

BCR quarterly net profit up by 7.8% in a very slowly improving economic environment

I. HIGHLIGHTS FOR THE BCR GROUP¹:

BCR continued to improve quarterly results while the economic environment remains difficult Quarterly operating performance improved by 5.5% on Q1 2011 to **RON 642.3 million (EUR 154.4 million)**, in a continuing difficult economic environment. The operating result has continuously improved qoq in the last three quarters but is still below the result in Q2 2010 as a result of market conditions: reduced interest rates, continuing low eligible loan demand and the impact of the new law on credit contracts for consumers (former OUG 50). **Operating expenses** decreased by 5.6% on Q1 2011 being positively managed in a still inflationary context. The quarterly **Net profit** attributable to owners amounted to **RON 82.0 million (EUR 19.7 million)** up by 7.8% on Q1 2011 continuing the upward trend registered in this year after the severe decline in H2 2010 in an adverse economic context.

Efficiency and risk are positively managed

Cost-income ratio remains good at 40.9% in H1 2011 although impacted by more limited income generation.

NPL formation continued to slowdown in Q2 2011 compared to Q1 2010, but remains relatively high and is not expected to significantly decrease on the short run. NPL remain at a manageable level, with the coverage ratio comfortably at **126.4%** (collateral and provisions). The slowdown in NPL formation is confirmed by the drop of quarterly **Risk costs** by RON 29.8 million on Q2 2010.

BCR continues to develop the business despite a still weak economy

BCR (bank only) increased its assets by around **5.6%** on Q1 to almost **RON 72.4 billion**, the highest result ever in the bank record. Consecutively, BCR's market share by assets went up to 20.7% (+0.9pp YTD) on a continuing growth trend. Bank's market share in lending stayed at around **20%** as of end-June 2011 due to a good performance in corporate lending and a consolidation in EUR housing loans market at 28% market share. On retail deposits BCR strengthened its market share (+0.3pp YTD) at 23.3% of personal individual deposits in Romania, based on competitive pricing and flexible offers for our most loyal customers and the strength of the BCR brand – the most trusted banking brand in Romania. The retail business is self-funding, retail loan to deposits (LTD) ratio standing at around 72.4%, according to local standards. The bank has strong liquidity and a sound capital base well above regulatory minima.

“The domestic and international economic environment remains tough impacting our clients and therefore BCR. Credit demand remains low as the economic recovery is gradual”, stated Dominic Bruynseels, BCR CEO. *“Against this background BCR’s operating performance continued to improve in the second quarter as we did since September last year. This demonstrates we are capable to do and adapt our business to the current market conditions, while working more efficiently and effectively. We continue to stay close to our customers all the time looking to help them achieve their objectives and do our best to speed up Romania’s economic recovery”* Mr. Bruynseels added.

¹ All the below stated financial data are un-audited, consolidated business results of Banca Comercială Română (BCR) Group for Q2 2011 and H1 2011 according to IFRS. Unless otherwise stated, H1 2011 figures are compared to the figures for H1 2010. 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 H1 2011 of 4.1855 RON/EUR when referring to H1 2011 and using the average exchange rate for H1 2010 of 4.1770 RON/EUR when referring to H1 2010. The balance sheets at 31 December 2010 and at 30 June 2011 are converted using the closing exchange rates at the respective dates (4.2435 RON/EUR at H1 2011 and 4.2620 RON/EUR at 31 December 2010 respectively). All the percentage changes refer to RON figures.

II. FINANCIAL PERFORMANCE OVERVIEW FOR BCR GROUP

BCR Group's quarterly **operating profit** continued to increase in Q2 2011 following the decline registered in H2 2010 – Q2 result is up by 5.5% on Q1 2011 to **RON 642.3 million (EUR 154.4 million)** - as a result of the operating income marginal growth combined with a drop in operating expenses. For H1 2011 the operating result stands at RON 1,251.0 million (EUR 298.9 million) down from RON 1,634.0 million (EUR 391.2 million) in H12010 mainly on lower operating income.

The **net operating income** is picking up slightly in quarterly terms (+0.8% in Q2 on Q1 2011) to **RON 1,063.1 million (EUR 255.6 million)** in Q2 2011. This improvement is a result of the growth in net trading which offset the decline in net interest and fee income caused by the decrease in interest rates and its knock on effect on **interest income** (down by 9.4% qoq) which was also pressured by the low eligible demand for loans. The operating income for H1 2011 stands at RON 2,117.9 million (EUR 506.0 million) down by 13% compared to RON 2,436.8 million (EUR 583.4 million) in H1 2010 in the context of a continuous decline of the net interest margin (down by around 20% in 2011 on H1 2010), still low eligible demand and increasing competition for quality business.

The implementation in 2011 of the law on credit contracts for consumers (former OUG 50/2010) also reshaped business flows and cut banks' **fee income** for both new and existing loans compared to H1 2010.

The Q2 2011 the **net trading result** increased by more than three folds qoq up to RON 136.8 million (EUR 32.8 million) driven primarily by foreign exchange trading but the H1 2011 result is lower than the previous year as the record number in Q2 2010 returned to more normalized levels. BCR is the leading player in the Romanian market of TBills and bonds.

Operating expenses went down by 5.6% qoq to RON 420.9 million (EUR 101.2 million) from RON 446.0 million (EUR 105.9 million) in Q1 2011, the lowest number in the last four quarters. However the H1 2011 operating expenses are higher by 8% than in H1 2010 as BCR continued the investments in "good costs" supporting business development, especially in internet and cards channels and in IT infrastructure as well as in modernizing its branch network premises - all of these result in a higher running costs and depreciation charge. There is also an additional increase in costs due to VAT increase to 24% from 19% in H1 2010.

The quarterly net charge with **risk provisions for loans and advances** totalled RON 488.5 million (EUR 117.4 million) up by just 6.8% qoq but decreased by 5.75% on the Q2 2010 proving a slowdown in NPL formation. So, the risk costs in H1 2011 decreased by almost 3% on H1 2010 developing in line with expectations as the Romanian companies and individuals are still confronted with adverse market conditions. Corporate segment was the main contributor to new NPL volumes in H1 2011 as SMEs remained most pressured given still high liquidity constraints. Gradual recovery is expected once economic growth resume.

The loan portfolio developed satisfactorily in H1 2011, given the circumstances – NPL remain manageable, weighting **17.9%** of the total loan portfolio. BCR Group is enjoying a comfortable NPL coverage ratio of **126.4%** (collateral and provisions). The new loans granted in the last two years have a very low rate of default as BCR maintains its prudent approach in lending adapted to the current environment while offering solutions for helping its customers to achieve their aspirations and go through the difficult times.

In the same time BCR continues to focus on the active risk management which mainly means rescheduling and restructuring loans for customers in difficulty, improved collection and improving approval and monitoring processes.

The **consolidated net profit after taxes and minority interests** continued to grow qoq following the severe decline in H2 2010 – the result in Q2 2011 is RON 82.0 million (EUR 19.7 million), up by 7.8% on the previous quarter. In the given context, the net profit for the first half 2011 is amounting to RON 158.2 million (EUR 37.8 million), which is about one third of the H1 2010 result mainly on lower net

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operating income and still high provisioning. ROE stands at 4.4% as of end-June 2011 (+0.1pp on Q1 2011).

Solvency ratios remain comfortably above the required levels. Tier 1+2 capital ratio in H1 2011 (provisional data): approx. **11.89%** RAS ratio against min. 10% according to the current requirements of the National Bank of Romania. Also the 16.8% solvency ratio (BCR Group, IFRS, YE 2010) is clearly showing the BCR's strength and the continuing support of Erste Group. (RAS: Romanian Accounting Standards)

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

In Q2 2011 BCR continued to positively manage a sound and sustainable business in line with expectations in a still difficult economic environment.

During the first half of 2011 the Romanian economy started a slow and patchy recovery, but the general economic environment remains tough. The economy is expected to advance by around 2% in 2011, visible mainly in the last quarter of the year. The international financial context remains uncertain and many countries are experiencing severe difficulties which will hold back the recovery for some time. This put additional pressure on the Romanian economy.

So, most of the Romanian businesses are still facing a dramatic reduction in demand for their services and products. A quite large number of them even closed, mainly micros and SMEs, unfortunately. These had a negative impact on the transactions they made with BCR.

The confidence of the retail customers continued to be affected by the negative general economic context reflected in the reduction of their household income caused by the austerity package and VAT increase as well as in the fear of job losses in a contracted economy. As a result they continue to be very cautious in their spending in a still high inflation context.

The bank's **Total assets** went up by 3.5% (or RON 2,432.3 million) on YE 2010, to **RON 72,377.5 million** (EUR 17,056.1 million) as at June 30th, 2011 - the highest result ever in the bank. Thus BCR strengthened its leading position in the market up to 20.7% market share (+0.9pp market share on December 31st, 2010).

Lending has developed relatively well in H1 in the context of a continuing weakness in eligible credit demand, BCR acting as the leading financial supporter of the Romanian economy. BCR preserved its **market share in overall lending to around 22%**, due to a good performance in corporate lending and in housing lending.

The volume of aggregate **Loans to customers** portfolio (before provisions, IFRS) increased marginally in H1 to **RON 48,939.6 million** (EUR 11,532.8 million) from RON 48,607.7 million (EUR 11,404.9 million) at YE 2010 due to a good performance in Q2 mainly in corporate lending, following a decline in the first three months.

BCR continued in H1 2011 to expand lending to the productive sectors of the economy. **Corporate lending** portfolio increased by almost 4% due to the growth in Q2 following a weaker Q1. This resumption of the growth trend is mainly based on providing working capital for companies and funding for public sector enterprises.

In the **retail business lending** volumes started to grow since month of May - in the second quarter the retail loan portfolio had an increase of RON 342 million following three quarters of decline (+1.7% qoq but the retail loan portfolio at H1 2011 is still behind H1 2010 by 11.0%). This is due to the success of the consumer loans Divers campaign that generated high volumes. The eligible loan demand remains generally low matching the people's lower income and the market trends mostly oriented on refinancing older loans.

"Prima Casa" program positive impetus continued, BCR being the leader of the program with a total of over EUR 600 million lent to more than 15,000 families since the start of the program, helping them to own their first home.

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As BCR was the promoter of Prima Casa 4 project, we should see an increase in our mortgage and secured lending in the second half of 2011. BCR maintains its leading position in EUR denominated retail housing lending, having a 28% market share (23% market share on the general retail housing lending as BCR did not grant loans in Swiss francs).

Deposits from customers increased by 4.7% qoq and by 6.6% YOY to **RON 37,909.1 million** (EUR 8,933.5 million) due to a good performance in Q2 in both corporate and retail following the decline in Q1. The bank strengthened its **No 1 position** in the market on **primary deposits** (+0.8pp market share YTD). Customer deposits remain the main BCR funding source, the bank also enjoying a strong support from its parent bank.

BCR currently has a top 3 most attractive loan offer in terms of interest rates, quality and simplicity of processes aiming to be **the first choice bank** for both savings and secured loans.

BCR is also the leader on **EU funds market** currently holding 43% share of approved projects (out of a total of over EUR 11.0 bn). BCR is continuing to implement various financing solutions to support SME sector recovery - i.e. in H1 2011 the bank joined the Jeremy initiative (BCR to originate over EUR 200m loans for SMEs projects, based on EIF guarantee) and signed an agreement with EIB for a EUR 75m facility for SME, mid-caps and municipalities projects in industry, tourism, services, agriculture.

Customers are increasingly enjoying the convenience of “**BCR 24 Banking**” and we are seeing a constant migration of transactions from cash to direct channels (internet, telephone or self service equipments). The number of transactions via BCR 24 Banking in H1 2011 (more than Three million transactions) is 1.6 times higher on H1 2010. The value of trades through Click&Alo 24 Banking service in H1 is almost equal with the number for the whole 2010.

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

	Rate at the end of the period			Average of the month-end rates		
	June-2011	Dec-2010	% change	H2-2011	H2-2010	% change
RON/EUR	4.2435	4.2620	-0.4%	4.1855	4.1770	0.2%

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

CONSOLIDATED INCOME STATEMENT at 30 June 2011 (IFRS)

- amounts in RON million

	30-June-11	30-June-10	% Change
Interest and similar income	3,123.4	3,531.6	-11.6%
Interest and similar expenses	(1,486.0)	(1,626.1)	-8.6%
Net interest income	1,637.3	1,905.5	-14.1%
- Risk provisions for loans and advances	(945.9)	(974.7)	-3.0%
Fee and commission income	455.0	439.3	3.6%
Fee and commission expenses	(152.9)	(131.5)	16.3%
Net commission income	302.1	307.8	-1.9%
Net trading result	178.4	223.5	-20.1%
Personnel expenses	(416.2)	(397.1)	4.8%
Other administrative expenses	(340.3)	(313.9)	8.4%
Depreciation on fixed assets	(110.4)	(91.8)	20.3%
Other operating results	(107.4)	(101.4)	5.9%
Result from financial assets - at fair value through profit or loss	0.7	(2.0)	<-100%
Result from financial assets - available for sale	(0.1)	29.3	<-100%
Pre-tax profit	198.4	585.1	-66.1%
Taxes on income	(39.7)	(96.6)	-58.9%
Net profit before minority interests	158.8	488.5	-67.5%
Minority interests	(0.7)	0.0	>100%
Net profit after minority interests	158.1	488.5	-67.6%

Consolidated Income statement - breakdown on quarters of H1 2011 results, in brief (amounts in RON million)

	Q2 11	Q1 11
Net interest income	778.3	859.1
Risk provisions	(488.5)	(457.4)
Net fee and commission income	148.0	154.1
Net trading result	136.8	41.6
General administrative expenses	(420.9)	(446.0)
Other result	(52.2)	(54.5)
Pre-tax profit	101.6	96.8
Taxes on income	(19.3)	(20.3)
Net profit for the period	82.3	76.5
Attributable to non-controlling interests	(0.3)	(0.4)
Attributable to owners of the parent	82.0	76.1
	0.0	0.0
Operating income	1,063.1	1,054.8
Operating expenses	(420.9)	(446.0)
Operating result	642.3	608.8

Appendix II

Consolidated balance sheet (IFRS)

- amounts in RON million

ASSETS	30-June-11	31-Dec-10	%Change
Cash and balances with central banks	9,341.2	9,545.4	-2.1%
Loans and advances to credit institutions	1,072.8	1,771.7	-39.4%
Loans and advances to customers	51,457.2	52,238.6	-1.5%
- Risk provisions for loans and advances	(4,916.0)	(4,844.9)	1.5%
Trading Assets	970.3	966.9	0.4%
Financial assets - at fair value through profit or loss	44.5	41.9	6.3%
Financial assets - available for sale	5,447.5	3,925.7	38.8%
Financial assets - held to maturity	6,928.3	5,442.2	27.3%
Intangible assets	406.1	424.3	-4.3%
Tangible assets	1,689.8	1,693.9	-0.2%
Current Tax assets	171.8	192.9	-10.9%
Deferred tax assets	40.9	53.6	-23.6%
Other assets	2,163.4	2,130.8	1.5%
Assets Held For Sale	63.9	29.4	>100%
Total assets	74,881.7	73,612.4	1.7%
LIABILITIES AND SHAREHOLDERS' EQUITY			
Amounts owed to credit institutions	22,695.7	21,823.5	4.0%
Other amounts owed to customers	38,384.9	37,828.8	1.5%
Debts evidenced by certificates	1,006.8	638.1	57.8%
Trading liabilities	33.0	0.0	N/A
Other provisions	223.9	253.9	-11.8%
Current Tax liabilities	3.9	21.7	-82.1%
Deferred Tax liabilities	508.5	498.4	2.0%
Other liabilities	2,756.7	3,477.0	-20.7%
Subordinated Liabilities	2,006.1	1,967.3	2.0%
Total equity	7,262.2	7,103.6	2.2%
<i>Equity</i>	7,237.7	7,077.1	2.3%
<i>Minority interests</i>	24.5	26.5	-7.4%
Total liabilities and equity	74,881.7	73,612.4	1.7%