

BANCA COMERCIALA CARPATICA SA
Quarterly Report - Q I 2017

- **in accordance with the FSA Regulation no. 1/2006** -

Report date: **15.05.2017**

Company name: **PATRIA BANK S.A. (the former Banca Comerciala Carpatica SA)**

Registered office: **Bucharest, district 1, 31 Ion Brezoianu Actor Street, floors 1, 2 and attic**

Phone/fax: **0269-803771 / 021-3133044**

Tax identification number: **RO 11447021**

Trade Register number: **J40/9252/2016**

Issued and paid-in share capital: **Lei 376,239,921.30**

Regulated market on which the issued shares are traded: **Bucharest Stock Exchange - Premium category**

I. Important events to be reported for the period 01.01.2017 – 31.03.2017

1. On 27.03.2017 Banca Comerciala Carpatica SA announced the shareholders regarding the Convening Notice for the Ordinary General Shareholders Assembly and Extraordinary General Shareholders Assembly to be held on 27.04.2017 with the following agenda:

- Approval of the individual and consolidated annual financial statements for the year 2016;
- Approval of the discharge for the Bank's administrators for the financial year 2016;
- Election of two new members in the Bank's Board Management;
- Approval of the individual remuneration due to the members of the Board Management for the financial year 2017;
- Approval of some amendments to the Bank's Articles of Association.

II. Subsequent events after 31.03.2017

1. Starting with 18.04.2017, the Board Management of Banca Comerciala Carpatica SA approves the appointment of a new member of the Committee of Directors – Mr. Bogdan Neacsu - Executive Director of the Risk Division (who will exercise his mandate as of the date of obtaining the approval of the National Bank of Romania).

2. On 21.04.2017 Bucharest Court of Appeal approved the merger between Banca Comerciala Carpatica SA (as absorbing company) and Patria Bank SA (as an absorbed company), the merger being implemented with the effective date of 01.05.2017.

3. On 27.04.2017 the Ordinary General Shareholders Assembly and Extraordinary General Shareholders Assembly took place, where the items on the agenda were approved.

4. During the Ordinary General Shareholders Assembly on 27.04.2017, two new members of the Bank's Board Management were elected:

- Mr. Nicolae Surdu - Member (which is approved by the National Bank of Romania and whose mandate started at 01.05.2017);
- Mr. Vasile Iuga - Member (who will exercise his mandate from the date of obtaining the approval of the National Bank of Romania).

5. In the context of the merger, starting with 01.05.2017 Banca Comerciala Carpatica SA changed its name to Patria Bank SA (including the visual identity), its management being ensured as follows:

a) The Board Management:

- Mr. Horia Dragos Manda - chairman
- Ms. Daniela Elena Iliescu - member
- Mr. Bogdan Merfea - executive member
- Mr. Nicolae Surdu - member
- Mr. Vasile Iuga - Member (NBR authorization undergoing)

b) The Committee of Directors:

- Mr. Bogdan Merfea - General Manager
- Mrs. Diana Maria Kallos - Deputy General Manager - Financial Division
- Mr. Valentin Vancea - Deputy General Manager - Operations and IT Division
- Mr. Bogdan Constantin Neacsu - Deputy General Manager - Risk Division (NBR authorization undergoing)

III. Executive summary

Compared to the last quarter of the previous year (Q IV 2016), in the first quarter of 2017, Banca Comerciala Carpatica SA registered the following results:

- **Net Result:** RON -9.7 milion, a loss higher with 27% than the previous quarter (Q IV 2016), in the context of an activity slowing down caused by preparing the merger;
- **Total Operating Income:** RON 14.5 milion, representing the first quarter when the revenues have stopped their descending trend and they recorded a growth of 16% as compared with the previous quarter;
- **Operating Expenses:** RON 24.6 milion, they have registered an increase of 2% compared to previous quarter and the recurring operational costs (eliminating the impact of employees' protection measures applied for the purpose of reorganization and merger) recorded a decrease of -8% compared to the fourth quarter of 2016;
- **Total Assets** fell by 4% as compared to December 31, 2016, considering the reducing base of deposits from non-banking clientele in the context of the 18 banking units closed in December 2016;
- **Total Own Funds Rate** calculated to March 2017 is 13.81%, above the regulated level applicable to the bank, in a slight decrease compared to 14.21% recorded at the end of last year, in the context of the recorded losses of the first quarter of 2017.

This report presents the evolution of financial results for Q1 2017 compared to the same period of the previous year (Q1 2016). Given the slowing down activity for 2015 (due to the lack of capital at the end of 2015, solved at the beginning of 2016), which significantly affected the bank's earnings during the year 2016, we considered relevant to present the above summary and the developments over the most recent reporting period, i.e. the last quarter of 2016, to reflect the recent trend of results.

IV. Banca Comerciala Carpatica SA - Financial position as of 31.03.2017

Assets (thousands RON)	31.mar.17	31.dec.16	Δ 2017/ 2016 (abs.)	Δ 2017/ 2016 (%)
Liquid assets	1,630,990	1,706,976	(75,986)	-4%
Equity investments	6,332	6,332	(0)	0%
Loans and advances to customers, net	560,168	580,735	(20,567)	-4%
Other assets	301,470	309,458	(7,988)	-3%
Total ASSETS	2,498,960	2,603,502	(104,541)	-4%

Liabilities (thousands RON)	31.mar.17	31.dec.16	Δ 2017/ 2016 (abs.)	Δ 2017/ 2016 (%)
Due to customers	2,285,405	2,394,993	(109,587)	-5%
Loans and other liabilities	58,757	42,982	15,775	37%
Total Liabilities	2,344,162	2,437,974	(93,812)	-4%
Total Equity	154,798	165,527	(10,729)	-6%
Total LIABILITIES AND EQUITY	2,498,960	2,603,502	(104,541)	-4%

- On March 31, 2017, **Total Assets** were lower by RON 104.5 million (-4%) as compared to December 31, 2016, down from RON 2,603 million to RON 2,498 million, the reasons for the decline being further analyzed.
- **Liquid Assets** (cash in hand, accounts with the Central Bank, credit institutions, portfolio of financial assets held for trading available for sale and held-to-maturity investments) decreased by RON 76 million (-4%), compared to the level recorded on December 31, 2016, due to the decrease in the level of deposits attracted from non-bank customers.
- The net value of **Loans and advances to customers** decreased by RON 21 million (-4%) on March 31, 2017, compared to the beginning of the year. During the process of preparing the integration for the merger with Patria Bank, the Bank conducted a process of alignment of procedures and workflows, especially lending, and it's expected for the next quarter to relaunch the lending process, based on the new portfolio of banking products.
- **Total Debts** of the Bank recorded on 31 March 2017 the value of RON 2,344 million, down by RON 93.8 million (-4%) as compared to December 31, 2016 (RON 2,437 million). The decrease in the level of deposits attracted from non-bank customers by RON 109.6 million (-5%) is due to the network optimization process, where the Bank closed in December 2016 a number of 18 territorial units, having at the end of the first quarter 2017 a network of 79 agencies and working points.
- The bank keeps a high level of **liquid assets on the balance sheet (65%)**. The Loans / Deposits ratio recorded a level of 35% in March 2017, well below the banking system's average of 81% (according to data provided by the NBR for March 2017).
- **Total Own Funds Ratio** calculated in March 2017 is 13.81%, slightly decreasing compared to 14.21% recorded at the end of the previous year, due to the losses registered in the first quarter of 2017.

V. Banca Comerciala Carpatica SA - Financial performance for Q1 2017

FINANCIAL PERFORMANCE STATEMENT (thousands RON)	31.mar.17	31.mar.16	Δ 2017/ 2016 (abs)	Δ 2017/ 2016 (%)
Net interest income	6,787	11,053	(4,266)	-39%
Net fees and commission income	3,780	4,682	(902)	-19%
Net trading income	2,386	3,939	(1,553)	-39%
Net income from disposals of investment securities available for sale	(53)	4,122	(4,175)	-101%
Other net operating income	1,597	1,581	16	1%
Total operating income	14,497	25,377	(10,879)	-43%
Net expense with guarantees and staff benefits provisions and litigations	2,689	1,039	1,650	159%
Net expense with loans provisions	(3,967)	(1,652)	(2,315)	140%
Recoveries from write-off	1,566	1,813	(247)	-14%
Net expense with equity investments depretiation	-	-	-	0%
Net operating income	14,785	26,576	(11,791)	-44%
Salaries and related expenses	(12,762)	(15,547)	2,785	-18%
Depreciation and amortization	(1,924)	(2,322)	398	-17%
Other operating expenses	(9,877)	(17,944)	8,067	-45%
Total operating expenses	(24,563)	(35,813)	11,250	-31%
Gains/(Loss) from stoks and properties investments	46	302	(256)	-85%
Gross Profit/(Gross Loss)	(9,732)	(8,935)	(798)	9%
Income tax	-	-	-	
Net Profit/(Net Loss) for the year	(9,732)	(8,935)	(798)	9%

Comparative analysis with the same period of last year

- **Total operating income (total bank income)** decreased by RON 10.9 million (-43%) compared to the same period of the previous year, the reasons for the decrease being further analyzed.
- **Net interest income** decreased in the period by RON 4.3 million (-39%) compared to the same period of 2016, due to the following evolutions of its components:
 - **Interest income on loans** decreased by RON 4.4 million (-32%) as compared to the previous year, mainly as a consequence of the intensification of non-performing loans recovery and credit portfolio cleaning-up, by written-off. During 2016 were written-off the non-performing loans fully covered by provisions in the amount of RON 88 million. In the first quarter of 2017, there was no need to write-off other non-performing exposures;
 - **Interest income on the portfolio of T-bills** recorded a substantial decrease of RON 3.3 million (-53%) compared to the same period of 2016, being influenced on the one hand by the decrease of -7% of the T-bills portfolio, but especially by the yields decrease in the market during the analyzed period and by the policy regarding the portfolio's restructuring, aimed to reduce the interest risk undertaken by the bank;
 - **Interest expenditures** decreased by 3.4 million RON (-38%) as a result of the decrease in the interest rates paid to the clients (due to the decrease of the interest rate in the entire banking system - as compared with March 2016, the average rate of interest on deposits attracted from the population decreased from 1.4% to 1.1% - according to the data provided by the National Bank of Romania for March 2017), but also due to the decreased level of attracted sources from the non-bank clients by 14% as compared to the same period of the previous year.
- **Net commission income** declined by 0.9 million RON (-19%) in the first quarter of 2017, mainly due to the adjustments made on the number of territorial units.

- **Net income from available-for-sale financial assets** recorded a variation of RON 4.1 million (-101%) as compared to the previous year, due to the bank's lower appetite regarding the bank's exposure to interest rate risk.
- **Operating expenses** decreased by RON 11.25 million (-31%). The operational expenditures for the first quarter of 2017 also include a series of non-recurring expenses amounting to RON 2.4 million, generated by the reorganization of the activity (staff restructuring - the number of active employees decreased from 827 in March 2016 to 545 in March 2017) such as compensation payments and employee retention packages as well as by the merger process. The compensatory and retention packages were included in the expenditures for 2016 (as provisions), and their resumption in the first quarter of 2017 is included in the item "Net wages with guarantees and provisions for employees' benefits and litigations", whose positive value cancels thus the impact of these expenditures on the final result of the reporting period.
By eliminating the effect of the above-mentioned non-recurrent expenses, as well as of the contributions to the Deposit Guarantee Fund in the Banking System of the base year (2016), the operating expenses registered a reduction of RON 6.8 million (-23%).
- **The (net) expense related to the credit impairment adjustments** registered an increase of RON 2.3 million, considering the unfavorable evolution of the market value of certain collaterals on impaired loans and the defaulting of a group of debtors with agricultural profile, the provision for the latter being largely reversed in the second quarter (amid the receipt of compensation from the loans guarantee's fund).
- During the analyzed period were sold six real properties resulted from the mortgages repossession of non-performing loans, totaling RON 1.7 million, with a negative impact on the profit and loss account of RON 0.2 million, included in the item "**Earnings / (losses) on disposal of real estate investments**".

VI. Banca Comerciala Carpatica SA - Economic & financial ratios

Main indicators		31.12.2015	31.12.2016	31.03.2017
Return on assets (ROA) ¹	%	(2.37)	(1.58)	(1.54)
Return on equity (ROE) ²	%	(37.94)	(24.91)	(24.40)
Total own funds ratio	%	4.88	14.21	13.81
Credits (gross value) / Debts to clients	%	37.1	34.0	33.6
Immediate liquidity ³	%	61.8	67.6	67.5

¹Annualised net profit / Total assets at average value

²Annualised net profit net/ Own equity at average value

³Cash and deposit to banks (net values) + free T-bills titluri / sources attracted and borrowed

The liquidity indicator on March 31, 2017, calculated according to the norms applicable to the financial and banking institutions, is comfortably above the regulated limits, as follows:

Date	<= 1 month	1 -3 months	3-6 months	6-12 months	>12 months
31.12.2015	4.01	11.74	20.68	17.87	8.45
31.12.2016	3.73	13.09	18.70	15.56	77.91
31.03.2017	3.93	12.16	18.96	14.7	68.26
Regulatory limit	>= 1	>= 1	>= 1	>= 1	-

* The liquidity indicator calculated for all currencies, in RON equivalent

The financial statements for the first three months of 2017 have not been audited by an independent financial auditor.

APPENDICES (copies):

- Banca Comerciala Carpatica SA. - Financial Position and Financial Performance as of 31.03.2017

Deputy General Director – Financial Division,
Diana Maria Kallos

FINANCIAL POSITION

Assets (thousands RON)	31.mar.17	31.dec.16	Δ 2017/ 2016 (abs.)	Δ 2017/ 2016 (%)
Cash in hand	116,780	121,538	(4,758)	-4%
Accounts with Central Bank	257,335	417,191	(159,856)	-38%
Treasury cash/placements	66,858	9,136	57,722	632%
Financial assets held for trading	33,837	52,788	(18,951)	-36%
Financial assets available for sale	1,046,108	996,463	49,646	5%
Financial assets available held to maturity	110,071	109,860	212	0%
Equity investments	6,332	6,332	(0)	0%
Loans and advances to customers, net	560,168	580,735	(20,567)	-4%
Property and equipment	124,894	127,053	(2,160)	-2%
Investment properties	95,900	96,438	(538)	-1%
Intangibles	7,548	7,255	293	4%
Deferred tax assets	17,404	17,215	190	1%
Other assets	55,723	61,497	(5,774)	-9%
Total ASSETS	2,498,960	2,603,502	(104,541)	-4%
Liabilities (thousands RON)	31.mar.17	31.dec.16	Δ 2017/ 2016 (abs.)	Δ 2017/ 2016 (%)
Due to banks / repo operations	18,003	5	17,998	355848%
Due to customers	2,285,405	2,394,993	(109,587)	-5%
Derivatives	-	560	(560)	-100%
Borrowings	15,153	15,278	(125)	-1%
Deferred tax liabilities	-	-	-	0%
Other liabilities	25,600	27,138	(1,538)	-6%
Total Liabilities	2,344,162	2,437,974	(93,812)	-4%
Share capital	220,274	220,274	-	0%
Share premium	2,050	2,050	-	0%
Surplus from share capital revaluation	5,689	5,689	-	0%
Own shares	(0)	(0)	-	0%
Retained earnings / accumulated loss	(162,612)	(153,491)	(9,121)	6%
Reserve for fin inv available for sale	(551)	446	(997)	-223%
Revaluation reserve	62,760	63,372	(612)	-1%
Other reserves	27,187	27,187	-	0%
Total Equity	154,798	165,527	(10,729)	-6%
Total LIABILITIES AND EQUITY	2,498,960	2,603,502	(104,541)	-4%

FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE STATEMENT (thousands RON)	31.mar.17	31.mar.16	Δ 2017/ 2016 (abs)	Δ 2017/ 2016 (%)
Interest income	12,347	20,024	(7,676)	-38%
Interest expense	(5,560)	(8,971)	3,411	-38%
Net interest income	6,787	11,053	(4,266)	-39%
Fees and commission income	4,865	6,397	(1,532)	-24%
Fees and commission expense	(1,085)	(1,715)	630	-37%
Net fees and commission income	3,780	4,682	(902)	-19%
Net trading income	2,386	3,939	(1,553)	-39%
Net income from disposals of investment securities available for sale	(53)	4,122	(4,175)	-101%
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