GROUPE SOCIETE GENERALE

"BRD Group H1 and Q2 2024 Financial Results Conference Call and Webcast"

Q&A session

Thursday, August 1st 2024, 3:00 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

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. We are now going to proceed with our first question.

Participant #1

Good afternoon, everyone, and thank you for the presentation. I have a question related to the NII performance. During the presentation, you alluded to the fact that the share of time deposits increased during the quarter, and my back of the envelope calculations indicate that the increase was in the region of 2.5 billion RON, and this was paid for, I assume with the increased cost to be spent on time deposits, which I calculate to be roughly 36 million in the quarter, implying well above average rate being paid of above 5%, possibly. My question is what's the average maturity of these newly gathered term deposits? So in other words, when their negative NII impact starts to fade away? And additionally, what other initiatives are you planning to implement in order to manage the rising costs of your deposit base? Thank you.

Etienne LOULERGUE

Thank you for the question. Maybe to remind what I commented, the proportion of interest-bearing deposits in the total deposit at the end of June 2024 is approximately 39%, and it was 35% at June 2023. So, the growth was continuous across 12 months, not specifically to the last quarter. However, it is true that since also the beginning of this year, we continue to see that the growth of deposits overall is more driven by the term deposits or interest-bearing deposits than the current accounts. However, a few comments: first, we are growing on current accounts in RON and this is very positive in our view. On current accounts in EUR, which are also a significant part of our deposits, we are actually in slight decline because there is this effect of transfer from current accounts to term deposits still in EUR. Now, if we come to the price, the average maturity, we have different proposed tenors to our clients, basically for term deposits in private individual segments, we propose one month, three months, six months, 12 months, and very marginally above 12 months. Most of the appetite is on the six months and 12 months. Therefore, we think we have a quite good control on this item. And as I mentioned, this is a kind of product on which we have already observed the market starting to reprice at lower yield and we follow this trend, and we are even active in the trend. We don't want to be an outlier, neither above nor below, but we are active in this trend, and we regularly reprice downward the offer on term deposits for private individuals in RON. In EUR, we do kind of the same, but at a much slower pace. And the amount at stake in terms of term deposits is lower than in RON. The second part is related to the corporate segment for which we have several products. I would say that the vast majority for large corporate is negotiated, of course, but on quite short tenors. Therefore, we believe that if the rate decrease confirms and continues, we will be in capacity to also decrease the cost of funding on this part of the deposit with corporates.

Participant #1 Thank you. Assuming, by the way, judging by the development of the total deposit base, that the majority of the inflows took place in the second quarter and judging by what you said, that the majority of demand is on 6-and 12-month maturities, it would imply that the higher cost of these new deposits would continue to affect the NII for at least two subsequent quarters. Is that a correct understanding of the situation?

Etienne LOULERGUE Not exactly. When I mentioned that the appetite is on the six and 12 months, it's already true for several quarters. It's not something new from the last quarter. So, we have currently already all term deposits coming from the last year coming to maturity and repricing, if they maintain on the same tenor, repricing at a lower price. We have the average blended pricing for the term deposit in RON for private individual reaching a peak of 5.8%, I think, at the end of 2023. Since then, it's in slight decline, we are at 5.4%, at the end of June - blended average rates on RON term deposits for private individuals. The pace of decrease is slower for this average pricing on the corporate for the moment, but it is a lower average.

So to conclude, I think we are rather on a trend of decreasing the average pricing of the term deposits in RON.

Madalina TEODORESCU And to keep in mind, we actually have even compared with the benchmarks in the market, we have a better mix, such as focusing on FIDELIS, placing into asset management. So, all these mixed actually support the customer demand. And not to forget that we registered double digit, above 20%, increases in all the daily banking. So, acquiring business, transactional business, this means that, basically current accounts are significantly playing a role into the economy of liabilities.

Participant #1 Okay. Thank you.

Participant #2 Good afternoon. Thanks a lot for the presentation and congratulations on the results. I have three questions for you. The first one is regarding the loan book. Do you expect the strong pace of loan book development to be maintained in the second half of the year? Or would you say the growth was a bit frontloaded and would tend to moderate in the second half of the year? Then on trends in general like where do you see like NIM, NPLs and cost of risk by the end of the year? And finally, the final question, it's more about your capital position and dividend. So given the good results and so far, benign asset quality trends and comfortable capital position...where do we stand on the probability of extra dividend payments at the end of the year? Also taking into account these new requirements you've mentioned in 2025 and the quick fix. Thanks.

Maria ROUSSEVA Thank you. I would take the first one on the volumes of lending and then for NPLs, we'll go to Philippe and then about the dividends to Etienne. So, this development, and I think we have discussed it in previous calls as wel, is not, I mean, the lending activity is not by chance. This is based very precisely accelerated, but also well channeled commercial activity in all segments. And it has started last year. It has continued this year. Since we target to maintain and even improve our present position on the market. Therefore, dependent on the development of the market, we will be trying continuously to be in line with it and even slightly overperforming. And for the time being, we observe that we are in a good momentum and with a very good pipeline list on the corporate side, I would say, because there is where the bigger growth actually came and strategically, this was the target because there we have a market share of around 7.8% currently as opposed to the 14.1% on the retail. Obviously, the growth of the corporate activity is fully strategically in line with what we want to do. So, to answer more concretely your question, if the conditions allow us, we will gladly continue performing similarly within the present risk appetite. I would like to insist that everything you observe is happening in the present risk appetite statement of the bank. So, this is related to the loans with a good pipeline, I think we'll have a good commercial second half and then on the NPLs, because they also connected quite well with that, I give the floor to Philippe.

Philippe THIBAUD Thank you Maria. In short, we are exactly where we want to be. So, I told you last quarter, we have been going through the cycle kind of normalization. So we expect to have compared to the previous years a higher cost of risk. Things are getting a bit tougher. And we want to have control on this level of NPL and cost of risk. Today we are exactly, I would say even maybe on the lower side of our guidance, we are 30 bps and 30-40 bps, this is something which we completely accept that is completely within the risk appetite of the Bank. So we are very happy with this level of cost of risk, it may be even lower if nothing happens, like during the first semester. Now, talking about the NPL, again, I would say between 2%-2.5%, we are perfectly happy with these levels that not only are just fitting in the risk appetite of the Bank, but these are also levels that are completely compatible with the capacity of the teams to manage the size, to manage the clients. So, I would say, , "so far so good" or "jumping from the tower", we have a sound portfolio and we are on today on a safe trajectory.

Etienne LOULERGUE I can comment on the dividend. So indeed, as you can observe, we have a comfortable capital adequacy ratio well above the regulatory requirement. And on top of this, we will indeed benefit from this quick fix relief. And according to our computation, it is quite material. However, again, we have two important, three important points of attention. The first one is we have, of course, to continue to fund the growth and as the growth of the loan book is quite solid, with a double digit, we will have also to support the correlated growth of RWA. Second point of attention, 1st of January 2025, we will have the implementation of Basel IV and we have a first estimation of the impact on the ratio somewhere between 150 and 200 basis points, more likely. Computation still in progress on this respect. And last, this quick fix relief will be only temporary. So, it will help us to bridge time for the negative OCI to naturally decrease and converge back to lower amount thanks to the decreasing trend of interest rates on the market, plus the fact that the portfolio of T-bills will come closer to maturity. So, for sure, we will improve in the coming months further the solvency ratio. And it will create space for additional dividend distribution. Now the question is the calibration of this capacity. And once we will have calibrated this proposal we will have to prudently disclose it to the National Bank of Romania because, as you remember, for the last dividend distribution, our proposal was initially higher compared to what we did, but we were capped by a decision by the NBR, valid for the whole market, to cap the dividend distribution at 50%, while our expectation was higher. So, it's one point also of attention we keep in our mind and once we have a better calibration, we will probably have to see what is possible from the supervisor authority point of view.

Participant #2 So just to make sure that I understand correctly, we are not talking about extraordinary dividend distribution to bridge the gap from the dividend distribution that you had in mind but was cut short by the regulator.

Etienne LOULERGUE It's an option that we do on extraordinary dividend distribution in order to catch up what was not distributed previously if we compare to the usual. So, we have the option in mind. But of course we cannot commit to anything. It's still work in progress.

Participant #2 Understood. And finally, I understand that BRD Finance will no longer be consolidated in the third quarter. Is that correct? And how much of an impact can we expect from there? You have to book 9 million.

Etienne LOULERGUE I do confirm that BRD Finance will not be consolidated any longer as starting the third quarter, at the end of September. But in fact, the negative impact is already in the books now as in June, because it represents the difference of mark-to-market of the loan book versus the historical value. So, this was already in the P&L as at the end of June in NBI, -9 million RON. What will remain is all the operating expenses related to the closing of the company. This was fully provisioned already several months ago. So, we don't expect any further negative impact in the P&L.

Participant #2 Okay. Understood. Thank you so much.

Operator Thank you. I would now like to turn the conference back to Maria Rousseva for closing remarks. Thank you.

Maria ROUSSEVA Thank you very much for your participation to our presentation. Again, after this very good quarter and half of the year, we are optimistic for the second part of the year and talk to you again in three months. Thank you.

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