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# BRD

# BANK RESULTS

## 2012

13 FEBRUARY 2013

DEZVOLTĂM ÎMPREUNĂ SPIRITUL DE ECHIPĂ



GRUPE SOCIETE GENERALE

## DISCLAIMER

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The Bank's balance sheet and profit and loss account for the period ended December 31, 2012 were examined by the Board of Directors on 12 February 2013.

The financial information presented both for the year ended December 31, 2012 and comparative periods have been prepared in accordance with IFRS as adopted by the European Union and applicable at this date.

This financial information refers to the Bank only and does not constitute a full set of financial statements and is unaudited.

BRD will publish complete consolidated and individual financial statements for the 2012 financial year.



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## **SOUND BUSINESS MODEL NET RESULT AFFECTED BY THE COST OF RISK**

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**2012 net result  
affected by the cost of  
risk**

- Deterioration of cost of risk, leading to a loss of 332 RONm
- Adverse economic environment

**Sound business  
model**

- Strong network and customer base
- Enhanced operational efficiency, reduced operating expenses (-2.4% vs 2011)
- Low cost/income ratio : 46.5% (11 points below peers' average)

**Clear strategic  
orientations for 2013  
and beyond**

- Strengthen risk functional line and risk procedures and policies (key measures already implemented)
- Continue selective investments in the commercial development
- Reinforce operational efficiency by standardizing, pooling, industrializing

## KEY FIGURES

	2012	2011	Ch vs 2011	
<b>Financial results</b>	Net banking income (RONm)	2,912	3,103	-6.1%
	Operating expenses (RONm)	(1,353)	(1,386)	-2.4%
	Cost of risk (RONm)	(1,938)	(1,199)	61.6%
	Net result (RONm)	(332)	469	
<b>Capital adequacy</b>	Own funds (RONm)	4,397	4,937	-10.9%
	RWA (RONbn)	29.9	31.2	-4.1%
	CAR (Basel 2)	13.9%	14.9%	-1.0 pt
<b>Loans and deposits</b>	Total loans (RON bn)	34.8	33.5	2.5% iso
	Total deposits (RON bn)	31.7	30.2	4.1% iso
<b>Franchise</b>	No of branches	915	937	-22
	No of active customers (x 1000)	2,321	2,373	-52



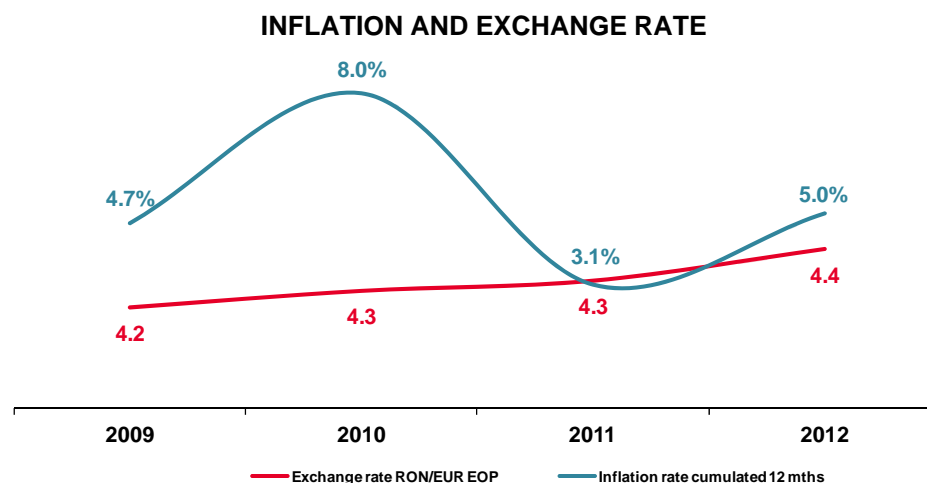
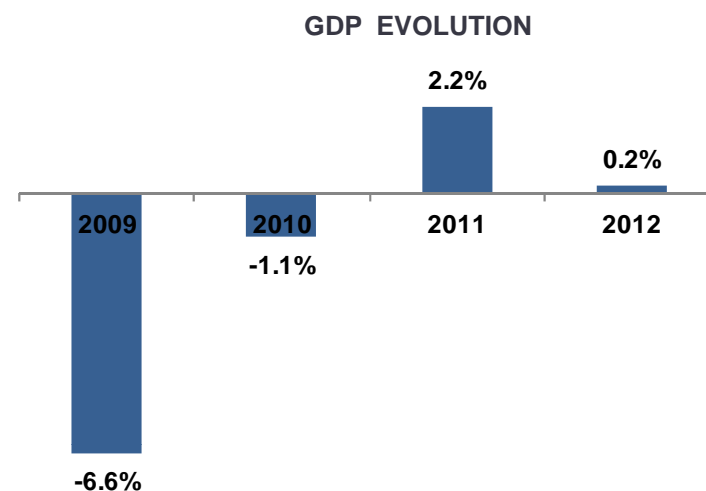
CHAPTER 02

# MACROECONOMIC AND BANKING ENVIRONMENT

## ECONOMIC GROWTH AT A STANDSTILL

- The recovery of the Romanian economy has stopped in 2012, with latest forecasts indicating a growth of 0.2% only;
- Deteriorated confidence affected consumption, feeble external demand held back exports, and agricultural harvest suffered from draughty weather.

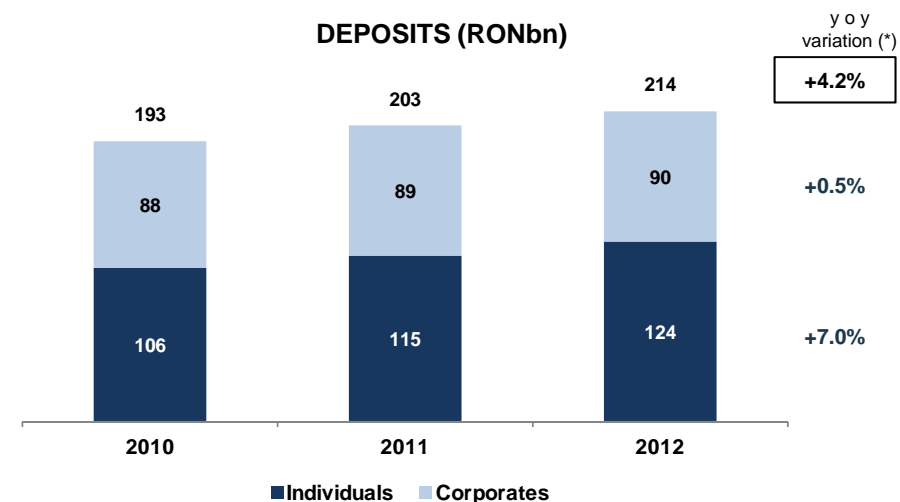
- Inflationary pressures increased starting from Q3 2012, influenced by rising food and energy prices;
- In a climate of political instability and mistrust of foreign investors, the RON depreciated sharply against EUR;
- More recently, the normalization of the political situation and the monetary policy led to an appreciation of the exchange rate.



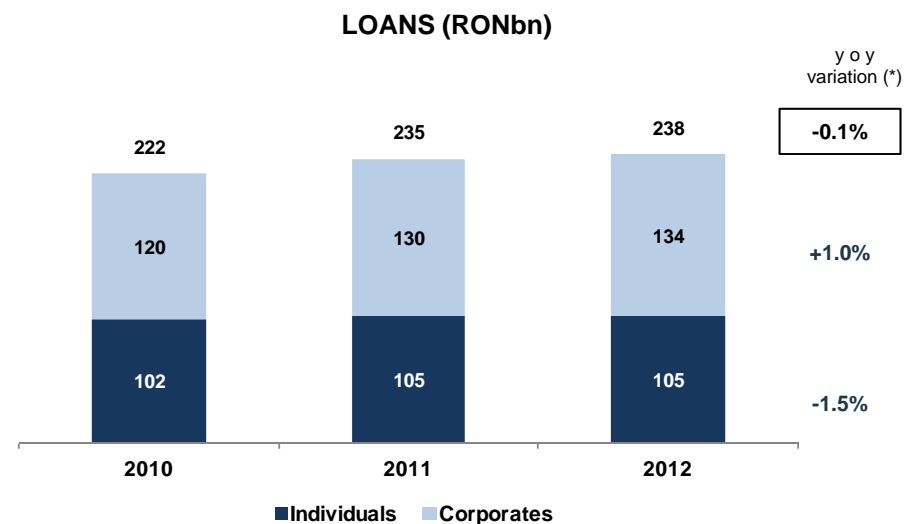
Sources: NIS, Eurostat, BRD-GSG Research

## BANKING MARKET: DYNAMIC GROWTH OF HOUSEHOLD DEPOSITS, SLUGGISH CREDIT ACTIVITY

- Deposits increased by 4.2% compared with 2011;
- This growth was driven by individuals' deposits (+7.0%). Households, facing a challenging economic environment and an uncertain future, maintained a high propensity to save. Additionally, with their fundraising strategies influenced by the regulatory environment planned evolutions (Basel 3), banks focused on retail deposits.



- Gross loans volume contracted by 0.1% in 2012;
- Gross loans to individuals shrank by 1.5%, due to the 6.2% decline in consumer loans' volumes (influenced by a more restrictive regulatory framework and a lower demand). Housing loans, backed by Prima Casa program, however progressed by 8.4% in volume;
- In a context of sluggish economic activity, companies limited their investments, with a direct impact on the demand for credit.



\*) constant exchange rate



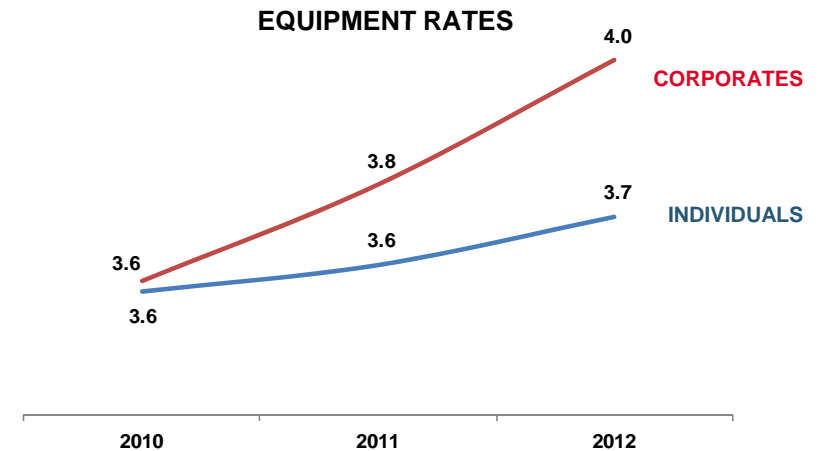
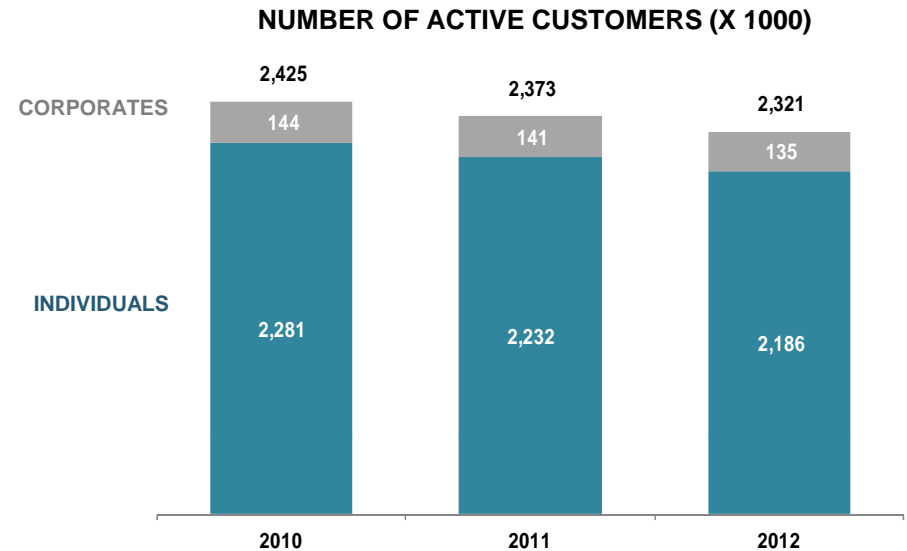
CHAPTER 03

BANK RESULTS  
2012



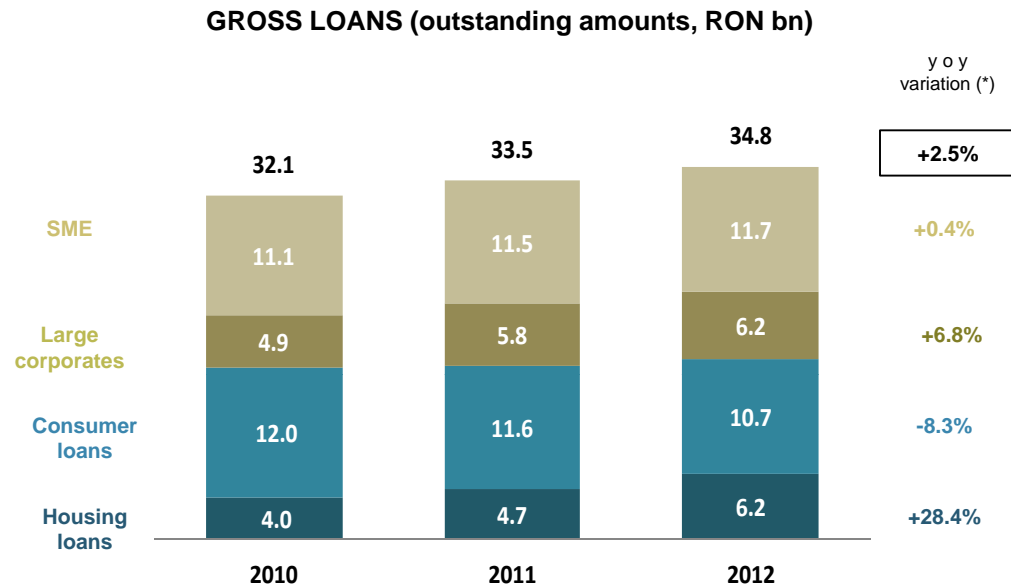
## INCREASED CROSS-SELLING LEVELS, TO THE BENEFIT OF OUR CLIENTS

- Strong customer base despite a slightly decreasing trend in the number of active clients;
- Focus on improving our offer by designing innovative and high added value products, to the benefit of our clients;
- Equipment rates (number of products/client) improved compared to 2011 both for individual and corporate customers, mostly pushed by saving accounts, housing loans, and remote banking solutions' penetration rates.



## CREDIT ACTIVITY SUPPORTED BY HOUSING LOANS AND FINANCING OF LARGE CORPORATES

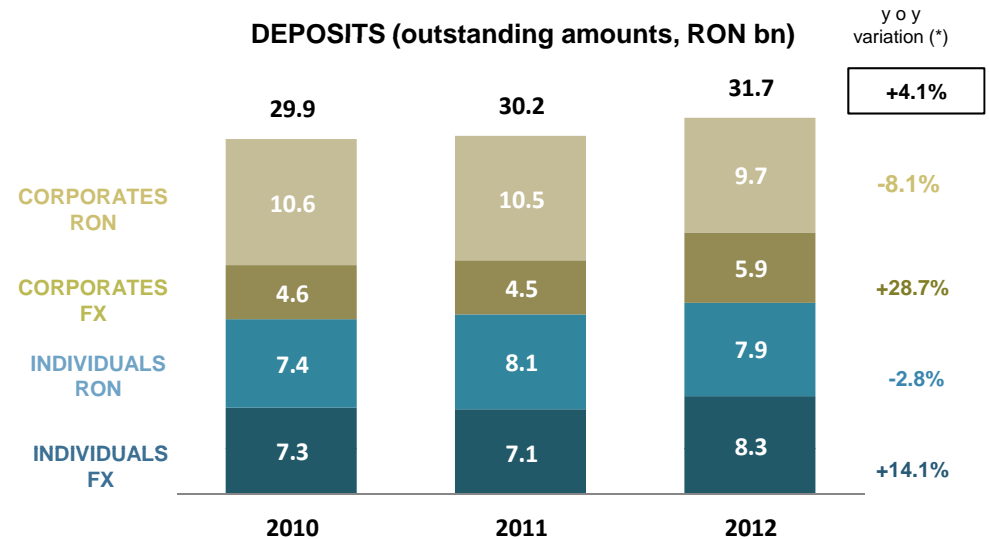
- Loans to individuals grew by 2.4% over the last 12 months, influenced by:
  - a robust production of housing loans mainly fuelled by “Prima Casa” credits;
  - contraction in consumer loans’ outstanding amount due to low demand and regulatory constraints;
- The 2.5% increase in the volume of loans to enterprises was mostly supported by large corporates, which are a strategic and sound customer segment;
- On corporate clients’ segment, RON-denominated loans have been favored (6.0% increase vs 2011);
- Increase in market shares: +0.6 pts on loans to individuals and +0.2 pts on loans to enterprises.



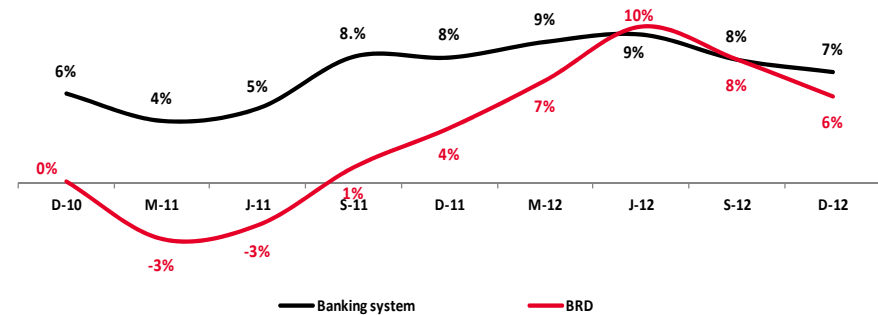
(\*) Variations at constant exchange rate

## DYNAMIC GROWTH OF INDIVIDUAL DEPOSITS

- Robust growth of individual deposits, with BRD catching up the market pace;
- Particularly sustained increase in fx-denominated deposits;
- The corporate customers' deposits increased at the same pace as the market, pushed by the significant growth of fx deposits (especially in the first half of 2012), and dynamic deposit-taking on large corporate segment;
- Re-orientation in favor of longer maturity deposits (the share of deposits with initial maturity greater than 6 months increased from 21% to 29%) ;
- Stable market shares.



**INDIVIDUAL DEPOSITS BRD VS BANKING SYSTEM**  
(12mths evolution)



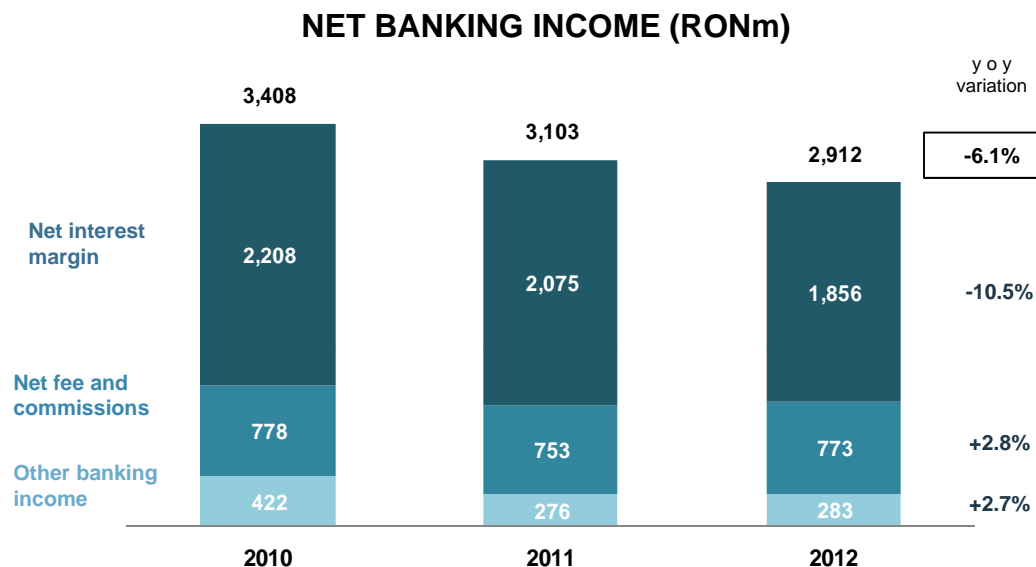
(\*) Variations at constant exchange rate

**C/I WELL BELOW 50%**  
**NET RESULT NEGATIVELY IMPACTED BY THE COST OF RISK**

RON m	2010	2011	2012	Variation 12/11
<b>Net banking income</b>	<b>3,408</b>	<b>3,103</b>	<b>2,912</b>	<b>-6.1%</b>
Operating expenses	(1,371)	(1,386)	(1,353)	-2.4%
<b>Gross operating income</b>	<b>2,036</b>	<b>1,716</b>	<b>1,559</b>	<b>-9.2%</b>
Net cost of risk	(832)	(1,199)	(1,938)	61.6%
Operating income	1,205	517	(379)	-173.2%
<b>Net income</b>	<b>996</b>	<b>469</b>	<b>(332)</b>	<b>-170.7%</b>
<i>C/I</i>	<i>40.2%</i>	<i>44.7%</i>	<i>46.5%</i>	<i>1.8 pts</i>
<i>ROE</i>	<i>19.2%</i>	<i>8.2%</i>	<i>-5.8%</i>	<i>-14 pts</i>
<i>ROA</i>	<i>2.1%</i>	<i>1.0%</i>	<i>-0.7%</i>	<i>-1.7 pts</i>

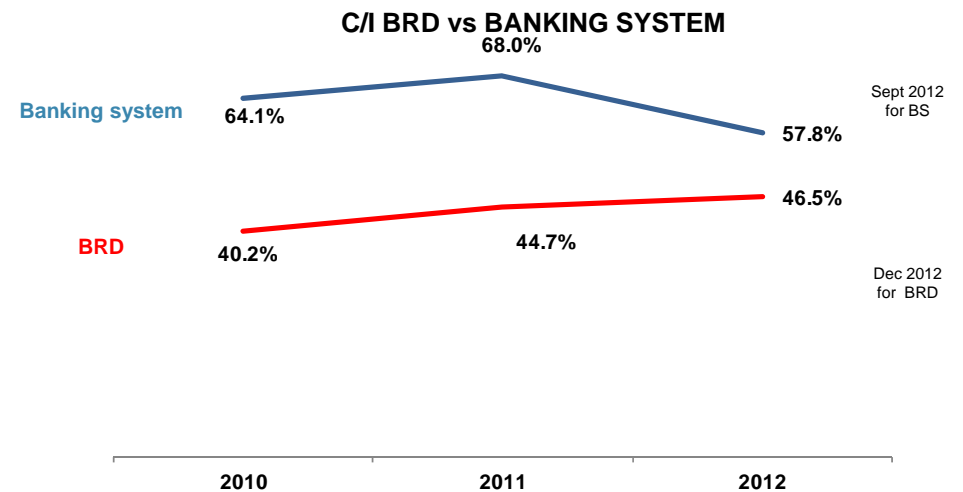
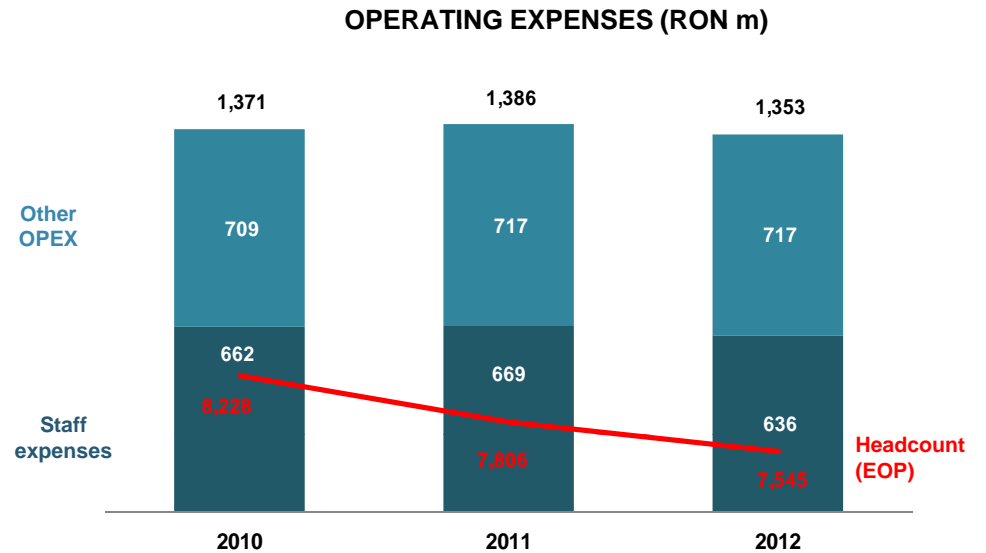
## NET BANKING INCOME AFFECTED BY NET INTEREST MARGIN DECLINE

- 12 months net interest margin negatively impacted by:
  - structural decrease in consumer loans portfolio's yield;
  - structure effect (higher weight of housing loans in the total portfolio, lower one for consumer loans);
  - sharp decrease in index rates until Q2;
  - higher cost of foreign currency funding;
  - rise in NPLs.
  
- Increase in fees and commissions in 2012, mostly due to growing revenues on packages, cards and other means of payment.



## REDUCED COST BASE, C/I WELL BELOW 50%

- Tight and efficient cost control, leading to a 2.4% reduction in operational expenses compared to 2011;
- 5.0% reduction of staff expenses as a result of:
  - headcount compression (headcount reduced by 261 employees in 2012, yoy);
  - adjustment of remuneration policy;
- Implementation of a program of cost optimization measures: other expenses remained flat, in spite of a 5% inflation;
- Low cost/income ratio: 46.5% (11 points below the banking system average).



## NET COST OF RISK AND ASSETS QUALITY

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- The deteriorated macroeconomic environment negatively impacted the evolution of non performing loans (“NPL”) ratio;
- On individuals’ segment, NPL ratio has stabilized;
- Higher NPL coverage ratio

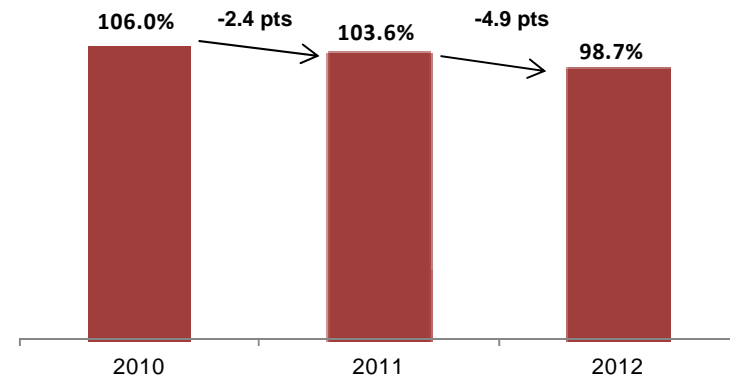
	2010	2011	2012	Variation 12/11
<b>NPL ratio</b>	13.0%	16.7%	21.3%	+4.6 pts
<b>CoR (RON m)</b>	832	1,199	1,938	61.6%
<b>CoR in bp</b>	239 bp	355 bp	549 bp	+194 bp
<b>NPL coverage ratio</b>	35.0%	42.2%	51.9%	+9.7 pts



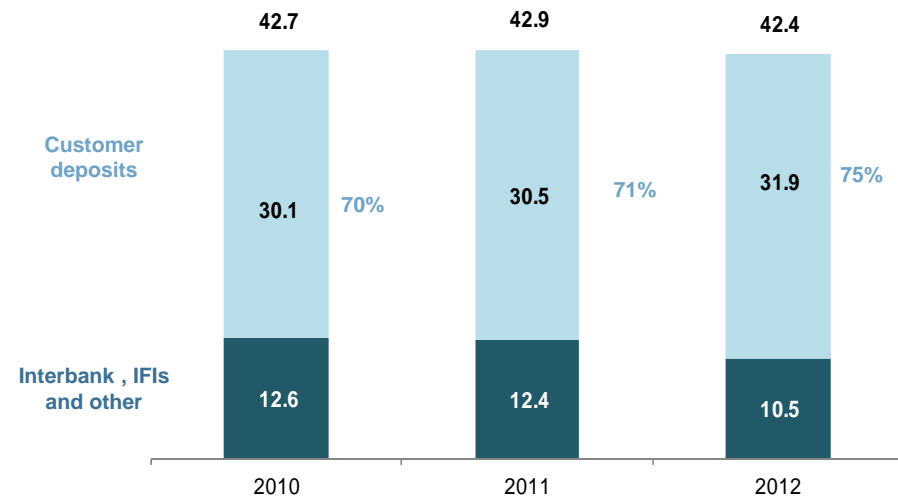
## AN IMPROVED LOANS/DEPOSITS RATIO, A HIGHER DEGREE OF FINANCIAL AUTONOMY

- Significant improvement in the L/D ratio to 98.7% at 2012 end (-4.9 pts vs 2011 end);
- Preparing regulatory changes (Basel 3) by focusing on stable customer deposits;
- Higher degree of financial autonomy, with a significantly increased share of deposits in total liabilities (from 70% at 2010 end to 75% at 2012 end).

NET LOANS/DEPOSITS RATIO



LIABILITIES STRUCTURE (RON bn)



## A STRONG CAPITAL BASE

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	2011	2012
Capital adequacy ratio	14.9%	13.9%
Tier 1 ratio	14.9%	13.9%
Own funds (RON m)	4,937	4,397
RWA (RON m)	31,215	29,943

- Still benefiting from a well-built capital base, despite the 2012 negative result;
- Capital adequacy ratio well above the minimum required level of 8%;



CHAPTER 04

# STRATEGIC ORIENTATIONS

## STRENGTHEN RISK FUNCTIONAL LINE AND RISK , AS WELL AS PROCEDURES AND POLICIES

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### CULTURE & GOVERNANCE

- Reinforcement of risk culture;
- Improved governance with tighter controls by the Risk department.

### CREDIT CONDITIONS

- Better knowledge of the client's situation through deeper analysis and controls.
- New scoring/rating models;
- Tighter collateral valuation process.

### MONITORING

- Reinforced surveillance of sensitive counterparties;
- Improved reporting systems to monitor the risk and adapt the risk strategy.

## CONTINUE TO INVEST SELECTIVELY IN OUR COMMERCIAL DEVELOPMENT

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### INDIVIDUALS

- Keep on developing and providing useful, innovative services to meet the needs of our customers, leading to an improvement in cross selling levels and an increase in market shares (+ 1 to 2 pts on a 3 years' horizon);
- Reinforce our leadership on housing loans;
- Continue to be a practical bank accessible through a variety of channels (branches, mobile banking, internet);
- Enhance our communication.

### SMEs

- Develop our presence on liberal professions and agriculture;
- Base the credit offer on:
  - RON lending;
  - selective sectorial approach (agriculture, industry);
  - more secured operations like leasing, factoring, pre/co financing EU funds.

### LARGE CORPORATES

- Reinforce the leadership on large corporate customer segment (already high penetration level, with more than 50% of the most important Romanian and international large companies being among our customers);
- Add value to clients business through tailor made approaches and sophisticated offer (hedging instruments, structured financings).

## REINFORCEMENT OF OPERATIONAL EFFICIENCY BY SIMPLIFYING, POOLING, INDUSTRIALISING

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### PROCESSES & OPERATIONS

- Continue the back-office centralization and extend the activities rendered;
- Improve the efficiency of back-office processes;
- Centralize the support functions for an enhanced efficiency;

### NETWORK

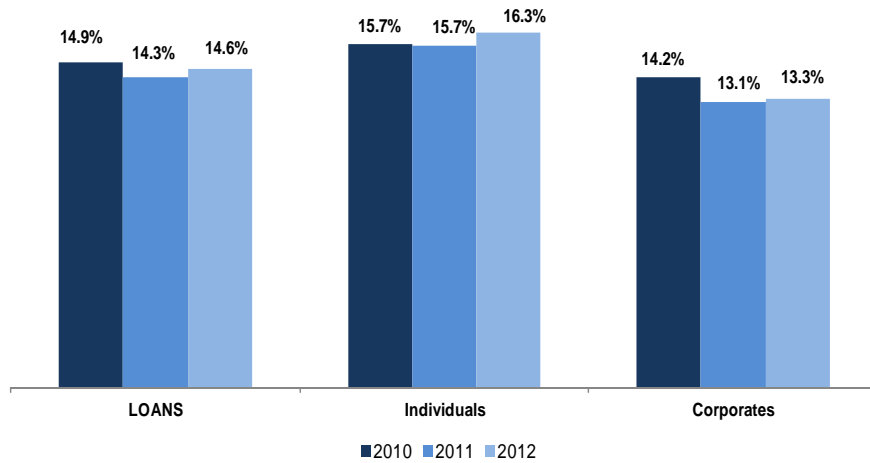
- Pragmatic adjustment of the number of branches according to the economic conditions, while maintaining a powerful network;



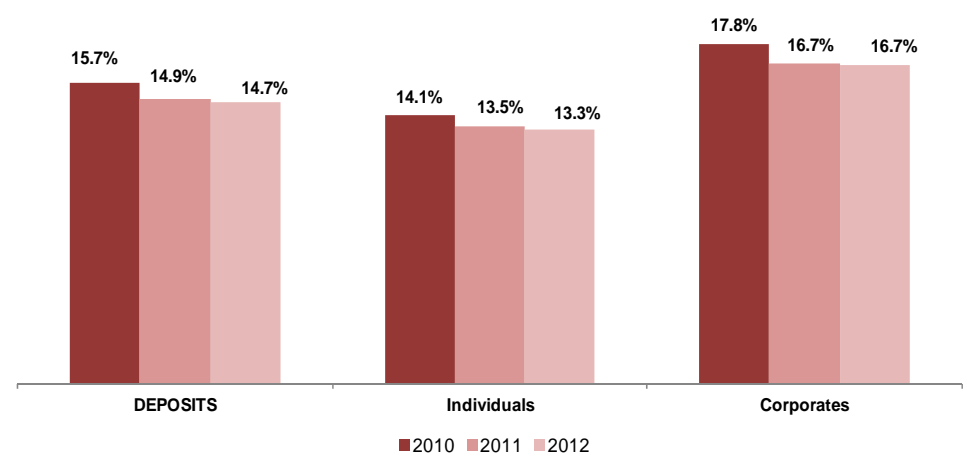
# APPENDIX

# MARKET SHARES

Loans market shares



Deposits market shares



Loans by products market shares

