537	100.0%	1.7%	6.6%

THE GROUP

Assets (RONm)	Jun-16	Dec-16	Jun-17	% total	vs. Dec-16	vs. Jun-16
Cash and current accounts with Central Bank	5,183	7,140	5,820	11.0%	-18.5%	12.3%
Loans and advances to credit institutions	3,528	1,998	2,763	5.2%	38.3%	-21.7%
Net loans and advances to customers	27,759	27,839	29,085	55.1%	4.5%	4.8%
Financial lease receivables	640	664	683	1.3%	2.9%	6.7%
Other financial instruments	11,109	12,947	13,055	24.7%	0.8%	17.5%
Tangible and intangible assets	968	988	988	1.9%	0.0%	2.1%
Other assets	299	306	403	0.8%	31.8%	34.9%
Total assets	49,485	51,881	52,796	100.0%	1.8%	6.7%

LOANS AND ADVANCES TO CUSTOMERS

The net loans' outstanding amount to customers increased by +4.5% compared to year end and by +4.8% compared to the corresponding period of last year, driven by the growth of loans to individuals and large corporate customers.

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

The most liquid assets of the Bank, namely cash and current accounts with the central bank and loans and advances to credit institutions decreased by 6% versus December 31, 2016 for both the Bank and the Group and by 1% versus June 30, 2016.

This aggregate accounted for about 16% of total assets for the Group at June-2017, compared to 18% at both December 31, 2016 and at June 30, 2016. The most important component of this aggregate, represented by the minimum compulsory reserve held with the National Bank of Romania (RON 3,540 million for June 2017 from RON 3,670 million for December 2016 and RON 3,880 million for June 2016), decreased year on year and year to date primarily due to the reduction of the FX minimum reserve rates decided by NBR during the analysed period.

OTHER FINANCIAL INSTRUMENTS

Other financial instruments mostly represent treasury bills and bonds issued by the Romanian Government that are accounted as available for sale and trading instruments, and also derivatives. These items represented ca. 25% of total Group assets and recorded an increase of +17% compared to Jun-16 end and +1% compared to Dec-16 end, driven mainly by further investments in government bonds.

TANGIBLE AND INTANGIBLE ASSETS

The tangible and intangible assets accounted for circa 2% of the total assets. The most important share is represented by land and buildings.

Total value of investments in H1-2017 was approximately RON 64 million for the Bank and the Group, compared to RON 34 million for the Bank and RON 37 million for the Group in H1-2016, and were mainly IT related. There is no capitalized research and development expenditure.

FINANCIAL POSITION – LIABILITIES

The comparative statement of liabilities is as follows:

THE BANK

Liabilities and shareholders equity (RONm)	Jun-16	Dec-16	Jun-17	% total	vs. Dec-16	vs. Jun-16
Amounts owed to credit institutions	1,132	670	646	1.3%	-3.7%	-43.0%
Amounts owed to customers	40,270	42,291	43,118	83.7%	2.0%	7.1%
Other liabilities	871	1,330	1,157	2.2%	-13.0%	32.9%
Shareholders equity	6,092	6,367	6,616	12.8%	3.9%	8.6%
Total liabilities and shareholders equity	48,365	50,658	51,537	100.0%	1.7%	6.6%

THE GROUP

Liabilities and shareholders equity (RONm)	Jun-16	Dec-16	Jun-17	% total	vs. Dec-16	vs. Jun-16
Amounts owed to credit institutions	1,984	1,633	1,615	3.1%	-1.1%	-18.6%
Amounts owed to customers	40,190	42,193	43,060	81.6%	2.1%	7.1%
Other liabilities	949	1,382	1,201	2.3%	-13.1%	26.6%
Shareholders equity	6,363	6,674	6,920	13.1%	3.7%	8.8%
Total liabilities and shareholders equity	49,485	51,881	52,796	100.0%	1.8%	6.7%

AMOUNTS OWED TO CUSTOMERS

At June 30, 2017, the share in total liabilities of the customers' deposits was 96% for the Bank and 94% for the Group, demonstrating a high financial autonomy. The share in total liabilities was up by 1 percentage point compared to Jun-16 end and Dec-16 end.

AMOUNTS OWED TO THE CREDIT INSTITUTIONS

Amounts owed to credit institutions represent interbank deposits, borrowings from International Financial Institutions and the Parent, and stood at 1.4% of the total liabilities for the Bank and 3.5% for the Group at the end of the analysed period.

BRD Group's borrowings from Société Générale totalled circa RON 1 billion (2.2% of total liabilities).

SHAREHOLDERS' EQUITY

The shareholders' equity increased by nearly 9% on an annual basis, due to retained earnings and capital reserves. Compared to 2016 year-end, reserves from revaluation of available for sale assets contributed also to the growth.

The structure of the shareholders' equity evolved as follows:

THE BANK

Shareholders' equity (RONm)	Jun-16	Dec-16	Jun-17	vs. Dec-16	vs. Jun-16
Share capital	2,516	2,516	2,516	0.0%	0.0%
Other reserves	343	272	280	2.8%	-18.5%
Retained earnings and capital reserves	3,233	3,580	3,821	6.7%	18.2%
Total shareholders' equity	6,092	6,367	6,616	3.9%	8.6%

THE GROUP

Shareholders' equity (RONm)	Jun-16	Dec-16	Jun-17	vs. Dec-16	vs. Jun-16
Share capital	2,516	2,516	2,516	0.0%	0.0%
Other reserves	343	272	282	3.7%	-17.8%
Retained earnings and capital reserves	3,456	3,836	4,071	6.1%	17.8%
Non-controlling interest	47	50	51	1.4%	7.7%
Total shareholders' equity	6,363	6,674	6,920	3.7%	8.8%

LIQUIDITY POSITION

Both the Bank and the Group maintained a balanced structure of resources and placements and a solid liquidity position over January - June 2017.

The net loans/deposits ratio reached 66.3% at June 30, 2017 (from 64.8% at December 31, 2016 and 68.0% at June 30, 2016) for the Bank and 69.1% for the Group, including financial lease receivables (from 67.6% at December 31, 2016 and 70.7% at June 30, 2016).

H1-2017 FINANCIAL RESULTS

The comparative income statement of the Group for the periods January – June 2017 and January – June 2016 is presented below:

RONm	H1-2016	H1-2017	Variation
Net banking income	1,434	1,342	-6.4%
<i>Net banking income w/o non recurring items</i>	1,312	1,340	2.1%
- net interest income	785	828	5.5%
- net commissions	381	367	-3.7%
- other banking income	267	146	-45.4%
Operating expenses	-705	-720	2.1%
- staff expenses	-338	-339	0.3%
- non-staff expenses	-367	-381	3.8%
Operating profit	728	621	-14.7%
<i>Operating profit w/o non recurring items</i>	607	619	2.0%
Net cost of risk	-282	270	n/a
Gross result	446	891	99.8%
Net result	381	750	96.8%
Profit attributable to equity holders of the parent	378	744	96.9%

The comparative income statement of the Bank for the periods January – June 2017 and January – June 2016 is presented below:

RONm	H1-2016	H1-2017	Variation
Net banking income	1,381	1,293	-6.4%
<i>Net banking income w/o non recurring items</i>	1,260	1,291	2.5%
- net interest income	734	772	5.1%
- net commissions	365	349	-4.2%
- other banking income	282	172	-39.0%
Operating expenses	-667	-681	2.1%
- staff expenses	-316	-317	0.3%
- non-staff expenses	-351	-364	3.8%
Operating profit	714	612	-14.3%
<i>Operating profit w/o non recurring items</i>	593	610	2.9%
Net cost of risk	-270	274	n/a
Gross result	444	886	99.7%
Net result	382	750	96.3%

BRD Group's net banking income increased by 2.1% versus the same period of the last year if excluding significant non-recurring elements booked in the first half of 2016 (gain from AFS and VISA Europe transaction, which totalled RON 121 million). Net banking income variation comes on improved net interest income, with +5.5% increase year on year, on positive volumes effect. Commission revenues were down 3.7% compared the same period of last year, reflecting mixed trends: revenue growth from card activity, higher commissions from capital and financial markets

services, but lower fees from transactional banking products influenced notably by continuous structural changes in the channel mix and higher competitive pressures.

Operating expenses increased by +2.1% YoY for the Group, with staff expenses quasi stable while other costs categories registered 3.8% advance. Higher non-staff expenses stemmed mainly from the 8.6% increase in the cumulated contributions to the Bank Deposit Guarantee Fund and the Resolution Fund. In this context, the Group cost/income ratio reached 53.7% in H1-2017 compared to 49.2% in H1-2016 and remained unchanged after adjusting for non-recurring elements (adjusted cost/income: 53.8% in H1-2017 vs 53.7% in H1-2016).

Gross operating income increased by +2%, when excluding non-recurring items (gain from VISA Europe transaction and AFS instruments).

BRD Group registered a further improvement of asset quality in the first half of 2017 as shown by lower NPL ratio by 3.3pts, at 8.5% at Jun-17 end vs 11.8% at Jun-16 end coupled with increased coverage ratio by 0.3pts at 75.0% at Jun-17 end vs 74.7% at Jun-16 end (all ratios according to EBA methodology), as a result of continued write-offs and sales of non-performing loans. The net cost of risk totalled RON 270m provision release in the first half of 2017 due to the recognition of insurance indemnities, recoveries on non-retail defaulted portfolios and gain on sale of non-performing loans portfolios.

In this context, BRD Group recorded a significant increase in profitability in the first half of the year: the net result reached RON 750 million in H1-2017, almost double (+96.8%) compared to H1-2016, leading to a return on equity of 22.1% compared to 12.1% in H1- 2016 and return on assets of 2.9% (1.5% in H1-2016). The Bank recorded similar trends, which led to a net result of RON 750 million, up by 96.3% vs H1-2016.

CASH FLOW

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

CAPITAL ADEQUACY (THE BANK)

RONm	Jun-16	Dec-16	Jun-17
Tier 1 capital	5,098	5,212	5,319
TOTAL OWN FUNDS	5,098	5,212	5,319
Capital requirements	2,133	2,110	2,197
Risk weighted assets			
Credit risk (including counterparty risk)	23,864	23,601	25,028
Market risk	175	236	220
Operational risk	2,447	2,370	2,103
CVA risk	177	166	110
Total risk exposure amount	26,662	26,373	27,461
Regulatory CAR	19.1%	19.8%	19.4%

At Bank level, the capital adequacy ratio stood at 19.4% at June 30, 2017 (Basel 3, including the impact of prudential filters), well above the regulatory requirement. The Tier 1 ratio was also 19.4% compared to 19.8% at December 31, 2016 and 19.1% at June 30, 2016.

OTHER STATEMENTS

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

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

In the period January – June 2017 the Bank found itself in no such cases as to be unable to meet its financial obligations.

In the period January – June 2017, no modifications occurred with respect to the rights of the Bank-issued securities holders.

The major transactions in which the persons able to take concerted actions were involved are presented in Note 33 in the interim financial statements accompanying this report. These transactions were made in normal market conditions, during the current activity and with no significant influence on BRD's financial position.

No important events were identified after the reporting date.

5. CONCLUSIONS

BRD delivered a very solid performance in the first half of 2017, with strong commercial activity and non recurring positive cost of risk items leading to substantially higher net income. Going forward, BRD will continue to invest in the digital offer, aimed at further improving its customers' banking experience. BRD will also maintain focus on constantly improving the quality of its products and services and refining its customer centric business model. Benefiting from sound capital and liquidity positions, BRD is well equipped to sustain further the financing of the local economy while creating value for all its partners.

The interim financial report as at June 30, 2017 has been reviewed for the Bank only.

Giovanni Luca SOMA

Chairman of the Board of Directors



Petre BUNESCU

Deputy Chief Executive Officer



Francois BLOCH

Chief Executive Officer



Stephane FORTIN

Chief Financial Officer

