Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 March 2015

neweuropecapital

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Statistics

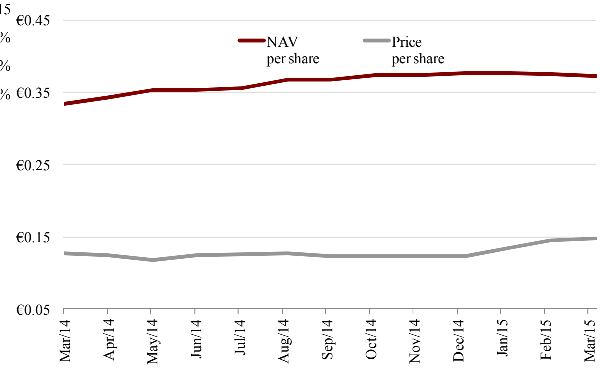
NAV per share (€) - undiluted	0.3729
NAV per share (€) - fully diluted	0.2798
Total NAV (€ m) - undiluted	37.3
Total NAV (€ m) - fully diluted	45.5
Share price (€)	0.1475
Mk Cap (€ m)	14.8
# of shares (m) - undiluted	100.0
# of shares (m) - fully diluted	162.6
NAV return since inception†	-61.01%
12-month NAV CAGR†	11.50%
NAV annualized Return*†	-9.68%
NAV annualized Volatility*†	19.67%
Best month (NAV)†	15.60%
Worst month (NAV)†	-33.53%
# of months up (NAV)†	58
# of months down (NAV)†	53

*† undiluted basis * since inception*

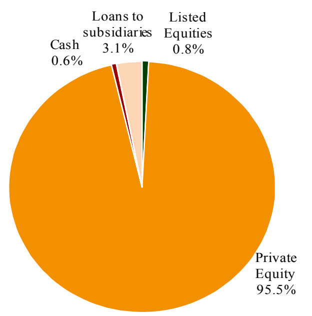
RC2 NAV returns (undiluted basis)

	2011	2012	2013	2014	2015
Jan	-0.54%	0.12%	-31.58%	-0.65%	-0.07%
Feb	0.24%	-9.69%	-0.51%	-0.34%	-0.34%
Mar	2.48%	-0.50%	-0.62%	2.94%	-0.70%
Apr	0.70%	-0.66%	0.29%	2.73%	
May	0.55%	-4.98%	-33.53%	2.70%	
Jun	0.25%	-1.47%	-0.85%	0.28%	
Jul	0.13%	-0.73%	-0.28%	0.44%	
Aug	-1.10%	0.61%	1.27%	3.23%	
Sep	-1.25%	0.01%	-0.69%	0.01%	
Oct	2.63%	-0.82%	-0.72%	1.87%	
Nov	-0.25%	-0.36%	0.43%	0.15%	
Dec	-0.49%	0.29%	-16.44%	0.73%	
YTD	3.32%	-17.17%	-62.64%	14.91%	-1.11%

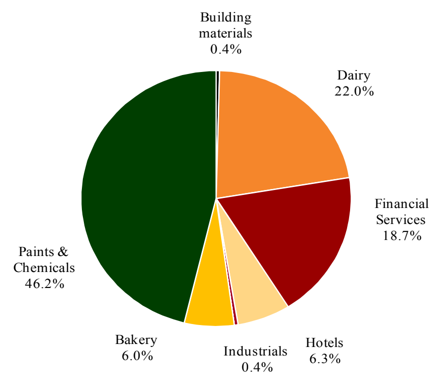
Share price / undiluted NAV per share (€)



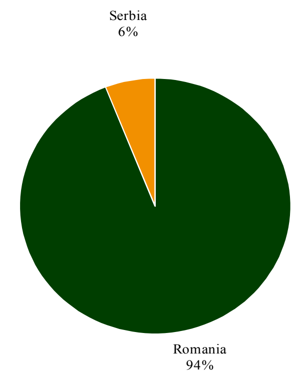
Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Portfolio Structure by Geography



Message from the Adviser

Dear Shareholders

Over the first quarter of 2015, RC2's NAV per share fell by 1.11% from €0.3771 to €0.3729, both on an undiluted basis.

Romanian GDP growth accelerated over the first quarter, with year-on-year GDP growth reaching 4.2%, whilst Bulgarian GDP achieved a more modest 2.0%, and Serbian growth was an even lower 0.3%. Romania's economic growth, together with a stronger fiscal position, is enabling the government to embark on a policy of modest fiscal relaxation, with a lower VAT rate for basic foodstuffs coming into effect at the beginning of June. The policy of fiscal relaxation, together with further monetary easing, should lay the foundations for increases in consumption driving further economic growth.

The Policolor Group's first quarter sales of €11.0m were 11.5% below budget but 26.2% higher than the same period last year. The underperformance compared to budget is the result of lower sales of anhydrides in the aftermath of the sharp oil price fall in late 2014, as well as the disruption to automotive coating sales caused by the move to direct distribution in certain regions of Romania. Importantly, the Group achieved very high sales of resins during the quarter, which were 2.6 times higher than the same period of 2014 and 53.8% above budget, which suggests that the Group has been able to re-gain its important position on this market after re-building its resins plant after the fire of 2012. The recurring EBITDA result for the quarter came in at €-1.1m, compared to a budgeted €-0.8m, but the difference is explained by the fall in the price of anhydrides pursuant to the abrupt fall in the price of oil derivatives at the end of 2014 (the first quarter EBITDA of the Policolor group is typically negative due to seasonal factors).

Top Factoring Group continued to perform above expectations, with first quarter EBITDA of €2.0m, and gross collections 6% over budget. Top Factoring is particularly sensitive to the fiscal and monetary easing policies of the Romanian government and should benefit from these in 2015.

Albalact, which reported consolidated results for the first time, also had a strong quarter, with both sales and EBITDA significantly ahead of the 2014 first quarter result. Sales grew by 13.2%, whilst increases in the gross margin due to lower raw milk prices helped drive the recurring EBITDA up 20.9% to €2.3m. Albalact is poised to benefit from a reduction in the VAT rate on basic food stuffs from 24% to 9%, which comes into effect in June.

The first quarter result of Mamaia Resort Hotels is not particularly significant, as the Hotel barely operates during the low season. However, the Hotel's loss for the quarter was lower than budgeted, and the April and early May result indicates a stronger start to the season than in 2014. The Hotel has used the winter months to finalize certain works to its exterior areas, although it has had to postpone building its new spa due to delays in obtaining a construction permit.

There has been no improvement in the status of East Point Holdings ("EPH") since the investment was written down to zero as at December 2013. Although sales at Klas, EPH's former bakery division which is now 52%-owned by RC2, came in 6.9% below budget over the first quarter, the company decided to discontinue sales to its main key account customer due to high marketing and placement costs. Consequently, the sales result actually reflects strong growth amongst traditional trade customers. The company continued to cut costs and raise productivity, having laid off a total of 145 workers over the quarter. Management's plan is to reach EBITDA break even by the third quarter of 2015, and has meanwhile shored up its financial position by selling a secondary production facility for €1.1m and consolidating all production at its main site. Management has also been able to obtain a €1.5m loan to improve its working capital position and fund redundancy payments.

At the end of the quarter, the Fund had cash and cash equivalents of approximately €0.3m, compared to €0.7m at the end of December 2014.

Yours truly,

New Europe Capital

Policolor Group

Background

RC2 has a 40.0% shareholding in Policolor, the parent company of the Policolor Group ("Policolor" or the "Group"), which operates along the following business lines: coatings (architectural, automotive and industrial), resins and specialty chemicals. The Romanian company Policolor SA and its 100% owned Bulgarian subsidiary Orgachim AD form the largest producer of coatings in Romania and Bulgaria. The Group also includes Orgachim Resins, the leading supplier of resins in SE Europe, and Ruse Chemicals, a producer of anhydrides. All the Group companies are unlisted.

Group Financial results

(EUR '000)	2013*	2014**	2015B	1Q14**	1Q15**	1Q15B
Consolidated Income statement (according to IFRS)						
Sales	54,150	52,839	65,552	8,688	10,883	12,273
Total operating revenues	**55,711**	**54,068**	**65,552**	**8,702**	**10,979**	**12,408**
Total operating expenses	**(55,935)**	**(55,191)**	**(63,993)**	**(9,871)**	**(13,137)**	**(14,272)**
Operating profit	**(224)**	**(1,123)**	**1,559**	**(1,169)**	**(2,158)**	**(1,864)**
Operating margin	*neg.*	*neg.*	*2.4%*	*neg.*	*neg.*	*neg.*
Recurring EBITDA	3,055	2,650	4,271	(277)	(1,067)	(798)
Non-recurring EBITDA		(224)	1,000	(28)	(173)	(117)
Total EBITDA	**3,055**	**2,426**	**5,271**	**(306)**	**(1,241)**	**(915)**
EBITDA margin	*5.6%*	*4.5%*	*8.0%*	*neg.*	*neg.*	*neg.*
Net extraordinary result (land sale)			**10,891**			
Financial Profit/(Loss)	(983)	30	(2,009)	(261)	889	(165)
Profit before tax	**(1,207)**	**(1,094)**	**10,441**	**(1,429)**	**(1,269)**	**(2,030)**
Income tax	(178)	(118)	(2,654)		(4)	
Profit after tax	**(1,385)**	**(1,211)**	**7,788**	**(1,429)**	**(1,272)**	**(2,030)**
Minority interest	106			14		
Profit for the year	**(1,279)**	**(1,211)**	**7,788**	**(1,415)**	**(1,272)**	**(2,030)**
avg exchange rate (RON/EUR)	*4.45*	*4.45*	*4.50*	*4.50*	*4.45*	*4.50*

*Note: * audited, ** unaudited*

The Group generated consolidated operating revenues of €11m in the first quarter of 2015, 11.5% below budget but 26.2% above the first quarter of 2014. The under-achievement compared to budget is the consequence of lower sales of anhydrides at the chemicals division, and a disruptive change from indirect to direct distribution in certain regions of Romania at the auto coatings division. Overall paints and coatings sales grew by 2.9%, whilst sales of resins were 2.6 times higher than the previous year, and 53.8% over budget, which is particularly satisfying as it suggests that the resins business is on track to recover its leadership position on the east European market prior to the fire which shut down the Group's resins plant in early 2012. Although 13% below budget, sales of anhydrides were 58% higher than the first quarter of 2014, although the average market prices for anhydrides fell by 25% year-on-year due to lower crude oil prices.

The Group generated a recurring EBITDA loss (net of revenues and expenses allocated to the real estate division) of €1.1m, significantly higher than the budgeted loss of €0.8m. However, this was the direct result of the fall in the price of anhydrides due to the sharp fall in oil prices towards the end of 2014

Operations

The Romanian construction sector has finally started to recover, with construction activity increasing by 19.5% year-on-year in February, the highest such increase in the EU, suggesting there is potential for a positive evolution of the building materials industry in 2015. Over the first quarter, the Romanian construction sector grew by 12.5% year-on-year. In Bulgaria, the sector remains depressed as the harsh weather took its toll, resulting in a yearly fall of 1.8% in February.

Top Factoring Group

Background

RC2 invests in Romanian non-performing loans through its 93%-owned subsidiary Glasro Holdings Ltd ("Glasro"), and also owns a 93% interest in Top Factoring, a Romanian receivables collection company. Top Factoring and Glasro are together referred to as the "Top Factoring Group" or the "Group".

Group Financial Results

EUR '000	2013*	2014**	2015B	1Q14**	1Q15**	1Q15B
Combined Group Income Statement						
Gross revenues	**9,753**	**12,445**	**12,559**	**2,863**	**3,277**	**3,113**
Amortization and fair value adjustments of debt portfolios	(3,303)	(4,199)	(5,533)	(72)	(62)	(1,389)
Total Net revenues	**6,451**	**8,245**	**7,027**	**2,791**	**3,215**	**1,724**
Debt Portfolios	5,409	7,268	6,269	2,560	3,030	1,526
Agency agreements	1,041	977	757	231	186	198
EBITDA	2,612	3,702	1,701	1,790	2,045	433
EBITDA margin	*40.5%*	*44.9%*	*24.2%*	*64.1%*	*63.6%*	*25.1%*
Profit after tax	1,898	2,930	1,048	1,510	2,004	272
Net Margin	*29.4%*	*35.5%*	*14.9%*	*54.1%*	*62.3%*	*15.8%*
Avg exchange rate (RON/EUR)	*4.42*	*4.44*	*4.42*	*4.50*	*4.45*	*4.42*

*Note: * IFRS (audited), IFRS** (unaudited)*

The full year 2014 and first quarter 2015 financial results presented above are based on unaudited management accounts. The audit of the 2014 Group's financial results is ongoing, and could generate adjustments to these accounts.

Over the first quarter of 2015, the Group generated gross revenues (made up of gross collections on proprietary portfolios and agency revenues) of €3.3m, up 14.4% year-on-year and 5.3% above budget, driven by the debt purchase line which accounted for 94% of gross operating revenues.

The March quarterly impairment test resulted in a net write-up of €1.8m, due to higher than expected collections on proprietary portfolios over the quarter. Gross collections were 6% over budget in the first quarter, a combined result of more efficient collection operations and an overall improvement in the macroeconomic climate.

The first quarter EBITDA, which takes into account the portfolio write-ups, was €2m, up 14.3% on last year's €1.8m.

Operations

Glasro invested €1.4m in debt portfolio acquisitions in the first quarter, financed by a combination of bank loans and equity. In the first quarter, Glasro acquired a telecom portfolio consisting of 18,000 cases, and six banking portfolios consisting of a combined 5,500 cases. At the end of the first quarter, the Group owned 962,000 cases with a total face value of €298m.

Albalact

Background

Albalact SA ("Albalact" or the "Company") is a Romanian dairy company quoted on the RASDAQ section of the Bucharest Stock Exchange in which RC2 owns a 25.4% stake under its Private Equity Programme. A local entrepreneur (Mr Raul Ciurtin) and his family own 42.5%, with the 28.8% representing the free float and 3.3% representing treasury shares acquired within a buy-back program. With Albalact's market capitalization increasing by 0.2% over the quarter, the value of RC2's shareholding went up slightly from €9.7m as at 31 December 2014 to €9.8m as at 31 March 2015.

Financial results

EUR '000	2013*	2014*	2015B	1Q14**	1Q15**
Consolidated Income Statement					
Sales Revenues	**87,270**	**91,826**	**114,283**	**24,072**	**27,245**
Other operating revenues	232	2,981		1,492	(300)
Total Operating Revenues	**87,502**	**94,807**	**114,283**	**25,564**	**26,945**
Total Operating Expenses	(85,410)	(93,490)		(24,700)	(25,975)
Operating Profit	**2,092**	**1,317**		**864**	**971**
Operating margin	*2.4%*	*1.4%*		*3.4%*	*3.6%*
EBITDA	**5,834**	**6,040**	**6,966**	**1,900**	**2,297**
EBITDA margin	*6.7%*	*6.4%*	*6.1%*	*7.4%*	*8.5%*
Financial Profit/(Loss)	(746)	(958)		(4)	145
Profit before Tax	**1,346**	**360**		**860**	**1,116**
Income Tax	(238)	(177)		(219)	(313)
Profit after Tax	**1,107**	**183**		**641**	**803**
Minority Interest	3	11		3	4
Profit for the year	1,110	194		644	807
Net margin	*1.3%*	*0.2%*		*2.5%*	*3.0%*
Avg exchange rate (RON/EUR)	*4.42*	*4.44*	*4.45*	*4.50*	*4.45*

*Note: * IFRS (audited), ** RAS (unaudited)*

Albalact's consolidated financial results were disclosed for the first time in its Prospectus for its admission to trading on the main market of the Bucharest Stock Exchange, which was approved by the Financial Supervisory Authority's Board on 20 May 2015. Subsequently, the Company has also released its consolidated results for the first quarter of 2015. Accordingly, the table above presents for the first time Albalact's financial statements consolidated with those of its two subsidiaries: Raraul SA, a dairy producer in which Albalact holds a 99.01% shareholding, and wholly-owned Albalact Logistics SRL, which was created in March 2014 to take over the logistics assets and activities of Albalact. Together the three companies are referred to as the "Albalact Group".

The Albalact Group generated euro-denominated sales of €27.3m in the first quarter of 2015, 13.2% higher than the same quarter of 2014, triggered by higher sales of yoghurt and fresh milk products. The Company's operating profitability also improved in the first quarter, with EBITDA of €2.3m up 20.9% year-on-year due to the higher sales achieved over the quarter and an improved gross margin resulting from a fall in the market price of raw milk. This was in turn driven by lower demand for raw milk from emerging markets such as China; the elimination of milk production quotas within the EU; and the ban on exports from EU to the Russian Federation.

Prospects

The 2015 budget was approved by the Company's shareholders at an AGM in April and provides for sales of €114.3m, and EBITDA of €7.0m compared to €6.0m in 2014.

Albalact plans to expand its portfolio of yoghurt and cheese products in 2015. Furthermore, the Company's sales should be helped by a planned reduction in the VAT rate on basic foodstuffs from 24% to 9%, which is due to come into effect in June.

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the "Company") is the owner and operator of the Golden Tulip Mamaia Hotel (the "Hotel"), which is located at Mamaia, Romania's premium seaside resort next to the city of Constanta. In March 2008, RC2 acquired 63% of the Company, with the remaining 37% being owned by a Romanian private individual.

Financial results and operations

EUR '000	2013*	2014*	2015B	1Q14**	1Q15**	1Q15B
Income Statement						
Sales Revenues	**1,922**	**1,972**	**2,129**	**12**	**32**	**24**
Total Operating Revenues	**1,931**	**2,045**	**2,129**	**15**	**35**	**29**
Total Operating Expenses	(1,714)	(2,106)	(1,923)	(189)	(245)	(276)
Operating Profit	**217**	**(61)**	**207**	**(174)**	**(210)**	**(247)**
Operating margin	*11.2%*	*neg.*	*9.7%*	*neg.*	*neg.*	*neg.*
EBITDA	**422**	**253**	**487**	**(126)**	**(164)**	**(177)**
EBITDA margin	*21.9%*	*12.4%*	*22.9%*	*neg.*	*neg.*	*neg.*
Financial Profit/(Loss)	(114)	(97)	(99)	(19)	(4)	(25)
Profit after Tax	**103**	**(158)**	**107**	**(193)**	**(214)**	**(273)**
Net margin	*5.4%*	*neg.*	*5.0%*	*neg.*	*neg.*	*neg.*
Avg exchange rate (RON/EUR)	*4.42*	*4.44*	*4.45*	*4.50*	*4.45*	*4.45*

*Note: *RAS (audited), **RAS (management accounts)*

The 2014 audited EBITDA of €0.25m is lower than the €0.37m presented in the December Quarterly report, as it includes a €0.12m unrealized loss resulting from the yearly independent valuation of the fixed assets of the Hotel. The total fixed assets were valued at €8m as at the end of 2014.

The Company's financial performance was above budget in the first quarter both in terms of revenues and profitability. However, revenues over the first quarter are in any event negligible due to the seasonality of the Hotel's business.

Over the quarter, the Hotel renovated its outside premises and the public spaces around it. Due to delays in obtaining a construction permit, the Company will start building its new Spa in September, as it is not allowed to effect construction works during the summer season.

Prospects

At the beginning of 2015, the Romanian government announced a reduction in the VAT rate from 24% to 9% on all food and beverage services sold as a package with accommodation services. The move, which came into effect in

January 2015, should help the Hotel meet its targets for the year.

Klas

Background

Klas DOO ("Klas" or the "Company"), the former bakery division of East Point Holdings Ltd ("EPH" or the "Group"), is now 52% owned by RC2, with the balance being owned by Darby, part of the Franklin Templeton investment group, and DEG, the German overseas development finance institution. RC2 also had a €1.4m (including accrued interest) shareholder loan to Klas outstanding as at 31st March 2015.

Financial results and operations

EUR'000	2013A*	2014A*	2015B	1Q14*	1Q15**	1Q15B
Income Statement						
Net sales	**14,593**	**10,654**	**8,299**	**3,345**	**1,123**	**1,207**
EBITDA	**(2,078)**	**(2,266)**	**(388)**	**(529)**	**(464)**	**(295)**
EBITDA margin	*-14.2%*	*-21.3%*	*-4.7%*	*-15.8%*	*-41.3%*	*-24.4%*
Profit after tax	**(4,812)**	**(2,826)**	**(1,664)**	**(988)**	**(374)**	**(419)**
Net margin	*-33.0%*	*-26.5%*	*-20.1%*	*-29.5%*	*-33.3%*	*-34.7%*

*Note: * audited, ** management accounts*

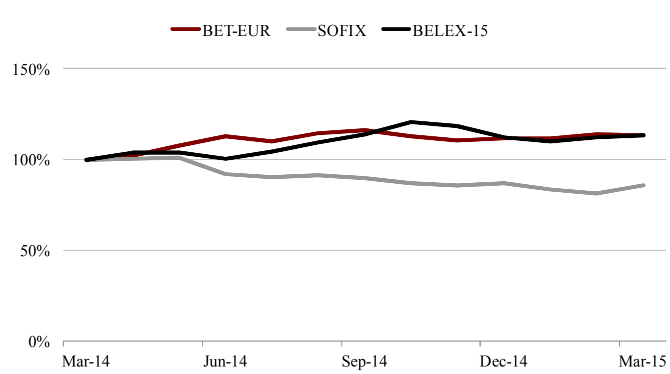
Klas's first quarter sales were 6.9% below plan, in spite of a conscious decision to discontinue sales to its main key account due to high marketing and placement costs. This resulted in a shortfall of 17 tons of daily sales, but was largely recouped by higher sales to the traditional trade, resulting in average sales of around 30 tons per day during the quarter. Management believes it is now on target to reach the breakeven level of 37 tons per day by the end of the third quarter of 2015.

EBIDTA of €-0.46m was significantly better than last year and the budget, if one considers that this number includes redundancy costs of €0.3m, as 145 employees were laid off during the period. As a result of several waves of redundancies, productivity has greatly improved, with the current workforce of 274 producing almost the same volumes as 443 employees produced half a year ago. Indeed, management estimates to have removed over €1.2m from the fixed and variable cost base of the Company in this 6-month period.

During the first quarter of 2015 management disposed of a secondary production facility in southern Belgrade for €1.1m, payable over twelve months. Initial proceeds along with a new loan of €1.5m from AIK Banca have been used to fund the redundancy programme and to repay part of the outstanding debts to the Company's main supplier of flour and to other lenders. These transactions have stabilised the Company's cashflow, so that management can now fully focus on increasing sales to the traditional trade channel, and on disposing of the company's former Juzni Bulevar production site, which is now vacant.

Capital Market Developments

BET-EUR, SOFIX and BELEX-15: 1 year performance



Commentary

Over the first quarter, the Romanian BET and the Serbian BELEX-15 indices gained 1.5% and 0.9% respectively, whilst the Bulgarian SOFIX index lost 1.6%, all in euro terms

Over the past year, the BET-EUR index has gained 13.1%, the BELEX-15 13.5%, whilst the SOFIX index has lost 14.4%, all in euro-terms.

By comparison, over the last year, the MSCI Emerging Market Eastern Europe index lost 5.1%, the MSCI Emerging Market index gained 25.8%, while the FTSE100 and the S&P indices rose by 17.3% and 41.8%, respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:	SRB	as of:
GDP Growth (y-o-y)	4.2%	3M15	2.0%	3M15	-1.8%	FY14
Inflation (y-o-y)	0.8%	Mar-15	0.1%	Mar-15	1.9%	Mar-15
Ind. prod. growth (y-o-y)	2.9%	Mar-15	2.9%	Mar-15	-3.3%	Feb-15
Trade balance (EUR bn)	-1.4	3M15	-0.7	3M15	-3.6	FY14
y-o-y	*22.6%*		*-34.6%*		*-11.0%*	
FDI (EUR bn)	0.9	3M15	0.3	3M15	1.2	FY14
y-o-y change	*55.3%*		*-8.4%*		*50.0%*	
Total external debt/GDP	58.1%	Mar-15	90.6%	Feb-15	78.4%	Dec-14
Reserves to short-term debt	159.4%	Mar-15	174.2%	Feb-15	364.0%	Mar-15
Loans-to-deposits	92.9%	Mar-15	83.2%	Mar-15	114.5%	Mar-15
Public sector debt-to-GDP	38.8%	Jan-15	28.7%	Mar-15	72.9%	Feb-15

Commentary

Romania

Romania's first quarter GDP increased by 1.6% quarter-on-quarter and by 4.2% year-on-year. Detailed data on the sources of growth is not yet available. However, there are indications of what drove the Romanian economy's positive momentum over the first quarter: industrial production grew by 3.2% year-on-year, whilst the construction sector also picked up, with the volume of construction works increasing by 12.5% year-on-year, and retail trade increased by 3% year-on-year. In its spring 2015 report, the European Commission forecasts Romania's 2015 GDP to grow by 2.8% year-on-year, triggered by increased private consumption and recovering investment. The VAT rate for basic food stuffs is set to fall from 24% to 9% in June, which should further stimulate domestic demand.

Romania's CPI remained unchanged at 0.8% at the end of March compared to the end of December, the result of a 0.07% fall in food prices, combined with respective increases of 1.2% and 1.6% in non-food and services prices. The planned VAT rate cut is likely to reduce the inflation rate to 0.2% by the end of the year, according to statements by the National Bank of Romania ("NBR"). The low inflationary environment has determined the NBR to continue to ease its monetary policy (with the base rate falling from 2.25% in February to 1.75% in early May). The process of decreasing the policy rate started almost two years ago, and has stimulated lending in domestic currency, with the RON-denominated loan stock increasing by 12% over the last two years, even though the total loan stock fell by 6% over the same period.

In the first quarter of 2015, the leu appreciated by 1.6% against the euro. However, it has since given ground, having lost approximately 1% from end-March to mid-May in the context of Greece's debt repayment related problems.

Over the first quarter, Romania achieved a budget surplus of €1.1bn, equivalent of 0.7% of GDP, compared to a 0.14% deficit over the first quarter of 2014. Budgetary receipts increased by 12.6% year-on-year, mainly triggered by higher VAT collections. VAT collections made up 26.5% of total budgetary receipts and increased by 20.8% year-on-year. Total budgetary expenses increased by 0.6% year-on-year, with personnel and social expenditures, which account for 63% of total expenses, increasing by 6.6%.

Over the first quarter, the trade deficit worsened by 22.6% year-on-year (from €-1.1bn to €-1.4bn), as exports increased by only 4.9% whilst imports grew by 6.3%. The negative evolution of the trade balance was compensated by surpluses from services (+€167m) and current transfers (+€348m) which resulted in a positive current account balance of €0.4bn (compared to a deficit of €0.3bn over the same period of last year). First quarter FDI flows amounted to €0.9bn, up 55.3% year-on-year, as intra-group loans increased (+€0.6bn), whilst equity investments fell to €0.3bn.

Romania's total external debt was €92.9bn at the end of March, slightly down over the quarter (-1.5%) and equivalent to 58% of GDP. The total public debt was 38.8% of GDP at the end of January, compared to 39.8% at the end of 2014.

Total domestic non-governmental credit (which excludes loans to financial institutions) amounted to €47.7bn at the end of March, and was down 0.5% year-to-date in RON terms. Following the same trend, the overall deposit base fell by 2.2% year-to-date in RON terms, and amounted to €51.4bn at the end of March. By contrast, household deposits increased by1.0% year-to-date and accounted for 61.5% of the total deposit base at the end of March (up from 59.5% at the end of the previous quarter). The NPL ratio was 14.3% at the end of February, up from 13.9% at the end of 2014.

Bulgaria

Bulgaria's first quarter GDP grew by 2% year-on-year and by 0.9% quarter-on-quarter, with exports contributing positively to the growth (having increased by 15.5% year-on-year). According to its latest forecast, the European Commission sees the Bulgarian economy growing by 1.0% in 2015, driven by higher international demand resulting in higher net exports. However, Bulgaria is particularly exposed to the economic crisis in Greece, with 3.5% of its GDP derived from exports to Greece, whilst the subsidiaries of Greek banks hold over 20% of banking assets in Bulgaria.

Bulgarian industrial production grew by 2.9% year-on-year in March, which is higher than the 1.8% increase recorded in the euro area.

After one and a half years of deflation, Bulgaria recorded a 0.1% year-on-year increase in prices in March, mainly as a result of a 5.6% increase in utility prices.

Over the first quarter, Bulgaria achieved a budget surplus of €131m, or 0.3% of GDP, which is a marked improvement over the 1.1% budget deficit recorded during the same period last year. The surplus was triggered by a 14% increase in tax revenues (from €2.7bn to €3bn), whilst total budgetary expenses grew by only 1.9% (from €3.6bn to €3.7bn).

Bulgaria's public sector debt was 28.7% of GDP at the end of March, up from 26.9% at the end of 2014, following the issuance of three eurobonds worth a combined €3.1bn in

March. Part of the proceeds are to be used to repay a six-month €1.5bn bridge loan taken in December 2014.

Bulgaria recorded a current account surplus of €195m, or 0.5% of GDP, in the first quarter, compared to a deficit of 0.3% in the same period of 2014. The positive evolution in the current account was mainly triggered by an improvement of the trade deficit. With exports increasing by 15.5% year-on-year and imports growing by 6.3%, the trade deficit fell from €1.0bn to €0.7bn. FDI inflows were only €0.3bn in the first quarter, down 8.4% compared to the same period of 2014. Equity investments accounted for 27% of total FDI flows, down from 41% in the first quarter of 2014.

The Bulgarian banking system's loans to non-financial institutions fell by0.7% over the first quarter, and amounted to €25.1bn at the end of March. On the other hand, the deposit base continued to grow, having increased by 2.2% from €29.5 at the end of December to €30.1bn at the end of March. Overdue loans accounted for 24.4% of total loans at the end of March, virtually unchanged since the end of 2014.

Serbia

The positive trends recorded at the end of 2014 continued in the first quarter of 2015, with Serbia experiencing GDP growth of 0.3% on the back of a recovery of industrial production and exports. However, the National Bank of Serbia (NBS), is still forecasting negative GDP growth of 0.5% in 2015 due to the implementation of fiscal consolidation measures (cuts in state salaries and pensions of up to 25%, as well as in public procurement budgets and subsidies).

In January, the country's credit ratings from Fitch and S&P were reaffirmed at B+ (stable) and BB- (negative), respectively, partly due to the IMF's approval of a stand-by agreement. The country's perceived risk premium fell by 30bps to around 280bps during the quarter, the most marked fall in the region, based on the EMBI Risk Premium Index.

Inflationary pressures continue to be low, with CPI hitting 1.9% in March, well below the NBS target range of 4% +/- 1.5%. This has led the NBS to further reduce its key lending rate by 50bps to 7.0%, its lowest level since the introduction of the inflationary targeting regime in 2006. It remains to be seen whether the relaxation of monetary policy will have a positive effect in terms of stimulating aggregate demand.

Over the first quarter there was a slight 0.6% strengthening of the Serbian Dinar against the Euro. This was primarily due to the increased attractiveness of local debt to non-residents in a low or negative global interest rate environment. The NBS has intervened to reduce daily volatility, with net purchases of €230m over the quarter.

Important Information