



GROUPE SOCIÉTÉ GÉNÉRALE

**"BRD Group Q1 2023 Financial Results Conference Call
and Webcast"**

Q&A session

Monday, 15th May 2023, 15:00 RO Time

Participants:

Mr. François BLOCH – CEO

Mr. Etienne LOULERGUE – Deputy CEO – Finance & Treasury

Mr. Philippe THIBAUD – Deputy CEO – Risks

Mrs. Maria ROUSSEVA - Deputy CEO – Global Corporates

Mr. Claudiu CERCEL - Deputy CEO – Financial Markets

Operator We'll now start the Q&A and take our first question. Please go ahead.

Participant #1 Hi, thanks for the presentation. I just have a couple of questions and sorry if they were already addressed during the presentation. I just signed in a couple of minutes ago. So, my first question would be on your NII outlook, like how do you see this moving forward? Because it was quite decent in the first quarter and I was wondering if you could share with us how we should see this in the next couple of quarters. And the second question would be on costs, because it was actually quite good given the inflationary pressures. And I was wondering if this would be sustainable for the whole year too. And my third question would be on risk cost, because if I can see from your presentation correctly, you stated that NPL are expected to be stable. So does this mean that risk cost should be stable as well versus the first quarter? Because I think your risk costs guidance, or risks costs outlook is much higher than what we have seen in the first quarter. And my last question would be on bond issuances, if you plan any bond issuances further this year, that would be good to know. Thank you.

François BLOCH Thank you for your question. I propose that Etienne will take your first, second, and fourth question on NII, OPEX evolution as well as bond issuances program. And Philippe will discuss the net cost of risk outlook.

Etienne LOULERGUE Thank you for your comment. Regarding the NII, indeed, it was very good this quarter. Now our view for the next quarter is the following: we have reached kind of plateau in terms of interest rates in RON, there is still a little bit of room for increase in EURO, however, our commercial activity is mostly in RON. Therefore, we don't see a huge further effect of the rate increases. So we will see rather something like a flattish evolution of the NII in the next quarter. The growth will be coming from the volume effect, but again, as the interest rate are quite high, it's also difficult for the client to take loans, so we can benefit from the rotation of our portfolio. But, compared to this quarter, the potential of evolution of the NII is in a single digit growth. But if we compare the expectation of Q2 23 versus Q2 22, it will still be a nice growth, but not as big as what we saw, Q1 23 versus Q1 22.

Now I move to OPEX. On OPEX we see that they will continue to increase, because the inflationary pressures are still there and not all our costs are fully repriced because there is a certain latency on some contracts or some activities. However, we want to keep them under strict control and we try to optimize our use of all external

services, our structure of cost. For example, we continue to decrease our real estate cost, our logistic and miscellaneous costs. So, overall we expect OPEX to accelerate a little bit in the coming quarters. So, you saw plus 10.5% Q1 23 versus Q1 22, it might be slightly higher for the next quarter, but not dramatically higher. So we maintain, a strong discipline on costs.

Bond issues: we do not issue bonds. Actually if we need some instrument to meet our regulatory requirement, we prefer to use loan instrument with Societe Generale, our mother company. It's how we address the topic of MREL, we have issued senior non-preferred loans directly subscribed by Societe Generale. Given our position today, we do not expect any issuance in coming months.

Philippe THIBAUD

Maybe going back to the question on the NPL and the cost of risk. So yes, the NPL is being very stable and the outlook and the NPL is that we will remain stable because we are confident that, we can manage the NPL level, because there's a market, there are investors, we can sell part of the NPL, and so we can maintain the NPL at a low level.

But, on the cost of risk, indeed here you see that we have a very low level, we have three basis points cost of risk. Of course we do expect to have higher cost of risk towards the end of the year. I would say we are bit in like in the last year's situation and last year we saw that we had globally on the full year more risk in the retail market, which was kind of more recurrent, on the corporate we didn't have much cost of risk actually, close to zero or even, slightly more. All in all, we ended last year with the cost of risk which was about 14 basis points on the full year, I would be for this year frankly, in the same mood I would say the guidance would be to be more prudent in the range of 20-30 bps, that's, I think, being conservative.

Participant #1

Okay. Thanks. That was very helpful.

Operator

Thank you. As a reminder, if you would like to ask a question, you can press star one and one on your telephone keypad and please lift your handset before you ask your question. So that's star one one on your keypad to ask a question.

And we'll now take our next question. Please stand by. Please go ahead.

Participant #2

Hello, good afternoon. Thank you very much for taking my questions, also. Mainly I'd be interested in what you expect for the capital ratios in the coming quarters. You had described in your presentation, the OCI quick fix

effect that was expected or that was flagged previously already. Do you expect the capital ratios to increase with also the interest rates movement? Is it fair to assume the capital ratios to expand in the coming quarters? And would that allow you to revisit the subject of potential dividends later in the year? That would be my first question.

The second question would be on loan growth. You had some nice loan growth on corporate and SMEs. What do you expect for the following quarters and what was underlying assumption for your 2023 budget? Thank you.

François BLOCH

I will take the first question and Maria will comment on the second question on the corporate side. So, capital ratio, indeed you're right. The long term interest rates, are coming up quite nicely, we are now below 7%. And of course this has a positive impact on our capital situation. If this trend continue, as you know, the OCI will come back, in addition to the normal maturity of the portfolio, I remind you that we have an average maturity slightly below five years for our portfolio in HTCS and this will have in fact have a positive impact on the capital. So, with the lowering of the long term interest rates as well with the normal amortization of the portfolio. So we have, everything being equal, a significant available capital to be formed naturally in the years to come. And, therefore, we are quite confident that we'll be able to resume our normal dividend distribution, knowing that at this level we have more than enough capital to fuel the activity itself. So, we start from a very good point, and the horizon is quite clear in terms of capital formation. So the confidence is increasing, if you want to comment on your last part of your question on this point.

Maria ROUSSEVA

On the corporate side, maybe a reminder of what we consider corporate in our bank. We have SMEs from 1 million EURO turnover to 50 million EURO turnover and above 50 million EURO it is the large corporate. So you see in this portfolio, which marks such an important growth in the Q1, we have very diverse client base. And in fact, sometimes even in unsecured secure times, they are offsetting each other. Now, obviously in a high inflation and high rate, environment, for the smaller ones would be a bit more difficult to expand their borrowing. On the other hand, if we talk about the larger corporates and the larger SMEs, I would say that they will not stop their projects or their investment activity, because they also have quite good opportunity and good access to financing. So in my opinion, despite the uncertain environment, and despite the fact that we may see a

slowing down of the growth of the credit activity, we'll still have significant, growth, let's say by the end of the year, outstanding of around 1 billion RON more. However it'll be maybe, differently structured within the portfolio. And then, one more remark. We still have the IMM Invest program, which is the SME program of the government to support this segment. And it is also quite a lot encouraging the companies to continue their investment plans because it is incentivized for them. So, our co-financing, let's say, will continue growing in this segment as long as this type of programs are also encouraging the companies to continue their normal business. So that's it in a nutshell.

Participant #2

Okay. Thank you very much for your answers.

Operator

Thank you once again, as a reminder, if you would like to ask a question, please press star one and one on your keypad. That's star one and one to ask a question. We'll now take our next question. Please go ahead.

Participant #3

Good afternoon everyone. Thanks for the presentation. I have a brief question, a general one actually. What do you consider to be the impact of the legislative bill recently undergoing, the legislative process in the chamber of deputies in that increasing the financial inclusion. We all learned that it's been modified recently and I was just wondering if it were to pass in the form it is at the moment. Will this be a game changing for the retail activity or it'll be passing just as another unimportant measure. Thank you.

François BLOCH

I will take this question as a non-Romanian. So let me give you my views on what's happening sometimes in the parliament. There are a lot of discussions during my time in Romania for seven years. This topic has been discussed at least five times in the parliament, in various shape or form with so far limited impact.

We know that there is more populist approach now than ever, so we are following this very carefully. On one side as a concept, we of course, support financial inclusion and this in the long term is good for business. I remind you that we already have European legislation, which is offering very favorable conditions to the less favored population in Romania. And this, if I remember it was EU regulation 92 and it's not used at all. So it exists, it's very favorable for customer, but they don't use it. So I think that we need to take the current discussion with a bit of a grain of salt before being able to understand the impact. Again, on a long term it's good to have an increase of financial inclusion.

Participant #3 Thank you.

Operator Thank you. As a reminder, if you would like to ask a question, you can press star one and one on your keypads. As a final reminder, it's star one and one if you have further questions.

Do we have other questions? It seems there are no further questions at this time, so Mr. Bloch, back to you for the conclusion.

François BLOCH Okay, thank you very much. Thank you for your questions. It's always very interesting to have this exchange and I think that we speak to each other in the middle of summer, in the beginning of August. So we will stop here now for today.

Have a nice afternoon. Thank you. Bye-bye.

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