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## Operating performance improved by 19.8% in a still difficult economic environment

### I. FINANCIAL Highlights FOR THE BCR GROUP<sup>1</sup>:

#### ***Good operating performance based on continued revenue generation and improved cost control***

**Operating result increased by 19.8%** (or RON 269.9 million) on HY 2009 to **RON 1,634.0 million** (EUR 391.2 million) based on continued revenue generation and improved cost control. The improvement was mainly driven by the **operating income growth** (up by RON 183.6 million or 8.1% YOY) combined with a **decrease in operating expenses** (down by RON 86.3 million or 9.7% YOY) in the context of slight RON appreciation compared to HY 2009 (0.72% average rate appreciation against EUR in HY 2010 compared to HY 2009) and still high inflation rate. **Net profit after taxes and minority interests** amounted at **RON 488.5 million** (EUR 117.0 million) down by around 19.5% on HY 2009, mainly on much higher provision expense due the contracting economy heavily impacting the market and BCR's customers demand.

#### ***Higher efficiency and improved risk management in a very challenging economic environment***

**Cost-income ratio (CIR) improved to 32.9%** from 39.5% in HY 2009. **Return on equity (ROE)** went down to **14.3%** in line with expectations as the economic conditions remain tough. NPLs formation slowed down in HY 2010, with the improvement in the retail market balanced by an increase on the SME segment and micro-banking – the NPL coverage ratio stays comfortably at 128% (collateral and provisions). The NPL development caused **Risk costs** of RON 974.7 million, 24.5% higher on HY 2009, but declining compared to H2 2009.

#### ***Business continued to grow in a weak economy***

BCR preserved its market share supported by new business development in the corporate segment while retail lending slowed due the eligible demand constraints. The bank benefits from a strong liquidity and a sound capital base.

*“BCR continued to demonstrate its ability to adapt to difficult market conditions. Its likely those conditions will continue to prevail in the second semester of 2010. BCR is well prepared for this and will continue to assist its customers through these difficult times.”* stated **Dominic Bruynseels, BCR CEO.**

### II. BUSINESS PERFORMANCE OVERVIEW FOR THE BCR GROUP

In HY 2010 BCR Group's **operating profit** increased by 19.8% from RON 1,364.1 million (EUR 324.2 million) to **RON 1,634.0 million** (EUR 391.2 million), as a result of a good operating income growth combined with efficient cost control.

The **operating income** went up by **8.1%** from RON 2,253.2 million (EUR 535.5 million) to **RON 2,436.8 million** (EUR 583.4 million) driven by BCR Group's increase in **net interest income** (up by 9.7% or RON 167.9 million) to **RON 1,905.5 million** (EUR 456.2 million) albeit pressured by decreasing interest rates and lower lending volumes compared to HY 2009.

<sup>1</sup> All the below stated financial data are un-audited, consolidated business results of Banca Comercială Română (BCR) Group as of 30 June 2010 according to IFRS. Unless otherwise stated, for the income statement the HY 2010 figures are compared to the HY 2009 figures, while the figures in the balance sheet at 30 June 2010 are compared to the figures at 31 December 2009. Also, if not stated otherwise, foreign exchange rates used for conversion of figures into EURO are the ones provided by the European Central Bank. The income statement is converted using the average exchange rate for HY 2010 of 4.1770 RON/EUR (HY 2009: 4.2073 RON/EUR). The balance sheet is converted using the closing exchange rate as at 30 June 2010: 4.3700 RON/EUR (31 December 2009: 4.2363 RON/EUR). All the percentage changes refer to RON figures.

The **net fee and commission income** is fairly steady, with only a small decrease by 2.9% YOY, reflecting still low consumer expenditure coincident with BCR's strategy aiming to encourage clients to move to more convenient and cheaper non-cash transactions.

A positive contribution to the operating result came from the **net trading result** significant increase of 12.6% YOY, from RON 198.5 million to **RON 223.5 million**, supported by favorable exchange rates.

**Operating expenses** dropped by 9.7% from RON 889.1 million (EUR 211.3 million) to **RON 802.8 million** (EUR 192.2 million), as a result of an improved cost management due to implementing dedicated efficiency programs and actions in the context of a still high inflation rate impacting administrative expenses. BCR continued to invest in "good costs" adding value to the customers such as retail branch network expansion (+16 new branches YOY), alternative distribution channels and cards business development as well as in IT development.

**Pre Tax profit** decreased by 19.7% to **RON 585.1 million** (EUR 140.1 million) on mainly higher provision expense which is due the contracting economy heavily impacting BCR's customers. The **consolidated net profit after taxes and minority interests** amounted to **RON 488.5 million** (EUR 117.0 million), 19.5% down on HY 2009.

### **Risk costs**

BCR adjusted risk provisioning appropriately to the still difficult economic environment.

NPL formation has slowed down in HY 2010 on lower interest rates, stabilizing local currency and on reduced unsecured retail lending provisions. The net charge with **risk provisions for loans and advances** totalled RON 974.7 million (EUR 233.4 million) in line with expectations as SME especially experienced cash-flow and liquidity constraints. This net charge amount is showing a positive development of risk costs, as it declined compared to H2 2009, even though it is higher on HY 2009.

The loan portfolio developed relatively well, given the circumstances – NPLs remain manageable, weighting 14.7% of the customer loan portfolio (drawn loans to customers) from 13.1% at YE 2009. BCR Group is enjoying a comfortable NPL coverage ratio of approx. 128% (collateral and provisions).

BCR continued to focus on finding sustainable solutions for re-organizing and restructuring overdue loans thus proactively supporting its customers in both the Retail and Corporate segments to cope with the difficult market conditions. The bank is striving to timely know its customers' needs in order to help them in adjusting their funding strategies and budget administration so to prevent defaults as much as possible. At the same time BCR has a prudent approach in lending adapted to the current operating climate.

**Solvency ratios** remain comfortably above the required levels. Tier 1+2 capital ratio as of HY 2010: approx. **12.45%** RAS ratio (preliminary figure) against min 10.00% according to the current requirements of the National Bank of Romania and approx. 15.81% IFRS consolidated (YE 2009). Solvency ratio considerably improved in HY 2010 clearly showing the BCR's strength and the continuing support of its parent bank Erste Group.

### **III. BUSINESS ACTIVITIES BRIEF (bank only – unconsolidated, IFRS)**

HY 2010 results prove the viability of BCR's business and operational models with an universal appeal and its capacity to develop a sound and sustainable business even in a troubled economic environment.

**Total assets** of the bank remained relatively stable – there was just a slight increase from RON 64,526.9 million (EUR 15,231.9 million) as at 31 December 2009 to **RON 65,572.9 million** (EUR 15,005.2 million) due to an improved performance in Q2.

HY 2010 saw an overall loan portfolio evolution in line with expectations. The volume of aggregate loans to customers portfolio (before provisions, IFRS) slightly went up by 2.5% YOY to RON 47,689.5 million (EUR 10,912.9 million) from RON 46,514.1 million (EUR 10,979.9 million) at HY 2009 and maintains well balanced by customer segment and industry. The main driver of the growth in lending was the corporate sector.

BCR consolidated its market position in lending to around 22% market share in line with its business and risk strategy.

**Corporate lending** increased by around 7% YOY supported by working capital needs of the companies and by financing demand of local administration, BCR maintaining its dominant position on municipalities financing segment (over 75% market share as of HY 2010).

**Retail loan** portfolio (including micro businesses) slightly increased by around 0.4% YOY matching the people's income status and the market trends. The positive impetus provided to mortgage lending by the Prima Casa scheme has been counterbalanced by the sharp decline in consumer lending. The positive impact of "Prima Casa" program is expected to continue, as BCR is the most active bank in the program - BCR granted Prima Casa loans totaling over **EUR 377.4** million of which **EUR 222.4** million drawn in 2010 - benefiting from good liquidity, excellent distribution capacity and attractive cost offer.

The share of loans in domestic currency in BCR's portfolio - of around 41.5% of total loans –went down YOY on the poorer demand for unsecured loans (mostly RON denominated). FX loan portfolio is EUR (56 % of the total portfolio) and USD (2.6 %) denominated.

Corporate Loan portfolio is weighting 52.5% in the total customer loans while Retail Loans (including micro businesses) is 47.5%. Around 69% of the total loan portfolio is in secured products and 31% in unsecured.

**Deposits from customers** remained relatively stable YOY with a very slight decrease of 0.7% to **RON 35,578.3 million** (EUR 8,141.5 million) from RON 35,824.9 million (EUR 8,456.6 million) as at HY 2009, mainly due contracting retail resources but at the group level the decrease is offset by selling other retail products like BpL's saving-lending ones, investment products, pension schemes. The bank maintains its No 1 position in the market on primary deposits. Customer deposits are the main BCR funding source and the bank is also enjoying a strong support from the parent bank. In the same time BCR focuses on diversifying and lengthening its funding base (i.e. via its MTN program and a smart pricing policy encouraging long term savings).

BCR continued to extend its **branch network** in HY 2010 concurrently developing **the alternative distribution channels** based on a strategy meant to encourage customers to move to more convenient and cheaper non-cash transactions. BCR opened 7 new branches in HY 2010 in selected locations, reaching to a retail network of **668** outlets as HY 2010 (+16 new retail branches YOY). BCR also successfully enhanced its Internet and Phone Banking functionalities, continued to develop the cards business and extended the range of services at ATMs as well. There is a constant migration of transactions to online banking (over **1.92 million** transactions in HY 2010, up **239%** on HY 2009) on continuously upgraded BCR offer and a high growth of alternative channels users (**+29%** YOY). BCR consolidated its leading position in Internet banking, being awarded for highest number of customers enrolled in 2009.

BCR also continued to expand its **ATM** network up to 2225 units by adding 82 new machines in HY 2010 (10% YOY increase) while improving ATMs availability and its **POS** network to 17331 units operational at the merchants (3% YOY increase).

BCR is consolidating its leading position on the debit and credit card market - BCR was awarded "Bank of the Year 2009" in the Romanian cards industry - in both number and volume of transactions with a

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permanent focus on innovation of products and services. **The transactions with BCR cards** made on POS for merchant sales went up by 26.79% in number and by 18.8% in volume while cash transactions with BCR cards on ATMs decreased by 7.64% in number and by 3.34% in volume as a result of BCR's special campaigns promoting electronic payments. In the same time, **BCR's POS and ATM network** also saw an excellent increase of cards transactions (irrespective of the card issuer) – transactions on POS rose by 182.22% in number and by 132.05% in volume while on BCR's ATMs the total number of cash transactions decreased by 3.54% whilst the volumes slightly went up by 1.74%.

#### IV. Exchange rate development (the official exchange rates of the European Central Bank)

	Rate at the end of the period			Average rate		
	30 Jun-10	31 Dec-09	% change	HY 2010	HY 2009	% change
RON/EUR	4.3700	4.2363	3.16%	4.1770	4.2073	-0.72

Positive change = devaluation against EUR, negative change = appreciation against EUR

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Appendix

**I. BCR GROUP CONSOLIDATED INCOME STATEMENT FOR THE QUARTER ENDED 30 JUNE 2010 (IFRS, unaudited)**

*- amounts in RON million*

	<b>HY 2010</b>	<b>HY 2009</b>	<b>% change</b>
Interest and similar income	3,531.6	4,611.7	-23.4%
Interest and similar expenses	(1,626.1)	(2,874.1)	-43.4%
<b>Net interest income</b>	<b>1,905.5</b>	<b>1,737.6</b>	<b>9.7%</b>
- Risk provisions for loans and advances	(974.7)	(783.1)	24.5%
Fee and commission income	439.3	439.4	0.0%
Fee and commission expenses	(131.5)	(122.3)	7.5%
<b>Net commission income</b>	<b>307.8</b>	<b>317.1</b>	<b>-2.9%</b>
Net trading result	223.5	198.5	12.6%
Personnel expenses	(397.1)	(504.3)	-21.3%
Other administrative expenses	(313.9)	(299.8)	4.7%
Depreciation on fixed assets	(91.8)	(85.0)	8.1%
Other operating results	(101.4)	(20.3)	>100,0
Result from financial assets - at fair value through profit or loss	(2.0)	26.1	<-100,0
Result from financial assets - available for sale	29.3	141.7	-79.3%
<b>Pre-tax profit</b>	<b>585.1</b>	<b>728.6</b>	<b>-19.7%</b>
Taxes on income	(96.6)	(121.7)	-20.6%
<b>Net Profit Before Minority Interests</b>	<b>488.5</b>	<b>606.8</b>	<b>-19.5%</b>
Minority Interests	0.0	0.0	0.0%
<b>Net profit after minority interests</b>	<b>488.5</b>	<b>606.8</b>	<b>-19.5%</b>

**II. BCR GROUP CONSOLIDATED BALANCE SHEET AT 30 JUNE 2010 (IFRS, unaudited)**

*- amounts in RON million*

	30-June-10	31-Dec-09	% change
<b>ASSETS</b>			
Cash and balances with central banks	9,091.3	9,896.5	-8.1%
Loans and advances to credit institutions	1,744.6	1,893.0	-7.8%
Loans and advances to customers	52,293.0	51,160.3	2.2%
Risk provisions for loans and advances	(4,516.1)	(3,777.4)	19.6%
Trading assets	44.5	401.4	-88.9%
Financial assets - at fair value through profit or loss	47.2	165.5	-71.5%
Financial assets - available for sale	3,681.8	3,063.2	20.2%
Financial assets - held to maturity	3,776.6	2,388.9	58.1%
Intangible fixed assets	412.2	389.2	5.9%
Tangible fixed assets	1,680.4	1,726.6	-2.7%
Tax assets	210.6	206.3	-0.2%
Other assets	2,219.3	1,823.7	21.7%
Assets Held For Sale	87.9	65.5	34.3%
<b>Total assets</b>	<b>70,773.3</b>	<b>69,402.8</b>	2.0%
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Amounts owed to credit institutions	20,831.0	21,123.5	-1.4%
Amounts owed to customers	35,933.1	35,628.1	0.9%
Debts evidenced by certificates	724.5	534.7	35.5%
Trading liabilities	2,191.5	1,756.8	24.7%
Other provisions	232.1	188.6	23.1%
Tax liabilities	406.7	364.8	10.1%
Other liabilities	1,366.1	1,298.8	5.2%
Subordinated Liabilities	1,949.5	1,906.1	2.3%
<b>Total equity</b>	<b>7,138.8</b>	<b>6,601.4</b>	8.1%
<i>Parent shareholders' equity</i>	7,112.1	6,574.6	8.2%
<i>Minority interests</i>	26.7	26.8	-0.1%
<b>Total liabilities and equity</b>	<b>70,773.3</b>	<b>69,402.8</b>	2.0%