

Erste Group – 9th Capital Markets Day

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Romania/Banca Comercială Română: Turning GDP growth into tangible growth

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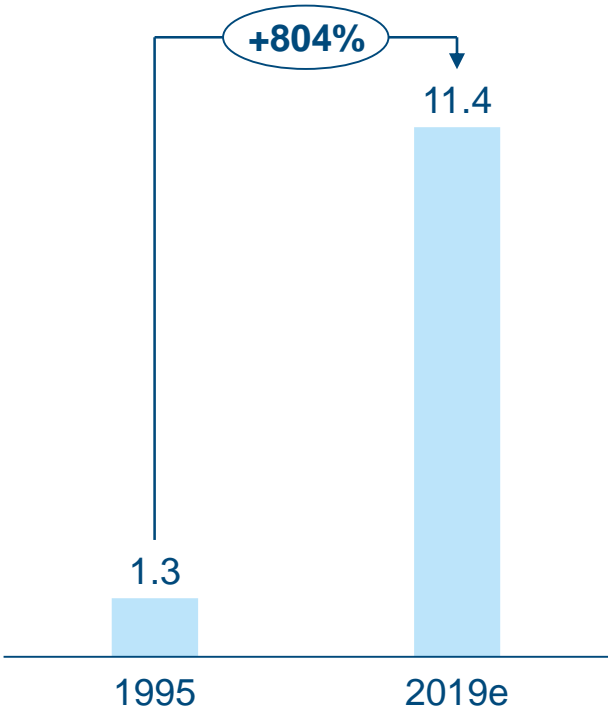
Presentation topics –

- Executive summary
- The growth story
 - Intro
 - The macro story
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- The digital story
- Conclusion

Strong economic performance – Turning GDP growth into tangible growth

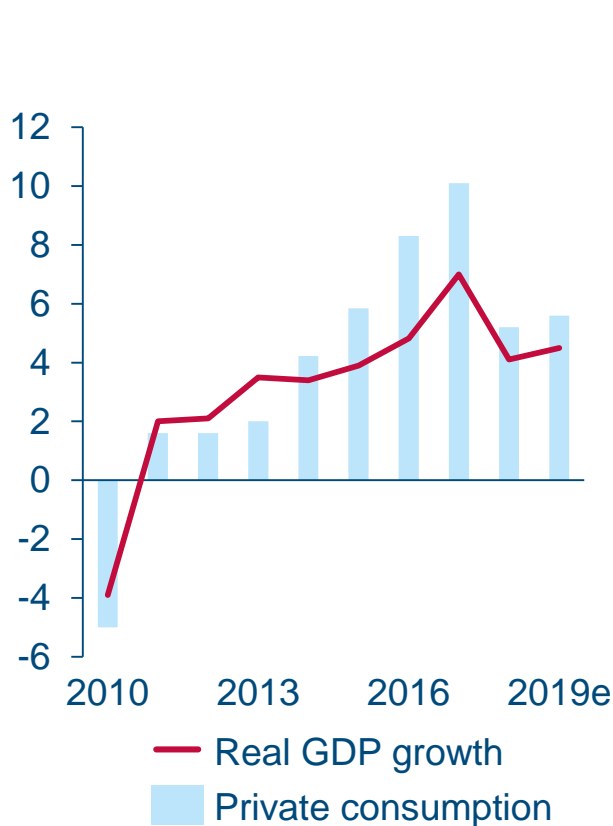
GDP/capita convergence leader

in EUR thsd



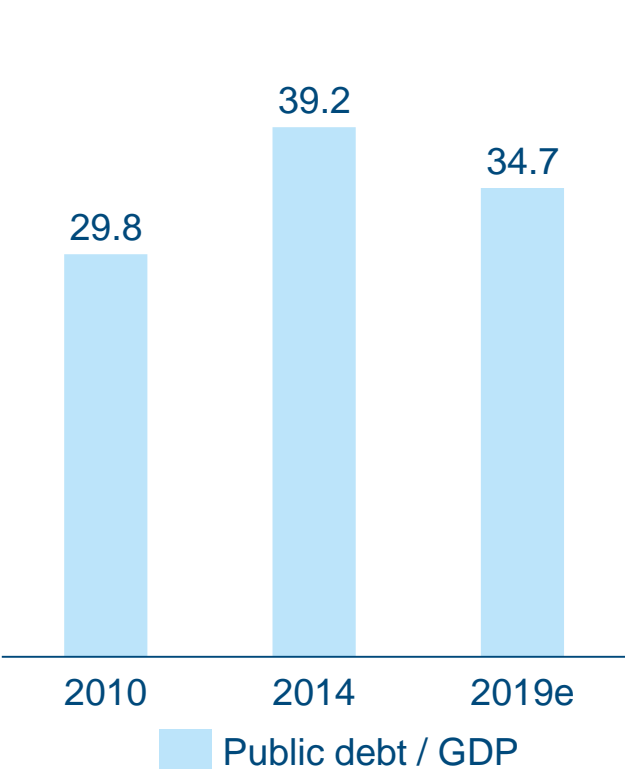
Strong private consumption

in %



Low indebtedness

in %



Source: Erste Group Research

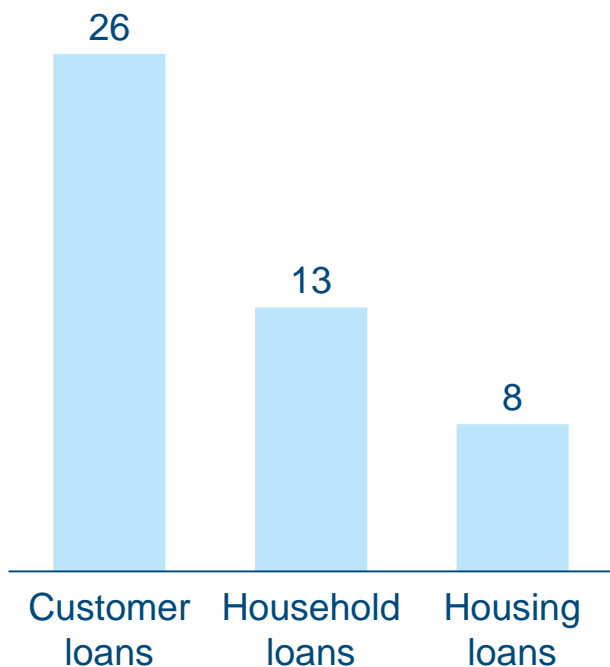
Improving business performance – BCR is in good shape to capture growth opportunities

GROWTH

Very low penetration

in % of GDP

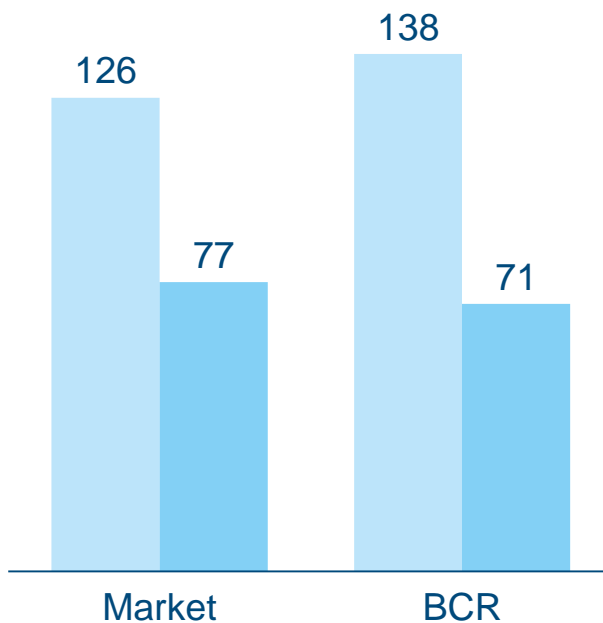
Q3 19



Sound loan/deposit ratio

in %

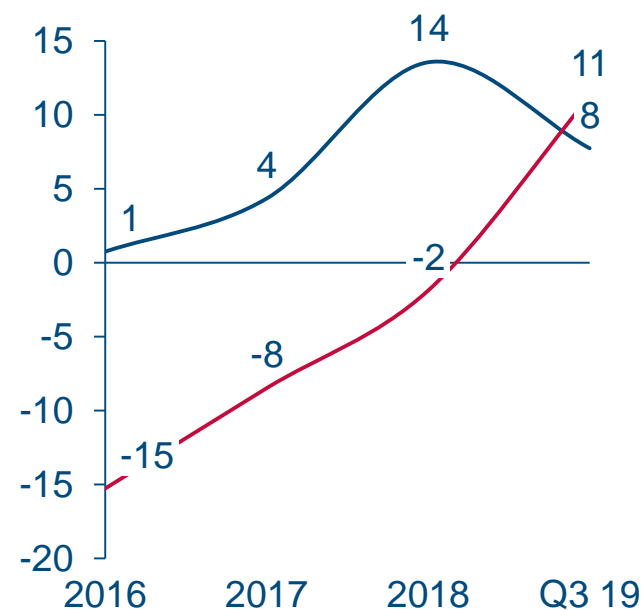
2008 Q3 19



Return of loan growth

in %

— BCR - Retail
— BCR - Corporate



Fast digital adoption – George accelerates digital transformation

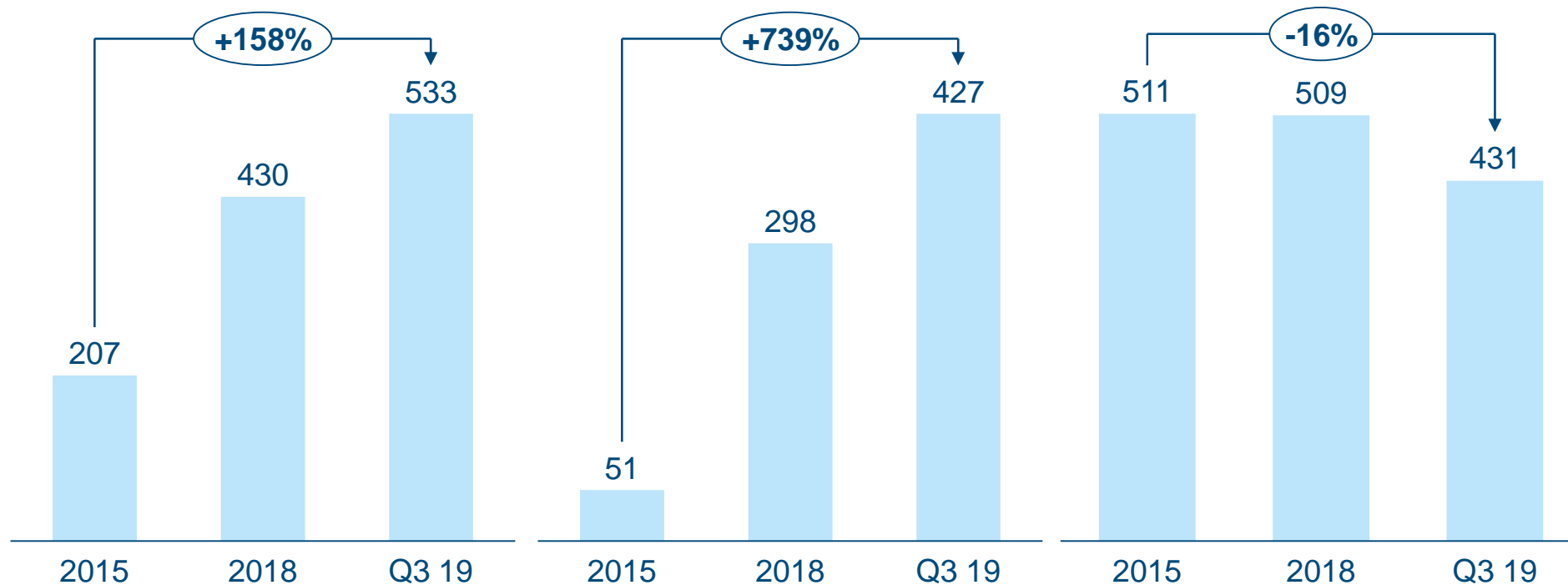
While active digital users rise &

..active mobile usage explodes,..

...branch numbers decline

in thsd

in thsd



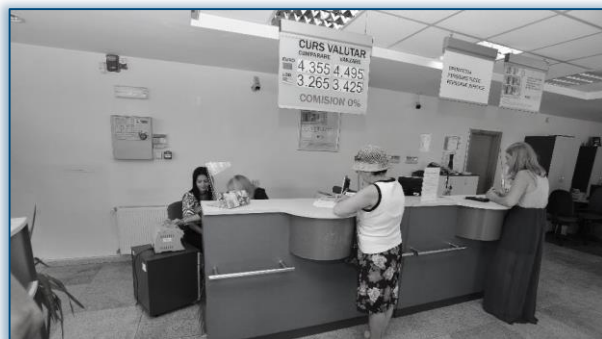
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Introduction – Romania has undergone an amazing transformation...



Introduction – ... and so has BCR



Presentation topics

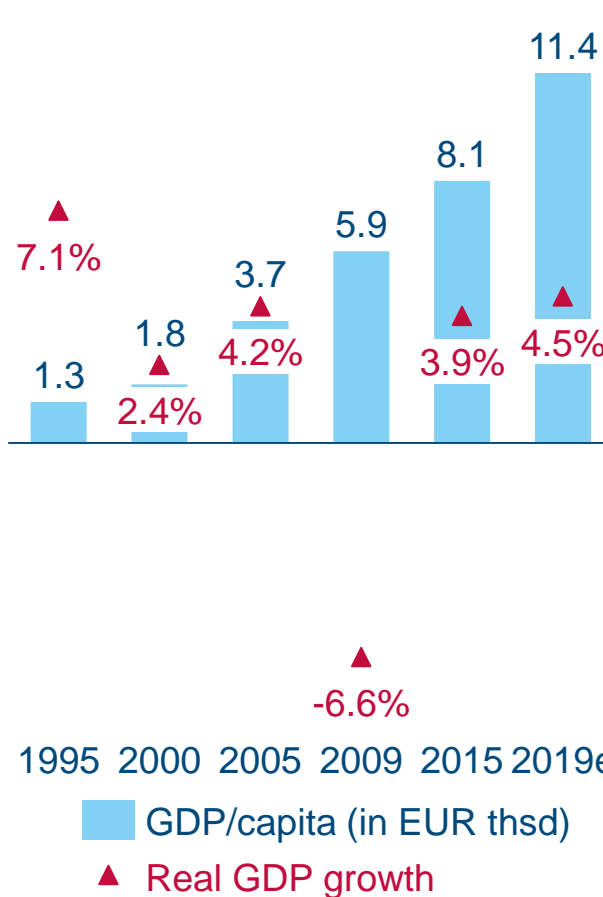
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Economic environment – Fast convergence towards EU GDP per capita

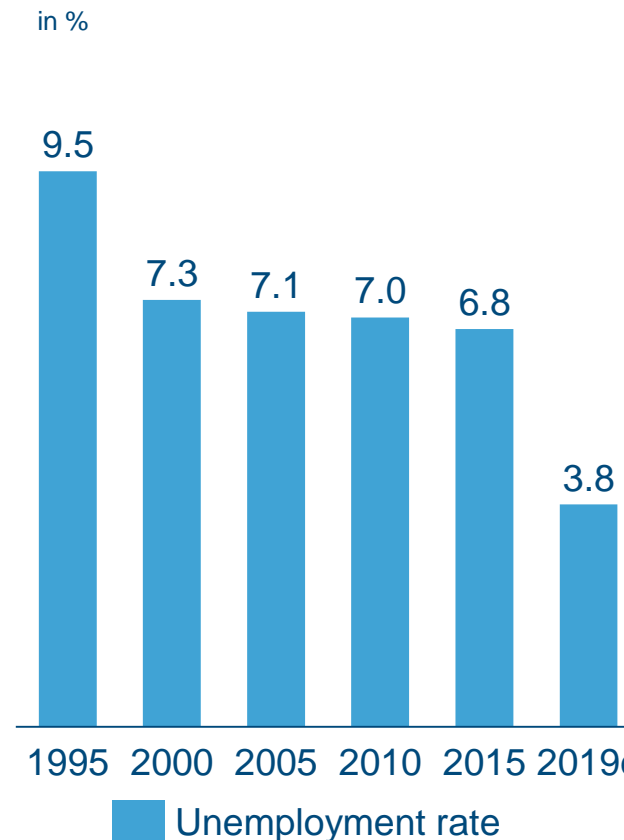
Key developments

- Romania has experienced the highest pickup in GDP/capita among EU accession countries in PPP terms
- Fast growth in the last 5 years mainly driven by private consumption; increase in wages has played an important role since 2016
- Exports have also been an important growth driver, including dynamic IT services
- Unemployment rate currently at record low, labour market shortage remain a challenge

GDP



Labour market



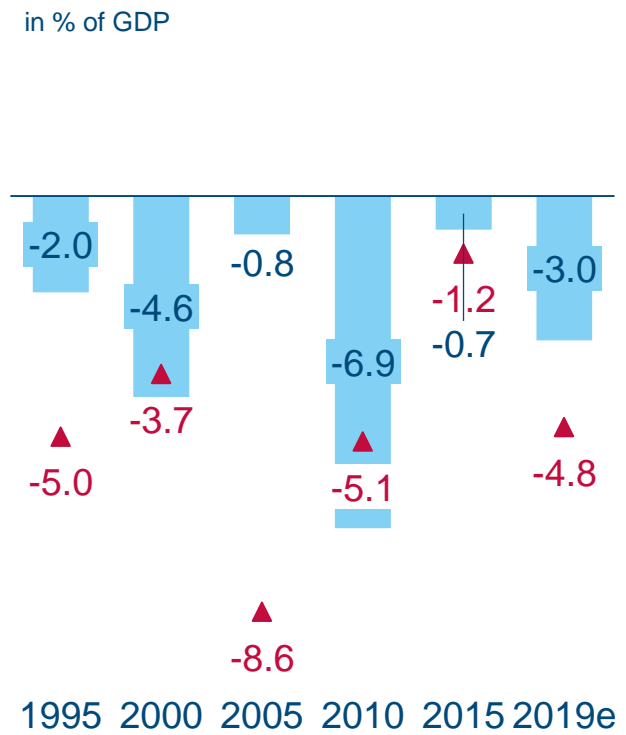
Source: Erste Group Research

Economic environment – Loose fiscal policy has led to rising twin deficits

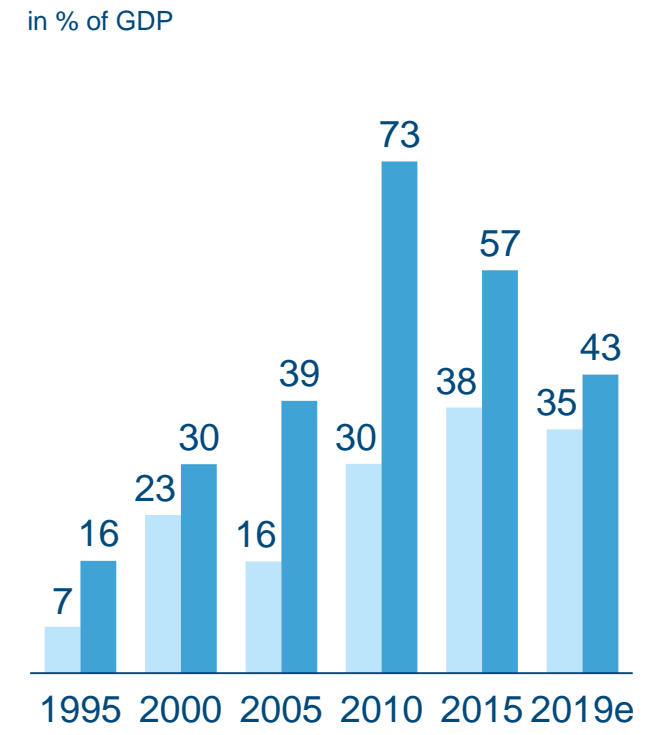
Key developments

- Current account and budget deficits widened gradually after 2015, as fiscal policy became increasingly loose
- Better tax collection and more efficient public expenditures could put public finances on a more sustainable path
- Both public and foreign debt remain at manageable levels

Economic balances



Public & external debt



- Government balance
- ▲ Current account balance
- Public debt
- External debt

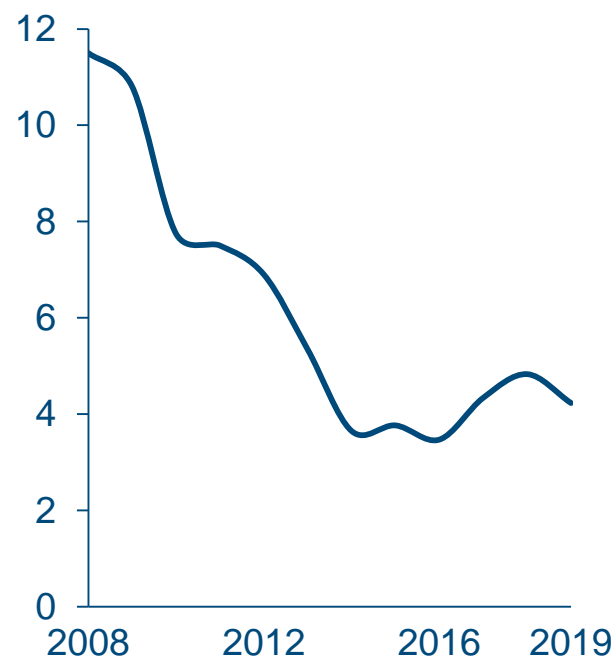
Source: Erste Group Research

Economic environment – National Bank policy turns more neutral after tightening cycle

Key developments

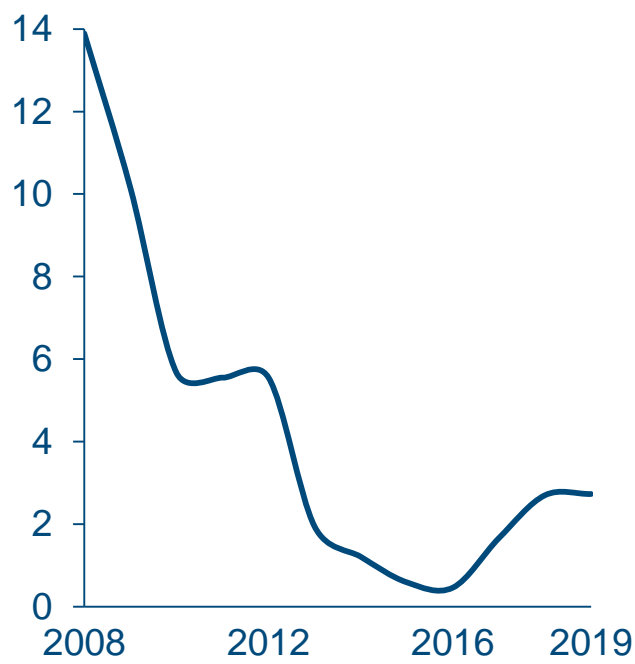
- Rising inflation in 2017-2018 led to NBR policy rate hikes; inflation stabilizing in 2019, policy rate flat
- Managed floating FX regime used as an important policy tool
 - NBR steering money market liquidity in conjunction with FX market conditions
 - If there is no pressure on FX, liquidity is strictly managed and market rates kept close to policy rate
- Foreign investors have kept their interest in RON-denominated bonds due to consistent spread versus CEE peers

Government bond yield



— 10y year-end rate

Short-term interest rate



— 3m ROBOR

Source: ThomsonReuters

Banking market –

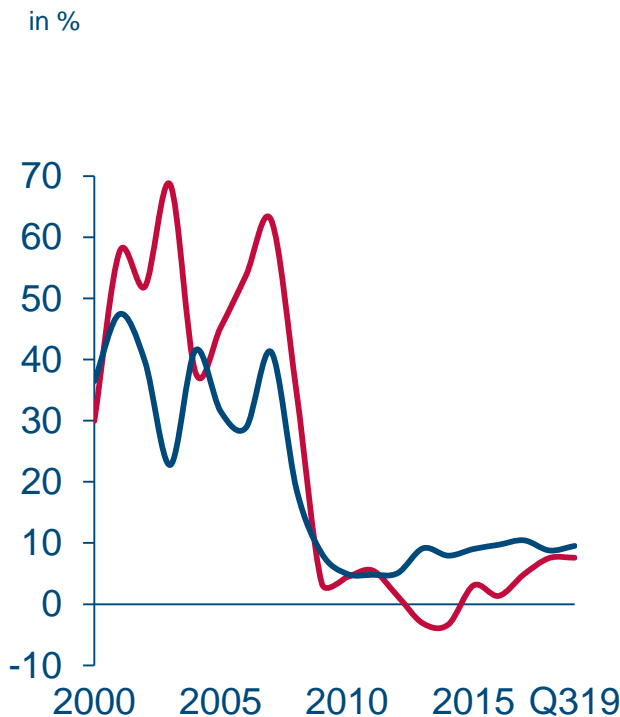
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From post-crisis restructuring to resilience and healthy growth

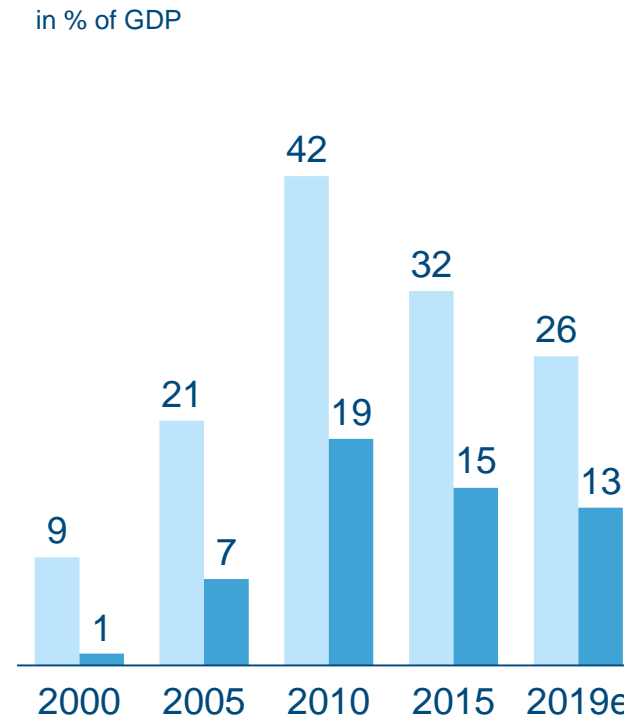
Key developments

- Non-governmental bank credit to GDP the lowest in the EU, leaving ample room for expansion
- “RON-isation” of the lending market
 - Share of RON loans currently at 66% vs. 44% in 2008
 - Beneficial effects on both financial stability and monetary policy transmission
- Banking sector comfortably funded by domestic deposits

Market growth



Penetration



— Customer loan growth

— Customer deposit growth

■ Customer loans

■ Household loans

Source: National Bank of Romania

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Customer loans – Healthy growth following years of deleveraging

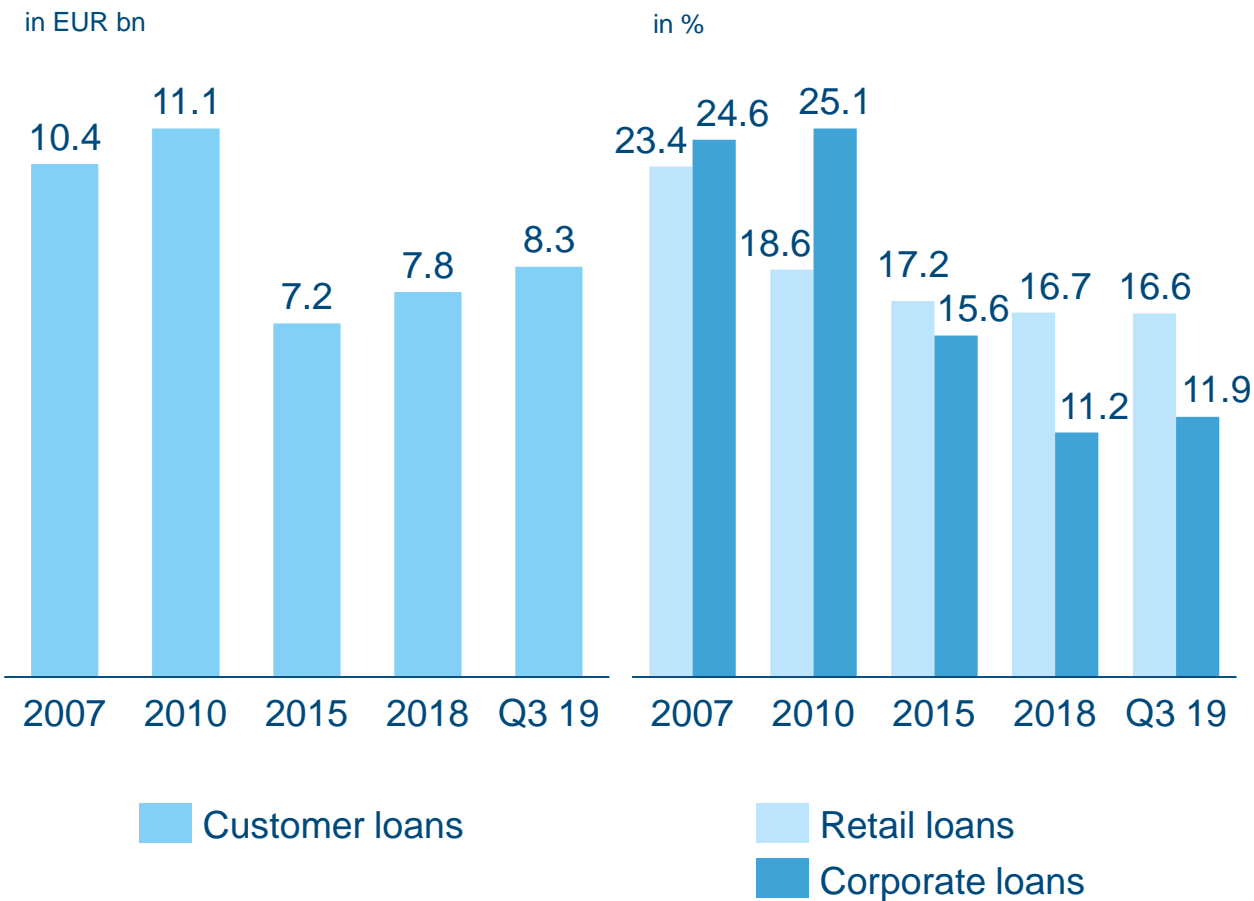
GROWTH

Key developments

Volume evolution

Market shares

- Loan growth currently driven by both retail (consumer and housing) and private sector
- BCR targets 20% market share in new production in both retail and private sector lending
- Market shares slightly growing after significant decline driven by accelerated NPL resolution in 2014-2016
- BCR is market leader in the retail lending
 - One in five mortgages in Romania granted by BCR



Customer deposits and asset management – BCR is benefitting from its strong brand recognition

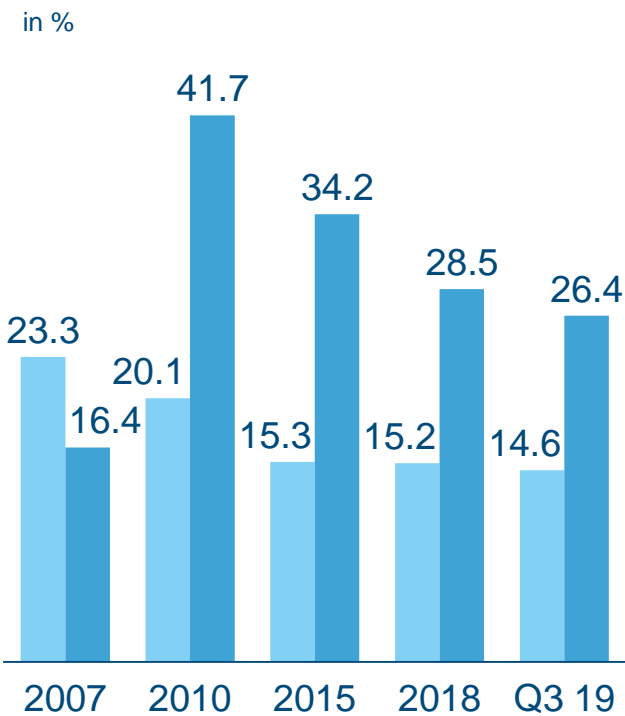
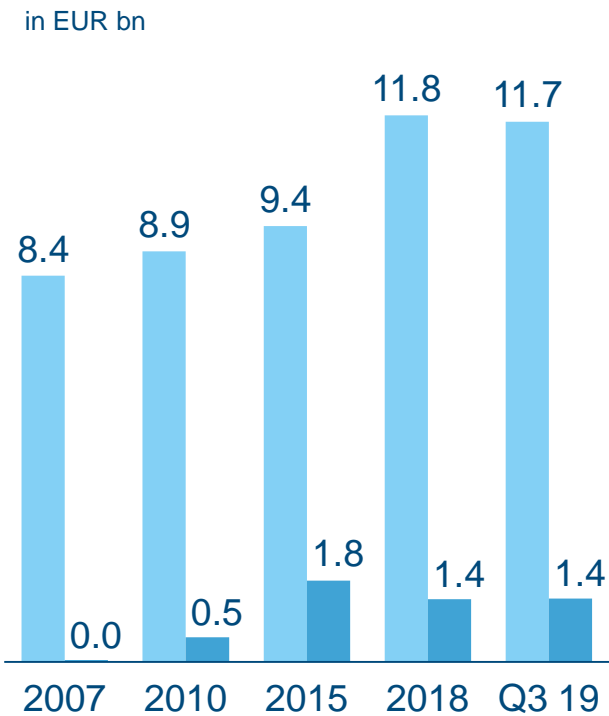
GROWTH

Key developments

Development of volume

Market shares

- Deposit market share stable since 2015 without entering in pricing competition
- High focus on transactional clients
 - Deposit growth mainly supported by continuous inflows in retail
- Share of sight deposits almost doubled over the last five years (47% as of Q3 19)
- 2nd market position in AuM



■ Customer deposits
■ Assets under management

■ Customer deposits
■ Assets under management

Net interest income and fee income – NII remains the main income driver

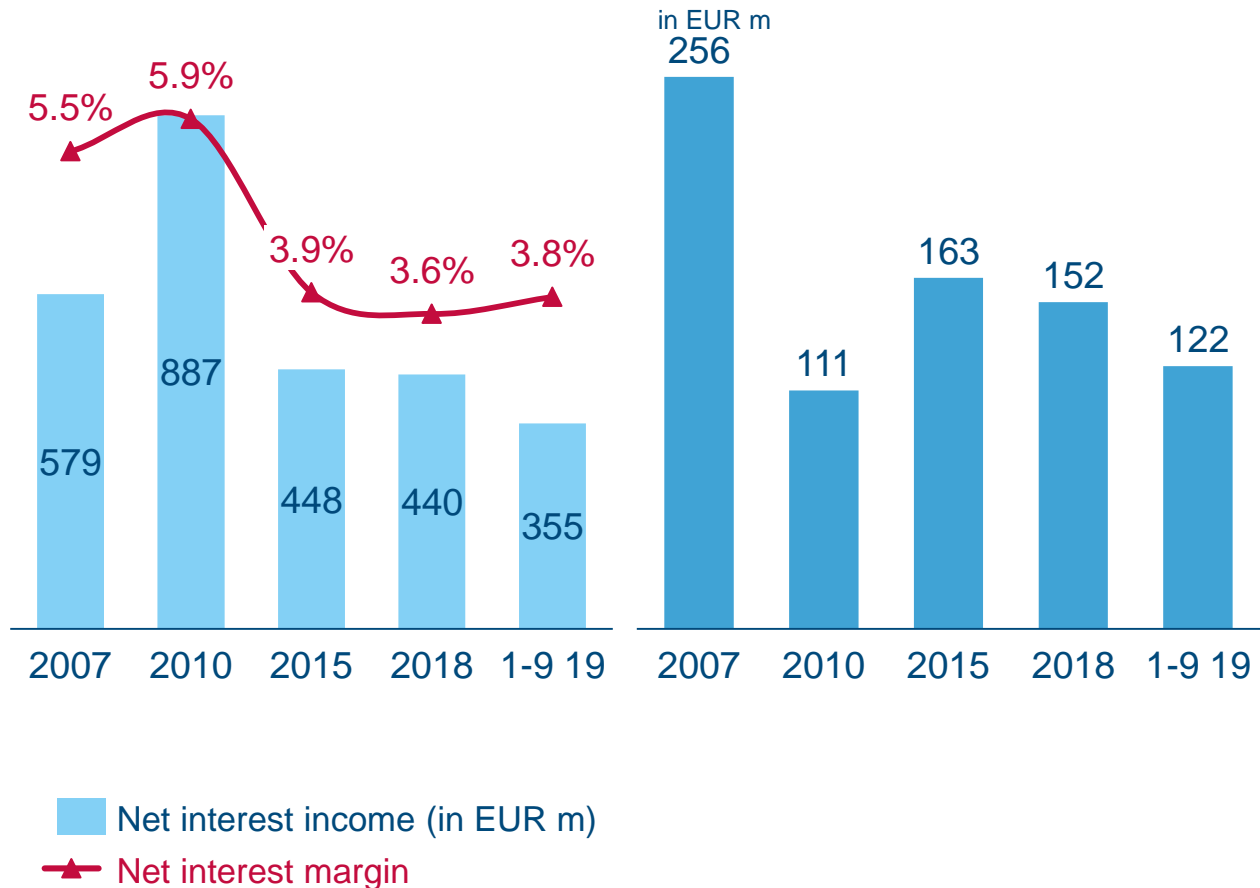
GROWTH

Key developments

NII & NIM

Net fee and commission income

- Net interest income has improved since 2017
 - Supported by increase in market interest rates and higher volumes of loans and current accounts
- NIM significantly declined from peak level
 - Due to accelerated NPL reduction and persisting low interest rates environment
- Fee and commission income under pressure
 - Due to fierce competition and highly regulated market environment



Operating result –

GROWTH

Operating performance resumed growth after 2016, CIR below 50%

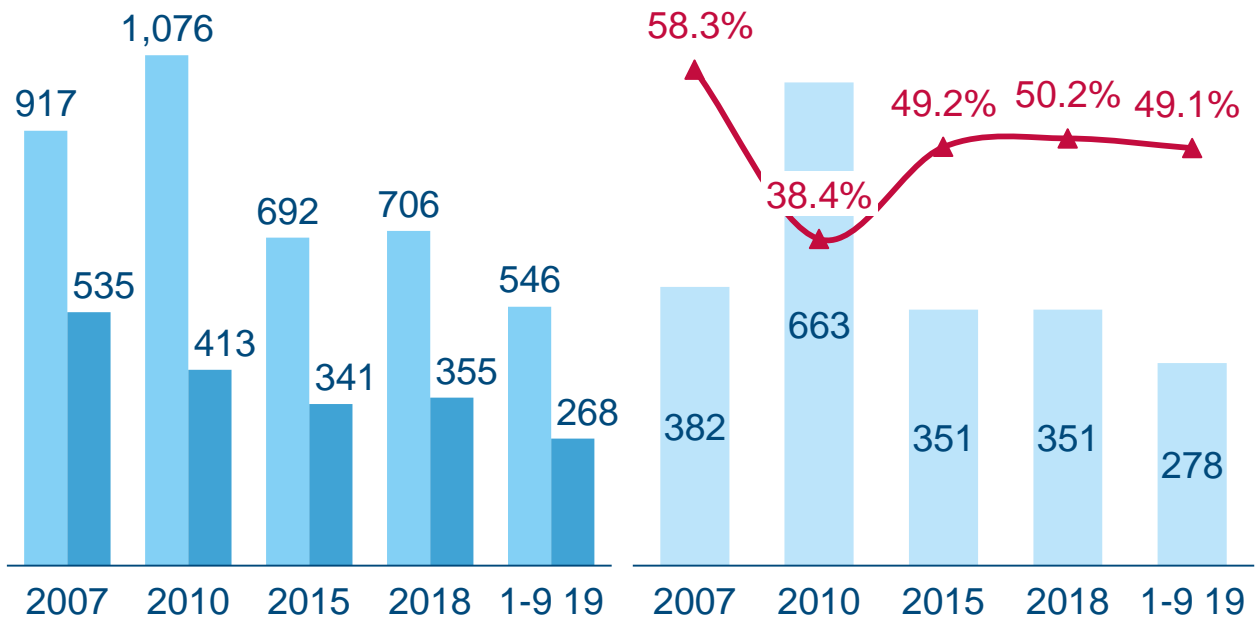
Key developments

Operating income & expenses

Operating result & CIR

- Operating income has recovered in the last couple of years mainly supported by net interest income
- Substantial cost cutting program implemented following crisis years
- Recent increase of operating expenses is due to IT investments and wage inflation
- 2019 operating performance improvement due to strong loan growth in both retail and corporate segments

in EUR m



Operating income
Operating expenses

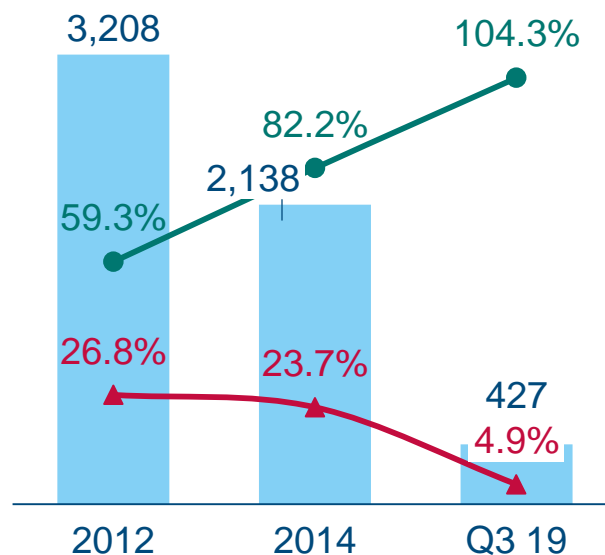
Operating result (in EUR m)
Cost/income ratio

Asset quality and risk costs – Continuous improvement in portfolio quality since 2014

Key developments

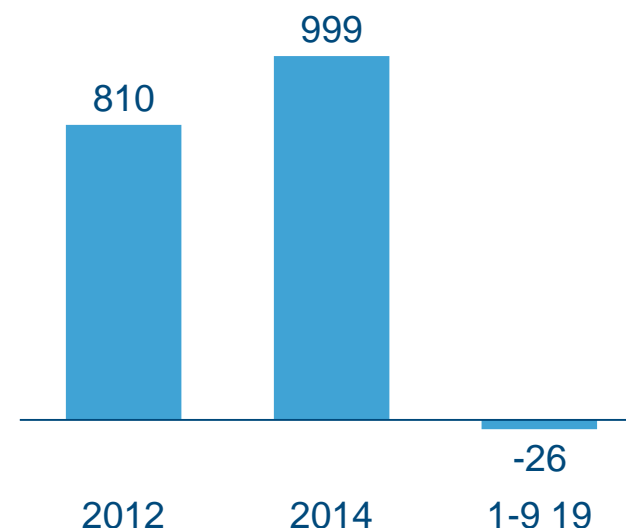
- Accelerated NPL resolution in 2014-2016 via large NPL sales, write-offs and recoveries
- Further NPL reduction in recent years achieved mainly via recoveries and healings based on internal workout capabilities
- Cautious lending policies and favourable macroeconomic developments have supported asset quality trends
- Provisioning coverage ratio increased from 59% in 2012 to 104% as of Sep 19

Asset quality*



Risk costs

in EUR m



*Asset quality based on segment reporting

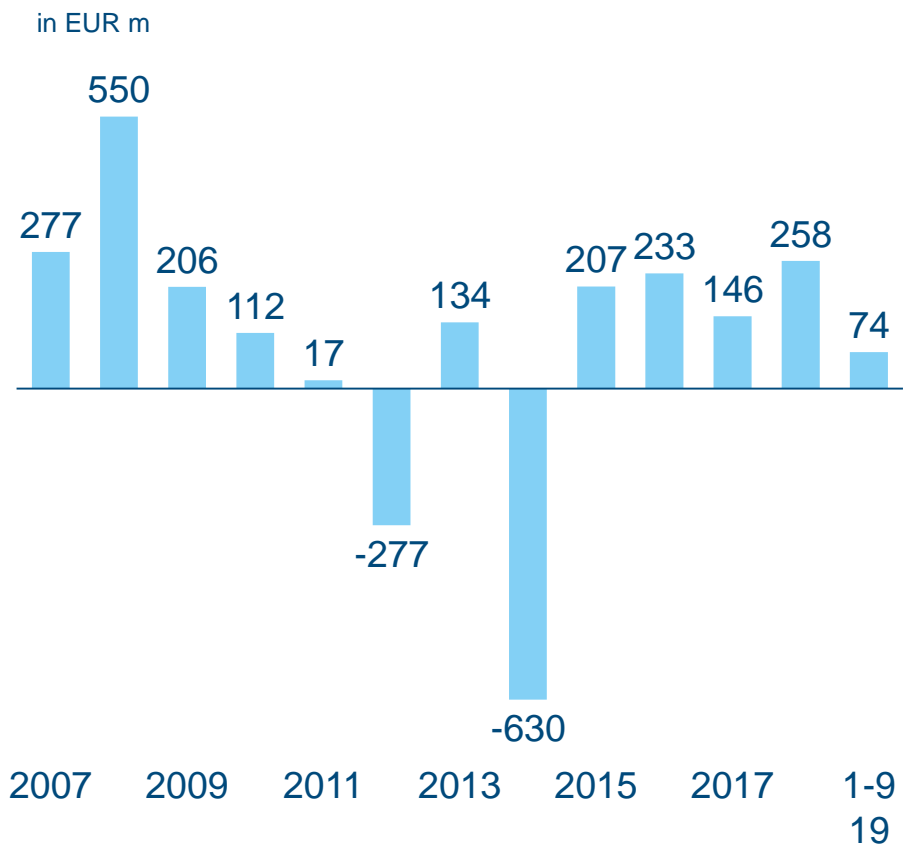
Net result –

Profitability driven by sustainable improvement in operating performance

Key developments

- 2018 net profit at the highest level since pre-crisis years
- 2019 bottom line affected by significant one-off provision related to the building society subsidiary
- Significant net loss in 2014 driven by elevated risk costs due to provision allocation for large NPL sales

Net result evolution



Presentation topics

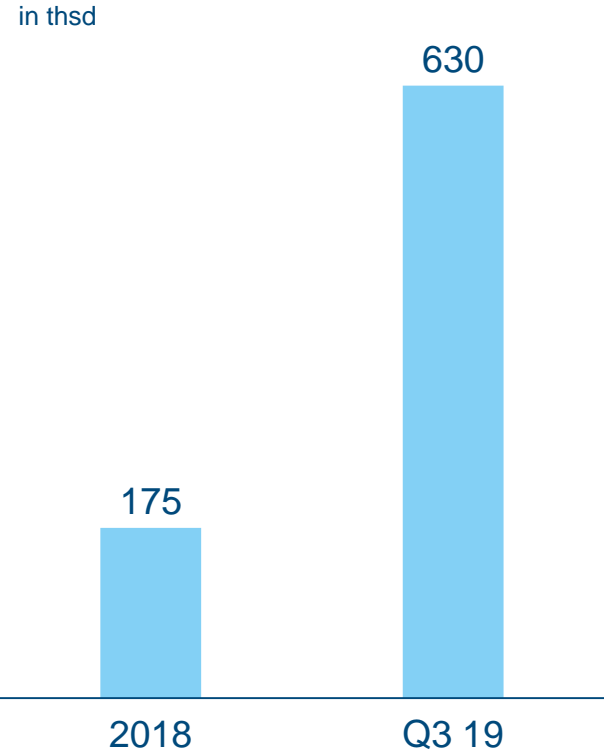
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Digital snapshot – George celebrates its first birthday in Romania

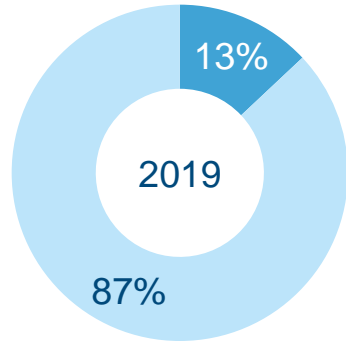
Key developments

- BCR’s value proposition: convenient and pragmatic digital banking delivery via an ecosystem built around George
- Fully digitised, remote customer on boarding through George
- George Pay and Apple Pay offered by BCR since 2019
- 40% of George users are new to internet banking and did not use old platform

Number of George users



Digital sales



■ Digital sales
■ Non-digital sales

Digital snapshot –

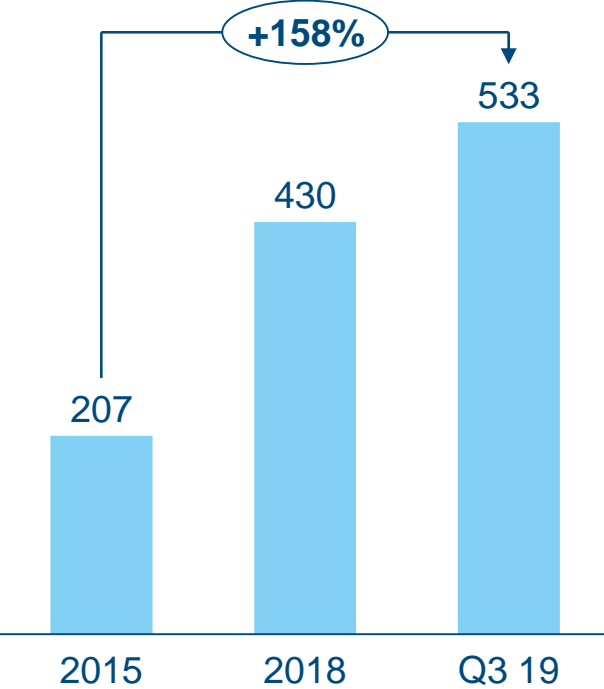
Digital era marks shift in people’s behaviour, focus on convenience

Key developments

- BCR’s ambition is to increase share of customers with tighter relationship with the bank and deepen share of wallet
- Casa Mea app launched, a shared online platform between client, real estate agent, BCR and notary public
 - More than 650 housing loans via the app in the first 5 months (one in four disbursed mortgages)
- Fully digital E2E unsecured lending, product* delivered in just 12 weeks
 - About 1,100 cash loans granted online in first month after national rollout, avg. TTC** 10mins

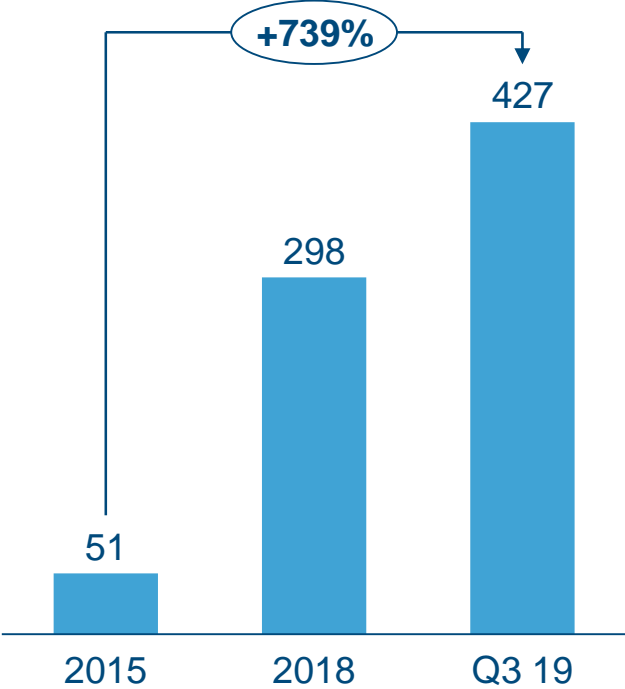
Active digital users

in thsd



Active mobile banking users

in thsd



*MVP/Minimum Viable Product. **TTC: Time To Cash

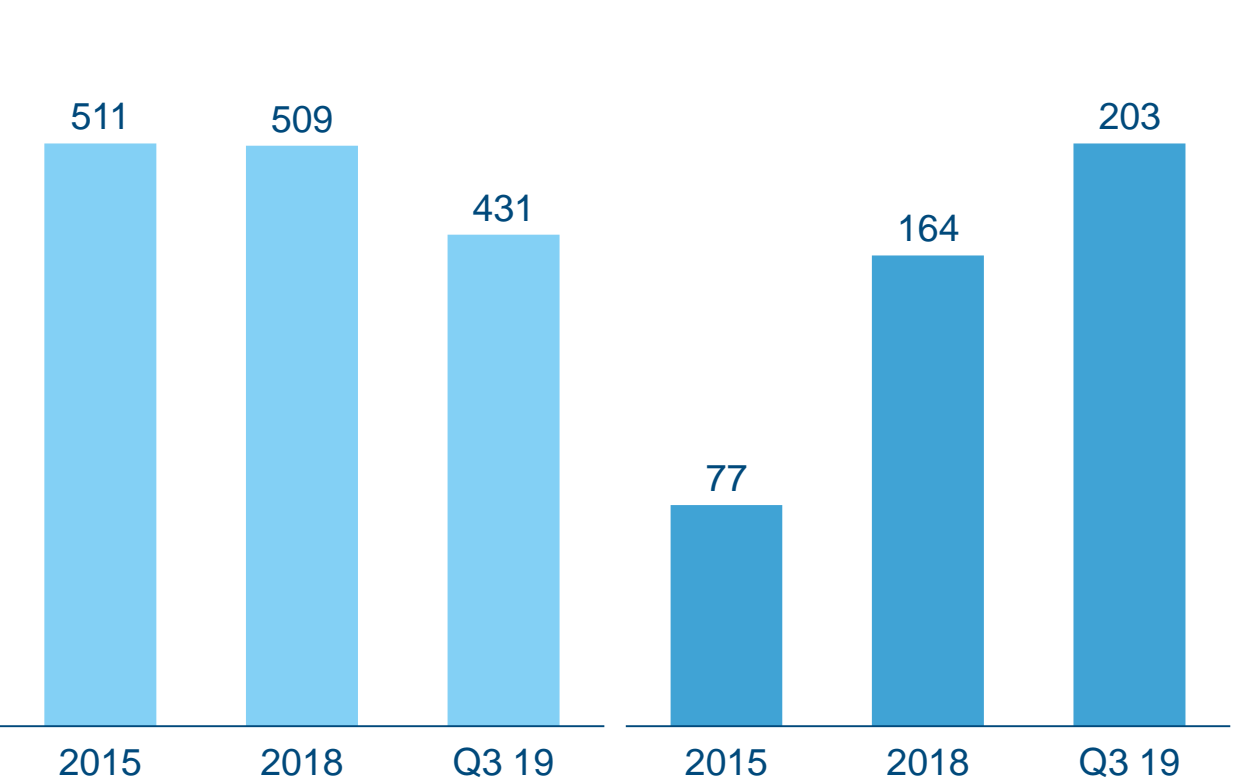
Digital snapshot – Branch network modernisation & developing self-service infrastructure

Key developments

- Branch network reshaping based on shift in client behaviour, demographic tendencies and economic potential of particular locations
- BCR branches account for 10% of the total branch footprint in Romania
- Almost 25% of BCR branches already converted to cashless
- Self-service network reflects the digital evolution, also driving optimisation of transactional business

Number of branches

of multifunctional machines



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Conclusion – Outlook Romania/BCR

Macro

- Romania is a good convergence story despite rising economic imbalances
- After years of consumption primacy, significant room for investment-driven growth

Banking market

- Restructured banking system more resilient and better poised for healthy growth
- Low penetration leaves ample room for growth

BCR

- BCR's compelling narrative: a bank about financial education & technology aiming to be the best financial group in Romania
- Emphasis on making banking digitally more accessible and educating all customers on intelligent financial planning

Digitalisation

- New digital banking capabilities improve customer journey and overall banking experience
- Active digital users expected to significantly increase