

## BCR financial results for the first nine months of 2014: RON 1.5 billion operating result, extensive balance sheet clean-up, NPL volume down by 22.6%

### Highlights<sup>1</sup>:

- Encouraging growth of retail performing loan balance, notable stabilization and improvement of credit quality in corporate credit book, coupled with growth in deposit gathering capacity and successful distribution of Erste Asset management funds.
- Strong performance in new volume generation by retail franchise in the first nine months resulting in increase of 310% and 80% yoy respectively concerning mortgage and cash loan categories, thus supporting return to growth.
- Continued improvement in resolution of troubled loans legacy portfolio results in reduction of NPL volume by 22.6% yoy and of respective NPL ratio to 26.5%; NPL coverage ratio at 82%.
- Fulfillment of cost revenue targets, set forth in 2012 turnaround plan, enhanced by continuous emphasis and focus on productivity improvements; cost base down by 13.8% yoy.
- Robust solvency ratio underlines ability and commitment to support sustainable quality of lending growth in both, Retail and Corporate franchises, further reinforcing core revenue generating capacity.

Bucharest, Oct 30, 2014 – Banca Comerciala Romana (BCR) achieved for the first nine months of 2014 an **operating result of RON 1,569.9 million** (EUR 352.6 million), underpinned by **encouraging growth of retail performing loan balance, notable stabilization and improvement of credit quality in corporate credit book, coupled with growth in deposit gathering capacity and successful distribution of Erste Asset management funds**. BCR is further set to capture that trend, as the bank successfully completed the last phase of a branch network improvements project, aimed to reinforce quality of its presence across Romania.

BCR has undertaken to **accelerate resolution of NPL legacy and engaged extensive balance sheet clean-up**, as announced in July 2014, leading to a **reduction in NPL volume by 22.6% yoy, as well as of respective NPL ratio**, down to 26.5%. Short term profitability is impacted by **extensive balance sheet clean-up, with net result for 1-9 2014 at RON -2,427.9 million** (EUR 545.9 million) caused by increased provisioning, while **NPL coverage substantially increased to 82%** to fund accelerated NPL resolution.

<sup>1</sup> All the below stated financial data are un-audited, consolidated business results of Banca Comerciala Romana (BCR) Group for the first nine months of 2014 (1-9 2014) according to IFRS. Unless otherwise stated, financial results from the first nine months of 2014 (1-9 2014) are compared to financial results from the first nine months of 2013 (1-9 2013). 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 2014 of 4.4478 RON/EUR when referring to 1-9 2014 results and using the average exchange rate for 1-9 2013 of 4.4094 RON/EUR when referring to 1-9 2013 results. The balance sheets at 30 September 2014 and at 31 December 2013 are converted using the closing exchange rates at the respective dates (4.4102 RON/EUR at 30 September 2014 and 4.4710 RON/EUR at 31 December 2013, respectively). All the percentage changes refer to RON figures.

Diminishing the ratio of non-performing loans is critical to restoring lending growth and improved near term performance. The capital position of the bank will easily absorb the above mentioned balance sheet cleaning measures and remains strong to support good growth across all business lines. Despite the extensive balance sheet cleanup measures BCR's **solvency ratio stood at historical high (20.0% in Aug 2014)** and **equity base remained solid (RON 5.1 billion)**.

*"Net result in the first nine months of this year was materially impacted by significant increase in risk provisions, as we continued to work hard toward extensive clean-up of our NPL portfolio. By year-end our aim is to further reduce the NPL portfolio, depending on market conditions.*

*Aside from accelerated resolution of NPL legacy, the most important thing is that BCR consistently returned in the market. BCR is capturing 25% of the newly underwritten mortgage market and we have seen a significant uplift in both secured and unsecured retail lending. We will continue to further strengthen our competitive capacity in both Retail and Corporate franchises of the Bank.*

*Not least we are making a priority and good progress in building an internal culture based on cross functional understanding and client centric focus, as evidenced by our programs for senior and mid-level managers to experiment work and gather feed-back for at least one week in the branch network",* said Tomas Spurny, CEO of BCR.

### **1-9 2014 commercial highlights**

In retail business, strong performance in new volume generation by the franchise resulted in an increase versus the similar period of last year by 310% and 80% respectively concerning mortgage and cash loan categories, thus supporting return to growth.

The retail performing loans balance grew at around **RON 17.1 billion**, with **Q3 2014 consolidating the trend of new lending offsetting volumes of loans reimbursed or maturing**, visible in the previous quarter. At **RON 9.1 billion the housing loans portfolio** grew satisfactorily versus RON 8.6 billion at end of year 2013. Overall local **currency loans portfolio** encouragingly grew to **RON 6.6 billion** as compared to RON 5.5 billion at year end 2013.

In corporate business, performing loan portfolio slightly grew at around **RON 12.2 billion**, with **Q3 2014 being the first quarter in the last year when overall loan balance ticked up versus the previous quarter**. The uptick was mainly generated by new lending to large corporate clients in sectors such as **energy, agriculture, constructions, pharmacy & healthcare, industry, IT&C**.

BCR plans to keep focus on RON lending, so as to reverse the currency mix of the loan book in favour of local currency on medium to long term and fully use the strong self-funding capacity in RON.

**Net interest income**, was down by 16.0%, to **RON 1,782.9 million** (EUR 400.8 million), from RON 2,121.5 million (EUR 481.1 million) in 1-9 2013, on the back of a lower interest rate environment, efforts to price competitively in the market and accelerated NPL portfolio resolution.

**Net fee income** was up by 4.8%, to **RON 540.2 million** (EUR 121.4 million), from RON 515.4 million (EUR 116.9 million) in 1-9 2013, based on continuous focus on transaction banking, shift to non-cash operations and customer preference for alternative investment solutions and insurance products.

**Net trading result** decreased by 16.8%, to **RON 281.3 million** (EUR 63.2 million), from RON 338.0 million (EUR 76.6 million) in 1-9 2013 on the back of lower FX transactions.

The **operating income** decreased by 12.6% to **RON 2,624.4 million** (EUR 589.7 million) from RON 3,001.0 million (EUR 680.6 million) in 1-9 2013.

**General administrative expenses** in 1-9 2014 reached RON 1,054.4 million (EUR 237.1 million), down by 13.8% in comparison to RON 1,222.7 million (EUR 277.3 million) in 1-9 2013. The fulfilment of cost revenue targets, set forth in 2012 turnaround plan, is enhanced by continuous emphasis and focus on productivity improvements; cost base was down by 13.8% yoy.

As such, **cost-income ratio** improved to **40.2%** in 1-9 2014, versus 40.7% in 1-9 2013.

### Capital position and funding

**Solvency ratio** under local standards (BCR standalone, IFRS with prudential filters) as of August 2014 stood at **20.0%**, well above the regulatory requirements of the National Bank of Romania (min 10%). Also, IFRS **Tier 1+2 capital ratio** of **24.9%** (BCR Group), as of June 2014, is clearly showing BCR's strong capital adequacy and continuing support of Erste Group. In this respect, BCR enjoys one of the strongest capital and funding positions amongst Romanian banks.

BCR will continue to maintain high solvency ratio, proving its ability and commitment to support sustainable quality of lending growth in both Retail and Corporate franchises, further reinforcing core revenue generating capacity.

**Deposits from customers** remained broadly stable, up by just 0.3% to **RON 37,626.5 million** (EUR 8,531.7 million) as of 30 September 2014, versus RON 37,500.0 million (EUR 8,387.4 million) as of end December 2013. Customer deposits remain BCR's main funding source, while the bank enjoys strong support from its parent bank for long term funding, at the same time benefiting from diversified funding sources and agreements with other International Financial Institutions.

### Resolution of NPL stock

BCR Group manages a non-performing loans portfolio of RON 11.2 billion (as of Sep 2014), which it decided to resolve in accelerated manner, thus expecting significant improvement of its balance sheet quality and financial performance in the near term. Consequent risk costs are anticipated to off-set the operational result of the bank throughout 2014.

Thus, in 1-9 2014, the net charge of impairments on financial assets not measured at fair value through profit and loss increased by 165.3% to **RON 4,051.2 million** (EUR 910.8 million), versus RON 1,527.3 million (EUR 346.4 million) in 1-9 2013, reflecting accelerated efforts to resolve NPL legacy.

**NPL ratio** significantly decreased versus the previous quarter, now standing at **26.5%** of the total loan portfolio as of 30 September 2014, despite overall decrease of the loan book, determined by repayments, write-offs and sales of selected NPL portfolios. **NPL coverage ratio stood at 82%**, significantly above 63.4% as of September 2013.

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BCR offers a complete range of financial products and services through a network of 551 retail units located in most towns with more than 10.000 inhabitants, across the whole Romania, as well as 22 business centers and 23 mobile offices dedicated to companies. BCR commands the largest ATM network in the country – about 2.100 machines as well as 12.000 POS terminals for payments by card at merchants. BCR Group had 7,093 own employees as of September 2014.

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*For more information please contact press office at: [comunicare@bcr.ro](mailto:comunicare@bcr.ro)*

*This information is also available on our website: [www.bcr.ro](http://www.bcr.ro)*

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*Email: [contact.center@bcr.ro](mailto:contact.center@bcr.ro)*

*Telverde: 0800.801.BCR (0800.801.227), toll-free from all national networks*

## Financial data

### Income statement

in RON million	1– 9 2014	1– 9 2013
Net interest income	1,782.9	2,121.5
Net fee and commission income	540.2	515.4
Net trading and fair value result	281.3	338.0
Operating income	2,624.4	3,001.0
Operating expenses	- 1,054.4	- 1,222.7
Operating result	1,569.9	1,778.3
Net impairment loss on non-fair value financial assets	- 4,051.2	- 1,527.3
<b>Net result attributable to owners of the parent</b>	<b>- 2,428.0</b>	<b>560.3</b>

### Balance sheet

in RON million	Sep 14	Dec 13
Cash and cash balances	7,379.4	9,620.6
Trading, financial assets	367.7	373.6
Loans and receivables to credit institutions	228.2	432.2
Loans and receivables to customers	33,076.4	37,758.6
Intangible assets	188.9	387.4
Miscellaneous assets	537.6	494.2
<b>Total assets</b>	<b>61,101.6</b>	<b>66,728.8</b>
Financial liabilities - held for trading	34.0	66.1
Deposits from banks	15,659.4	18,274.7
Deposits from customers	37,626.5	37,500.0
Debt securities issued	1,103.1	1,529.8
Miscellaneous liabilities	190.9	446.1
Total equity	5,115.4	7,419.7
<b>Total liabilities and equity</b>	<b>61,101.6</b>	<b>66,728.8</b>