

BCR results for half year 2016: RON 636 million net profit, RON 4.1 billion new loans extended; NPL ratio drops to 14%

Highlights¹:

- On the back of a RON 704.7 million (EUR 156.8 million) operating result, H 1 2016 net profit stood at RON 636 million (EUR 141.5 million), supported by improving portfolio quality.
- NPL ratio decreased to 14% compared to 23.1% in June 2015, as result of sustained efforts to reduce NPL legacy and improve performing portfolio quality.
- NPL provision coverage ratio improved to a very comfortable level of 80.9%, as of June 2016.
- Expenses were up by 6.4% yoy.
- New loan production is solid: RON 4.1 new retail and corporate loans on the balance sheet.
- The capital position of the bank is strong to support business growth. BCR's solvency ratio stood at 23% as of May 2016 (BCR standalone), while Tier 1 + 2 capital (BCR Group) was very solid at RON 6.8 billion as of March 2016.

BCR continued to improve its balance sheet and maintained a solid lending stream. We are especially thankful to our clients for their loyalty and trust. We, thus, have the responsibility to continue offering saving and lending solutions which are, above all, simple, transparent and advantageous to our customers. Client satisfaction and their economic well-being stand as certainties on which we ground our ambitious improvement plans.

In a context of economic and legislative challenges, BCR stands by its mission. BCR stand as an anchor to the financial stability of the economy and a bank of long term engagements to people, companies and public institutions. Romania needs infrastructure, as it needs to profit from economic opportunities or answer social challenges. BCR holds substantial capital, excellent liquidity and a significant solvency to support these priorities of our country, Sergiu Manea, CEO of BCR, stated.

H1 2016 commercial and financial highlights

Banca Comerciala Romana (BCR) in H1 2016 achieved a strong **net profit of RON 636 million (EUR 141.5 million)**, supported by operating performance and continued improvement of portfolio quality.

¹ Below stated financial data are un-audited, consolidated business results of Banca Comerciala Romana Group for H1 2016, according to IFRS. Unless otherwise stated, financial results for H1 2016 are compared to financial results for H1 2015. 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 2016 of 4.4950 RON/EUR when referring to the first six months of 2016 results and using the average exchange rate for H1 2015 of 4.4469 RON/EUR when referring to the first six months of 2015 results. The balance sheets at 30 June 2016 and at 31 December 2015 are converted using the closing exchange rates at the respective dates (4.5234 RON/EUR at 30 June 2016 and 4.5240 RON/EUR at 31 December 2015, respectively). All the percentage changes refer to RON figures.

The operating result stood at RON 704.7 million (EUR 156.8 million), 9.5% lower than the previous year at RON 778.5 (EUR 175.1), driven by lower operating income, impacted by reduced unwinding contribution, margin pressure and low interest rate environment coupled with higher costs from booking full contribution to deposit insurance fund in Q1 2016.

In bank retail business, strong performance in volume generation by the franchise resulted in **new loans totalling RON 2.6 bn**, with solid sales of both unsecured and secured loans – driven by acceleration of Prima Casa, due to supplementation of available ceiling, presently already exhausted.

In bank corporate business, **new volumes added on the balance sheet totalled RON 1.5 billion**. Co-financing of EU funded projects was also solid with BCR holding over 30% market share and a portfolio of over RON 7.2 bn co-financed. The corporate book growth is supported by a solid pipeline of better quality new business, particularly in overdraft, working capital and supply chain financing.

Net interest income was down by 7.8%, to **RON 934.7 million** (EUR 208.0 million), from RON 1,013.6 million (EUR 237.9 million) in H1 2015, on the back of continued NPL portfolio resolution, efforts to price competitively in the market and a low interest rate environment.

Net fee income was up by 3.6%, to **RON 354.1 million** (EUR 78.8 million), from RON 341.9 million (EUR 76.9 million) in H1 2015, on the back of higher transaction banking fees.

Net trading result increased by 27.1%, to **RON 156.3 million** (EUR 34.8 million), from RON 123.0 million (EUR 27.7 million) in H1 2015 on the back of higher results from sales of financial instruments.

The **operating income** decreased by 1.8% to **RON 1,473.0 million** (EUR 327.7 million) from RON 1,500.5 million (EUR 337.4 million) in H1 2015, mainly driven by reduced net interest income partly compensated by better net fee and commission income and higher trading result.

General administrative expenses in H1 2016 reached **RON 768.4 million (EUR 170.9 million)**, up by 6.4% in comparison to RON 722.0 million (EUR 162.4 million) in H1 2015 negatively impacted by booking full contribution to deposit insurance fund in Q1 2016 compared to pro-rata in Q1 2015.

As such, **cost-income ratio** advanced to **52.2%** in H1 2016, versus 48.1% in H1 2015.

Risk costs and Asset Quality

In terms of **net charge of impairments on financial assets not measured at fair value through profit and loss** BCR recorded a provision release of **RON 69.3 million** (EUR 15.4 million) in H1 2016, versus a charge of RON 26.2 million (EUR 5.9 million) in H1 2015, driven by further recoveries and improved portfolio quality.

NPL ratio² at **14%**, as of 30 June 2016, significantly decreased versus 23.1% as of 30 June 2015, despite overall reduction of the loan book, determined by recoveries, sales of selected NPL portfolios and write-offs. **NPL provision coverage ratio improved to 80.9%**, while, collateral included, it comfortably stood at 113.8%.

Capital position and funding

Solvency ratio under local standards (BCR standalone) as of May 2016 stood at **23%**, well above the regulatory requirements of the National Bank of Romania. Also, IFRS **Tier 1+2 capital ratio** of **21.6%** (BCR Group), as of March 2016, 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 reported in compliance with draft EBA NPE definition.

Deposits from customers grew by 2.9% to **RON 43.848.1 million** (EUR 9,693.6 million) at 30 June 2016, versus RON 42,626.0 million (EUR 9,422.2 million) at 31 December 2015, particularly driven by retail deposits and slightly higher inflows from corporate clients, yet. 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 511 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. As of June 2016, BCR Group was employing 7,153 people.

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Financial data

Income statement

in RON million	H1 2016	H1 2015
Net interest income	934.7	1,013.6
Net fee and commission income	354.1	341.9
Net trading and fair value result	156.3	123.0
Operating income	1,473.0	1,500.5
Operating expenses	(768.4)	(722.0)
Operating result	704.7	778.5
Net impairment loss on non-fair value financial assets	69.3	(26.2)
Net result attributable to owners of the parent	636.0	603.4

Balance sheet

in RON million	Jun 16	Dec 15
Cash and cash balances	9,069.2	9,441.8
Financial assets – held for trading	1,012.0	248.1
Financial assets – available for sale	6,375.7	7,203.3
Financial assets – held to maturity	11,038.3	10,154.4
Loans and receivables to credit institutions	1,906.5	204.4
Loans and receivables to customers	31,948.4	32,450.8
Intangible assets	233.0	234.3
Miscellaneous assets	441.7	423.8
Total assets	63,944.7	62,360.0
Financial liabilities - held for trading	46.1	35.1
Deposits from banks	11,223.7	11,247.2
Deposits from customers	43,848.1	42,626.0
Debt securities issued	792.6	912.2
Miscellaneous liabilities	303.4	307.6
Total equity	6,358.9	5,844.0
Total liabilities and equity	63,944.7	62,360.0