BRD

Budget 2017

General Shareholders Assembly

BRD stand alone, according to IFRS

YOUR BANK. YOUR TEAM

BRD

GROUPE SOCIETE GENERALE

Banking and economic environment

Macroeconomic Scenario

- GDP growth picked up to a robust 4.8% in 2016 (up from 3.9% in 2015), mostly sustained by private consumption.
- For 2017, we expect GDP growth to reach 3.7%.
  Private consumption looks set to remain the backbone of economic growth, propelled by a new round of fiscal stimulus and wage hikes, while positive private demand prospects and low borrowing costs should constitute an impetus for companies to further increase investment spending.
- Inflation should increase gradually over the year, on account of vibrant consumption, ongoing increase in wage pressures and fading out of the effect of past indirect tax cuts. Inflation forecast is set at 2,0% for 2017 (after -0,5% in 2016).
- Those higher inflation prospects, combined with an increasing budgetary deficit, are expected to lead to some upward pressures on interest rates.
- In the absence of major external shocks, the exchange rate is expected to remain stable in 2017.

Banking Environment Scenario

- Household borrowing demand should continue to be the major driver of lending activity in 2017. On non retail loans, with investments gradually gaining momentum and fuelling credit demand, a progressive recovery is foreseeable.
- Household propensity towards saving might decrease at some point, leading to a deceleration of deposits' volume growth pace .

Commercial Strategy per segment 1/2

Retail – Individuals segment

- The key strategic ambition is to continue the transition to a fully “customer centric” business model.
- The promotion of the bank’s upgraded remote banking solutions (internet and mobile banking) will continue to be intensified, in order to accelerate the shift of basic transactions from counter to alternative channels.
- The implementation of specific campaigns and actions targeting churn clients, including quality of service enhancement through adequate training and monitoring approaches, will enable the bank to increase customer satisfaction and reduce customer attrition rate.
- The enrichment of the commercial offer with innovative and enhanced products (health insurance, credit cards, unit linked life insurance) will also contribute to raise customer satisfaction and support client acquisition.
- The client segmentation will be refined, in order to always address client needs in the most appropriate manner. In this frame, a specific approach dedicated to affluent customers will be launched.
- The private banking set-up will be progressively upgraded.
- The collection of off balance sheet savings will be prioritized, while maintaining the market share on deposits.

Retail – Small businesses segment

- Building on deep customer relationships and high quality products, the primary focus area will be on efficiently covering clients’ daily banking needs, targeting an increase in the attracted volume of transactions.
- Lending activity will be intensified, both through bank credits and leasing.

Commercial Strategy per segment 2/2

Non Retail segment

- The key objective for 2017 is to significantly increase the lending activity, building on :

✓ an improved commercial coverage model
✓ a more effective portfolio management
✓ an enhanced loan origination process
✓ a refined credit risk policy, based on selected sectorial approaches

- At the same time, transaction banking will be further developped, through:

✓ an improved cash management offer
✓ a comprehensive trade finance service
✓ an enhanced factoring solution
✓ extended online banking functionalities
✓ an increased cross selling of fx, derivatives and securities services

Distribution channels and processes

Digital transition and adaptation of distribution channels

- Continue the digital transition by promoting the use of alternative channels though the GO DIGITAL strategy : promotion of the bank’s upgraded remote banking solutions, deployment of new ROBOs and MBAs, and of 24h banking areas
- Develop the contact center capacities : up scaling campaigns via outgoing calls, automated solutions (AVR) differentiated according to the type of customer
- Increase the number of relationship managers and contact center advisors, through staff redeployments
- Continue the pragmatic adjustment of the network of agencies : slightly less than 800 agencies planned for the end of 2017 (vs 829 at the end of 2015 and 810 at the end of 2016).

Reshape processes, for an enhanced operational efficiency

- Continue to review and reshape distribution and operational processes, with the aim of enhancing convenience and efficiency
- Continue to digitalize and simplify processes
- Focus on the dematerialization of workflows, the automation and centralization of operations’ treatment, and improve operational efficiency.

Profitability evolution

Net Banking Income

- After an increase of +6.5% in 2016, the NBI is expected to remain stable in 2017.
- Disregarding the gain on Visa Europe transaction recorded in 2016, the targeted NBI growth for 2017 is of around +4%.
- With strong competitive pressures weighing on prices, the bank will mostly rely on volume augmentation and a higher contribution of growth relays in order to increase its revenues.
- Net interest income is expected to increase by +3% to +4%, driven up by higher lending volumes and positive structure effects.
- Fees and commissions income would benefit from the expansion of the customer base, rising cross-selling levels, the increasing contribution of activities appearing as new growth drivers (asset management, insurance), and the launch of new products.

Operating Expenses

- After remaining stable in 2016, Operating Expenses would increase by around +4% to +5% in 2017, driven by opposite forces :
  - expected pressures on salary costs
  - impact of investments which should follow an upward trajectory (investments in digital and alternative channels, branches' format transformation, but also IS upgrades in order to answer new regulatory constraints).
  - processes' optimization which should allow for further productivity gains

Cost of Risk

- Sustained by a supportive economic environment, the good quality of the new loan production, and an enhanced collection strategy, the Cost of Risk should continue to follow a normalization trajectory.

Net Result

- Material improvement in profit, under the above described assumptions.

Main activity indicators (BRD standalone, IFRS)

		Actual 2015	Actual 2016	Evolution 16/15	Budget 2017	Evolution B17/16
Clients (thousands)		**2,250**	**2,285**	**1.6%**	**2,345**	**2.6%**
Net loans (RON bn)	**Total**	**26.6**	**27.4**	**2.8%**	**29.5**	**7.6%**
	Retail	***17.8***	***18.7***	***5.3%***	***19.8***	***5.6%***
	Non Retail*)	***8.9***	***8.7***	***-2.4%***	***9.7***	***11.7%***
Deposits (RON bn)	**Total**	**41.2**	**42.2**	**2.4%**	**43.3**	**2.7%**
	Retail	***23.6***	***26.0***	***10.0%***	***27.2***	***4.6%***
	Non Retail	***17.5***	***16.2***	***-7.9%***	***16.1***	***-0.2%***
Net loans/deposits		***65%***	***65%***	***0 pts***	***68%***	***3 pts***

*) including municipal bonds

Main profitability indicators (BRD standalone, IFRS)

	RON m	Actual 2015	Actual 2016	Evolution 16/15	Perspectives for 2017
Financial Results	NET BANKING INCOME	2,474	2,634	6.5%	*+4% *)*
	OPERATING EXPENSES **)	(1,310)	(1,310)	0.0%	*increase of +4% to +5%*
	GROSS OPERATING INCOME	1,164	1,324	13.8%	*+5% *)*
	NET COST OF RISK	(631)	(461)	-26.9%	*further normalization*
	NET RESULT	445	728	63.5%	*improvement*
Ratios	COST/INCOME RATIO	52.9%	49.7%	*-3.2 pts*	*quasi stable *)*
	ROE	7.8%	11.8%	*+4.0 pts*	*>12%*

**) disregarding the gain on Visa Europe transaction recorded in 2016*

***) including contributions to the Guarantee Fund of Deposits and to the Resolution Fund*