

BCR records good performance in the first nine months of 2016 thanks to extensive customer reach; RON 6.0 billion new loans granted, strong client activation, lower NPLs, RON 1.1 billion net profit

Highlights¹:

- The capital position of the bank is strong to support business growth. BCR's solvency ratio stood at 22.9% as of August 2016 (BCR standalone), while Tier 1 + 2 capital (BCR Group) was very solid at RON 6.7 billion as of August 2016.
- In the first nine months of 2016 BCR granted a volume of RON 6.0 billion new retail and corporate loans.
- BCR executes strategy across customer segments based on accessible services, protection, financial education.
- The bank has reached 200,000 clients to whom it has offered commercial solutions to reduce financial burden.
- NPL ratio decreased to 13.3% compared to 22.2% in September 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 79.7%, as of September 2016.
- 1-9 2016 net profit stood at RON 1,145.4 million (EUR 255.4 million), supported by new client business and improving portfolio quality.

We count on a very solid balance sheet enabling us to focus on developing new client business. We are thankful to our clients for trusting the commercial solutions we are offering and for their loyalty to BCR. The bank anchors its customer value proposition in accessible services, protection and financial education. That is the key to our success.

On a different note, we are concerned by several legislative challenges in the banking sector and are genuinely worried to see a trend which prevents efficient and sustainable channelling of critical financial resources into infrastructure, education, technology or quality of life, which are obvious priorities for Romania, Sergiu Manea, CEO of BCR, stated.

First nine months (1-9) 2016 commercial and financial highlights

¹ Below stated financial data are un-audited, consolidated business results of Banca Comerciala Romana Group for the first nine months of 2016 (1-9 2016), according to IFRS. Unless otherwise stated, financial results for 1-9 2016 are compared to financial results for the first nine months of 2015 (1-9 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 1-9 2016 of 4.4846 RON/EUR when referring to the first nine months of 2016 results and using the average exchange rate for 1-9 2015 of 4.4407 RON/EUR when referring to the first six months of 2015 results. The balance sheets at 30 September 2016 and at 31 December 2015 are converted using the closing exchange rates at the respective dates (4.4537 RON/EUR at 30 September 2016 and 4.5240 RON/EUR at 31 December 2015, respectively). All the percentage changes refer to RON figures.

Banca Comerciala Romana (BCR) in 1-9 2016 achieved a strong **net profit of RON 1,145.4 million (EUR 255.4 million)**, supported by new client business and continued improvement of portfolio quality.

The operating result stood at RON 1,067.9 million (EUR 238.1 million), 11.1% lower than the previous year at RON 1,201.2 (EUR 270.5), driven by lower operating income, impacted by reduced unwinding contribution, low margin and low interest rate environment.

In bank retail business, strong performance in volume generation by the franchise resulted in **new loans totalling RON 3.8 bn**, with solid sales of both unsecured and secured loans – driven by Prima Casa, due to supplementation of available ceiling, presently already exhausted.

BCR successfully targets **client activation** by means of internet & mobile banking services (up by 30%, 150% yoy, respectively), free base current account and debit card, as well as ATM and POS transactions (up by 20% yoy).

The bank was the first local institution compliant with EU Directive 17 on consumer credit. The bank has also reached a milestone **200.000 clients to whom it has offered in the last years commercial solutions to reduce financial burden and increase loyalty**.

In bank corporate business, **new volumes added on the balance sheet totalled RON 2.2 billion**. Co-financing of EU funded projects was also solid with BCR holding over 30% market share and a portfolio of over RON 7.1 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 10.0%, to **RON 1,356.3 million** (EUR 302.4 million), from RON 1,506.5 million (EUR 339.3 million) in 1-9 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 0.2%, to **RON 532.7 million** (EUR 118.8 million), from RON 531.6 million (EUR 119.7 million) in 1-9 2015, on the back of higher transaction banking fees.

Net trading result increased by 8.9%, to **RON 252.9 million** (EUR 56.4 million), from RON 232.1 million (EUR 52.3 million) in 1-9 2015.

The **operating income** decreased by 5.3% to **RON 2,184.0 million** (EUR 487.0 million) from RON 2,307.3 million (EUR 519.6 million) in 1-9 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 1-9 2016 reached **RON 1,116.1 million (EUR 248.9 million)**, up by just 0.9% in comparison to RON 1,106.2 million (EUR 249.1 million) in 1-9 2015.

As such, **cost-income ratio** advanced to **51.1%** in 1-9 2016, versus 47.9% in 1-9 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 227.7 million** (EUR 50.8 million) in 1-9 2016, versus a charge of RON 55.1 million (EUR 12.4 million) in 1-9 2015, driven by further NPL resolution and recoveries and coupled with improved portfolio quality.

NPL ratio² at **13.3%**, as of 30 September 2016, significantly decreased versus 22.2% as of 30 September 2015, despite overall reduction of the loan book, determined by recoveries, sales of selected NPL portfolios and write-offs. **NPL provision coverage ratio stood at 79.7%**, while, collateral included, it comfortably stood at 113%.

² Starting Dec-14 reported in compliance with draft EBA NPE definition.

Capital position and funding

Solvency ratio under local standards (BCR standalone) as of August 2016 stood at **22.9%**, well above the regulatory requirements of the National Bank of Romania. Also, IFRS **Tier 1+2 capital ratio** of **21.3%** (BCR Group), as of June 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.

Deposits from customers grew by 4.6% to **RON 44.606.2 million** (EUR 10,015.5 million) at 30 September 2016, versus RON 42,626.0 million (EUR 9,422.2 million) at 31 December 2015, driven by retail and 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 512 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 September 2016, BCR Group was employing 7,115 people.

For more information please contact press office at: comunicare@bcr.ro

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For more details about the products and services provided by BCR, please contact InfoBCR at

Internet page: www.bcr.ro

Email: 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 2016	1-9 2015
Net interest income	1,356.3	1,506.5
Net fee and commission income	532.7	531.7
Net trading and fair value result	252.9	232.1
Operating income	2,184.0	2,307.3
Operating expenses	(1,116.1)	(1,106.2)
Operating result	1,067.9	1,201.2
Net impairment loss on non-fair value financial assets	227.7	(55.1)
Net result attributable to owners of the parent	1,145.4	904.3

Balance sheet

in RON million	Sep 2016	Dec 2015
Cash and cash balances	10,050.3	9,441.8
Financial assets – held for trading	361.3	248.1
Financial assets – available for sale	5,583.6	7,203.3
Financial assets – held to maturity	12,393.7	10,154.4
Loans and receivables to credit institutions	1,193.1	204.4
Loans and receivables to customers	32,429.7	32,450.8
Intangible assets	243.8	234.3
Miscellaneous assets	432.9	423.8
Total assets	64,610.5	62,360.0
Financial liabilities - held for trading	42.6	35.1
Deposits from banks	10,668.0	11,247.2
Deposits from customers	44,606.2	42,626.0
Debt securities issued	742.7	912.2
Miscellaneous liabilities	269.6	307.6
Total equity	6,948.5	5,875.3
Total liabilities and equity	64,610.5	62,360.0