GROUPE SOCIETE GENERALE

"BRD Group 9M and Q3 2023 Financial Results Conference Call and Webcast"

Q&A session

Monday, 6th November 2023, 11:00 RO Time

Participants:

Mrs. Maria ROUSSEVA – CEO

Mr. Claudiu CERCEL - Deputy CEO – Financial Markets

Mrs. Madalina Teodorescu - Deputy CEO – Retail

Mr. Etienne LOULERGUE – Deputy CEO – Finance & Treasury

Mr. Philippe THIBAUD – Deputy CEO – Risks

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

Participant #1 Hello. Thanks for the presentation and congratulations for the results. I have a question regarding the 50% payout, that you have normally higher dividend payout. But do you think that going forward, you mentioned that you want to increase the payout to a higher level? Do you also intend in the future to compensate this lower dividend payout with a special dividend? I mean the 0.4 RON that is remaining from 2022 from 0.9 RON to 1.3 RON would compensate a higher dividend payout, let's say. Do you intend this 0.4 RON to be paid in the future as a special dividend? Could this be a possibility?

Etienne LOULERGUE Yes, indeed 50% is below our usual practice because there is no policy written of the dividend payout. So indeed the 50% is below our average usual practice in the past. We cannot commit to anything or promise anything so far, but our intention in the long term is indeed to convert back to the same average or practice. We have no indication when the situation will allow do to more. We follow the situation, the situation of the long-term yields, of course, our financial performance and our capital adequacy ratio. All the recommendation as well coming from the National Bank of Romania, from The National Committee for Macroprudential Oversight, and a combination of all these elements, which will enable us to increase maybe in the future our payout, why not, including some additional coming from 2022 profit which indeed remained in the retained earnings of the bank.

Participant #2 Hello, thank you very much for the presentation and thank you for taking my question. I'd like to ask you on your outlook for 2024, if there's anything you can say already in terms of revenues, NII, net interest margin also, what development do you anticipate? And in terms of loan, what growth rates are realistic for next year? And then also would be important if you could give us anything on your risk cost outlook, what do you see currently? Is there any sign of deterioration of the asset quality at this point in time? Are you beginning to be more careful, more cautious about 2024? Yeah, that would be greatly appreciated. Thank you.

Etienne LOULERGUE Thank you for your questions. Maybe I can start with the revenue part. So for sure in 2023, we benefit from a very positive environment with a growth of volumes and elevated level of interest rate and we know that in 2024, the situation will be a bit more difficult. First, our expectation on GDP is lower than it was previously.

Second, the positive rate effect will fade away, completely vanish, could even be slightly negative. Why not on the second half of 2024? The end of the IMM Invest program will also have to be partially compensated, but probably not fully because it was very, very supportive. So the combination of all these, make us think that in terms of NBI growth, we would be rather at the low single digit growth in overall 2024 compared to the solid base of 2023.

Philippe THIBAUD Yes, actually, when we look at the GDP estimates for next year compared to what we have this year, we could believe we have a kind of copy paste of what happened this year. Let's say I'm more prudent like, I do expect to see more difficulties coming at last, not that I wish them, but just because we've seen so many crises over the last years, we never saw anything happening really in our portfolio. And we do expect to see not as many of problems, but we do expect to see more problems on private individuals, on small business, and to see new defaults coming. So why I'm saying this? It doesn't mean that it implies that we change our credit policy or provisioning policy. Our credit policy has not changed for more conservatism. We still have quite a lot of room for risk, our risk appetite statement allows us to take and to have more risk. I can guarantee you that I'm not evaluated by having the cost of risk below zero and today when we look at the level of provisions that we have, we consider it still very comfortable. So looking at the figures and not having any real negative, significant negative signs in terms of early warning indicators. So we do see things. We do see contrary to what we expected last year on the corporate market, we expected clients to have very low margins because of the increase for materials, of the inflation and we thought they would have a very poor profitability. We didn't see it, through the contrary. They had record profits. And this year we see at the end of the first semester companies having weaker EBITDA levels and some more difficulties. But it doesn't mean that they are in default, it doesn't mean that they are for us changing or appetite for it. But times are more difficult. And on the retail market I would say there is this strange thing which is that on one hand the total amount of clients who are paying later were in what we feel like a sensitive market, the total amount in absolute terms is shrinking. But the structure of these late payments, of these sensitive portfolio is I wouldn't say deteriorating but it's more challenging. So all in all, I do expect when we look at 2023 the year is nearly done, so obviously there can always be a black swan by definition but we are comfortable with the trajectory that we have so far. Not desperate about 2024, but I do expect to see tougher times but not to the extent that we'll change anything in terms of how we do things.

Participant #2 Okay. Thank you very much.

Operator Thank you. We'll now take the next question. Please go ahead.

Participant #3 Hi, hello. Thank you for taking my questions. Regarding your reported capital adequacy ratio, so it's a little bit misleading and in my opinion because it does not include the year results and excludes the profits and that would not be a problem, okay, but the problem is that prevent you to give higher dividends. I do not understand why you do not present the real capital adequacy ratio with the profits of the year included.

Etienne LOULERGUE Before including the profit of the year in the capital adequacy ratio, we have to receive the approval by the National Bank of Romania, that we are entitled, allowed to incorporate in the prudential own funds. So, by prudence, we do not disclose it here, in this waterfall, in this reported capital adequacy ratio. However, it's fully part of our capital planning and we count on it in the future. However, again, until the validation by the National Bank of Romania, we cannot count it as given in the official prudential ratio.

Participant #3 So, for example, in the next year, after the first quarter results, we will have the full year, 2023 profits included in the capital because they have been approved.

Etienne LOULERGUE No, no. We don't say full. Let's recap all the steps. First, we have to finalize the net profit of the year and make it approved by the General Shareholder Meeting. So, there are different steps, the Executive Committee, the Council of Administration, then the Shareholders Meeting will vote on the allocation of this profit.

We will know at this moment the level of dividends that will be paid and the level that will be indeed incorporated in the capital adequacy ratio. We have this process to do sometimes this in advance by incorporating partially an amount, a portion of the current net profit, information of this year, but again, only under the approval of the National Bank of Romania.

But our intention is at this stage is not to fully incorporate the profit 2023 in the capital. We will make a proposal of dividend, but it's too early to give you an indication about the amount or the percentage of payouts.

Participant #3 Yeah, my fear is that because of your way of reporting this ratio, which is not the real ratio, yes, I will see next year you will come and propose another 50% payout out of the this year profits because the misleading ratio will be below 18% otherwise, so this is my fear. So anyway, okay.

Etienne LOULERGUE I want to clarify one point. This ratio that you see, 19.4%, is the real one. According to the regulation, we have to compute it like this and we incorporate the proposal of dividends for the sake of prudence.

Participant #3 Yes, because for example, Banca Transilvania gives us the capital ratio with profits of the year included. So I don't see any problems there. So in fact, yes, I understand that these profits must be approved, but I don't see any big differences. So anyway, let's pass the question, thank you.

Etienne LOULERGUE Again, before being incorporated, many steps, in prudential own funds, the profits must go through different steps. First, being audited. Second, being approved by the Council of Administration. And then, voted by the General Shareholders meeting. So we have to take all these steps before including the profit into the own funds.

Participant #3 Okay, thank you. Now, regarding the 2% turnover tax starting for the next two years and 1% in 2026, I think the impact will be around 20 million EUR for the next two years. I wanted to check with you the amount. And 10 million starting 2026.

Then, the following question starting from this issue would be how you will mitigate this increase in taxes. Do you have any measures in place or being executed going forward? So in order for the profit not to decrease by the same amount.

Etienne LOULERGUE Yes, first, indeed I confirm that we have the same estimation approximately 20 million EUR, purely impact in 2024 and 2025 and then half of it, approximately, starting 2026.

First, there are working progress also at the ARB, association of banking, to clarify first how to, the accounting treatment of this new tax, where to book it in the profit and loss statement. And second, we know that this is a material impact for the whole banking system. All banks will suffer a lot from this significant new cost. And as far as the BRD is concerned, we are working on measures to compensate it actually, but it's still early to say what exactly we will do. Of course, we will monitor how the market will behave, how our competition will manage maybe some repricing on some services, or how

	the interest rates will evolve also. So we will have to monitor the evolution of the market in general before taking any action.
Participant #3	But would these mitigation actions will be more related to the OPEX or to the net interest margins, or both?
Etienne LOULERGUE	We don't know yet. Of course, we will look at OPEX as well. Of course, we will look what we can do in OPEX. However, the amount at stake is really material. So difficult to imagine a full compensation.
Participant #3	Ok. What I noticed recently in the last, this would be the second quarter, I noticed that you started, your lending activity improved. In my opinion, compared to last year, improved, but not in terms of many, meaning that you accelerated more than your usual level, let's say. So now, can you disclose your corporate lending market share in total market share?
Maria ROUSSEVA	Yes, but I think we already touched this point. Indeed, it's not only mere observation. We show it to our figures. We grew our lending by 10% year on year. And on the corporate side by 20% year on year. Meaning that we have in the SME segment even over 30% and in the large corporate over 15% growth of the lending. In total, on legal entities, because this is what is the statistical view which NBR reports, in terms of legal entities currently we have 7.1% market share on the lending activity and this is from September figures, 7.1%. Compared to the year end 2022, so for the first nine months of the year we have grown by 60 basis points our market share, 0.6% market share. So we finished with 6.5%, right now we are at 7.1%. This is related to corporate. Similar development regarding outstanding also on individuals where we increased since the beginning by 50 basis points. So this is the reason why we managed to be at above 10 percent, at 10 percent total lending market share at the end of September.
Participant #3	In terms of corporate lending market share, do you have a target? And do you have an expectation for the year end in terms of loans growth?
Maria ROUSSEVA	Actually, we know very well what we want to do. However, there is another component development of the market, also our peers. In order to explain why we reached it, maybe as I tried to do previous time, I will repeat now, actually we have our budget and we have our way of doing corporate business. We have not increased our risk appetite. We have not decreased our

risk appetite. What we have done in the previous one year, we have strengthened both on the commercial side but also on the processing side certain elements of this process so that we are more efficient and capable of doing more. Also, please have in mind that the enlarging the commercial activity also includes this period of creating the pipeline and then executing the pipeline. So everything which happened in the first nine months of this year has been pre-worked in 2022. So we are neither surprised nor astonished by our performance. We just move in line with our own plans. Then the market has another dynamic and this resulted in our growth of market share.

We will continue doing what we are doing right now. I can disclose that we are having quite solid pipeline list. As my colleague, our CRO, Philippe Thibaud mentioned, we are not planning to make our credit policy changed by the end of the year. So, if things are going in the same way as until now, we should preserve our rhythm of performance. Again, related to what the others are going to do, so we do not know. You know that sometimes there are some huge transactions happening, especially on the corporate segment which are influencing heavily the market shares of the banks which have participated or have not participated, so on that I can't make a statement. But we are growing in a good rhythm on monthly basis, mostly on the SME. So, we will continue by the end of the year with the same approach.

Participant #3 And in terms of cost to income, so I see a figure a little bit below what we used to see at BRD. Yes, but this is generally in general for all the banks, I think. But still, by the end of the year, where should I expect this cost to income to end? Around 49 or around 50 percent.

Etienne LOULERGUE Probably 49 is our best level so far for this year. Because you have to keep in mind that for Q4, in terms of revenue, it will be probably very comparable to Q3. Of course, subject to some volatility in some items, other income, etc. But probably stability in the revenue line, while in OPEX, usually there is a seasonality in Q4 and we shall expect an increase of OPEX in Q4, definitely. So probably a slight deterioration of the cost to income compared to this excellent level of 49 percent at the end of nine months.

Participant #3 Okay. Thank you. And now regarding the lending activity in general, lending activity of the market, how do you see it in the next three years? So growth rates, do you have some, yes, you don't have visibility, but do you have some figures in mind in terms of an average growth for

	the lending activity in the next three years in Romania?
Maria ROUSSEVA	I think the lending activity is very much dependent on the overall growth of the economy. Obviously, GDP growth expectations and then we are deriving our expectations for the lending activity from there. As you have seen and observed, the GDP growth is slowing down. So still there is a growth, but it's slowing down. Now, there are internal and external factors for this and I mean we can't tell you what will happen next year regarding the external factors. Therefore, it would be really very adventurous if I make now a forecast for three years even. But that's how we plan actually. We plan based on the GDP growth.
Participant #3	Okay. Yes. I wanted something like an identity to have an inside opinion, let's say. So, an insight from the market, let's say. And of course, we can look at this growth rate going forward, assuming that everything else will remain unchanged. So, in this context, that was the question. So, okay, thank you anyway for the effort for answering my question. And this is all from my part. Thank you a lot.
Operator	Thank you once again, as a reminder, if you wish to ask a question, please press star one and one on your telephone. We'll now take our next question. Please go ahead.
Participant #4	Hello, everyone. Can you hear me? Yes. Thanks. Thanks for the presentation. I have a one follow-up question, please, because I couldn't hear the answer very clearly on my end. It's regarding the NII 2024 outlook. I heard you mentioned low single digit. Did you mean a decline or an increase? That's one part of the question. And the other part is how this will play out if you could split that impact between the repricing based on what we could assume is likely perhaps a few cuts of the benchmark interest rate and the volume impact if you could split it into those two factors.
Etienne LOULERGUE	Thank you. First, I confirm it is growth that we expect in a net interest income. However, again, rather low single digit of growth of net interest income in 2024 compared to the solid base of 2023. We don't expect so much from the interest rate effect, probably kind of stability on this effect and the growth coming rather from the volume effect, very predominantly.
Operator	Thank you. I would now like to turn the conference back to Maria Rousseva for closing remarks. Thank you.
Maria ROUSSEVA	So once again, thank you for joining and showing interest

in our financial results presentation.

I hope we were able to answer to your questions in a satisfactory manner and talk to you in one quarter.

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