

**No.** 4009/01.03.2016  
**From:** Supervisory Board  
**To:** Ordinary General Shareholders Meeting

**In reference to:** request of a shareholder holding more than 5% of the share capital of the Bank, respectively *“Presentation of the Supervisory Board’s Report regarding the monitoring of the fulfillment by the Executive Board of OGSM Resolution no. 3/28 April 2015 on approving the Revenue and Expenditure Budget for 2015, and regarding manner how the supervisory body fulfilled its control attributions over the executive management carried out by the Executive Board of the Bank”*

**For:** Information

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In consideration of the request from a shareholder holding more than 5% of the bank’s shares, addressed to the Supervisory Board in reference to: *“presentation of the Supervisory Board’s Report regarding the monitoring of the fulfillment by the Executive Board of OGSM Resolution no. 3/28 April 2015 on approving the Revenue and Expenditure Budget for 2015, and regarding manner how the supervisory body fulfilled its control attributions over the executive management carried out by the Executive Board of the Bank”*, the Supervisory Board presents the following supervisory report:

**Report**  
**on monitoring budget implementation and Executive Board’s activity in year 2015**

**Contents:**

- I. Preliminary financial statements of BCC at the end of year 2015, as compared to the budget approved in GSM
- II. Statement of provisions for impairment of loans and reassessment of repossessed assets
- III. Process of disintermediation for the loan granting area and reduction of costs for deposits collected from customers
- IV. Restructuring and operational effectiveness increase actions
- V. Summary of the process of monitoring Executive Board’s activity in year 2015 as regards the budget implementation for year 2015, Executive Board’s activity and the manner how the Executive Board fulfilled the missions entrusted by shareholders

- I. Preliminary financial statements of BCC at the end of year 2015 as compared to the budget approved in GSM

We present in the following the main balance sheet and profit and loss account items as compared to the plan. Note: these items are presented in the preliminary, unaudited financial statements, and the audited financial statements shall be presented to the GSM on April 27<sup>th</sup>, 2016.

### FINANCIAL STATUS (BALANCE SHEET)

- all sums are expressed in million lei -

#### ASSETS

	ACHIEVED 2015	BUDGET 2015	ACHIEVED vs. BUDGET
Cash and financial assts, of which			
Petty cash	139.8	110.3	29.5
Bank accounts with the Central Bank	420.9	232.3	188.5
Financial assets available for sale/Investments kept until maturity	1,291.3	1,187.4	103.9
Receivables from credit institutions/financial assets held for trading purposes	78.5	15.4	63.1
Loans to customers, net	772.2	1,177.5	-405.3
Investments in participation titles	12.0	0.9	11.1
Tangible assets	138.4	136.8	1.6
Investments in immovable assets	103.5	94.7	8.8
Non-tangible assets	8.8	7.7	1.1
Asset from deferred income tax	36.5	21.1	15.3
Other assets:	95.6	121.7	-26.1
<b>Total ASSETS</b>	<b>3,097.4</b>	<b>3,105.8</b>	<b>-8.4</b>

#### LIABILITIES

	ACHIEVED 2015	BUDGET 2015	ACHIEVED vs. BUDGET
Debts to customers, of which:			
Fixed-term deposits	2,468.1	2,364.5	103.6
Current accounts	328.6	302.9	25.7
Others (collateral deposits, deposits repayable on demand, associated debts)	56.9	68.5	-11.7
Total debts to customers	2,853.5	2,735.9	117.6
Debts to credit institutions/ repo operations	7.6	22.1	-14.4
Loans	63.4	61.6	1.8

Other debts/liabilities from deferred income tax	38.8	28.5	10.2
<b>Total Liabilities</b>	<b>2,963.3</b>	<b>2,848.1</b>	<b>115.2</b>
<b>EQUITY</b>			
Nominal share capital	121.6	113.3	8.3
Level-2 capital	0.0	44.1	-44.1
Premiums related to capital	2.0	2.0	0.0
Share capital revaluation surplus	5.7	21.8	-16.1
Retained earnings/ (Cumulated loss)	-87.1	-23.5	-63.5
Reserve corresponding to financial assets available for sale	3.0	3.5	-0.5
Revaluation reserve	69.3	69.3	0.0
Other reserves	27.2	27.2	0.0
<b>Total equity</b>	<b>141.8</b>	<b>257.7</b>	<b>-115.9</b>
<b>Total LIABILITIES AND EQUITY</b>	<b>3,097.4</b>	<b>3,105.8</b>	<b>-8.4</b>

#### PROFIT AND LOSS ACCOUNT

- all sums are expressed in million lei -

	ACHIEVED 2015	BUDGET 2015	ACHIEVED vs. BUDGET
Interest income	106.6	124.7	-18.2
Interest expenses	-58.7	-56.2	-2.4
<b>Net interest income</b>	<b>47.9</b>	<b>68.5</b>	<b>-20.6</b>
Income from commissions	26.0	33.0	-7.0
Expenses with commissions	-4.5	-6.4	1.9
<b>Net income from commissions</b>	<b>21.5</b>	<b>26.6</b>	<b>-5.1</b>
Net trading income	15.4	19.5	-4.1
Net income from financial assets available for sale	17.5	32.4	-14.9
Other operating income	19.2	13.6	5.5
<b>Total operating income</b>	<b>121.5</b>	<b>160.6</b>	<b>-39.1</b>

Net expense corresponding to adjustments for impairment of loans granted	-32.6	-14.6	-17.9
<b>Net operating income/(expense)</b>	<b>88.9</b>	<b>146.0</b>	<b>-57.0</b>
Salary expenses and other assimilated items	-64.0	-65.7	1.7
Depreciation of tangible and non-tangible assets	-10.1	-10.5	0.5
Operating expenses, other than salaries	-60.5	-62.1	1.6
<b>Total recurrent expenses</b>	<b>-134.6</b>	<b>-138.4</b>	<b>3.7</b>
Other expenses	-39.8	-7.5	-32.3
<b>Total operating expenses</b>	<b>-174.4</b>	<b>-145.9</b>	<b>-28.6</b>
<b>Gross profit (loss)</b>	<b>-85.5</b>	<b>0.1</b>	<b>-85.6</b>
Income tax	0.1	0.0	0.1
<b>Net profit (loss) of the period</b>	<b>-85.4</b>	<b>0.1</b>	<b>-85.5</b>

As a result of a shortage of capital of the bank, in 2015 the Bank experienced a process of disinvestment from loans, with negative impact on the income from loan interest.

## II. Statement of provisions for impairment of loans and reassessment of repossessed assets

The expenses with provisions for impairment of loans (32.6 mil. lei) had the following structure in year 2015:

- Provisions made in the normal course of business for deterioration of risk performance and those generated from revaluation of collaterals for impaired loans and for customers undergoing insolvency proceedings: 6.6 mil. lei
- Provisions established following NBR's request to increase the provisioning level for restructured loans in the entire banking system: 26 mil. lei. As a result of a legacy portfolio of insufficiently provisioned non-performing loans, the bank found itself significantly affected by this adjustment in the net result of year 2015.

Moreover, adjustments for impairment losses resulted from revaluation of repossessed assets, and amounting to approximately 35 mil. Lei (in the item "Other expenses") were registered in year 2015. Such valuations were performed by external valuers authorized by ANEVAR and were confirmed by valuers authorized to check valuation reports made by ANEVAR valuers.

In conclusion, 61 mil. Lei of the 85.5 mil. lei preliminary loss are attributed to additional provision adjustments corresponding to the legacy portfolio of non-performing loans and revaluation of own and repossessed assets.

### **III. Process of disintermediation for the loan granting area and reduction of costs for deposits collected from customers**

Considering the capital constraints that the bank experienced in the past years (solvency rate as at 31.12.2015 being of 7%, according to preliminary figures), in year 2015 the Executive Board decided to restrict the loan-granting operations and accelerate the disinvestment process (particularly in the last part of the year) – the large and risk-performance sensitive exposures were also taken into account.

As regards the savings operations, the bank managed to obtain goods results in year 2015 – the deposits base was maintained almost intact, considering that the interest expenses decreased by 37% as referred to year 2014.

### **IV. Restructuring and operational effectiveness increase actions**

In year 2015, the Bank launched an extensive expense reduction program, by implementing restructuring and austerity measures, among which:

1. Improving the efficiency of the network, by closing 13 territorial units (50 employees less than at the beginning of the year, 492 employees as at December 2015), while maintaining the deposits base
2. Reducing by 59 the number of employees in the Central Office (374 employees as at December 2015)
3. Voluntary temporary reduction of salaries
4. Cutting-off human security in the territorial network
5. Reducing expenses with consumable materials and entertainment
6. Improving the efficiency and rational use of the vehicle park

In year 2015 the monthly operating costs of the bank were reduced by approximately 10%, from 11.7 mil. lei to 10 mil. lei.

**V. Summary of the process of monitoring Executive Board's activity in year 2015 as regards the budget implementation for year 2015, Executive Board's activity and the manner how the Executive Board fulfilled the missions entrusted by shareholders**

<b>GSM Resolution</b>	<b>Details of the GSM Resolution</b>	<b>Executive Board's fulfillment of its mission</b>	<b>Supervisory Board's monitoring of Executive Board's fulfillment of the missions entrusted by GSM</b>
OGSM Resolution no. 3/28.04.2015	Approval by BVC 2015	Executive Board and executive management's endeavors were directed towards preserving the deposits base of the bank, identifying capital sources and maintaining the bank's solvency above the minimum level required by the banking law.	The Supervisory Board was informed on monthly basis on the financial situation of the Bank and the causes that lead to deviations from the budget approved by the GSM.
OGSM Resolution no. 2/ 18.06.2015	Adoption of austerity measures concerning the organization and management of the bank, correlated with the turnover, operations and performance.	In accordance with OGSM no. 2/18.06.2015, the Executive Board proposed, approved and implemented by the measures summarized in Chapter IV of the Note.  The Executive Board completed the implementation of this mission.	Since August 2015, the Supervisory Board has been informed on monthly basis on the progress of bank's expenses (OPEX&CAPEX), and impact of the austerity measures implemented in the bank
EGSM Resolution no. 1/18.06.2015 and EGSM Resolution no. 2/18.06.2015	Capital reduction and increase	The Executive Board fulfilled the mission entrusted by shareholders as regards the implementation of capital reduction and increase. This process was completed by Nextebank's subscribing the new shares issued by the Bank as part of the capital increase process.  The Executive Board completed the implementation of this mission.	The Supervisory Board was informed on monthly basis on the status of the capital reduction and increase process.

EGSM Resolution no. 5 /18.06.2015	Empowering the Executive Board for taking the steps to pass to the unitary (single-tier) management system	The Executive Board called for an assembly of the EGSM on April 2, and the first item on the agenda was the approval of the new Articles of Association of the Bank in accordance with the unitary system. In the convening notice of OGSM, the second item on the agenda, as proposed by the Executive Board, was presenting the proposal for selecting the members of a Management Board corresponding to the unitary management system.	The Supervisory Board was informed of the content of the GSM Convening notice of April 2, 2016.
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President of the Supervisory Board