

BCR financial results for 2014: RON 1.9 billion operating result off-set by RON 4.4 billion risk provisions following accelerated reduction of total NPL volume by a quarter

Highlights¹:

- Despite RON 1.9 billion operating result, net result of the year, RON -2.8 billion (EUR -627.4 million) was impacted by substantially higher risk provisions, in line with guidance provided at HY 2014 and Q3 2014 financial results, on the back of decision to accelerate resolution of troubled loans portfolio.
- Risk provisions doubled to RON 4.4 billion in 2014, driven by ample efforts to reduce NPLs, including portfolio sales and write-offs. In 2014, BCR sold non-performing loans amounting to RON 2.0 billion, thus achieving guidance of overall NPL volume reduction by 24% yoy. NPL ratio decreased to 25.7%, NPL coverage ratio increased at 75.8%.
- In 2014 BCR booked on balance sheet new loans in amount of RON 7.4 billion, while the bank additionally invested RON 4.6 billion in government bonds. Particular strong performance in retail franchise determined a threefold increase in volume of new mortgages and 61% in cash loans yoy.
- Expenses were down by 9.4% yoy, on the back of cost synergies, emphasis on productivity and focus on cost targets. BCR achieved 21% cumulated cost reduction in reference to 2011 base, before launching turnaround plan.
- The solid capital position of the bank was able to absorb accelerated NPL reduction, while remaining strong to support good business growth. BCR's solvency ratio stood at 18.9% in Dec 2014 (bank), while Tier 1 + 2 capital (group) remained very solid at RON 6.0 billion.

Adriana Jankovicova, Chief Financial Officer of BCR, stated: ***"BCR reduced total NPL volume by a quarter, delivering on commitment to accelerate resolution of troubled loans legacy. We fully assume impact on short term profitability, as we see reduction of non-performing loans being critical to restore lending growth and financial performance. BCR benefits from exceptionally strong capitalization, allowing it to comfortably absorb balance sheet restructuring and further support good growth across all business lines."***

Dana Demetrian, Retail & Private Banking Vice President of BCR, stated: ***"On the back of strategic shift to lending in RON, BCR tripled new housing loans and grew significantly new cash loans volumes in 2014. We hold a fifth of the new lending market share and we will further consolidate that position, as BCR successfully completed a branch network improvement project, aimed to reinforce client service quality."***

¹ Below stated financial data are un-audited, consolidated business results of Banca Comerciala Romana Group for full year 2014 according to IFRS. Unless otherwise stated, financial results from full year 2014 are compared to financial results for full year 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 full year 2014 of 4.4442 RON/EUR when referring to full year 2014 results and using the average exchange rate for full year 2013 of 4.4194 RON/EUR when referring to full year 2013 results. The balance sheets at 31 December 2014 and at 31 December 2013 are converted using the closing exchange rates at the respective dates (4.4828 RON/EUR at 31 December 2014 and 4.4710 RON/EUR at 31 December 2013, respectively). All the percentage changes refer to RON figures.

Sergiu Manea, Corporate & Markets Vice President of BCR, stated: *“In 2014 new lending to clients and a positive development of the approved loan limits contributed to stabilization of the performing corporate loan book. On the back of a solid business pipeline, we look confident towards achieving healthy growth, anchored in a clear, transparent and predictable partnership with our customers. We place particular focus on the ability to understand the development cycles of our clients and the industry they operate in, which we believe will improve both client service quality and the quality of the loan portfolio.”*

Resolution of NPL stock

In line with guidance provided at HY 2014 and Q3 2014 financial results, BCR accelerated resolution of NPL legacy and sold non-performing loans amounting to RON 2.0 billion, achieving guidance of overall NPL volume reduction by 24% yoy.

As such, **net charge of impairments on financial assets not measured at fair value through profit and loss** increased by 110.7% to **RON 4,440.0 million** (EUR 999.0 million) in 2014, versus RON 2,107.6 million (EUR 476.9 million) in 2013, on the back of portfolio sales, write-offs and implementation of new risk parameters, thus off-setting completely the operating result.

NPL ratio² at **25.7%**, as of 31 December 2014, significantly decreased versus 29.2% as of 31 December, despite overall reduction of the loan book, determined by recoveries, sales of selected NPL portfolios and write-offs. **NPL coverage ratio stood at 75.8%**, significantly above 65.8% as of December 2013.

2014 commercial and financial highlights

Banca Comerciala Romana (BCR) achieved in 2014 an **operating result** of **RON 1,914.4 million** (EUR 430.8 million), 19.3% lower than the previous year at RON 2,372.9 (EUR 536.9), driven by weaker operating income and partly compensated by lower costs.

In 2014 BCR booked on balance sheet **new loans in amount of RON 7.4 billion, on the back of solid growth in retail and stabilization of corporate book. On top of that, the bank additionally invested RON 4.6 billion in government bonds.** That new funding into the economy was coupled with solid growth in deposits and successful distribution of subsidiary products including Erste Asset Management funds, BCR Banca pentru Locuinte and BCR Pensii.

In bank retail business, strong performance in new volume generation by the franchise (RON equivalent of 4.7 billion) resulted in a threefold increase versus the previous year concerning housing loans and 61% in cash loans, respectively. The retail performing loans balance stood at around **RON 16.6 billion**, on the back of **new lending offsetting volumes of loans reimbursed or maturing.** At **RON 9.5 billion the total performing housing loans portfolio** grew satisfactorily versus RON 8.6 billion at end of year 2013. Overall **local currency performing loans portfolio** encouragingly grew to **RON 6.7 billion** as compared to RON 5.5 billion at year end 2013.

In bank corporate business, performing loan portfolio stood at around **RON 11.8 billion**, with new lending equivalent of about RON 2.7 billion granted to corporate clients in sectors such as **energy, agriculture, constructions, pharmacy & healthcare, industry, IT&C.**

Net interest income, was down by 17.5%, to **RON 2,289.4 million** (EUR 515.1 million), from RON 2,775.6 million (EUR 628.0 million) in 2013, on the back of accelerated NPL portfolio resolution, a lower interest rate environment and efforts to price competitively in the market.

Net fee income was down by 4.9%, to **RON 711.3 million** (EUR 160.0 million), from RON 748.2 million (EUR 169.3 million) in 2013, on the back of lower fees from loan management and current accounts.

² Numbers and ratios as of December 2014 reported already in compliance with draft EBA NPE definition. Comparative values to previous quarterly data would have been NPL ratio of 23.7% and Coverage ratio of 82.2%

Net trading result decreased by 18.2%, to **RON 360.8 million** (EUR 81.2 million), from RON 441.3 million (EUR 99.9 million) in 2013 on the back of reduced trading activity.

The **operating income** decreased by 15.3% to **RON 3,389.3 million** (EUR 762.6 million) from RON 4,000.6 million (EUR 905.2 million) in 2013.

General administrative expenses in 2014 reached **RON 1,474.9 million (EUR 331.9 million)**, down by 9.4% in comparison to RON 1,627.7 million (EUR 368.3 million) in 2013. The fulfilment of cost targets, set forth in 2012 turnaround plan, is enhanced by continuous emphasis and focus on productivity improvements. As such, over the last three years, BCR achieved a cumulated reduction of 21% in its cost base in comparison with expense levels before launching its ambitious turnaround plan.

As such, **cost-income ratio** advanced to **43.5%** in 2014, versus 40.7% in 2013.

Capital position and funding

Solvency ratio under local standards (BCR standalone, IFRS with prudential filters) as of December 2014 stood at **18.9%**, well above the regulatory requirements of the National Bank of Romania (min 10%). Also, IFRS **Tier 1+2 capital ratio** of **19.0%** (BCR Group), as of December 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 solidly grew by 6.6% to **RON 39,922.6 million** (EUR 8,905.7 million) as of 31 December 2014, versus RON 37,448.2 million (EUR 8,375.8 million) as of end December 2013. 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 538 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. BCR Group had 7,054 own employees, as of December 2014.

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Financial data

Income statement

| in RON million | 2014 | 2013 |
|--|------------------|--------------|
| Net interest income | 2,289.4 | 2,775.6 |
| Net fee and commission income | 711.3 | 748.2 |
| Net trading and fair value result | 360.8 | 441.3 |
| Operating income | 3,389.3 | 4,000.6 |
| Operating expenses | - 1,474.9 | - 1,627.7 |
| Operating result | 1,914.4 | 2,372.9 |
| Net impairment loss on non-fair value financial assets | - 4,440.0 | - 2,107.6 |
| Net result attributable to owners of the parent | - 2,799.9 | 591.2 |

Balance sheet

| in RON million | Dec 14 | Dec 13 |
|--|-----------------|-----------------|
| Cash and cash balances | 8,235.2 | 9,586.0 |
| Financial assets – held for trading | 370.8 | 373.6 |
| Financial assets – available for sale | 7,655.0 | 5,219.8 |
| Financial assets – held to maturity | 9,578.2 | 10,235.3 |
| Loans and receivables to credit institutions | 525.3 | 507.7 |
| Loans and receivables to customers | 32,566.0 | 38,002.4 |
| Intangible assets | 218.5 | 387.4 |
| Miscellaneous assets | 428.1 | 271.1 |
| Total assets | 61,624.6 | 66,728.8 |
| Financial liabilities - held for trading | 70.1 | 66.1 |
| Deposits from banks | 14,191.1 | 18,151.8 |
| Deposits from customers | 39,922.6 | 37,448.2 |
| Debt securities issued | 1,044.2 | 1,529.8 |
| Miscellaneous liabilities | 168.5 | 175.2 |
| Total equity | 4,910.2 | 7,423.3 |
| Total liabilities and equity | 61,624.6 | 66,728.8 |