

BCR in 2017: higher operating result, substantial NPL decline by 30%, RON 668 million net profit

Highlights¹:

- In 2017 BCR granted a volume of RON 8.1 billion new retail and corporate loans
- Last year, BCR registered a significant increase of 16.8% in financing for SMEs
- More than 10,000 families in Romania opted to buy a house through BCR in 2017, while electronic and digital operations marked consistent increases
- The NPL ratio decreased to 8.1% compared to 11.8% in December 2016, while the NPL provisioning coverage improved further to 92.7% in December 2017
- The capital position of the bank is strong: BCR's solvency ratio stood at 21.3% as of December 2017 (BCR standalone), while Tier 1 + 2 capital (BCR Group) was very solid at RON 7.2 billion as of December 2017
- 2017 net profit stood at RON 668.1 million (EUR 146.2 million)
- BCR remains consistent with its robust strategy that involves trust and extended accessibility of services for all customer segments

Highlights by CEO of BCR, Sergiu Manea

*„When measuring our success in 2017, I look upon what is the **impact we achieved in enabling prosperity and acting as a responsible bank**. I wish we did more, and I am convinced we can do much more as long as continue to learn from our clients about what matters every day for them. That notwithstanding I am deeply thankful to our clients and employees for enabling our good results in 2017: **good quality business growth, expanding BCR's balance sheet into high economic and social impact sectors, concrete results in financial education**.*

*The economy evolved strongly in 2017 and it was driven not only by a sustained revival of consumption, but also by strong **industrial production, agriculture and services, where BCR has substantially outgrew the market in financing small and medium enterprises. BCR engaged and will continue to engage in supporting the Start UP Nation program** as we believe it is important for the country and the local entrepreneurial culture.*

*In 2018 we expect the economic growth to maintain a solid pace around 5%, incomes to grow at a moderate pace and unemployment to stay low, but we also see risks in the financial markets. That is why we will focus our expertise on **servicing our clients with long term financial planning and protection of their household budget**. Thus, our offering will prioritize lending in local currency, fixed instalments and compelling insurance options for clients.*

¹The financial information presented below represents the un-audited, consolidated results of Banca Comerciala Romana Group for the year 2017. Unless otherwise stated, the financial results for the year 2017 are comparable to financial results for the full year 2016. 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 full year 2017 of 4.5686 RON/EUR when referring to the full year 2017 results and using the average exchange rate for the full year 2016 of 4.4901 RON/EUR when referring to full year 2016 results. The balance sheets at 31 December 2017 and at 31 December 2016 are converted using the closing exchange rates at the respective dates (4.6585 RON/EUR at 31 December 2017 and 4.5390 RON/EUR at 31 December 2016, respectively). All the percentage changes refer to RON figures.

*Not least, **BCR will keep investing in digitally enabled modern service and processes for a more convenient banking experience.** Technological innovation and new skills are transforming the way service is delivered and experienced and I am happy to note BCR not only grew significantly the number of new digital service clients, but also moved towards digital service ecosystems such as app based car sharing service eGO.*

*The overall banking environment is set to see good competition and consolidation. It remains paramount that **competition and free market reign the functioning of the system**, as it is for the banking system to understand its responsibility towards Romania's economic resilience. BCR is committed to a **substantial and constructive dialogue on building the entire country's capacity and confidence to capitalize on the major development opportunities: infrastructure, education, technology, quality of housing and health.**"*

Full year 2017 commercial and financial highlights

Banca Comerciala Romana (BCR) recorded in 2017 an **operating result of RON 1,343.7 million (EUR 294.1 million)**, 3.5% higher than the previous year, driven by higher operational revenues and more efficient spending. The bank achieved thus a net profit **RON 668.1 million (EUR 146.2 million)** supported by business development and continuous improvement of the portfolio quality.

In 2017 BCR granted new retail and corporate loans totalling RON 8.1 billion. This led to an **advance in the stock of net loans to customers of 3.7% year-on-year.**

In retail banking business, BCR granted new loans totalling RON 5.5 billion, with solid sales of unsecured and secured loans - mainly due to "Divers" cash loan with fixed instalments, whose sales recorded an increase of 7% year-on-year. According to our surveys, most of the personal needs loans went to dwelling refurbishment (56%), purchase of a car (14%) and purchase of furniture (10%).

Significantly, last year, **over 10,000 families in Romania opted to acquire a house through BCR**, choosing either the "Prima Casa" programme or the standard BCR mortgage loan "Casa Mea", the latter recording in the fourth quarter an advance in sales of over 77% as compared to the same period of last year.

Overall, this translated into **net retail loan portfolio of the bank growing by 5.1% year-on-year.**

BCR also marked in 2017 a series of substantial increases in electronic and digital operations - 78% more Mobile Banking customers and 32% more Internet Banking customers.

In corporate banking business, new volumes added on the balance sheet totalled RON 2.6 billion. There was a significant increase of 16.8% year-on-year in SME financing (small and medium-sized enterprises), as a result of the proactive strategy of supporting local entrepreneurs. Under corporate financing, BCR is involved in several key sectors for the Romanian economy, such as the automotive, agriculture, energy and logistics. Co-financing of EU funded projects increased over the last year, BCR holding a significant market share and a portfolio of over RON 8.0 billion granted co-financings.

Overall, this translated into **net corporate loans portfolio of the bank growing by 1.7% year-on-year.**

Net interest income was down by 1.3% to **RON 1,764.2 million (EUR 386.2 million)** from RON 1,786.7 million (EUR 397.9 million) in 2016, on the back of continued NPL portfolio resolution and sustained efforts to price competitively in the market.

Net fee income was down by 1.2% to **RON 700.7 million (EUR 153.4 million)** from RON 708.9 million (EUR 157.9 million) in 2016, on the back of lower transaction banking fees, partially compensated by higher brokerage fees from subsidiaries.

Net trading and fair value result increased by 12.8% to **RON 354.7 million (EUR 77.6 million)** from RON 314.3 million (EUR 70.0 million) in 2016.

The **operating income** increased by 0.7% to **RON 2,887.9 million (EUR 632.1 million)** from RON 2,868.2 million (EUR 638.8 million) in 2016, driven by higher trading result.

General administrative expenses in 2017 dropped by 1.7% to **RON 1,544.2 million (EUR 338.0 million)** from RON 1,570.5 million (EUR 349.8 million) in 2016.

As such, **cost-income ratio** improved to **53.5%** in 2017 versus 54.8% in 2016.

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 low provision allocation of **RON 32.4 million** (EUR 7.1 million) in 2017, versus a release of RON 280.0 million (EUR 62.4 million) in 2016, on the back of natural developments in risk provisioning.

The NPL ratio² stood at **8.1%** as of 31 December 2017, significantly lower versus 11.8% as of 31 December 2016, due to the constant efforts in recent years for the overall reduction of the NPL book through recoveries, sales of selected NPL portfolios and write-offs. **NPL provision coverage ratio comfortably stood at 92.7%**, while, collateral included, it stood at 128.5%.

Capital position and funding

Solvency ratio under local standards (BCR standalone) as of December 2017, stood at **21.3%**, well above the regulatory requirements of the National Bank of Romania. Also, IFRS **Tier 1+2 capital ratio** of **20.2%** (BCR Group) as of December 2017 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 8.8% to **RON 52,496.1 million** (EUR 11,268.9 million) at 31 December 2017, versus RON 48,235.2 million (EUR 10,626.8 million) at 31 December 2016, driven by both retail and corporate deposits. Customer deposits remain BCR's main funding source, while the bank benefits from diversified funding sources, including parent company.

BCR focuses on lending in RON, already succeeding to reverse the currency mix of the loan book in favour of local currency and fully use the strong self-funding capacity in RON.

BCR provides a full range of financial products and services, through a network of 22 business centers and 22 mobile offices dedicated to companies and 507 retail units located in most cities across the country with over 10,000 inhabitants. BCR is the No. 1 bank in Romania in the market of bank transactions, BCR customers having available the largest national network of ATMs - over 2,500 automatic teller machines and POS - 17,800 card payment terminals to merchants, and complete services of Internet banking, Mobile banking, Phone-banking and E-commerce. As of December 2017, BCR Group was employing 7,265 people.

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

Financial data

Income statement

| in RON million | 2017 | 2016 |
|--|--------------|----------------|
| Net interest income | 1,764.2 | 1,786.7 |
| Net fee and commission income | 700.7 | 708.9 |
| Net trading and fair value result | 354.7 | 314.3 |
| Operating income | 2,887.9 | 2,868.2 |
| Operating expenses | (1,544.2) | (1,570.5) |
| Operating result | 1,343.7 | 1,297.7 |
| Net impairment loss on non-fair value financial assets | (32.4) | 280.0 |
| Net result attributable to owners of the parent | 668.1 | 1,041.8 |

Balance sheet

| in RON million | Dec 2017 | Dec 2016 |
|--|-----------------|-----------------|
| Cash and cash balances | 11,369.3 | 11,911.9 |
| Financial assets – held for trading | 104.7 | 633.2 |
| Financial assets – available for sale | 6,600.0 | 5,574.1 |
| Financial assets – held to maturity | 14,756.9 | 13,904.2 |
| Loans and receivables to credit institutions | 2,215.1 | 552.8 |
| Loans and receivables to customers | 33,490.9 | 32,291.1 |
| Intangible assets | 320.9 | 289.3 |
| Miscellaneous assets | 314.4 | 365.7 |
| Total assets | 70,940.3 | 67,514.6 |
| Financial liabilities - held for trading | 44.7 | 38.4 |
| Deposits from banks | 7,826.2 | 9,654.7 |
| Deposits from customers | 52,496.1 | 48,235.2 |
| Debt securities issued | 539.6 | 637.2 |
| Miscellaneous liabilities | 1,145.2 | 709.0 |
| Total equity | 7,439.1 | 6,804.4 |
| Total liabilities and equity | 70,940.3 | 67,514.6 |