

# BANCA COMERCIALĂ ROMÂNĂ

Annual Report 2007

---

# Summary

|    |  |
|----|--|
| 03 | The Message of the Executive President         |
| 05 | The BCR Management                             |
| 09 | The Romanian Macroeconomic environment in 2007 |
| 12 | The Management Team's Report                   |
| 16 | Corporate Governance                           |
| 18 | Social Responsibility                          |
| 22 | Employee Training Programs                     |
| 25 | Retail Banking                                 |
| 31 | Corporate Banking                              |
| 34 | Treasury and Capital Markets                   |
| 35 | Financial and Risk Management                  |
| 40 | Operations                                     |

# Message of the Executive President

**Dear colleagues and shareholders,**

It's an honour for me to present you the BCR report for 2007, the year with the greatest challenges for the bank and its employees.

In 2007, BCR went through a major change, which transformed it from a good bank into a better one, more efficient and modern, and in line with Erste Bank standards.

I saw this change like a process which creates a new environment of collaboration with our partners, with simpler processes and with high quality products and services.

The 2007 results show that we are on the right path. We achieved our goals and obtained a record profit, which reflects not only the force of our business, but also the quality of our partners and clients!

I would like to further point out some of the 2007 results:

- BCR achieved its target goals. The annual profit in 2007 (of BCR Group, IFRS) before including the restructuring and change costs, increased by 42%, to EUR 362.1 million. The growth objective was confirmed: an annual increase of the profit in Euros by 40%, in the period of time 2006-2009 (CAGR).
- The biggest annual net profit in the history of BCR. The net profit after taxes and minority interests increased by 22.3%, from RON 756.3 million (EUR 214.5 million), to RON 924.8 million (EUR 276.5 million). The operating income increased by 21.3%, from RON 2,550.1 million (EUR 723.3 million), to RON 3,094.6 million (EUR 925.4 million). Pre-tax Profit rose by 20.8%, from RON 927.7 million (EUR 263.1 million), to RON 1,120.9 (EUR 335.2 million). Total assets rose by 33.5%, from RON 47,435.8 (EUR 14,019.7 million), to RON 63,358.8 million (EUR 17,562.1 million).
- Strong business increase resulting from process and the products portfolio restructuring. The net interest income increased by 16.4%, from RON 1,686.4 million (EUR 478.3 million), to RON 1,962.9 million (EUR 587.0 million). Net commission income rose by 51.4%, from RON 566.5 million (EUR 160.7 million), to RON 857.5 million (EUR 256.4 million).



Manfred Wimmer, Executive President

- The integration process achieved already most of its objectives, which created the adequate conditions for efficiency improvement. The return on investment (ROI) increased from 18.8% in the financial year 2006, to 20.6%. Due to accelerated integration, the general administrative expenses rose by 25.5%, from RON 1,409.1 million (EUR 399.7 million), to RON 1,768.3 million (EUR 528.8 million). As a result, the cost/income ratio registered a slight growth, from 55.3% in the financial year 2006, to 57.1%

Therefore, the expected success can be seen through the new operational method developed through the IDP program.

Thus, in 2007:

- We massively expanded the retail network
- We improved the instruments and services offered to our clients
- We clearly separated the business retail and corporate lines, and also the support and back office functions
- We redefined the responsibilities of employees from the retail network

- We reinforced the training program and the support given to employees in sales
- We refined the range of products and services offered
- We rank first client satisfaction.

All these changes allowed employees to focus on their relationships with customers, resulting in a direct impact on the growth of service quality and client satisfaction.

The changes we achieved were perfectly illustrated by introducing the new logo on the 3rd of September 2007, as a visual expression of BCR's integration in Erste Group.

The year 2007 also meant a series of structural changes:

- 92 new retail units were opened, bringing the total number to 562 retail units by the year's end
- In October, 22 real estate centers were launched that offer quick and personalized services to real estate agencies, real estate developers and individuals.
- 52 Business Centers were opened across the country to satisfy specific needs of corporate clients, especially those of small and medium size businesses.

The restructuring process unfolded according to schedule and achieved the expected results, which were made possible by the great team at BCR and our clients who invested us with their trust.

The entire process was made possible by people and for people, because business isn't just about making money. First and foremost for us, it is about people and their feelings. I'm proud of what I accomplished together with my team this year! We shall continue to improve the quality and efficiency of our business to permanently bring superior value to our clients and shareholders.

Our objective remains the same: to be the best bank in Romania as well as in Erste Bank Group, a modern and dynamic financial organization, and a leader in Eastern and Central Europe.

**Manfred Wimmer**  
**CEO**

\*Until the 1st of July 2008, when the mandate of CEO was taken by Dominic Bruynseels

# BCR Management

## Supervisory Board

From the 1<sup>st</sup> of January until the 16<sup>th</sup> of January 2007 \_\_\_\_\_

|                         |  |
|-------------------------|--|
| <b>Andreas Treichl</b>  | – Chairman                                   |
| <b>Manfred Wimmer</b>   | – Deputy Chairman                            |
| <b>Herbert Juranek</b>  | – Member                                     |
| <b>Christian Coreth</b> | – Member (resigned starting with 17.01.2007) |
| <b>Mihăescu Teodor</b>  | – Member                                     |
| <b>Mihai Fercală</b>    | – Member                                     |
| <b>Daniel Dăianu</b>    | – Member                                     |

---

From the 17<sup>th</sup> of January until the 19<sup>th</sup> of April 2007 \_\_\_\_\_

|                        |                   |
|------------------------|-------------------|
| <b>Andreas Treichl</b> | – Chairman        |
| <b>Manfred Wimmer</b>  | – Deputy Chairman |
| <b>Herbert Juranek</b> | – Member          |
| <b>Mihăescu Teodor</b> | – Member          |
| <b>Mihai Fercală</b>   | – Member          |
| <b>Daniel Dăianu</b>   | – Member          |

---

From the 20<sup>th</sup> of April until the 23<sup>rd</sup> of April 2007 \_\_\_\_\_

|                         |  |
|-------------------------|--|
| <b>Andreas Treichl</b>  | – Chairman   |
| <b>Manfred Wimmer</b>   | – Deputy Chairman  |
| <b>Herbert Juranek</b>  | – Member   |
| <b>Mihăescu Teodor</b>  | – Member   |
| <b>Mihai Fercală</b>    | – Member   |
| <b>Daniel Dăianu</b>    | – Member   |
| <b>Peter Kisbenedek</b> | – Member (appointed by GMS on the 21.02.2007, and received NRB's approval on the 20.04.2007) |

---

---

Starting on April 23<sup>rd</sup> the new mandate of the Supervisory Board began, lasting until 5<sup>th</sup> June 2007

|                         |                   |
|-------------------------|-------------------|
| <b>Andreas Treichl</b>  | – Chairman        |
| <b>Peter Kisbenedek</b> | – Deputy Chairman |
| <b>Herbert Juranek</b>  | – Member          |
| <b>Daniel Dăianu</b>    | – Member          |

---

From 6<sup>th</sup> June until 31<sup>st</sup> December 2007

|                         |  |
|-------------------------|--|
| <b>Andreas Treichl</b>  | – Chairman   |
| <b>Peter Kisbenedek</b> | – Deputy Chairman  |
| <b>Herbert Juranek</b>  | – Member   |
| <b>Daniel Dăianu</b>    | – Member (he resigned on 24.12.2007)   |
| <b>Bernhard Spalt</b>   | – Member (appointed by GMS on the 23.04.2007, and received NRB's approval on 06.06.2007) |

---

Florin Pogonaru was appointed as member of the Supervisory Board by the General Meeting of Shareholders on 30 January 2008, taking over officially on 26 March 2008, after receiving the central bank's approval.

## The Executive Committee

From 1<sup>st</sup> January until 20<sup>th</sup> February 2007

|                       |  |
|-----------------------|--|
| <b>Nicolae Dănilă</b> | – Chief Executive Officer  |
| <b>Dan Bunea</b>      | – Executive Vice President coordinating the financial business line      |
| <b>Jean Andronic</b>  | – Executive Vice President coordinating of the corporate business line   |
| <b>Oana Petrescu</b>  | – Executive Vice President coordinating of the operational business line |
| <b>Martin Skopek</b>  | – Executive Vice President coordinating the retail business line         |

In a meeting on 17.01.2008, the Supervisory Board approved the target organizational structure for the Head Office of BCR, and also the allocation of the business lines to be coordinated by the Executive Committee members:

|                       |   |
|-----------------------|---|
| <b>Nicolae Dănilă</b> | – CEO coordinating the CEO business line and temporarily coordinator of the financial & risk business line until an Executive Vice-President is appointed to coordinate this line |
| <b>Dan Bunea</b>      | – Executive Vice President coordinating the capital markets and treasury business line  |
| <b>Jean Andronic</b>  | – Executive Vice President coordinating the corporate business line   |
| <b>Oana Petrescu</b>  | – Executive Vice President coordinating the operational business line   |
| <b>Martin Skopek</b>  | – Executive Vice President coordinating the retail & private banking line   |

From the 21<sup>st</sup> February until 31<sup>st</sup> July 2007

|                           |  |
|---------------------------|--|
| <b>Nicolae Dănilă</b>     | – CEO coordinating the CEO business line   |
| <b>Dan Bunea</b>          | – Executive Vice President coordinating the capital markets and treasury business line |
| <b>Jean Andronic</b>      | – Executive Vice President coordinating the corporate business line                    |
| <b>Helmuth Hintringer</b> | – Executive Vice President coordinating the financial & risk business line             |
| <b>Oana Petrescu</b>      | – Executive Vice President coordinating the operational business line                  |
| <b>Martin Skopek</b>      | – Executive Vice President coordinating the retail and private banking business line   |

In a regular meeting on 23.04.2007, the Supervisory Board decided to increase the number of the members of the Executive Committee to seven, and to appoint a new member, Mr. Manfred Wimmer, as Executive Vice-president coordinating all fields related to collaboration with Erste Bank, Mr. Wimmer took over his new responsibilities after receiving approval from NBR on 04.10.2007.

As a result of the resignation of Mr. Dan Bunea, as of 01.08.2007 from the position of the Executive Vice-President, the Supervisory Board in an extraordinary meeting on 27.07.2007, decided that for the interim period until the appointment of another member on the vacant position, that Mr. Nicolae Danila, Executive President, will also coordinate the divisions within the capital markets & treasury business line, with the exception of the Cash Management Division, which is to be coordinated by Mrs. Oana Petrescu, Executive Vice-President.

From 1 August until 3 October 2007

---

|                           |                            |
|---------------------------|----------------------------|
| <b>Nicolae Dănilă</b>     | – CEO                      |
| <b>Jean Andronic</b>      | – Executive Vice President |
| <b>Helmuth Hintringer</b> | – Executive Vice President |
| <b>Oana Petrescu</b>      | – Executive Vice President |
| <b>Martin Skopek</b>      | – Executive Vice President |

---

From 4 October until 30 October 2007

---

|                           |                            |
|---------------------------|----------------------------|
| <b>Nicolae Dănilă</b>     | – CEO                      |
| <b>Jean Andronic</b>      | – Executive Vice President |
| <b>Helmuth Hintringer</b> | – Executive Vice President |
| <b>Oana Petrescu</b>      | – Executive Vice President |
| <b>Martin Skopek</b>      | – Executive Vice President |
| <b>Manfred Wimmer</b>     | – Executive Vice President |

---

Upon the resignation of Mr. Nicolae Danila, as of 01.12.2007, from the position of CEO, in the regular meeting on 29.11.2007, the Supervisory Board decided to reduce, starting from 01.12.2007, the number of members of the Executive Committee from seven to five, which comprised the CEO and four Vice Presidents, as well as reducing their range of responsibilities, namely assigning them to coordinate the business lines.

From 1 December until 31 December 2007

---

|                           |   |
|---------------------------|---|
| <b>Manfred Wimmer</b>     | – CEO coordinating the CEO and capital markets & treasury business lines and all fields involving collaboration with Erste Bank |
| <b>Jean Andronic</b>      | – Executive Vice President coordinating the corporate banking business line   |
| <b>Helmuth Hintringer</b> | – Executive Vice President coordinating the financial & risk business line  |
| <b>Oana Petrescu</b>      | – Executive Vice President coordinating the operational business line   |
| <b>Martin Skopek</b>      | – Executive Vice President coordinating the retail & private banking business line.   |

---

Starting from 01.07.2008, Mr. Dominic Bruynseels takes over the position of CEO of BCR, replacing Manfred Wimmer, who will take over the position of Chief Financial Officer (CFO) and of Chief Performance Officer (CPO) of Erste Group Bank starting 01.09.2008.



# The Romanian Macroeconomic Environment in 2007

Romania's economy grew by 6% in 2007, amid adverse local conditions (for example a severe drought occurred) and despite turmoil on international markets generated by the U.S. sub-prime mortgage loans crisis. Gross fixed capital formation picked up the pace in 2007 (+28.9% as compared to 19.3% in 2006) and this will certainly play a significant role in further increasing productivity gains, which have been at high level throughout the last year.

Industry advanced 5.4% amid tightening competition from EU (open market), with capital and intermediary goods picking up the pace. Production of transportation means, communication equipment, manufacturing of rubber and plastic products, and construction materials reported the fastest growth rates in 2007, while productivity gains went up by a robust 10%.

The construction industry boomed in 2007, as Romania represented an attractive location for development, which received good support from both the construction materials industry that accelerated by more than 14%, and due to an additional workforce. Payrolls in construction increased on average by 13%, which had a positive impact on the registered unemployment rate which dropped to 4.1% at the end of December 2007 (as compared to 5.9% in 2005). The non-residential segment was the most active, advancing by almost 37%, while civil engineering including infrastructure projects placed second (+34%) in terms of growth speed.

Agriculture experienced one of the worst years in the country's recent history with production decreasing by more than 15%. This led to a negative impact on economic growth due to the high share in total GDP formation and affected headline inflation. The still highly fragmented structure of agricultural holdings and low investments in this field represent important setbacks that will continue to affect agricultural performance and make it highly dependent on weather. However, more investments in this area and support from EU funds should improve gradually the sector performance in the coming years.

Foreign direct investments (FDIs) went up by 4% in 2007, as compared to the previous year if we exclude the one-off transaction Erste-BCR in the previous year. FDIs have played a crucial role in recent years in terms of increasing

productivity gains, with industry being by far the main recipient of foreign long-term funding. More than 75% of Romanian exports in manufacturing are generated by FDIs and indeed this industry reported the most notable results in productivity gains growth.

The outlook in FDIs remains favourable for Romania, and long term investors are expected to make the most out of the local opportunities - particularly low labour costs, the flat tax rate regime and not least the EU membership which gives Romania an edge in terms of risks over other East European countries which are not part of the European Union. The legal framework for investments improved in 2008, with a view to a better distribution of FDIs across different regions, in an effort to reduce disparities and create a more uniform and sustainable investment environment in terms of GDP generation.

Under the process of restructuring which is far from being completed, the Romanian economy faced new challenges in recent years, with an important being the trade balance deficit which continued to expand in 2007, increasing the pressure on the current account. Romania is running a sizable trade deficit due to high technological imports, a process that is going to subside gradually in the years ahead. In 2007, the trade deficit generated by imports of capital goods and high value-added products accounted for almost 50% of country's trade deficit.

However, the exports structure improved drastically in 2007 in favour of capital goods and high value-added products that consolidated their share in the total exports to over 29% from 25% during the previous year. This clearly shows that the restructuring of the Romanian economy has a direct impact on productivity gains and the exports structure.

The widening trade deficit was behind the current account deficit, which expanded by 66%. It is worthwhile to mention the increased negative impact on the current account from the income balance following a strong rate of increase in dividend repatriations (+40% in 2007). Current transfers, an important mitigating factor of the current account deficit, were affected by the annual contribution to EU budget in total amount of over than EUR 1bn. The coverage rate of the CAD by FDIs stood at 42%, but if we take into consideration the inflows through the capital account representing EU funds absorption

(around EUR 440 million) the coverage rate stands at almost 45% in 2007.

External debt (excluding inter-company lending) was also on the rise (around 38% of GDP) remaining however at significantly lower levels as compared to peer CEE4<sup>1</sup> countries (more than 52% of GDP in average as of end-2007). Attractive interest margins on the local market pushed up external debt by means of non-resident deposits, particularly short term ones.

After a strong appreciation in the first seven months, the RON reversed its trend, with the national currency being affected by turmoil in international markets (US sub-prime mortgage loans crisis), as well as a more cautious approach of short term investors caused by the economic slowdown and external imbalances, which culminated in the downgrade of the country's outlook by S&P in early November. Since the effects of the turmoil continued to build up and the liquidity decline became increasingly visible, the national currency ended the year at the rate of 3.6 RON against Euro, while the outlook for the first months in 2008 was far from being bright.

Inflation saw an upward trend late in the third quarter (6.03% compared to the same quarter last year) ending the year at 6.6% y/y, following the adverse weather conditions which Romania faced last year, amid an unfavourable international context and mounting international prices of oil. It soon became evident that the National Bank would miss the inflation target set at 4%±1pp, while the overall inflation outlook started to deteriorate in the short run. Simultaneously, faster wage growth created additional pressures on the demand side, and correlated with the supply shock in agriculture, became key elements which induced a more cautious approach in terms of the inflation outlook. Under these circumstances, the central bank began to tighten the monetary policy in late 2007, raising key interest rate to 7.5% from 7%, while maintaining high mandatory reserves as non-governmental loans grew drastically.

The year 2008 will bring a mixed picture in terms of economic growth, considering the international context of Romania as an emerging economy. Although a certain slowdown is expected on a global level, following the international turmoil and energy price developments, exceptions may still occur.

The gap between the local economy and more mature ones in terms of competitiveness, correlated with improved domestic supply during good agricultural years and better support from industry, amid persistence of increased interest of foreign direct investors, indicate that the Romanian economy is likely to follow different patterns, and this could happen in 2008: it can accelerate when others are slowing down.

## Romania - banking market overview 2007

In 2007, banking sector developments in Romania have been marked by three major trends: relaxation of monetary policy, strong fluctuation of the local currency against the Euro after several years of constant appreciation, and aggressive expansion of banks' retail networks. The high dynamics of the market continued to attract new European players, who benefited from an easier market entry after Romania's EU accession.

Lending: Aggressive catching up - financial intermediation (loans-to-GDP ratio) reached about 37% in 2007, up from 27% in 2006 after lending exploded in the second half of the year. The business growth driver was retail lending which boomed as a result of higher accessibility and competition, pushing up the annual growth rate to more than 82% against 80% in 2005 and almost 84% in 2006. This movement was triggered by the FX lending which became dominant in the total portfolio by the end of December 2007.

In the retail area, housing loans grew the fastest but due to the low base level, their amount remained below 4% of GDP (approximately 530 EUR per household). On the other hand, consumer lending decelerated compared to previous years, undergoing significant structural changes depending on which currency was used for loans. Thus, the FX loans increased in total consumer loans from 30.1% in January 2007 to 44.0% in December 2007. Over 2/5 of this increase was determined by loans denominated in foreign currency other than the EUR, whose outstanding value was 7.4 times higher than in January 2007.

Corporate lending (including municipalities) enjoyed a robust increase in FX borrowings (3.1% monthly average growth rate in 2007 as compared to 2.1% in 2006) during the time when loans slowed in local currency (2.9% monthly average growth rate in 2007 against 4.3% in the preceding year).

<sup>1</sup>CEE4: Czech Republic, Slovakia, Poland and Hungary

Deposits: Growth and restructuring by customer and products – during 2007, the household saving behaviour improved and substantial funds from customers flooded the local non-governmental deposits market mainly in the second part of the year, inflating the annual growth rate from 20% to about 34%. In 2007, households increased their savings while slowing down consumption, becoming the major source of domestic funds for banks (52.2% of total deposits). Local currency prevailed as a saving option due to the huge increase in saving accounts, while term deposits' modest growth was driven by FX resources.

Corporate deposits registered a negative trend during the first nine months of the year, recovering loss in the last quarter and finally exceeding the 2006 level.

The strong performance in attracting deposits pushed down the year-end loans-to-deposits ratio for RON operations (80%) but did not affect the foreign currency transactions (195%). This resulted in a total loans-to-deposits ratio of 117%.

Interest rates: Improving the liabilities mix to lower loans prices – the competition between banks influenced a great deal the dynamics of interest rates. Thus, the RON interest rates for new loans declined during 2007 by 192 bps (December

07/December 06) for retail customers and by 48 bps for companies, while deposits interest rates were quite stable for retail (-9 bps) and went up for corporate (+116 bps). The EUR interest rates for new loans decreased for retail (-100 bps December 2007/December/2006) and rose for corporate (+74 bps). As far as deposits for both customer segments, these were better remunerated (+73 bps for retail and +94 bps for corporate).

Banks' pricing policy for new business resulted in a decreasing interest spread loans/term deposits for the outstanding portfolio, as a result of lowering funding costs through the restructuring of their deposit base in favour of sight deposits.

The interest rate differential between RON and EUR loans granted diminished during 2007, especially during the second half of the year as the additional yield from local currency appreciation diminished due to the reversal of the exchange rate trend.

On 31 December 2007, there were 41 banks operating in Romania's banking market with net assets amounting to the equivalent of EUR 70 billion.

# The Management Team's Report

## Overview of macroeconomic issues

Economic growth in 2007 was of 6%, which was significantly above the average of states in the Euro zone, thus laying the foundation for a successful recovery strategy, over both the medium and long terms, of the current existing differences. The level of investments in the constructions industry was the main cause for economic growth in 2007. The gross capital accumulation was significantly accelerated at the end of 2007, while consumption faced a decrease of its growth rate.

Foreign trade negatively contributed to economic growth as Romania still greatly needs of solid investments in areas having export potential: the automobile industry, electronics, chemical industry, energy industry.

The disinflation process stopped during the third quarter of 2007, resulting in two shocks: a negative shock in the agriculture supply generated by last year's summer severe drought, and another shock represented by the depreciation of the RON due to the context of international financial market unrest. As a result, the annual inflation rate reached 6.57% in December 2007, well above the upper threshold of the interval targeted by the central bank.

The current account deficit rose to around 14% of GDP in 2007, from 10.3% of GDP during the previous year. The trade deficit took a significant turn for the worse at the beginning of 2007, as several customs tariffs and taxes with the EU member countries were cancelled and due to the finalizing of deferred imports, however it slowed down towards the year end.

Foreign companies present in Romania have done extremely well financially, which produced the distribution of dividends (+46% during the first 11 months of 2007), thus placing additional pressure on the current account deficit through the balance of income. The net current transfers including remittances transferred by Romanians working abroad increased compared to 2006, and reduced the external imbalance. Official estimates point to a level of direct foreign investment of around EUR 7.1 billion in 2007, covering around 42% of the current account deficit.

The general consolidated budget had a deficit of almost 2.4% of GDP (local standards) in 2007, according to the data provided by the Ministry of Economy and Finance.

Expenditure noted a strong increase in November and December 2007, following the same pattern as the previous years. Between January and October 2007, slight monthly surpluses of the consolidated budget alternated with slight deficits.

It is in the above context that the Banca Comerciala Romana held the top position in the Romanian banking system, while maintaining the same assets volume in 2007 as it had in previous years.

## Financial results of the BCR Group

A 21.3% increase in the operating income of the BCR Group, slightly below the 25.5% growth of general administrative expenditure, led the way for a strong increase of operating profits, by 16.2%, from a level of 1,140.9 million lei (EUR 323.6 million) to 1,326.3 million lei (EUR 396.6 million), despite substantial restructuring and transformation costs.

The principle factor driving this improvement was a steep increase in the volume of loans, especially in the retail sector. The effects of restructuring the retail activity were already visible in 2007, as the net income generated by interest (+16.4%) and the net income from commissions applied (+51.4%) maintained their strong increase trend.

In 2007, the integration process reached its peak, with the greatest majority of objectives being attained. Operating expenses increased by 25.5%, with restructuring and transformation costs as the main driver, together with the costs for the territorial expansion of the bank. Operating expenses net of restructuring costs only noted a 15.9% increase, amounting to 1,540.0 million lei (EUR 460.5 million), showing adequately efficiency.

The demand for establishing risk Provisions for loans and advance payments increased just slightly, by 4.3%, reaching 164.4 million lei (EUR 49.2 million), despite high restructuring costs. This amount is the result of both negative as well as positive effects. The risk provisions which needed to be established in 2007 rose due to the fact that the requirement of concluding risk insurance was eliminated for unsecured consumer loans. Other increases were due to the restructuring of the loans portfolio. On the other hand, a positive effect over risk provisions was determined by the

fact that some loans that had been written off the balance sheet were re-entered in the balance sheet.

The net consolidated profit after taxes and minority interest increased by 22.3%, up to 924.8 million lei (EUR 276.5 million), the highest in the history of the BCR Group.

The costs/income ratio grew slightly from 55.3% to 57.1%, as a direct result of the accelerated development and integration program.

Following the success of the development and integration program and thus of the solid growth of business, the return on equity reached 20.6%, as compared to 18.8% for the entire 2006.

Total assets increased significantly by 33.5%, reaching 63,358.8 million lei (EUR 17,562.1 million), clearly pointing to a much stronger focus on business development, following the modernizing and increased efficiency of business lines.

## BCR activity indicators (unconsolidated figures)

During 2007, our main concern was that of maintaining the leadership position held by BCR in the Romanian banking system by making the best of the potential of the Romanian economy, the bank's competitive advantage, as well as the changes generated by the Integration and Development Program.

As far as the **corporate banking** division was concerned, the same interest was shown in drawing up customized offers, according to the individual characteristics and the potential of each bank-client relationship. Thus, the range of products and services for corporate clients was improved by developing specific products for different client segments. At the same time, the emphasis was also on implementing a new approach to the relationship with our clients, dividing them into large corporate clients, SMEs, municipalities and real estate developers. GLC (Group Large Corporate) clients make up a separate division, which is coordinated by the chief executive officer, however benefiting from an unitary approach.

As a result, new divisions were created in the Head Office, whose role is to maintain effective connection with the market and clients also with the help of the network – regional managers, relationship managers, as well as of the entire personnel within the 52 business centers dedicated to the SME segment. Additionally, we focused on strengthening the financing and development of the real estate sector, improving competencies regarding the EU accession financing, as well as expanding our offer of consultancy services and investment financing / co-financing products aimed at companies and local communities.

Concerning the **Retail & Private Banking** business line, our efforts went towards intensifying the retail banking activities, exploiting BCR's experience in this area and that of Erste Bank Group for increasing products and services sales to individuals and for promoting attractive financing offers aimed at micro enterprises and small entrepreneurs. An important objective in this area was adapting the territorial network to the new concept of client servicing, going forward with its development by means of small branches located in commercial and densely populated areas and by creating real estate centers.

Taking into consideration the range of products, we tried to improve the existing ones – especially those pertaining to lending, current account and electronic banking services and related products, as well as creating attractive product packages.

Regarding the **Treasury and Capital Market**, business line, the main activities aimed to consolidate the resources attracted from the internal and external market, maintaining an efficient and prudent approach, while taking into account both the ongoing developments on the international financial market as well as the trends of Romanian economy, whose objectives set by the government or by the central bank were accomplished only to a certain extent. From this perspective, we need to point out the activities connected to the phased launching of a MTN bond issue, as well as the negotiations handled by the bank for attracting a new financing line under the best conditions. The systematic and consistent debate within the Assets and Liabilities Committee (ALCO) should also be mentioned, on the basis of which decisions were made for the operative changing of active and passive interest rates.



Within the **Financial and Risk Management** business line measures were taken for implementing the Erste Bank standards, regarding the Basel II Agreement and ensuring compliance of BCR regulations in the field of operational and credit risks with those of Basel II. With a view to provide an adequate management of risks, we unified all risk management functions within a single business line and monitored the increase in efficiency by setting up specialized bodies for monitoring credit risks for the two business segments (corporate and retail). Additionally, a new and improved budgeting system was implemented according to RAS/IFRS standards and the concept of organizing the controlling function was developed.

The Implementation of the Erste Bank standards within BCR was reflected in the Operations business line by the centralization of the back-office activity (separate for the corporate and retail activities), which led to the setting up of new work-flows for analyzing the requests for loans granting and repayment, managing clients and their accounts, as well as managing exceptional and/or non standard elements.

Additionally, the advancing and finalizing of projects aimed at improving the IT infrastructure and the generation and use of information reports were reflected by separating the activities related to software design applications from those related to the IT infrastructure (hardware), to ensure efficient functioning of the connections between the banking and IT processes.

During 2007, a constant major concern of our executive management was the implementation of the Integration and Development Program (IDP), by analyzing at all times the status of IDP projects, focusing on resource allocation, reviewing priorities, project development and implementation speed, cost reduction and finally, efficiency increase.

Within the Program, the implementation of a new organizational structure in the Head Office was essential. This involved reorganizing the functional entities and optimizing the BCR network by restructuring it according to the type of activity (corporate and retail). An emphasis was put on human resources quality, adapting work procedures, client segmentation and transfer of client management, and preparation of the needed infrastructure. As of 23 July 2007, a new method of organization of the bank's territorial network was put in place after completing tests on pilot centers.

For the **corporate** sector, most of the concepts were put in place and the back-office activity has been centralized. Additionally, new projects have been launched which include: cross border financing and the bundle for SMEs.

For the **retail** sector, most business improvement projects are now in place: new types of branches are implemented in the territory, real estate centers are up and running, the branch network was expanded by an additional 100 units, the current account package has been launched, the micro services model has been developed, and the new service quality standards are in place.

In the **operations** sector, the card integration project has been concluded with the transfer of card accounts to the BCR's IT system. Most IT reorganizing efforts are also completed. At the same time, a massive centralizing of non-sales activities took place, both for the retail as well as for the corporate sector: operations were centralized to processing centers located in Bucharest and Sibiu, and risk management was centralized and organized as a distinct business line. Accounting and other support functions were centralized as well.

As for **human resources**, a large scale program was carried out in 2007 to select and relocate personnel working in the Head Office and throughout the network to fill newly created structures and positions. The centralization of activities was aimed to increase efficiency by increasing operational capacity as well as the bank's profitability by cutting costs and increasing revenues. At the same time, detailed analyses were carried out regarding the necessary headcount between 2007-2009, followed by the beginning of the collective dismissal procedure as a result of centralizing and outsourcing certain activities. The analyses took into account the rate of implementing IDP and IT projects, the centralizing of operations and reporting and the new activities to be introduced or developed.

The positive impact of the relatively recent restructuring of the retail and corporate lines, as well as that of aligning the product portfolio and rethinking their costs, is already visible.

A significant increase in lending was recorded in 2007. The aggregate volume of the extended loans portfolio (before provisions, IFRS) rose by 50.1% from 24,570.6 million lei

(EUR 7,261.9 million) in December 31, 2006, to 36,888.2 million lei (EUR 10,224.9 million) at the end of 2007.

The strong growth was stimulated by increased consumer loans (especially those denominated in the national currency), as well as mortgage loans and investment loans extended to micro-enterprises. As a result, BCR maintained its leadership position on the Romanian lending market, while applying a healthy lending policy which complies with Erste Bank's standards.

National currency loans have an important share in the BCR portfolio – approximately 51% of the total volume of loans, above the industry average and showing a well balanced structure of the portfolio.

The corporate loans portfolio is 46% of the total loans granted to non-banking clients, while the retail loans account to 54%, reflecting the new structure that includes micro-enterprises in the retail segment.

The clients' deposits increased by 23.6%, from 24,477.1 million lei (EUR 7,234.2 million) on December 31, 2006 to 30,251.8 million lei (EUR 8,385.3 million) at the end of 2007.

**Among Romanian banks, BCR holds the largest base of resources attracted from clients**, with the retail resources holding the largest share of deposits. In 2007, the increase in deposits was steeper on the retail segment than on the corporate one, the main driver of such increase being a 40% rise in term deposits. A change in the savings trend can be noted, as the sight deposits are increasing. The successful

launching of the current account package accelerated the current account and savings account sales, the value of which is now approximately 60% higher.

The loans/deposits ratio rose up to 115.9% on December 31, 2007, from a value of 90.7% at the end of 2006, due to lending increasing at a higher rate than saving.

Due to the modernization of its activities, processes and product portfolio, **BCR is also first if we take the number of clients as a criterion** – approximately 4 million at the end of 2007, which implies a 17% increase as compared to the end of the previous year. This is largely due to the retail clients segment.

BCR further strengthened its position as a **leader on the debit and credit card market**, with a total number of 2.3 million active cards, with an approximately 6.97% increase from the previous year.

There are 2.1 million active debit cards, 7.22% more than those active at the end of 2006. Credit cards are ever more popular: the number of active credit cards issued by BCR increased by 4.08% as compared to 2006, reaching over 174,000 cards. BCR continued to expand its ATM network, having 1,441 terminals at the end of 2007, with a 9.58% increase from the end of the previous year. The POS network reached 12,618 units, 27.98% more than at the end of the previous year.

Additionally, the BCR network was expanded in 2007 with the opening of 92 new units, reaching 562 retail units at the end of December, whereas the headcount decreased by 12.7% as compared to December 26, reaching 9,697 employees.

# Corporate Governance

**In 2007, the BCR Integration and Development Program (IDP) implemented multiple concepts with a significant impact both internally and on the market.**

A key step forward was the move to a new operating model for the bank, based on principles of increased customer orientation and efficiency. The new model resulted in a series of changes such as:

- Clear separation of major business segments for the corporate sector: Group Large Corporate / Large Corporate/ Municipalities, SMEs (now managed centrally by specialized divisions) and Real estate;
- Implementation of separate distribution networks for retail and corporate business lines: Retail branch network, Commercial Centers network for SMEs, but also development of the alternative distribution channels used by the retail clients, and as well corporate clients;
- Clear separation of responsibilities for each business line based on specialization and separation of sales, risk management functions:
  - ▲ The Retail Banking, Corporate Banking, Treasury and Investment Banking business lines assumed full responsibility for the client management and administration process (incl. budgeting, product development, sales management and sales administration);
  - ▲ Operations were separated from the network, centralized and took over the responsibility for most of the back-office activities;
  - ▲ Support functions were also largely centralized.

The implementation of the new operating model led to increased focus on a set of core competencies by each business line and brought about clear benefits:

- Increased focus of front-office staff on the client and consequently improved customer service and customer satisfaction;
- Centralization and standardization of the back-office activities, which is already generating improved operational efficiency and lower costs;

- Improved response and reaction times by back-office and support staff for their internal clients in the front-office area.

In the second half of 2007, various new concepts were implemented each month. Among the excellent achievements of the IDP projects:

- **New branding and logo introduction:** The new logo and new identity of BCR were launched on September 3 with multiple events throughout the country and a massive marketing and image campaign. The logo was changed on the head-office buildings of BCR and several strategically located branches throughout the country as well as on marketing materials and internal client-facing documentation.

- **Retail Banking:**

- ▲ Branch network expansion – throughout the year, BCR continued to expand its branch network. 92 new branches were opened and the network reached a total of 562 units.
- ▲ Real estate centers – in October, 22 mortgage centers were launched throughout Romania with a lot of publicity. The mortgage centers provide personalized and fast services to real estate agencies, developers and private individuals. Local and nation-wide marketing campaigns accompanied the mortgage center launch.
- ▲ New product introductions – Current account bundles were introduced offering clients a package of products and services at a preferential price. BCR developed the customer services through improved functionalities of the call center for various transactions and account information. A new Internet banking platform was launched in 2008 in order to further enhance the portfolio of alternative channels available for clients.

- **Corporate Banking:** 52 Commercial Centers to service the specific needs of SME clients were opening across all counties. All Corporate segments dealing with customers implemented the relationship manager principle to ensure that each customer has an assigned relationship manager.

- **Risk management:** The Risk management function was separated into Retail and Corporate Risk management and centralized. Clear workflows were defined and loan approval authority limits implemented in the network.



● **Operations:** The Back-office was also reorganized to reflect the specialization in the front-office:

▲ Corporate Back-Office – a new back-office structure covering 2,400 transactions for corporate clients daily, managed to improve operational efficiency by about 10% in only with 3 months of existence.

▲ Retail Back-office and Payments - The centralization is ongoing and over 350 branches have been onboard by the end of 2007. The process ensures efficiency, better quality and lower costs of the transaction processing and back-office operations in the lending area.

# Social responsibility

Banca Comerciala Romana, the leader of the Romanian banking market, has been among the first companies in our country to succeed integrating the commercial activity with the concept of social responsibility, permanently directing its attention towards the evaluation of the social and environmental impact of its activity.

BCR is a responsible organization that contributes to Romania's sustainable economical growth by collaborating with clients and business partners, with the employees, with the local community and with the Romanian society in general, with the goal of improving the general living standards in Romania.

The social involvement of the bank has a positive influence on opinion leaders and the mass-media and contributes to increasing client loyalty toward the bank, its products and its services.

**BCR made important steps regarding the seven components of the CSR, identified in the 26000 ISO/WD Guide:**

**Corporate Governance.** The bank involves its shareholders in its strategic decisions by introducing efficient decisions regarding the internal process and by adopting an ethical attitude within the bank and in its relations with the business environment.

**The Environment.** The programs carried out by the bank contribute to climate protection, preserving a healthy environment.

**Human Rights.** With its perfectly legal and transparent policies, BCR respects the civil, political, economic, cultural and social rights, as well as community rights.

**Labour Practices.** These practices were introduced by BCR to ensure employees' security and health, proper working conditions and adequate treatment of the employees. BCR pays great attention to the development and training of its human resources.

**The Clients' Problems.** Client issues constitute a special priority for the bank. BCR offers transparent and relevant information to its clients and it develops products and

services for social benefits whereas protecting information about the clients.

**Society Development.** It is supported by BCR through sustaining the economic growth, the involvement of the community and the participation (as an organisation and through its employees) to social and volunteer activities.

**Ethical Conduct.** BCR is a promoter of ethical and transparent actions and of fair competition and sales practices.

## BCR contribution to economic development

Our aim is to maintain BCR's position of main supporter of Romania's development and modernization projects, based on foreign and national sources of financing. In this connection, at the end of 2007 BCR was managing programs worth about 6.26 billion USD, representing special accounts for state-secured external government loans, grants, state budget funds, as well as loans contracted by the bank in its own name.

Thus, the bank's portfolio includes a series of national programs:

- **The Multi-annual National Program for Supporting SME Investments**, program carried out during 2003, 2004, 2007 – with a total value of 55.88 million lei as non-refundable loan; during 2007, BCR approved a total of 46 projects, with a total value of the non-refundable contribution amounting to 4.4 million lei;
- **The Agriculture and Rural Development Ministry Program – Fund for Agricultural Investment Lending (the Farmer)**, program carried out during 2005 and 2006 with a total value of 508.5 million lei, which led to the financing by the end of 2007 of over 670 projects amounting to 427.7 million lei, aimed at the co-financing of eligible projects within the scope of SAPARD Program, in accordance with the annual investment objectives set by ARDM, as well as at the financing of direct investments;
- **The Advantageous Interest Loans Program**, financed from the unemployment insurance budget – with a total value of 388.75 million lei. During 2007, for the seventh year in a row, BCR won the tender organized by the National Employment Agency; since the beginning of the Program,

3,787 projects were approved, with a total value of 392.8 million lei. Since its beginning, the program generated over 50.500 work places.

Additionally, BCR manages a series of **external financing programs**, conceived in order to support the development of Romanian communities and companies, not only by securing the funds needed and the specialized consultancy, but by strengthening the bank-client partnership as well. The aim of these programs is to secure a sustainable economic growth, able to foster social stability and, more importantly, to contribute to the creation of work places:

- **Phare 2000 Economic and Social Cohesion Program – SME Credit Line**, a partnership between the European Commission and the Romanian Government, involving a revolving grant with a value of 11.38 million EUR for investment projects available in a series of Romanian counties. The bank financed 178 projects with a value of 23.98 million EUR (17.98 million EUR out of which are non-refundable). Over 2,000 work places were created through this program;

- **“SME Financing Scheme – MARR Fund”**, a non-refundable revolving scheme of 3.7 million EUR for investment projects in Gorj and Hunedoara. The project allowed BCR to finance 70 projects with a value of 7.97 million EUR (5.97 million EUR from non-refundable sources). Over 1,100 work places were created through this program;

- **The IADF Program (International Agricultural Development Fund)** is a lending agreement concluded in 1999 for the rural development of the Apuseni Mountains. BCR, as holder of the special account and manager of the credit line within this Program, financed 838 projects with a value of 14.08 million USD. Since the beginning of the program, over 2,000 work places were created;

- **EBRD Small and Medium Municipalities Finance Facility**, with a value of 20 million EUR is a program aimed at financing the medium and long term investment projects of small and medium municipalities and municipalities associations, as well as the utilities companies owned and controlled by local authorities. Since the program launch, 17 lending contracts were concluded with a value of 17.19 million EUR, in areas such as the construction, expansion and rehabilitation of roads, rehabilitation of municipal buildings and the construction of homes.

From the perspective of accessing structural instruments, following Romania's accession to the European Union in January 2007 – structural and cohesion funds and other forms of financial assistance – BCR strengthened its position of strategic partner of clients, by developing the **BCR EU Office** services.

During 2007, the BCR EU Office network was expanded to 15 such offices. These are a source of information and support, both for small companies, SMEs, corporations as well as local public authorities, interested in developing investment projects with post-accession European financing.

The BCR EU Offices helped secure access to information concerning the way of financing projects with European funds, through the information and consultancy services concerning the business environment requirements occurred following Romania's accession to the European Union, the existing financing and business opportunities, as well as the practical aspects of access to such funds.

**EU Office BCR** continued to make use of the experience accumulated during the previous period by implementing pre-accession financing programs, identifying an impressive portfolio of projects potentially eligible to receive European post-accession financing. The BCR offices came to the support of clients as well as of the potential clients, through the information offered during direct meetings, by taking part in many events promoting European funds, publishing a monthly BCR EU Office Newsletter, publishing articles in the specialized written media and creating a network of consultants that are experienced in project drafting and management.

## BCR's contribution to the development of the civil society

The sponsoring activity of BCR is an important part of bank's policy and BCR has committed to a sustainable partnership with the community to actively support the social development of the communities it is part of.

BCR acts as an institutional partner who understands and respects its obligation of paying back a part of the added value

obtained through the cooperation with society, by supporting initiatives in important areas.

Sponsorship activity developed in 2007 totalling 7.28 million RON (EUR 2 million.) BCR supported the Romanian communities through sponsoring, granted to essential areas such as: culture, art, education, health and humanitarian actions, education, environment protection, social services, scientific research, sport, local communities, professional associations.

BCR is fully aware of the importance of culture and arts for the national identity, with the bank being considered not merely the main contributor, but also a real “arts patron”, committed to the cultural heritage and shaping the future generations.

BCR is a long time supporter of some of the greatest cultural and artistic events in Romania, such as The Shakespeare International Festival, The International Theatre Festival of Sibiu, The International Jazz Festival of Sibiu, The Three – Years Art Manifestation, The Romanian Theatrical Union (UNITER), The Romanians’ Writers Union Awards Gala and The TV Professionals Association Awards Gala.

In 2007, BCR also sponsored folk festivals, publishing of books, theatre festivals for professionals and amateurs, as well as university events, with a total sponsored amount of 3.3 million RON (approximately EUR 1 million).

BCR also supported activities like building and restoration of churches and monasteries, many of them architectural monuments with historic value. The total amount allocated was around EUR 0.1 million. Among others, BCR sponsored important projects for the Romanian Patriarchy, Tiganesti Monastery or the Roman Catholic Parish of Cioplea – Brasov County.

Following the same path, BCR continued to sponsor health and humanitarian activities for which, the amount of 0.75 million RON (approximately EUR 0.2 million was allocated in 2007). BCR was the partner of some prestigious institutions like UNICEF, to help children with disabilities, granted funds to the Pharmacy and Medicine University Carol Davila and the Institute Matei Bals from Bucharest,

for medical equipments or for helping people with special needs, confronted with serious medical problems and in need of expensive treatments or surgical operations.

In the education area, an important area of the community, BCR allocated 4% from the sponsorship budget for 2007. The bank financially supported schools, universities, organizations or city halls thus contributing to the improvement of the Romanian educational system. BCR also sponsored worthy persons, in their efforts to achieve higher education (participation to contests, symposiums, studies abroad etc.).

As for sports, BCR pays special attention to this field due to its contribution to building a nation that values fair play and open competition. BCR remains the main sponsor of the most important sports event annually hosted in Romania, BCR OPEN International Tennis Tournament. Also, the bank continued the partnership with the Romanian Handball Federation for the period 2006-2008 and granted other funds for competitions and tours for professionals and amateurs of polo, football and volleyball. The funds granted for different sport activities in 2007 amounted to EUR 0.4 million.

Also, BCR encouraged its employees to contribute voluntarily for various problems of the community.

BCR was the official partner of the most important cultural event of 2007, of European dimension – “Sibiu – European Cultural Capital 2007”.

The program “Sibiu European Capital 2007” was the most important cultural project organized and carried out in Romania, in terms of size, time length, and impact of public communication.

Given the special signification of the year 2007 for Romania’s accession to the EU, the support granted to the Association Sibiu – European Cultural Capital 2007 and to the Sibiu municipality to organise and carry out in good conditions and with special results the 2007 cultural programme was an objective that Banca Comerciala Romana set out for itself from the position of market leader and responsible institutional citizen.

This Program included approximately 220 projects and over 1,000 cultural events, attracting in Sibiu a large national and European public. The bank allocated EUR 0.5 million

for the project, which promoted European cultural values under the slogan “BCR invites you on a cultural journey”. The project attracted the customers’ attention in a subtle and original manner, by presenting in the 8 Sibiu-based branches, 8 periods of the European culture: Austria’s Mozart, German Romanticism (Goethe, Schumann, Brahms, Wagner), French impressionism (Monet, Degas, Renoir), Spanish painting (Velasquez, Goya), the Royal Court of King Matthias, the royal courts of Luxembourg, Valois and Habsburg, Romania

(Eminescu, Brancusi, Caragiale, Enescu against the background of some important monasteries from the North of the country).

The project addressed the customers an invitation to knowledge by culture, stimulating their hearing and visual senses - the best way to transform the sales into a remarkable experience: decorations, classical music and banking products under the same roof of BCR.

# Employees training programs

As of January 1st, 2007, a sales personnel incentive scheme was put in place, comprising indicators that are specific to this activity, derived from the bank's business plan.

During 2007, Erste Bank Group carried out two large skills development projects, with BCR contributing with a predetermined set of employees, selected following complex procedures. These programs include:

## 1. TED - Top Executive Development Program, targeting:

- ▲ Board Members from local banks
- ▲ Members of Group-level Boards
- ▲ Board Members from branches (including CEO)
- ▲ Senior Managers that may become Board Members;

## 2. GLDP - Leadership Development Program, targeting:

- ▲ experienced middle-managers that have the potential to become senior managers;
- ▲ candidates that are responsible with specific projects and have substantial potential.

BCR is taking part in these programs with 7 persons: 3 in the TED program (out of a total of 23 participants) and 4 in the GLDP (out of a total of 25 participants).

During the fall of 2007, the project on the evaluation of all BCR positions was finalized, with the support of the HAY Group consultancy program. A hierarchy of positions was defined in accordance with its importance for the organization and adequate salaries were defined, in correlation with the banking industry level.

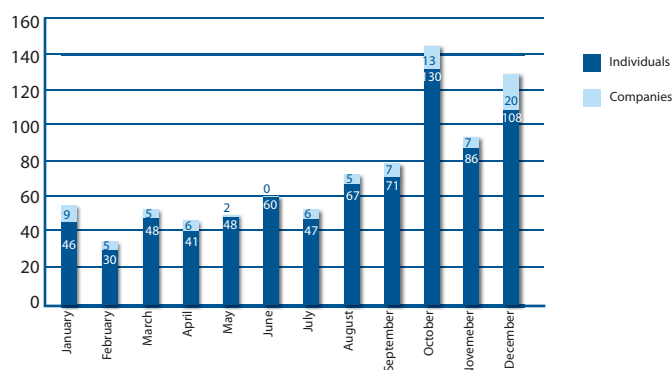
During 2007, following the reconfiguration of the bank's support processes in the area of quality management, there was increased focus on updating and implementing the service standards for the retail segment, and the complaint management process – an activity newly added to the department's portfolio of activities - was redesigned.

As a result, BCR took the following steps:

1. BCR created and implemented the Ombudsman function. The function specialized in the complaint management process is rooted in the idea that this is to be regarded from a positive perspective, as an important and significant source of information for improving products and services, as well as the bank's general activity. The process of changing the

complaint management procedures started the same year. The process is part of the post-sale support of the bank's products and services.

The evolution of the complaints number in 2007



2. The Service Standards for the retail segment have been reviewed, completed and amended, in order for these to be adapted to Group standards. These new serving standards were grounded on the clients' perceptions regarding quality of service, resulting from 14 focus groups sessions organized in the Bucharest selected agency during March – April 2007. At the same time, the agency performed analyses of the level of service quality in 79 BCR branches located in Bucharest, by means of mystery shopping actions taking place during March – April 2007, resulting in an average quality of service of 62%. The new project aims at significantly improving this index.

3. Implementing the new service standards for the retail clients took place during July – September and consisted in branch personnel training programs, self-assessment questionnaires filled in by the employees regarding their relationship with the clients and securing the facilities needed in all branches.

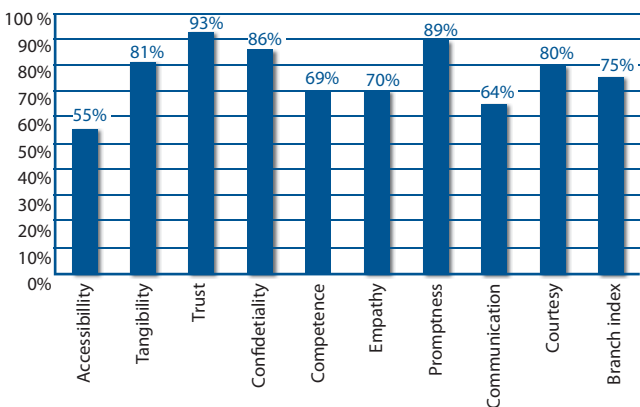
4. The performance indicators system for assessing the retail units' personnel, into force since the first quarter of 2008, was implemented in December. This is computed as a weighted average of the coefficients, according to the importance of each service quality principle, being measured at a territorial or real estate center unit level based on the results obtained following the mystery shopping activities. The minimum compulsory requirement for receiving service quality bonuses in a territorial unit or real estate center is obtaining an ICS of



at least 70%. This value may be changed according to the trend in the service quality in the banking environment.

An assessment of the service quality in 504 BCR units by means of mystery shopping activities which took place during October-November pointed out the fact that implementing service standards in the retail sector led to an improvement of the quality of service, the general ICS recorded having a value of 75%. The units recording low levels (general ICS below 70%, compounded by low scores on certain parameters of service quality) have enforced the measures needed for improving these indicators. An additional incentive for this is the extension, starting with 2008, of service quality bonuses.

Source: Brennan Co. - BCR Mystery shopping, research report, November 2007



In the context of the bank's strategy in the human resources field, of orientation towards the client and securing his or her loyalty, the BCR University took steps throughout 2007 for the development of human capital, by improving the skills and attitudes of its employees towards businesses development and increasing the client's level of satisfaction.

The training activity aimed to prioritize the activities of training the BCR personnel and optimizing the use of resources for such activity, in order to accomplish BCR's business targets for 2007.

At the same time, the BCR University's own objectives were kept in mind all the time:

- harmonizing the learning process with BCR's general strategy;

- supporting the bank's objectives, values and priorities;
- motivating the employees by securing a permanent personal development;
- offering increased learning opportunities;
- developing internal and external partnerships, creating an active learning culture within the bank;
- turning BCR into a knowledge organization and adding value to the company, shareholders, partners and clients through: harmonizing the learning process with BCR's general strategy; developing leadership, developing skills, integrating training in all other processes, implementing a flexible approach to the training process.

The activities which took place during 2007 regarded the training of BCR employees both on the bank's products, as well as its subsidiaries'. Additionally, BCR employees received training on the current activities but also on those included within IDP projects.

In order to harmonize the training objectives with the business targets set through the bank's strategy, the training needs were first assessed. This was performed by means of several methods of enquiry: marketing researches on customer satisfaction, interviews with managers, student evaluation charts filled in 2006, trainer evaluation charts concerning the students, the requirements set by head-office guidelines and by the territorial branches management, online questionnaires, and job descriptions.

Starting with 2007, a county trainer network for the retail segment was created. The trainer's role is to prepare the sales workforce to deal with the retail segment, by improving their sales skills and changing the personnel's behaviour and attitude with a view to increase sales performances.

Throughout 2007, the second promotion of the Executive Development Program was completed, organized in cooperation with HEC Montreal. HEC Montreal is the most important Canadian business school and, according to the specialized hierarchy, it is one of the top international schools providing MBA education.

At the end of 2007, the training and HR program was extended, so as to define immediate measures for making the learning process within BCR more efficient.

---

The program objectives included reviewing the training processes, formalizing the structure of trainings, securing quality, establishing clear means of cooperating with the business lines, developing a new employee induction program and defining the concept of local trainer (retail and corporate). Thus, the new training process is formalizing the actions and responsibilities of the participants to the individual training process.

In order to reach the quality and the efficiency needed from the training programs, a series of quality securing instruments were designed and included in the training process, such as feedback for the trainings delivered, obtained by means of standard questionnaires and reports, testing skills and knowledge acquired by the trainees, online tests, follow-up sessions, mystery shopping, reports obtained by cooperating with an external partner (KMD), monitoring the use of

knowledge acquired during the training projects in real life, by assessing the performance and attitudes against the training objectives.

Smart Start is a training and induction program aimed at the professional development of new employees. This program secures the integration of new employees and making them familiar with the retail activity, with BCR clients and products. Smart Start takes place over a 12 days period and involves four modules, for the new employees to become familiar with the pattern of behaviour within the Erste Bank Group, with the bank's products and their presentation, as well as to acquire the sales skills for such products. During phase three, the participants become familiar with the retail software applications, within a specialized training agency. The last phase of this program is a workshop to obtain feedback regarding the program.



# Retail banking

The number of the BCR clients has increased by 17.08% in 2007, compared to 2006.

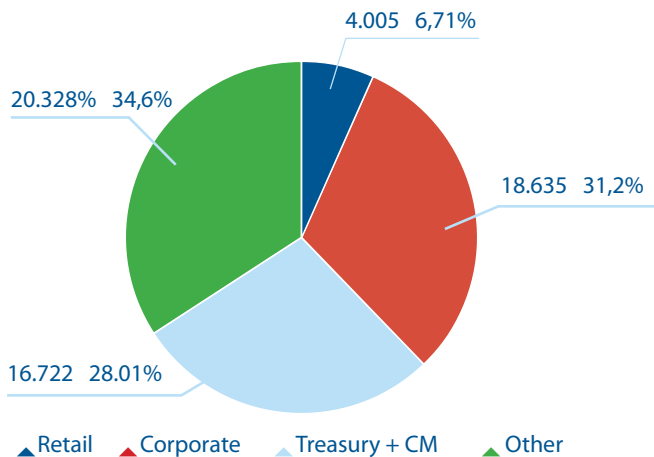
Number of BCR clients (thousands)

| 2006 | 2007 | %      |
|------|------|--------|
| 3378 | 3955 | 17,08% |

In 2007, the weight of the retail loans in the total number of loans represented 53.28%. Compared to the budgeted values for 2007, the coverage degree of the retail loans was of 104.99%.

| Retail Loans    | Total loans     | Weight of the retail loans in the total |
|-----------------|-----------------|---|
| Coverage degree | Coverage degree | 2007                                    |
| 104,99%         | 117,22%         | 53,28%                                  |

The assets resulted from the retail activity represent 31.2% from the total bank's assets.



## May 2007: Unification of the current account with the debit card account and improvement of the functionalities of the current account

The BCR clients were offered unlimited access to the personal accounts, being able to make transactions from any bank branch. Since May, the clients have a single current account and can use it for any operation (ATM, POS – for accessing the account or for using any alternative channel of access - Internet banking, Phone banking etc.).

## September 2007: The launch of the current account bundle - Esențial BCR

BCR has made another step forward to increase its clients' satisfaction, by launching a product that allows them to save time and money, namely the current account bundle.

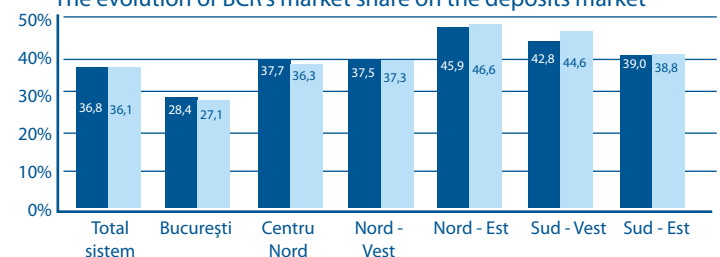
The package is a combination of products and services including the products mostly used and appreciated from the bank's offer (the debit card – the access key to the current account, the overdraft – the proper financial reserve able to cover the unexpected expenses, the payment of the invoices at the ATMs – one of the most convenient way to pay own invoices or other persons' invoices, the credit card – excellent for shopping), as well as new, modern services aiming to make the clients' life easier (Phone Banking, Internet Banking, programmed payments services - Standing Order and Direct Debit).

The cost of bundle provides money savings higher than 40%, compared to the individual price of the products and services. Moreover, the package offers a range of free of charge transactions and other attractive bonuses, in association with other products from the bank's portfolio.

The evolution of the current account bundle sales was impressive. 8 months after the launch, approximately 150,000 clients have applied for such packages. In the future, the bundle will continue to develop according to the needs and expectations of each type of client: safety, money and time savings, quality, efficiency.

In 2007 as well, BCR continued to be the population's preferred bank for savings. The advantage of the stability, as well as the advantageous interest rate policy for the savings, next to the advantage of an extended network of branches, made BCR have a market share of 35.1% from the total of the population's deposits in the Romanian banking system. In some regions of the country, BCR holds a market share of 46.6%, almost half of the total of the people's savings from those regions being deposited at BCR.

The evolution of BCR's market share on the deposits market



Source: "BCR's position on the regional retail and corporate markets at the end of 2007", The Department of Research and Strategy.

### **December 2007: Completion of the new model to serve the clients of the Private Banking business line**

The major objective of the project was to create a new unitary framework, aligned to the best practices and standards of the Erste Group. Within the new servicing model, a new definition of the Private Banking clients and a center dedicated to these clients were developed, new quality standards were implemented and new specific products were developed, respectively investment products of funds of funds type.

### **December 2007: Completion of the concept for the Microbanking BCR Project**

The objective of the project was the implementation of a new service model for the clients' micro enterprises, BCR having over 50% market share on this segment. The main achievements consisted in creating a new structure dedicated to the micro enterprises sector, both at the local level and at the central level, with specialised personnel in almost all BCR branches, creation of a special products portfolio and of some simplified flows for satisfying the clients' requirements.

## **Major projects implemented and launched in 2007**

### **June 2007: New rules for retail lending**

At the beginning of March, NBR decided to remove the mandatory pre-payment for the loans granted to individuals, which represented 25% from the mortgage loan amount and 30% for the consumer loans. The maximum indebtedness value was also changed. The credit institutions now grant the loans based on their own rules that are subject to approval by the NBR Supervision Division. Until their validation, the credit institutions operated according to the previous regulations which called for a maximum indebtedness level of 40% from the total income.

BCR has applied the new lending norms for individuals starting with the end of June, after having received the approval from the National Bank of Romania (NBR).

BCR was the fourth institution that received the NBR approval for the new rules, after Alpha Bank, BRD - Groupe Societe Generale and Volksbank.

The maximum indebtedness level thus increased to 65% of the net eligible income of the family. The indebtedness level allowed for each applicant was established depending on the clients' risk profile, resulted from the scoring-type analysis, and from their payment history.

The eligible income of the family was established as the net income out of which the minimum living expenses and other financial obligations, such as rent or insurances are deducted. The minimum living expenses, established depending on the number of family members, is differentiated on geographical regions and the type of domicile: county capital, other towns or rural area.

Starting with June 2007, BCR took into account the calculation of the reimbursement capacity and the income of up to four internal co-payers, i.e. persons that live together with the applicant and sign the credit contract, having the quality of co-payers.

For the loans guaranteed with real guarantees, BCR accepts maximum 4 internal co-payers, respectively participants to the credit's reimbursement who live together with the applicant and up to four external co-payers, respectively participants who don't live together with the applicant.

The implementation of the new norms was based on the reconsideration of the advance payment for the real estate investments. Starting with 2008, the maximum advance payment is 25%, the bank having the possibility to accept and finance integrally the loan, namely 0% advance payment.

Also, BCR has renounced to cover the real estate loans with guarantees up to 133%, the weight being differentiated depending on the type of the loan. Thus, for the consumer loans, the coverage rate of the guarantees can vary between zero and 100%, and in case of the real estate investments loan, the minimum accepted by the bank is of 80%.

### **October – November 2007: the launch of the Retail Mortgage Centers**

The major objective of the project was to offer BCR clients specialised staff, with legal empowerment to sign contracts and attract new partners, sign conventions for running housing/ mortgage loans, to structure the financial offer for

customers., as well as to permanently monitor the way the partnerships are working, customer satisfaction, proposals for improvement of products and services offer and workflow.

In brief:

- BCR opened, throughout the country, 6 regional Retail Mortgage Centers, one in each of the 5 development regions and one in Bucharest, which will coordinate 22 units. They are working in certain BCR branches, in special allocated areas and distinctively marked with “Centrum2 imobiliar”.
- Managers for financing real estate investments were appointed, these being retail specialists in charge with concluding partnerships with real estate agencies, constructing companies, or developers of residential projects, in order to improve the products and services portfolio and monitor of the relations with the partners. Creating teams destined exclusively to the management of the relations with the partners in the real estate field represents a premiere in the banking system, through which BCR supports their current activity, increasing therefore the profitability for each party.
- Real estate investments counsellors were appointed, these being retail specialists in charge with advising and selling real estate and mortgage loans to private individuals. The counsellors offer the best financial solution for buying or building the desired house, providing also associated services such as life insurance, house insurance, debit card, convention for bills’ payment, simple loans.

This type of approaching private individuals customers, contributes both to putting into practice the “one stop shop” principle for beneficiaries and to increasing their loyalty as it provides them with the opportunity to benefit in a simplified and more comfortable manner from the financial products they need.

#### **July 2007: Implementation and launch of the Micro Banking concept**

The main objective was to provide specialised counselling to the sector of micro enterprises clients, coupled with the introducing of loan products designed for this sector. BCR plans to promote the Micro Banking service on the Romanian banking services market, aiming to obtain the leadership in offering this type of services.

#### **May 2007: The launch of the product Divers BCR, designed for the individuals**

A consumer loan with a fixed interest rate in the first 3 months, without guarantees, for financing the personal needs, granted up to the limit of 20,000 EUR, equivalent in RON/USD

#### **August 2007: The launch of the product Flux BCR, designed for micro enterprises**

A loan for financing the current activity, granted within the limit of 3 times the monthly average turnover, with personal guarantees within the limit of 75,000 RON/25,000 EUR.

#### **September 2007: The launch of the product Individual Overdraft, designed for the individuals**

Consumer loan granted within the limit of an interval between 1 and 6 net salaries, maximum 5.000 EUR, on the condition that the monthly salary is transferred in an account opened at BCR, to which an overdraft limit is attached. The existence of a protocol or contract between BCR and the employer is not mandatory.

#### **December 2007: The launch of the product Working Capital, designed for micro enterprises**

A loan for financing the current activity, granted within the limit of 6 times the monthly average turnover, for a period of maximum 36 months, with recharge possibility up to the level of the initial amount.

#### **December 2007: The launch of the product Real Estate Deal Micro, designed for micro enterprises**

A loan for investments, having as object the financing of real estate properties, including lands with administrative purpose, for a period of maximum 25 years.

For an advance payment of minimum 50% from the value of the real estate property, the client’s analysis is not necessary.  
 2007: The re-launch of the product Punte BCR, designed for private individuals

Real estate loan addressed to house owners for buying or building another real estate property. The product offers the possibility to obtain larger amounts of money, both by taking into consideration the applicant’s income and that of his/her family, as well as the income that can be obtained from

selling the house brought as guarantee. The grace period is up to 12/24 months for selling the old house, in case of buying or building a new one.

## Cards

BCR concluded 2007 with 2.3 million issued cards, out of which 2.1 million were debit cards and 200,000 were credit cards. The same year, 12,600 POS terminals and 1,441 ATMs were installed. In 2007, BCR grew by 7% in cards issuance, and it is important to mention that the card usage rose more rapidly than in 2006. The ATM and POS network increased by 10% and 28%, respectively.

In August 2007, BCR changed its operational procedures to make ATMs available 24/7, which resulted in an increased of

ATM availability rates by more than 7% and a 30% volume increase.

In order to emphasize the availability and speed of its terminals, BCR moved to a new communication infrastructure, which means that there is now a full back-up infrastructure available for both POS terminals and ATMs, meaning that the transaction times went significantly down, by more than 50% on POS terminals in example, which resulted in better services for merchants and cardholders.

Besides improving services for merchants and cardholders, BCR also worked hard in order to increase the security level for its clients and was the first bank in Romania with fully EMV compatible and certified ATM and POS networks, which resulted in higher customer security and satisfaction.

| 2007   | total          | ATM            | POS         | Cota POS |
|--------|----------------|----------------|-------------|----------|
| debit  | 11,932,837,000 | 11,122,240,000 | 810,597,000 | 7%       |
| credit | 462,088,000    | 328,475,000    | 133,613,000 | 29%      |
| total  | 12,394,925,000 | 11,450,715,000 | 944,210,000 | 8%       |

| 2006   | total         | ATM           | POS         | Cota POS |
|--------|---------------|---------------|-------------|----------|
| debit  | 9,187,441,600 | 8,751,853,600 | 435,588,000 | 5%       |
| credit | 309,186,560   | 259,988,060   | 49,198,500  | 16%      |
| total  | 9,496,628,160 | 9,011,841,660 | 484,786,500 | 5%       |

| Rata de creștere | total | ATM | POS  | Cota POS |
|------------------|-------|-----|------|----------|
| debit            | 30%   | 27% | 86%  | 43%      |
| credit           | 49%   | 26% | 172% | 82%      |
| total            | 31%   | 27% | 95%  | 49%      |

## Alternative channels

Even from the beginning of 2007, the new Alternative Channels became available for the clients having the following evolution:

### January 2007: The first Self Service Areas were launched in a Pilot phase.

Since then, the Self Service concept continued its development process, aiming to strengthen the impact of the 24Banking concept, offering BCR customers a new alternative in terms of Retail Banking.

By using cards, our customers have access now to 23 Self Service Areas, retail zones, opened 24/7, equipped with machines like ATM, FX ATM, multi-functional machine, phone terminal and Service box.

The Self Service Areas are designed specially for offering the clients the possibility to make the “cashier like” in an easier, friendlier and more secure way:

- a. using the ATM, the clients have at their disposal the following functionalities: cash withdrawal; bill payments (with the invoice, from the card account, based on the contract between BCR and its clients); instalments for BCR loans (card based identification, based on the contract between BCR and its clients) re-charge of the pre-paid cards for Vodafone mobile phones; transfer from card account to Virtuon Card account (debit card used for Internet transfers).
- b. using MFM (multifunctional machines), the clients have at their disposal the following functionalities: cash in into current account with attached debit card - RON BCR cards; all ATM features;
- c. using FX ATM the clients can: convert EUR, USD, GBP and CHF, HUF in RON;
- d. using Service Box the clients can: Make RON payment orders within current account limits;
- e. Phone Terminal offers clients: the possibility to have access to Contact Center and have access to all the functionalities provided by the service (including personalized information and transactions via Phone Banking)

### March 2007: The Cards Assistance service was integrated in the Contact Center

One of the most important services offered to the cardholders, the Cards Assistance service was integrated in the Contact Center.

### September 2007: The new BCR web Portal was launched

A new web portal solution was implemented using a new functional platform and thus helping the BCR web Portal become better, friendlier and aligned to the Erste Group standards.

After launching the portal, different areas were created: Erste listing area and BCR Student Club - the first bank club dedicated exclusively to students.

### September 2007: BCR outsourced the Contact Center operational activity

The main purpose of the year 2007, from the Contact Center perspective, was to develop and redefine the entire concept of Contact Center by improving the existing functionalities and adding new ones. Having the new concept as a guiding point, a well prepared analysis was conducted with considerable efforts. The conclusion of this analysis was that, in order to achieve the main goals, the optimal solution was the outsourcing of the Contact Center operational activity. Some of the most important reasons that supported this decision were the speed of implementation of the desired functionalities, the technological resources, and, most of all, the costs and profitability of this solution. In September 2007, BCR had successfully completed the outsourcing process of the Contact Center.

At the end of 2007, the main services offered through the Contact Center were:

- ▲ general information regarding the products and services offered to private individuals
- ▲ personalized information and funds transfer from the bank accounts activated for the Phone banking service
- ▲ bank products validation at the customers' request (debit cards, simple loans)
- ▲ establish meetings with the customer advisors from the branches in order to complete the sales
- ▲ assistance for cardholders
- ▲ technical support offered to the users of BCR services
- ▲ contact customers and prospects in the Outbound campaigns

<sup>2</sup> In terms of functionalities, most probably by the end of 2008, the following will be implemented: bill payment through bar code reader and money transfer.

<sup>3</sup> Depending on locations and regions.



▲ interactive services through the IVR (password change for Phone banking users, daily exchange rates)

In the year 2007, Contact Center has handled over 300.000 client interactions, at a high quality level, monitored permanently and in accordance with the industry standards.

### **September 2007: The new Phone Banking service was launched**

A main development and standard growth in the services offered to the customers was the implementation of the new Phone banking service. Thus, a strong alternative to the classical branch was offered: the customer has now the possibility to access by a simple phone call, all the information about the bank accounts, as well as to order funds transfer, without a trip to the counter. The alternative solution offered to the modern customer is supported by the fees and commissions policy as well, with attractive and competitive cost offers for the Phone banking service.

At the end of 2007, the services offered through the Phone banking service were:

Personalized information available for the bank accounts activated for this service:

- For current accounts with/without attached debit card: account balance, transaction history, value of the overdraft available, value of the overdraft approved, authorized persons
- For contracted loans: balance of the loan, date of contracting the loan, information from the reimbursement scheme, monthly rate of payment
- For term deposits SUCCES / MAXICONT: balance of the account, history of the transactions, authorized persons, date of establishing, maturity date
- For certificates of deposit with discount ACTIV: balance of the account, history of the transactions, authorized persons, maturity date, registered value, purchase value, redemption value at the present date.

Fund transfers: intra/inter banking transfers in lei for current accounts with/without an attached debit card and saving account, activated for this service.

The transactions made by phone are processed in real time, by the Contact Center agents with an immediate impact on the balance of the client's accounts, without the possibility of being revoked after the confirmation of the operations demanded.

# Corporate banking

In 2007 the central objective of the BCR strategy was the permanent concern for client satisfaction, allowing the Group to create a higher added value for them, compared to the competition, and manage an important portfolio of approximately 15,000 corporate clients.

2007 brought important changes within the structuring process of BCR clients, as well as the business climate in Romania, determined by the increase of the competition in the financial-banking system.

The Corporate Banking business line represents, together with Retail Banking, one of the most important activity sectors of the Erste Bank Group. The corporate banking activity is maintained as a central activity of BCR, focusing on complex structured financing of investment banking projects and services.

In 2007, the Corporate Banking activity included the implementation of the project “**Corporate Business Centers**”. The main objective of the project was to centralise and efficiently coordinate the SME clients, at the level of each county (companies with the turnover comprised between 1 and 8 million EUR), as well as of the small municipalities (with annual income lower than two million EUR).

52 such centers were established, grouped in eight business regions and coordinated by eight regional managers as follows: **Bucharest** (Sector 1, Sector 6, Unirea, WTC, Pipera, Izvor), **North-West** (Cluj, Dej, Sălaj, Bihor, Satu-Mare, Maramureș, Bistrița Năsăud), **South-East** (Constanța, Tulcea, Brăila, Buzău, Galați, Vrancea), **South** (Prahova, Argeș, Curtea de Argeș, Dâmbovița, Teleorman, Giurgiu, Călărași, Ialomița), **South-West** (Dolj, Mehedinți, Gorj, Vâlcea, Olt), **West** (Timiș, Arad, Hunedoara, Caraș-Severin), **Center** (Brașov, Târgu Mureș, Reghin, Miercurea Ciuc, Odorheiu Secuiesc, Covasna, Sibiu, Alba), **North-East** (Iași, Suceava, Rădăuți, Botoșani, Neamț, Bacău, Vaslui, Bârlad). The Corporate Business Centers began to operate starting with July 23rd, 2007.

The objective is to consolidate the partnership with these sectors, to increase the promptness in offering complex products and services, in order to satisfy all their requirements.

The corporate business centers aim to attract new SME clients, small municipalities and the companies in their subordination, providing an extraordinary potential for increasing the business, given the increased need for development in this area, due in particular to the post-accession funds that will be allocated to Romania in the following years.

The main focus of the Corporate Business Centers is to develop the business relations with this client sector, considering that the local public authorities will target the following sectors with priority:

- Development of the basic infrastructure;
- Environment protection;
- Social-economic development at the regional level;
- Improving the employment rate;
- Enhancing the social cohesion and solidarity.

The activity of these 52 Corporate Business Centers is based especially on promoting and selling products and services offered by BCR Group.

In order to have a good cooperation between the corporate and retail sales force and to increase the cross-selling of the retail products packages, it was decided that the corporate relations managers would cooperate with the retail clients advisors, in order to promote these products. This aspect implies facilitating the access of the retail advisor to the corporate clients, so that he/she can promote the retail products.

## Why this change was necessary and what improvements did it bring?

- Competence increase by focusing the front-office staff on a specific clients sector;
- Specialisation of the front-office staff on the SME segment (the main development engine of the Romanian economy);
- Increase of the quality of the products and services offered by BCR to clients from this sector and the increase of the bank's profitability;
- The SME clients are managed in a professional way by units especially created at county level, in order to efficiently develop the business relations with them;
- Building an efficient management of the client relationship, developing some selling and servicing abilities, as well as lending analysis capabilities.
- The efficiency increase of the bank's products and services and of BCR Group's subsidiaries, through the development of the synergy effects.
- The personal approach, both of the present clients and of the potential ones, will lead to the attraction of a higher number of clients from the SME sector on the Romanian financial and banking market.

In order to maintain a proper quality of the lending portfolio, Banca Comercială Română will continue to support the precise financing of an efficient economy, the extension of the system of structured financing for viable projects, which can be a basis for the future development.

Due to an aggressive competition, in order to maintain the market share and strengthen BCR's position in the banking system, it is necessary to intensify the relations between the bank and the clients, to increase client satisfaction, on all the sectors managed by the bank, by improving the quality of the products and services, increasing the efficiency in structuring the businesses proposed by the legal entities and solving the current and potential clients' requests timely.

The efforts will be channelled not only on selling BCR products and services, but also on a balance sheet increase, especially on attracting the resources in lei and foreign currency, under the conditions of an attractive cost offer.

Obtaining the planned revenues, both those resulted from the interest rates and the bank commissions, represents the main target for 2008.

From the priorities perspective, in the period 2007 – 2010, BCR strategy's is focused on financing the clients in the category of the public local administration. Thus, the Municipalities Division was created for clients with local revenues higher than 2 million EUR. The public local authorities represent an important sector for the bank, considering:

- the business potential in continuous development, insufficiently exploited by the banks;
- the extension and the diversification of the clients portfolio;
- the presence of a low credit risk.
- the polarisation of over 70% of Romania's revenues etc.

Ever since the beginning, BCR has been involved in ensuring the financing and the co-financing of the investments within the SAPARD Program Measure 2.1, ISPA, SAMTID, Phare etc.

BCR has always diversified the range of products and services tailored for the public local authorities, offering flexibility, dynamism, multiple advantages for implementing the investments projects that are a priority for the urban and rural communities.

The measures taken during the past year led to maintaining a market share for this sector of 75%, much greater than BCR general average, considering the fact that the loans volume has increased by 72.31% compared to 2006.

The directions of action established in 2007 foresee an increase in the loans volume by more than 30%, confirming once more the leadership of BCR in this sector.

2007 represented for BCR the sixth consecutive year in the position of leader on the local market of the export factoring operations, made in the two-factor system, and of the increase of the weight of the internal factoring operations, these getting up to 52% of the total volume of the factoring operations.

Also, it is the year of introducing a new computerized application, dedicated to this type of operations that will allow the launching of new factoring products, addressed especially to the internal market.

In 2007, taking into consideration the need to develop new products, according to the requirements of the market and of BCR clients, we have launched a new product: the credit for delivered documents (CDL), perceived in a positive way by the clients.

The product was created as a result of the identification of a solution adapted to the real Romanian economy, which led to the increase of the competitiveness of the bank's products offer. Also, there were taken into account the requests that came from the clients of the bank, regarding the financing of some of their internal commercial transactions that could not be included by means of the financing methods already offered by BCR, such as the internal factoring.

By means of this product, the bank finances due debts in RON, certain and liquid, resulted from internal commercial transactions, based on contractual and delivery documents that attest service delivery.

The product represents a solution for covering the short term financing need of BCR clients, especially of the small and medium-sized enterprises, for the development of their businesses.

In 2007 as well, BCR maintained and consolidated its position of main banking guarantee supplier, both on the internal and on the external market.



On December 31st, 2007, the guarantees in foreign currency were approximately 80% of the guarantee portfolio issued on the order of the non-banking clients. The number of such guarantees has registered an increase of 15% compared to the last year. Moreover, BCR introduced the integrated operations to guarantee the cross-border transactions of the Group that are especially structured for the bank's strategic clients.

BCR also won the tender for the acquisition of financial-banking services (Central Account for the Electricity Market for the Next Day – PZU),

The models of the Letters of Payment Banking Guarantee, drafted by BCR specialists, necessary for the successful performance of the mechanisms to guarantee the payments, are used by the participants to the Electricity Market for the Next Day and were accepted by the other commercial banks in Romania by means of the Romanian Banks Association (ARB).

The Central Account Bank and Endorsing Bank Convention was drafted; this is a mandatory document for commercial banks that want to issue letters of guarantee or counter guarantee to the clients, to guarantee the payments within PZU. The document was promoted by means of the site of OPCOM SA.

The volume of external discounts, through letters of credit and incasso, increased by 6% compared to last year, the bank granting specialized and financing consultancy based on these instruments, by discounting the letters of credit with mature payment, on the order of both the clients and the issuing partner banks.

In order to respond efficiently to the development needs of SMEs, both for the current financing needs and for the building of new production capacities and modernisation of the existing ones, BCR offer enriched with the Package IDEAL. For the first time for the corporate sector, the guarantees needed for obtaining the products of credit type from the package are the most flexible, real estate guarantees not being necessary.

The package was launched on December 3rd, 2007, at the same time with two other products, optional components of this package: the credit line for IMM IDEAL CURENT BCR and the investment credit for IMM IDEAL INVEST BCR.

Following the feedback received both from the clients and the sales force, the IDEAL BCR package was further improved, adding among others a new optional financing component, namely the credit to finance the temporary or seasonal expenses and stocks, IMM IDEAL ACTIV BCR.

Because the understanding of the characteristics and of the functioning of the new products is essential for the optimal development of the selling process, a training program was drafted and implemented, addressing mainly to the corporate relations managers from the business centers who serve the SME clients and who know best their activity and their specific business needs. The training sessions took place in Cluj, Piatra Neamț, Bucharest, Constanța, Brașov and Timișoara.

# Treasury & Capital markets

In 2007, there were created the conditions for increasing the selling force, promoting the complex treasury products and increasing the service quality, by raising the number of traders and dividing their activity by client sectors.

The treasury activity was developed with a view to diversify the products offered to the clients, by developing the products portfolio and the derivatives: Forward on the exchange rate, Swap on the interest rate. Swap on the exchange rate have been improved, and the products Option on the exchange rate and Option on the interest rate are new entries.

This orientation of the bank towards transactions on regulated markets appeared in the context in which BCR is placed among the first banks on the Romanian market that has developed this activity, having a high potential of attracting an important sector of the market.

Regarding the Corporate Finance and Investment Banking activity, 2007 was a year of tremendous achievements:

- the direct support of the listing process of Erste Bank at Bucharest
- organizing the BCR authorization process by the National Securities Commission (CNVM) (May 2007)
- It established powerful structures of DCM, M&A, ECM, Equity trading and sales, compliance and equity research from the organizational, procedural, budgetary and human resources points of view

BCR proposes to remain the main administrator of the development and modernization projects of Romania, sustained by financing from both external and national sources. At the end of 2007, BCR managed 94 programs amounting to approximately 6.26 billion USD, representing special accounts for performing external governmental loans guaranteed by the state, grants, budgetary funds and also loans contracted by the bank on its own name.

From the point of view of the external relations, the first year of membership to the biggest banking groups in South-Eastern Europe has developed on two strategic coordinates:

- integration in the Erste Bank Group from the point of view of optimizing the accounts and the external payments;

- consolidation of the relations with the correspondent banks and other banks, as well as with BCR clients residing outside the boundaries of the country, by developing new products and facilities.

The harmonization and restructuring of the NOSTRO accounts network, of the structure of the commission tariff in accordance with the international standards enabled the promotion of a unitary image of the Erste Bank Group on the outside. At the same time, this led to the improvement of the account conditions offered based on mutuality to the business partners and to stimulating the intra-group payments that presently cover Hungary, the Czech Republic, Slovakia, Croatia and Austria.

In a difficult international context, BCR succeeded to maintaining the number of correspondent banks, to increase the number of SWIFT keys changed with external banks and the number of NOSTRO and LORO accounts, concretizing thus the bank's orientation towards the consolidation of the existing external relations.

Harmonizing some products within the Group and promoting new ones offered to the correspondent banks (cash management services, opening distance accounts, providing advantageous conditions for the operations concerning the market capital) have opened new business perspectives to the bank, granting the possibility to conclude strategic partnerships on various interest markets in Europe.

First, such partnerships aimed at an important sector of clients – the Romanian emigration in Spain and Italy, the bank developing a special products offer concerning the financing of real estate projects.

Despite of the macroeconomic evolutions in 2007, due to the remarkable results obtained by BCR and to its position on the market, the most important rating agencies have maintained a good level of the ratings granted to the bank, superior to the given country rating level.

# Financial and risk management

According to Erste Group standards and the referential bank practices, there has to be a clear delimitation between the risk and the business functions and a framing of all risk factors into a functional risk structure.

Thus, in April 2007, the Retail Risk Management Division was formed; which is responsible with the risk management for clients - individuals and small and micro enterprises, but which also has secondary support attributions, regarding the retail risk.

## The most important achievements of 2007

**The Revision of Methodological Norms regarding the lending activity for the category of individuals clients**, which determined the next major changes:

- The expansion of the Knock-Out eligibility criteria as the first filter of client selection;
- The implementation of the economic model (calculating the net income of the client by dropping the subsistence spending – which are established by taking into account the number of family members, the geographical region and the residential area) for the residential clients and the retail clients, who leave and work abroad;
- Adjusting the maximum level of indebtedness which the bank can take into consideration to calculate the repayment capacity, regarding the scoring analysis result;
- Establishing the final level of indebtedness of the client – regarding the individual behaviour to repay the rates (standard or adjusted level);
- Asking for a mixture of income types, in case the client proposes to the bank, as a repayment source, incomes provided by rents (50% maximum)
- Implementing the Retail Clients Evaluation Procedure, through which are established the mandatory verification that the bank has to make in order to evaluate a new loan application. Through this new procedure, BCR uses two methods of client evaluation: the standard evaluation – for clients with a historical background in BCR and the prudential evaluation – for clients without a historical background in BCR.

**Issuing a different lending norm regarding the lending activities to micro clients**, which brought the next major changes, by comparison with the previous norm for legal persons:

- Defining the lending activities for micro clients and establishing a framework for this unique segment (the revision of the existing flow of activities, its adaptation to the requests specific to the loans granted to micro clients, the introduction and the modification of new risk parameters for the new and existing products etc.)
- Paying special attention to data regarding micro clients, through a first filtration of these, following the application of the Knock-Out criteria;
- Establishing a new structure for micro clients analysis;
- Introducing the financial analysis based on the group-standard – “Sabine Report”.

## Introducing the individual approval concept from the institution

In order to reach a high level of efficiency of the approval process of loan granting, to avoid the formal approach, to have a high quality process for taking loan decisions that is also according to Erste Bank Group standards, it was necessary the implementation of a new individual responsibility concept, to approve loans.

Thus, on the 1st of November 2007 the new concept of loan granting (pouvoir) was implemented: the authority of some employees to decide individually upon the loan requests, following basic lending principles established by the bank.

It was established that the approval decision would be taken using a matrix of possibilities (taking into consideration the debts and the total exposure of the bank toward the client/debtor), and new maximum approval limits were established at the territorial units level.

Together with the implementation of the authority of individual responsibility a better monitoring system of lending decisions was developed, for each credit decision maker, which allows individual monitoring of the credit decision makers and the credit decisions in the whole network.

## The Implementation of the Risk Index

In order to evaluate the quality of loan granting decisions in the territorial units, as well as the quality of their portfolio and time dynamics, a new evaluation instrument was developed – The Risk Index.

The Risk Index works as a key performance indicator for the territorial units, measuring the performance of the subsidiary, reported in terms of risk management.

The Risk Index is calculated taking into consideration some specific factors, to which a weight is assigned according to their importance.

The Risk Index is quarterly calculated and is to be used in the fourth quarter of 2008, as key indicator for the performance evaluation of the subsidiaries, in terms of risk management (a part of the bonus of employees working in front-office). Before 2007 there was not an efficient process of collecting information regarding the individual clients, this activity being made by the office manager, who did not have the time or the proper knowledge. In the second quarter of 2007, a collecting network was developed in the country and there were selected some external agencies to take care of the clients with debts.

Based on this infrastructure, the complete collecting process on the retail segment started in July 2007. Also, corporate clients' problems are exclusively dealt with by the Head Office. The former single working network of managers was transformed into a more efficient regional network of smaller teams. The biggest and most important cases are treated at the central level.

2007 was also the transition year for **Collateral Management**. The old system was based exclusively on the internal evaluators, for the guarantee evaluation of the loan portfolio of the bank. This system clearly presented some functional limits because it was difficult to replace the less performing evaluators, due to the fact that these were employees. In 2007 we outsourced the system for the retail segment (where the capacity is the most important aspect) and we kept, as a part of the bank just one efficient monitoring team. In this way, we can extend unlimitedly our capacity and we can replace those who do not prove the necessary quality.

In 2007, taking into consideration the main objective of the bank – the centralization of the support functions - the reorganization project of the own accounting was initiated. The centralization of the proper accounting activity was performed step by step during the period June-October 2007.

In the area of the proper accounting activity, we include the operations concerning the materials, fixed assets and inventory objects accounting, as well as the operations generated by the

payment of the supplied services, the invoicing operations of the services supplied by the bank to third persons, accounting of the local taxes and fees.

Thus, these operations that were carried out in the territorial units were transferred at the level of the Head Office. At the same time, a new department was created with the aim of assuring a centralized accounting control of the verification balance sheets and the reconciliation between various accounting and reporting systems of the bank and the reconciliation between the financial statements and the business lines that generate these statements. All these controls and reconciliations are necessary in order to ensure the accuracy and the correct reflection in the financial statements of the bank.

Following the centralization, the capacity of the territorial branches to serve the clients has increased substantially. The accounting operations of the clients remained at the level of the territorial units and of the back-office divisions in the Head Office of the bank.

Together with the centralization of the proper accounting operations, the implementation process of a new SAP computerized application for the bookkeeping of these operations was also initiated. We mention the fact that BCR is the first entity from the Erste Group that has implemented in SAP the new concept of Unique Accounts Plan for the entire Erste Bank Group.

2007 represented a year of many major changes in the insurance activity of the **information security and protection**. These changes will continue in 2008 too, having as objective a consolidated security model.

First, it aimed to develop a new physical security concept based on assuring an efficient report between the electronic security and the physical protection achieved with the staff help.

Another important moment was the taking over of the assurance activity of the business continuity in case of calamity.

All these elements allowed the development of a unitary concept of ensuring the security management and of the business continuity. According to this new concept, the information security and protection, irrespective of the fact that the information is computerized or physical, are focused on one functional entity only.

By means of this new concept, BCR aligns to the international standards, being the first bank in Romania that implements such a security and business continuity management integrated concept. It is not new for the specialized community in Romania, because BCR was also the first Romanian bank at the time when the information security standard ISO 17799 was implemented that consequently became ISO 27001.

During the year 2007, the information security and protection had two strategic objectives for protecting the information, starting with the development of the specific security policies on the following main sectors:

1. **The Information Security Management System - SMSI.** Maintaining the certification of the cards issuance and acceptance process.
2. **Optimization of the processes related to the authorized electronic signature** at the level of whole activity of the bank.

The SMSI certified within the cards issuance and acceptance process confers safety, confidentiality, integrity and availability in the relation of the bank with the clients.

Maintaining the SMSI certification for the cards issuance and acceptance process, following the supervisory audit performed by British Standard Institution was based on the development of measures and controls in accordance with the management standard of data security ISO/IEC 27001 and the adaptation of the dedicated procedural framework.

The development and implementation of the procedural framework was performed by issuing specific internal regulations of the information security such as the policies regarding the information security, the classification guide of BCR resources, the procedure for evaluating the information security risk, SOA.

The SMSI Optimization in the cards issuance and acceptance process represented a stimulating factor for increasing the clients' confidence, both in this product and in the services offered by the cards issued by BCR.

During 2007, it was initiated the implementation of a real time monitoring application of the limits and of the exposure towards the countries, banks, sovereign entities, corporate clients and non-resident individuals, named RICOS (Risk Control System), an application implemented by all the subsidiaries within the Group.

We finalized the integration process in the standards of the Erste Group of the risk limits towards the countries, banks, financial institutions affiliated to the banking groups (leasing, factoring, brokerage companies, investment companies), the limits of the BCR Group (formed of the Anglo-Romanian Bank, BCR Chişinău and BCR Leasing) being integrated in those of the Erste Group. Within this process, BCR has the role to coordinate the approved limits related to the subsidiaries within the BCR Group and to assure their approval at the level of the group.

During 2007, there were signed working conventions regarding the approval, monitoring, changing and complying with the risk limits approved for countries, banks and sovereign entities, both between Erste Bank and each member of the BCR Group, as well as between BCR and the component entities of the BCR Group; these conventions stipulate the responsibilities of each member of the Group in the process of approving and monitoring of the mentioned limits.

During 2007, ORCA Light IT application was implemented for collecting the losses generated by the occurrence of operational risk events.

Also, taking into consideration the fact that for the calculation of the capital requirement for the operational risk, there are necessary historical data regarding the operational losses, the information available at the level of the Risk Controlling Division was transferred in this application, starting with the second semester of 2007.

The bank has partially transferred the potential losses generated by the operational risks to an insurance company, by concluding an insurance policy for covering the operational risks, such as: internal fraud, external fraud, natural calamities, civil and professional liability etc.

The implementation of the methodology regarding the lending activity in order to finalise the centralization of the credit risk management activity for corporate clients, according to the schedule established for the implementation of the IDP Risk Management project, aimed at the alignment of the corporate lending activity to ERSTE standards.

The centralization of the management activity of the credit risk for corporate clients was achieved by means of the approval and the implementation of the final authority competences for corporate clients lending.



Also, the authority limits for approving the loans were modified. This measure aims at the prevention and reduction of the potential risks in the lending activity of the corporate clients, as well as of some potential operational risks secondary to the credit risk that can have an effect on the adequacy of the bank capital, according to the prudential norms of the Romanian National Bank and of the requirements of the Basel II Agreement.

The bank evaluates the exposure to the market risk by the forecasting model Value at Risk, according to the Basel II requirements.

- The KVaR application was implemented according to the Erste Bank standards and, starting with July 2007, the VaR for the main portfolios was calculated daily, in order to accumulate a relevant experience in order to propose limits that are adequate to the monitoring of the market risk;

- The structure and size of the limits for the market risk were discussed and convened with the Erste Bank Group.

The implementation of the corporative management model of the subsidiaries, namely the dualist administration system, was completed in order to align it to the practices applicable to all the companies that belong to the Erste Bank Group.

Also during 2007, a buy-out operation was carried out, namely the initiation of a purchase offer for the shares held by the minority shareholders. Banca Comercială Română SA thus increased its contribution in the subsidiaries BCR Leasing IFN SA, BCR Asset Management SA and BCR Asigurări de Viață SA.

There were initiated and performed operations of founding new BCR subsidiaries, in order to vary the activity of the bank and the increase of the attraction for the products and services offered to the clients, as follows:

BCR Administrare Fond de Pensii SA, a company that was founded in July 2007 to access the private pension fund system (Pillar II) and that administers the BCR Fond Privat de Pensii starting with September 2007.

The completion of the procedure of creating 5 newly opened investments funds with different structures of the portfolio and risk profile administrated by BCR Asset Management SA, respectively BCR Monetar, BCR Obligațiuni, BCR Europa Conservator, BCR Europa Mixt and BCR Europa Avansat. This operation consolidates the involvement level of the bank in this sector and contributes to the increase of the market share on

the specialized market and the development sustained together with the private banking activity, with a view to varying the products offered to the clients of the Group.

The process of restructuring BCR's interests continued, aiming to increase the focus on the main activities. To this effect, the bank initiated and performed the steps to sell the interests in the share capital of Banca Italo Romena SpA (action completed in April 2008) and of the Anglo Romanian Bank Ltd (action to be finalized during the year 2008).

At the same time, selling steps were initiated and performed together with the other shareholders of the insurance-reinsurance company SC Asiban SA, for the interests in the share capital of this company and the signing in this respect of the purchasing contract of shares (in April 2008) for a price representing the biggest transaction on the specialized market in Romania.

BCR developed the Conformity Plan for the year 2007 to prevent money laundering and financing terrorism, which defined the responsibilities of the Conformity Function and established, in reasonable terms, the activities planned for a determined period of time.

Also, in 2007, the AML Local Initiative Project was initiated, its main aim being that of using the same approaches proposed at the level of the group in the AML//CFT field, by elaborating an AML policy and proper standards in accordance with the principles established at the level of the Erste Group and with the internal/international legal provisions.

BCR transposed in its internal regulations the MiFID procedures which aim to protect clients' interests, to improve client communication and the transparency in the relation with the client.

In 2007, BCR reorganized its control activity and created a new quarterly budget and reporting process in order to meet the budgeting and reporting deadlines.

The bank created the Controlling Division to improve control of the costs and the budgeting process and to better support the business lines, the financial contents of the profit calculations and the communication of analyzed numbers.

The data analysis, the interpretation of the owned control data, as well as the utilization of the best controlling instruments and methods offer valuable support to the management, but also to

the business lines for quantification, monitoring and control of incomes, generated costs and profits.

The flexibility and the access to the main information will allow BCR to react more quickly to the changing environment.

Another important achievement is the implementation of the rate opportunity concept, being included in the budget and control report.

The advantages of this concept are:

- It facilitates decision making regarding the setting of product price, avoiding wrong price evaluations, allowing the improvement of products and clients' profitability;
- It facilitates the group's performance evaluation (centers of profit, products and clients) through harmonized FTPs;
- It offers a consistent analysis, planning and budgeting of profitability;
- The individual transactions have established a price correlated with the transfer price, a fact that reflects the maturity and the method of interest modification, for a fair interest margin calculation;
- The margins are set for the entire life span of the product and it protects the contribution of the transaction margin from the subsequent effects of interest rate changes on the market;
- The market risk is measured and managed at a central level;
- The FTP system ensures that the interest rate risk is not adopted by the business line.

# Operations

In 2007, a new entity was founded at the level of the Head Office, separated from the organization point of view from the processing area of the operations that, according to the principle of separating responsibilities, ensures the permanent control and checks the operations processed in a centralized way, by means of the daily computerized reports.

During the year 2007, a series of important projects were implemented, which helped to improve the operational IT activity and the technical support for the business activities in the bank. Out of these projects, we can list the following:

## 1. Centralization of the Payment Operations

In this project, the hardware infrastructure was made available to the branches for the support of the data scanning and processing necessary for the centralized payments. There was also an increase of the communication bands in all the branches to speed up the transmission of scanned data to the processing centers.

Also, the infrastructures were set up for the two processing centers in Bucharest and Sibiu. Thus, modern structured cablings were installed, in order to support the supply of the data network (Power over Ethernet), reducing in this way the complexity of the cabling and the number of ports necessary for connecting computers and telephones. The local network was installed, using modern technologies of transmitting voice over the data networks (Voice over IP), using the IP telephony, allowing a better integration of the new centers with the voice and data network of the bank, as well as a better flexibility and mobility for the users. Also, the server hardware infrastructure, working stations, printers, IP telephones etc., necessary for the development of the activities in these processing centers, were installed. These processing centers were connected through a redundant architecture to the central communication nodes by high capacity connections that support the data, voice and video transmission, so that in these centers all the types of applications used in the bank can operate and have support under the best conditions.

## 2. Modernization of the Central Infrastructure

In this project, hardware updates were performed for the main core-banking SibcorV2 site, by increasing the storage capacity,

the performances of the storage environment, by centralizing the SAN architecture (Storage Area Network), as well as by increasing the processing capacity and the memory available for the central servers. These updates resulted in improved performances of the applications and consequently the improvement of the services offered on the new platform.

## 3. Card Integration in SibcorV2

In this project, the technical and operational infrastructure was made available for the application used to integrate the card application with the SibcorV2 core-banking. This project tested the integrating solution, its implementation and its functioning. The project allowed the integration of the card accounts from the card application with the accounts associated in SibcorV2.

## 4. Disaster Recovery Center

This project aimed to minimize the risk by setting up a new modern disaster center which serves mainly the central core-banking and the cards infrastructure, with the possibility to be extended in the future for other critical applications. Within this disaster recovery center, the central servers were replicated as well as the storage, the SAN architecture and the communication architecture for the central core banking node and the cards node. This project also meets the RNB requirement to have a recovering center in case of calamity for the core-banking application. The implementation of this modern recovery center enabled an increase of the data availability and indirectly improved the bank's image with its clients.

In July 2007, the creation and organization of the IT Solutions Division within BCR were successfully completed.

## 5. Cards Integration

The cards system is now connected online to the bank's centralized system (SIBCOR), allowing real time processing of all the debit cards operations, including accounts charge and payments performance.

By its amplitude and its speed of accomplishment, the operation represents a premiere in Romania, especially considering the fact that in less than two years approximately 2 million card accounts were transferred in the Sibcor V2 system, while maintaining the functionalities attached to the card.



At the end of 2007, another important phase of this project ended: the integration of all the card types (including the credit ones) from the accounting point of view.

## 6. Remote operations

The implementation of the Remote Operations project and the centralization of the banking document processing operations were successfully finalized in September 2007.

This project enables remote operations between accounts opened with different operative branches and/or with the new banking structures (GLC, LC, CC, Retail etc.) and any other entities that the bank decides to found in the future.

The implemented operations are:

- Loans payment
- Cash deposits
- Transfers between current accounts
- Payment of SIF dividends or of any other contracts
- Payments made by non-BCR clients (Caixa, Ceca conventions)
- Money order processing
- Opening internal accounts
- Keeping own accounting

This approach ensures a unified treatment for any of the involved entities (GLC, LC, CC, Retail etc.). The creation of a flexible data model allowed the processing of financial analyses, profitability reports etc.

The implementation of the operational banking entities model (units, structures of GLC, LC type etc.) allows the introduction of a new segmentation of the clients without having effects on the rest of the implemented structures.

## 7. Phone Banking

In 2007, the functional line Operations supported the projects set, which aimed at the development of the Alternative Channels within BCR (banking operations by telephone, Internet or multifunctional equipment).

The first stage of the Phone Banking project has ended successfully, the clients having not only access to a great number of data about their BCR accounts, but also the possibility to make bank transfers from these accounts (through a specialized Call Center).

The Phone Banking project was extended by new functionalities along with the initiation in November 2007 of the Internet Banking project.

By implementing these solutions:

- The client can make on his own online transactions and obtain information directly from the portal or he/she can make the same operations by calling the Call Center.
- The bank has the possibility to be closer to the client.
- We assure the use of a methodology according to the IT standards of the group.

Also within these projects designed for the Alternative Channels, the SelfBanking project was initiated in 2007, with the first stage of this project completed in December 2007.

The implementation is based on processing some specific messages when the clients make a cash deposit at these multifunctional machines installed in the ATM network of the bank that have the double function of making deposits and withdrawing cash (similar to any ATM). The main advantage for the client is the online processing of depositing transactions, thus the immediate transfer of the funds deposited in the account to which the debit card is attached. This facility was offered for the BCR clients that hold debit cards in lei.