



GROUPE SOCIÉTÉ GÉNÉRALE

**“BRD Group Q1 2025 Financial Results Conference Call and Webcast”**

***Q&A session***

Wednesday, April 30<sup>st</sup> 2025, 12:00 RO Time

Participants:

Maria ROUSSEVA – CEO

Claudiu CERCEL – Deputy CEO – Financial Markets

Madalina TEODORESCU – Deputy CEO Retail

Philippe THIBAUD – Deputy CEO Risks

Vladimir POJER – Deputy CEO Finance – Treasury

*Operator:*

Thank you. As a reminder to ask a question, you need to press star one and one on your telephone and wait for your name to be announced. To withdraw your question, please press star one and one again. Once again, please press star one and one on your telephone and wait for your name to be announced. Thank you. Now we're going to take up the first question. And the first question comes from the line of Participant #1, your line is open, please ask your question.

*Participant #1:*

Thanks, hi everyone. Thanks for the presentation and congratulations on your results. So, my first question is on NII. So, ROBOR in Q1 was broadly the same as the last quarter from what I can tell. I was expecting NII to be better this quarter given the strong loan book development. Could you please provide some color on why NII came flat quarter on quarter, was it some repricing of the banking book or maybe most new disbursements were done towards the end of the quarter? Also for NBI increasing mid-single digits mainly on NII performance, but in a quarter with no rate cuts, stable ROBOR, strong loan book development, NII remains flat, so is there a risk already to this guidance, and how is II (Interest Income) going to increase once the NBR starts cutting rates in the second half of the year? I would very much appreciate your input on this.

*Vladimir POJER – Deputy CEO  
Finance – Treasury:*

Ok, I will start commenting. Firstly, in the new year the IRCC, the index to which the mortgage portfolio is linked, went down by roughly 30 bps between the two quarters, so this is the repricing effect which you were enquiring about in the first part of your question. Secondly, within our corporate portfolio we had as well some disbursements in late Q1 influencing the average of the quarter, so NII was a bit lower because of this effect. Also, you were asking about the impact of NBR policy changes, if I remember well?

*Participant #1:*

Yes, if you could comment on the interest rate environment for the rest of the year.

*Vladimir POJER – Deputy CEO  
Finance – Treasury:*

As commented by Claudiu, the environment from the inflation point of view is still quite high, so the interest rate environment is to some extent linked to this uncertainty of the elections, of the foreign trade and inflation. We expect compared to last year when we had those two cuts in the summer, most probably the NBR will stay cautious until there are clear signs that the inflation is under control and is further declining. We expect the interest environment should stay rather at this level at least during Q2, potentially also in Q3, we will see in the late second half of 2025 what the development might be.

*Participant #1:*

Ok, understood, thank you. On NFCs, there was a pretty strong performance in the first quarter, could you please provide some color on, maybe on why cards net income was so high and where you see the NFC perform in the next quarters?

*Vladimir POJER – Deputy CEO  
Finance – Treasury:*

In the first quarter the positive NFC performance was linked to activity of our clients linked to the cards transactions and also an exceptional income line linked to the transactions in the first quarter. We believe the NFC will continue to be growing (no base effect starting in Q2 anymore) but in the mid-single digits in the upcoming quarters, year on year.

*Participant #1:*

On cost of risk, if I recall correctly, you were previously guiding between 30 to 40 bps, and now 40-50 bps, why is that? If I look at stage 3 loans, NPL loans and coverage it all seems quite benign, so what changed? Is it the impact from the tariffs or something else?

*Philippe THIBAUD – Deputy  
CEO Risks:*

Indeed, our guidance last year was between 30-40bps, for this year we increased it. When we look at the situation of the households nowadays after two years of double-digit inflation the profile in terms of DSTI (debt service-to-income ratio) is weaker, so we have a higher guidance because of where we are in the portfolio, and we think the macroeconomics or the economic environment is more difficult for our clients.

*Participant #1:*

Got it, last question: why only 50% payout ratio again this year? I thought the idea was to increasingly work towards the historical average payout ratio, also the solvency ratio already accounts for dividends at 23.4% Is quite high and I was under the impression that you've previously guided that you would be comfortable at 22% so I also understand that RWAs are not expected to grow at a crazy pace this year, so why the decision to distribute only 50% net profit distribution for 2024.

*Maria ROUSSEVA – CEO:*

I think last time we on purpose didn't want to talk about the distribution because we were in discussion with the regulator about the amount that the regulator would be comfortable with in the macroeconomic context we are observing. We also add the additional uncertainty which appears after the trade topic appeared, I think they were not wrong by recommending 50% payout ratio. I think last time we already discussed about it, financially we can, indeed but I think the point is we need to stick to the overall policy or recommendation of the regulator, that I think issues similar recommendations to other banks in the industry as well, we obviously don't have the details for others. So this is the reason.

*Participant #1:*

So it was based on the regulator's recommendation? Ok, thank you so much.

*Maria ROUSSEVA – CEO:*

Yes, as we did last year, we always do that based also, among other factors, on what the regulator feels comfortable with, among other arguments.

*Participant #1:* Just to come back on NII, we can expect NII to increase in the upcoming quarters, right?

*Vladimir POJER – Deputy CEO Finance – Treasury:* Yes, I can confirm we expect the NII will continue to increase in the coming quarters, yes.

*Participant #1:* Ok, thank you so much, I appreciate that.

*Operator:* Thank you, now we're going to take up the next question, and the question comes from the line of Participant #2, your line is open please ask your question.

*Participant #2:* Hello everybody, thank you for taking my question and thank you for the presentation. I have several questions, let's start with NFC – you said you have an exceptional income item in this line, can you disclose the value of this exceptional NFC for the quarter please? Then, regarding the staff costs, I noticed they continue to increase quarter on quarter. My expectation was for them to remain at least flat especially because last quarter you had bonuses, increases and so on, but they continue to increase not to mention that the number of staff decreased so especially in an environment where nobody is speaking about salary increases and the third question regards the cost of risk, if I understood well there is some seasonality in this quarter. You indicate a normalized cost of risk of around 50 bps, so should we expect the cost of risk to decrease in the following quarters to the guidance of 50bps?

*Philippe THIBAUD – Deputy CEO Risks:* It's a straightforward, easy answer. Indeed, the first quarter is always higher we expect is to normalize and stabilize to 50 bps during the year.

*Participant #2:* I don't really understand the seasonality, could you explain?

*Philippe THIBAUD – Deputy  
CEO Risks:*

Seasonality for households increased because in Q1 in terms of net income available to households is the toughest quarter for the clients, because they are just coming out of Christmas and missing out on payments in January - February some clients technically falling more easily into default but remediate during the year. There are a lot of factors that make Q4 more expensive for the households, like in September when schools start again, and we actually “pay the price” in Q1 the following year. This year more specifically, it’s a general deterioration, we monitored the situation looking at any indicator or one factor or one average in our modelling assumptions, I believe you’ll find this with all the other banks. We are looking at most clients after two years of realistically high inflation were in a tougher situation especially in Q1, and you have things playing out like the fact that there were fewer working days in Q1, something like one week less than last year, has also increased seasonality. However also because of the actions we put in place, the monitoring and the remediation actions placed on the portfolio and all the activity of the bank we are still comfortable with this 50 bps target because we expect to see the quarterly cost of risk stabilizing.

*Maria ROUSSEVA – CEO:*

And maybe to mention something not covered much in the newspapers, we discovered this in our analysis, it is important to note in Bucharest the subsidy the state was granting to households with central heating was abolished in January, and this is a very important impact actually. Heating bills in January increased so much that they had to choose practically between paying the bills for heating and other payments, on top of inflation and other factors mentioned by Philippe. I don’t think this measure was covered very widely and spread, but it’s one of the reasons.

*Philippe THIBAUD – Deputy  
CEO Risks:*

Another aspect I'd like to share is the fact that we have since 2021 with the new definition of default the bank has put in place, we have this concept of continuous DPD (Days Past Due), which is hurting our clients. When clients are missing one monthly payment they are worried about repaying this monthly payment the next month and don't want to reach the 90 days because they know that after 90 days they know that this receivable will make them in default and will be reported to CRC and they want to avoid it, what they don't realise is if they keep on rolling the payment three months in a row it causes a default of the exposure for the bank, affecting the portfolio so we work with the clients to remediate this issue quickly.

*Vladimir POJER – Deputy CEO  
Finance – Treasury:*

If we answered the question of cost of risk, I will continue with the fees; we will not disclose the exact amount of the exceptional income from transaction in Q1, however in Q1 our growth without this exceptional transaction would be high-single digit; this is what we can share with you regarding the dynamics of the fees.

*Participant #2:*

According to my estimate this exceptional income item is around 30m RON.

*Maria ROUSSEVA – CEO:*

To answer your first point Participant #2, this exceptional item represents the HR cost, in our bank the annual bonuses are paid in Q1 not in Q4.

*Vladimir POJER – Deputy CEO  
Finance – Treasury:*

And it is accrued over the year. If I may add on the HR cost, we need to keep in mind the annual review of employee compensation is effective 1<sup>st</sup> of April so Q1 is not affected by this shift, we expect the dynamic yoy of HR costs will rather slow down in the coming quarters due to the base effect. As Maria mentioned, they are paid in Q2 and accrued over the year so they don't affect the yoy dynamics.

*Participant #2:*

If we look at the salaries, they still increased compared to last quarter, which was a surprise for me.

Vladimir POJER – Deputy CEO  
Finance – Treasury:

I can comment we are very cautious regarding our cost management, HR costs especially; we are paying attention to the base effect as you correctly mentioned less FTEs yoy and we are investing in the retention and motivation of our talent, having a strategy of less FTEs and better paid, and we are following the market benchmark and staying in line with our ability to invest in this area.

*Participant #2:*

Regarding the outlook, do you have any important updates for example in terms of lending activity in the coming quarters and the NIM decreasing qoq, do you expect this trend to continue?

*Maria ROUSSEVA – CEO:*

I think the NII question was already covered by Vladimir. I'll hand over to Madalina on the commercial and lending activity. If the macroeconomic environment and the trade situation worldwide allows it and the tariffs allow companies to continue to invest we will continue to finance them. If the macroeconomic environment worsens dramatically or if the trade wars are impacting Romania's major trade partners and subsequently the companies operating in Romania and exporting to these countries, obviously their demand for financing will be impacted and will impact us and we will have to adjust our approach because the demand will be lower. As long as there is healthy demand and our clients' projects generate enough cash flows to repay the loans, we will continue supporting our clients. From that perspective, the Bank's intentions remain unchanged, however given the current challenges and global uncertainties affecting Europe and Romania, we will be agile and respond accordingly.

*Participant #2:*

What is your worst-case scenario in terms of lending activity? I think the sector's lending activity is expected to grow by around 8% yoy, so I expect you have a worst-case scenario, assuming you grow in line with the market?



*Maria ROUSSEVA – CEO:*

I did not say that. I said we'll continue growing as we used to do by continuing to support our clients. If you look at the market growth last year and compare it with our growth, you'll see we outperformed the market. To answer part of your question, we continue to have a good pipeline, with financing already in process to be completed over the coming month and quarters. However, if something happens that our clients will not wish to finance as many projects as previously or if we see that financing them is harmful to them and to the quality of our portfolio, of course we will adjust. However, if the market continues to grow, we will continue to try to outperform it.

*Participant #2:*

We have seen that in the last year BRD started to outgrow the market, but what is the worst-case scenario?

*Maria ROUSSEVA – CEO:*

We haven't modelled in a worst-case scenario because the year started with the trade conflict which could be very scary, if not remediated by adjusting the terms to reasonable levels. On the other hand, Europe may perform better than anticipated previously because Europe is not expected to be a very important growth driver overall. The most important risk factor is Europe, maybe some sectors in Europe may benefit. And Romania may benefit given it has many trade partners in Europe, but it's only a possibility. Worst case is a recession in Europe which will impact our business and the Romanian economy as a whole by affecting exports, employment, investment and so on. The local demand is also impacted by the potential fiscal consolidation that will take place after elections and the level of disposable income private individuals will have after the elections, there are many unknowns. I don't want to assume a very black scenario because we so far don't see it happening, but if it does happen, we will adjust on both individuals and corporates. Overall, BRD remains rather positive in

terms of growth if the macroeconomic environment is favorable.

*Madalina TEODORESCU –  
Deputy CEO Retail:*

Short term if I may add, Maria, Q1 was above our expectations in terms of volume - during the last call we were referring to a single digit growth expected, while today we are referring to a double digit *achieved* growth. The pipeline, as Maria mentioned, in both private individuals and legal entities is solid in the second quarter, so indeed we will monitor closely and share with you. For the moment, very short term, as we monitor the pipeline weekly, I can confirm that Q1 was well above our expectations and Q2 pipeline is solid enough across the segments.

*Participant #2:*

Thank you.

*Operator:*

Thank you, now we're going to take up the next question, and the question comes from the line of Participant #3, please ask your question.

*Participant #3:*

Hello, thank you for the presentation. In terms of L/D what is your target, and also regarding tariffs, have you identified any industries that may be more impacted, I believe the indirect impact could be more severe than the direct impact? Also, regarding CAR, is the NBR threshold 18%? Do I understand correctly that without temporary measures the current CAR is 23%, as mentioned in the report? Do you have any management buffer above 18%? Thank you.

*Vladimir POJER – Deputy CEO  
Finance – Treasury:*

I will start with the L/D ratio question. It is important to mention that L/D is growing by 10pp and is very much linked to the overall growth of term deposits, which are not used as our main funding source, as you may see that current accounts mainly on the retail are growing by more than 8%. We are currently at 78%, we consider this level as sufficient for future growth, I believe a level between 80-90% is still acceptable for us, but depends very much

on the structure of our deposits, and as I said I think we are still growing in the most valuable part which is used for funding purposes. The CAR, as you correctly mentioned the requirement from NBR is 18%, we are keeping a buffer of 400bps based on historical performance and loan book dynamics, characteristics and potential macroeconomic downside to absorb any potential shocks. We are comfortable with this level of buffer.

*Maria ROUSSEVA – CEO:*

We don't see Romania impacted directly by these tariffs but rather indirectly through our trade partners, as I mentioned previously. It depends on how our trade partners will be affected, of course. For the time being we can't say what the impact will be because the tariffs are still under negotiation, as far as we understand, after the three months freeze period. So far, we can't say which sectors will be impacted but we don't exclude an impact because we don't know the final outcome of the negotiations.

*Participant #3:*

Thank you, no further questions.

*Operator:*

Thank you, now we're going to take up the next question, and the question comes from the line of Participant #4, your line is open please ask your question.

*Participant #4:*

Thank you very much for taking my question. Most of them have been answered anyway. Just a brief one on the US tariffs and trade wars and the potential impacts. Did you have any changes in macro assumptions affecting your CoR in Q1, are you expecting any changes in the following quarters, any impact on any forward-looking items in your CoR? Thank you.

*Claudiu CERCEL – Deputy CEO  
– Financial Markets:*

I think in the after-election environment the most anticipated policy decision will be the fiscal consolidation because, as you probably know, the rating agencies are pinpointing the budget deficit being above

9% on ESA terms, which is not sustainable even decreasing it to 7% in line with the government's goal is a relatively difficult task, so this may have a certain impact on the economic growth mitigated to a certain extent maybe later in the year by some cuts of NBR in the key rate. Even if the budget deficit will be reduced to 7%, I think everyone can agree that an economy with a budget deficit of 7% can be considered to be rather supportive, rather expansionary, of course not to the same degree as 9%. That's why we said at the beginning of the presentation that economic growth should be higher in 2025 than in 2024 despite these circumstances. Indeed, the exposures on our main trading partners which may be impacted by the US tariffs, I name here Germany and Italy, and obviously the automotive sector is potentially impacted given its size, Germany may be reprofiling some of the automotive capacity to defense, and the announced budget for the defense sector may lead to some positive impacts, but we can't put a figure on it because we don't have specifics yet.

*Participant #4:*

Did the most recent developments especially the US trade tariffs have an impact on your macro models for cost of risk?

*Philippe THIBAUD – Deputy  
CEO Risks:*

No, they didn't. We are using different scenarios, from optimistic, base case or stress scenario. Strangely enough, from a direct point of view there's barely an impact, when you look at the level of exports from Romania to the US is very small compared to that from Germany or Italy. We already saw problems with the export from Germany last year already, which we integrated in our projections. Indirectly we do expect a more challenging situation. When we feed our models with weighted parameters on GDP for instance, we remain conservative we don't need to adjust these to account for the new events, basically it doesn't change much for us in terms of projections and models, it's already integrated.

*Participant #4:* Understood, thank you very much.

*Operator:* Thank you, now we're going to take up our last question for today, and the question comes from the line of Participant #1, your line is open please ask your question.

*Participant #1:* Thank you everyone. On lending outlook, so far I understand that you haven't seen any of your corporate clients cancelling investment plans related to the tariffs, is that correct?

*Maria ROUSSEVA – CEO:* I have not heard of any of our existing clients cutting investment so far.

*Participant #1:* Understood, and you still maintain the outlook for the system growth of 7-8%, is that still base case?

*Maria ROUSSEVA – CEO and  
Madalina TEODORESCU –  
Deputy CEO Retail:* Yes, for the moment we don't have a reason to change our assumptions.

*Participant #1:* Ok, that was all, thank you.

*Operator:* I would now like to hand over to the management team for closing remarks.

*Maria ROUSSEVA – CEO:* Thank you everyone for joining us again, we are looking forward to meeting you again in three months' time. Have a great day.