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BRD GROUP

Budget 2020

General Shareholders Assembly

BRD CONSOLIDATED, ACCORDING TO IFRS

APRIL 23-rd 2020

YOUR BANK. YOUR TEAM



GROUPE SOCIETE GENERALE

BANKING ENVIRONMENT

DISCLAIMER: This budget document is based on the assumption of rapid regression of the Covid-19 outbreak.

Macro-economic assumptions

- **GDP growth** reached 7.0% in 2017, 4.1% in 2018 and 4.0% in 2019, driven by private consumption which benefitted from dynamic employment and pro-cyclical fiscal stimulus. Looking ahead, a relatively soft landing scenario appears as the most probable, with GDP growth decelerating to 1.7% in 2020.
- In a scenario of relatively stable inflation (around 3% from 2020 onwards), interbank rates are expected to remain relatively unchanged. The 2020 budget and the projections up to 2024 are built on a robust assumption of 3.2%, stable compared to H2-2019.
- Exchange rate is likely to be under pressure in 2020, considering the need to rein the external shortfall, in a context of deteriorating external competitiveness. End of period exchange rate assumptions : 4.78 for 2019 ; 4.87 for 2020.

Lending to individuals expected to continue growing in 2020, but at lower pace



- **Lending to households** has been dynamic in the last 3 years, in line with disposable income and private consumption rising trends. Housing loans posted a strong performance (market CAGR of +10.2% 2017-2019).

Lending to corporates expected to register moderate increase



- After contracting almost continuously over the period 2011-2017, loans to corporate sector rebounded moderately in 2018 and 2019.
- Looking ahead, in a context of economic slowdown, loans to companies are expected to continue to grow at a moderate pace.

TRANSFORMING OUR BUSINESS MODEL

RETAIL – Towards a more customer centric, digital and efficient bank



CUSTOMIZE THE VALUE PROPOSITION

- Customized approach per sub-segment on individuals, with differentiated offers and levels of service, resulting in higher value extraction on Affluent and Higher Mass Market and reduced costs on Lower Mass Market



IMPROVE SALES & SERVICES EFFICIENCY

- Optimize and digitalize processes (in priority lending)
- Shift from transactional Call Center to Customer Interaction Center (developing sales capabilities)
- Upgrade self-service capabilities (ATM, MBA)



ENHANCE DISTRIBUTION NETWORK & SERVICE MODEL

- Optimize footprint (-64 branches in 2020) and increase the size of branches
- Continue 24H area expansion & roll-out of cashless model



FOCUS ON CUSTOMER EXPERIENCE

- Create Customer Journeys
- Develop Omni-Channel experience

CORPORATE – Continuously increasing efficiency of the model



IMPROVE MARKETING & SALES MANAGEMENT

- Set up sales management tool
- Structure and roll-out marketing actions
- Review offers and improve client experience
- Develop analytics



ENHANCE PROCESSES

- Further streamline and digitalize processes (esp. credit granting and GTB services)



DEVELOP SYNERGIES

- Continue to develop synergies with retail, specialized affiliates and SG group

KEY COMMERCIAL TRENDS PER SEGMENT

RETAIL

- **Service and sales efficiency improvement**
 - **Implementation of new retail credit flow to shorten timeline** and improve productivity (PI and SB)
 - Build collaboration with 3rd parties
- **Acceleration of the development of our Omnichannel platform**
- While traditional commissions are under pressure, **new growth drivers (asset management, insurance...)** are contributing to offset the decrease
- Development of positions on **small business segment**
 - ✓ improve in priority daily banking footprint
 - ✓ push on credit volumes especially through leasing

CORPORATE

- Development of business flows
- **Double digit growth expected to continue in electronic payments** (transfers & cards acquiring)
- **New regulation (SEPA) to reduce foreign currency payments fees** (to the level of domestic payments) applicable from 2020
- Moderate increase of credit volumes
- **Credit margins under pressure**
- ...to be offset by **intensified cross-selling** and **higher activation of value growth levers**
- **Increase in factoring** thanks to enhanced processes

PROFITABILITY EVOLUTION

Net banking income

Net interest income is expected to benefit from higher lending volume (EOP net outstanding amount of loans growth budgeted at +4.6%*) and positive structure effects, while interest rate effect should turn neutral.

Fee and commission income should be impacted by opposite forces:

- price pressure, with regulatory evolution and competitive constraint negatively impacting daily and transactional banking revenues
- strong decrease of fee income due to the alignment of the prices of international transfers on domestic ones (SEPA rules)
- growing volume of transactions
- development of new growth drivers (insurance, asset management)

Operating expenses

- significant influence of “**constrained expenditures**” in 2020
 - continued pressures on salary costs in a context of double digit increase of average wage on the Romanian market
 - indirect impact of minimum salary increase & evolution of utilities prices
 - negative influence of exchange rate depreciation
- **necessity to increase IT investments** in order to accelerate business transformation, while ensuring the delivery of regulatory projects
- After OUG nr.01/2020 cancelled OUG nr.114/2018 in January 2020, budgeted operating expenses do not include tax on financial assets.

Cost of Risk

After two years of net release, **Cost of Risk** is expected to progressively reach a normalized level.

* Variation at constant exchange rate

2020 BUDGET - KEY INDICATORS

		A 2018	A 2019	Evo A19/ A18*	Budget 2020	Evo B20/ A19*
Net loans (RON bn)	Total	30.4	31.3	+2.3%	32.9	+4.6%
	Retail	21.7	22.4	+2.4%	23.7	+5.3%
	Corporate	8.7	8.9	+2.0%	9.3	+2.8%
Deposits (RON bn)	Total	45.2	45.9	+0.6%	46.3	+0.0%
	Retail	29.8	30.4	+0.8%	31.6	+3.3%
	Corporate	15.4	15.5	+0.2%	14.6	-6.3%
Net loans/deposits		67%	68%	+ 1 ppt	71%	+ 3 ppts

* Variation at constant exchange rate

2020 BUDGET - PROFITABILITY

	2018	2019	Evolution 19/18	Perspectives for 2020
RON m				
FINANCIAL RESULTS				
NET BANKING INCOME	3,115	3,270	+5.0%	NBI growth ~+2% Solid NII growth Non-interest income under pressure
OPERATING EXPENSES	(1,489)	(1,677)	+12.7%	OPEX quasi stable*
GROSS OPERATING INCOME	1,626	1,593	-2.0%	
NET COST OF RISK	230	204	-11.6%	COR around 35 bp
NET RESULT	1,563	1,499	-4.1%	
RATIOS				
COST/INCOME RATIO	47.8%	51.3%	+3.5 pts	
ROE	21.5%	19.1%	-2.4 pts	ROE >15%

*considering the cancellation of tax on financial assets