BCR GROUP DISCLOSURE REPORT 2017

Pursuant to NBR Regulation no. 5/2013 on prudential requirements for credit institutions and Part Eight of the Capital Requirements Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms

Incorporated in Romania

Trade Register J40/90/1991

Unique Registration Code 361757

Bank Register RB-PJR-40-008/18.02.1999

www.bcr.ro

BCR GROUP DISCLOSURE REPORT 2017

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List of Tables, Templates and Graphs

1 Introduction

The provisions of the NBR Regulation no. 5/2013 on prudential requirements for credit institutions and Part Eight of Regulation (EU) No 575/2013 of the Parliament and of the Council of June 2013 on prudential requirements for credit institutions and investment firms, hereinafter referred to as the Capital Requirements Regulation (CRR) apply to BCR Group, hereinafter referred to as BCR Group. This Report is prepared on a consolidated basis (IFRS) according to NBR's Regulations. All information herein is presented as of December 31, 2017 unless otherwise stated.

The report gives readers a comprehensive overview of the current risk profile and risk management in BCR Group and covers the following main areas:

- Organizational structure of risk management;
- Risk management structures and responsibilities;
- Remuneration and recruitment practices;
- Capital structure;
- Capital adequacy;
- Risk management systems and procedures;
- Risk management with respect to each risk type;
- Risk assumed (risk management policies and objectives, risk appetite and risk profile);
- Credit risk mitigation techniques.

The information covers mainly the following areas of interest:

- the Bank governance structures and policies, including its objectives, organizational structure, internal governance arrangements, structure and organization of the management body, including attendances to the meetings thereof, and the incentive and remuneration scheme of the institution;
- how the Bank's business and risk management strategy is set (including the involvement of the management body) and foreseeable risk factors;
- the Bank's established committees and their mandates and membership;
- the Bank's internal control framework and how its control functions are organized, the major tasks they perform, how their performance is monitored by the management body and any planned material changes to these functions;
- the strategies and processes to manage those risks;
- the structure and organization of the relevant risk management function including information on its authority and statute, or other appropriate arrangements;
- the scope and nature of risk reporting and measurement systems;
- the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants;
- the Bank's overall risk profile associated with the business strategy, including the key ratios and figures providing external stakeholders with a comprehensive view of the Bank's management of risk, including how the risk profile interacts with the risk tolerance set by the management body.

2 Legislation and Overview on Disclosure Requirements

DISCLOSURE REQUIREMENTS COVERED: ART.431 (1) CRR

Scope of disclosure requirements

The current Disclosure Report of BCR Group meets the disclosure requirements of Part Eight of the CRR, which took effect on 1 January 2014 as well as the provisions of the NBR Regulation no. 5/2013 on prudential requirements for credit institutions. Disclosures are also done in accordance with individual EBA regulations and guidelines on disclosure requirements. Consequently, the current Disclosure Report of BCR Group meets the following requirements:

- the general disclosure requirements as laid down in the EBA/GL/2016/11 [1] "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013".
- for Own Funds disclosure purposes, Regulation no. 1423/2013, laying down implementing technical standards with regard to disclosure of own funds requirements for institutions.
- for Leverage Ratio disclosure purposes, Regulation no. 200/2016, laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions.
- for encumbered and unencumbered assets disclosure purposes, the EBA/GL/2014/03 "Guidelines on disclosure of encumbered and unencumbered assets" and Regulation 2295/2017 with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets.
- for Liquidity Coverage Ratio disclosure purposes, "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013".
- for countercyclical capital buffer disclosure purposes, Regulation no.1555/2015, laying down technical standards with regard to disclosure of countercyclical capital buffers for institutions.
- for remuneration disclosure purposes, the EBA/GL/2015/22 "Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013".
- for materiality, proprietary and the confidential nature and frequency of disclosures, the EBA/GL/2014/14 "Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013" and NBR Instructions from 28 October 2015 on materiality, proprietary and confidentiality and on disclosure frequency under articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013.

The preparation of the Disclosure Report and the review for completeness and compliance with the applicable requirements is carried out by the Strategic Risk Management Division. Additionally, the Disclosure Report is also subject to review by the Compliance Division.

DISCLOSURE REQUIREMENTS COVERED: ART.431 (2) CRR

Information on operational risk methodologies

BCR Group uses Advanced Measurement Approach (AMA) to measure Operational Risk capital requirements as detailed in Chapter 21 of this report.

[1] Version 2

DISCLOSURE REQUIREMENTS COVERED: ART.431 (3) CRR

Disclosure policy

The BCR Group Disclosure Policy sets out the overarching principles and guidelines used by the Group in order to fulfil its disclosure requirements under Part Eight of the CRR as well as the process to establish, review and approve the actual disclosures.

DISCLOSURE REQUIREMENTS COVERED: ART.432 CRR

Non-material, proprietary or confidential information

The Group's Disclosure Policy formalizes the treatment of information considered to be immaterial, proprietary or confidential. The Group does not classifiy any of the information required to be presented in this report as non-material, proprietary or confidential.

DISCLOSURE REQUIREMENTS COVERED: ART.433 CRR

Frequency of disclosure

The main document is published once a year, while specific information is published more often (quarterly or semi-annually) pursuant to the NBR Instructions from 28 October 2015 on materiality, proprietary and confidentiality and on disclosure frequency under articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. Please note that Q4 2017 was the first reporting period for which BCR Group based the formulation of the Disclosure Report on European Banking Authority Guideline 2016/11, version 2 which was published on the 14th of December 2016.

DISCLOSURE REQUIREMENTS COVERED: ART.434 CRR and ART. 67 (f) of NBR Regulation No.5/2013

Means of disclosure

The Report is published in Romanian and English versions. BCR Group has opted for the Internet as the medium for publication of the Disclosure Report. The Disclosure Report is available on the website of BCR Group (https://www.bcr.ro/en/investors/transparency-and-public-disclosure). The figures in the Disclosure Report are after the General Shareholders Meeting and as such the information presented includes the incorporation of audited year end profits with an impact on tables and templates containing data referring to own funds and capital adequacy and year-end balance sheet positions.

A number of CRR disclosure requirements are covered by BCR SA Consolidated and Separate Financial Statements for 31 December 2017 (hereinafter "BCR Group 2017 Annual Report"). The Financial Statements are available on the website of BCR Group (https://www.bcr.ro/ en/investors/financial-reports). Disclosures afferent to material information about the financial and operational result as required by Art. 67 (f) of NBR Regulation No.5/2013 are covered in this document.

Please note that references will be made to the BCR Group 2017 Annual Report throughout this document.

Please see below CRR disclosure requirements which are covered by reports other than this document or the BCR Group 2017 Annual Report.

DISCLOSURE REQUIREMENTS COVERED: ART. 450 CRR and ART. 67 (a) NBR Regulation no. 5/2013

Remuneration Policy

Quantitative information afferent to remuneration data will be published on July 2nd 2018 on the BCR Group's web site under: https://www.bcr.ro/en/investors/transparency-and-public-disclosure.

DISCLOSURE REQUIREMENTS COVERED: Art. 435 CRR and ART. 67 (a) (e) NBR Regulation no. 5/2013

Corporate Governance

More details on the corporate governance framework are presented in the Corporate Governance Report for 2017 which is published annually on the BCR Group's web site under: https://www.bcr.ro/en/about-us/corporate-governance/principles-policies.

Please note that this report also contains information on the performance management process (formalized through the Performance and Professional Development Procedure - PDS Procedure) as required by Art. 67 (e) of NBR Regulation No.5/2013 as well as information concerning the compensation strategy, as required by Art. 67 (a) of NBR Regulation No.5/2013.

3 Overview of Non-applicable Disclosures

The following table provides an overview of the CRR Articles which are not covered by the Disclosure Report nor included in other reports as mentioned above, alongside an explanation regarding the reason behind their non-applicability.

1 Non-applicable CRR articles

CRR article number	CRR article description	Disclosure requested in the CRR article	Reason for non-applicable disclosure
436 (e)	Scope of application	If applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9.	In regards to Article 7, the competent authority does not waive the application of this article. The parent institution (BCR Group) does not apply article 9 as the individual regulatory requirements refers only to BCR Bank and the consolidated requirements comprise all the subsidiaries.
437 (1) (e)	Own funds	A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply.	No restrictions applied to the calculation of own funds in accordance with Regulation 575.
437 (1) (f)	Own funds	Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	BCR Group does not disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in the CRR.
438 (b)	Capital requirements	Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU.	There is no demand from the relevant competent authority.
438 (d)	Capital requirements	For institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Article 154(1) to (4) correspond. For the equity exposure class, this requirement applies to: (i) each of the approaches provided in Article 155; (ii) exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures; (iii) exposures subject to supervisory transition regarding own funds requirements; (iv) exposures subject to grandfathering provisions regarding own funds requirements.	The BCR Group does not apply the internal credit risk model.
439 (c)	Exposure to counterparty credit risk	A discussion of policies with respect to wrong-way risk exposures.	The wrong-way risk exposures is specific to internal model method which is not applied by BCR Group.
439 (g)	Exposure to counterparty credit risk	the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure.	BCR Group has no credit derivatives in its portfolio.
439 (h)	Exposure to counterparty credit risk	the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group.	BCR Group has no credit derivatives in its portfolio.
439 (i)	Exposure to counterparty credit risk	Estimate of α if the institution has received the permission of the competent authorities to estimate α.	The Group does not apply own estimates of the α parameter .
441	Indicators of global systemic importance	Values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article.	BCR is not a G-SII institution.
444	Use of ECAIs	Information related to ECAIs used for calculation of the RWA exposure amounts.	BCR does not use ECAIs for computing risk weighted exposure amounts.
409, 449	Securitisation	Exposure to securitisation positions.	BCR Group does not have any exposure to securitisations in its portfolio.
452	Use of the IRB Approach to credit risk	Information related to the calculation of the risk-weighted exposure amounts under the IRB Approach.	BCR Group calculates the risk-weighted exposure amounts under Standardized approach.
455	Use of Internal Market Risk Models	Information to be disclosed in accordance with Article 363 for capital requirement calculation.	The BCR Group does not apply the internal market risk model.

4 Scope of Consolidation

DISCLOSURE REQUIREMENT COVERED BY: ART. 436 (a) CRR

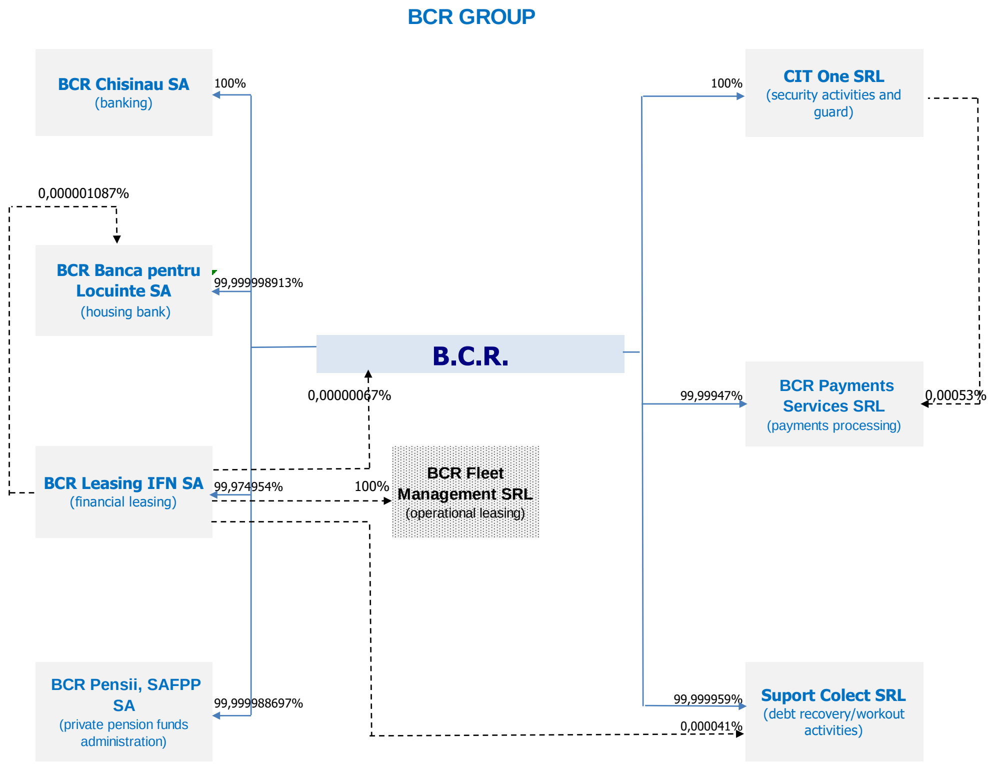
Name of the institution

Banca Comerciala Romana SA ('the Bank' or 'BCR') is a joint-stock company administered under a dualist system, located in Bucharest Blvd. Elisabeta no. 5, registered with the Trade Registry under no.J40/90/1991 and a member of Erste Group which consists of banks and financial services companies.

The Bank together with its subsidiaries ('BCR Group' or 'the Group') provides retail, corporate banking and investment banking services mainly in Romania. As a result of the privatization process organized by the government of Romania, Erste Bank der oesterreichischen Sparkassen AG ('Erste Bank') purchased 61.88% of the share capital of the Bank pursuant to a share purchase agreement dated 21 December 2005. Until 31 December 2015, Erste Bank purchased further 31.70% from employees and other shareholders of the Bank, adding up to 93.5792%. The ultimate parent of the Group is Erste Group Bank AG.

The BCR Group structure as of 31.12.2017 is presented in the chart below:

2 BCR Group structure as of 31 December 2017



DISCLOSURE REQUIREMENT COVERED BY: ART. 436 (b) CRR

Regulatory Requirements

Since 1 January 2014, BCR Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements have been implemented within the EU though the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV) as well as within various technical standards issued by European Bank Authority, which were enacted into national law by the National Bank of Romania, Regulation No 5/2013.

All requirements as defined in the CRR, the NBR Regulation No 5/2013 and the aforementioned technical standards are applied by BCR Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published for BCR Group are based on IFRS. Regulatory capital components are derived from the statement of the financial position and income statement which have been prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the difference for items where the regulatory treatment is not equal to the accounting requirements.

The uniform closing date of the consolidated financial statements and consolidated regulatory figures of BCR Group is 31 December of each respective year.

Comparison of consolidation for accounting purposes and regulatory purposes

The financial scope of consolidation is used to describe the scope of consolidation required by the International Financial and Reporting Standards (IFRS), which are applicable to the financial statements of BCR Group.

The regulatory scope of consolidation is used as a synonym for the scope of consolidation, that follows the regulatory requirements for consolidation as defined by the CRR and CRD IV and enacted by NBR into national law.

- ### Financial scope of consolidation (pursuant to IFRS)

The relevant scope of consolidation for the financial statements of BCR Group includes the parent company, its subsidiaries and associated companies.

The BCR Group subsidiaries are those entities which are directly or indirectly controlled. Control over an entity is evidenced by the Group's ability to exercise its power in order to affect any variable returns that the Group is exposed to through its involvement with the entity (as defined by IFRS 10). An associate is an entity over which the Group has significant influence, but not a controlling interest, over the operating and financial management policy decisions of the entity. Significant influence is generally presumed when the Group holds between 20% and 50% of the voting rights.

- ### Regulatory scope of consolidation

The consolidated regulatory capital and the consolidated regulatory capital requirements are calculated based on the scope of consolidation stipulated in the CRR.

The definition of entities to be consolidated for regulatory purposes are mainly defined in Article 4 (1) (3) and (16) to (27) CRR in line with the Articles 18 and 19 CRR. Based on the relevant sections in Article 4, CRR entities to be consolidated are determined based on the business activity of the relevant entities.

- **Main differences between the accounting scope and the regulatory scope based on the different requirements as defined within IFRS and CRR as well as the NBR**

- Based on the CRR and NBR regulation, mainly credit institutions pursuant to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the scope of consolidation. In contrast, under IFRS all other entities not required to be consolidated under CRR, such as insurance undertakings, must be included in the financial scope of consolidation.

- Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off-balance sheet items are less than the lower of either EUR 10 mn or 1% of the total amount of assets and off-balance sheet items of the parent company. BCR Group doesn't make use of Article 19 (1) CRR.

- According to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs the prior approval of the competent authorities. For entities that exceed the limits as defined in Article 19 (1) CRR by insignificant amounts BCR Group doesn't make use of Article 19 (2) CRR. BCR Group's scope of consolidation according to IFRS is disclosed in the Financial Statements.

BCR has the same scope of consolidation for financial and regulatory purposes.

Consolidation methods

Main differences between the financial consolidation method and the regulatory consolidation method, considering regulatory adjustments

BCR Group applies full consolidation according to IFRS 10 for accounting purposes. Equity method according to the international accounting standard (IAS) 28 is applied to participations between 20% and 50% in associated entities.

The principles of consolidation applied in BCR Group for regulatory purposes are the same as those applied for the financial statements, therefore in Template EU LI 1 presented below there are no differences between the columns which contain the "Carrying values as reported in published financial statements" and the column which contains the "Carrying values under scope of regulatory consolidation".

As of 31 December 2017, BCR Group comprised Banca Comerciala Romana SA and 8 subsidiaries presented in detail in Template EU LI 3 together with their specific method of consolidation, out of which 2 are credit institutions (BCR Chisinau SA and BCR Banca pentru Locuinte SA specialized on housing loans), 2 are non-financial corporations (Suport Colect SRL which provides workout activities and CIT ONE SRL which provides cash processing and storing activities) and the rest are other financial corporations (BCR Leasing IFN SA – company which provides financial leasing, BCR Pensii Societatea de Administrare a Fondurilor de Pensii Private SA – pension fund, BCR Payments Services SRL – company which provides payments transactions, BCR Fleet Management SRL – company which provides operational leasing and an entity consolidated through the equity method: Fondul de Garantare al Creditului Rural IFN SA).

The templates below present the amounts reported in BCR's Group financial statements, broken down by different risk frameworks as per Part Three of CRR, once the regulatory scope of consolidation is applied.

In BCR Group the most significant part of the assets presented in financial statements are subject to credit risk framework (96.2% from the total exposure), followed by the exposure attributable to counterparty credit risk framework (3.2%) and market risk (0.09%). For BCR Group securitization framework is not applicable and the weight of the exposure not subject to capital requirements or subject to deduction from capital is 0.45%.

3 Template EU LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

			Carrying values of items				
RON ths	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
ASSETS							
Cash and cash balances	11,369,344	11,369,344	11,044,753	324,591	-	-	-
Financial assets - held for trading	104,694	104,694	0	41,449	-	63,245	-
Derivatives	41,449	41,449	(0)	41,449	-	-	-
Other trading assets	63,245	63,245	0	-	-	63,245	-
Financial assets designated at fair value through profit or loss	15,131	15,131	15,131	-	-	-	-
Financial assets - available for sale	6,599,950	6,599,950	6,599,950	-	-	-	-
Financial assets - held to maturity	14,756,894	14,756,894	14,756,894	-	-	-	-
Loans and receivables to credit institutions	2,215,113	2,215,113	281,447	1,933,666	-	-	-
Loans and receivables to customers	33,490,883	33,490,883	33,490,216	667	-	-	-
Property and equipment	1,315,683	1,315,683	1,315,683	-	-	-	-
Investment properties	121,490	121,490	121,490	-	-	-	-
Intangible assets	320,872	320,872	0	-	-	-	320,872
Investments in associates	17,375	17,375	17,375	-	-	-	-
Current tax assets	86,736	86,736	86,736	-	-	-	-
Deferred tax assets	168,778	168,778	168,778	-	-	-	-
Non-current assets and disposal groups classified as held for sale	43,039	43,039	43,039	-	-	-	-
Other assets	305,257	305,257	305,257	-	-	-	-
TOTAL ASSETS	**70,931,239**	**70,931,239**	**68,246,749**	**2,300,373**	**-**	**63,245**	**320,872**

			Carrying values of items				
RON ths	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
LIABILITIES							
Financial liabilities held for trading	44,661	44,661					
Derivatives	44,661	44,661					
Financial liabilities measured at amortised cost	62,007,067	62,007,067					
Deposits from banks	3,390,351	3,390,351					
Borrowings and financing lines	2,064,340	2,064,340					
Deposits from customers	52,496,062	52,496,062					
Debt securities issued	539,648	539,648					
Subordinated loans	2,371,499	2,371,499					
Other financial liabilities	1,145,167	1,145,167					
Provisions	1,192,565	1,192,565					
Current tax liabilities	230	230					
Deferred tax liabilities	25	25					
Liabilities associated with disposal groups held for sale	12,819	12,819					
Other Liabilities	234,759	234,759					
Total equity	7,439,113	7,439,113					
Share capital	2,952,565	2,952,565					
Retained earnings	2,667,530	2,667,530					
Other reserves	1,819,018	1,819,018					
Attributable to non-controlling interest	36	36					
Attributable to owners of the parent	7,439,077	7,439,077					
TOTAL LIABILITIES AND EQUITY	**70,931,239**	**70,931,239**					

4 Template EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Total	Items subject to			
	RON ths		Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	**70,931,239**	**68,246,749**	**2,300,373**		**63,245**
2	**Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)**	**-**				
3	Total net amount under regulatory scope of consolidation	-				
4	Off-balance sheet amounts[1]	10,621,475	3,072,108			
5	Differences in valuations[2]	1,397		1,397		
6	Differences due to different netting rules, other than those already included in row	-				
7	Differences due to consideration of provisions[3]	8,456	5,160	3,295		
8	Differences due to prudential filters	-				
9	Add-on for derivatives: future potential exposure[4]	80,554		80,554		
10	Intangible assets subject to deduction from capital	(320,872)				
11	Taxes afferent to intangible assets deducted[5]	16,966	16,966			
12	Other exposures (manly TB loans and deposits with credit institutions) considered in TDI exposure	124,241				124,241
13	**Exposure amounts considered for regulatory purposes**	**81,463,456**	**71,340,984**	**2,385,619**		**187,486**

[1] Off-balance-sheet amounts subject to the regulatory framework, before (10,621,475 RON ths) and after (3,072,108 RON ths) the application of the credit conversion factors according to CRR;
[2] Difference in valuation due to CVA/DVA for derivative instruments;
[3] Differences triggered by different mechanisms used for accounting versus regulatory scope, in allocating the collective allowances
[4] Difference pertaining to future potential exposure – for regulatory purposes the exposure of financial derivatives is calculated based on Mark to Market Method described in CRR, by adding at the replacement cost (current market value of the contract) the potential future credit exposure expressed as a percentage from the notional, based on the underlying asset and residual maturity, the last component not being taken into account for accounting purposes;
[5] Difference due to an add-on of taxes pertaining to intangible assets deducted from the own funds;

Valuation Estimates

Disclosures in respect of trading book and banking book exposures:

- Valuation methodologies
- Description of the independent price verification process
- Procedures for valuation adjustments or reserves

Prudent Valuation is a capital requirement defined in Article 105 of CRR/CRD IV which is applied on all fair valued instruments, regardless whether they are held in trading or banking book. The difference between the prudent value and the fair value of an instrument is defined as an Additional Valuation Adjustment (AVA) which is directly deducted from the Common Equity Tier 1 (CET1).

In order to calculate the Prudent Valuation Adjustments, the bank uses the core approach that requires the calculation of 9 AVAs. The adjustments are outlined in the following table:

5 Additional valuation adjustments

AVA name	Explanation
Market Price Uncertainty	Uncertainty in market prices (e.g. Bond Prices) or pricing input parameters (e.g. interest rates)
Close out Costs	Uncertainty in bid-ask spread
Model Risk	Uncertainty due to appropriate choice and model calibration
Unearned Credit Spreads	Uncertainty in the Credit Valuation Adjustments (CVA) required by IFRS 13 for derivative positions
Investigating and Funding Costs	Uncertainty in Funding Costs; as no Funding Valuation Adjustment is currently in place the AVA reflects the FVA based on Expected Exposure
Concentration	Uncertainty due to concentrated positions (positions that cannot be liquidated within next 10 days)
Future Administrative Costs	Uncertainty in administrative and future hedging costs over the expected life of the valuation exposures for which a direct exit price is not applied
Early Termination	Uncertainty due to unfavorable early contract terminations
Operational Risk	Uncertainty due to operational risk

The evaluation process is defined at Erste Group level in Central Data Market System (CDMS)/ Asset Control (AC) which ensures that market data quotes are uniquely distributed to all entities.

CDMS is the Group wide principal market data source for capital market products. Quotations are usually taken from Reuters, but there are other sources in place, currently Bloomberg, SuperD, ICAP and MarkIt.

Market Prices are determined via independent price verification (IPV). The IPV process on Erste Group level is done by the department Trading Book Risk Group for all instruments which are set up in CDMS.

Bonds are generally valued using market quotes whenever a liquid market is available. Market quotes are sourced from data vendors as part of the regular end of day market data process. Market quotes are available in CDMS/AC. If there are no market quotes available theoretical valuation is used.

The number of companies consolidated pursuant to IFRS and to regulatory capital requirements were 9 as of 31 December 2017.

6 Template EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation: Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	Description of the entity
Banca Comerciala Romana	Full consolidation	X				Credit institution
BCR Chisinau	Full consolidation	X				Credit institution
BCR Banca pentru Locuinte	Full consolidation	X				Credit institution
BCR Leasing	Full consolidation	X				Other Financial Corporation- Finance Leasing
BCR Pensii	Full consolidation	X				Other Financial Corporation- Administrator of Pension Fund
BCR Suport Colect	Full consolidation	X				Non Financial Corporation
CIT ONE (BCR Procesare)	Full consolidation	X				Non Financial Corporation
BCR Payments	Full consolidation	X				Other Financial Corporation
Fleet Management	Full consolidation	X				Other Financial Corporation - Operational Leasing
Fondul de Garantare a Creditului Rural IFN SA	Equity method		X			Other Financial Corporation

DISCLOSURE REQUIREMENT COVERED BY: ART. 436 (c) CRR

Own funds transfer

Currently there are no restrictions or significant impediments to the prompt transfer of own funds or settling of liabilities among the parent and its subsidiaries within BCR Group.

Except for regulatory restrictions on capital distributions stemming from the CRR applicable to all financial institutions in Romania, BCR Group does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Group. Also, the owners of non-controlling interest in Group subsidiaries do not have protective rights that can significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

DISCLOSURE REQUIREMENT COVERED BY: ART. 436 (d) CRR

Total capital shortfall of all subsidiaries not included in the consolidation

As of 31 December 2017 there was no capital shortfall at any of the companies of BCR Group included in the consolidation.

5 Statement of the Management Board

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (e) (f) CRR

The approval of the risk statement is given by the Management Board together with the approval of the Disclosure Report.

In compliance with the Article 435 (1) (e) of the CRR

The Group provides a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy. Risk monitoring activities are supported by information systems that provide the management body with timely reports on the financial condition, operating performance, and risk exposure of the institution, as well as a clear understanding of the Group's positions and risk exposures.

The Group implemented a proper risk management framework which includes policies, procedures, limits and controls providing adequate, timely and continuous identification, measurement or assessment, mitigation, monitoring and reporting of the risks posed by the banking activities, both at the business line and institution-wide levels.

The Group must monitor risk management systems to ensure they are performing as intended. This is accomplished by the Group through on-going monitoring activities and periodical assessment of the risk management systems. On-going monitoring is most effective since it is completed on a real-time basis where appropriate, can react dynamically to changing conditions.

In compliance with the Article 435 (1) (f) of the CRR

The Management Board hereby certifies that the Group's risk profile is aligned with the business model and business strategy. Through its Risk Appetite framework, which is approved as part of the Risk Strategy, the Group aligns the organization's risk tolerances with strategic objectives, risk profile, and risk management capabilities. Also, the Risk Strategy describes the risk management principles for executing the business strategy, defines the Group's willingness to accept risks in order to deliver business objectives (a key input for limit setting), provides a forward-looking assessment of the Group's risk taking capacity, defines the current and targeted risk profile by risk types and provides a balanced risk-return view considering strategic focus and business plans.

The Management Board ensures that senior management and appropriate personnel have the necessary expertise and that the Bank has processes and systems to measure, monitor, and control all sources of risk. Also, the Risk Strategy is appropriate for the nature, scale and complexity of the Group's activities. Risk Appetite is quantified in terms of risk limits, monitored through a traffic light system providing early warnings signals for potential management actions and a formalized escalation mechanisms in case of any breaches. Risk Appetite limits are further broken down into limits across risks types (e.g. credit risk, market risk, operational risks, liquidity risk), segments and portfolios during the risk planning and strategic / budgeting process. These more granular thresholds provide strategic guidance and limits for the various risk and are further operationalized into limits used for business operation.

This system translates enterprise risk tolerance and risk appetite for each risk category into risk-monitoring measures. The consistency between risk limit and enterprise risk tolerance helps the Group to realize its risk objective and maximize risk-adjusted return. They form an integral part of ongoing management and monitoring process.

In terms of **credit risk**, the following limit types are defined by the Group in the Risk Appetite Statement and limit framework, which are used to provide quantitative direction for the overall risk-return steering, forming part of the guideline for managing credit risk: Pillar I and Pillar II Capital Adequacy Ratios, Leverage Ratio, Risk Earnings Ratio, Pillar I and Pillar II RWA, Risk Cost, New NPL, NPL Ratio, NPL Coverage

Ratio, FX retail lending Ratio, as well as limits for industries, geographical regions, corporate unsecured exposures, corporate and retail products and counterparty limits.

In terms of **market risk**, the following limit types are defined by the Group in the Risk Appetite Statement and limit framework, which are used to provide quantitative direction for the overall risk-return steering, forming part of the guideline for managing market risk: Pillar I and Pillar II Trading Book RWA, Pillar II Banking Book RWA, Basel II Ratio, NII Sensitivity, Value at risk limits, position and stop loss limits.

In terms of **operational risk**, the following limit types are defined by the Group in the Risk Appetite Statement and limit framework, which are used to provide quantitative direction for the overall risk-return steering, forming part of the guideline for managing operational risk: Pillar I and Pillar II RWA, as well as Key risk indicators for operational risk.

In terms of **liquidity risk**, the following limit types are defined by the Group in the Risk Appetite Statement and limit framework, which are used to provide quantitative direction for the overall risk-return steering, forming part of the guideline for managing liquidity risk: Liquidity Coverage Ratio, Net Stable Funding Ratio, Survival period Analysis (SPA), Asset Encumbrance, Weekly Immediate Liquidity Indicator and Loans to Deposits Ratio.

The Report contains information related to the institution's overall risk profile associated with the business strategy, including key ratios and figures, which can provide external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.

Key risk ratios and figures are provided in the table below:

7 Key ratios and figures

Key Ratios	Type	31-Dec-17
Solvency Ratio	(%)	22%
Tier 1 Ratio	(%)	19%
Common Equity Tier 1 Ratio	(%)	19%
Leverage Ratio	(%)	9%
SPA (1M Liquidity Surplus)	(bn EUR)	2.69
Liquidity Coverage Ratio	(%)	366%
Net Stable Funding Ratio	(%)	228%
Risk Earnings Ratio	(%)	9%

In order to prevent abuses arising in transactions with related parties and to address the risk of conflict of interest, the Management Board ensures that the Group enters into any transactions with related parties on an arm's length basis. Also, the Group monitors such transactions on a regular basis, takes appropriate steps to control and mitigate the risks in accordance with standard policies and processes. An appropriate oversight of the related parties transactions is ensured for the Group's shareholders.

The Group shall not incur, after taking into account the effect of the credit risk mitigation, an exposure to the group of related parties of more than 25% of its eligible capital.

The related party transaction disclosure can be found in the BCR Group 2017 Annual Report, Chapter "Related-party transactions and principal shareholders".

6 Risk Management in BCR Group

DISCLOSURE REQUIREMENTS COVERED: ART. 435(1) (a) (c) CRR and ART. 67 (a) (c) NBR Regulation no. 5/2013

Risk policies

The risk management policies implemented by the Group forms part of the internal control and corporate governance arrangements. The risk policies underline the approach to risk management, and documents the roles and responsibilities of the management board and other key parties. It also outlines key aspects of the risk management process, and identify the main reporting procedures. The risk policies are reviewed on a yearly basis as well as when material changes occur, in order to ensure that the risk management framework and responsibilities are up to date.
The Group developed a risk management policy framework that is consistent with its risk management strategy. Also the risk policy framework defines risk management accountability and methodologies that meet the strategy requirements.

Risk strategy

The Risk Strategy forms an essential part of the Group's ICAAP framework. It sets out the general principles according to which risk taking is performed across the Group and the main elements of its management framework to ensure an adequate and consistent implementation of the risk strategy.

The Risk Strategy also includes the formulation of the risk appetite and the risk profile for all identified risks in the context of its overall business strategy and defines, for each main risk type, the current and targeted risk profile.

The core function of the Group is to take risks in a conscious and selective manner and to manage the risks professionally. The Group's proactive risk policy and risk strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

The Group uses a risk management and control system that is forward-looking and tailored to its business and risk profile. This system is based on a clear risk strategy that is consistent with the business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, the Group's risk management and control system has been developed to fulfil external and, in particular, regulatory requirements.

The Group performs an annual comprehensive review of the existing risk management program and of the Risk Strategy. Interim reviews might occur during the year when relevant changes or improvements are identified.

In 2017, the management has continued to steer critical portfolios, including active management and sales of non-performing exposures, and to further strengthen the risk profile. This has been particularly demonstrated by the continuous improvement of the credit quality and the ongoing decrease of non-performing loans and risk costs. Management actions resulted in improved profitability, asset quality, lending and capital levels. In addition, emphasis was put on strengthening risk governance and ensuring compliance with regulatory requirements.

Business strategy

The Business Strategy defines the orientation of the Bank's business and its objectives and plans for a 5 year time horizon. It sets out the business segments in which the Bank intends to operate and the targeted volume of business in each segment. It also includes the Bank's expectations of its business, such as planned volumes, risks and profits. Based on the business strategy, the Group is developing a comprehensive strategic planning process with clearly defined strategic pillar objectives and supporting initiatives for each objective.

Given the Group's business strategy, the key risks for the Group are credit risk, market risk, operational and reputational risks, and liquidity risk. In addition, a risk materiality assessment is undertaken on an annual basis. It is ensured that all relevant material risks generated by the Group's business are covered by the Group's control and risk management framework. This entails a set of different tools and governance to ensure adequate oversight of the overall risk profile and sound execution of the risk strategy, including appropriate monitoring and escalation of issues that could materially impact the risk profile of the group. The Group always seeks to enhance and complement existing methods and processes in all areas of risk management.

Risk and capital management

The main purposes of the Group's capital management policies and practices are to support its business strategy and to ensure that it is sufficiently capitalized to withstand even severe macroeconomic downturns.

The Group considers the management of risk and capital to be among its core responsibilities and a key factor in providing a stable, high return to shareholders. The Group's capital management aims to ensure efficient use of capital to meet the Group's overall capital targets.

The Internal Capital Adequacy Assessment Process (ICAAP) framework enables an increased focus on holistic risk management and ensures comprehensive, cross-risk Group-wide risk portfolio steering- enterprise wide risk management (ERM). It drives key strategic cross-risk initiatives to establish greater cohesion between the risk strategy including the risk appetite and limit steering. ERM involves all risk functions and key divisions to strengthen risk oversight group-wide, covering capital, credit, liquidity (ILAAP), market, operational and business risk.

At the Group level, Strategic Risk Management is responsible for the group's Internal Capital Adequacy Assessment Process (ICAAP) including the stress testing framework, and furthermore for the proper calculation of risk-weighted assets (RWA), risk portfolio steering with respect to material risks, risk planning and risk input into capital planning, risk appetite and limit management, as well as liquidity & market risk / operational risk steering.

The ICAAP framework is designed to support the bank's management in managing the risk portfolios as well as the coverage potential to ensure that the bank holds at all times adequate capital for the nature and magnitude of the bank's risk profile. Enterprise wide risk management is tailored to the Group's business and risk profile, and it reflects the strategic goal of protecting shareholders while ensuring the sustainability of the organization.

The ICAAP framework is a modular and comprehensive management and steering system within the Group and is an essential part of the overall steering and management instruments. The framework can be clustered as follows:

- Risk appetite statement;
- Portfolio & risk analytics, including: (i) Risk materiality assessment; (ii) Concentration risk management; (iii) Stress testing.
- Risk-bearing capacity calculation;
- Risk planning & forecasting, including: (i) Risk-weighted asset management; (ii) Capital allocation.
- Recovery Plan.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the components serve to support the bank's management in pursuing its strategy.

Risk Management Principles

The Group aims at achieving balanced risk and return in order to generate a sustainable growth and adequate return on equity. Hence, the Group ensures that risks are assumed in the context of its business, recognized at an early stage and properly managed. This is achieved by fully integrating risk management into daily business activities, strategic planning and developing the business consistently with the defined risk appetite.

The relevant risk management principles are presented below:

- Core risk management responsibilities embedded in Management Board and appropriately delegated to designated committees to ensure execution and oversight. Also, the Supervisory Board regularly monitors risk profile;
- Risk management governance ensures full oversight of risk and sound execution of risk strategy including appropriate monitoring and escalation of issues materially impacting the Group's risk profile;
- Risk strategy based on Risk Appetite and Strategic Guidelines to ensure full alignment of risk, capital and performance targets;
- Stress testing and concentration risk analysis conducted to ensure sound risk management in line with risk strategy & RAS and holistic risk awareness;
- All material risks managed and reported in coordinated manner via risk management processes;
- Modelling and measurement approaches for quantifying risk and, where applicable, capital demand as well as regular validation;
- Data, effective systems, processes and policies as critical components of the risk management capability;
- Policy framework clearly defines key requirements related to creating, classifying, approving, implementing and maintaining policies across the Group;
- An integrated and institution-wide risk culture, based on a full understanding of the risks taken and how they are managed, taking into account BCR risk appetite / tolerance;
- The Bank has a risk management function independent from the operational functions and which has sufficient authority, stature, resources and access to the management body;
- Risk management function ensures that all material risks are identified, measured and properly reported. It is playing a key role within the bank, ensuring that it has effective risk management processes in place;
- The risk management function is actively involved in elaborating the institution's risk strategy and in all material risk management decisions and that it can deliver a complete view of the whole range of risks of the institution;
- The Bank has robust governance arrangements, which include a clear organizational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks they are or might be exposed to, adequate internal control mechanisms;
- All major risk classes are managed in a coordinated manner via risk management process, including credit, market, operational, liquidity, reputational and strategic risk;
- Appropriate monitoring, stress testing tools and escalation process in place for key capital and liquidity thresholds and metrics;
- The Bank's operational structure is consistent with the approved business strategy and risk profile;
- The management body is responsible for the approval of sound strategies and policies for establishment of new structures;
- The management body establishes, maintains and reviews, on an on-going mode, adequate strategies, policies and procedures for approval and maintenance of such structures and activities, to provide that they remain consistent with their declared scope.

Proportionality Principles

The principle of proportionality is an important part of Pillar II requirements. The organizational requirements depend on nature, scale and complexity of the Bank and its activities.

Risk management principles, concepts and processes are generally designed, developed and implemented to address over-arching organizational needs across the Group reflecting a high degree of granularity and detail. The extent, level of detail and sophistication of BCR

Group subsidiaries' ICAAP framework is dependent on their size as well as business and risk profile. Therefore, subsequent implementation and application at the level of BCR subsidiaries requires an approach that takes into account differences in business structures, size, complexity and relevance. The Proportionality Principle sets classification categories, criteria and scope as well as process requirements for implementation, application and roll-out in the context of BCR Group ICAAP components in subsidiaries.

The subsidiaries set their own governance responsibilities and evaluate any the Group decisions or practices to ensure that they do not put the subsidiary in breach of regulatory provisions or prudential rules applicable on a solo basis in Romania and in other countries where they activate.

Risk appetite

The Group defines its Risk Strategy and Risk Appetite Statement (RAS) through the annual strategic planning process to ensure appropriate alignment of risk, capital and performance targets. The Group RAS represents a strategic statement expressing the maximum level of risk that the Group is prepared to accept in order to achieve its business objectives. It consists of a set of core metrics providing quantitative direction for risk steering and qualitative statements in the form of key risk principles that form part of the strategic guidelines for managing risks. The key objective of the RAS is to:

- Ensure that the Group has sufficient resources to support its business at any given point in time and absorb stress events;
- Set boundaries for the Group's risk-return target setting;
- Preserve and promote the market's perception of the Group's financial strength and the robustness of its systems and controls.

The setting of the Group risk appetite is forward-looking in order to foster risk return steering and ensure proactive management of the risk profile. External constraints such as regulatory requirements set the ceiling for the RAS and the amount of risk the Group is willing to accept. In order to ensure that the Group remains within the targeted risk profile a Red Amber Green system was established and assigned to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures. A pre-defined threshold describes a level or event which triggers an escalation to the designated governance and the discussion of potential remediation actions. The breaching of a pre-defined limit, initiates an immediate escalation to the designated governance and a prompt implementation of remediation actions.

Moreover, stress triggers are defined for selected core metrics and integrated into the assessment of the stress test results. They are reported as early warning signals to the Management Board to support proactive management of the risk and capital profile.

In addition, strategic risk limits and principles are defined based on the Group RAS in Group Risk Strategy. These limits and principles support the implementation of the mid to long term risk strategy. Risk management governance ensures full oversight over all risk decisions and the proper execution of the risk strategies. Risk mitigating actions are undertaken as part of the regular risk management process to ensure that the Group remains within its defined RAS.

The RAS horizon covers 5 years to ensure a stronger interplay with the other strategic processes such as long-term planning, budgeting. The remuneration program was also directly linked to the Group RAS to reinforce the risk culture and risk awareness within the Group. In that light, the determination of the annual bonus pool must consider if the relevant core metrics are within the Group RAS.

The Group RAS 2017-2021 was pre-approved by both Management Board and the Risk Committee of the Management Board and approved by the Supervisory Board, as part of the increased role of the Supervisory Board in RAS setting and monitoring. Before the Supervisory Board approval, the document is also analysed and pre-approved by the Risk Management Committee of the Supervisory Board.The Group also developed an aggregated and consolidated risk appetite dashboard (RAS Monitor) illustrating the Groups' risk profile developments by comparing the risk exposure and risk limits.

The Group RAS framework streamlines core capital, liquidity, and risk/earnings metrics as well as reinforces key risk principles that form part of the guidelines for managing risks. In addition, the Group RAS strengthens internal governance responsible for oversight of the risk profile development, embeds RAS into strategic planning and budgeting processes as well as day-to-day management, and ensures timely management actions in case of adverse developments.

Portfolio and risk analytics

The Group uses dedicated infrastructure, systems and processes to actively identify, control and manage risks within the scope of the portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

Risk materiality assessment

The Risk Materiality Assessment (RMA) is an annual process with the purpose of systematically identifying new and assessing existing material risks for the Group. The RMA determines the materiality of risk types and consequently the risk profile across BCR Group. As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management.

The Bank distinguishes between material and immaterial risk types. Material risks can have a significant impact on the financial and/ or reputational position of the Bank.

The objective of the Risk Materiality Assessment is twofold:

- Firstly, the RMA has to identify all risk types of the Risk Taxonomy Framework, which need to be included within the risk materiality assessment process.
- Secondly, the RMA has to assess all risk types defined in the Risk Taxonomy Framework by assigning them risk grades in order to provide a comprehensive overview of BCR Group's risk profile and identify those risks which are material and have to be addressed within the ICAAP framework.

The Bank continuously develops its risk materiality framework. This process is not limited to the risk function and therefore various bank entities are involved in order to ensure the comprehensiveness of the assessment. Such broad involvement of the Bank improves the understanding of the sources of risk, clarifies how risks relate to specific business activities, and provides the best chances of identifying newly emerging risks.

The results of the Risk Materiality Assessment constitute the basis for consideration of risks within the ICAAP framework, including the Risk-bearing Capacity Calculation (RCC) of the Bank. Material risk types are preferably considered directly by dedicating economic capital under the condition that the risk is quantifiable and the allocation of capital is deemed meaningful based on management discretion. All other material risks are covered indirectly within other ICAAP framework elements, including but not limited to:

- Management of risk concentrations via the Bank's limit framework;
- Assessment of the Bank's stressed risk profile, including evaluation of stress testing results and integration of stressed capital adequacy metrics;
- Analyses, monitoring and forecasting of key risk types and indicators as part of the BCR Group Risk and Capital Planning processes;
- Management of unquantifiable risks through a strong management & control framework that can take the form of a purely qualitative framework.

Risk profile

The risk profile is represented by the aggregated actual and potential risk exposures of the Group. As part of its Risk Strategy, the Group analyses its actual risk profile and determines a target risk profile based on its strategic goals. The risk profile is a result of the Risk Materiality Assessment process (described above) in combination with the boundaries set by the business strategy and the Risk Appetite Framework. The risk profile is a key input in setting the business objectives, policies, risk appetite and the internal control environment in the Bank.

Risk concentration analysis

The BCR concentration risk framework outlines the standards needed to identify, measure, monitor, and mitigate concentration risks, whose implementation is essential to ensure the long-term viability of any financial institution, especially in the case of stressed economic conditions.

In compliance with the Risk Strategy and with the ICAAP framework, BCR Group has implemented a comprehensive limit framework for all risk types, derived from the Risk Appetite Statement in order to manage its risk concentrations. The limit framework comprises quantitative measures based on forward looking assumptions that allocate the Bank's aggregate risk appetite to business lines, legal entities as relevant, specific risk categories, and as appropriate, other levels.

Stress testing

Stress testing is a key risk management tool which supports the Bank in taking a forward-looking view in risk management as well as in strategic, business, risk, capital and liquidity planning. In this sense, stress testing is a vital element of the bank's ICAAP framework. Stress testing the Bank's vulnerability to severe but plausible future deteriorations of the economic environment provides key insight in the sustainability and robustness of the bank and helps regarding timely preparation and execution of contingency plans and mitigating actions.

▪ Scenarios

Based on forward – looking hypothetical severe macroeconomic scenarios, BCR performs a yearly comprehensive stress testing exercise which seeks to identify any potential vulnerabilities of the bank and provide further robustness to the measuring, steering and management system. The scenarios selected for the comprehensive stress testing are designed taking into consideration the specificities of both the local macro-economic environment and the local portfolio, as well as the international macroeconomic context. The scenarios will consist of:

- a narrative description;
- a set of values for various macro-economic indicators- e.g. GDP (Gross Domestic Product) growth, unemployment rate, FX rates, interest rates etc.

The Group utilizes a range of scenarios with different severities in its comprehensive stress test, as follows:

- A baseline scenario representing the best estimate of the bank;
- An adverse, but likely, scenario;
- A scenario reflecting a severe economic downturn.

▪ Portfolios

Within the Group, the units responsible for the risk management of credit risk, operational risk, market risk and liquidity risk perform relevant stress tests for those single risk types and portfolios. Additionally, the yearly Comprehensive Stress Test covers all material risk types and portfolios for both BCR Standalone and BCR Group.

The Comprehensive Stress Test provides a holistic view of the aggregated risks' impact on the balance sheet, P&L, non-performing loans, provisions, Pillar I RWA, Pillar II economic capital adequacy ratio, and metrics defined in the Risk Appetite Framework.

- **Methodologies**

Internal statistical models are used to explain changes in the risk parameters on the basis of economic conditions, and the selection of the explanatory variables is specific for each parameter and segment and ensures a statistically relevant model with the best intuitive economic meaning and statistical goodness of fit.

Other risks which cannot be assessed through internal models and are evaluated as material by the Group in the yearly Risk Materiality Assessment process are considered in the Comprehensive Stress Testing exercise through the use of expertly defined capital buffers, which take into account the degree of materiality of each risk by utilizing distinct thresholds. The list of risks that are stressed though capital buffers is not exhaustive and is subject to change in line with the change in materiality for each risk during each stress testing exercise.

Reverse stress testing, which assesses scenarios and circumstances that would jeopardize the bank's solvability, earnings and economic capital adequacy, complements the bank's stress testing program. Unlike the comprehensive stress testing, reverse stress testing starts from an outcome of business failure and identifies under what circumstances this might occur, for the purpose of identifying possible combinations of risk events / concentrations.

Risk Capacity

Risk capacity (also known as risk-bearing capacity) represents the Bank's overall ability to absorb potential losses. Risk capacity can be measured in terms of cash and cash equivalents to meet liquidity demands and in terms of capital and reserves to cover potential losses.

The Bank defines the Risk-bearing capacity as a prospective view of risk that is useful in establishing allocations of risk, capital or both to drive value for the shareholders and the organization as a whole.

The risk-bearing capacity of the Group represents a measure of the total risk exposure for Pillar II purposes. Risk Capacity is the maximum amount of risk which the Bank is technically able to assume before breaching one or more of its capital base, liquidity, and borrowing capacity, reputational and regulatory constraints. The risk capacity represents the upper limit beyond which a breach is likely to result in failure. The Bank defines the risk capacity of the organization prior to framing strategy and setting risk appetite.

Within the risk-bearing capacity calculation (RCC), the quantified risks are aggregated and compared to the coverage potential. The integral forecast, risk appetite as well as a traffic light system support management in its discussions and decision processes.

Based on the Group business and risk profile, the three main types of banking risks – credit risk, market risk and operational risk – are considered directly in the Risk-bearing Capacity Calculation. Besides the Pillar I risk types (credit, market and operational risks), in the context of Pillar II, there are additional risks that the Bank explicitly considered within the required economic capital via internal models.

Risk planning and forecasting

Planning of risk relevant key indicators assures the adequate reflection of risks within the steering and management process of the Group. Risk management and forecasting is used by the Group in strategic decision making. Implementing risk-based financial forecasts that link capital/liquidity adequacy to changes in macroeconomic conditions represents a powerful way to develop an understanding of risk.

The Group's responsibility for risk management includes ensuring sound risk planning and forecasting processes. The risk planning and forecasting process includes both a forward- and backward-looking component, focusing on both portfolio and economic environment changes. The Group ensures that there is a strong link between the capital planning, budgeting and strategic planning processes.

Risk-weighted asset management

As risk-weighted assets (RWA) determine the actual regulatory capital requirement of the bank and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meet targets and to the planning and forecasting capacity for this parameter. Insights from RWA analyses are used to improve the calculation infrastructure and the quality of input parameters and data as well as the most efficient application of the Basel framework.

Capital planning and capital allocation

Based on material risks identified, the Group assesses its overall capital adequacy, and develops a strategy for maintaining adequate capital levels consistent with its risk profile and business plans. This is reflected in the Group's capital planning process and the setting of internal capital targets.

The Group ensures that a well-defined process is put in place to translate estimates of risk into an assessment of capital adequacy. The capital planning process is dynamic and forward-looking in relation to the Group's risk profile. Sound capital planning is critical for determining the prudent amount, type and composition of capital that is consistent with the Group long-term strategy of being able to pursue business objectives, while also withstanding a stressful event.

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close co-operation between Risk Management and Controlling. All insight from the ICAAP and controlling processes is used to allocate capital with a view to risk-return considerations.

Recovery plan

BCR has available a comprehensive Recovery Plan, issued based on the provisions of the Romanian Banking Law (i.e. the Emergency Ordinance no. 99/2006), of Bank Recovery and Resolution Directive 2014/59/EU (BRRD), of EBA guidelines and regulatory technical standards and of the EGB Group Recovery Plan.

The BCR Recovery Plan sets a governance framework for the drawing up and the implementation of the plan as a main pillar of strengthening the financial resilience of BCR and restoring its financial position following a significant deterioration. The range of scenarios used in recovery plans identify situations that would lead to an institution's or a group's business model becoming non-viable unless the recovery actions were successfully implemented. The scope of the plan is to identify a set of recovery measures which could be taken in order to restore Group's financial strength and viability when it comes under severe stress.

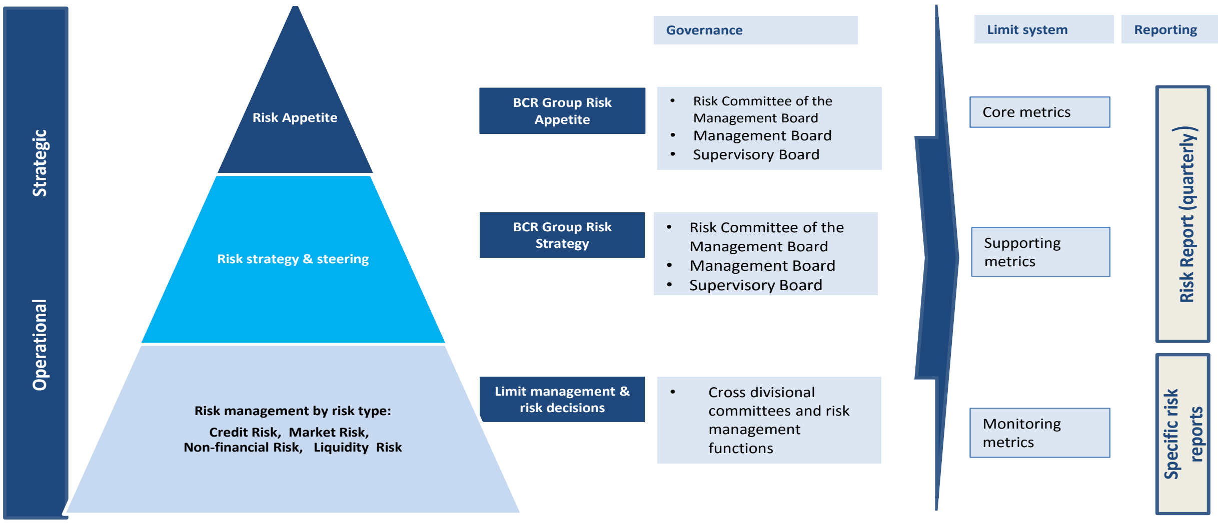
Risk monitoring and reporting

Risks will constantly change and will therefore need to be reviewed in a timely and appropriate manner. Risks and the progress in implementing recommendations to reduce risks, are kept under review and any new practices are evaluated. This enables the Group to monitor if the actions have had the desired effect of reducing risk, and creating a more stable environment for its activity. Monitoring and reporting is also used as an input to the review and continuous improvement of the Group's risk management framework.

Monitoring and reviewing is a planned part of the risk management process and involves regular checking or surveillance. The main risk reports produced for reporting to the National Bank of Romania, Erste Group and internal steering purposes, as well as the responsibilities for monitoring and reporting are clearly defined in the BCR Group Risk Reporting Manual. The Risk Reporting Manual serves to provide definitions of terms and concepts used in risk reporting for internal as well as for external audiences. It provides information concerning the reporting format, frequency, consolidation level, relevant risk indicators presented in each report, data sources, reporting dates, and responsible entities.

BCR Group manages all risks and exposures on a continuous basis along the dimensions portfolio, organization and risk type. The following graph depicts the risk monitoring and reporting structure supporting risk oversight and risk management.

8 Strategic and operational oversight



- **Strategic oversight**

The RAS sets the boundary for the maximum risk that BCR Group is willing to accept in order to pursue its business objectives. This includes a set of core steering metrics with triggers levels providing strategic guidelines for risk management and planning. This Risk Strategy sets strategic limits and targets based on the RAS and target risk profile. It also provides a balanced risk-return view considering strategic focus & business plans.

The core metrics, strategic limits and targets are regularly monitored and reported in BCR Group's risk reports including a traffic light overview together with respective measures to address identified deviations from strategic plans or objectives.

- **Operational oversight**

Risk management by risk type ensures that the risk specific profile remains in line with the risk strategy and operational limits support achievement of the strategic limits and targets. The development of the specific risk profile (i.e. retail credit, corporate credit, operational risk, etc.) is reported through dedicated risk reports in a more granular way and supports risk decision making of the dedicated risk functions to ensure the risk profile remains within the risk strategy.

These reports also include specific monitoring metrics that provide an early warning signal for adverse developments of portfolio quality (client, segment, countries and industries) or risk drivers. In instances where certain risk portfolios or events are identified as potentially in distress, these are closely monitored by the dedicated risk functions to manage the risk impact and to develop effective strategies to minimize potential losses. This process facilitates early risk detection and reaction.

DISCLOSURE REQUIREMENTS COVERED: ART. 435(1) (d)

Strategies processes and mitigation of risks

For the disclosure regarding the mitigation of risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants please see the BCR Group 2017 Annual Report – Chapter 39 "Risk Management", Sub-chapter 39.5 "Credit Risk", "Collaterals" as well as the following chapters from this report:

Chapter 16 "Credit Risk" and Chapter 27 "Credit Risk Mitigation Techniques" from this document for strategies and mitigating techniques for credit risk.

Chapter 19 "Market Risk" from this document for strategies and mitigating techniques for market risk.

Chapter 20 "Liquidity Risk" from this document for strategies and mitigating techniques for liquidity risk.

Chapter 21 "Operational Risk" from this document for strategies and mitigating techniques for operational risk.

Chapter 28 "Other and transversal" from this document for strategies and mitigating techniques for other risks.

7 Material Risks at BCR Group

Within BCR Group, the Risk Materiality Assessment (described above) is performed for all risk types to which the institution is exposed to. This Disclosure Report presents the qualitative and quantitative features of these risks which are deemed material by the Risk Materiality Assessment.

The risk management function ensures that all material risks are identified, measured and properly reported and plays a key role within the Group, being involved in the elaboration and review of strategies and decision-making process, as well as in all risk management decisions regarding material risks which the Group faces in its commercial operations and activities. Also, the Group ensures that all material risks are managed and reported in a coordinated manner via the risk management processes.

The risks identified by the Group for 2017 as being material were as follows:

9 Material risks for BCR Group as of 31 December 2017

MATERIAL RISKS BCR GROUP

Category	Type of Risk
Credit risk	Default risk
	Migration risk
	Residual Risk
	FX induced credit risk
	Concentration risk
Market risk	Interest rate risk banking book
Operational and Reputational risk	ICT risk
	Legal risk
	Fraud risk
	Model risk
	Staff risk
	Security risk
	Conduct risk
	Execution and Processing risk
	Compliance risk
	Reputational risk
Other risks	Strategic / business risk
	Capital risk
	Political risk
Transversal risks	Macroeconomic risk
	Inter-concentration risk

8 Risk Management Function and Management Bodies

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (b) CRR

Risk management function

Risk control and risk steering within the Group are performed based on the Risk Strategy and Risk Appetite approved by the Supervisory Board. Risk monitoring and control are achieved through a clear organizational structure with defined roles and responsibilities, delegated authorities and risk limits.

The management of retail and corporate credit risk, market risk, operational risk, liquidity as well as reputational risk and strategic risk, the assessment of collaterals and other risk related activities are consolidated under the Risk functional line. The Compliance Division (in charge with compliance risk) and Financial Crime Prevention Division (in charge with fraud risk management) are reporting under Executive VP Risk Line.

In these terms, risk management specialists are clearly delimited from an organizational point of view from the employees of the operational and support functions.

The Risk Management function is a central organizational function, structured so it can implement risk policies and control the risk management framework.

The main roles of the Risk Management function are:

- Ensures that all material risks are identified, measured and properly reported;
- Implements risk management principles and ensures that adequate and consistent risk management policies are developed and implemented for all material risks; and
- Ensures that the Group has effective risk management processes in place by being involved the elaboration and review of the strategies, in the decision-making process, as well as in the risk monitoring process.

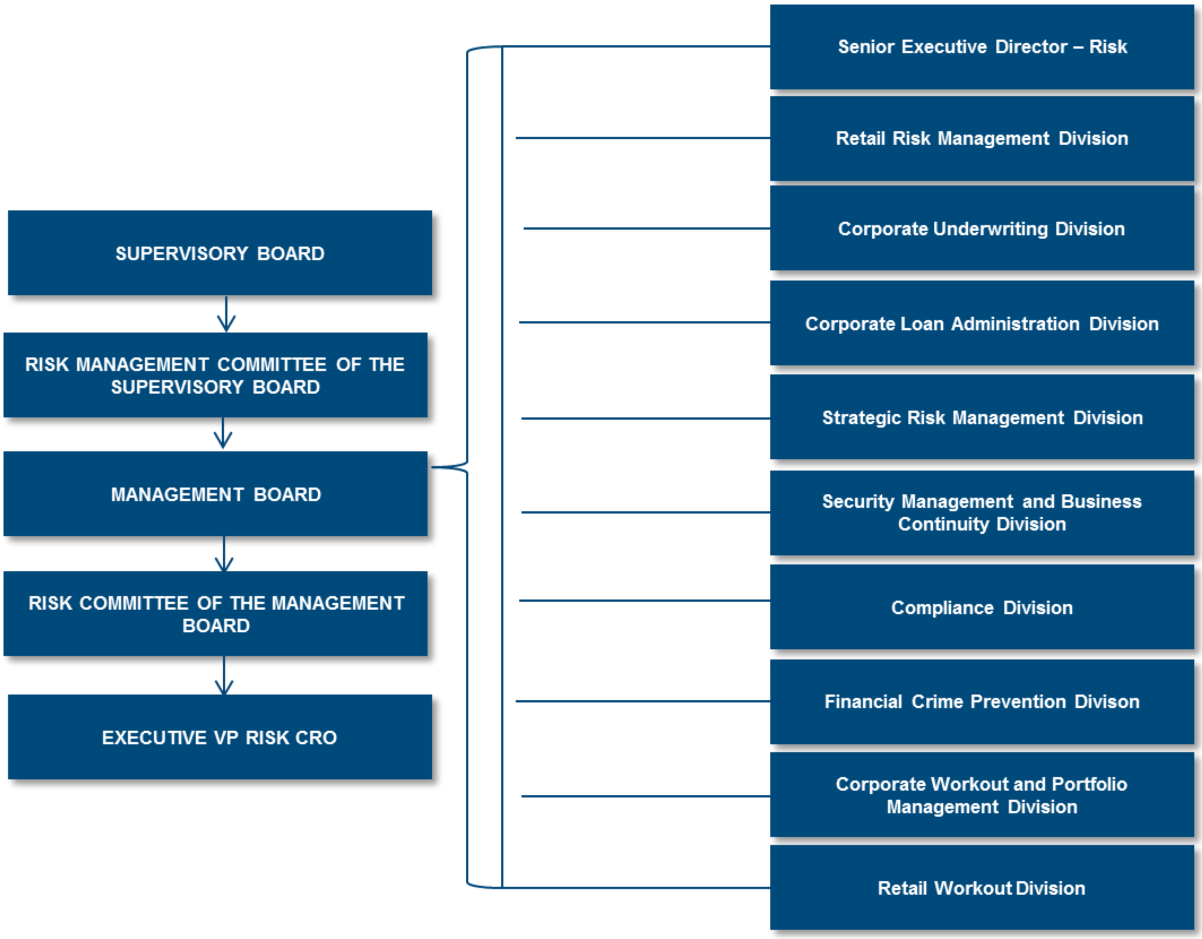
The Risk Management function performs regular reports both at individual material risk level and at bank-wide risk exposure level (i.e. complete view of the whole range of risks) to the Management Board, the Risk Committee of the Management Board, the Risk Management Committee of the Supervisory Board and the Supervisory Board of the risk aspects that are considered within the decision making process of the Bank.

Reports include information on aspects such as:

- Risk exposures and their development;
- Key risk indicators evolution and specific limits;
- Results of the stress testing exercises; and
- Internal capital adequacy (i.e. risk bearing capacity).

The Risk Management function is consolidated under the Risk Functional Line, coordinated by the Chief Risk Officer (Vice-President) to which the following organizational units performing the risk management function are subordinated:

10 Organizational structure of the risk management function as of 31 December 2017



DISCLOSURE REQUIREMENTS COVERED: ART. 435 (2) (a), (d) CRR and 435 (1) (b)

DISCLOSURE REQUIREMENTS COVERED: ART. 67 (a) (d) NBR Regulation no. 5 / 2013

Management bodies

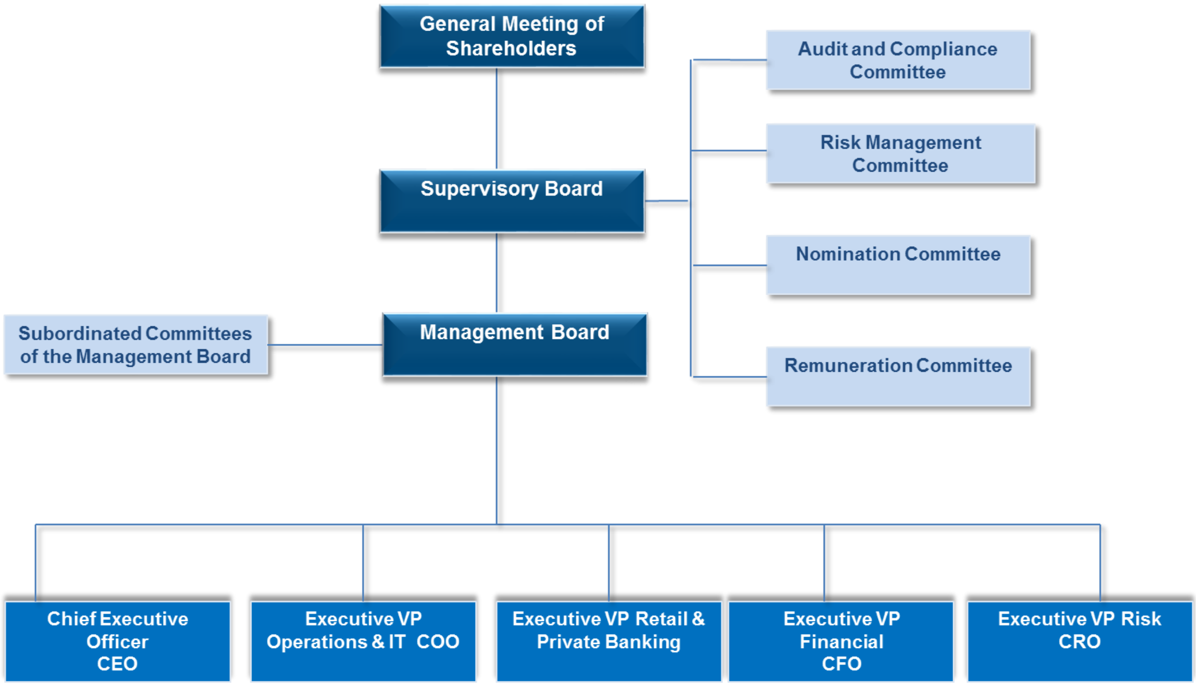
The management structure of BCR, both oversight function bodies and management bodies, is described in detail on the bank's website, Section: About us/Corporate Governance.

Organizational chart

At the end of 2017, the Bank's central organization was divided into 5 (five) functional lines, as follows: (1) 1 functional line that is subordinated to CEO; (2) 4 functional lines, covering the following areas: Operations & IT, Retail & Private Banking, Finance and Risk which are composed of functional entities that are subordinated to 4 (four) executive vice presidents.

The organizational chart of BCR management bodies as of 31 December 2017 is presented in the chart below:

11 Organizational chart of management bodies as of 31 December 2017



According to the legal requirements, the management structure has the role to monitor, assess and periodically review the efficiency of the management framework of the bank's activity and of the policies which refer to, so that it takes into consideration all the changes of internal and external factors which affects the bank.

BCR committees

BCR has a two-tier governance structure and carries out its activities considering the principles and objectives of good corporate governance, based on the Romanian and EU legal and regulatory framework, as well as in alignment with the parent company and the best international practices in the field.

The two-tier governance structure consists in a Supervisory Board (representing the supervisory function, which ensures the supervision and coordination of the Management Board activity) and a Management Board (representing the management function, which ensures the operational management of the Bank) as management bodies. Their membership, position and number of mandates are presented in the following section. Their competencies and responsibilities are regulated through the Charter, the Internal Rules of each structure and also through the BCR Operational Book.

The **Supervisory Board** (SB) approves and periodically reviews BCR's risk profile and the bank's overall strategy in respect of risk management with the goal of ensuring a responsible, prudent and profitable banking activity. The Supervisory Board consists of seven (7) members, appointed by the Bank's General Meeting of Shareholders and their mandate is of maximum three (3) years with the possibility of being re-elected for subsequent other maximum three (3) years' mandates.

The Supervisory Board membership structure as of 31 December 2017 is presented in the below table:

12 Supervisory Board membership structure as of 31 December 2017

Name	Position
Manfred Wimmer	Chairman
Andreas Treichl	Deputy Chairman
Hildegard Gacek	Member
Wilhelm Koch*)	Member
Tudor Ciurezu	Member
Gernot Mittendorfer	Member
Brian O'Neill	Member

*) Mr. Wilhelm Koch's mandate ended as of 31.01.2018 following his resignation.

Taking into consideration the (i) Supervisory Board membership structure as of December 31st, 2017, (ii) the information made available by each Supervisory Board member under the relevant Fit & Proper Affidavit and (iii) the Law no. 29/2015 for completion of EGO no. 99/2006 regarding credit institutions and capital adequacy, entered into force on March 15th, 2015, the mandates held by the Supervisory Board members are detailed below:

13 Number of mandates held by the Supervisory Board members as of 31 December 2017

Name	Mandates
Manfred Wimmer	3 non-executive memberships within Erste Group (counted as 1 mandate, according to Law no. 29/2015)
Andreas Treichl	•1 executive membership and 5 non-executive membership within Erste Group (counted as 1 mandate, according to Law no. 29/2015) •1 non-executive membership
Gernot Mittendorfer	•1 executive membership and 7 non-executive memberships within Erste Group (counted as 1 mandate, according to Law no. 29/2015) •1 non-executive membership
Brian O'Neill	•2 non-executive memberships within Erste Group (counted as 1 mandate, according to Law no. 29/2015) •2 non-executives membership
Tudor Ciurezu	1 executive membership and 2 non-executive memberships (one within Erste Group)
Hildegard Gacek	1 non-executive membership within Erste Group
Wilhelm Koch	1 non-executive membership within Erste Group

All Supervisory Board members are compliant with the requirements regarding the number of mandates allowed to be held, as provided by the Law no. 29/2015 for completion of EGO no. 99/2006 regarding credit institutions and capital adequacy.

The Risk Management Committee of the Supervisory Board (RMSB) has an advisory role, being established for the purpose of assisting the Supervisory Board of the Bank in carrying out its roles and responsibilities in respect of risk management. The Risk Management Committee is responsible for reviewing, prior to the submission to the Supervisory Board's approval, the main risk strategic documents and/or transactions, annual reports describing the conditions for performing the internal control, respectively the issues related to the risk management function as well as regular reports on the evolution of the Bank's risk indicators.

This Committee also issues recommendations for any internal regulation related to risk or other matters for which the Law or the National Bank of Romania requires the approval of the Supervisory Board and reports on a half year basis to the Supervisory Board regarding its activity.

Until December 31st, 2017, the Risk Management Committee convened in 16 meetings ordinary (4 meetings with physical presence and 12 meetings through other means of distance communication).

Starting with June 23rd 2017, a new revised version of the Internal Rules entered into force at the request of the Supervisory Board members, with the purpose of better streamlining the consultative role of this management body. There were no other amendments performed until end of 2017.

Besides specific risk competences and attributions as per the applicable legislation, the Risk Management Committee has the following general roles and responsibilities:

- carries out preparatory and issues recommendations for topics to be raised and discussed, and for all decisions to be taken by the Supervisory Board which are related to the Risk Management Committee's activity;
- liaises, as required and/or recommended, with other Supervisory Board's committees to ensure that any decision falling within their duties is in line with sound and effective risk management and control and ensures their involvement in the decision making process having an impact upon the risk management and control, and financial status of the Bank;
- issues, upon request, opinions and/ or recommendations on risk management and control topics to other Supervisory Board's committees;
- informs the Management Board and the Supervisory Board on significant topics and matters which might impact Bank's risk profile;
- reviews the appointment of external consultants that the Risk Management Committee may decide to engage for advice or support, and oversees their activity; and
- reports on a half year basis to the Supervisory Board in relation to the Risk Management Committee's activity.

Also, without prejudice to the tasks of the remuneration committee of the Bank, the Risk Management Committee assists the Supervisory Board in the establishment of sound remuneration policies and practices, therefore, it examines whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

According to the provisions of the Internal Rules, the Risk Management Committee is composed of 3 members of the Supervisory Board. Should the Supervisory Board decide so, an additional replacement member shall be appointed among the Supervisory Board's members.

During 2017, the membership of the Risk Management Committee was the following:

14 Risk Management Committee of the Supervisory Board membership during 2017

Name	Position
Between January 1st-May 16th 2017	
Gernot Mittendorfer	Chairman
Manfred Wimmer	Deputy Chairman
Brian O'Neill	Member
Between May 17th - December 31st 2017	
Hildegard Gacek	Chairman
Gernot Mittendorfer	Deputy Chairman
Manfred Wimmer	Member

The **Audit and Compliance Committee** has an advisory role, being established for the purpose of assisting the Supervisory Board of the Bank in carrying out its tasks and for this purpose, issues recommendations to the extent of its competences, according to its responsibilities and assignments provided for in its Internal Rules.

The main responsibilities and areas of analysis of this Committee are the following:

- reviews the annual internal audit plan, the level of resources, and the budget of the internal audit function, and monitors progress in accordance with planned audit activities, and further submits it to the Supervisory Board's approval;
- analyses the internal audit reports and reviews the periodical reports of the internal audit function on its findings and suggestions for material improvements to internal control;
- monitors that significant findings and recommendations made by the internal auditors are received and discussed on a regular basis within the Bank, with the Management Board as well as within the Supervisory Board;
- analyses and assesses the financial auditors' activity and oversees their relation with the Bank;

- discusses the written representations the financial auditors are requesting from the Management Board and, where appropriate, those charged with governance;
- reviews and submits to the Supervisory Board's approval the audit scope as well as the frequency of the audit engagements;
- reviews and, based on the Management Board's proposals, recommends for endorsement by the Supervisory Board and general meeting of shareholder's approval, on the appointment and dismissal of the external auditors and the minimum term of the audit contract;
- reviews and, based on the Management Board's proposals, recommends for approval by the Supervisory Board, the compensation of the external auditors as well as the fees for any non-audit related services;
- ensures that the Management Board responds in a timely manner to the recommendations made by the financial auditors;
- ensures that the Management Board establishes and maintains an adequate and effective control system and processes and evaluates the effectiveness of the internal control system, including by analyzing periodical information in relation thereto;
- monitors the implementation by the Management Board of the internal control policies, procedures, internal norms and/or rules;
- analyses and acknowledges the quarterly reports of the Management Board on the management of the compliance risk (including the quarterly report on the compliance activity) and assists the Supervisory Board in exercising its duties related to the compliance risk;
- analyses and acknowledges (at least once a year) the compliance risk policy and its implementation, the statute of the compliance function and the compliance program;
- analyses and discusses the periodic reports prepared by the compliance function and also the reports of the Management Board referring to irregularities or breaches of the compliance policy identified during the investigations;
- analyses any legal matters, which could significantly impact the financial statements;
- monitors the Management Board's activity in the area of ensuring the security of computer systems and applications, and the contingency plans for processing financial information in the event of Systems' breakdown (the back-up centre);

During 2017, the membership of the Audit and Compliance Committee was the following:

15 Membership of the Committees Audit and Compliance Committee throughout 2017

Name	Position
Between January 1st - May 16th 2017	
Brian O'Neill	Chairman
Gernot Mittendorfer	Deputy Chairman
Manfred Wimmer	Member
Between May 16th - December 31st 2017	
Brian O'Neill	Chairman
Hildegard Gacek	Deputy Chairman
Wilhelm Koch	Member

The **Management Board** (MB) is responsible for the setting and implementation of the overall Risk Strategy of the Bank, approved by the Supervisory Board, including the risk tolerance/appetite levels and its risk management framework, the maintenance of a proper risk exposure reporting, as well as the maintenance of the risk limits, including in crisis situations.

The Management Board develops the strategies, policies, processes and systems for the management of the liquidity risk in accordance with the established risk tolerance and ensure that the Bank maintains a sufficient liquidity at all times.

The Management Board is also responsible for developing an integrated and institution-wide risk culture, based on a full understanding of the risks the Bank faces and how they are managed, taking into account its risk tolerance/appetite and shall adopt the necessary measures for the monitoring and control of all significant risks according to its strategy on risk management.

The Management Board consists of five (5) members appointed by the Supervisory Board and their mandate is for a maximum of four (4) years with the possibility of being re-elected.

The following changes in the Management Board structure occurred throughout 2017:

16 Changes in the Management Board structure during 2017

Name	Changes in MB structure in 2017
Ryszard Druzynski	Appointed as Executive Vicepresident of BCR, coordonator of the Operations and IT functional line in the meeting of the SB as of 7.02.2017 and received the National Bank of Romania's (NBR) approval on 6.04.2017 and consequently as of this date took over his responsibilities
Bernhard Spalt	Mandate as Executive Vicepresident of BCR, coordinator of the Risk Functional Line ended on 31.12.2017
Adriana Jankovicova	Mandate as Executive Vicepresident of BCR, coordinator of the Financial Functional Line ended on 31.12.2017
Elke Meier	Appointed in the meeting of the SB of 4.12.2017, as Executive Vicepresident of BCR, coordinator of the Financial Functional Line starting with 1.01.2018 but no earlier that the National Bank of Romania authorisation date; Mrs. Elke Meier was authorised on the 17.05.2018
Michael Beitz	Appointed in the meeting of the SB of 27.12.2017, as executive vicepresident of BCR, coordinator of the Risk Functional Line starting with 1.01.2018. Mr. Beitz received the National Bank of Romania authorisation on 15.03.2018

Throughout 2017 the Management Board structure was the following:

17 The Management Board structure during 2017

Name	Position
Between January 1st-January 20th 2017	
Sergiu Manea	Chairman
Adriana Jankovicova	Executive Vicepresident
Dana Demetrian	Executive Vicepresident
Vacant position	Executive Vicepresident
Vacant position	Executive Vicepresident
Between January 20th - April 6th 2017	
Sergiu Manea	Chairman
Adriana Jankovicova	Executive Vicepresident
Dana Demetrian	Executive Vicepresident
Bernhard Spalt	Executive Vicepresident, appointed by the SB starting 01.01.2017, taking over the position as of the date of NBR authorization, namely January 20th 2017
Vacant position	Executive Vicepresident
Between April 6th - December 31st 2017	
Sergiu Manea	Chairman
Adriana Jankovicova	Executive Vicepresident
Dana Demetrian	Executive Vicepresident
Bernhard Spalt	Executive Vicepresident, appointed by the SB starting 01.01.2017, taking over the position as of the date of NBR authorization, namely January 20th, 2017
Ryszard Druzynski	Executive Vicepresident, appointed by the SB starting 7.02.2017, taking over the position as of the date of NBR authorization, namely April 6th, 2017

Taking into consideration the (i) Management Board membership structure as of December 31st, 2017 (ii) the information made available by each Management Board under the relevant Fit & Proper Affidavit and (iii) the Law no. 29/2015 for completion of EGO no. 99/2006 regarding credit institutions and capital adequacy, entered into force on March 15th, 2015, the mandates held by the Management Board members in other companies are detailed below:

18 Number of mandates held by the Management Board members as of 31 December 2017

Name	Mandates
Sergiu Cristian Manea	1 executive mandate (CEO BCR), 6 non-executive mandates within Erste Group Bank (all counted as 1 mandate, according to Law no. 29/2015), 2 non-executive mandates in non-profit organisations (not considered, according to the Law no 29/2015) and 1 non-executive mandate outside Erste Group Bank
Adriana Jankovicova	1 executive mandate (CFO BCR), mandate ended on 31.12.2017
Dana Luciana Demetrian	1 executive mandate (BCR Executive Vice-president Retail and Private Banking), 2 non-executive mandates within Erste Group Bank (all counted as 1 mandate, according to Law no. 29/2015) and 2 non-executive mandates outside Erste Group Bank
Ryszard Druzynski	1 executive mandate (BCR COO) and 2 non-executive mandates within Erste Group Bank (all counted as 1 mandate, according to the Law no 29/2015)
Bernhard Spalt	1 executive mandate (BCR CRO) and 4 non-executive mandates within Erste Group Bank (all counted as 1 mandate, according to the Law no 29/2015); the executive mandate as BCR CRO ended on 31.12.2017 and the other non-executive mandates ended until 01.03.2018

All Management Board members are compliant with the requirements regarding the number of mandates allowed to be held, as provided by the Law no. 29/2015 for completion of EGO no. 99/2006 regarding credit institutions and capital adequacy.

Management Board committee's structure as of 31 December 2017:

19 Committees at the Bank level as of 31 December 2017

	Committees subordinated to the Management Board
1	Asset and Liabilities Management Committee
2	Credit Committee
3	Cost and Investment Committee
4	Risk Committee of the Management Board

	Other Work Committees/Committees established at BCR level
5	The Evaluation Committee
6	Disciplinary Commission
7	Labour Safety and Health Committee
8	Social Commission

As per Management Board decision the Litigation Committee was subordinated to the Risk Committee of the Management Board.

The **Risk Committee of the Management Board** (RCMB) is operational starting with September 29th, 2015 and consists of the members of the Management Board. The CRO is the RCMB Chairman and the CEO is the RCMB Deputy Chairman. The competencies and responsibilities of the RCMB cover the main topics of risk management. This is an analysis, advisory and decisional body, subordinated to MB, having the following main responsibilities:

- Analyses the annual or interim BCR risk strategy, the quarterly Risk Report, the Risk Appetite Statement, the ICAAP related policies, the Retail and Corporate risk policies (including pouvoirs), the Risk Materiality Assessment results;
- Analyses the Recovery plan and represents BCR Recovery Steering body for the initiation and implementation of recovery measures;
- Analyses the annual review of the limits for countries and sovereign entities and for banks and financial institutions affiliated to banking groups;
- Analyses the collateral management policy;
- Analyses the stress testing results;
- Approves rating cut-offs, credit risk acceptance rules/minimum risk requirements for clients and products, policy rules for lending products;

- Approves the IRB Approach policies and methodologies (related to rating systems, RWA, own funds requirements, data quality and other);
- Approves the rating models (all segments) and risk parameters (PD, LGD, CCF) methodology and regular review/results for credit risk;
- Analyses and approves the risk and financial impact of the rating models redevelopment, risk parameters review, changes in rating cut-offs, and other material changes in risk management policies;
- approves the stress test and ICAAP timeline and stress test scenarios;
- regularly analyses, monitors and assesses the overall credit risk development, credit risk-weighted assets and risk parameters development, the market and liquidity risk development, the models and parameters performance on credit risk, market risk, liquidity risk, collaterals.

Until December 31st 2017, the Risk Committee of the Management Board convened in 19 regular with physical presence and through other means of distance communication meetings.

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (2) (e)

Description of the information flow on risk to the management body

One of the Group's main goals is the timely, accurate and effective risk reporting to the management body which is an integral part of a strong risk management framework. The bank has implemented mechanisms for periodical and transparent reporting with respect to risks, in order to provide timely, accurate, comprehensible and relevant reports to the management body and the relevant structures for the exchange of relevant information on risk identification, measurement, assessment and monitoring. The Supervisory Board and its committees (including but not limited to the Risk Committee) and the Management Board need reports on a regular basis with the status of risk to support their oversight of the Groups' management of risk.

They also need alerts when significant changes are detected in the level of risk. Therefore the Group has implemented a quarterly comprehensive reporting framework that consists of dashboards and heat maps for the relevant risk types to the Management Board and Supervisory Board.

Both the Supervisory Board and the Management Board were involved in defining the content of the reports submitted to them (as disclosed above) by pre-approving the format in which they are presented.

9 Other General Information

DISCLOSURE REQUIREMENTS COVERED: ART. 67 (c) NBR Regulation no. 5 / 2013

Macroeconomic risks forecasted

Details concerning the way in which BCR Group establishes its Business Strategy and Risk Strategy are presented in chapter six "Risk management in BCR Group".

The Bank's business and risk strategy is based on the expected market developments, which serve as a key input into the strategic planning process. The overall macroeconomic outlook is positive, against a backdrop of mounting risks both domestically and externally. After a cyclical acceleration in 2017 and still above potential growth in 2018, GDP growth rates will have to correct in order to allow for fiscal consolidation. Private consumption will remain the main growth driver, but will lose momentum, as the wage policy will be less stimulating due to budget constraints while inflation will be on the rise. On top of that, the overhaul of the welfare system (effective from 2018), which shifts almost the entire burden onto employees will probably weigh on consumer confidence and overall consumption appetite. The central bank will react to higher inflation by first strengthening the monetary policy signal through the better anchoring of money market rates to the key at the beginning of the time horizon before moving to hike the key rate. The central bank will be prudent in delivering too much tightening and will try to accommodate it in such a way to avoid getting out of step with its regional peers. With a view to putting public finances back on a consolidation track while restarting public investments, the government could contemplate raising taxation, a move that will put downward pressure on household income if implemented.

The assumptions considered in the strategic guidelines 2018-2022 are:

20 Macroeconomic assumptions for the 2018- 2022 strategy

Macroeconomic trends	
Key developments	**Implications**
• Presidential elections will be held in 2019 and Parliamentary elections in 2020	• Renewed election promises in the run-up to elections
• Economic growth will be domestic demand-driven; the growth pattern could change to reflect perkier investments which will partly offset weaker consumption	• Higher EU fund absorption will provide stronger help for public investments; budget constraints could, however limit the rebound.
• Higher inflation will call for a recalibration of the monetary policy; uncertainty surrounding the energy prices locally and tax hikes blurs inflation prospects.	• Central bank will anchor MM rate to key rate and will be prudent in not delivering too much tightening, so as to avoid getting too out of step with its regional peers.
• Budget retrenchment will be necessary to conform to Maastricht Criteria while restarting public investments.	• Higher taxation could be considered to avoid fiscal slippage while making room for public investment especially those co-funded by the European Union.
Banking industry	
Hikes in disposable income have been the driving force behind Retail loans market advance so far. It is expected that Retail lending will slightly decelerate in the future as interest rates rise and increases in wages will lose some momentum vs. high current levels. In terms of corporate lending, we expect growth to resume, supported by a potential pick-up in investments, with downward pressure on market dynamics coming mainly from still high corporate NPLs (subject to write-offs and sales) and fiscal uncertainty.	

The turnover for BCR Group as of December 31st 2017 is presented in the table below:

21 Turnover BCR Group as of 31 December 2017

RON ths	Amount
BCR Group's Turnover	**3,598,575**
out of which:	
- Romania	3,576,529
- Moldova	22,046

10 Recruitment Criteria

DISCLOSURE REQUIREMENTS COVERED: ART. 435(2) (b) (c) CRR

Recruitment policy for the selection of members of the management body

The process of selection and nomination applicable for the Management Body and Key Function Holders is regulated by the provisions of The Nomination Policy and is generally based on the following steps:

- Initiate the searching process (including the distribution of roles and responsibilities);
- Define the profile of requirements (including a description of the roles and capabilities for appointment, and assessment of the expected time commitment);
- Search candidates;
- Preselect the candidates;
- Organize interviews with the candidates;
- Final decision on the candidates; and
- Formal nomination of the candidate.

The selection and nomination of the Management Body is under the responsibility of Nomination Committee. The selection of the Key Function Holders (except for the coordinators of audit function and of compliance function) follows the principles provided by the Recruitment and Selection Policy and is under the responsibility of Management Board. The selection and nomination of the coordinators of audit function and of the compliance function is made by the Supervisory Board, with advice from the Nomination Committee.

The suitability of members of the Management Body will be assessed before a new member takes up his/her mandate, in each case before being authorized by the competent authorities and will be re-assessed periodically thereafter.

The assessment of the experience of members of the Management Body should take into account the nature, scale and complexity of the business of the credit institution as well as the responsibilities of the position concerned.

The three (3) main assessment criteria are: reputation, experience and governance, as detailed in the Nomination Policy, in accordance to the legal provisions in force.

The assessment of the members of the Management Body considers both the theoretical experience attained through education and training, and the practical experience gained in previous occupations. This means that skills and knowledge acquired and demonstrated by the professional conduct of the member are taken into account.

Furthermore, a member of the Management Body should have sufficient experience to enable the member to provide constructive challenge to the decisions and effective oversight of the management body in BCR. Members of the Management Body should be able to demonstrate that they have, or will be able to acquire the technical knowledge and practical experience necessary to enable them to understand the business of BCR and the risks that the bank faces sufficiently well.

The current composition of the Management Body meets the experience requirements regarding theoretical and practical experience and skills necessary for the Supervisory Board and Management Board position holders, as attested by obtaining all necessary approvals and authorizations from regulatory authorities.

Policy on diversity

Establishing a target for the representation of the underrepresented gender in the Management Body, and preparing a strategy on how to increase the number of the underrepresented gender in the Management Body is under the responsibility of The Nomination Committee.

The Nomination Committee shall periodically (at least annually) assess the structure, size, composition and performance of the Management Body and make recommendations to the Management Body with regard to any changes.

The target ratio female/male for the Management Body is 14%, to be achieved by 2019.

HR Division will support the Nomination Committee in achieving this target through the following actions, coordinated also with Group HR:

- Incorporating the diversity principles in human resources instruments and processes;
- More women nominated into the Group succession pool;
- Gender and age-balanced talent pool where all employees who meet clearly defined criteria (applicable to all) can apply in a transparent selection process;
- Mentoring/sponsoring and targeted career planning;
- Create an inclusive work environment (promoting work-life balance, family-friendly, intergenerational dialogue);
- Give more visibility to senior female leaders (internally & externally); and
- Diversity road shows, training, awareness raising.

Taking into consideration the current membership of the Management Body, the diversity principle has been met by the nomination of two Management Board members from the underrepresented gender, namely Mrs. Adriana Jankovicova and Mrs. Dana Demetrian and by the nomination of the Supervisory Board member Mrs. Hildegard Gacek. Please note that on December 12th 2017, Mrs. Elke Meier was appointed as Executive Vicepresident of BCR (subject to NBR authorization which was received on May 17th 2018), replacing Mrs. Adriana Jankovicova.

11 Organization of the Overall Internal Control Framework

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (b) CRR

DISCLOSURE REQUIREMENTS COVERED: ART. 67 (e) NBR Regulation no. 5/2013

Both supervisory and management functions are responsible for the development and the maintenance of a proper internal control system ensuring effective and efficient operations, adequate risk control, prudent business conduct, reliable financial and non-financial information reported at internal and external level, as well as compliance with the on-going laws, regulations and the internal policies and procedures.

Every person in the organization has certain internal control responsibilities assigned. All employees provide information used by the internal control system or otherwise take action effecting control. Furthermore, all members of personnel are also responsible for communicating operational problems upwards, as well as infringements of the Ethics Code or on-going policies and illegal actions.

The internal control system in BCR involves:

a) The existence of a sound internal control framework in place, ensured by:

- clear definition of the role and responsibilities of the management body concerning the internal control;
- identification, assessment and monitoring of significant risks;
- control activities definition, segregation of duties assurance and conflict of interest avoidance
- a transparent framework for information and communication;
- continuous monitoring of the activities and correcting the deficiencies.

b) The existence of independent control functions in place (the risk management function, compliance function and internal audit function) with direct line of reporting to the management body.

The BCR Internal Control System is structured on three levels:

- **First-level** or line controls is designed to ensure that transactions are carried out correctly. Controls are performed by the entities that take the risks and incorporated in specific procedures. The responsibility of this area is allocated to the Business Management.
- **Second-level** of control is the duty of Risk Management Function and Compliance Function.
- **Third-level** controls are performed by Internal Audit Function, which assesses and regularly checks the completeness, functionality and adequacy of the internal control system. Internal audit is independent of both first and second-level lines.

Controls in place for financial reporting process:

- Each employee has a dedicated back-up which undertakes all the responsibilities of the employee on leave.
- Non - disclosure agreement signed by all employees;
- Ethical Code in place;
- Zero tolerance to confidential information disclosure;
- Clear defined approval flow in accordance with the banking law.
- Dual control in place, validation rules in BCR systems. Implementation of “4-eyes principle” for each financial report.
- Existing standardized labelled folders with restricted access.

During 2017, the following changes in the heads of risk management divisions’ occurred:

- The Retail Risk Management Division Executive Manager changed on the 1st of April and received NBR approval on June 30th 2017.

- The Corporate Underwriting Division Executive Manager changed on the 1st of April and received NBR approval on June 27th 2017.
- The Retail Workout Division Executive Manager changed on the 1st of April and received NBR approval on June 13th 2017.
- The new position Senior Advisor of Risk Executive Vice-President was created and occupied starting with the 1st of September;
- The Corporate and Real Estate Workout Division and the Portfolio Management Division were merged and the Executive Manager of the newly formed division Corporate Workout and Portfolio Management Division was appointed on the 6th of November and received NBR approval on April 5th 2018.

12 Own Funds

DISCLOSURE REQUIREMENT COVERED BY: ART. 437 CRR (a), (b), (c)

Group Own Funds

For the disclosure of own funds, BCR Group follows the requirements under Article 437 CRR as well the requirements defined in the Regulation no 1423/2013. Based on the requirements defined by the European Bank Authority in the Implementing Technical Standards, the following information must be provided:

- A full reconciliation of CET1 items, Additional Tier 1 (AT1) items, Tier 2 (T2) items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution's statement of the financial position in the audited financial statements in accordance with Article 437 (1) (a) CRR.
- A description of the main features of the CET1, AT1 and T2 instruments issued by the institution according to Article 437 (1) (b) CRR (see section Capital instruments).
- A table designed by the European Bank Authority to show the capital structure of regulatory capital. Presentation of this table that shows the details on the capital structure of BCR Group including the capital components as well as any regulatory deductions and prudential filters. Disclosures in this table cover the disclosure requirements as defined in Article 437 (1) (d) CRR, separate disclosure of the nature and amounts of each prudential filter applied pursuant to Articles 32 to 35 CRR, each deduction made pursuant to Articles 47, 48, 56, 66 and 79 CRR as well as items not deducted in accordance with Articles 47, 48, 56, 66 and 79 CRR (see section Own funds template).

CRR Statement of financial position

At 31.12.2017 the IFRS scope of consolidation and the regulatory scope of consolidation were the same, the statement of the financial position figures are presented in the Group Consolidated Financial Statements 2017 (IFRS) under "Statement of financial position".

Consideration of consolidation methods for the calculation of consolidated own funds according to the CRR

The amounts used for the calculation of the own funds are derived from the statement of the financial position according to IFRS as reported in the audited financial statements. The financial and regulatory consolidations have the same scope. The amounts that are used as the basis for the calculation of own funds are based on the definition of the regulatory scope of consolidation pursuant to the CRR. Amounts that relate to the own share as well as to the minority interest in fully consolidated entities are therefore determined based on the regulatory scope of consolidation according to CRR.

According to Romanian transitional provisions, 80% of the non-eligible minorities have to be excluded from consolidated own funds in 2017. As BCR Group applies the Romanian transitional provisions on Group-level this percentage was applied to the exclusion of minority interest in own funds as of 31 December 2017. Amounts that relate to minority interests in other comprehensive income are neither included in the consolidated own funds of BCR Group nor considered in the calculation according to the final CRR provisions nor during the transitional period.

Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated common equity tier 1 of BCR Group

Carrying amounts representing the investments in financial sector entities have to be deducted from the own funds based on the requirements as defined in Articles 36 (1) (h), Article 45 and Article 46 CRR for non-significant investments and Articles 36 (1) (i) CRR, Article 43 and Article 45 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of common equity tier 1 (CET 1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the common equity (CET 1) of the relevant financial sector entities.

To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Article 46 (1) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. Deduction shall be applied to the amount that exceeds the 10% threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are considered within the RWAs based on the requirements according to Article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Article 48 (2) CRR. According to Article 48 (2) CRR, significant investments in the CET1 of financial sector entities shall only be deducted if they exceed 10% of the CET1 of the reporting institution. If the 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250% according to Article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 36 (1) (c) CRR as well as according to Article 38 CRR is defined in Article 48 (2) CRR. The combined threshold according to Article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to Article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability arising from temporary differences according to Article 48 (3) CRR. In case the amount for deferred tax assets that rely on future profitability that arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in Article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% RW according to Article 48 (4) CRR.

At the reporting date, BCR Group did not exceed any of the aforementioned thresholds. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the consolidated own funds of BCR Group and therefore are considered in RWAs.

Reconciliation of IFRS and CRR items included in the Statement of financial position

The following tables provide a reconciliation of IFRS statement of the financial position items to CET1 items, AT1 items, T2 items and filters according to Articles 32 to 35 as well as deductions as defined in Articles 36, 56, 66 and 79 CRR.

Last column contains a letter to link the amount derived from the accounting figures to the related eligible amount as disclosed in the own funds template in section Own funds template.

22 Reconciliation of IFRS statement of the financial position items to CET1 items, AT1 items, T2 items -Equity

Total equity for the Group						Dec-17
in RON thousands	IFRS (audited)	CRR	Dividends	Regulatory Adjustments	Own funds	Own funds disclosure table - Reference
Subscribed capital	2,952,565	2,952,565			2,952,565	
Capital reserve	395,483	395,483			395,483	
Capital instruments and the related share premium accounts	**3,348,048**	**3,348,048**			**3,348,048**	a
Retained earnings from previous periods	1,999,410	1,999,410			1,999,410	
Profit/loss in the period	668,121	668,121	(236,077)		432,044	
Retained earnings	**2,667,531**	**2,667,531**	**(236,077)**		**2,431,454**	b
Other comprehensive income (OCI)	**292,828**	**292,828**			**292,828**	c1
Available for sale reserve net of tax	241,992	241,992			241,992	
unrealized gains acc. to Art. 35 CRR	299,635	299,635			299,635	d
unrealized loss acc. to Art. 35 CRR	(57,643)	(57,643)			(57,643)	
Currency translation	(18,502)	(18,502)			(18,502)	
Remeasurement of net liability of defined benefit obligation	82,546	82,546			82,546	
Deferred tax	(13,208)	(13,208)			(13,208)	
Other reserves	1,130,670	1,130,670		(960)	1,129,710	c2
Equity attributable to the owners of the parent	**7,439,077**	**7,439,077**	**(236,077)**	**(960)**	**7,202,040**	
Equity attributable to non-controlling interest	36	36		(29)	7	e
Total equity	**7,439,113**	**7,439,113**	**(236,077)**	**(989)**	**7,202,047**	

Further details regarding the development of IFRS equity are disclosed in the Group Annual Report under “Statement of Changes in Equity”.

23 Reconciliation of IFRS statement of the financial position items to CET1 items, AT1 items, T2 items –Intangible assets

Intangible assets for the Group					Dec-17
in RON thousands	IFRS (audited)	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - Reference
Intangible assets	320,872	320,872	-	320,872	f
Intangible assets	**320,872**	**320,872**	**-**	**320,872**	

Details regarding the development of intangible assets are disclosed in the Group Annual Report under Note 25 “Intangible assets”.

24 Reconciliation of IFRS statement of the financial position items to CET1 items, AT1 items, T2 items –Deferred taxes

Deferred Taxes for the Group				Dec-17
in RON thousands	IFRS / (audited)	CRR / Own Funds	Regulatory Adjustments	Own funds disclosure table - Reference
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	3,072	3,072		h
related DTA allocated on or after 1 January 2014 for which 80% deduction is required according to CRR transitional provisions	3,072	3,072		
Deferred tax assets that rely on future profitability and arise from temporary differences net of associated tax liabilities *	195,853	195,853		k
Deferred tax assets that do not rely on future profitability	-	-		
Other deferred tax liabilities	(30,147)	(30,147)		
out of which deferred tax liabilities associated to other intangible assets	(16,966)	(16,966)		g
Deferred tax assets	**168,778**	**168,778**		

* Based on the threshold definition according to Article 48 CRR Deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for BCR Group at year end 2017. In accordance with Article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk.

25 Reconciliation of IFRS statement of the financial position items to CET1 items, AT1 items, T2 items –Subordinated liabilities

Subordinated liabilities for the Group					Dec-17
in RON thousands	IFRS (audited)	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - Reference
Subordinated issues and deposits and supplementary capital	2,436,338	2,436,338	(1,418,640)	1,017,698	j
Subordinated liabilities	**2,436,338**	**2,436,338**	**(1,418,640)**	**1,017,698**	

Details regarding subordinated liabilities are disclosed in the Group Annual Report under Note 29 “Financial liabilities measured at amortized costs”. In accordance with NBR Regulation 5/2013, the subordinated liabilities with less than 5 years maturity, are amortized.

Threshold calculations according to Articles 46 and 48 CRR

26 Group own funds threshold calculations

Group treshold calculations according to Articles 46 and 48 of (EU) Regulation no.575/2013	Dec-17
Non significant investments in financial sector entities	**in RON thousands**
Threshold (10% of CET1)	682,321
Holdings in CET 1	(16,362)
Holdings in AT 1	
Holdings in T 2	
Distance to threshold	**665,959**
Significant investments in financial sector entities	
Threshold (10% of CET1)	682,321
Holdings in CET 1	(17,375)
Distance to threshold	**664,946**
Deferred tax assets	
Threshold (10% of CET1)	682,321
Deferred tax assets that are dependent on future profitability and arise from temporary differences	(195,853)
Distance to threshold	**486,468**
Combined threshold for deferred tax assets and significant investments	
Threshold (17.65% of CET1)	1,204,297
Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	(213,228)
Distance to threshold	**991,069**

Transitional Provisions based on CRR- from the NBR Regulation 5/2013 used in 2017 for the Group

27 Transitional Provisions based on CRR

		2017
a) Transitional Provisions concerning CET1		
Minority interest		
Minority interests	480 (1) CRR	20%
Prudential Filters		
Unrealised losses AFS reserve	467 (2) CRR	100%
Unrealised gains AFS reserve	468 (2) CRR	80%
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	468 (4) CRR	100%
Regulatory Deductions		
Losses for the current financial year	36 (1) a) CRR	100%
Intangible assets	36 (1) b) CRR	80%
Direct holdings in CET1 capital instruments of financial sector entities where the institution does not have a significant investment	36 (1) h) CRR	80%
Deferred tax assets that rely on future profitability and do not arise from temporary differences booked in 2014 or afterwards	36 (1) c) CRR	80%
Direct holdings in CET1 capital instruments of financial sector entities where the institution has a significant investment	36 (1) i) CRR	80%
b) Transitional Provisions concerning AT1		
Minority interests		
Minority interests	480 (1) CRR	20%
Regulatory Deductions		
Direct holdings in AT1 capital instruments of financial sector entities where the institution does not have a significant investment	56 c) CRR	80%
Direct holdings in AT1 capital instruments of financial sector entities where the institution has a significant investment	56 d) CRR	80%
c) Transitional Provisions concerning T2		
Minority interests		
Minority interests	480 (1) CRR	20%
d) Deduction of remaining amounts		
Remaining amounts out of CET1 deducted from AT1		
Intangible assets	472 (4) CRR	20%
Direct holdings in CET1 capital instruments of financial sector entities where the institution does not have a significant investment	472 (10) CRR	80%
Deferred tax assets that rely on future profitability and do not arise from temporary differences booked before 2014	472 (5) CRR	RW
Deferred tax assets that rely on future profitability and do not arise from temporary differences booked in 2014 or afterwards	472 (5) CRR	RW

DISCLOSURE REQUIREMENT COVERED BY: ART. 437 CRR (d) (e)

Group Own funds template

Own Funds under Basel 3 consist of CET1, AT1 and T2. In order to determine the capital ratios, each respective capital component, after consideration of all the regulatory deductions and filters, is compared to the total risk. According to the CRR, the minimum ratio for CET1 is 4.5%, which can be increased based on the buffer regime according to CRD IV. The minimum capital requirement for Tier 1 capital (CET1 plus AT1) and for total Own Funds are 6% and 8%, respectively. Additional capital buffers were applied for the year end 2017:

- 1.25% - capital conservation buffer
- 1% - other systemically important institutions (O-SIIs).

The table below presents the composition of the regulatory capital during the transitional period based on the Implementing Technical Standards on the disclosure of own funds published in 1423/2013 EU.

In column (A), the current amount, which considers all the transitional requirements, is disclosed. Column (C) discloses the residual amount, implying full CRR implementation. Column (D) provides information of data comparable figures within the IFRS annual report related to equity, intangible assets, deferred tax assets and subordinated liabilities as shown in section Reconciliation of IFRS and CRR items included in the Statement of financial position.

28 Own funds disclosure template

	in RON thousands	(A) Dec 2017	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of	(D) Reference to reconciliation tables
1	Common equity Tier 1 (CET1) capital: instruments and reserves	3,348,049	26 (1), 27, 28, 29, EBA list 26 (3)	-	
	of which: ordinary shares	3,348,049	26 (1) (c)	-	a
2	Retained earnings	2,431,454	26 (1)	-	b
3	Accumulated other comprehensive income (and any other reserves)	1,422,538	26 (1) (f)	-	c1+c2
5	Minority interests (amount allowed in consolidated CET1)	7	26 (2)	-	e
Common Equity Tier 1 (CET1) capital before regulatory adjustments		**7,202,047**		-	
Common Equity Tier 1 (CET1) capital: regulatory adjustments					
7	Additional value adjustments (negative amount)	(28,861)	34, 105	-	
8	Intangible assets (net of related tax liability) (negative amount)	(303,906)	36 (1) (b), 37, 472 (4)	-	-(f+g)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(3,072)	36 (1) (c), 38, 472 (5)	614	-h
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(158)	33 (1) (b) (c)	-	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	(42,828)	36 (1) (l)	-	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	1,468		-	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(59,927)		-	
	of which unrealised losses	-	467	-	
	of which unrealised gains	(59,927)	468	-	-d*0.2
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	61,395	481	-	
	of which Intangible assets (net of related tax liability)	60,781		-	
	of which Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met)	614		-	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	(60,781)	36 (1) (j)	-	-(f+g)*0.2
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(438,139)		-	
29	**Common Equity Tier 1 (CET1) capital**	**6,763,908**		**614**	
Additional Tier 1 (AT1) capital: instruments					
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**		**-**	
Additional Tier 1 (AT1) capital: regulatory adjustments					
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)	(60,781)		-	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	(60,781)	472, 473(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	-	
	of which Intangible assets (net of related tax liability)	(60,781)		-	-(f+g)*0.2
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**(60,781)**		**-**	
	Excess of deduction from AT1 items over AT1	**60,781**			
44	**Additional Tier 1 (AT1) capital**	**-**		**-**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**6,763,908**		**-**	
Tier 2 (T2) capital: instruments and provisions					
46	Capital instruments and the related share premium accounts	1,017,698	62, 63	-	j
51	**Tier 2 (T2) capital before regulatory adjustment**	**1,017,698**		**-**	
Tier 2 (T2) capital: regulatory adjustments					
57	Total regulatory adjustments to Tier 2 (T2) capital	-		-	
58	Tier 2 (T2) capital	1,017,698		-	
59	Total capital (TC = T1 + T2)	7,781,606		-	
60	Total risk-weighted assets	35,577,824		-	
Capital ratios and buffers					
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**19.01%**	**92 (2) (a), 465**	**-**	
62	**Tier 1 (as a percentage of total risk exposure amount**	**19.01%**	**92 (2) (b), 465**	**-**	
63	**Total capital (as a percentage of total risk exposure amount**	**21.87%**	**92 (2) (c)**	**-**	
Amounts below the thresholds for deduction (before risk-weighting)					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	16,362	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	-	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	17,375	36 (1) (i), 45, 48, 470, 472 (11)	-	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	195,853	36 (1) (c), 38, 48, 470, 472 (5)	-	k

Own funds according to CRR consist of common equity tier 1 (CET1), additional tier 1 (AT1) and tier 2 (T2). In order to determine the capital ratios, each respective capital component - after application of all regulatory deductions and filters - is considered in relation to the total risk.

The BCR Group monitors the capital ratios, at consolidated level, based on financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The total credit risk capital requirement is calculated as 8% of the risk weighted assets. Also, in order to calculate the capital adequacy ratio, the BCR Group computes a capital requirement for market and operational risks, at consolidated level.

29 Own funds Summary as of 31 December 2017

Group in RON thousands		Dec-17 Basel 3 Phased-in	Dec-17 Basel 3 Final	Dec-16 Basel 3 Phased-in	Dec-16 Basel 3 Final
Common equity tier 1 capital (CET1)					
Capital instruments eligible as CET1	26 (1) (a) (b), 27 to 30, 36 (1) (f), 42	3,348,049	3,348,049	3,347,967	3,347,967
Own CET1 instruments	36 (1) (f), 42	-	-	-	-
Retained earnings	26 (1) (c), 26 (2)	1,999,409	1,999,409	936,099	936,099
Profit in the period	26 (2)	432,045	432,045	1,041,847	1,041,847
Accumulated other comprehensive income	4 (1) (100), 26 (1) (d)	292,827	292,827	322,326	322,326
Other reserves	Art. 4 (117), Art. 26 (1) (e)	1,086,881	1,086,881	1,087,842	1,087,842
Transitional adjustments due to additional minority interests	479, 480	7	-	9,341	-
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	(158)	(158)	(571)	(571)
Value adjustments due to the requirements for prudent valuation	34, 105	(28,861)	(28,861)	(18,036)	(18,036)
Regulatory adjustments relating to unrealised gains and losses	467, 468	(59,927)	-	(127,979)	-
Goodwill	4 (1) (113), 36 (1) (b), 37	-	-	-	-
Other intangible assets	4 (1) (115), 36 (1) (b), 37 (a)	(303,906)	(303,906)	(275,331)	(275,331)
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	(3,072)	(3,072)	(5,648)	(5,648)
Other transitional adjustments CET1	469 to 472, 478, 481	**61,395**	**-**	**112,391**	**-**
Goodwill		-	-	-	-
Other intangible assets		60,781	-	110,132	-
Deferred tax assets that rely on future profitability and do not arise from temporary differences		614	-	2,259	-
Excess of deduction from AT1 items over AT1	36 (1) (j)	(60,781)	-	(110,132)	-
Common equity tier 1 capital (CET1)	50	**6,763,908**	**6,823,214**	**6,320,116**	**6,436,495**
Additional tier 1 capital (AT1)					
Other transitional adjustments AT1	474, 475, 478, 481	**(60,781)**	**-**	**(110,132)**	**-**
Other intangible assets		(60,781)	-	(110,132)	-
Excess of deduction from AT1 items over AT1	36 (1) (j)	60,781	-	110,132	-
Additional tier 1 capital (AT1)	61	**-**	**-**	**-**	**-**
Tier 1 capital - total of common equity tier 1 (CET1) and additional tier 1 (AT1)	25	**6,763,908**	**6,823,214**	**6,320,116**	**6,436,495**
Tier 2 capital (T2)		1,017,698	1,017,698	1,457,664	1,457,664
Other transitional adjustments tier 2 capital	476, 477, 478, 481	**-**	**-**	**-**	**-**
Tier 2 capital (T2)	71	**1,017,698**	**1,017,698**	**1,457,664**	**1,457,664**
Short-term subordinated capital (tier-3)		**-**	**-**	**-**	**-**
Total own funds	4 (1) (118) and T2	**7,781,606**	**7,840,912**	**7,777,780**	**7,894,159**

The main features and full details of capital instruments are presented in Annex 1 of this document. This refers to Tier 2 subordinated loans and bonds and CET 1 instruments.

13 Capital Requirements

DISCLOSURE REQUIREMENTS COVERED: ART. 438 (a) CRR

Capital requirements – Pillar I and Pillar II

Please see Chapter "Risk Management in BCR Group" for the detailed description of BCR Group's Risk Management framework.

Pillar I

The Bank monitors the solvency ratios, at individual and consolidated level, according to Basel III requirements, based on financial statements prepared in accordance with International Financial Reporting Standards (IFRS), also taking into consideration the local provisions. Starting with 2014, considering the new Basel III requirements, the Bank also monitors the CET1 Ratio, both at an individual and consolidated level.

Solvency Ratio, CET1 Ratio and Tier1 Ratio, as of December 31st 2017 are presented in the below table:

30 Solvency ratio, CET 1 ratio and Tier 1 ratio for BCR Group as of 31 December 2017

Indicators (in RON thousands)	BCR Group
Common Equity Tier 1 (CET1) capital	6,763,908
Tier 1 capital	6,763,908
Tier 2 (T2) capital	1,017,698
Total capital (TC=T1+T2)	7,781,606
Common Equity Tier 1 ratio (as a percentage of total risk exposure amount)	19.01%
Tier 1 ratio (as a percentage of total risk exposure amount)	19.01%
Total capital ratio (as a percentage of total risk exposure amount)	21.87%

The total credit risk capital requirement is calculated as 8% of risk weighted assets. Also, in order to calculate the capital adequacy ratio, the Bank computes a capital requirement for market and operational risks, both at an individual and consolidated level.

Pillar II

The ICAAP and RCC form a part of the Pillar II requirements, according to Basel Accord. BCR Group' RCC is a model which measures the risk relevant exposures across all relevant risk types and compares it with the capital or with the coverage potential BCR Group has for covering such risks.

The risk side of the calculation serves to determine the economic capital requirement from unexpected losses in respect of credit, market and operational risk. Besides credit, market and operational risk, the economic capital requirement for 31 December 2017 includes also FX induced credit risk and business/strategic risk.

The table below summaries the main models uses by the Bank for economic capital calculation under Pillar II:

31 Internal models to quantify risks under Pillar II

Type of risk	Model	Comment
Credit risk	Intrenal Rating Based Model Approach	Amount scaled to a confidence level of 99.9%
Market risk	For market risk, due to the individual characteristics of various products and exposure types, the Bank differentiates between the following market risk types: •MR Trading Book •MR Banking Book BCR determines a capital requirement for market risk as follows: •VaR methodology (1 year, 99.9%) for the interest rate risk of the banking book (IRRBB) •Standardized method for the FX position in the BB •Internal model – Trading Book - VaR (1y, 99.9%)	Amount scaled to 1 year, 99.9% confidence level
Operational risk	Advanced Measurement Approach (AMA) at BCR Group level and by considered as risk transfer the entire insurance amount	Amount scaled to 1 year, 99.9% confidence level
FX Induced Credit risk	Internal model impacting EAD, LGD and PD for FX exposures to unhedged borrowers.The FX scenario considers the most unfavorable rolling year on-year FX change over a period of 5 years	Amount scaled to 1 year, 99.9% confidence level
Business / strategic risk	Internal model based on the deviations between realized and budgeted net operating result. The distribution of these deviations is modelled with a logistic distribution	Amount scaled to 1 year, 99.9% confidence level

The Group may also include additional capital risk buffers to cover specific risk types.

The economic capital requirement is compared to the capital held as coverage (broken down into equity, subordinated capital, reserves and retained earnings), thus determining the Group's ability to absorb these potential unexpected losses. The risk is calculated at a confidence level of 99.9%. The calculation of RCC is designed in accordance with the business strategy and risk profile of BCR Group and is accounted for in its risk appetite.

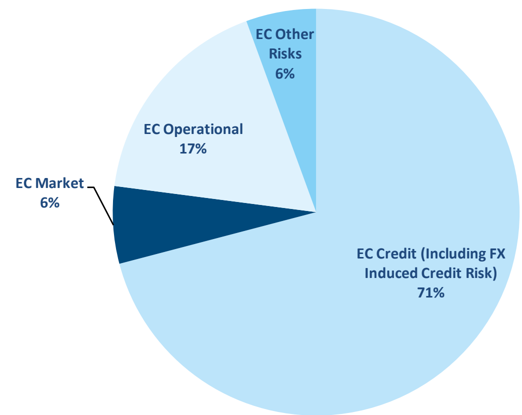
To determine the BCR Group's capital adequacy, BCR Group uses a forward-looking traffic light system. The process enables the management body to respond in time to changes, and, if necessary, to take the adequate measures on the risk side or on the coverage potential side.

The Management Board and the Supervisory Board are informed on a quarterly basis on the basis of the results of the determined risk-bearing capacity of BCR Group, the degree of utilization of the risk limits, about the level of risks and the capital/coverage potential going forward. The calculation of the risk-bearing capacity is a vital part of the management of risk and capital at the level of BCR Group.

The following diagram presents the composition of the economic capital requirement according to type of risk as of 31 December 2017:

32 Economic capital allocation as of 31 December 2017 for BCR Group

Economic Capital allocation in % , 31.12.2017- BCR Group



DISCLOSURE REQUIREMENTS COVERED: ART. 438 (c) (e) (f) CRR

Other own funds requirements

As stated above, BCR Group currently computes its regulatory capital adequacy ratio based on Regulation no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, on a monthly basis (IFRS with prudential filters, bank standalone), as well as quarterly at BCR Group level (IFRS standards).

The regulatory capital requirements computed as of December 31st 2017, for the credit risk, market risk and operational risk were as follows:

33 Template EU OV1 – Overview of RWAs

			RWAs		Minimum capital requirements
			T	T-1	T
	1	**Credit risk (excluding CCR)**	**25,643,420**		**2,051,474**
Article 438(c)(d)	2	Of which the standardised approach	25,643,420		2,051,474
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach			
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach			
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA			
Article 107, Article 438(c)(d)	6	**CCR**	**528,099**		**42,248**
Article 438(c)(d)	7	Of which mark to market	59,624		4,770
Article 438(c)(d)	8	Of which original exposure			
	9	Of which the standardised approach	452,298		36,184
	10	Of which internal model method (IMM)			
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP			
Article 438(c)(d)	12	Of which CVA	16,177		1,294
Article 438(e)	13	**Settlement risk**	**0**		**0**
Article 449(o)(i)	14	**Securitisation exposures in the banking book (after the cap)**			
	15	Of which IRB approach			
	16	Of which IRB supervisory formula approach (SFA)			
	17	Of which internal assessment approach (IAA)			
	18	Of which standardised approach			
Article 438 (e)	19	**Market risk**	**163,507**		**13,081**
	20	Of which the standardised approach	163,507		13,081
	21	Of which IMA			
Article 438(e)	22	**Large exposures**			
Article 438(f)	23	**Operational risk**	**9,242,799**		**739,424**
	24	Of which basic indicator approach	410,791		32,863
	25	Of which standardised approach			
	26	Of which advanced measurement approach	8,832,008		706,561
Article 437(2), Article 48 and Article 60	27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**			
Article 500	28	**Floor adjustment**			
	29	**Total**	**35,577,824**		**2,846,226**

As this is the first reporting period for this template, “T-1” is not required to be provided.

Please note that the following disclosure templates as required by European Banking Authority Guideline 2016/11, under article 438 do not apply to the institution:

34 Disclosure templates not applicable under article 438

Template	Reason for non-applicable disclosure
Template 5: EU CR10 – IRB (specialised lending and equities)	Template 5: EU CR10 – IRB(specialised lending and equites) as required by European Banking Authority Guideline 2016/11, version 2 under article 438 (f) does not apply to the institution as BCR Group applies the standardised approach.
Template 6: EU INS1 - Non-deducted participations in insurance undertakings	Template 6: EU INS1 - Non-deducted participations in insurance undertakings as required by European Banking Authority Guideline 2016/11, version 2 under article 438 (c) does not apply to the institution as BCR Group does not have significant investment in an re-insurance undertaking or an insurance holding company.

14 Exposure to Counterparty Risk

DISCLOSURE REQUIREMENTS COVERED: ART. 439 CRR

Description of the methodology used to assign internal capital and credit limits for counterparty credit exposures

BCR has implemented prudent and proper credit limits for counterparty exposures, consistent with the risk appetite, risk profile and soundness of the Bank's capital.

The Bank manages credit risk by placing limits on the level of risk acceptable in relation to its counterparty credit exposures. Such risks are monitored on a regular basis and are subject to an annual or more frequent review when considered necessary.

The credit risk limits cover also settlement risk and credit exposure at counterparty level.

The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures

BCR determines the exposure value for derivative instruments arising from counterparty credit risk using the mark-to-market method as described in the regulation no. 575/2013, article 274. More exactly, the potential future credit exposure is determined by multiplying the notional amounts or underlying values by several percentages which are allocated according to the residual maturity and type of contract.

Exposure values for derivative instruments arising from counterparty credit risk for BCR in the last two years are as follows:

35 Exposure from derivative instruments

Type (RON ths)	Dec-16	Dec-17
Exposure from Derivative Instruments	174,147	123,400

The exposures value for Securities Financing Transactions arising from counterparty credit risk is calculated using the Financial Collateral Simple Method as described in the Regulation no. 575/2013, article 222.

Exposure values for Securities Financing Transactions arising from counterparty credit risk for BCR in the last two years are as follows:

36 Exposure from Securities Financing Transactions

Type (RON ths)	Dec-16	Dec-17
Exposure from Securities Financing Transactions	8,237	2,261,491

The increase in December 2017 is due to reverse repo transactions concluded with Erste Group.

The impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating is not material.

Counterparty credit limits are monitored on a daily basis. Any remedial action is taken so as to ensure that actual credit risk exposure to a client (country)/client group does not exceed the approved risk appetite.

A discussion of policies for securing collateral and establishing credit reserves

The bank has in place processes for securing collateral for transactions with derivatives. The exposure for each counterparty is limited by the bank by approving exposure thresholds based on the collateral posted by the counterparty. The limits are monitored daily and margin calls are performed in case the exposure reach a predefined warning level.

Discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating

There are no contracts concluded with a clause that could determine BCR to provide additional collateral in case of a credit downgrade of the bank.

Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure.

37 Template EU CCR1 – Analysis of CCR exposure by approach

RON ths		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
1	Mark to market		42,847	80,554			123,400	59,624
2	Original exposure							
3	Standardised approach							
4	IMM (for derivatives and SFTs)							
5	Of which securities financing transactions							
6	Of which derivatives and long settlement transactions							
7	Of which from contractual cross-product netting							
8	Financial collateral simple method (for SFTs)	2,262,219					2,262,219	452,298
9	Financial collateral comprehensive method (for SFTs)							
10	VaR for SFTs							
11	Total	2,262,219	42,847	80,554			2,385,619	511,922

A comprehensive view of the methods used to calculate CCR regulatory requirements and the main parameters used within each method.

In order to determine the regulatory counterparty credit risk exposure, BCR uses the mark-to-market model in accordance with the article 274 from EU regulation 575/2013.

For the calculation of own funds requirements for CVA risk, BCR is using the standardized method in accordance with article 384 from EU regulation 575/2013.

CVA regulatory calculations (with a breakdown by standardized and advanced approaches).

38 Template EU CCR2 – CVA capital charge

RON ths		Exposure Value	RWAs
1	Total portfolios subject to the advanced method		
2	(i) VaR component (including the 3× multiplier)		
3	(ii) SVaR component (including the 3× multiplier)		
4	All portfolios subject to the standardized method	69,283	16,177
EU4	Based on the original exposure method		
5	Total subject to the CVA capital charge	69,283	16,177

The table EU-CCR2 reflects the best estimate of the potential loss incurred on derivative transactions due to the default of the counterparty. During 2017, there were no significant changes in respect of the CVA capital charge.

Overview of the impact of netting and collateral held on exposures for which the exposure value is measured as per Part Three, Title II, Chapter 6 of the CRR, including exposures arising from transactions cleared through a CCP.

39 Template EU CCR5-A – Impact of netting and collateral held on exposure values

RON ths		Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	42,847		42,847		42,847
2	SFTs					
3	Cross-product netting					
4	Total	42,847		42,847		42,847

Breakdown of all types of collateral (cash, sovereign debt, corporate bonds, etc.) posted or received by banks to support or reduce CCR exposures related to derivative transactions or to SFTs, including transactions cleared through a CCP

40 Template EU CCR5-B – Composition of collateral for exposures to CCR

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Securities					2,420,262	
Total					2,420,262	

Table EU CCR5-B presents the fair values of collaterals received in respect of reverse repo transactions.

Measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable

According to the method applied to determine the exposure value for CCR (mark-to-marked method), the bank use to measures: current replacement costs and future potential exposures.

The future potential exposure is calculated by applying the standard percentages from art. 274.

Please note that the following disclosure template as required by European Banking Authority Guideline 2016/11, under article 439 does not apply to the institution:

41 Disclosure templates not applicable under article 439

Template	Reason for non-applicable disclosure
Template 27: EU CCR8 – Exposure to CCP's	Template 27: EU CCR8 – Exposure to CCP's as required by European Banking Authority Guideline 2016/11, version 2 under article 439 (e) and (f) does not apply to the institution as BCR Group does not have exposures towards CCP's

15 Countercyclical Capital Buffer

DISCLOSURE REQUIREMENTS COVERED: ART. 440 CRR

The following tables disclose the amount of the institution's specific countercyclical buffer as well as the geographical distribution of credit exposures relevant for its calculation in the standard format as set out in Commission Delegated Regulation (EU) 2015/1555. The geographical split table shows countries on an individual basis if they impose a countercyclical capital buffer rate and also Romania which has significant own funds requirements. The values for the remaining countries are shown as Other Countries.

The "General credit exposures" include only credit exposures to the private sector. Exposures to the public sector and to institutions are not in scope. The "Trading book exposures" contain market risk standardized approach for traded debt instruments related positions. Countercyclical capital buffer rates are determined by Basel Committee member jurisdictions.

The institution-specific countercyclical capital buffer rate is calculated as the weighted average of the countercyclical buffer rates that apply in the countries where the relevant credit exposures of the institution are located. The weight applied to the countercyclical buffer rate in each country is the share of own funds requirements of each country in total own funds requirements. Institution-specific countercyclical capital buffer requirement is calculated as the institution-specific countercyclical buffer rate applied to the total risk exposure amount of BCR Group.

42 Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Row		General credit exposures		Trading book exposures	Own funds requirements				Own funds requirements weights	Countercyclical capital buffer rate
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
		010	020	030	070	080	090	100	110	120
010	Breakdown by country:									
	Czech Republic	17,936			1,435			1,435	0.00	0.50%
	Norway	0			0			0	0.00	2.00%
	Slovakia	103			6			6	0.00	0.50%
	Sweden	36			2			2	0.00	2.00%
	Romania	35,457,165		187,486	1,862,548	810		1,863,357	0.97	
	Other Countries	685,703			50,328			50,328	0.03	
020	**Total**	**36,160,943**		**187,486**	**1,914,319**			**1,915,129**	**1**	

43 Amount of institution-specific countercyclical capital buffer

Row		Column
		010
010	Total risk exposure amount	35,577,824
020	Institution specific countercyclical capital buffer rate	0.0%
030	Institution specific countercyclical capital buffer requirement	135

16 Credit Risk

DISCLOSURE REQUIREMENTS COVERED: ART. 435(1) (a) (c) (d) CRR

Credit risk management strategies and processes

BCR Group has in place strategies, policies and processes for the identification, measuring, monitoring, control and reporting of credit risk. The main types of credit risks that BCR is exposed to are: default risk, migration risk, residual risk, FX induced credit risk and concentration risk.

Credit risk is governed by BCR Group's Principles for managing credit risk. These define the principles for managing credit risk and govern the loan policies and procedures of BCR Group.

BCR Group strategic goals with respect to credit risk are set through the BCR Group Risk Strategy and are in line with the Group's Risk Appetite Statement, and address the following:

- BCR's credit risk profile, defined based on the Risk Materiality Assessment Process;
- BCR's strategic objectives regarding the management of credit risk, in accordance with the Group's risk tolerance and regulatory requirements.

Key principles and strategies for the management of credit risk are as follows:

- BCR Group only does business that it fully understands and that its clients fully understand. The ownership structure and economic reasoning for any transaction is fully transparent before approving it. No transaction can be executed without a risk opinion issued by risk management if the procedures require and explicitly delegated authorities.
- Collaterals and other credit enhancements have to be evaluated according to internally defined rules. BCR Group has a standardized structure for a collateral catalogue as well as evaluation and revaluation rules and appraisal regulations. Credit enhancements can be used to reduce the possibility of loss given defaults for selected customer segments. Depending on rating grade, purpose and tenor, risk bearing products are protected against losses by stipulating adequate collaterals fully, indisputable, legally enforceable and sufficiently documented for the Bank. Collaterals and other credit enhancements can never substitute repayment capability.
- BCR Group lends only if the integrity of the client is unquestionable. Furthermore, Principles of Responsible Financing are implemented which govern corporate banking business with regard to transactions in sensitive industry sectors to protect the banks reputation.
- Active portfolio screening, including the use of an early warning framework, allows early identification of negative developments in order to implement timely and adequate risk mitigating actions.
- A comprehensive limit framework is used in order to manage portfolio concentration.

Credit risk management structure and organization

Risk Management units in BCR Group report directly to the Risk Executive Vice-President (Chief Risk Officer - CRO). BCR regulatory framework utilizes "the four eyes principle" to critically assess and control credit risk. Management activities are fully segregated from business originators and decision makers.

The Risk Committee of the Management Board, the Management Board and the Credit Committee are involved in credit risk and limits administration according to specific responsibilities and competences.

Credit risk reporting, monitoring and mitigation

Based on an appropriate reporting framework and IT system, BCR has the ability to identify and measure credit risk, in line with its size, complexity, risk tolerance and risk-taking capacity.

BCR has a comprehensive reporting framework for credit risk management, approved by the Management Board, which includes the scope, manner and frequency of credit risk reporting, and which also designates the entity responsible for preparing the reports. The specific reports and documentation containing comprehensive and easily accessible information on credit risk are submitted regularly to the appropriate recipients (Supervisory Board, Risk Management Committee of the Supervisory Board, Management Board, Risk Committee of the Management Board, Executive Director of Strategic Risk Management Division, CRO).

Regular credit risk reporting contains information concerning the development of credit risk exposures in each key segment, the evolution of the quality of the portfolio, provisions, cost of risk, risk rates (NPL rate, NPL coverage ratio with provisions), capital adequacy, main risk indicators.

The Group has implemented a wide framework of limits in order to mitigate all types of related credit risks (concentration, default, residual, FX induced credit risk, settlement risk). In the day-to-day process of lending BCR implemented dedicated policies which are meant to filter the loans granted through the underwriting criteria. Furthermore, the Group has a clear and robust system for managing the credit risk mitigation techniques, governing the entire process for evaluation, monitoring and management of collaterals.

17 Credit Risk Adjustments

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (a) CRR

Definitions for accounting purposes of past due and impaired

Past due definition

An exposure becomes overdue when the counterparty fails to pay any amount representing principal, interest or fee at the due date. The entire exposure of the credit loan becomes overdue, irrespectively of the weight in total loan amount of the overdue component mentioned previously. The number of days of the oldest past-due exposure is taken into account in determining the days-past-due at loan level. The same definition for days-past-due is applied for both, accounting and regulatory reporting.

Impaired definition

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated, such as:

- Significant financial difficulty of issuer or obligor;
- A breach of contract, such as default or delinquency in interest or principal payments;
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Default definition

The default definition used in BCR is aligned with CRR and is determined based on the following events:

- Unlikeliness to pay;
- Overdue amounts with more than 90 consecutive days above the threshold[2] established internally;
- Distressed restructuring;
- Credit loss (debt sale or write off);

[2] a) Corporate and micro clients:
- Overdue debt ≥ than 2,5% of the credit lines which are communicated to the customer and
- Overdue debt ≥ than 250 EUR (at the NBR exchange rate of the respective day).

b) Private individual and sole-trader (PFA) clients:
- Overdue debts ≥ than 2,5% of the credit lines which are communicated to the customer and
- Overdue debts ≥ than 100 EUR (at the NBR exchange rate of the respective day).

- Insolvency, legal reorganization, enforcement and bankruptcy.

Depending on the characteristics of the defaulted exposure and the respective expected cash flows (e.g. considering collateral), some exposures may not be impaired.

The institution's own definition of a restructured exposure used for the implementation of Article 178(3) (d) specified by the EBA Guidelines on default when different from the definition of forborne exposure defined in Annex V of the Commission Implementing Regulation (EU) No 680/2014.

The internal definition of forborne exposures in BCR is fully aligned with EBA "ITS on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013".

Defaulted forbearance measures are considered to be implemented for the accounts whose conditions are changed and all of the following criteria are simultaneously met:

- any of the client's loan repayment conditions are contractually modified;
- the above contractual modification entails diminished financial obligation for the client on account of material forgiveness;
- the client's economic situation has deteriorated and the client is facing or is about to face financial difficulties in meeting their financial commitments.

In addition, a default forbearance also applies in the following cases (regardless of whether the modification of the repayment conditions entails diminished financial obligations or not):

- if a defaulted client receives modification of their repayment conditions, the account whose conditions are changed is considered defaulted forbearance.
- if a forborn client receives another contractual loan repayment modification within 2 years following the previous one.

For further details related to the definition of concession, the forbearance stages which can be attributed to a client and the upgrading criteria from forbearance, please consult the BCR Group 2017 Annual Report.

The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this

It includes the exposures of the clients that are past due more than 90 days and their overdue debts are not exceeding a materiality threshold.

DISCLOSURE REQUIREMENTS COVERED: ART. 442(b) CRR

Description of the approaches and methods adopted for determining specific and general credit risk adjustments

The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. The details about the impairment assessment are presented in the Note 39.5. of the BCR Group 2017 Annual Report

The credit risk loss provisioning process is defined as following:

- the default status is defined at client level. Customer level means, if one of the customer's exposures is classified as defaulted then, all of that customer's exposures are classified as defaulted.
- the impairment test, the assessment and the final calculation of provisions are performed and booked at account level.

The Group distinguishes between:

i) Specific provisions (individual or rule based) that are calculated on exposures to defaulted customers which are found to be impaired:

- for individually significant defaulted customers the expected cash flows (in- and out-flows) for on-balance- and off-balance sheet exposures are estimated individually;
- for individually not significant defaulted customers, the expected cash flows (in and outflows) for on-balance and off-balance sheet exposures are estimated rule based.

ii) Portfolio provisions that are calculated on exposures to non-defaulted customers or to defaulted customers which are not found to be impaired. Portfolio provisions are calculated for all not impaired clients, based on the observed default rate, observed recovery rates or collateral accepted values and loss identification period.

DISCLOSURE REQUIREMENTS COVERED: ART. 442(c) CRR

This table provides the total and average carrying amount subject to credit risk based on IFRS accounting values according to the regulatory scope of consolidation as of 31st of December 2017. For on-balance sheet items the "Net value of exposure" is calculated by deducting loss allowances from the gross amount and for off-balance sheet, respective credit risk provisions have been deducted. The breakdown of exposure by exposure classes is done based on the standardized approach applied for BCR Group.

The average net values are calculated by taking into account all 4 quarters of 2017.

44 Template EU CRB-B: Total and average net amount of exposures

	RON ths	Net exposure at the end of the period	Average net exposure over the period
1	Central governments or central banks		
2	Institutions		
3	Corporates		
4	Of which: Specialised lending		
5	Of Which: SME		
6	Retail		
7	Secured by real estate property		
8	SME		
9	Non-SME		
10	Qualifying Revolving		
11	Other Retail		
12	SME		
13	Non-SME		
14	Equity		
15	Total IRB approach		
16	Central governments or central banks	27,196,496	26,023,401
17	Regional governments or local authorities	3,428,129	3,761,398
18	Public sector entities	252,744	214,536
19	Multilateral Development Banks	-	-
20	International Organisations	-	-
21	Institutions	1,304,873	1,051,748
22	Corporates	18,274,904	17,583,815
23	of which: SME	7,094,687	7,672,097
24	Retail	12,791,635	12,547,052
25	of which: SME	519,627	532,755
26	Secured by mortgages on immovable property	7,652,415	7,247,779
27	of which: SME	135,887	132,831
28	Exposures in default	1,058,239	1,156,961
29	Items associated with particularly high risk	341,267	420,990
30	Covered bonds	-	-
31	STD - Securitisation positions	-	-
32	Claims on institutions and corporates with a short-term credit assessment	-	-
33	Collective investments undertakings (CIU)	-	-
34	Equity exposures	7,509	30,541
35	Other exposures	6,560,014	6,487,343
36	Total SA approach	78,868,223	76,525,564
37	**Total**	**78,868,223**	**76,525,564**

DISCLOSURE REQUIREMENTS COVERED: ART. 442(d) CRR

The values reported in the table below correspond with the ones reported in table EU CRB-B, meaning net values of on-balance-sheet and off-balance-sheet exposures, corresponding to the accounting values reported in financial statements, but according to the scope of regulatory consolidation as per Part One, Title II, Chapter 2 of the CRR). The breakdown of credit risk exposure is done based on exposure classes defined under the standardized approach and based on the significant geographical areas in which BCR Group has material exposures, by taking into account the counterparty's country of risk.

Country of risk is defined as the country where a customer (or a customer group) carries out the majority of its economic activity and/or generates the largest part of the cash flow.

A geographical area / country was identified as significant for BCR Group based on the region where the subsidiaries of BCR Group or the other subsidiaries pertaining to Erste Bank Group (from which BCR Group is part of) are located.

The credit risk exposure is concentrated in Core Market – Romania (98.6%), the market in which BCR, the parent of BCR Group, activates. The other geographical regions identified as significant do not exceed 1% from the total net credit risk exposure.

45 Template EU CRB-C: Geographical breakdown of exposures

		Net values													
	RON ths	Core Market - Austria	Core Market - Croatia	Core Market - Romania	Core Market - Serbia	Core Market - Slovakia	Core Market - Czech Republic	Core Market - Hungary	Other EU Countries	Other Industrialized Countries	Emerging Markets - SE Europe/CIS	Emerging Markets - Asia	Emerging Markets - Latin America	Emerging Markets - Middle East/Africa	Total
1	Central governments or central banks														
2	Institutions														
3	Corporates														
4	Of Which: Specialised Lending														
5	Of Which: SME														
6	Retail														
7	Secured by real estate property														
8	SME														
9	Non-SME														
10	Qualifying Revolving														
11	Other Retail														
12	SME														
13	Non-SME														
14	Equity														
15	Total IRB approach														
16	Central governments or central banks	-	-	27,056,043	-	-	-	-	-	-	140,453	-	-	-	27,196,496
17	Regional governments or local authorities	-	-	3,428,129	-	-	-	-	-	-	-	-	-	-	3,428,129
18	Public sector entities	-	-	252,744	-	-	-	-	-	-	-	-	-	-	252,744
19	Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20	International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
21	Institutions	170,531	-	1,059,404	-	-	195	-	64,391	7,583	2,768	-	-	-	1,304,873
22	Corporates	13,131	-	17,727,859	-	-	3,569	0	270,150	220,763	39,429	2	0	-	18,274,904
23	of which: SME	-	-	7,086,499	-	-	-	-	-	-	8,189	-	-	-	7,094,687
24	Retail	1,549	0	12,751,018	28	30	10	22	8,062	768	29,484	268	3	392	12,791,635
25	of which: SME	-	-	504,734	-	-	-	-	-	-	14,892	-	-	-	519,627
26	Secured by mortgages on immovable property	497	-	7,577,638	-	-	-	-	11,990	1,458	60,692	-	-	139	7,652,415
27	of which: SME	-	-	108,944	-	-	-	-	-	-	26,943	-	-	-	135,887
28	Exposures in default	114	-	1,045,310	-	-	-	0	3,059	0	9,622	-	-	135	1,058,239
29	Items associated with particularly high risk	-	-	340,584	-	-	-	-	668	15	-	-	-	-	341,267
30	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	STD - Securitisation positions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
33	Collective investments undertakings (CIU)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
34	Equity exposures	-	-	7,509	-	-	-	-	-	-	-	-	-	-	7,509
35	Other exposures	-	-	6,531,912	-	-	1	-	9	-	28,092	-	-	-	6,560,014
36	Total SA approach	185,822	0	77,778,151	28	30	3,775	22	358,329	230,587	310,540	270	3	666	78,868,223
37	**Total**	**185,822**	**0**	**77,778,151**	**28**	**30**	**3,775**	**22**	**358,329**	**230,587**	**310,540**	**270**	**3**	**666**	**78,868,223**

DISCOSURE REQUIREMENTS COVERED: ART. 442 (e) CRR

The exposure disclosed in this table follows the principles from tables EU CRB-B and EU CRB-C.

The breakdown of net credit risk exposure is done based on exposure classes under the standardized approach for BCR Group as of 31st of December 2017 and based on the industry segment by taking into account the first NACE Code (Nomenclature des Activités Économiques dans la Communauté Européenne) of the immediate counterparties.

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For reconciliations purposes also the exposure towards private individuals was disclosed on a separate column.

The greatest concentration is on Public Administration (32.1%) due to minimum required reserve deposited at the National Bank of Romania, followed by exposures towards Financial and insurance services (10.3%) explained by the deal traded on short term with credit institutions in order to balance the liquidities. The manufacturing industry (6.9%) and the wholesale and retail trade industry are on top industries segments in which BCR Group has significant exposures.

Still BCR Group is a retail oriented group with an exposure towards private individuals of 32.7%. Please note that the following template is split into two sections.

46 Template EU CRB-D: Concentration of exposures by industry or counterparty types

	RON ths	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication
1	Central governments or central banks										
2	Institutions										
3	Corporates										
4	Of which: Specialised lending										
5	Of Which: SME										
6	Retail										
7	Secured by real estate property										
8	SME										
9	Non-SME										
10	Qualifying Revolving										
11	Other Retail										
12	SME										
13	Non-SME										
14	Equity										
15	Total IRB approach										
16	Central governments or central banks	-	-	-	-	-	-	-	-	-	-
17	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-
18	Public sector entities	-	-	-	-	-	-	-	-	-	-
19	Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
20	International Organisations	-	-	-	-	-	-	-	-	-	-
21	Institutions	-	-	-	-	-	-	-	-	-	-
22	Corporates	640,848	1,341,269	5,064,306	921,289	251,952	2,306,284	3,705,156	1,184,772	35,670	284,726
23	of which: SME	332,813	25,260	1,884,169	175,087	227,207	993,734	2,440,755	397,036	31,604	18,570
24	Retail	108,573	4,258	164,260	605	7,205	89,998	309,970	307,156	28,926	18,566
25	of which: SME	48,808	2,176	99,414	215	2,995	46,263	197,157	54,614	12,157	8,418
26	Secured by mortgages on immovable property	5,458	409	37,556	-	105	9,704	82,511	8,551	2,683	516
27	of which: SME	5,458	409	29,916	-	105	8,803	73,242	8,551	2,683	516
28	Exposures in default	14,965	148,960	208,718	51,239	10,293	178,108	49,662	19,122	8,599	3,994
29	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-
30	Covered bonds	-	-	-	-	-	-	-	-	-	-
31	STD - Securitisation positions	-	-	-	-	-	-	-	-	-	-
32	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
33	Collective investments undertakings (CIU)	-	-	-	-	-	-	-	-	-	-
34	Equity exposures	-	-	-	-	-	-	-	-	-	-
35	Other exposures	1	-	2	0	-	1	5	0	1	-
36	Total SA approach	769,845	1,494,897	5,474,842	973,134	269,554	2,584,095	4,147,304	1,519,601	75,879	307,801
37	**Total**	**769,845**	**1,494,897**	**5,474,842**	**973,134**	**269,554**	**2,584,095**	**4,147,304**	**1,519,601**	**75,879**	**307,801**

	RON ths	Financial and insurance services	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Private households	Total
1	Central governments or central banks											
2	Institutions											
3	Corporates											
4	Of which: Specialised lending											
5	Of Which: SME											
6	Retail											
7	Secured by real estate property											
8	SME											
9	Non-SME											
10	Qualifying Revolving											
11	Other Retail											
12	SME											
13	Non-SME											
14	Equity											
15	Total IRB approach											
16	Central governments or central banks	5,918,620	-	-	0	21,277,876	-	-	-	-	-	**27,196,496**
17	Regional governments or local authorities	-	-	-	-	3,428,129	-	-	-	-	-	**3,428,129**
18	Public sector entities	2	-	-	-	242,163	10,030	5	-	544	-	**252,744**
19	Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	**-**
20	International Organisations	-	-	-	-	-	-	-	-	-	-	**-**
21	Institutions	1,300,996	-	-	-	3,876	-	-	-	-	-	**1,304,873**
22	Corporates	677,152	740,337	385,426	152,589	353,853	693	153,599	2,167	54,828	17,988	**18,274,904**
23	of which: SME	151	502,887	20,112	28,556	58	-	12,511	1,895	2,283	-	**7,094,687**
24	Retail	3,543	11,091	47,264	33,008	187	2,424	11,550	4,382	16,094	11,622,575	**12,791,635**
25	of which: SME	72	4,442	19,658	17,794	-	75	-	679	4,688	0	**519,627**
26	Secured by mortgages on immovable property	-	352	3,710	2,912	-	-	743	311	696	7,496,197	**7,652,415**
27	of which: SME	-	352	2,500	2,742	-	-	-	-	609	-	**135,887**
28	Exposures in default	6,912	62,076	9,621	30,256	13,052	7	641	8	2,578	239,427	**1,058,239**
29	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	341,267	**341,267**
30	Covered bonds	-	-	-	-	-	-	-	-	-	-	**-**
31	STD - Securitisation positions	-	-	-	-	-	-	-	-	-	-	**-**
32	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	**-**
33	Collective investments undertakings (CIU)	-	-	-	-	-	-	-	-	-	-	**-**
34	Equity exposures	7,509	-	-	-	-	-	-	-	-	-	**7,509**
35	Other exposures	196,791	0	0	8,858	1	0	-	1	283,778	6,070,575	**6,560,014**
36	Total SA approach	8,111,526	813,857	446,020	227,623	25,319,139	13,153	166,538	6,869	358,517	25,788,029	**78,868,223**
37	**Total**	**8,111,526**	**813,857**	**446,020**	**227,623**	**25,319,139**	**13,153**	**166,538**	**6,869**	**358,517**	**25,788,029**	**78,868,223**

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (f) CRR

This template contains net values of on-balance-sheet exposures subject to credit risk framework split by exposure classes defined under the standardized approach and by residual maturity of the exposures as of 31st of December 2017.

The residual maturities are split into five buckets as follows:

- "On demand" - when a counterparty has a choice of when an amount is repaid; the column includes balances receivable on demand (call), at short notice, current accounts and similar balances (which may include loans that are overnight deposits for the borrower, regardless of their legal form). It also includes 'overdrafts' that are debit balances on current account balances;
- The buckets "<= 1 year", "> 1 year <= 5 years" and "> 5 years" are calculated based on the due date of the last instalment;
- "No stated maturity" - when an exposure has no stated maturity for reasons other than the counterparty having the choice of the repayment date (e.g. sundry debtors, receivables, overdue fees attached to current accounts etc.).

The distribution of net credit risk exposure per residual maturities is equilibrated, reflecting the nature of the products granted to Corporate exposure class - higher concentration on residual maturities below 5 years in case of loans granted to companies for working capital and less concentration on residual maturities above 5 years in case of investment loans. Retail exposure class is characterized by higher residual maturities - above 5 years, due to housing loans granted over longer time periods.

47 Template EU CRB-E: Maturity of exposures

	RON ths	Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Central governments or central banks						
2	Institutions						
3	Corporates						
4	Of which: Specialised lending						
5	Of Which: SME						
6	Retail						
7	Secured by real estate property						
8	SME						
9	Non-SME						
10	Qualifying Revolving						
11	Other Retail						
12	SME						
13	Non-SME						
14	Equity						
15	Total IRB approach						
16	Central governments or central banks	76,793	4,060,304	9,367,114	9,004,818	4,687,466	**27,196,496**
17	Regional governments or local authorities	110	18,166	274,017	3,135,835	-	**3,428,129**
18	Public sector entities	103	180,921	71,530	191	-	**252,744**
19	Multilateral Development Banks	-	-	-	-	-	-
20	International Organisations	-	-	-	-	-	-
21	Institutions	384,428	531,463	201,216	58,224	129,542	**1,304,873**
22	Corporates	3,293,342	4,945,535	5,305,890	4,684,151	45,986	**18,274,904**
23	of which: SME	1,547,224	1,181,608	2,150,937	2,214,919	-	**7,094,687**
24	Retail	4,698,542	594,379	1,242,877	6,255,442	396	**12,791,635**
25	of which: SME	191,465	265,506	40,261	22,232	163	**519,627**
26	Secured by mortgages on immovable property	69,190	55,165	135,749	7,392,310	-	**7,652,415**
27	of which: SME	53,018	46,701	19,698	16,470	-	**135,887**
28	Exposures in default	65,813	447,414	272,787	270,087	2,138	**1,058,239**
29	Items associated with particularly high risk	-	-	130	341,136	-	**341,267**
30	Covered bonds	-	-	-	-	-	**-**
31	STD - Securitisation positions	-	-	-	-	-	**-**
32	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
33	Collective investments undertakings (CIU)	-	-	-	-	-	**-**
34	Equity exposures	-	-	-	-	7,509	**7,509**
35	Other exposures	-	198,540	2,868	677,634	5,680,972	**6,560,014**
36	Total SA approach	8,588,320	11,031,888	16,874,179	31,819,828	10,554,007	**78,868,223**
37	**Total**	**8,588,320**	**11,031,888**	**16,874,179**	**31,819,828**	**10,554,007**	**78,868,223**

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (g) and (h) CRR

Tables EU CR1-A, EU CR1-B and EU CR1-C contain on-balance-sheet and off-balance-sheet gross exposures and loss allowances, subject to credit risk framework, as of 31st of December 2017, breakdown per exposure classes defined under the standardized approach, per industry segments and per geographical areas in which BCR Group has exposures.

The tables reflect the asset quality of BCR Group, by presenting the gross carrying amount split per defaulted and non-defaulted categories.

For default definition applied for BCR Group, please see section "Definitions for accounting purposes of past due and impaired" from the beginning of this chapter.

48 Template EU CR1-A: Credit quality of exposures by exposure classes and instruments

	RON ths	Gross carrying value		Specific Credit Risk Adjustment	General Credit Risk Adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net Values (a+b-c-d-e)
		defaulted exposures	non-defaulted exposures					
1	Central governments or central banks							
2	Institutions							
3	Corporates							
4	Of which: Specialised lending							
5	Of Which: SME							
6	Retail							
7	Secured by real estate property							
8	SME							
9	Non-SME							
10	Qualifying Revolving							
11	Other Retail							
12	SME							
13	Non-SME							
14	Equity							
15	Total IRB approach							
16	Central governments or central banks	-	27,200,130	(3,634)	-	-	(7)	27,196,496
17	Regional governments or local authorities	-	3,445,208	(17,079)	-	0	(6,713)	3,428,129
18	Public sector entities	-	253,120	(376)	-	0	(82)	252,744
19	Multilateral Development Banks	-	-	-	-	-	-	-
20	International Organisations	-	-	-	-	-	-	-
21	Institutions	-	1,307,845	(2,972)	-	113	296	1,304,873
22	Corporates	-	18,709,381	(434,477)	-	6,862	(13,580)	18,274,904
23	of which: SME	-	7,216,839	(122,152)	-	9	2,213	7,094,687
24	Retail	10	12,949,358	(157,733)	-	10,855	(143,595)	12,791,635
25	of which: SME	-	526,533	(6,906)	-	20	(18,774)	519,627
26	Secured by mortgages on immovable property	-	7,735,985	(83,570)	-	-	231	7,652,415
27	of which: SME	-	138,138	(2,251)	-	-	-	135,887
28	Exposures in default	3,426,480	98	(2,368,338)	-	1,153,924	274,777	1,058,239
29	Items associated with particularly high risk	8	358,785	(17,527)	-	-	-	341,267
30	Covered bonds	-	-	-	-	-	-	-
31	STD - Securitisation positions	-	-	-	-	-	-	-
32	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
33	Collective investments undertakings (CIU)	-	-	-	-	-	-	-
34	Equity exposures	-	7,509	(1)	-	-	-	7,509
35	Other exposures	4,967	6,898,888	(343,841)	-	-	-	6,560,014
36	Total SA approach	3,431,465	78,866,308	(3,429,549)	-	1,171,754	111,328	78,868,223
37	**Total**	**3,431,465**	**78,866,308**	**(3,429,549)**	**-**	**1,171,754**	**111,328**	**78,868,223**
38	Of which: Loans	2,888,712	33,613,892	(2,730,941)	-	1,171,754	(13,497)	33,771,663
39	Of which: Debt securities	22,848	21,111,980	(5,275)	-	-	-	21,129,553
40	Of which: off balance	470,108	9,655,553	(351,257)	-	-	124,825	9,774,405

49 Template EU CR1-B: Credit quality of exposures by industry or counterparty types

	RON ths	Gross carrying value		Specific Credit Risk Adjustment	General Credit Risk Adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net Values (a+b-c-d-e)
		defaulted	non-defaulted					
1	Agriculture, forestry and fishing	41,990	776,079	(48,223)	-	15,267	(21,681)	769,845
2	Mining and quarrying	258,608	1,349,401	(113,112)	-	6,712	42,864	1,494,897
3	Manufacturing	636,765	5,438,951	(600,873)	-	635,720	66,842	5,474,842
4	Electricity, gas, steam and air conditioning supply	114,178	933,199	(74,243)	-	5	13,466	973,134
5	Water supply	26,015	266,963	(23,424)	-	7,273	(7,319)	269,554
6	Construction	608,717	2,518,096	(542,717)	-	109,049	96,778	2,584,095
7	Wholesale and retail trade	161,439	4,158,063	(172,199)	-	189,104	(64,916)	4,147,304
8	Transport and storage	55,669	1,520,854	(56,922)	-	21,464	(22,334)	1,519,601
9	Accommodation and food service activities	14,573	68,099	(6,794)	-	4,352	(1,412)	75,879
10	Information and communication	29,374	309,966	(31,539)	-	786	(13,715)	307,801
11	Financial and insurance services	37,950	8,114,481	(40,905)	-	358	8,734	8,111,526
12	Real estate activities	98,986	753,402	(38,531)	-	26,561	(4,745)	813,857
13	Professional, scientific and technical activities	14,449	452,468	(20,897)	-	2,627	(3,057)	446,020
14	Administrative and support service activities	38,252	202,753	(13,382)	-	1,015	(1,666)	227,623
15	Public administration and defence, compulsory social security	19,498	25,326,947	(27,307)	-	4	(8,756)	25,319,139
16	Education	32	13,529	(408)	-	1,268	(1,603)	13,153
17	Human health services and social work activities	1,347	172,765	(7,574)	-	338	(7,377)	166,538
18	Arts, entertainment and recreation	44	6,947	(123)	-	59	(66)	6,869
19	Other services	2,942	358,948	(3,373)	-	338	(515)	358,517
20	Private households	1,270,635	26,124,397	(1,607,003)	-	149,455	41,805	25,788,029
21	**Total**	**3,431,465**	**78,866,308**	**(3,429,549)**	**-**	**1,171,754**	**111,328**	**78,868,223**

50 Template EU CR1-C: Credit quality of exposures by geographical region

RON ths	Gross carrying value		Specific Credit Risk Adjustment	General Credit Risk Adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net Values (a+b-c-d-e)
	defaulted	non-defaulted					
Core Market - Austria	62,038	186,143	(62,358)	-	0	(391)	185,822
Core Market - Croatia	-	0	(0)	-	0	(1)	0
Core Market - Czech Republic	-	3,887	(112)	-	0	(1)	3,775
Core Market - Hungary	2	23	(3)	-	0	0	22
Core Market - Romania	3,327,964	77,741,373	(3,291,186)	-	0	0	77,778,151
Core Market - Serbia	-	29	(0)	-	0	(21)	28
Core Market - Slovakia	-	30	(0)	-	1,155,900	110,584	30
Other EU Countries	9,517	400,491	(51,679)	-	15,851	(1,342)	358,329
Emerging Markets - Asia	-	275	(5)	-	0	(3)	270
Emerging Markets - Latin America	-	4	(0)	-	1	1	3
Emerging Markets - Middle East/Africa	207	534	(75)	-	2	2,161	666
Emerging Markets - Other	30,556	302,890	(22,907)	-	0	(60)	310,540
Other Industrialized Countries	1,180	230,630	(1,223)	-	-	401	230,587
Total	**3,431,465**	**78,866,308**	**(3,429,549)**	**-**	**1,171,754**	**111,328**	**78,868,223**

In assessing the BCR's Group asset quality, the table below provides a comprehensive breakdown per overdue days buckets in case of loans and debt securities.

The on-balance gross carrying amount as of 31st of December 2017 is presented.

51 Template EU CR1-D: Ageing of past-due exposures

	RON ths	Gross Carrying Value					
		<= 30 days	> 30 days <= 60 days	> 60 days <=90 days	> 90 days <=180 days	> 180 days <= 1year	> 1year
1	Loans	43,320,509	208,088	133,828	145,836	130,376	1,158,167
2	Debt Securities	21,134,828	-	-	-	-	-

The figures below reflect the gross carrying values for loans and receivables, debt securities and off-balance exposures, split per performing / non-performing categories. Also, a separate disclosure of forborne deals is presented.

In BCR group the definition of non-performing exposure follows the EBA "ITS on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013". In this category are included:

- Non-performing exposures to defaulted customers in the sense of art. 178 of EU Regulation no. 575/2013 including unlikeliness to pay, overdue material amounts with more than 90 days past due, restructuring resulting into a loss to the lender, realization of a loan loss and initiation of Bankruptcy proceedings;
- Non-performing non-defaulted forborne exposures.

During 2017, the non-performing exposure dropped significantly, with 30.3%, as a results of the clean-up efforts carried out by BCR Group, such as cash recoveries, write-offs and debt sales.

52 Template EU CR1-E: Non-performing and forborne exposures

	RON ths	Gross Carrying Amount of performing and non-performing exposure	Of which performing but past due >30 and < 90 dpd	of which performing forborn	of which non-performing				Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
									PERFORMING EXPOSURE		NONPERFORMING EXPOSURE		On non-performing exposures	of which forborn
					Total	of which defaulted	of which impaired	of which forborn	Total	of which forborn	Total	of which forborn		
010	Debt securities	21,134,828	-	-	22,848	-	-	-	(4,703)	-	(572)	-	-	-
020	Loans and advances	45,096,803	341,916	1,393,907	2,942,296	2,888,712	2,890,837	1,523,877	(643,870)	(65,997)	(2,089,902)	(973,268)	19,978,319	570,649
030	Off-balance sheet exposures	11,024,290		12,815	470,118	470,108		17,371	(86,834)	-	(264,423)	174	1,008,815	3,348

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (i) (I-V) CRR

The reconciliation of changes between specific and collective credit risk adjustments for loans to customers is shown in the tables below:

The following table provides the changes in the institution's stock of general and specific credit risk adjustments held against loans and debt securities that are defaulted or impaired.

53 Template EU CR2-A: Changes in stock of general and specific credit risk adjustments

RON ths		Accumulated Specific credit risk adjustment	Accumulated General credit risk adjustment
1	**Opening balance**	**(2,793,616)**	**(584,642)**
2	Increases due to amounts set aside for estimated loan losses during the period	(530,033)	(131,167)
3	Decreases due to amounts reversed for estimated loan losses during the period	493,807	110,252
4	Decreases due to amounts taken against accumulated credit risk adjustments	932,584	
5	Transfers between credit risk adjustments		
6	Impact of exchange rate differences	(102,580)	(14,132)
7	Business combinations, including acquisitions and disposals of subsidiaries		
8	Other adjustments	46,609	
9	**Closing balance**	**(1,953,230)**	**(619,688)**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	(60,469)	
11	Specific credit risk adjustments recorded directly to the statement of profit or loss	25,460	

The following table provides the changes in the institution's stock of defaulted and impaired loans and debt securities.

54 Template EU CR2-B: Changes in stock of defaulted and impaired loans and debt securities

	RON ths	Defaulted exposures	Comment
1	Opening stock	4,532,915	BoP = previous EOP
2	Exposures that have defaulted since the last reporting period	519,655	EOP figure
3	Returned to non-defaulted status	(225,449)	EOP figure
4	Amounts written off	(1,171,754)	at the time of write off (same as CR1 tables - but with different reported sign)
5	Other changes	(273,699)	all other
6	Closing stock	3,381,668	EOP stock -Figure to be aligned with the defaulted exposure in BASE sheet

Defaulted loans and debt securities subject to the credit risk framework decreased with 25.4% in 2017, especially due to write-offs performed in BCR Group.

18 Unencumbered Assets

DISCLOSURE REQUIREMENTS COVERED: ART. 443 CRR

Details related to encumbered and unencumbered assets disclosures are presented in the templates below. All amounts are in RON ths.

55 Templates on encumbered and unencumbered assets

Model A

EF32.01HQLA

	Template A - Encumbered and unencumbered assets	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of non-encumbered assets		Fair value of non-encumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
	Details	010	200	040	210	060	220	090	230
010	**Assets of the reporting institution**	**4,584,379**	**736,981**			**61,680,818**	**25,028,800**		
020	**Loans on demand**	**3,847,399**	**-**	**-**	**-**	**740,457**	**-**	**-**	**-**
030	Equity instruments	-	-	-	-	219,588	-	219,588	-
040	Debt securities	736,981	736,981	728,649	728,649	20,647,983	20,398,282	20,774,371	20,524,670
050	of which: covered bonds	-	-	-	-	-	-	-	-
060	of which: asset-backed securities	-	-	-	-	-	-	-	-
070	of which: issued by general governments	736,981	736,981	728,649	728,649	20,618,114	20,368,414	20,744,502	20,494,802
080	of which: issued by financial corporations	-	-	-	-	-	-	-	-
090	of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
100	Loans and advances other than loans on demand	-	-	-	-	32,916,214	-	-	-
110	of which: mortgage loans	-	-	-	-	17,491,314	-	-	-
120	Other assets	-	-	-	-	7,156,577	4,630,518	-	-

Model B

EF32.02HQLA

	Template B - Collateral received	Fair value of encumbered collateral received or own debt securities issued		Non-encumbered Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
	Details	010	210	040	230
130	**Collateral received by the reporting institution**	**5,626**	**5,626**	**104,015**	**104,015**
140	**Loans on demand**	**-**	**-**	**-**	**-**
150	Equity instruments	-	-	-	-
160	Debt securities	5,626	5,626	104,015	104,015
170	of which: covered bonds	-	-	-	-
180	of which: asset-backed securities	-	-	-	-
190	of which: issued by general governments	5,626	5,626	104,015	104,015
200	of which: issued by financial corporations	-	-	-	-
210	of which: issued by non-financial corporations	-	-	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
240	of which: issued by non-financial corporations				
250	**Loans and advances other than loans on demand**	**4,590,005**	**742,607**		

Model C

EF32.04

	Template C - Sources of encumbrance	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
	Details	010	030
010	**Carrying amount of selected financial liabilities**	**453,411**	**554,844**
020	Derivatives	-	-
030	of which: Over-The-Counter	-	-
040	Deposits	453,411	554,844
050	Repurchase agreements	78,902	9,661
060	of which: central banks	-	-
070	Collateralised deposits other than repurchase agreements	374,509	545,183
080	of which: central banks	-	-
090	Debt securities issued	-	-
100	of which: covered bonds issued	-	-
110	of which: asset-backed securities issued	-	-
120	Other sources of encumbrance	-	4,405
130	Nominal of loan commitments received	-	-
140	Nominal of financial guarantees received	-	-
150	Fair value of securities borrowed with non cash-collateral	-	-
160	Other	-	4,404,539
170	**TOTAL SOURCES OF ENCUMBRANCE**	**453,411**	**559,249**

In 2017 the median value (as stipulated in EBA ITS) of encumbered assets and received assets is RON 4.6 bn.

The transfer of financial assets as a result of repurchase agreements agreed within BCR Group were eliminated based on consolidated reporting at BCR Group level. The median encumbered assets is relatively low in proportion to the total balance sheet of BCR Group.

The actual level of encumbered assets is quarterly reported to the Assets and Liabilities Management Committee of BCR Bank. Additionally, an internal governance framework is in place at BCR Group level, which includes a policy, reporting regulation, as well as a limit level related to the management of encumbrance of assets. Moreover, during the planning and budgeting process the levels of asset encumbrance are projected at BCR Group level based on planned balance sheet evolution.

19 Market Risk

DISCLOSURE REQUIREMENTS COVERED: ART. 435

Market risk is the risk to incur losses corresponding to on-balance and off-balance positions due to adverse market price movements (such as, for example, stock prices, interest rates, commodity prices and foreign exchange rates).

Governance

In the following paragraphs the stakeholders in the risk management process are described.

The role of the **Management Board and the Supervisory Board** and its committees is of particular importance, since key elements, like the definition of a risk tolerance which is appropriate to the business strategy, and the role of the entity in the financial system, have to be decided.

Assets and Liabilities Management Committee (ALCO) is a key executive body with the responsibility for overseeing all balance sheet management activities.

Risk Committee of the Management Board is responsible for the definition and implementation of a sound interest rate risk analysis framework for identifying, measuring, monitoring, limiting and controlling all interest rate risk types.

Strategic Risk management is responsible for the group wide coordination of market, liquidity, credit, operational and ICAAP risk management.

Market and Liquidity Risk Management Department (MLRM) is responsible for market risk management.

With regard to market risk, MLRM is performing the following main functions:

- Identification of market risks: identification of all possible risk drivers and their potential impact;
- Risk limits: definition, proposal, monitoring and escalation of the risk limits;
- Market risk monitoring and reporting: measurement, analysis, timely and accurate reporting of all indicators;
- Model development in the area of valuation methods and calibration.

Balance Sheet Management Division (BSM) is responsible for steering liquidity and interest rate risk in the banking book and carrying out investments.

Identification of market risks

The market risks can be identified from the proposal phase of a new product within the Product Approval Process (PAP), but also through the lifetime of the product under the periodic (annual) Risk Materiality Assessment Process.

The identification of all market risks (interest rate risk, credit spread risk, FX risk, equity risk, commodity risk, volatility risk) performed under PAP is essential for the investment operations and for new products and ensure that these are subject to adequate procedures and controls before these are implemented or undertaken.

The Risk Materiality Assessment Process in BCR identifies possible risk drivers classified by potential impact (low, moderate, high) for all types of market risks. In case a risk was considered immaterial may be reclassified as significant if there are evidence that the potential impact has changes.

The core products which are included in Trading Book portfolio are:

- Fixed income products (bonds and T-bills);
- Money market instruments (interbank placements and deposits)
- Derivatives instruments – the position on derivatives from TB portfolio is closed back-to-back with Erste Group Bank.

Market risk management strategies and processes

BCR Group strategic goals with respect market risk are set through the BCR Group Risk Strategy and are in line with the Group's Risk Appetite Statement, and address the following:

- BCR's market risk profile, defined based on the Risk Materiality Assessment Process.
- BCR's strategic objectives regarding the management of market risk, in accordance with the Group's risk tolerance and regulatory requirements.

The risk measurement process for market risk includes calculation of market risk exposures using specific measures, such as: value-at-risk (VaR), sensitivities and stress testing.

Trading Book (TB)

For Trading Book portfolio BCR uses the following measures:

- Value-at-Risk (VaR) is calculated on a daily basis using a horizon of 1 day and a confidence level of 99% for TB portfolio.
- Total TB VaR is used in the calculation of Pillar II capital requirements, after scaling them for a period of one year using the square root of the time, and after changing the confidence level from 99% to 99.9%.
  The quality of VaR models implemented by the bank for the Trading Book portfolio is assessed using back-testing. This exercise is performed on a daily basis by testing the VaR figure calculated on the previous day. Because VaR is an estimate of the potential maximum loss (with a given confidence level) for the next day, the back-testing compares the actual variation of the market value of the TB portfolio with the calculated potential loss (VaR). In order for the two figures (actual variation of the TB market value and the calculated VaR) to be comparable, the underlying portfolio has to be kept constant.
- Present value of a Basis Point (PVBP) which measures the sensitivity of a financial instrument to a 1 bps parallel shift of the interest rate curve and is computed for TB Fixed Income portfolio and for Money Market portfolio.

Banking Book (BB)

For Banking Book portfolio the Bank uses the following measures:

- Value-at-Risk (VaR) is calculated on a monthly basis using a time horizon of 1 year and a confidence level of 99.9% for total BB portfolio;
- The potential change in economic value (MVoE) caused by sudden and unexpected changes in the levels of interest rates, using the standard methodology described in NBR Regulation no. 5/2013 which takes into account all positions that are not included in the trading book portfolio, classified by currency (EUR, RON and at an aggregated level for all other currencies) and maturity (residual maturity for fixed interest rate instruments and the residual period until the next re-pricing date in case of products with variable interest rate). The standard shock applied to the bank's relevant yield curves is 200 basis points, in both directions;
- NII ratio shows the change in net interest income for a time horizon of 1 year following the parallel shift in yield curves.

Stress Test for TB and BB portfolios

Stress tests are performed in order to quantify the Bank's vulnerability to losses in case of adverse changes in the value of market risk factors. These tests consider the potential losses, quantified by VaR indicator, as a result of unfavorable evolution of the risk factors for both Trading and Banking Book portfolios (interest rates for RON and EUR).

Two scenarios with different degrees of severity were defined (stress scenario, worst case scenario). These scenarios describe the evolution of the interest rates projected on a 3-year horizon.

The potential losses generated by these stress tests depend on two components:

- the evolution of the balance sheet – of the exposure to the interest rate risk;
- the volatility of interest rates in the macroeconomic context described by the two scenarios.

In order to calculate VaR, it is required the specification of the volatility of interest rates for each crisis scenario. In this respect, it was used a dynamic (stochastic) model in order to capture two important characteristics of interest rates:

- on the long term, interest rates tend to vary around an average level;
- volatility of interest rates is variable over time.

Based on the model, the expected volatility of the interest rates, is determined and as a result, the VaR is calculated.

Market risk reporting, monitoring and mitigation

The market risk control process includes development of a comprehensive limit system, limit allocation and limit breach reporting, including escalation process.

BCR market risk limit system includes:

- VaR Limits for several portfolios, such as: Trading Book portfolio, Banking Book portfolio.
- Position Limits represents the upper limit admitted for the size of the exposure. BCR has specific position limits for foreign exchange risk.
- Present Value of a Basis Point (PVBP) limit which is defined for bucket maturities on Trading Book Portfolio. Two additional limits have been introduced starting with September 2017: total PVBP and curve PVBP. Total PVBP is defined as the sum of all sensitivities per bucket, while the curve limit is the maximum between (i) the absolute value of all negative sensitivities and (ii) all positive sensitivities.
- Stop/Loss (S/L) limit is set to stop the loss registered in a transaction. BCR has defined S/L limits for total Trading Book Portfolio.
- MVoE limit is defined in BCR as a regulatory limit in compliance with NBR Regulation no. 5/2013 on prudential requirements for credit institutions.
- NII limit is defined for the change in net interest income over a time horizon of one year due to a parallel shift of the yield curves by +/-200 bp.

MLRM monitors the bank's exposure to market risk, reporting the observance of regulatory and internal limits, to the management structures of BCR.

In the monthly meetings of the ALCO, a standard analysis of the bank's exposure to market risk and a report with the utilization of market risk limits are presented. In case of any limit breach, the ALCO has to approve action plans developed in order to come back into compliance with the respective limit.

If SRM identifies any breach in the established limits, it:

- notifies Holding Risk Management and reports the breach to the entities involved at bank level, the Vice-president coordinating the Risk function and the Vice-president coordinating the entity managing the position, executive directors of the divisions involved;
- requests explanations regarding this breach from the entity managing the position breaching the limit;
- analyses the situation and gives recommendations.

DISCLOSURE REQUIREMENTS COVERED: ART. 445

Exposure to market risk

According to "Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms", BCR calculates the capital requirement to cover market risk generated by position risk and foreign exchange risk, according to the approach method standard. The figures presented in the table below are in RON ths.

56 Template EU MR1 – Market risk under the standardized approach

		RWA	Capital requirement
	Outright products		
1	Interest rate risk (general and specific)	10,123	810
2	Equity risk (general and specific)	-	-
3	Foreign exchange risk	153,384	12,271
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
9	**Total**	**163,507**	**13,081**

As of December 2017 the capital requirement reached a level of RON 13,081 thousands in comparison with RON 19,097 thousands recorded as of December 2016. The decrease is due to the reduction of trading book fixed income portfolio. All the limits for TB portfolio are monitored on a daily basis and their utilization degree is presented in the daily Market Risk report.

20 Liquidity Risk

DISCLOSURE REQUIREMENTS COVERED: ART. 435

Liquidity risk management strategies and processes

BCR Bank has implemented an Internal Liquidity Adequacy Assessment Process in accordance with regulatory requirements and guidelines as set out by the Basel Committee on Banking Supervision ("BCBS"), the European Commission and the European Banking Authority. This formalized as a key component of the Supervisory Review and Evaluation Process ("SREP") which provides a description of BCR's Internal Liquidity Adequacy Assessment Process, summarizing the liquidity and funding risk management framework, methodologies and processes and providing links to more detailed information on individual components of the ILAAP.

BCR Group strategic goals with respect to liquidity risk are set in line with the BCR Group Risk Strategy. The responsibility for defining the Liquidity Risk Strategy for BCR lies with Market and Liquidity Risk Management Department and it is included in BCR Group's Risk Strategy. It contains the following information:

- BCR's liquidity risk profile, defined based on the Risk Materiality Assessment Process;
- BCR's strategic objectives regarding the management of liquidity risk, in accordance with the Group's risk tolerance and regulatory requirements.

In order to limit liquidity risk, Balance Sheet Management Division draws up for each financial exercise the BCR's Group Liquidity Strategy, which includes the main objectives of the bank related to the maintenance of adequate levels of liquidity buffers, both under normal and stressed conditions in accordance with the institution's short and medium-term liquidity needs over different time horizons.

Also, for managing liquidity in crisis situations, BCR has developed a contingency funding plan that clearly sets out the strategies for addressing liquidity shortfalls in emergencies. The contingency funding plan comprises sets of specific measures and liquidity enhancing actions required to successfully overcome a potential crisis. To permanently improve banks' capacity to promptly react in cases of crises, the contingency funding plan is updated annually and tested periodically.

Liquidity risk management structure and organization

The governance framework ensures the distinction between liquidity management (first line of control) and liquidity risk management, a 'second line of defence/control' for liquidity risk.

The governance framework also covers the responsibilities of committees involved in analysing and endorsement / decision regarding the liquidity management (Operative Liquidity Committee - OLC, Asset and Liability Committee – ALCO) or the liquidity risk management (Risk Committee of the Management Board, Management Board), as well as responsibilities of other departments involved in the internal control framework and independent review of components of the liquidity risk management framework.

The roles and responsibilities of Supervisory Board, Management Board, Assets and Liability Management Committee are specified in their organizational and operational rules.

The organizational structure has to provide the segregation of duties between:

i) Liquidity management function – performed by Balance Sheet Management Division with support from Erste Bank Global Capital Markets Division (GCM); Thus, BSM is responsible for:

- Strategic liquidity management including coordinating the activity of BCR subsidiaries with respect to management of liquidity, funding needs, FX positions and investments
- Operational Liquidity Management
- Crisis Liquidity Management
- Pricing

GCM overall acts as the external face to the wholesale capital markets for both sourcing and placing of liquidity across the group. GCM provides BSM, Market & Liquidity Risk Management and Senior Management with regular information through various channels (Operative Liquidity Committee - OLC, Asset and Liability Committee etc.) regarding the bank's ability to access capital and money markets and the general market dynamics.

ii) Liquidity risk management function – performed by Strategic Risk Management Division – Market and Liquidity Risk Management Department. For the purpose of liquidity risk management, MLRM performs the following activities:

- Development of methods and models
- Measurement/ Monitoring/ Reporting
- Liquidity risk limits proposal

MLRM reports on a regular basis to SB, MB, ALCO and OLC.

Liquidity risk reporting, monitoring and mitigation

BCR has an appropriate reporting framework for liquidity and funding risk management, approved by the Management Board, which includes the scope, manner and frequency of liquidity and funding risk reporting, and which also designates the entity responsible for preparing the reports. The specific reports and documentation containing comprehensive and easily accessible information on liquidity risk are submitted regularly to the appropriate recipients (Management Board, Risk Committee of the Management Board, Executive Director of Strategic Risk Management Division, CRO, Balance Sheet Management Division, ALCO).

Based on an appropriate reporting framework and IT system, BCR has the ability to identify and measure liquidity and funding risk, in line with its size, complexity, risk tolerance and risk-taking capacity.

As part of its risk management framework, BCR has two specialized local committees for the analysis and decision-making of liquidity and funding issues, namely the Operative Liquidity Committee and Assets and Liabilities Management Committee.

The liquidity risk monitoring system of BCR includes (but is not limited to) the following indicators:

Regulatory:

- Monthly liquidity indicator reported to the NBR
- Immediate liquidity indicator
- Liquidity Coverage Ratio
- Net Stable Funding Ratio
- Additional Liquidity Monitoring Metrics

Internal:

- Survival Period Analysis

The above section, 'Liquidity risk management strategies and processes', describes the principal policies for mitigating risk and the strategies and processes for monitoring the continuing effectiveness of mitigants regarding liquidity risk.

Other policies implemented by BCR in order to mitigate the liquidity risk:

- BCR Liquidity Risk Manual: - This document sets minimum standards for the identification, calculation, measuring, monitoring, steering, reporting and management of the liquidity risk of BCR Group. This policy lays out the governance, methodology and processes to be applied for the definition and management of liquidity risk which are defined in line with the principles and standards followed by Erste Group.
- Methodology Handbook for Survival Period Analysis: - The Survival Period Analysis represents a key instrument for assessing the insolvency risk; it targets a short-time horizon – within one year – and uses the dynamic stress testing methodology. SPA measures the period an entity is able to survive in case of a predefined liquidity crisis scenario. The RAS limit and warning level for SPA are applied to the net funding gap for one month. The net funding gap indicates the surplus of liquid assets that are still available after a crises period.
- BCR Funds Transfer Pricing (FTP) Policy: - The BCR Group's FTP system covers all liquidity-relevant pricing components to ensure all liquidity risks are adequately transfer-priced to business lines across major subsidiaries and currencies.
- BCR Group Asset Encumbrance Management Policy: - The primary objective of the BCR Group Asset Encumbrance Management Policy is to provide an overarching framework on governance, responsibilities and principles for managing, monitoring and reporting asset encumbrance in BCR Group. This policy shall ensure that within the process of steering asset encumbrance in BCR Group all risks related to the encumbering of assets are adequately assessed and monitored.
- BCR Group Liquidity Management Policy: - The main objective of this policy is to describe requirements that would ensure an appropriate liquidity management by establishing a robust liquidity management framework and requirements that should be applied to all entities within its scope. The document was created in compliance with the local regulatory requirements set out in the local legislation (e.g. NBR Regulation nr. 5/2013 regarding prudential requirements for credit institutions, as further amended and completed) and standards/ principles defined in Group Liquidity Management Policy, which is the master policy document for establishing the liquidity management framework in Erste Group (EGB).

Also, in BCR Limit Management Handbook, the Bank defines a comprehensive and accurate limit management framework, which should ensure the proper implementation of BCR's limit system in the day to day business. Thus, BCR has established a comprehensive liquidity risk limits framework which are monitored on a regular basis (weekly, monthly or quarterly) and reported to the management structure.

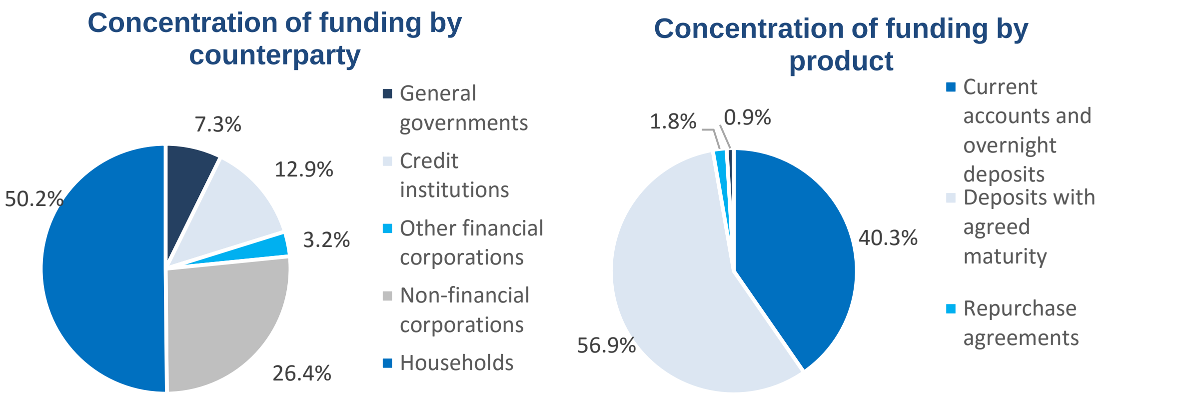
Template on qualitative information on LCR

Concentration of funding

- By counterparty and by product:

Compared with December 2016, the percentage of funding from households increased in 2017 from 47.2% to 50.2%, while the funding provided by non-financial corporations increased from 22.6% to 26.4%. Also, in the same period, the percentage of funding from deposits with agreed maturity decreased from 59.6% to 56.9%, while funding revived from current accounts and overnight deposits increased from 33.4% to 40.3%.

57 Concentration of funding sources (as of 31 December 2017, for BCR Bank)

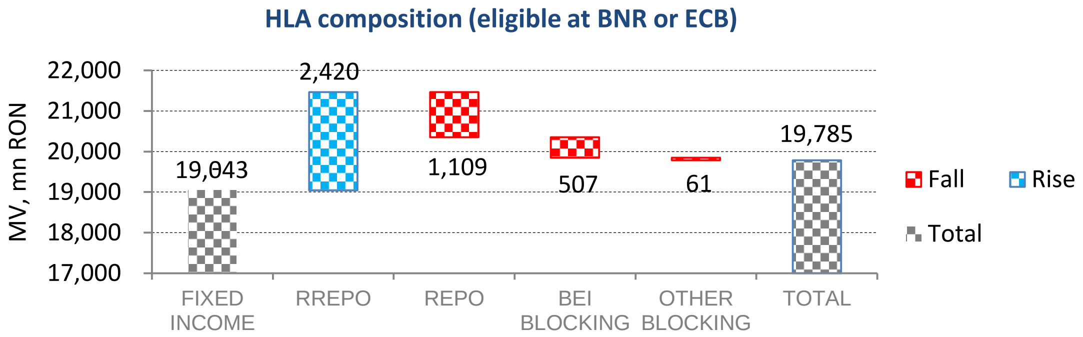


- By top 10 funding providers: - the weight of first 10 funding providers in total funding is equal to 20.8%.

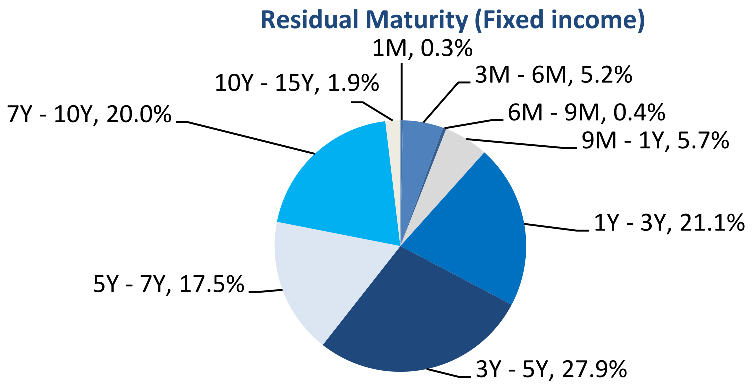
Concentration of liquidity sources:

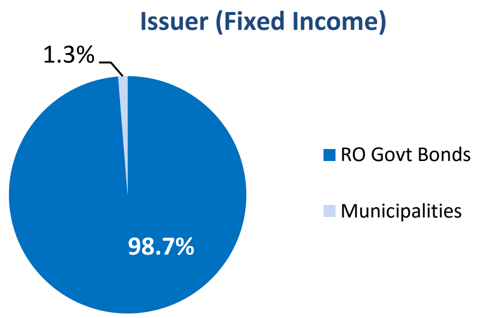
Compared with December 2016, the total eligible fixed income portfolio increased from RON 16,311,918 thousands to RON 19,785,086 thousands

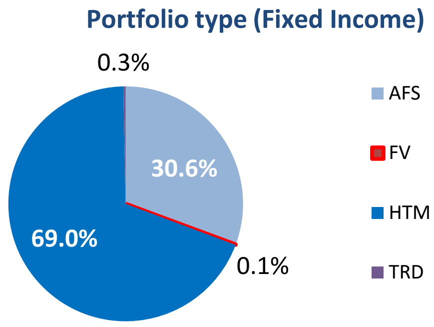
58 HLA Composition for BCR Standalon



59 Portfolio split based on residual maturity, issuer and type (accounting) as of 31 December 2017 for BCR Standalone







In addition to fixed income portfolio in amount of RON 19,785,086 thousands, the liquidity buffer contains a stock of cash in amount of RON 4,398,757 thousands.

Derivative exposures and potential collateral calls

Derivatives in Trading Book (Sales) are closed back-to-back with Erste Group Bank. At the end of 2017, there was an open position of RON 9 mn, coming from transactions for liquidity management purposes (Banking Book positions). The derivatives exposure as of 31.12.2017 is presented in the following table:

60 Derivative exposures as of 31 December 2017

As of Dec-17	TB/BB	Long (Assets)		Short (Liabilities)		Net Exposure
RON ths		Notional	MtM	Notional	MtM	MtM
IRS		1,853,913	192,087	1,685,240	179,337	12,750
	TB	1,522,038	18,580	1,522,038	18,580	(0)
	BB	331,875	173,507	163,201	160,757	12,750
CIRS	BB	-	-	134,000	6,712	(6,712)
FX Swap		350,085	628	2,132,859	15,742	(15,114)
	TB	49,621	405	49,621	367	38
	BB	300,464	224	2,083,239	15,375	(15,152)
FX Option	TB	27,066	7	27,066	7	-
IR Option	TB	154,924	419	154,924	419	(0)
Forward	TB	74,129	1,724	74,122	1,544	180
Total Exposure		**2,460,117**	**194,865**	**4,208,211**	**203,761**	**(8,896)**

In LCR, the outflows related to derivative exposures are offset by inflows related to derivative exposures.

Currency mismatch in the LCR

In BCR, the LCR is calculated in all major currencies that exceeds 5% of the institution's total liabilities (EUR and RON). Thus, the liquidity buffer requirements have to be determined for different currencies.

The distribution of the liquidity buffer in foreign currency is monitored monthly in order to ensure that net cash outflows in significant currencies (RON and EUR) are fully covered by liquid assets denominated in the same currency. The composition of liquidity buffer as of 31.12.2017 is presented in the following table:

61 Composition of liquidity buffers as of 31 December 2017

	BCR Bank		BCR Group	
* weighted amounts, ths RON	RON	EUR	RON	EUR
Liquidity buffer	16,201,130	9,143,710	18,790,799	9,149,839
Coins and banknotes	2,506,810	1,317,063	2,516,854	1,323,192
Withdrawable central bank reserves	1,735,605	-	1,697,992	-
Central bank assets	58	161	15,058	161
Central government assets	11,958,656	7,826,486	14,560,896	7,826,486
Net liquidity outflow	4,611,387	600,091	6,172,797	607,196

A description of the degree of centralization of liquidity management and interaction between the group's units

BCR ensures an appropriate liquidity management by establishing a robust liquidity management framework and requirements that should be applied to and by all entities which are part of BCR Group. Additionally, a coordination function of the liquidity management and funding strategy of BCR Group is set in BCR and has clear governance and reporting rules.

Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile

The bank considers that all the relevant information for its liquidity profile was already presented in this report.

62 Composition of liquidity buffers as of 31 December 2017 (regulation based template)

Scope of consolidation (consolidated)		Total unweighted value				Total weighted value			
Currency and units (RON million)									
Quarter ending on (DD Month YYY)		31-Mar-2017	30-Jun-2017	30-Sep-2017	31-Dec-2017	31-Mar-17	30-Jun-17	30-Sep-2017	31-Dec-2017
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					23,474	24,747	25,595	25,954
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	32,654	33,323	33,933	34,274	2,398	2,381	2,371	2,457
3	*Stable deposits*	20,637	22,131	23,437	22,356	1,032	1,107	1,172	1,118
4	*Less stable deposits*	12,017	11,192	10,495	11,919	1,366	1,274	1,199	1,339
5	Unsecured wholesale funding	9,485	10,156	10,708	10,967	4,108	4,555	4,913	4,878
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	5	5	5	1	1	1	1	0
7	*Non-operational deposits (all counterparties)*	9,480	10,151	10,703	10,966	4,106	4,554	4,912	4,878
8	*Unsecured debt*	0	0	0	0	0	0	0	0
9	Secured wholesale funding					0	0	0	0
10	Additional requirements	5,601	4,352	3,690	3,765	1,724	2,002	2,354	2,448
11	*Outflows related to derivative exposures and other collateral requirements*	1,111	1,596	2,094	2,199	1,111	1,596	2,094	2,199
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	4,490	2,756	1,596	1,566	613	406	260	249
14	Other contractual funding obligations	638	200	46	267	638	199	5	24
15	Other contingent funding obligations	6,345	8,208	9,497	9,549	378	497	580	579
16	**TOTAL CASH OUTFLOWS**					9,244	9,634	10,222	10,386
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	927	1,058	1,150	1,315	217	217	-	24
18	Inflows from fully performing exposures	1,849	1,729	1,628	1,366	1,493	1,373	1,263	1,034
19	Other cash inflows	1,956	2,220	2,607	2,714	1,938	2,216	2,607	2,714
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	**TOTAL CASH INFLOWS**	4,732	5,008	5,385	5,395	3,649	3,807	3,870	3,773
EU-20a	***Fully exempt inflows***	-	-	-	-	-	-	-	-
EU-20b	***Inflows Subject to 90% Cap***	-	-	-	-	-	-	-	-
EU-20c	***Inflows Subject to 75% Cap***	4,732	5,008	5,385	5,395	3,649	3,807	3,870	3,773
						TOTAL ADJUSTED VALUE			
21	**LIQUIDITY BUFFER**					22,075	23,074	23,921	25,954
22	**TOTAL NET CASH OUTFLOWS**					5,999	6,143	6,668	7,402
23	**LIQUIDITY COVERAGE RATIO (%)**					370%	378%	359%	352%

21 Operational Risk

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (a) (c) (d), ART. 446 and ART. 454 CRR

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. BCR has in place strategies, policies and processes for the identification, measuring, monitoring, control and reporting of operational risk. The main types of operational risks that BCR is exposed to are:

Legal (judicial) risk, which is defined as loss risk following fines, penalties and sanctions for which the credit institution is liable in case of not applying or deficiently applying the legal or contractual dispositions, as well as the fact that the contractual rights and liabilities of the credit institutions and/or of its counterparty are not established adequately.

ICT risk concerns the current or prospective risk of adverse impact on earnings and capital, arising from inadequate IT strategy and policies, information technology or processing, in terms of manageability, integrity, controllability and continuity thereof, or from inadequate use of the institution's information technology.

Fraud risk (internal and external fraud), which includes losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party (internal fraud) and losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party (external fraud).

Model risk, which represents the potential loss a credit institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models.

Staff risk causes losses due to employees not following HR procedures, practices and/or rules and inadequate execution of HR related services and processes.

Security risk is defined as the risk resulting from inadequate or failed internal processes or external events affecting availability, integrity, confidentiality of Information and Communication Technology (ICT) systems and / or information used for payment services. This includes risk from cyber – attack or inadequate physical security.

Conduct risk, representing the current or prospective risk of losses arising from the inappropriate supply of financial services including cases of wilful or negligent misconduct. All instruments in place for managing operational risk are equally applying to conduct risk.

Execution and processing risks, which are deficiencies in customer and market transaction processing, execution and origination of products, systems and processes caused by human errors or inadequate processes. It includes also inaccurately drafted contracts.

Compliance risk, which is defined as the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. It can lead to fines, regulatory sanctions or restrictions on business activities or enhanced reporting requirements or damages and/or the voiding of contracts or can diminish an institution's reputations

Operational risk management strategies and processes

BCR Group strategic goals with respect operational risk are set through the BCR Group Risk Strategy and are in line with the Group's Risk Appetite Statement, and address the following:

- BCR's operational risk profile, defined based on the Risk Materiality Assessment Process.
- BCR's strategic objectives regarding the management of operational risk, in accordance with the Group's risk tolerance and regulatory requirements.

The Bank manages operational risks by setting an adequate internal control framework, by promptly identifying them, continuous monitoring, adequate control and reporting, with the aim to implement adequate corrective measures. The control framework includes effective segregation of duties, access procedures, authorization and reconciliation, personnel training, assessment processes, and the use of internal audit.

The main objective of the operational risk management is the assurance of the internal framework allowing the identification, assessment and monitoring of operational risks, and the adoption of necessary measures aimed at operational risk loss mitigation/ control.

The management of operational risks in BCR consists of:

- Identification and assessment/ measurement of operational risks;
- Monitoring, control and reporting of operational risks.

Operational risk is influenced by a wide range of factors that must be considered when determining the bank's exposure to operational risk. These factors may be grouped on categories (e.g. economic and business environment, processes and systems, etc.). In order to consider all these factors, BCR has implemented a selection of qualitative and quantitative instruments:

- The quantitative analysis of operational risk includes the identification, collection, analysis and control of internal and external data on loss-generating operational risk events. BCR developed and maintained a comprehensive framework for the identification and collection of information referring to operational risk losses, whereby the entire bank's personnel has the responsibility to completely, correctly and in due time inform on operational risks topics. The information obtained is reconciled and compared, for verification or completeness purposes, with information obtained from alternative sources, such as accounting, internal or external audit reports etc.
- For the qualitative analysis, the Bank has elaborated a methodology for:
    - Risk and Control Self-Assessment (RCSA). RCSAs are performed regularly (one year cycle), so that the bank is able to identify the main operational risk sources and undertakes the adequate risk mitigation measures, preventing or mitigating the losses stemming from the emergence of high operational risks points where controls are not adequate or efficient. No high residual risks have been identified during the risk and control self-assessments performed in 2017 for the entire Bank;
    - Risk assessment in case of new products, activities, processes and systems. The Product Approval Process (PAP) sets minimum standards to ensure that adequate risk assessment procedures are executed prior to the development and/or launch of new or significant modified products. The PAP ensures that adequate controls are put in place to manage the inherent risks associated with new products, related processes and system implementation, and other initiatives;
    - Risk assessment in case of new outsourced activities ensuring a proper control of the risk associated to the activities provided by service providers which have been classified as outsourcing as per legal requirements. Also, an annual risk assessment process take place at Bank level including all outsourced activities in place aiming to re-evaluate all outsourced activities by using a formalized methodology defined at Erste Group level.
- The monitoring and regular reporting of operational risk indicators, enabling the bank to detect any change in its exposure to operational risk in due time. The Key Risk Indicators (KRI) are monitored and reported on quarterly bases to BCR Management Board. The reports present the KRIs level and, in case of breaching the limits, adequate mitigation measures are implemented in order to reduce the level of risk.
- Scenarios analysis on the probability of future occurrence of significant losses is performed on a yearly basis. The results of the scenario analysis are presented to BCR Management Board for approval.

In order to help the decision bodies to properly evaluate and decide whether a risk can or cannot be accepted, a common tool across Erste Group was implemented in BCR. The Risk-Return Decision template presents in one document all relevant aspects from both sides: risks (probability and severity - financial, legal and reputational impact) and returns (income or cost reduction). It should be applied once business areas (acting as first line of defense) identify an operational risk (such as conduct, model, compliance, legal, security and Information and Communication Technology risks) and is willing to accept the risk. The risk-return decisions approved from the implementation were defined within the Risk Appetite Statement. BCR's RRD template applies also in the Credit Application Approval Process (CAAP) or in case a product is changed or newly launched (for the residual risk assessment).

The results of the identification and assessment of operational risks are consolidated for the computation of the capital requirements covering operational risk.

Internal data collection aims to gather the complete and correct collection, recording and validation of all operational risk events covering the whole Group. Collecting internal loss data helps to understand where and how risks are manifesting themselves and establish a basis for quantifying operational risk exposure and the capital needed to underpin this. Basically the internal data represents the basis of the Advanced Measurement Approach (AMA) model based on loss distributions.

In 2017, the Group continued to use the AMA model for operational risk capital requirement calculation (both Pillar I and Pillar II). The AMA model was developed at Erste Group level and the figures computed for the operational risk capital requirement are provided on a quarterly basis to all subsidiaries of the group, including BCR.

The internal model (AMA) uses the Loss Distribution Approach (LDA) which includes the following factors:

- Internal data: for the assessment of the parameters of the LDA model, a set of historical data covering the last 5 years is used;
- External data: Operational Risk Exchange (ORX) data are used in addition to internal data, supplementing the latter for specific value intervals for which there are insufficient history;
- Scenario analysis: used to supplement the data regarding the losses generated by operational risk; they refer to potential future events that could have high severity impact and low frequency;
- Business environment and control factors: Key Risk Indicators (KRIs).

At the beginning of October 2010, the Austrian Financial Market Authority (FMA), in collaboration with the National Bank of Romania (NBR), approved the application of the Advanced Approach (AMA) in the computation of the capital for covering operational risk at BCR level. In 2011 the Holding received FMA approval for capital charge calculation including the recognition of the mitigating effect of insurances.

In 2015, the AMA model was changed (non-material change) at Erste Group level by improving stability of the model with robust parameter estimation for tail events (events with impact above 1 mn EUR). Information in this regard was sent to Austrian Financial Market Authority and European Central Bank, National Bank of Romania for information.

In 2016, the AMA model was unchanged and BCR reported both operational risk capital requirements (Pillar I & Pillar II) according to the Erste Group methodology.

In 2017, an AMA model change application was submitted to Join Supervision Team (JST) by Erste Group for all Erste Group entities in scope (including BCR as AMA entity). The application was considered by relevant competent authorities as complete at the beginning of October 2017 (start date of the 6 months in which the competent authorities shall do everything within their power to reach a joint decision, according with CRR).

Operational risk reporting, monitoring and mitigation

BCR computes the capital requirements for operational risk considering the risk transfer mechanisms (insurances) used for mitigation purposes. Under AMA, BCR is able to recognize the risk mitigation impact of insurance in the measures of operational risk capital requirements, both Pillar I and Pillar II. On Pillar I, the reduction in own funds requirements from the recognition of insurance is limited to 20% of the own funds requirement for operational risk before the recognition of risk mitigations techniques (according with legal requirements in place). In addition, in order to mitigate operational risks the Group promotes and operational risk culture through dedicated trainings, applies risk return decision assessments for identified operational risks and performs Risk and Control Self Assessments in order to assess the activities performed by BCR from operational and reputational risk point of view.

The Bank permanently monitors and controls operational risks through specific risk ratios, by monitoring the evolution of recorded events, as well as through implementing/ solving corrective measures.

At the Bank level, the outsourcing activities are on-going and regularly monitored according to the internal specific procedures. The monitoring results are presented at least on a quarterly basis to the management (Management Board and Risk Committee of the Management Board). Key risk and performance indicators are set up for each outsourced activity. Their evolution is monitored by the outsourcing manager.

Operational risk reporting to the management body is a major component of the risk management framework. Reporting is essential in the process of acknowledging the losses generated by operational risk and the Group's exposure to this risk type, enabling the institution to perform an adequate management of operational risk. Regular reporting provides detailed information on operational risk, both at local management level (Risk Committee of the Management Board; Management Board; Risk Committee of the Supervisory Board; Supervisory Board) and at Erste Group level.

22 Reputational Risk

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (a) (c) (d) CRR

Reputational risk can be defined as the current or prospective risk that can adversely affect the bank's earnings and capital, arising from the negative perception of the credit institution's image shared by customers, counterparties, shareholders, investors or supervisory authorities. A „reputational risk" materializes when the negative publicity triggered by certain business events, whether accurate or not, compromises the Group's reputational capital and may result in value loss for the company. Reputational risk can be driven by the negative publicity, true or false about Group's reputation or reputation of the governing bodies and their members; practices, instruments, liquidity or Group's solvability; other risks from Group's activity, when reputational risk is a component (such operational risk, compliance risk, ethical incidents risk etc.). Reputational risk impact may affect the Bank's ability to perform its current activity according to the work plan, establish new business relationships or continue the existent partnerships with customers.

Reputational risk management strategies and processes

BCR Group strategic goals with respect reputational risk are set through the BCR Group Risk Strategy and are in line with the Group's Risk Appetite Statement, and address the following:

- BCR's reputational risk profile, defined based on the Risk Materiality Assessment Process.
- BCR's strategic objectives regarding the management of reputational risk, in accordance with the Group's risk tolerance and regulatory requirements.

Strategies concerning the management of reputational risk focus on initiatives concerning the consolidation of corporate culture, client satisfaction, media partnerships, the assessment of the associated operational and reputational risk in case of new products or material changes of existing products and risk return decisions. The implementation of the Risk Return Decision (RRD) instrument helps the decision bodies to properly evaluate and decide whether a reputational risk can or nor be accepted, based on adequate information and taking into account all relevant facts by applying proper diligence. The decisions are passed thought the reputational risk filter as to determine if some decisions could affect the Group's image.

Reputational risk reporting, monitoring and mitigation

The Bank permanently monitors and controls reputational risks through efficient communication flow, policies and procedures in place which determine an adequate framework for managing reputational risk. In order to ensure a consistent and unitary guideline and standard for managing the reputational risk of the Bank, the Reputational Risk Work Group was established at Bank's level, aiming to identify, classify and assess reputational risks in terms of likelihood and extent of their effects on reputational capital. A quarterly Reputational Risk Register is elaborated and presented to Risk Committee of the Management Board and Management Board (annually), including information regarding:

- Overview of the Group's reputational risk level;
- Mitigation measures;
- Brief overview of the main developments of reputational risk indicators analysis;
- Quantitative and qualitative indicators analysis;
- Litigation overview.

Reporting is essential in the process of acknowledging the losses in terms of reputation and the Bank's exposure to this risk type, enabling the institution to perform an adequate management of reputational risk. The Risk Materiality Assessment Process in BCR identifies possible risk drivers classified by potential impact (low, moderate, high) for reputational risk. In the case of reputational risk materialization, the communication policy for emergency and crisis situations with reputational impact for the Group serves as guideline for aspects such whom of / what / when / how the Group communicates during such a situation, depending on the complex evolutions determined by mass media reporting of specific incidents.

Primary responsibility for the identification, escalation and resolution of reputational risk issues resides with the Business. Reputational risk is mitigated through the following measures:

- Code of Conduct;
- Statement of Purpose;
- Product approval process;
- Credit policies;
- Pro-active press and investor communication;
- Outsourcing policy;
- Conflicts of interest and BCR Anti-Corruption Policy.

23 Exposures in Equities Not Included in the Trading Book (IFRS)

DISCLOSURE REQUIREMENTS COVERED: ART. 447 (a) CRR

The differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices

BCR includes in this category both quoted and unquoted equity instruments. Equities instruments from BCR are classified under both fair value through profit and loss and under fair value through other comprehensive income.

To calculate the fair value for equity instruments within BCR the following methods are used:

- Quoted price in active markets
- Expert opinion or Recent transaction value
- Discounted Cash Flow Method / Dividend Discount Model
- Adjusted Net Asset Value (for Funds, Financial Holdings and Non-Profit organizations)
- Simplified income approach
- Multiple Method
- Nominal Equity (for Non-Profit housing associations)

A valuation tool is in use for the calculation of the fair value, which is used for the valuation of fully consolidated investments (banking model, non-banking model), as well as for the annual impairment assessments of any related goodwill asset, in accordance with IAS36.

DISCLOSURE REQUIREMENTS COVERED: ART. 447 CRR (b)

The balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value

There are no differences between quoted prices and prices considered by BCR when performing the evaluation of participations.

DISCLOSURE REQUIREMENTS COVERED: ART. 447 CRR (c)

The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures

63 BCR portfolio of equities not in trading book as of 31 December 2017

Type (RON ths)	Common Shares	Preferred Shares	Total market value
Listed	190,743	-	190,743
Not Listed	17,601	33,846	51,447
Total	**208,344**	**33,846**	**242,190**

DISCLOSURE REQUIREMENTS COVERED: ART. 447 CRR (d), (e)

The cumulative realized gains and losses arising from the sale and liquidations in the period and the total unrealized gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds

64 Unrealized and realized gains afferent to equities portfolio not included in trading book

RON ths

Unrealized Gains (AFS reserve)	Realized Gains
187,712	44,291

24 Exposure to Interest Rate Risk Not Included in the Trading Book

DISCLOSURE REQUIREMENTS COVERED: ART. 448 CRR

The IRRBB VaR and MVoE limits for the total BB are monitored on a monthly basis. Additionally, MVoE report is submitted to NBR on a quarterly basis on individual level (BCR Bank) and bi-annually on consolidated level (BCR Group).

The balance for current accounts, overdrafts, savings accounts is allocated on buckets for MVoE report using the percentage associated with the type of client (e.g. GLC, Retail) and the currency (e.g. EUR, RON). The percentages are given by internal models for the products without contractual maturity.

For the allocation on buckets for products without contractual maturity, the internal models take into account the category of products, the currency and the portfolio for which they are applied.

The end of year potential decline of the economic value based on the MVoE methodology at an individual and consolidated level are presented in the tables below:

65 MVoE BCR Group and BCR bank as of 31 December 2017

ths RON - BCR Bank	31-Dec-16	31-Dec-17
Own funds	7,655,941	7,178,135
The potential decline of the economic value:		
% of own funds	10.47%	10.73%
total absolute value, of which:	801,506	770,317
RON	593,326	475,938
EUR	131,096	197,867

ths RON - BCR Group	31-Dec-16	31-Dec-17
Own funds	7,777,782	7,193,277
The potential decline of the economic value:		
% of own funds	10.94%	10.85%
total absolute value, of which:	850,756	780,310
RON	650,659	486,852
EUR	123,524	197,552

The table below shows the changes in NII for a 1 year period due to an instantaneous parallel shift of the yield curves with ± 200 basis points for BCR Bank.

66 NII BCR Bank as of 31 December 2017

RON ths - BCR Bank

	As of Dec-16				As of Dec-17			
Scenario	EUR	RON	USD	Total	EUR	RON	USD	Total
i_P+2 -	47,790 -	8,402	2,556 -	53,636 -	21,958	26,709	18,360	23,111
i_P-2 -	84,607 -	63,858 -	10,775 -	159,240 -	79,603 -	122,925 -	26,017 -	228,545
Accounting NII				1,745,392				1,678,727
NII ratio				9.12%				13.61%

25 Remuneration Policy

DISCLOSURE REQUIREMENTS COVERED: ART. 450 CRR and ART. 67 (a) NBR Regulation no. 5/2013

Remuneration policies and practices, remuneration structure and bonus payment

In BCR, the aim of the Remuneration policies is to implement a reward structure that will allow BCR to attract, motivate and retain among its employees the best people who will contribute to the achievement of bank's goals and objectives.

The remuneration policies are approved by the Supervisory Board of BCR, following the review of the Remuneration Committee. The Remuneration Committee is an advisory body that helps the BCR Supervisory Board in fulfilling its obligations/ duties in respect to the BCR's global compensation system.

Observing all legal provisions of EU Regulation no.575/ 2013, NBR Regulation no. 5/ 2013 and all other regulatory requirements in place, the remuneration practices for Management Body and other Identified Staff are detailed in a separate policy - Remuneration Policy applicable for the Management Body and other Identified Staff in BCR.

The main principles of the BCR Remuneration Policies are the following:

- The Remuneration Policy allows and promotes a sound and effective risk management, without encouraging risk-taking that exceeds the bank's risk tolerance level.
- The Remuneration Policy is designed in accordance with the culture, business strategy, internal control background, goals, values and long-term interests of BCR and includes principles to avoid conflicts of interest.
- The total remuneration in BCR is based on a combination between individual performance, performance of the business unit and bank's performance. For individual performance assessment, both financial and non-financial criteria (individual skills, leadership skills, contribution to team performance etc.) are being taken into account.
- The total variable remuneration paid does not limit the bank's ability to strengthen its capital base. Further, variable remuneration decisions taken by the members of the Management Board give due consideration of the long-term interests of the shareholders, investors and employees of the bank in having a functional banking industry and financial market stability.
- Performance measurement used to calculate the components of variable remuneration includes an adjustment for all current and potential types of risk and takes into account the cost of capital and the liquidity required.
- The guaranteed variable remuneration is not consistent with sound risk management or the pay-for-performance principle and is not part of prospective remuneration plans. The guaranteed variable remuneration is exceptional, and may be granted only when hiring new staff and is limited to the first year of employment (as granting date) provided that the credit institution has solid and adequate equity capital.
- Fixed and variable components of total remuneration are properly balanced. The fixed component will represent a sufficiently high proportion of total remuneration in order to allow the operation of a fully flexible variable remuneration policy, including the possibility to pay no variable remuneration.
- The variable remuneration shall only be paid out to the extent that the ratio between fixed and variable component remains reasonable. The ratio variable/ fixed remuneration should not exceed 100%.
- Payments related to the early termination of a contract will reflect performance achieved over time and are designed in a way that does not reward failure.
- The variable remuneration is paid or vests only if it is sustainable according to the financial situation of the credit institution as a whole, and justified according to the performance of the credit institution, the business unit and the individual concerned. Otherwise, the variable component of remuneration shall not be awarded or it shall be awarded only in a limited amount.

The reward package of BCR comprises the following elements:

- Fixed remuneration;
- Variable remuneration.

Performance bonus (an element of variable remuneration) is conditioned by company and individual performance; specifically, it is granted annually for all employees based on individual performance measured using both quantitative and qualitative criteria.

Given the different profile of sales functions in terms of diversity of promoted products and dynamics of sales activities, for front-office staff in retail territorial network, the variable pay component is granted quarterly and annually. For the sales staff, quantitative performance criteria are related to sales targets, which are transparent and continuously monitored.

The following items are being considered in terms of bonus payment structure:

- The minimum performance requirements are conditioning every bonus payment, both the upfront and deferred components. Minimum performance requirements shall take into account the performance at the group, local level and the capital adequacy and liquidity requirements. The minimum local performance requirements are annually set up and approved by the Supervisory Board of BCR;

- The total variable component of remuneration shall be considerably contracted where subdued or negative financial performance of Erste Group and/or BCR Group occurs due to criteria previously described at the determination of bonus pool. This assessment impacts both the current variable remuneration and reduction in pay-outs of bonus amounts previously earned and not paid out.

- The actual pay-out of variable remuneration is usually in cash. In general, bonus payments are one-time cash payments unless a different bonus payment model is defined. The variable component of remuneration shall not be paid through vehicles or methods that facilitate avoidance of the applicable legal requirements.

- Failure shall never be rewarded. In this regard, BCR avoids any binding commitments before all conditions for any component of variable remuneration are met.

- In particular, payments must not be promised and have to relate to the performance in any particular performance period.

- BCR follows the regulatory guidelines in the decision-making process regarding bonus payments; especially in the case of substantive net loss respectively due to equity capital adequacy.

- The application of any disciplinary sanction leads to the loss or limitation of the employee eligibility for performance bonus referring to the year when the sanction was applied.

- There are deferred payment arrangements, and claw-back mechanism to ensure risk adjustments in order to correlate the reward with the sustainable performance.

The ex-post risk adjustment mechanism used by BCR is claw-back. BCR can claim repayment of the performance bonus from an employee if one of the following events occurs:

- Proven fraud committed by any employee during the Performance Period;
- Misleading information provided by the respective employee, if such information had or could reasonably have had an impact on the performance assessment;
- Evidence of misbehaviour or serious error by any employee (e.g. breach of code of conduct and other internal rules, especially concerning risks);
- Evidence that the employee failed to respect appropriate standards of good reputation and proper expertise or

- Evidence that the employee participated in or was responsible for a conduct which resulted in material losses to the credit institution.

The structure of the pay-out model for Identified Staff is:

- 60% of the bonus payment is granted at once (meaning upfront payment) and
- 40% of the bonus payment is deferred over the next three years
- 50% of both the upfront payments and the deferrals will be granted as non-cash instruments, namely phantom shares, which must be retained for one year.

The pay-out of the deferred pay for each year (cash and instrument) is subject to reaching the minimum performance criteria set for the respective year.

The Remuneration Committee exercises its duties under the supervision of the Supervisory Board that appoints and revokes, from among its members (i) the members of the Remuneration Committee, (ii) the chairman ("Chairman") and (iii) the deputy chairman ("Deputy Chairman") of the Committee.

During 2017, the membership of the Remuneration Committee was the following:

67 Remuneration Committee structure during 2017

Name	Position
Between January 1st-May 16th 2017	
Andreas Treichl	Chairman
Manfred Wimmer	Deputy Chairman
Brian O'Neill	Member
Between May 16th - December 31st 2017	
Andreas Treichl	Chairman
Manfred Wimmer	Deputy Chairman
Hildegard Gacek	Member

Also, the Remuneration Committee held 12 ordinary meetings (4 with physical presence and 8 by other means of distance communication) in 2017.

Quantitative information afferent to remuneration data will be published on July 2nd 2018 on the BCR Group's web site under: https://www.bcr.ro/en/investors/transparency-and-public-disclosure.

26 Leverage

DISCLOSURE REQUIREMENTS COVERED: ART. 451 CRR

Information about leverage ratio

The leverage ratio represents the relationship between core capital (Tier 1) and leverage exposure according to Article 429 CRR. Essentially, the leverage exposure represents the sum of on- and off-balance sheet positions considering valuation and risk adjustments as defined within the CRR.

Based on Article 499 (2) CRR, the information presented below on a consolidated level, uses the transitional arrangements for the definition of the capital measure. Also, according to Article 499 (3) CRR, BCR computes the Leverage ratio based on end-of-quarter results.

The scope of consolidation for financial purposes is the same as the regulatory scope of consolidation used to determine the leverage ratio.

The improvement in leverage ratio as at year-end 2017 compared to year-end 2016 is due to higher increase of Tier 1 capital as compared to the increase in total leverage ratio exposure.

68 LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts
1	Total assets as per published financial statements	70,931,239
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	
4	Adjustments for derivative financial instruments	81,951
5	Adjustments for securities financing transactions "SFTs"	
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3,395,978
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	
7	Other adjustments	(262,614)
8	Total leverage ratio exposure	74,146,554

69 LRCom: Leverage ratio common disclosure

			CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)			
	1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	68,760,268
	2	(Asset amounts deducted in determining Tier 1 capital)	(395,311)
	3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	68,364,957
Derivative exposures			
	4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	42,847
	5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	80,554
	EU-5a	Exposure determined under Original Exposure Method	
	6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	
	7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
	8	(Exempted CCP leg of client-cleared trade exposures)	
	9	Adjusted effective notional amount of written credit derivatives	
	10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
	11	Total derivative exposures (sum of lines 4 to 10)	123,400
Securities financing transaction exposures			
	12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	2,262,219
	13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
	14	Counterparty credit risk exposure for SFT assets	
	EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	
	15	Agent transaction exposures	
	EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
	16	Total securities financing transaction exposures (sum of lines 12 to 15a)	2,262,219
Other off-balance sheet exposures			
	17	Off-balance sheet exposures at gross notional amount	10,573,015
	18	(Adjustments for conversion to credit equivalent amounts)	(7,177,037)
	19	Other off-balance sheet exposures (sum of lines 17 to 18)	3,395,978
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)			
	EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
	EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
Capital and total exposures			
	20	Tier 1 capital	6,763,908
	21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	74,146,554
Leverage ratio			
	22	Leverage ratio	9.12%
Choice on transitional arrangements and amount of derecognised fiduciary items			
	EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
	EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

70 LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	68,760,268
EU-2	Trading book exposures	187,486
EU-3	Banking book exposures, of which:	68,572,782
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	27,225,404
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	3,350,345
EU-7	Institutions	645,161
EU-8	Secured by mortgages of immovable properties	7,636,738
EU-9	Retail exposures	11,477,417
EU-10	Corporate	10,167,078
EU-11	Exposures in default	831,319
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	7,239,319

27 Credit Risk Mitigation Techniques

DISCLOSURE REQUIREMENTS COVERED: ART. 453 CRR

Policies and processes for collateral valuation and management

The Group did not conclude netting agreement in the reporting period.

In order for an asset to be accepted as collateral for a loan it is necessary for that asset to fulfil the provisions of the NBR regulations, EU regulations, as well the national, legal and internal requirements. In that perspective an asset must be valuated to determine the market value and the Bank's accepted value beforehand.

The market value is estimated through valuation undertaken by a specialized external company or the value is internally estimated according to internal standards.

The collateral valuation is important for the identification of the secured and unsecured parts of the exposure of a client or group of clients according to the norms and standards internally regulated.

The valuation is performed in accordance with the International Standards of Valuation, ANEVAR Guide and internal procedures, when the loan is granted, during the lifetime of the loan and in case of foreclosure of the respective collateral.

The valuation report for BCR clients must observe the models elaborated by the bank, sent to the external valuator when the collaboration agreement was signed. The valuation approaches used in the valuation report for BCR clients are:

- market approach;
- income approach (capitalization or DCF);
- costs approach.

The market value is the estimated amount for which a good should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The accepted value is an internal view on collateral risk, which serves to show the most probable recovery amount of the collateral in case of its liquidation. The accepted value is calculated by applying haircut rates to the market value. The valuation report is the document in which the market value is estimated.

Description of the main types of collateral taken by BCR

The main types of collateral taken by BCR are presented in the table below:

71 Main types of collateral

1 Real estate collateral	
	1.1. Residential real estate
	1.2. Commercial and industrial real estate
	1.3. Agricultural and forestry real estate
	1.4. Real estate with other uses
2 Movables	
	2.1. Furniture and equipment
	2.2. Computers and communication equipment
	2.3. Plants and equipment
	2.4. Transportation means/special vehicles
	2.5. Stock
3 Personal guarantees	
	3.1. Private individuals
	3.2. Legal entities
	3.3. Public sector
	3.4. Financial institutions
4 Financial guarantees	
	4.1. Credit balance of the account, deposit certificates and other collateral
	4.2. Insurance companies
	4.3. Gold
5 Claims and rights	
	5.1 Receivables
	5.2 Renting lands and buildings
	5.3 Receivables from letters of guarantee and letters of credit
	5.4. Equity interests (unlisted shares) of companies' share capital
	5.5. Rights

Market or credit risk concentrations within the credit mitigation taken

BCR registers credit risk concentrations in its risk mitigation operations towards the Romanian state. At 31 December 2017, the total collaterals received from the Romanian state used for credit risk mitigation purposes amounted to 3,923,661 thousands RON (out of witch “Prima Casa” is 87.10%).

The table below provides the extent of the use of CRM techniques:

72 Template EU CR3: Credit risk mitigation techniques – overview (TOTAL IRB AND STA)

	RON ths	Exposure unsecured	Exposure secured	Exposure secured by collateral	Exposure secured by financial guarantees	Exposure secured by credit derivatives
1	Central governments or central banks	27,242,370	-	-	-	-
2	Regional government or local authorities	3,172,916	255,209	255,209	-	-
3	Public sector entities	209,917	42,461	-	42,461	-
4	Multilateral development banks	-	-	-	-	-
5	International organisations	-	-	-	-	-
6	Institutions	1,166,529	-	-	-	-
7	Corporates	16,989,873	1,418,055	136,708	1,281,347	-
8	Retail	9,179,687	3,603,389	3,458,460	144,929	-
9	Secured by mortgages on immovable property	7,574,082	77,448	75,398	2,050	-
10	Exposures in default	987,299	52,356	41,889	10,467	-
11	Higher-risk categories	349,510	5	-	5	-
12	Covered bonds	-	-	-	-	-
13	institutions and corporates with a short term credit assessment	-	-	-	-	-
14	collective investment undertakings	-	-	-	-	-
15	Equity	17,375	-	-	-	-
16	Other items	6,551,871	-	-	-	-
17	**Total**	**73,441,428**	**5,448,922**	**3,967,663**	**1,481,259**	**-**

The table below provides the effect of all CRM techniques applied in accordance with Part Three, Title II, Chapter 4 of the CRR, including the financial collateral simple method and the financial collateral comprehensive method in the application of Article 222 and Article 223 of the same regulation on standardized approach capital requirements' calculations. RWA density provides a synthetic metric on the riskiness of each portfolio.

73 Template EU CR4: Standardized approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

	RON ths	Exposures before CCF and CRM		Exposure post CCF and CRM		RWA and RWA density	
	Asset classes	On balance	Off balance	On balance	Off balance	RWA	RWA density
1	Central governments or central banks	27,242,370	-	31,173,267	369	559,064	2%
2	Regional government or local authorities	3,339,612	88,512	3,084,403	44,256	858,270	27%
3	Public sector entities	10,733	241,645	10,733	93,645	104,378	100%
4	Multilateral development banks	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-
6	Institutions	645,161	521,368	655,030	160,786	236,012	29%
7	Corporates	10,167,078	8,240,850	9,943,483	1,625,992	11,383,722	98%
8	Retail	11,477,417	1,305,659	7,898,425	525,504	6,268,608	74%
9	Secured by mortgages on immovable property	7,636,738	14,792	7,559,520	7,438	2,860,978	38%
10	Exposures in default	831,319	208,335	806,387	39,060	938,113	111%
11	Higher-risk categories	349,200	315	349,195	157	524,029	150%
12	Covered bonds	-	-	-	-	-	-
13	Institutions and corporates with a short term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	17,375	-	17,375	-	43,438	250%
16	Other items	6,551,871	-	6,771,055	574,901	1,866,807	25%
17	**Total**	**68,268,875**	**10,621,475**	**68,268,875**	**3,072,108**	**25,643,420**	**36%**

Please note that the following disclosure template as required by European Banking Authority Guideline 2016/11, under article 453 does not apply to the institution:

74 Disclosure templates not applicable under article 453

Template	Reason for non-applicable disclosure
Template 22: EU CR7 – Effect on the RWAs of credit derivatives used as CRM techniques	Template 22: EU CR7 – IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques as required by European Banking Authority Guideline 2016/11,under article 453 (g) version 2 does not apply to the institution as BCR Group applies the standardized approach.

28 Other and Transversal Risks

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a) (c) (d) CRR

Business/strategic risk

Business/strategic risk is the risk of suffering unexpected operating losses due to decreases in operating revenues (or increases in costs), which cannot be compensated by cost reduction (or revenue increases), respectively. All revenue or cost fluctuations which are attributable to position taking (market risk), credit losses (credit risk) or operational events (operational risk) are excluded. The materialisation of strategic risk through business risk is comprised in the definition above.

The local Regulator defines strategic/business risk as the current or prospective risk of adverse impact on earnings and capital, arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

The Group has established a framework for the management of strategic/business risk. This framework refers collectively the systems, processes and controls adopted by the Group to identify, assess, monitor, control and report business/strategic risk;

Business/strategic risk management strategies and processes

BCR Group strategic goals with respect business/strategic risk are set through the BCR Group Risk Strategy and are in line with the Group's Risk Appetite Statement, and address the following:

- BCR's business/strategic risk profile, defined based on the Risk Materiality Assessment Process.
- BCR's strategic objectives regarding the management of business/strategic risk, in accordance with the Group's risk tolerance and regulatory requirements.

BCR has integrated strategic/business risk analysis into its overall business strategy and planning processes, since this directly impacts the Bank's identified strategic goals.

BCR quantifies business/strategic risk using an internal model in order to estimate the economic capital requirement for this risk under the Pillar 2 framework. The results of this model are used in the Risk bearing Capacity Calculation, and are incorporated in the Risk Appetite of BCR Group, for further details on these concepts please see chapter 6 "Risk management in BCR Group".

Business/strategic risk reporting, monitoring and mitigation

Business/strategic risk at BCR Group is mitigated by divisions through the following measures:

- diversification of portfolio to reduce dependency on a few markets and products; permanent monitoring of regulatory, tax, economic and market developments and impact analysis whenever the case;
- regular performance meetings to inform management on recent developments and specific issues.
- diversification of balance sheet and revenues sources with focus on healthy growth and earnings good quality.

Business/strategic risk is managed by BCR Group as a part of its business activities. More precisely, it is reflected in the business targets that are established in the strategic guidelines and budget. It is regularly monitored within the strategic planning, budgeting and forecasting process to ensure alignment with the overall risk profile, and reported to the management body.

Capital Risk

The capital risk is the risk of losses due to the possible erosion of capital as a result of dividend policy, ownership structure, remuneration policy and lack of access to supplementary capital sources.

Capital risk management strategies and processes

Capital risk is evaluated through the Risk Materiality Assessment process based on quantitative and qualitative risk drivers in order to evaluate current and prospective risks to the available capital of BCR Group.

Strategies with regard to dividend policy and remuneration policy as well as other initiatives which may affect the capital position of BCR Group take into consideration the Risk Appetite of BCR Group, the risk tolerance and minimum regulatory requirements that the Group has to meet.

The Bank maintains a strong capital position, with capital adequacy ratios well above the minimum requirements and a financial performance which will further strengthen capital supply.

Capital risk reporting, monitoring and mitigation

BCR continuously monitors its capital position through:

- Capital strategy and capital plan – a forward looking investigation into BCR's ability to meet regulatory capital demand over the budgeting horizon so as to provide a medium to long term view.
- Forecast of capital position thus providing a short term view of the Group's ability to meet capital requirements.
- Ad-hoc scenario analysis performed in order to assess the Bank's ability to withstand possible negative impacts.

The Bank has continued to update and enhance the capital monitoring framework by way of policies and procedures such as the BCR Group Capital Management Policy and the BCR Group Dividend Policy.

Political Risk

Political risk is the exposure to a loss, caused by events in a particular country which are under the control of the government but clearly not under the control of an independent private enterprise or individual.

Political risk management strategies and processes

Political developments with an impact on the economy or the financial system are considered during the strategic planning for both the risk and business strategies as part of the market outlook, and represents a key component in the risk management process.

Political risk reporting, monitoring and mitigation

In order to support the management of political risk the Group monitors the evolution internal and external market developments on a regular basis taking into account the implications of the political changes and government initiatives which can have wider economic implications on the banking industry. If necessary, ad-hoc scenario analysis is performed in order to assess the Bank's ability to withstand possible negative impacts.

Macroeconomic Risk

Macroeconomic risk is the risk that the bank incurs losses due to adverse changes in the overall economic environment, i.e. business cycle risk.

Macroeconomic risk management strategies and processes

Macroeconomic evolutions are incorporated into the strategic planning for both the risk and business strategies, into budgeting and forecasting processes, and represents a key component in the risk management process.

Macroeconomic risk reporting, monitoring and mitigation

In order to support the management and reporting of macroeconomic risk and ensure the timely reaction to potential adverse developments the evolution of the macroeconomic environment, equity markets and banking sector are monitored on a regular basis. Key indicators and trends are also tracked on a regular basis through the reporting framework. The Group develops short, medium and long-term macroeconomic forecasts necessary to substantiate the financial and risk planning process and adjusts these forecasts whenever trends changes are noted.

Stress testing simulations further provide support in managing potential deteriorations of the economic environment through the timely preparation and execution of contingency plans and mitigation actions.

Inter- concentration risk

Inter-risk concentration refers to risk concentrations that may arise from interactions between different risk exposures across different risk categories. The interactions between the different risk exposures may stem from a common underlying risk driver or from interacting risk drivers.

Inter- concentration risk management strategies and processes

Inter-risk concentrations between material risks are covered through the regular integrated stress testing as macroeconomic shocks are consistently impacting all risks and might reveal inter-concentration effects.

Inter- concentration risk reporting, monitoring and mitigation

Concentration risk management in BCR Group is based upon a framework of processes, methods and reports. Multiple analyses are regularly conducted, reviewed and reported. Concentration risks are also taken into account systematically in the stress factors of stress tests. Concentration limits monitoring and concentration risk analyses are presented on a regular basis to the management body.

29 Abbreviations

AC	Asset Control
AE	Asset Encumbrance
AFS	Available for Sale
AG	Aktiengesellschaft
ALCO	Asset and Liability Management Committee
AMA	Advanced Measurement Approach
ANEVAR	The National Association of Authorized Evaluators
AT1	Additional Tier 1 capital
AV	Accepted Value of the guarantee
AVA	Additional Valuation Adjustment
BB	Banking Book
BCBS	Basel Committee on Banking Supervision
BCR	Banca Comerciala Romana
BOP	Beginning of Period
BRRD	Bank Recovery Resolution Directive
BSM	Balance Sheet Management Division
CAAP	Credit Application Approval Process
CDMS	Central Data Market System
CEO	Chief Executive Officer
CET1	Common Equity Tier-1
CFO	Chief Financial Officer
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CIRS	Cross-currency Interest Rate Swap
CIU	Collective Investments Undertakings

COO	Chief Operational Officer
CRD	Capital Requirement Directive
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CRR	Capital Requirement Regulation
CVA	Credit Valuation Adjustment
DCF	Discounted Cash Flow
DTA	Deferred Tax Assets
DVA	Debt valuation adjustment
EAD	Exposure At Default
EBA	European Banking Authority
EC	Economic Capital
ECA	Economic Capital Adequacy
ECAI	External Credit Assessment Institution
EEPE	Effective Expected Positive Exposure
EGB	Erste Group Bank
EGO	Emergency Government Ordinance
EHQLA	Extremely High Quality Liquid Assets
EOP	End of Period
ERM	Enterprise-wide Risk Management
EU	European Union
FMA	Austrian Financial Market Authority
FS	Financial Statements
FTP	Funds Transfer Pricing
FV	Held at Fair Value
FX	Foreign Exchange
GCA	Gross Carrying Amounts
GCM	Global Capital Markets Division

GDP	Gross Domestic Product
GL	Guideline
GLC	Group Large Corporate
G-SII	Global Systemically Important Institutions
HTM	Held to Maturity
HQLA	High Quality Liquid Assets
HLA	High Liquidity Assets
HR	Human Resources
IAA	Internal Assessment Approach
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information Communication and Technology
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMA	Internal Model Approach
IMM	Internal Model Method
IPV	Independent Price Verification
IR	Interest Rate
IRB	Internal Rating-based Approach
IRRBB	Interest rate risk in the banking book
IRS	Interest Rate Swap
IT	Information Technology
ITS	Implementing Technical Standards
KRI	Key Risk Indicators
KYCO	Know Your Customer Committee
LCR	Liquidity Coverage Ratio
LCY	Local Currency
LDA	Loss Distribution Approach

LGD	Loss Given Default
LIP	Loss Identification Period
LR	Leverage Ratio
MB	Management Board
MDB	Multilateral Development Banks
MLRM	Market and Liquidity Risk Management Department
MM	Money Market
MR	Market Risk
MTO	Medium Term Objective
MVoE	Market Value of Equity
NBR	National Bank of Romania
NII	Net Interest Income
NPL	Non-performing Loans
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
OLC	Operative Liquidity Committee
ORCO	Operational Risk Management Committee
ORX	Operational Risk Exchange
O-SII	Other Systemically Important Institutions
PAP	Product Approval Process
PD	Probability of Default
PDS	Performance and Development System
PSD	Payment Services Directive
PSE	Public Sector Entities
PVBP	Present Value of a Basis Point
RAS	Risk Appetite Statement
RCC	Risk bearing Capacity Calculation
RCMB	Risk Committee of the Management Board

RCSA	Risk Control Self-assessment
RMA	Risk Materiality Assessment
RMSB	Risk Management Committee of the Supervisory Board
RWA	Risk Weighted Assets
SA or STA	Standardized Approach
SB	Supervisory Board
SFA	Supervisory Formula Approach
SFT	Securities Financing Transactions
SME	Small and medium size enterprises
SPA	Survival Period Analysis
SREP	Supervisory Review and Evaluation Process
SRM	Strategic Risk Management Division
STD	Standard
T2	Tier 2 capital
TB	Trading book
TRD	Held for Trading
VaR	Value at Risk
VAT	Value added tax
VP	Vice-president

30 List of annexes

Annex 1 Capital instruments' main features template