

BCR financial results for Q1 2015: RON 344 million net profit; NPL portfolio continues to decrease

Highlights¹:

- On the back of a RON 392.3 million operating result, Q1 2015 net profit stood at RON 344.0 million (EUR 77.1 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 25.6% compared to 30.3% in Q1 2014, while NPL coverage ratio stands stable at a very comfortable level of 75.7%.
- In Q1 2015 BCR recorded a significant uplift in retail secured loans, with standard mortgage increasing by 48% annually and Prima Casa new production up by 43% annually. In corporate business, new approved loans were significantly up yoy, supported by a solid pipeline of better quality new business.
- Expenses were down by 1.3% yoy, while cost savings are expected to translate into infrastructure investments in the following quarters.
- The capital position of the bank remains exceptionally strong to support good business growth. BCR's solvency ratio stood at 19.7% in Feb 2015 (bank), while Tier 1 + 2 capital (group) was very solid at RON 6.2 billion, as of Dec 2014.

Q1 2015 financial results point out BCR's recovery gains strong momentum. We are coming out of a difficult period; nonetheless we hold the satisfaction we were consistently doing the right thing throughout the turnaround. As we progress in delivering against our efficiency and risk elimination objectives, we are dedicating increased focus to the build-up of the commercial franchise, underpinned by transparency, stability and simplicity in all our customer relationships.

BCR already commands significant market share in retail business and the quality of corporate assets is improving continuously. Further to that, we are committed to channelling as much as possible of our exceptional liquidity and capital resources towards financing the real economy. We look confident towards achieving healthy growth and sustainable profitability anchored in a simple aim: to build prosperity and foster financial independence for our clients, said Tomas Spurny, CEO of BCR.

¹ Below stated financial data are un-audited, consolidated business results of Banca Comerciala Romana Group for the first quarter of 2015 (Q1 2015), according to IFRS. Unless otherwise stated, financial results for the first quarter of 2015 (Q1 2015) are compared to financial results for the first quarter of 2014 (Q1 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 quarter of 2015 (Q1 2015) of 4.4505 RON/EUR when referring to the first quarter of 2015 (Q1 2015) results and using the average exchange rate for the first quarter of 2014 (Q1 2014) of 4.5025 RON/EUR when referring to for the first quarter of 2014 (Q1 2014) results. The balance sheets at 31 March 2015 and at 31 December 2014 are converted using the closing exchange rates at the respective dates (4.4098 RON/EUR at 31 March 2015 and 4.4828 RON/EUR at 31 December 2014, respectively). All the percentage changes refer to RON figures.

Q1 2015 commercial and financial highlights

Banca Comerciala Romana (BCR) achieved in Q1 2015 an operating result of RON 392.3 million (EUR 88.1 million), 29.0% lower than the previous year at RON 552.5 (EUR 122.7), driven by weaker operating income, impacted by reduced unwinding contribution and partly compensated by lower costs. **Q1 2015 net profit stood at RON 344.0 million (EUR 77.1 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 **standard mortgages new volumes increasing by 48% annually and Prima Casa new production up by 43%**, respectively. The retail performing loans balance stood at around **RON 16.6 billion**, on the back of **new lending matching volumes of loans reimbursed or maturing**. At **RON 9.55 billion the total performing housing loans portfolio** continued to grow versus RON 8.45 billion at end of year 2014. Overall, **performing local currency loans portfolio** encouragingly grew to **RON 7.0 billion** as compared to RON 6.7 billion at year end 2014.

In bank corporate business, performing loan portfolio stood at around **RON 11.5 billion**, with new approved loans picking up, supported by a solid pipeline of better quality new business, particularly in overdraft, working capital and supply chain financing.

That 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 20.8%, to **RON 510.5 million** (EUR 114.7 million), from RON 644.4 million (EUR 143.1 million) in Q1 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 4.7%, to **RON 167.6 million** (EUR 37.7 million), from RON 175.9 million (EUR 39.1 million) in Q1 2014, on the back of lower fees from loan management and current accounts.

Net trading result decreased by 29.8%, to **RON 61.9 million** (EUR 13.9 million), from RON 88.3 million (EUR 19.6 million) in Q1 2014 on the back of reduced trading activity.

The **operating income** decreased by 18.0% to **RON 749.9 million** (EUR 168.5 million) from RON 915.0 million (EUR 203.2 million) in Q1 2014, mainly driven by reduced net interest income along with lower trading result.

General administrative expenses in Q1 2015 reached **RON 357.6 million (EUR 80.4 million)**, down by 1.3% in comparison to RON 362.5 million (EUR 80.5 million) in Q1 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 **47.7%** in Q1 2015, versus 39.7% in Q1 2014.

Risk costs and Asset Quality

Net charge of impairments on financial assets not measured at fair value through profit and loss recorded a positive contribution of **RON 39.4 million** (EUR 8.9 million) in Q1 2015, versus a negative charge of RON -496.4 million (EUR -110.3 million) in Q1 2014, on the back of successful efforts to resolve NPL legacy. The substantially lower risk costs stand on better quality of the performing book, low NPL formation in retail business as well as lower defaults in the first quarter and higher recoveries in corporate business against basis set up in H2 2014, following extensive portfolio screening. .

NPL ratio² at **25.6%**, as of 31 March 2015, significantly decreased versus 30.3% as of 31 March 2014, despite overall reduction of the loan book, determined by recoveries, sales of selected NPL portfolios and write-offs. **NPL coverage ratio stood at 75.7%**, significantly above 62.2% as of March 2014.

Capital position and funding

Solvency ratio under local standards (BCR standalone) as of February 2015 stood at **19.7%**, well above the regulatory requirements of the National Bank of Romania (min 10%). Also, IFRS **Tier 1+2 capital ratio** of **19.7%** (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 were slightly down by 2.7% to **RON 38,852.8 million** (EUR 8,810.6 million) at 31 March 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. BCR Group had 7,079 own employees, as of March 2015.

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

Financial data

Income statement

in RON million	Q1 2015	Q1 2014
Net interest income	510.5	644.4
Net fee and commission income	167.6	175.9
Net trading and fair value result	61.9	88.3
Operating income	749.9	915.0
Operating expenses	(357.6)	(362.5)
Operating result	392.3	552.5
Net impairment loss on non-fair value financial assets	39.4	(496.4)
Net result attributable to owners of the parent	344.0	(0.8)

Balance sheet

in RON million	Mar 15	Dec 14
Cash and cash balances	5,644.2	8,235.2
Financial assets – held for trading	609.5	370.8
Financial assets – available for sale	7,814.3	7,655.1
Financial assets – held to maturity	10,262.5	9,578.2
Loans and receivables to credit institutions	1,697.6	525.3
Loans and receivables to customers	31,877.6	32,566.1
Intangible assets	207.1	218.5
Miscellaneous assets	577.5	428.2
Total assets	60,669.4	61,624.6
Financial liabilities - held for trading	34.2	70.1
Deposits from banks	13,987.0	14,191.1
Deposits from customers	38,852.8	39,922.6
Debt securities issued	911.9	1,044.2
Miscellaneous liabilities	239.0	168.5
Total equity	5,265.1	4,910.2
Total liabilities and equity	60,669.4	61,624.6