

## BCR results in the first nine months 2012 remain strongly impacted by prudent provisioning in a still adverse economic environment

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

#### **BCR achieves a solid quarterly operating result in a still adverse economic environment**

**Operating performance** in Q3 2012 reached an improved result of RON 618.3 million (EUR 136.6 million), up by 3.8% on Q2 2012 in a continuing difficult market – a weak loan demand, strong competition for deposits and low risk assets as well as a volatile FOREX rate RON / EUR putting additional pressure on bank's customers.

#### **Increased operating efficiency: Costs very well managed, income impacted by tough business environment**

Reflecting comprehensive optimisation measures, **operating expenses** in the first nine months (9M) 2012 reduced by 6.1% or RON 77 million (EUR 17.4 million) YOY to **RON 1,184.8 million** (EUR 267.4 million). It's worth noticing that Q3 operating expenses (RON 377.5 mil) constitute the lowest quarterly charge in the last five years.

The **operating income** in 9M 2012 declined by 4.5% YOY to **RON 3,008.6 million** (EUR 679.0 million), mainly on the decline in net interest income (-10.2% YOY) which is due to weak consumer credit demand, increase of NPLs and declining interest margins due to the shift to low risk assets. However, in **Q3** the **operating income** rose qoq (+1.2%), mainly due to positive developments in net interest income.

**Cost-income ratio** slightly improved to 39.4% as of end September 2012 owing to optimisation measures.

Continued prudent provisioning resulted in an increase of risks costs also in Q3 2012.

Net charge with **risk provisions for loans** in 9 M 2012 has increased by 63.8% in yearly comparison to RON 2,635.2 million. However, NPL formation in both corporate and retail significantly slowed in Q3 versus previous quarter. Additional provisioning requirements in Q3 led to a **continuously improved NPL coverage ratio of 57.2%** as of end-September 2012 versus 50.6% at year-end 2011. The risk costs development reflects the impact of the difficult business environment on BCR large corporate and real estate customers.

#### **Business development continues at a slower pace reflecting the adverse economic environment**

BCR group maintained its leading position in the market with around 20% market share by total assets despite a decline by 0.5% YTD to **RON 76,370.2 million** (EUR 16,827.9 million).

BCR's loan book continued to grow (+3.1% or RON 1,661.6 mil YTD) mainly due to retail lending. Retail lending rose mainly on mortgage loans development (+1.8 pp annual gain in market share to 25.4%) BCR's **market share** in overall lending maintained at **over 21%** as of end-September 2012 while **market share in EUR mortgage loans** increased to about **30% (1.1 pp gain YTD)**.

The bank has strong liquidity and a sound capital base well above regulatory minima.

*"BCR Group delivers first quarter where operating performance has improved. This achievement outlines and underlines our commitment to bring BCR Group back to profitability next years. Aside from improving*

<sup>1</sup> All the below stated financial data are un-audited, consolidated business results of Banca Comercială Română (BCR) Group for the first nine months of 2012 according to IFRS. Unless otherwise stated, financial results from the first nine months of 2012 (1-9 2012) are compared to financial results from the first nine months of 2011(1-9 2011). 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 1-9 2012 of 4.4311 RON/EUR when referring to 1-9 2012 results and using the average exchange rate for 1-9 2011 of 4.2063 RON/EUR when referring to 1-9 2011 results. The balance sheets at 31 December 2011 and at 30 September 2012 are converted using the closing exchange rates at the respective dates (4.5383 RON/EUR at 30 September 2012 and 4.3233 RON/EUR at 31 December 2011 respectively). All the percentage changes refer to RON figures. The quarterly financial results have to be treated separately, according to Footnote 2 at Section III. FINANCIAL RESULTS QUARTER-ON-QUARTER COMPARISON.

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*our cost base, BCR Group shall focus on systematic pursuit of improvements concerning commercial capabilities, operational excellence and asset quality. These focused measures shall deliver sustainable results” stated Tomas Spurny, CEO of Banca Comercială Română.*

### II. FINANCIAL PERFORMANCE OVERVIEW FOR BCR GROUP

BCR Group achieved a solid operating profitability in the first nine months 2012 having generated an **operating result** of **RON 1,823.8 million (EUR 411.6 million)**, slightly declining YOY (-3.5%) from RON 1,889.0 million (EUR 449.1 million) at end September 2011. This development was mainly driven by a decrease in costs, an improved result in net trading and an increased net fee income, which largely offset the decline in net interest income.

The **operating income** decreased by 4.5% YOY to **RON 3,008.6 million** (EUR 679.0 million) from previous year's RON 3,150.8 million (EUR 749.1 million). The decline originated mainly from the weak consumer credit demand, ongoing NPL-formation and competitive pressure on margins impacting **net interest income** (down to RON 2,139.2 million by 10.2% YOY). **Net fee income** increased by 7.1% YOY to **RON 476.4 million** (EUR 107.5 million) as of end September 2012 from RON 444.8 million (EUR 105.7 million) in 9 M 2011.

The **net trading result** increased by 21.6% or RON 69.9 million YOY, very positively adding **RON 393.0 million** (EUR 88.7 million) to the first nine months 2012 income, driven primarily by gains in foreign exchange trading. BCR maintains its leading position in the Romanian market of T-bills and bonds.

Reflecting comprehensive optimisation measures, **operating expenses** reduced by 6.1% YOY to **RON 1,184.8 million** (EUR 267.4 million) from RON 1,261.8 million at end September 2011.

The net charge with **risk provisions for loans and advances** totalled **RON 2,635.2 million** (EUR 594.7 million) YTD versus RON 1,609.1 million as of 9M 2011, reflecting the impact of a continuing weak performance of the Romanian economy on corporate and real estate business. This development led to a rise in the NPL coverage ratio to 57.2% as of end September 2012 versus 50.6% at year-end 2011. The NPL coverage ratio including collateral stayed comfortably at **109.9%** as of end September 2012 despite a collateral revaluation. **NPL ratio** was **25.8%** of the total loan portfolio at 30 September 2012.

Continued prudent provisioning has impacted the profit in 9M, BCR recording as of 30 September 2012 a **net loss after taxes and minority interests** of **RON 762.5 million** (EUR 172.1 million) versus a net profit of RON 67.6 million (EUR 16.1 million) as of end September 2011. It's worth mentioning that the quarterly loss has been reduced in Q3 compared to the previous quarter.

**Solvency ratios** remain well above the required levels. Tier 1+2 capital ratio in September 2012 (BCR standalone): **13.23%** IFRS with prudential filters against min. 10% according to the current requirements of the National Bank of Romania. Also the **17.59% solvency ratio** (June 2012, BCR Group, IFRS) is clearly showing BCR's strength and the continuing support of Erste Group.

Owing to the optimisation measures, the standalone **cost/income ratio** improved to 39.4% as of end September 2012 (40.0% as of end September 2011).

### III. FINANCIAL RESULTS QUARTER-ON-QUARTER COMPARISON<sup>2</sup>

BCR Group's **quarterly operating profit** maintains solid in a continuing challenging economic environment. The **Q3 2012 operating result** (RON 618.3 million) increased by **3.8%** on Q2 2012 result (RON 595.5 million) due to strict cost management combined with a higher quarterly operating income.

<sup>2</sup> All the below stated financial data are un-audited, consolidated business results of Banca Comercială Română (BCR) Group for Q3 and Q2 2012 according to IFRS. Unless otherwise stated, financial results from Q3 2012 are compared to financial results from Q2 2012. 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 Q3 2012 and Q2 2012 of 4.5254 respectively 4.4269 RON/EUR when referring to Q3 2012 and Q2 2012 results. All the percentage changes refer to RON figures.

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As a result of a strong focus on processes optimisation, **Q3 operating expenses** reduced by 2.8% qoq to RON 377.5 million from RON 388.4 million in Q2 2012, the lowest quarterly operating charge in the last five years.

The **Q3 operating income** (RON 995.8 million) was up by 1.2% qoq (RON 983.9 million in Q2 2012) mainly due to a rise in net interest income partly offset by a decline in net trading income.

The **net interest income** increased in quarterly comparison by 4.7% to RON 710.3 million from RON 678.5 million in Q2 2012 supported by higher margins.

The **net fee income** was almost flat qoq (-1.2%) at RON 159.4 million.

**Net trading result** decreased by 12.4% qoq to RON 126.1 million in Q3 from RON 144.0 million in Q2 2012.

The net charge with **risk provisions for loans and advances** in Q3 totalled RON 875.0 million, up by 5.9% on Q2 on the back of the retail loan portfolio while NPL formation somewhat reduced for the large corporate and real estate segments. The additional provisioning requirements led to an improvement of NPL coverage ratio for the third consecutive quarter.

The rise in provisions in Q3 impacted bank's profitability, BCR registering a quarterly net loss after minorities of RON 214.1 million, reduced by 11.0% compared to the second quarter 2012.

The **quarterly cost-income ratio** improved to 37.9% in Q3 compared to 39.5% in Q2 2012 on stable income and continued cost reduction.

#### IV. BUSINESS ACTIVITIES IN BRIEF (consolidated, IFRS)

The growth outlook for Q3 2012 remains subdued as Eurozone – the main foreign trade partner for Romania – fell back into recession; we see the economy cooling to 0.7% for the whole year 2012 from 2.5% in the previous year. The raft of weak PMI indexes for Eurozone in Q3 2012 point to a prospective spill-over into the fourth quarter, while the local industrial output is likely to continue be under big pressure. Moreover, the agricultural output, accounting for around 7% of GDP of Romania will make a negative contribution to GDP formation as severe drought cut deeply into the crop.

The pressure of domestic and international developments maintained the low demand for the products and services of many Romanian businesses, especially in the real estate, SME and micros sectors, negatively impacting their transactions with BCR.

The spending behaviour of retail customers continued to be very cautious as they are impacted by the difficult economic environment, marked by uncertainty.

In Q3 2012 BCR maintained its leading position in the banking market having around 20% market share by assets though BCR group's **total assets** declined by 0.5% (or RON 375.4 million) YTD **to RON 76,370.2 million** (EUR 16,827.9 million).

Loan book continued to grow in Q3 2012 in the context of a still weak credit demand and strengthened risk management.

The volume of aggregate **loans to customers** portfolio (before provisions, IFRS) increased by 3.1% YTD to **RON 55,037.9 million** (EUR 12,127.4 million) from RON 53,376.3 million (EUR 12,346.2 million) at YE 2011 mainly driven by retail lending.

BCR maintained its **leading market share in overall lending of over 21%** as of end September 2012, and strengthened its leading position in EUR denominated retail housing lending to about 30% market share (+1.1 pp YTD).

In the **retail business lending**, the consumer credit demand remains rather modest accompanied by a decline in micro business demand. In secured lending the market trend is still mostly oriented on borrowing

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through “Prima Casa 4” (PC4) mortgage loans program, BCR being the undisputed leader of the 4th stage as well as of the whole program.

BCR continued lending selectively to the productive sectors of the economy, further supporting the corporate clients with good growth potential and municipalities. **Corporate lending** portfolio continued to rise with a special focus on sectors with positive outlook, mainly on infrastructure, renewable energy, agribusiness, manufacturing and public sector as well.

**BCR** currently has a lending offer focused on local currency funded by local deposits, attractive in terms of quality, affordability and simplicity of procedure, adapted to the market requirements, with the aim to be the bank for the country.

BCR maintained its **No 1 position** in the market on **primary deposits (19.2% market share)**, in both RON and foreign currency. **Amounts owed to customers** remained almost stable at **RON 39,101.9 million** (EUR 8,616.0 million) as of end September 2012 (-1.4% YTD). Customer deposits remain the main BCR funding source, the bank also enjoying a strong support from its parent bank.

BCR is also the leader on **EU funds market** currently holding over 40% share of approved projects totalling over EUR 3.3 billion representing the EU financing opportunities addressing to the private investors and local authorities. BCR is continuing to implement various financing solutions to support SME sector recovery (like JEREMIE, EBRD, EIB, IFC finance facilities). During Q3 2012 BCR together with EIF improved the conditions of granting loans with JEREMIE guarantees by providing revolving credit lines to the eligible beneficiaries. Unique on the Romanian banking market, BCR ensures the monitoring of its co-financed EU funded projects, by assisting the projects’ developers throughout all project implementation stages.

BCR’s online banking services “**BCR 24 Banking**” is increasingly attracting customers due to their convenience and accessibility. BCR maintains its leading position in the Romanian online banking market with over 4.8 mil transactions worth more than RON 21.0 billion in the first 9M 2012. The number of transactions performed during Q3 2012 through Click 24&Alo 24 Banking BCR reached over 1.6 million totalling RON 7.5 billion (+ 2% qoq).

#### 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		
	Sep-2012	Dec-2011	% change	Sep- 2012	Sep- 2011	% change
RON/EUR	4.5383	4.3233	5.0%	4.4311	4.2063	5.3%

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

Appendix I

**CONSOLIDATED INCOME STATEMENT for the nine months ended 30 September 2012 (IFRS)**

- amounts in RON million

	30 Sep 2012	30 Sep 2011	% Change
Interest and similar income	4,170.7	4,619.1	-9.7%
Interest and similar expenses	(2,031.4)	(2,236.2)	-9.2%
<b>Net interest income</b>	<b>2,139.2</b>	<b>2,382.9</b>	<b>-10.2%</b>
- Risk provisions for loans and advances	(2,635.2)	(1,609.1)	63.8%
Fee and commission income	674.2	671.9	0.3%
Fee and commission expenses	(197.8)	(227.1)	-12.9%
<b>Net commission income</b>	<b>476.4</b>	<b>444.8</b>	<b>7.1%</b>
Net trading result	393.0	323.1	21.6%
Personnel expenses	(586.2)	(616.1)	-4.9%
Other administrative expenses	(447.8)	(481.3)	-7.0%
Depreciation on fixed assets	(150.9)	(164.3)	-8.2%
Other operating results	(138.3)	(170.2)	-18.7%
Result from financial assets - at fair value through profit or loss	4.4	(2.8)	>100%
Result from financial assets - available for sale	2.5	(0.1)	>100%
<b>Pre-tax profit</b>	<b>(942.8)</b>	<b>106.8</b>	<b>&gt;-100%</b>
Taxes on income	183.9	(37.9)	>100%
<b>Profit for the year</b>	<b>(758.9)</b>	<b>68.9</b>	<b>&gt;-100%</b>
Attributable to non-controlling interests	(3.6)	(1.3)	>100%
<b>Attributable to owners of the parent</b>	<b>(762.5)</b>	<b>67.6</b>	<b>&gt;-100%</b>
Operating income	3,008.6	3,150.8	-4.5%
General administrative expenses	(1,184.8)	(1,261.8)	-6.1%
<b>"Operating result"</b>	<b>1,823.8</b>	<b>1,889.0</b>	<b>-3.5%</b>
<b>Cost/Income Ratio</b>	<b>39.4%</b>	<b>40.0%</b>	<b>-1.7%</b>
<b>Return on Equity</b>	<b>-14.1%</b>	<b>1.3%</b>	<b>&gt;-100%</b>

**Consolidated Income statement (IFRS) - breakdown on quarters of 2011 and 2012 results, in brief (amounts in RON million)**

	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Net interest income	710.3	678.5	750.4	747.3	745.6	778.3	859.1
Risk provisions	(875.0)	(826.6)	(933.7)	(545.8)	(663.2)	(488.5)	(457.4)
Net fee and commission income	159.4	161.4	155.6	135.3	142.7	148.0	154.1
Net trading result	126.1	144.0	122.9	99.3	144.7	136.8	41.6
General administrative expenses	(377.5)	(388.4)	(418.9)	(433.8)	(394.9)	(420.9)	(446.0)
Other result	(56.7)	(40.3)	(34.3)	10.5	(66.4)	(52.2)	(54.5)
<b>Pre-tax profit</b>	<b>(313.4)</b>	<b>(271.4)</b>	<b>(358.0)</b>	<b>12.8</b>	<b>(91.6)</b>	<b>101.6</b>	<b>96.8</b>
Taxes on income	100.8	31.9	51.1	(10.8)	1.7	(19.3)	(20.3)
<b>Net profit for the period</b>	<b>(212.5)</b>	<b>(239.5)</b>	<b>(306.9)</b>	<b>2.0</b>	<b>(89.8)</b>	<b>82.3</b>	<b>76.5</b>
Attributable to non-controlling interests	(1.5)	(1.2)	(0.9)	1.3	0.7	0.3	0.4
<b>Attributable to owners of the parent</b>	<b>(214.1)</b>	<b>(240.6)</b>	<b>(307.8)</b>	<b>0.7</b>	<b>(90.5)</b>	<b>82.0</b>	<b>76.1</b>
Operating income	995.8	983.9	1,028.9	981.9	1,032.9	1,063.1	1,054.8
Operating expenses	(377.5)	(388.4)	(418.9)	(433.8)	(394.9)	(420.9)	(446.0)
<b>Operating result</b>	<b>618.3</b>	<b>595.5</b>	<b>610.0</b>	<b>548.1</b>	<b>638.0</b>	<b>642.2</b>	<b>608.8</b>

Appendix II

Consolidated statement of financial position (IFRS) as at 30 September 2012  
- amounts in RON million

ASSETS	30-Sep-12	31-Dec-11	%Change
Cash and balances with central banks	10,553.1	10,324.9	2.2%
Loans and advances to credit institutions	598.5	1,100.2	-45.6%
Loans and advances to customers	55,037.9	53,376.3	3.1%
- Risk provisions for loans and advances	(8,115.8)	(5,572.8)	45.6%
Trading Assets	420.8	701.7	-40.0%
Financial assets - at fair value through profit or loss	44.1	42.0	5.1%
Financial assets - available for sale	3,792.0	5,244.5	-27.7%
Financial assets - held to maturity	10,777.7	8,011.8	34.5%
Intangible assets	425.1	439.8	-3.3%
Tangible assets	1,500.3	1,584.7	-5.3%
Current Tax assets	177.4	177.4	0.0%
Deferred tax assets	51.1	46.9	9.0%
Other assets	1,030.8	1,055.5	-2.3%
Assets Held For Sale	77.1	212.7	-63.8%
<b>Total assets</b>	<b>76,370.2</b>	<b>76,745.7</b>	<b>-0.5%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Amounts owed to credit institutions	23,018.8	22,906.4	0.5%
Other amounts owed to customers	39,101.9	39,664.3	-1.4%
Debts evidenced by certificates	1,391.7	1,132.8	22.9%
Other provisions	300.3	305.8	-1.8%
Current Tax liabilities	4.9	4.1	19.3%
Deferred Tax liabilities	349.6	534.4	-35%
Other liabilities	2,873.8	2,626.9	9.4%
Subordinated Liabilities	2,520.9	2,024.7	24.5%
<b>Total equity attributable to:</b>	<b>6,808.5</b>	<b>7,546.3</b>	<b>-9.8%</b>
<i>Equity holders of the parent</i>	<b>6,790.6</b>	<b>7,532.0</b>	-9.8%
<i>Non-controlling interests</i>	<b>17.9</b>	<b>14.3</b>	25.6%
<b>Total liabilities and equity</b>	<b>76,370.2</b>	<b>76,745.7</b>	<b>-0.5%</b>