

BCR financial results for H1 2015: RON 603.4 million net profit; NPL portfolio continues to decrease

Highlights¹:

- On the back of a RON 778.5 million (EUR 175.0 million) operating result, H1 2015 net profit stood at RON 603.4 million (EUR 135.7 million), supported by substantially lower risk costs, as result of better portfolio quality after extensive loan book screening in 2014.
- Results of sustained efforts to reduce NPL legacy and improve performing portfolio quality are already visible in both retail and corporate business. NPL ratio decreased to 23.1% compared to 29.3% in H1 2014, while NPL coverage ratio improved to a very comfortable level of 76.9%.
- In H1 2015 BCR recorded a significant uplift in sales of retail secured loans, with new production up by 34% yoy. In corporate business, new approved loans were significantly up yoy, supported by a solid pipeline of better quality new business.
- Expenses were slightly up by 2.0% yoy, on the back of network optimization and projects.
- The capital position of the bank remains exceptionally strong to support good business growth. BCR's solvency ratio stood at 19.6% as of May 2015 (Bank), while Tier 1 + 2 capital (Group) was very solid at RON 6.0 billion as of March 2015.

H1 2015 commercial and financial highlights

Banca Comerciala Romana (BCR) achieved in H1 2015 an operating result of RON 778.5 million (EUR 175.0 million), 28.9% lower than the previous year at RON 1,096.6 (EUR 246.4), driven by lower operating income, impacted by reduced unwinding contribution and slightly higher costs. **H1 2015 net profit stood at RON 603.4 million (EUR 135.7 million)**, supported by substantially lower risk costs, as a result of better portfolio quality after extensive loan book screening in 2014.

In bank retail business, strong performance in volume generation by the franchise resulted **in sales of secured loans increasing by 34% annually, with Prima Casa new production 66% yoy**. The retail performing loans balance grew at around **RON 16.9 billion**, on the back of **new lending outgrowing volumes of loans reimbursed or maturing**. At **RON 9.9 billion**, the **total performing housing loans portfolio** continued to grow versus RON 9.45 billion at end of year 2014.

In bank corporate business, new volumes added on the balance sheet totalled RON 1 billion ytd, while the overall corporate performing loan portfolio grew at around **RON 11.9 billion**, versus RON 11.5 billion at end of

¹ Below stated financial data are un-audited, consolidated business results of Banca Comerciala Romana Group for the first half of 2015 (H1 2015), according to IFRS. Unless otherwise stated, financial results for the first half of 2015 (H1 2015) are compared to financial results for the first half of 2014 (H1 2014). 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 the first half of 2015 (H1 2015) of 4.4469 RON/EUR when referring to the first half of 2015 (H1 2015) results and using the average exchange rate for the first half of 2014 (H1 2014) of 4.4505 RON/EUR when referring to for the first half of 2014 (H1 2014) results. The balance sheets at 30 June 2015 and at 31 December 2014 are converted using the closing exchange rates at the respective dates (4.4725 RON/EUR at 30 June 2015 and 4.4828 RON/EUR at 31 December 2014, respectively). All the percentage changes refer to RON figures.

year 2014. New approved loans are substantially picking up, supported by a solid pipeline of better quality new business, particularly in **overdraft, working capital and supply chain financing**.

BCR's new funding into the economy was coupled with successful distribution of subsidiary products including Erste Asset Management funds, BCR Banca pentru Locuinte and BCR Pensii.

Net interest income was down by 17.5%, to **RON 1,013.6 million** (EUR 224.9 million), from RON 1,228.7 million (EUR 276.1 million) in H1 2014, on the back of accelerated NPL portfolio resolution, efforts to price competitively in the market, in a context of continuous shift in new retail loans towards secured production and a lower interest rate environment.

Net fee income was down by 5.2%, to **RON 341.9 million** (EUR 76.9 million), from RON 360.6 million (EUR 86.0 million) in H1 2014, on the back of lower fees from loan management and current accounts.

Net trading result decreased by 39.6%, to **RON 122.9 million** (EUR 27.7 million), from RON 203.6 million (EUR 45.7 million) in H1 2014 on the back of reduced trading activity.

The **operating income** decreased by 16.8% to **RON 1,500.5 million** (EUR 337.4 million) from RON 1,804.2 million (EUR 405.4 million) in H1 2014, mainly driven by reduced net interest income along with lower trading result.

General administrative expenses in H1 2015 reached **RON 721.9 million (EUR 162.4 million)**, up by 2.0% in comparison to RON 707.6 million (EUR 158.9 million) in H1 2014. The fulfilment of cost targets, set forth in 2012 turnaround plan and supported by continuous focus on productivity improvements, is expected to translate into significant infrastructure investments in the following quarters.

As such, **cost-income ratio** advanced to **48.1%** in H1 2015, versus 39.2% in H1 2014.

Risk costs and Asset Quality

Net charge of impairments on financial assets not measured at fair value through profit and loss recorded a value of **RON -26.2 million** (EUR -5.9 million) in H1 2015, versus a negative charge of RON -1,306.6 million (EUR -293.6 million) in H1 2014, on the back of successful efforts to resolve NPL legacy. The substantially lower risk costs stand on better quality of the performing book, lower NPL inflow on mortgage portfolio, as well as lower defaults and higher recoveries in corporate business against basis set up in H2 2014, following extensive portfolio screening.

NPL ratio² at **23.1%**, as of 30 June 2015, significantly decreased versus 29.3% as of 30 June 2014, despite overall reduction of the loan book, determined by recoveries, sales of selected NPL portfolios and write-offs. **NPL coverage ratio stood at 76.9%**, significantly above 64.6% as of June 2014.

Capital position and funding

Solvency ratio under local standards (BCR standalone) as of May 2015 stood at **19.6%**, well above the regulatory requirements of the National Bank of Romania (min 10%). Also, IFRS **Tier 1+2 capital ratio** of **19.2%** (BCR Group), as of March 2015, 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.

² Starting Dec-14, quarterly data is reported in compliance with draft EBA NPE definition.

Deposits from customers were slightly down by 1.5% to **RON 39,304.4 million** (EUR 8,788.0 million) at 30 June 2015, versus RON 39,922.6 million (EUR 8,905.7 million) at 31 December 2014, as positive development in retail deposits was offset by a seasonal decrease in corporate deposits. Customer deposits remain BCR's main funding source, while the bank benefits from diversified funding sources, including parent company.

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.

BCR offers a complete range of financial products and services through a network of 509 retail units located in most towns with more than 10.000 inhabitants, across the whole Romania, as well as 21 business centres and 23 mobile offices dedicated to companies. BCR commands the largest Self-serving banking Equipment network in the country – about 2.600 Equipment (ATMs, Multifunctional Machines, Automated Payment Terminals, FX Exchange Machines) as well as 12.000 POS terminals for payments by card at merchants.

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Financial data

Income statement

in RON million	H1 2015	H1 2014
Net interest income	1,013.6	1,228.7
Net fee and commission income	341.9	360.6
Net trading and fair value result	122.9	203.6
Operating income	1,500.5	1,804.2
Operating expenses	(721.9)	(707.6)
Operating result	778.5	1,096.6
Net impairment loss on non-fair value financial assets	(26.2)	(1,306.6)
Net result attributable to owners of the parent	603.4	(280.2)

Balance sheet

in RON million	Jun 15	Dec 14
Cash and cash balances	7,024.8	8,235.2
Financial assets – held for trading	526.9	370.8
Financial assets – available for sale	7,639.2	7,655.1
Financial assets – held to maturity	9,675.3	9,578.2
Loans and receivables to credit institutions	1,531.3	525.3
Loans and receivables to customers	32,501.5	32,566.1
Intangible assets	203.2	218.5
Miscellaneous assets	508.1	428.2
Total assets	61,556.6	61,624.6
Financial liabilities - held for trading	28.5	70.1
Deposits from banks	14,393.8	14,191.1
Deposits from customers	39,304.4	39,922.6
Debt securities issued	901.1	1,044.2
Miscellaneous liabilities	208.6	168.5
Total equity	5,446.8	4,910.2
Total liabilities and equity	61,556.6	61,624.6