BCR GROUP DISCLOSURE REPORT 2016

Pursuant to NBR Regulation no. 5/2013 on prudential requirements for credit institutions and Part Eight of 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

1 INTRODUCTION

The provisions of the NBR Regulation no. 5 / 2013 on prudential requirements for credit institutions and Part Eight of Capital Requirements Regulation (CRR) apply to BCR Group hereinafter referred to as BCR Group.

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

- Organisational 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 Report incorporates additional information to the Financial Statements (FS) posted on Banca Comerciala Romana's website in the Investors Section, as well as information related to the risk management objectives and policies of the Bank.

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 business and risk management strategy is set (including the involvement of the management body) and foreseeable risk factors;
- the Bank established committees and their mandates and membership;
- the Bank 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.

This Report is prepared on a stand-alone and consolidated basis (IFRS) according to NBR's Regulations. All information herein is presented as of December 31, 2016 unless otherwise stated.

There are no differences between financial and prudential consolidation. The Bank uses the full consolidation method for subsidiaries and the equity method for the associate.

Legislation

The purpose of this Report is to ensure compliance with the regulatory requirements[1] regarding an adequate level of transparency through the public disclosure of capital and risk assessment processes in order to strengthen market discipline and stimulate credit institutions to improve their market strategy, risk control and internal management organization.

The current Disclosure Report of BCR Group meets the disclosure requirements of Part Eight of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, hereinafter referred to as the CRR.

Disclosure policy and report structure

The current Disclosure Report of BCR Group meets the disclosure requirements of article 431(3) Part Eight of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and it is based on the stipulations of the BCR Group Disclosure Policy.

The Disclosure Report provides comprehensive disclosure on risks, risk management and capital management. The document is published annually in Romanian and English versions[2].

BCR Group has chosen 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 preparation of the Disclosure Report and the formal audit for completeness and compliance with the applicable requirements is carried out by Strategic Risk Management / Risk Controlling Division. The Disclosure Report may be subject to audit by the external auditors and by Internal Audit Division.

The Disclosure Report of BCR Group consists of 18 chapters and 2 Annexes.

[1]NBR Regulation no. 5 / 2013 regarding the prudential requirements for credit institutions and EU Regulation No 575/2013 on prudential requirements for credit institutions and investment firms

[2] The Bank publishes interim disclosures bi-annually in a summarized version (information on own funds, capital requirements, risk exposures, and other items prone to rapid change).

2 RISK MANAGEMENT OF BCR GROUP

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

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

2.1 Risk policies, risk strategy and business strategy

Risk policies

The risk management policies implemented by the Bank 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 identifies the main reporting procedures.

The Bank 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 Enterprise-wide Risk Management (ERM) 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 Bank 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.

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 Bank is developing a comprehensive strategic planning process with four 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 non-financial risks, and liquidity risk. In addition, a risk materiality assessment is undertaken on an annual basis. It is ensured that all relevant material risks 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 Bank always seeks to enhance and complement existing methods and processes in all areas of risk management.

In 2016, the management has continued to steer critical portfolios, including active management and sales of non-performing exposures, and further strengthening of 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.

The Group uses the Internet as the medium for publishing its disclosures under NBR Regulation no. 5 / 2013 regarding prudential requirements for credit institutions and to Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation - CRR). Details are available in the Disclosure Report on the website of the Group.

2.2 Risk management organisation

Risk control and risk steering within the Group are performed based on the business 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 the Enterprise Risk Management principles and ensures that adequate and consistent risk management policies are developed and implemented for all material risks; and
- Ensures that the Bank 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:

***Figure 1**: Organizational structure of Risk Management function as of end 2016*

2.3 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 capitalised 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.

Enterprise-wide Risk Management (ERM) enables an increased focus on holistic risk management and ensures comprehensive, cross-risk Group-wide risk portfolio steering.

ERM 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 (RWA and ICAAP), credit, liquidity (ILAAP), market, operational and business risk.

At the Bank level, Strategic Risk Management / Risk Controlling Division 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.

As in prior years, the Group's risk management framework has been continuously strengthened. In particular, ERM has continued to strengthen its comprehensive framework. This includes as its fundamental pillar the Internal Capital Adequacy Assessment Process (ICAAP), as required under Pillar II of the Basel framework.

The ERM 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. ERM 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.

ERM 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 ERM can be clustered as follows:

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

- Recovery Plan.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM 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 scope of this strategy is to ensure 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; and
- 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 must have 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;
- Effective systems, processes and policies are a critical component of the risk management capability;
- 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 proportionality principle is an integral part of the Group's overall risk framework and strategy. The Risk Strategy is presented both on an individual basis (for BCR, hereinafter the Bank) and on a consolidated basis (the Group).

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 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 2016 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. 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 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 Bank has implemented and 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 risk materiality assessment is an annual process with the purpose of systematically identifying new and assessing existing material risks for the Group. The process uses a combination of quantitative and qualitative factors in the assessment of each risk type.

This assessment represents the starting point of the ICAAP process, as identified material risk types need to be considered either directly by dedicating economic capital or indirectly through adequate consideration within other ICAAP framework elements. Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the group. The assessment also serves as an input for the design and definition of the Group's Risk Strategy and Risk Appetite Statement.

Risk Profile

The risk profile is represented by the aggregated actual and potential risk exposures of the Bank. 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 assessment process 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. Concentration risk is addressed through the banks' comprehensive limit framework and specific concentration analyses.

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 Enterprise Risk Management (ERM) 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.

Results of stress testing have to be analysed for further consideration, particularly with regard to the bank's planning and budgeting process, Risk Materiality Assessment or the Risk-bearing Capacity Calculation.

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.

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 numbers is also part of BCR Enterprise Risk Management framework and it assures the adequate reflection of risks within the steering and management process of the Bank. Risk management and forecasting is used by the Bank 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 Bank ensures that there is a strong link between the capital planning, budgeting and strategic planning processes.

The Bank 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.

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.

Risk monitoring

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 Bank to monitor if the actions have had the desired effect of reducing risk, and creating a more stable environment for its activity.

Monitoring and review is a planned part of the risk management process and involves regular checking or surveillance. The results are recorded and reported externally and internally, as appropriate. The results are also an input to the review and continuous improvement of the Bank's risk management framework.

Monitoring and review of risks is required, to evaluate any changes in the risk or control environment. Risk management also requires regular monitoring of risks in light of new developments, providing early warning if risk levels change.

Capital planning and capital allocation

Based on material risks identified, the Bank 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 Bank's capital planning process and the setting of internal capital targets.

The Bank ensures that a well-defined process is put in place to translate estimates of risk into an assessment of capital adequacy.

Adequate systems and processes for managing risks are in place and implemented effectively, with consideration for providing appropriate capital for any residual risks that cannot be reduced to satisfactory levels.

The capital planning process is dynamic and forward-looking in relation to the Bank’s risk profile.

Sound capital planning is critical for determining the prudent amount, type and composition of capital that is consistent with the Bank 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.

It identifies a set of recovery measures which could be taken in order to restore BCR financial strength and viability when it comes under severe stress.

2.4 Material risks for BCR Group

Within BCR Group, the Risk Materiality Assessment is performed for all risk types to which the institution may be exposed.

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

The assessment of the Bank's material risks represent an essential prerequisite for analyzing the risk-bearing capacity with the final goal to aggregate them into the overall risk position (risk profile).

The risks identified by the Bank for 2016 as being material were as follows:

Risk type	Material risk
Credit risk	
	Default risk
	Concentration risk
	Residual risk
	Unhedged borrower risk
Market risk	
	Interest rate risk in banking book
Operational risk	
	IT risk
	Legal risk
	Fraud risk
	Business disruption
	Employment risk
	Execution & processing risk
Other risks	
	Strategic risk
	Macroeconomic risk
	Compliance risk
	Reputational risk

Figure 2: *Material risks for BCR Group end 2016*

2.5 Risk monitoring

Strategic oversight vs. Operational oversight

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 Bank to monitor if the actions have had the desired effect of reducing risk, and creating a more stable environment for its activity.

Monitoring and review is a planned part of the risk management process and involves regular checking or surveillance. The results are recorded and reported externally and internally, as appropriate. The results are also an input to the review and continuous improvement of the Bank's risk management framework.

Monitoring and review of risks is required, to evaluate any changes in the risk or control environment. Risk management also requires regular monitoring of risks in light of new developments, providing early warning if risk levels change.

Responsibilities for monitoring and review are clearly defined in the BCR Group Policy for Limit Management. As general principle, low impact risks require periodic monitoring while major risks are likely to require more intense management focus.

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.

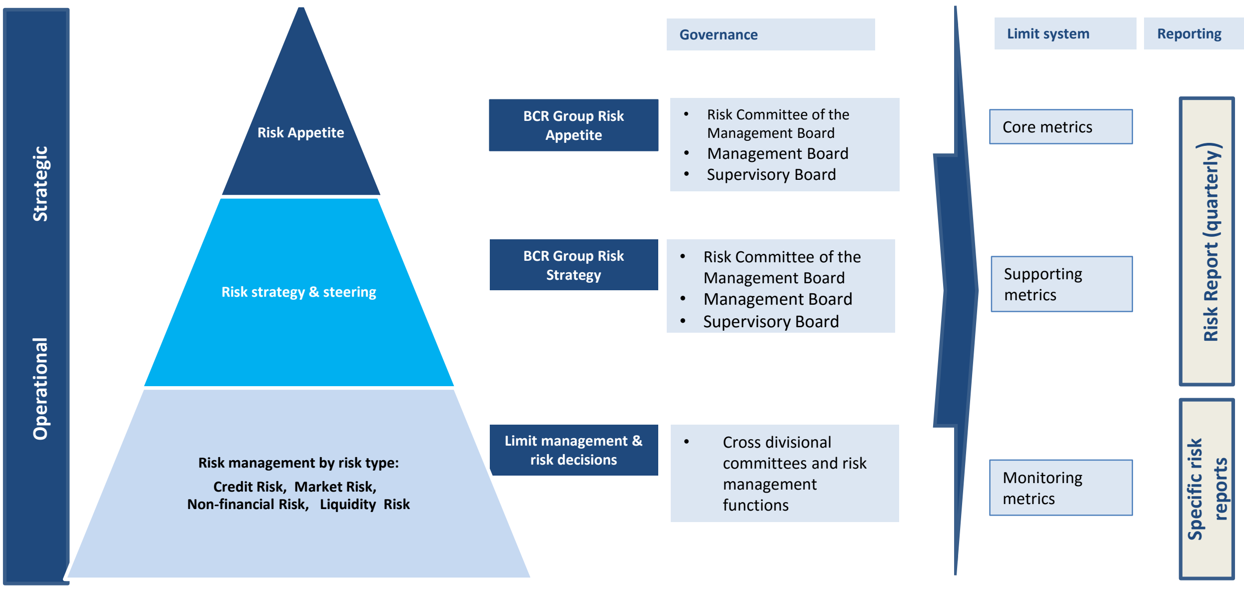


Figure 3: *Strategic and operational oversight*

Oversight of the overall risk profile at the BCR Group level consists of both strategic and operational oversight as set out below.

Strategic oversight

A major part of the strategic oversight plan is determining the Bank's risk appetite. When done right, it is a robust process that can help management and the board understand exposures and make appropriate risk-based strategic decisions.

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

Operational oversight involves the identification, assessment, and prioritization of risks and the application of resources to minimize, control, and mitigates the impact of unfortunate events on business. It is the job of the Board to oversee that their management teams have adequate risk management policies and procedures in place.

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 (i.e. retail risk report). 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.

2.6 Adequacy of risk management systems

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

In this respect, the Bank provide 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 **(Annex 1).**

The Bank 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.

An effective risk management requires clear articulation of the Bank's risk appetite and how the Bank's risk profile is managed in relation to that appetite. The Bank has implemented an effective Risk Appetite Framework which is communicated across the Bank, as well as to the stakeholders, and which embeds the risk appetite into the financials risk profile.

Both Risk Appetite Statement and Risk Tolerance are part of the Risk Appetite Framework and are embedded in the Bank Risk Strategy.

The Risk Appetite is based on relevant risk drivers and metrics and ensures that BCR Group operates within the strategic guidelines and does not exceed the aggregate risk tolerance.

3 MANAGEMENT BODIES

3.1 Information on governance arrangements

DISCLOSURE REQUIREMENTS COVERED: ART. 435(2) (a) (d) (e) CRR

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

Banca Comerciala Romana SA (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 management structure of BCR, both oversight function bodies, such as the Supervisory Board, and management bodies such as the General Meeting of Shareholders and Management Board, is described in detail on the bank's website, Section: About us/Corporate Governance.

Organizational chart

During 2016 the Bank experienced a complex restructuring process, as follows:

- In the first phase - the merger of Corporate & Capital Markets functional line with CEO functional line, under the coordination of BCR CEO - Mr Sergiu Manea, implemented on September 2nd, 2016;
- Phase 2 implemented on September 30th, 2016 - the integration of the Remedial, Restructuring and Recovery business line within the Risk functional line, under the coordination of the Risk Executive Vice President (CRO).

As a result, the number of functional lines was reduced from 7 to 5, and the number of members of the Management Board from 7 to 5.

Thus, at the end of 2016, the Bank's central organization was divided into 5 (five) functional lines, as follows:

- 1 line that is subordinated to CEO;
- 4 lines, covering the following areas: Operations & IT, Retail & Private Banking, Finance, Risk which are composed of functional entities that are subordinated to those 4 (four) executive vice presidents.

The organizational chart of BCR Head Office as of 31.12.2016 is presented in the chart below:

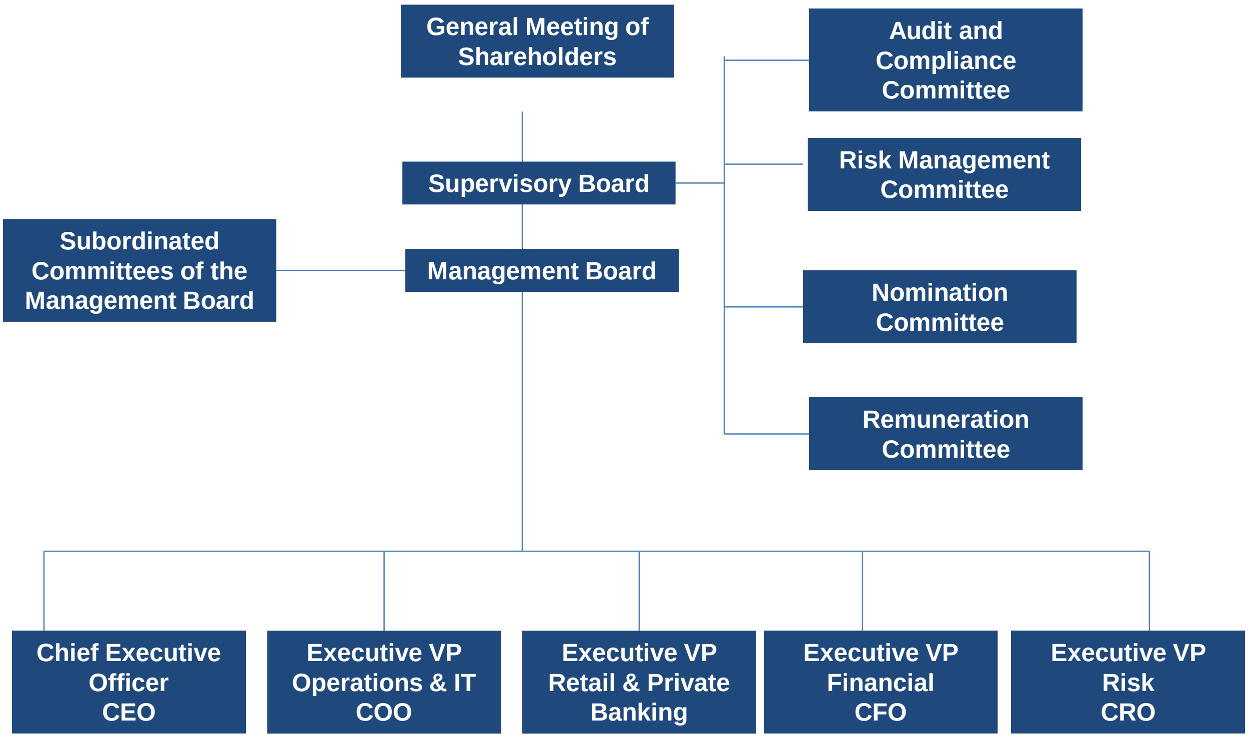


Figure 4: *Organisational chart Head-Office as of 31.12.2016*

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

COMMITTEES AND GROUP STRUCTURE

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

MB Committees

In the context of corporate governance redesign process at the request of the executive management, Legal Division initiated the reshaping of the structure of the management decisional bodies under the Management Board (MB).

The main rationale is to provide a clearer structure with one single management decision body subordinated to MB for each major activity area by:

- Streamlining the decision making process and eliminate redundancies/ overlapping of the responsibilities;
- Optimizing the MB committees structure (by decreasing the number of MB subordinated committees;
- Optimizing the Management Board member's calendar.

During 2016, there were several changes in the MB composition, namely:

- on 30.06.2016 the mandate of Mr. Bernd Mittermair - Executive Vice President of BCR ended;

- on 14.10.2016 the mandate of Mr. Jonathan Locke - Executive Vice President of BCR ended;
- on 30.11.2016 the mandate of Mr. Paul Ursaciuc - Executive Vice President of BCR ended.

On October 24th 2016, BCR's Supervisory Board appointed Mr. Bernhard Spalt as member of BCR Board, coordinator of Risk functional line starting with January 1st 2017. Mr. Bernhard Spalt took over his position as of January 20th 2017, after receiving the NBR approval. The term of office is three (3) years.

Management Board committee's structure:

Between **31.12.2015 – 12.05.2016**:

Committees subordinated to the Management Board	
1	Assets and Liabilities Management Committee
2	Projects and IT Committee
3	Corporate Credit Committee
4	Retail Credit Committee
5	Problem Asset Committee
6	Operational Risk Management Committee
7	Investments and Disposals Committee
8	Know Your Customer Committee
9	Self Banking Equipment Management Committee
10	Financial Steering Group Committee
11	Risk Committee of the Management Board
Other Work Committees / Committees established at BCR level	
12	Litigations Committee
13	Labour Safety and Health Committee
14	Professional Inadequacy Committee
15	Social Commission
16	Disciplinary Commission

Between **13.05.2016 – 31.12.2016:**

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	Litigation Committee
6	The Evaluation Commission
7	Disciplinary Commission
8	Labour Safety and Health Committee
9	Social Commission

BCR Group structure

The BCR Group structure as of 31.12.2016 is presented in the chart below:

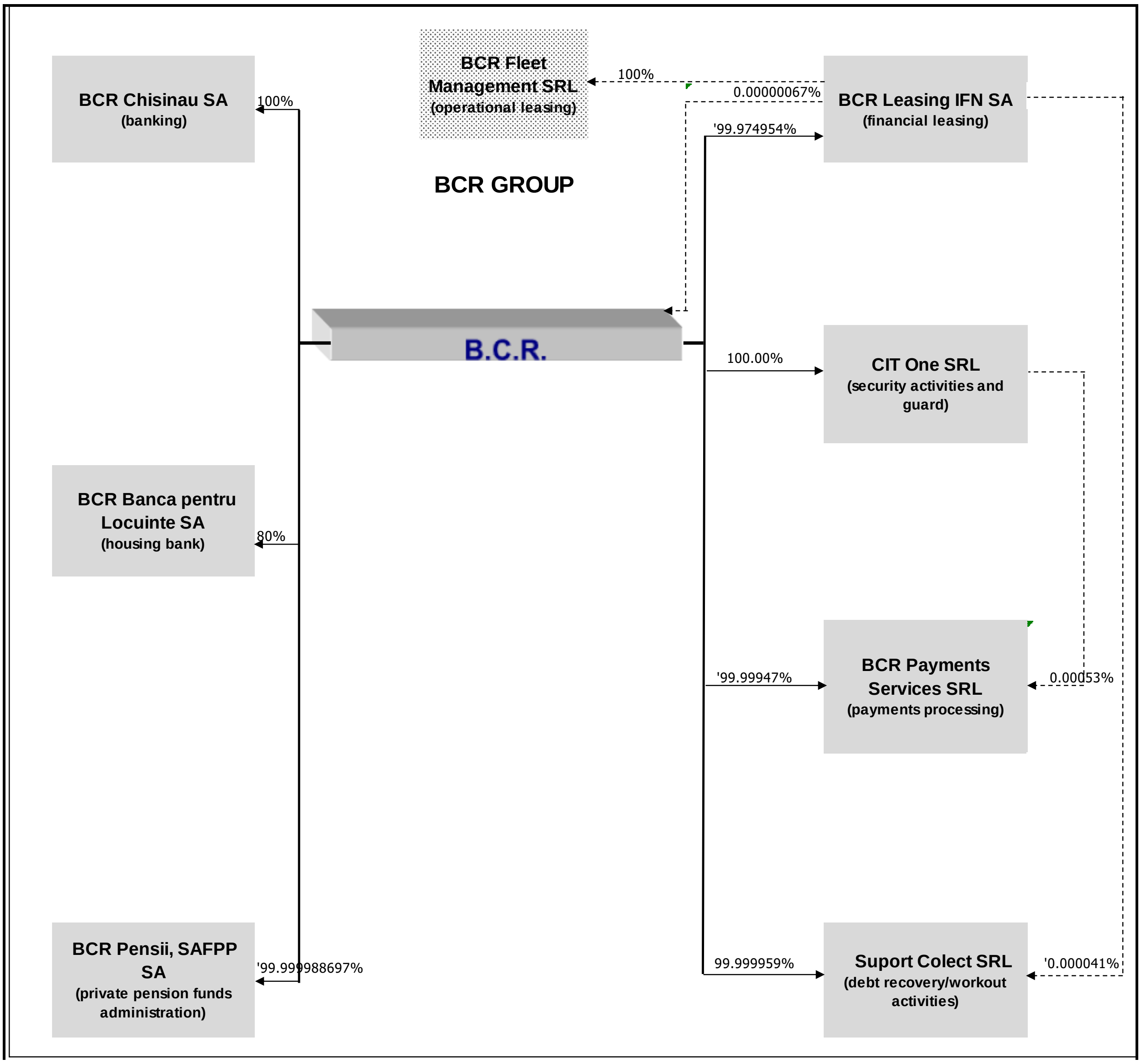


Figure 5: *BCR Group structure as of 31.12.2016*

As compared to 31.12.2015, the following changes occured within BCR Group structure:

- Completion of Financiara SA voluntary liquidation;
- Merger between BCR and the bank's subsidiaries acting on real estate management area – BCR Real Estate Management SRL and Bucharest Financial Plazza SRL.

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** 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 maximum three (3) years mandates.

Considering that the Supervisory Board members' mandates expired on April 23rd 2016, the General Meeting of Shareholders approved on April 22nd 2016 to appoint new members and also, extend the mandates for some of the existing Supervisory Board members.

Period 01.01.2016 - 23.04.2016	
Name	**Position**
Manfred Wimmer	Chairman
Andreas Treichl	Deputy Chairman
Gernot Mittendorfer	Member
Tudor Ciurezu	Member
Brian O'Neill	Member
Andreas Gottschling	Member
Vacant position	Member
Period 24.04.2016 - 31.12.2016	
Manfred Wimmer	Chairman
Andreas Treichl	Deputy Chairman
Hildegard Gacek	Member
Wilhelm Koch	Member
Tudor Ciurezu	Member
Gernot Mittendorfer	Member
Brian O'Neill	Member

Taking into consideration the following:

- Supervisory Board membership structure as of December 31st, 2016 and
- the information made available by each Supervisory Board member under the relevant Fit & Proper Affidavit and
- 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:

- **Mr. Manfred Wimmer** holds 2 non-executive mandates within Erste Group (counted as 1 mandate, according to Law no. 29/2015);
- **Mr. Andreas Treichl** holds 1 executive mandate and 6 non-executive mandates within Erste Group (counted as 1 mandate, according to Law no. 29/2015), 1 non-executive mandates in VIG Group, 1 non - executive mandate in Leoganger Bergbahnen Gesellschaft m.b.H.;
- **Mr. Gernot Mittendorfer** holds 2 executive mandates and 8 non-executive mandates within Erste Group (counted as 1 mandate, according to Law no. 29/2015);
- **Mr. Brian O'Neill** holds 2 non-executive mandates within Erste Group, 2 non-executives mandates and 1 mandate in non-profit organizations (not counted, according to Law no. 29/2015);
- **Mr. Tudor Ciurezu** holds 1 executive mandate 2 non-executive mandates;
- **Wilhelm Koch** – holds 1 executive mandate and 1 non-executive mandate within Erste Group;
- **Hildegard Gacek** - holds 1 executive mandate in EBRD.

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 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 quarterly basis to the Supervisory Board regarding its activity.

Until December 31st, 2016, the Risk Management Committee convened in 12 meetings (5 regular meetings and 7 meetings by correspondence).

The **Management Board** 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.

Until September 30th 2016 the Management Board consisted of seven (7) members appointed by the Supervisory Board and their mandate is for a maximum of four (4) years with the possibility of being re-elected for subsequent of maximum four (4) years mandates. Starting with October 1st 2016 the Management Board consists of five (5) members.

As of December 31st 2016, the Management Board membership structure was the following:

Management Board membership 31.12.2016	
Sergiu Manea	CEO
Adriana Jankovicova	Executive Vice President
Dana Demetrian	Executive Vice President
Vacant position	Executive Vice President
Vacant position	Executive Vice President

Taking into consideration the following:

- Management Board membership structure as of December 31st, 2016
- the information made available by each Management Board under the relevant Fit & Proper Affidavit and
- 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:

- **Mr. Sergiu Cristian Manea** holds 1 executive mandate (CEO BCR and coordinator of Executive Vice-president Corporates and Capital Markets line), 4 non-executive mandates within BCR Group (all counted as 1 mandate, according to Law no. 29/2015) and 1 non-executive mandate outside BCR Group;
- **Mrs. Adriana Jankovicova** holds 1 executive mandate (CFO BCR) and 4 non-executive mandates within BCR Group (all counted as 1 mandate, according to Law no. 29/2015);

- **Mrs. Dana Luciana Demetrian** holds 1 executive mandate (BCR Executive Vice-president Retail and Private Banking), 3 non-executive mandates within BCR Group (all counted as 1 mandate, according to Law no. 29/2015) and 2 non-executive mandates outside BCR Group.

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.

The Risk Committee of the Management Board (RCMB)

The Risk Committee of the Management Board is operational starting with September 29th, 2015.

RCMB 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.

RCMB is an analysis, advisory and decisional body, subordinated to MB, having the following main responsibilities:

- Pre-approves the annual or interim BCR risk strategy, the quarterly Risk Report, the Risk Appetite Statement (RAS), the ICAAP related policies, the Retail and Corporate risk policies (including pouvoirs), the Risk Materiality Assessment results;
- Pre-approves the Recovery plan and represents BCR Recovery Steering body for the initiation and implementation of recovery measures;
- Pre-approves the annual review of the limits for countries and sovereign entities and for banks and financial institutions affiliated to banking groups;
- Pre-approves the collateral management policy;
- Pre-approves the stress testing results;
- Pre-approves the setting and registering of litigation provisions;
- 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;
- monitors the lending policies use, the general compliance of internal credit risk rules and procedures with risk guidelines of Erste Group and with prudential regulations;
- monitors the development of main projects of risk and business which are risk related;
- regularly analyses the impact of regulatory and market changes;

- reviews risk based pricing models based on the specific reports/analysis;
- analyses quarterly recovery indicator and trigger report or information in case of breach of triggers and/or indicators;
- continuously evaluates the operational risks affecting the Bank's objectives and take action on any change in conditions in which it operates;
- ensures that information and experience gained about the non-financial risk management are integrated into business and supporting processes.

Until December 31st 2016, the Risk Committee of the Management Board convened in twenty-eight (28) regular and special meetings.

Internal Audit

Risk Management processes throughout the Bank is audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with the Management Board and reports its findings and recommendations to the Audit and Compliance Committee.

More details about the corporate governance framework, the Policy regarding Banca Comerciala Romana SA corporate governance, as well as the Corporate Governance Report for 2016 are presented on the Bank website https://www.bcr.ro/en/about-us/corporate-governance/principles-policies.

3.2 Description of the information flow on risk to the management body

One of the Bank 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 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 Bank's management of risk.

They also need alerts when significant changes are detected in the level of risk.

Therefore the Bank 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.

3.3 Territorial Network

BCR is organised in functional lines at central level and it holds a network of branches serving for the retail and corporate business functional lines.

The BCR's territorial network as of December 31st 2016 is grouped according to the two main customer segments, i.e. retail and corporate.

Corporate Segment as of December 31st 2016

The corporate segment is structured into 9 geographical areas, based on client density, covering the entire country: Iasi, Vrancea, Constanta, Arges, Dolj, Sibiu, Brasov, Bucuresti and Transilvania.

	Area	No. Commercial Centres and Area Centres
1	Area Iasi	2
2	Area Vrancea	2
3	Area Constanta	2
4	Area Arges	2
5	Area Dolj	2
6	Area Sibiu	1
7	Area Brasov	2
8	Area Bucuresti	4
9	Area Transilvania	4

Corporate network map as of 31.12.2016

Figure 6: *Corporate network as of 31.12.2016*

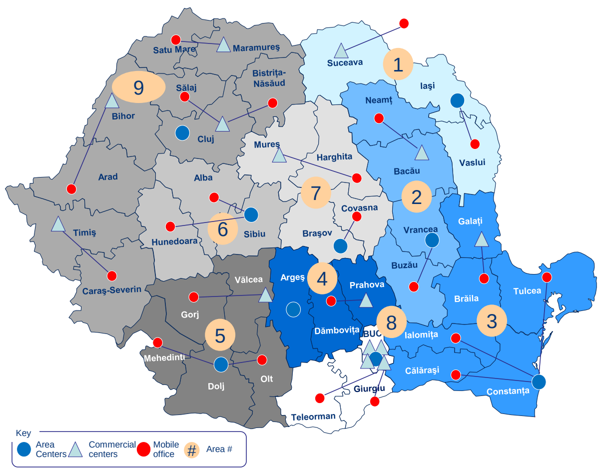
The corporate segment is served by 21 Commercial Centres and Area Centres, 18 Mobile Teams and International Clients Department that support small and medium-sized customers (SMEs) and by two Divisions within BCR's Headquarters which support the large enterprises clients and public sector clients (Group Large Corporate and Public and Infrastructure Finance).

As a rule, for the corporate segment, each area contains one Area Centre, one Commercial Centre and 2-3 Mobile Teams, except Bucharest and Transilvania Area (without Area Centre, with 4 Commercial Centres) and Sibiu Area (no Commercial Centre).

Retail Segment as of December 31st 2016

The retail segment is structured into 12 Retail Areas and it comprises a total number of 513 territorial units, out of which 167 branches and 346 agencies which support private individuals, free professions and micro - enterprises.

Area	Agencies	Branches
Area 1	40	14
Area 2	34	14
Area 3	28	13
Area 4	31	17
Area 5	33	17
Area 6	26	13
Area 7	40	12
Area 8	25	15
Area 9	25	15
Area 10	19	12
Area 11	23	11
Area 12	22	14
TOTAL	**346**	**167**



Retail network map as of 31.12.2016

Figure 7: *Retail network as of 31.12.2016*

3.4 Turnover

The turnover for BCR Group and BCR standalone as of December 31st 2016 is presented in the table below:

RON thds	Amount
BCR Group's Turnover	**3,788,846**
out of which:	
- Romania	3,762,593
- Moldova	26,253
BCR Bank's Turnover	**3,542,914**

Figure 8: Turnover for BCR and BCR Group as of 31.12.2016

3.5 Macroeconomic forecasted risks

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

Economic growth: We expect another year of solid growth in 2017 (more than 4%) mainly stimulated by further disposable income expansion related to tax cuts and generous public wage and welfare policy. We expect however that budget execution will be strained by the expansionary fiscal policy, imposing some corrective measures which would constrain growth momentum in 2018. Albeit softer, growth will continue to be driven by domestic demand, with private consumption remaining the biggest driver and net exports the biggest drag on the economic advance.

Monetary policy & inflation: The central bank is likely to keep the main monetary policy rate unchanged in 2017, amid inflation returning to positive territory. A tightening via the deposit facility rate or liquidity measures could be triggered by external signals from neighbouring central banks, a QE (Quantitative easing) tapering by the ECB, a stronger than expected tightening in the US or currency depreciation. A move in 2018 is highly dependent on developments surrounding fiscal policy. The stance of the monetary policy should nevertheless become gradually more tightening, especially if the current NBR’s inflation forecast close to the upper limit of the target band were to be fulfilled.

Budget deficit & fiscal policy: The broad fiscal easing and loose public wage legislation will weigh on the budget deficit starting 2017, amid significant deviation from the structural target assumed through the Fiscal Compact. Putting the public finances back on a consolidation track could bring about tax hikes or spending cuts, with public investments remaining under threat to be cut.

3.6 Recruitment criteria

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

a. 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 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.

b. 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 new Supervisory Board member Mrs. Hildegard Gacek.

4 ORGANIZATION OF THE INTERNAL CONTROL SYSTEM'S FUNCTION

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

4.1 Internal control system

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:

1. 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.
2. Second-level of control is the duty of Risk Management Function and Compliance Function.
3. 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:

1. Each employee has a dedicated back-up which undertakes all the responsibilities of the employee on leave.

2. Non - disclosure agreement signed by all employees;

3. Ethical Code in place;

4. Zero tolerance to confidential information disclosure;

5. Clear defined approval flow in accordance with the banking law.

6. Dual control in place, validation rules in BCR systems. Implementation of “4-eyes principle” for each financial report.

7. Existing standardized labelled folders with restricted access.

4.2 Performance monitoring by the management body

Performance management is formalized through the Performance and Professional Development System (PDS procedure). This process is applicable to all BCR Group employees, including control function. Details about the performance management and compensation strategy are presented in the Corporate Governance Report for 2016 (https://www.bcr.ro/en/about-us/corporate-governance/principles-policies).

4.3 Material information about the financial and operating results

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

BCR Group published yearly its Financial Statements, with all material financial information on BCR website: https://www.bcr.ro/en/investors/financial-reports.

5 SCOPE OF CONSOLIDATION AND OWN FUNDS

DISCLOSURE REQUIREMENT COVERED BY: ART. 436 (a) (b) and 437 (1) (a) CRR

The information related to the scope of consolidation and own funds (respectively the Disclosure requirements according to Art. 436 from CRR) were disclosed in the Banca Comerciala Romana SA Consolidated and Separate Financial Statements as of December 31st 2016.

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 settle the 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.

Total capital shortfall of all subsidiaries not included in the consolidation

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

As of 31 December 2016 there was no capital shortfall at any of the companies of BCR Group included in consolidation.

DISCLOSURE REQUIREMENT COVERED BY: ART. 437 from CRR

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

6 CAPITAL REQUIREMENTS

6.1. Capital requirements – Pillar I and Pillar II

DISCLOSURE REQUIREMENTS COVERED: ART. 438(a) CRR

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 2016 are presented in the below table:

Indicator(in RON thousands)	BCR Group	BCR Bank
Common Equity Tier 1 (CET1) capital	6,320,117.23	6,316,806.63
Tier 1 capital	6,320,117.23	6,316,806.63
Tier 2 (T2) capital	1,457,664.36	1,339,134.72
Total capital (TC=T1+T2)	7,777,781.59	7,655,941.34
Common Equity Tier 1 (as a percentage of total risk exposure amount)/*	18.64%	19.79%
Tier 1 ratio (as a percentage of total risk exposure amount)/*	18.64%	19.79%
Total capital ratio (as a percentage of total risk exposure amount)/*	23.09%	24.14%

/* after applying NBR Order 119/2012 and NBR Order 34/2014 (215,885.80 thds. RON)

Figure 9: *Solvency ratio, CET 1 ratio and Tier 1 ratio for BCR Group and BCR bank as of 31.12.2016*

The prudential filter represents the gap between local prudential value adjustments (RAS provisions) and IFRS provisions. According to NBR Regulation no. 5/2013, the usage of the prudential filter will be phased out until 31.12.2017 (the percentages applicable are 40% in 2016 and will reduce by 20% per year until 0% in 2018). In Romania, IFRS provisions are determined by each bank using its own methodology according to IFRS standards; prudential value adjustments are determined based on a stricter methodology provided by NBR (a matrix considering debt service, financial performance and legal procedures). According to the legislation, prudential filters are used only for individual level (BCR standalone); for consolidated level (BCR Group) only the IFRS provisions are considered.

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 2016 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:

Type of risk	Model	Comment
Credit risk	Credit risk is computed as 8% of RWA percentage, in compliance with the Basel regulations	Amount scalled 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 ▪Internal model – Trading Book - VaR (1y, 99.9%)	Amount scalled 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 scalled 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 scalled to 1 year, 99.9% confidence level
Business / strategic risk	Internal model based on extreme value theory (EVT) and relies on the application of the Generalized Pareto Distribution (GPD) to the tails of the data	Amount scalled to 1 year, 99.9% confidence level

Figure 10: *Internal models to quantify risks under Pillar II*

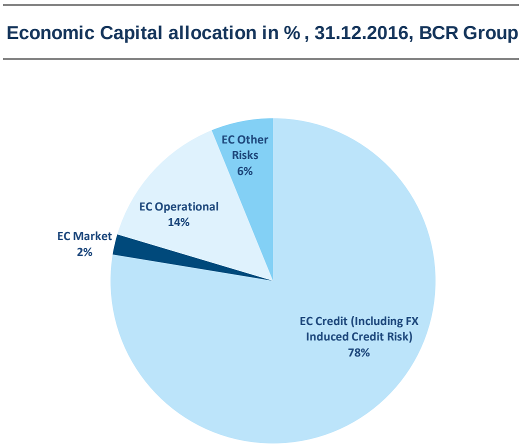
The Bank may also include additional capital risk buffers to cover specific risk types.

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 Bank'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 its risk appetite. The Risk Appetite Framework defines, from a strategic perspective, the risk level that BCR Group is willing to be exposed to and specifies restrictions and limits required for daily operations.

To determine the BCR Group's capital adequacy, BCR Group uses a forward-looking traffic light system. In this way, the management body may asses at any time the extent to which the economic capital adequacy of BCR Group is appropriate and sufficient. 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 about 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 diagrams present the composition of the economic capital requirement according to type of risk as of December 31st 2016, for BCR Group and BCR bank:



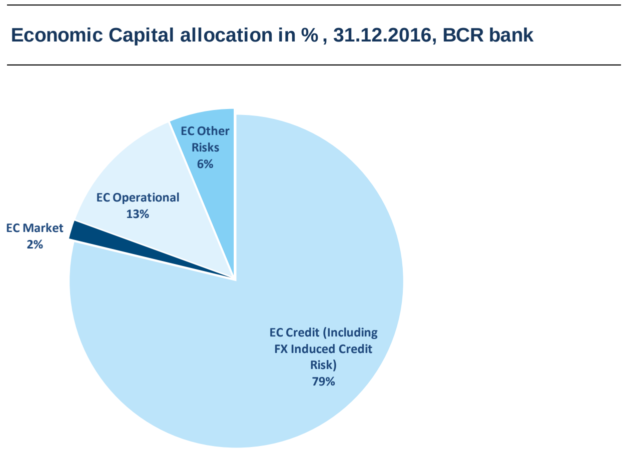


Figure 11: *Economic capital allocation as of 31.12.2016 for BCR Group and BCR bank*

6.2. Other own funds requirements

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

BCR 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 2016, for the credit risk, market risk and operational risk were as follows:

31.12.2016 (ths RON)	Bank IFRS with prudential filters	Group BCR (IFRS)
TOTAL CAPITAL REQUIREMENTS	**2,465,680.16**	**2,619,980.10**
Credit risk - standard approach	**1,891,351.66**	**2,001,732.90**
Central governments or central banks	62,086.38	73,539.88
Regional governments or local authorities	83,159.80	84,093.74
Public sector entities	308.88	308.88
Multilateral Development Banks	0.00	0.00
International Organisations	0.00	0.00
Institutions	26,933.71	22,236.65
Corporates	782,944.05	831,679.42
Retail	445,383.82	482,992.47
Secured by mortgages on immovable property	195,242.19	197,721.75
Exposures in default	80,365.94	104,305.42
Items associated with particular high risk	50,076.80	50,583.00
Covered bonds	0.00	0.00
Claims on institutions and corporates with a short-term credit assessment	0.00	0.00
Collective investments undertakings (CIU)	0.00	0.00
Equity	53,431.47	5,471.31
Other items	111,418.64	148,800.38
Securitisation positions SA	**0.00**	**0.00**
Settlement/delivery risk	0.00	0.00
Settlement/delivery risk in the non-Trading book	0.00	0.00
Position, foreign exchange and commodity risks under standardised	**8,793.25**	**19,097.28**
Position risk afferent to traded debt instruments	4,899.00	4,899.00
Position risk afferent to equity	86.00	86.00
FX risk	3,808.25	14,112.27
Operational risk	**562,518.73**	**596,133.41**
Basic approach	0.00	33,614.67
Advanced assessment approach	562,518.73	562,518.73
Capital requirements for credit valuation	3,016.51	3,016.51
Standardised method	3,016.51	3,016.51

Figure 12: *Regulatory capital requirement as of 31.12.2016*

7 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

The Bank 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.

Measures for exposure value

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:

in RON	31-Dec-15	31-Dec-16
Exposure from Derivatives Instruments	192,782,183.81	174,152,039.65

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:

in RON	31-Dec-15	31-Dec-16
Exposure from Securities Financing Transactions	2,676,199.43	8,067,468.78

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

8 CREDIT RISK ADJUSTMENTS

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (a) CRR

Definitions for accounting purposes of past due and impaired

Assets are considered past due when the counterparty has failed to make a payment when due.

According to NBR's Order no.27/2010 financial assets, including related interests and amounts to be amortized which are past due but not impaired are booked in the account "Not impaired past due receivables" and receivables which are impaired at individual level are recorded in the account "Impaired receivable".

DISCLOSURE REQUIREMENTS COVERED: ART. 442(b) CRR

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

The Bank 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.from the Consolidated and Separate Financial Statements as of 31 December 2016 for BCR (Group and Bank).

DISCLOSURE REQUIREMENTS COVERED: ART. 442(c) CRR

Exposures amount

The total credit risk exposure without taking into account any collateral or other credit risk mitigation techniques, broken down by exposure classes, is shown in the table below:

	BCR Standalone		BCR Group	
in RON thousands	**2015**	**2016**	**2015**	**2016**
Sovereign	25,953,249	29,130,118	28,361,255	31,553,378
Institutions	900,284	816,868	933,931	769,165
Corporates	19,930,111	17,582,675	19,022,878	18,076,757
Retail	20,633,338	20,386,094	21,871,002	21,270,953
Total	**67,416,982**	**67,915,756**	**70,189,066**	**71,670,252**

DISCLOSURE REQUIREMENTS COVERED: ART. 442(d) CRR

The geographic distribution of the total credit risk exposure, broken down in significant areas by exposure classes, is presented in the table below:

BCR Standalone				2016
in RON thousands	Sovereign	Institutions	Corporate	Retail
South - West	73,022	7	975,491	1,367,104
North - East	689,172	2	873,400	1,956,006
South	478,159	10	910,126	1,963,405
West	347,007	3	454,306	1,736,043
Center	265,911	0	1,482,912	2,123,321
South - East	54,386	13	1,275,634	1,990,059
North - West	332,827	0	1,746,596	2,228,257
Bucharest - Ilfov	26,889,636	816,833	9,864,209	7,021,899
Total	**29,130,118**	**816,868**	**17,582,675**	**20,386,094**

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (e) CRR

The distribution of the total credit risk exposure by industry and risk category is presented below:

BCR Group					2016
in RON thousands	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture, forestry and fishing	308,768	267,403	3,410	75,417	654,998
Mining and quarrying	1,232,868	87,453	0	268,054	1,588,375
Manufacturing	2,037,853	1,325,026	143,937	1,151,331	4,658,147
Electricity, gas, steam and air conditioning supply	378,462	316,158	11,978	80,584	787,183
Water supply	175,261	37,246	17	33,743	246,267
Construction	1,668,052	943,253	3,193	522,794	3,137,292
out of which: Development of building projects	744,574	15,771	1	105,016	865,361
Wholesale and retail trade	2,765,118	720,413	8,615	424,135	3,918,281
Transport and storage	946,071	158,934	1,151	74,090	1,180,247
Accommodation and food service activities	42,338	5,377	17,613	34,675	100,003
Information and communication	228,263	40,143	3,660	43,961	316,027
Financial and insurance services	8,606,313	80,617	2,680	44,688	8,734,299
out of which: Holding companies	233,320	0	-	34	233,354
Real estate activities	570,118	94,959	15,165	144,901	825,143
Professional, scientific and technical activities	126,952	112,429	2,207	29,732	271,320
Administrative and support service activities	88,124	28,559	323	3,769	120,776
Public administration and defence, compulsory social security	23,912,637	239,667	19,481	69,155	24,240,939
Education	12,012	98	445	290	12,845
Human health services and social work activities	9,644	111,711	941	12,101	134,397
Arts, entertainment and recreation	3,071	2,469	180	226	5,945
Other services	45,213	4,029	1,126	3,776	54,144
Private households	14,770,820	4,218,262	129,622	1,564,854	20,683,559
Others	52	0	-	12	64
Total	**57,928,010**	**8,794,209**	**365,745**	**4,582,289**	**71,670,252**

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (f) CRR

The residual maturity breakdown of all credit risk exposure, broken down by exposure classes, is presented in the table below:

BCR Standalone				2016
in RON thousands	Sovereign	Institutions	Corporate	Retail
< 3 months	7,318,493	529,779	1,779,048	437,449
3 months <= X < 1 year	2,100,619	44,003	4,852,474	653,344
1 year <= X < 2,5 years	0	17,011	3,402,360	863,322
2,5 years <= X < 5 years	8,422,655	128,157	3,330,446	3,333,044
5 years <= X < 10 years	8,099,586	0	1,835,648	899,302
10 years <= X < 15 years	2,570,085	0	1,001,407	1,174,798
15 years <= X < 20 years	601,549	868	902,663	2,704,917
20 years <= X	17,130	97,050	478,629	10,319,917
Total	**29,130,118**	**816,868**	**17,582,675**	**20,386,094**

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (g) CRR

The following table shows the total credit risk exposure, as well as the past-due and impaired exposures, broken down by counterparty types[3]:

BCR Group										2016
in RON thousands	Gross carrying amount	of which: perfoming			of which: non-perfoming					
		Not past due or Past due <= 30 days	Past due > 30 days <= 60 days	Past due > 60 days <= 90 days	Unlikely to pay that are not past-due or past-due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year	Of which: defaulted	Of which: impaired
Loans and advances	**44,020,757**	**39,501,425**	**186,235**	**120,643**	**1,721,688**	**162,290**	**935,676**	**1,392,800**	**4,107,720**	**4,129,155**
Central banks	7,423,017	7,423,017	-	-	-	-	-	-	-	-
General governments	4,193,329	4,105,448	9,298	22	45,549	29,919	2,094	999	47,180	47,487
Credit institutions	713,158	713,158	-	-	-	-	-	-	-	-
Other financial corporations	316,897	271,679	11	32	44,621	2	37	513	44,921	45,082
Non-financial corporations	12,101,693	9,526,516	20,376	14,819	941,622	32,721	815,146	750,493	2,519,206	2,533,803
Of which: Small and Medium-sized Enterprises	4,099,768	3,397,853	4,275	4,558	257,986	7,833	65,675	361,588	673,155	688,930
Of which: Commercial real estate	5,384,298	3,691,010	138	2,292	419,297	6,701	747,709	517,150	1,689,055	1,687,589
Households	19,272,664	17,461,607	156,549	105,770	689,896	99,647	118,399	640,795	1,496,413	1,502,783
Of which: Residential mortgage loans	14,052,422	12,940,497	132,388	83,142	473,057	60,468	64,191	298,678	855,513	853,285
Of which: Credit for consumption	4,608,116	4,134,657	19,422	15,047	157,126	35,655	48,762	197,447	427,703	436,315
Debt instruments	**19,858,807**	**19,856,476**	**-**	**871**	**1,460**	**-**	**-**	**-**	**1,460**	**-**
Central banks	8,679	8,679	-	-	-	-	-	-	-	-
General governments	19,850,128	19,847,797	-	871	1,460	-	-	-	1,460	-
Credit institutions	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-
Off-balance sheet instruments	**7,717,203**									
Loan commitments given	**4,946,265**									
Financial guarantees given	**2,745,106**									
Other commitments given	**25,832**									
Positive fair value of derivative instruments	**73,486**									

The accumulated impairment and accumulated changes in fair value due to credit risk and provisions for past-due and impaired exposures, broken down by counterparty types[4] are shown below:

BCR Group							2016
in RON thousands	Accumulated impairment, accumulated changes in fair value due to credit risk and provisions	on performing exposures	on non-performing exposures				
			Total	Unlikely to pay that are not past-due or past-due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year
Loans and advances	**-3,598,084**	**-598,437**	**-2,999,647**	**-942,425**	**-77,270**	**-813,591**	**-1,166,361**
Central banks	0	0	0	0	0	0	0
General governments	-52,145	-27,180	-24,965	-23,288	-276	-919	-481
Credit institutions	-4,636	-4,636	0	0	0	0	0
Other financial corporations	-29,031	-6,474	-22,557	-22,017	-1	-37	-502
Non-financial corporations	-2,044,367	-234,834	-1,809,533	-448,680	-18,303	-736,907	-605,643
Of which: Small and Medium-sized Enterprises	-547,004	-92,628	-454,376	-139,632	-5,688	-16,722	-292,335
Of which: Commercial real estate	-1,370,253	-60,268	-1,309,985	-212,483	-2,850	-679,066	-415,586
Households	-1,467,904	-325,312	-1,142,592	-448,441	-58,690	-75,728	-559,734
Of which: Residential mortgage loans	-834,875	-245,808	-589,067	-283,531	-32,897	-37,993	-234,645
Of which: Credit for consumption	-456,283	-75,721	-380,562	-125,217	-23,633	-36,230	-195,482
Debt instruments	**-3,609**	**-3,609**	**-**	**-**	**-**	**-**	**-**
Central banks	0	0	-	-	-	-	-
General governments	-3,609	-3,609	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-
Off-balance sheet instruments	**225,341**	**57,400**	**167,942**	**-**	**-**	**-**	**-**
Loan commitments given	**23,710**	**18,570**	**5,139**	**-**	**-**	**-**	**-**
Financial guarantees given	**201,632**	**38,830**	**162,802**	**-**	**-**	**-**	**-**
Other commitments given	**0**	**0**	**0**	**-**	**-**	**-**	**-**
Positive fair value of derivative instruments							

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (h) CRR

The amount of the impaired exposures and past-due exposures, broken down by significant geographical areas including the amounts of credit risk adjustments related to each geographical area are shown below:

[3]&[4] Based on FINREP counterparty types

BCR Standalone				2016
in RON thousands	Past-due amounts that are not impaired	Allowances for past-due but not impaired exposures	Impaired amounts	Allowances for impaired exposures
South - West	163,793	-11,934	123,628	-85,918
North - East	235,457	-17,256	266,920	-187,663
South	244,059	-14,759	345,651	-213,495
West	184,621	-11,302	237,043	-149,729
Center	215,516	-14,720	382,040	-277,951
South - East	221,679	-17,298	567,178	-338,979
North - West	249,098	-17,667	1,119,702	-1,014,486
Bucharest - Ilfov	937,720	-45,957	797,308	-531,681
Total	**2,451,945**	**-150,894**	**3,839,470**	**-2,799,901**

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 below:

								2016	Group
in RON thousands	Opening balance (-)	Allocations	Uses	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	Closing Balance (-)	Recoveries on written-off loans and sale of loans	Direct write-offs of loans and receivables
Specific allowances									
Loans and receivables	**(5,369,124)**	**(759,220)**	**2,278,448**	**950,439**	**81,012**	**(175,452)**	**(2,993,897)**	**844,309**	**(691,674)**
General governments	(28,573)	(4,814)	951	11,745	1,102	(5,098)	(24,687)	1,236	(111)
Other financial corporations	(28,192)	(1,100)	1,913	4,953	771	(898)	(22,553)	96	(860)
Non-financial corporations	(3,753,360)	(413,670)	1,878,237	502,015	39,994	(62,532)	(1,809,316)	775,749	(566,694)
Households	(1,558,999)	(339,636)	397,347	431,726	39,145	(106,924)	(1,137,341)	67,228	(124,009)
Collective allowances									
Loans and receivables	**(622,067)**	**(137,700)**	**-**	**79,177**	**-**	**81,040**	**(599,550)**		
NC (open balance)	-	-	-	-	-	-	-		
General governments	(31,507)	(3,192)	-	11,119	-	(3,878)	(27,458)		
Other financial corporations	(3,187)	(5,613)	-	2,306	-	16	(6,478)		
Non-financial corporations	(392,334)	(46,908)	-	53,867	-	150,324	(235,051)		
Households	(195,039)	(81,987)	-	11,885	-	(65,422)	(330,563)		
Total	**(5,991,191)**	**(896,920)**	**2,278,448**	**1,029,616**	**81,012**	**(94,412)**	**(3,593,447)**		

								2015	Group
in RON thousands	Opening balance (-)	Allocations	Uses	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	Closing Balance (-)	Recoveries on written-off loans and sale of loans	Direct write-offs of loans and receivables
Specific allowances									
Loans and receivables	**(7,179,811)**	**(1,299,204)**	**2,181,203**	**1,160,962**	**162,946**	**(395,220)**	**(5,369,124)**	**507,857**	**(367,895)**
General governments	(20,105)	(12,478)	1,784	4,986	1,376	(4,136)	(28,573)	988	(316)
Other financial corporations	(14,926)	(24,842)	11,657	1,251	1,908	(3,240)	(28,192)	10,610	(9,094)
Non-financial corporations	(5,071,656)	(737,926)	1,306,091	944,344	85,286	(279,499)	(3,753,360)	479,482	(330,078)
Households	(2,073,124)	(523,958)	861,671	210,381	74,376	(108,345)	(1,558,999)	16,777	(28,407)
Collective allowances									
Loans and receivables	**(687,259)**	**(54,923)**	**-**	**126,321**	**-**	**(6,206)**	**(622,067)**		
NC (open balance)	-	-	-	-	-	-	-		
General governments	(27,693)	(9,716)	-	3,126	-	2,776	(31,507)		
Other financial corporations	(8,033)	(1,210)	-	5,993	-	63	(3,187)		
Non-financial corporations	(376,216)	(41,186)	-	33,298	-	(8,230)	(392,334)		
Households	(275,317)	(2,811)	-	83,904	-	(815)	(195,039)		
Total	**(7,867,070)**	**(1,354,127)**	**2,181,203**	**1,287,283**	**162,946**	**(401,426)**	**(5,991,191)**		

							2016	Bank
in RON thousands	Opening balance (-)	Allocations	Uses	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	Closing Balance (-)	Recoveries on written-off loans and sale of loans	Direct write-offs of loans and receivables
Specific allowances									
Loans and receivables	**(4,969,281)**	**(697,718)**	**2,093,484**	**839,737**	**79,730**	**(139,568)**	**(2,793,616)**	**717,029**	**(580,197)**
General governments	(28,574)	(4,814)	951	11,745	1,102	(5,097)	(24,687)	1,236	(111)
Other financial corporations	(28,017)	(600)	1,877	4,776	771	(864)	(22,057)	96	(860)
Non-financial corporations	(3,623,874)	(354,590)	1,805,294	438,138	38,796	(26,856)	(1,723,092)	649,397	(455,217)
Households	(1,288,816)	(337,714)	285,362	385,078	39,061	(106,751)	(1,023,780)	66,300	(124,009)
Collective allowances									
Loans and receivables	**(600,542)**	**(122,171)**	**-**	**65,949**	**-**	**80,218**	**(576,546)**		
NC (open balance)	-	-	-	-	-	-	-		
General governments	(31,495)	(3,192)	-	11,113	-	(3,880)	(27,454)		
Other financial corporations	(3,071)	(5,552)	-	2,241	-	29	(6,353)		
Non-financial corporations	(372,629)	(32,178)	-	41,402	-	148,457	(214,948)		
Households	(193,347)	(81,249)	-	11,193	-	(64,388)	(327,791)		
Total	**(5,569,823)**	**(819,889)**	**2,093,484**	**905,686**	**79,730**	**(59,350)**	**(3,370,162)**		

								2015	Bank
in RON thousands	Opening balance (-)	Allocations	Uses	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	Closing Balance (-)	Recoveries on written-off loans and sale of loans	Direct write-offs of loans and receivables
Specific allowances									
Loans and receivables	**(6,169,458)**	**(1,215,823)**	**1,515,138**	**1,038,682**	**157,466**	**(295,286)**	**(4,969,281)**	**431,191**	**(264,877)**
General governments	(20,106)	(12,478)	1,784	4,986	1,376	(4,136)	(28,574)	988	(316)
Other financial corporations	(14,851)	(24,666)	11,582	1,251	1,908	(3,241)	(28,017)	10,610	(9,094)
Non-financial corporations	(4,714,891)	(679,127)	1,042,254	823,248	80,395	(175,753)	(3,623,874)	403,531	(227,060)
Households	(1,419,610)	(499,552)	459,518	209,197	73,787	(112,156)	(1,288,816)	16,062	(28,407)
Collective allowances									
Loans and receivables	**(660,866)**	**(39,805)**	**-**	**109,147**	**-**	**(9,018)**	**(600,542)**		
NC (open balance)	-	-	-	-	-	-	-		
General governments	(27,685)	(9,712)	-	3,121	-	2,781	(31,495)		
Other financial corporations	(7,959)	(1,146)	-	5,966	-	68	(3,071)		
Non-financial corporations	(350,899)	(27,207)	-	16,527	-	(11,050)	(372,629)		
Households	(274,323)	(1,740)	-	83,533	-	(817)	(193,347)		
Total	**(6,830,324)**	**(1,255,628)**	**1,515,138**	**1,147,829**	**157,466**	**(304,304)**	**(5,569,823)**		

Related parties transactions

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

Details about related parties' transactions are presented at Note 36 to the Consolidated and Separate Financial Statements as of December 31st 2016 for BCR (Group and Bank).

9 UNENCUMBERED ASSETS

DISCLOSURE REQUIREMENTS COVERED: ART. 443 CRR

Details related to assets disclosures are included in the Consolidated and Separate Financial Statements as of 31 December 2016 for BCR (Group and Bank), at Note 37 and Note 38.

10 Use of ECAIs

DISCLOSURE REQUIREMENTS COVERED: ART. 444 CRR

BCR does not use ECAIs for computing risk weighted exposure amounts.

11 MARKET RISK

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).

The main components of the market risk management process documented in BCR's Market Risk Rulebook are as follows:

1. identification of market risks
2. market risk measurement
3. market risk control process
4. market risk monitoring and reporting

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 (RiskMat).

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.

Market Risk measurement

The risk measurement process 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 Fixed Income and Money Market portfolios as well as at an aggregated level for all TB portfolios.

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.

Stress tests are performed on a regular/ad-hoc basis in order to quantify the Bank's vulnerability to losses in case of adverse changes in the value of market risk factors.

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 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;

Stress tests are performed on a regular/ad-hoc basis in order to quantify the Bank's vulnerability to losses in case of adverse changes in the value of market risk factors.

Market Risk Control Process

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: TB Fixed Income portfolio, TB Common Stock portfolio, TB Money Market portfolio, total TB portfolio, bonds portfolio classified as AFS (available-for-sale), total Banking Book portfolio.

Position Limits represents the upper limit admitted for the size of the exposure, expressed as an absolute amount of a portfolio at a point in time. BCR has specific position limits for holdings of common equity in trading book.

Present Value of a Basis Point (PVBP) limit which is defined for each major currency as well as total for all currencies for TB Money Market and TB Fixed Income portfolios and BB Fixed Income portfolio.

Stop/Loss (S/L) limit is set to stop the loss registered in a transaction. BCR has defined S/L limits for TB FI portfolio and TB Equity 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.

Market Risk Reporting

DISCLOSURE REQUIREMENTS COVERED: ART. 448 CRR

All the limits for TB portfolio are monitored on a daily basis and their utilization degree is presented in the daily Market Risk report.

The IRRBB VaR and MVoE limits for the total BB it is 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 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:

ths RON - BCR Bank	31-Dec-15	31-Dec-16
Own funds	6,875,553	7,655,941
The potential decline of the economic value:		
% of own funds	**7.14**	**10.47**
total absolute value, of which:	490,980	801,506
RON	297,872	593,326
EUR	141,617	131,096

ths RON - BCR Group	31-Dec-15	31-Dec-16
Own funds	6,902,085	7,777,782
The potential decline of the economic value:		
% of own funds	**7.68**	**10.94**
total absolute value, of which:	530,167	850,756
RON	347,634	650,659
EUR	131,285	123,524

Figure 13: *MVoE BCR Group and BCR bank as of 31.12.2016*

12 LIQUIDITY RISK

Liquidity & funding management

- Asset and Liability Management, focused on suitably determining the appropriate balance sheet structure, by continuously correlating resources and placements in terms of their structure and maturity;
- adequate liquidity management (including minimum mandatory reserve management) and developing bank's funding plan in accordance with business and risk strategy (business model, risk tolerance), regulatory requirements (e.g. restrictions on funds being transferred between entities) and Group guidelines. Within the aforesaid processes, the bank uses direct (e.g. money market transactions, bonds issuance, derivative transactions, investments in eligible assets) and indirect instruments (Fund Transfer Pricing is playing a central role) through which can influence its liquidity;
- correlation of the main directions of the liquidity strategy with the bank's investments strategy considering also a proper collateral management (size and composition of the liquidity buffers which reflect the potential cash outflow needs in different crisis scenarios);
- Bank's cash inflows and outflows over a variety of time horizons (including intraday liquidity management), under normal and stressed conditions (prospective cash flows for major currencies, individually and aggregated).

For every financial year BCR prepares a strategy for managing liquidity under normal circumstances encompassing the main objectives of the bank, with the purpose to maintain adequate portfolio liquidity, by re-evaluating it in line with the business environment requirements. The bank's liquidity strategy is integrated in the budget planning processes and illustrates how the bank achieves compliance with the risk appetite.

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

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 (Executive Director of Strategic Risk Management/Risk Controlling 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 (OLC) and Assets and Liabilities Management Committee (ALCO).

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

Regulatory:

- Monthly liquidity indicator reported to the NBR
- Weekly liquidity indicator
- Liquidity Coverage Ratio (LCR)
- Net Stable Funding Ratio (NSFR)

Internal:

- Survival Period Analysis (SPA).

Liquidity Coverage Ratio (LCR)

Liquidity coverage ratio (LCR) represents the adequate level of high-quality liquid assets to be converted into cash to meet liquidity needs for 30 days under a liquidity stress scenario. The level of LCR as of December 2016 in comparison to December 2015 is presented in the following table:

Liquidity Coverage Ratio (LCR) - BCR Bank	**31-Dec-15**	**31-Dec-16**
High quality liquid assets - bn RON	17,699	23,146
Total net cash outflows - bn RON	7,043	6,428
LCR- BCR Bank	251%	360%
Liquidity Coverage Ratio (LCR) - BCR Group	**31-Dec-15**	**31-Dec-16**
High quality liquid assets - bn RON	20,456	25,758
Total net cash outflows - bn RON	6,867	6,598
LCR- BCR Group	298%	390%

Figure 14: *LCR for BCR Bank and BCR Group as of 31.12.2016*

Survival Period Analysis (SPA)

The Survival Period Analysis (SPA) 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.

The SPA results are based on a severe combined idiosyncratic and market crisis scenario and shows a survival period higher than one year for BCR Bank.

Net Stable Funding Ratio (NSFR)

Net Stable Funding Ratio (NSFR) is defined as a ratio between available and required funding. The NSFR restricts overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability.

The level of NSFR as of December 2016 in comparison to December 2015 is presented in the following table:

Net Stable Funding Ratio (NSFR) - BCR Bank	**31-Dec-15**	**31-Dec-16**
Available amount of stable funding - bn RON	47,842	48,840
Required amount of stable funding - bn RON	26,050	25,142
NSFR- BCR Bank	184%	194%
Net Stable Funding Ratio (NSFR) - BCR Group	**31-Dec-15**	**31-Dec-16**
Available amount of stable funding - bn RON	50,728	51,998
Required amount of stable funding - bn RON	27,832	26,401
NSFR- BCR group	182%	197%

***Figure 15**: NSFR BCR Group and BCR bank as of 31.12.2016*

12 OPERATIONAL RISK

DISCLOSURE REQUIREMENTS COVERED: ART. 446 and 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.

Legal (judicial) risk 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.

Operational risks include also the following risks:

IT risk means a subcategory of operational risk, that 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.

Model risk means 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.

Conduct risk means the current or prospective risk of losses arising from inappropriate supply of financial services including cases of willful or negligent misconduct (EBA *Guidelines on common procedures and methodologies for the supervisory review and evaluation process* (SREP).

- Conduct risk is part of BCR Group operational risk taxonomy;
- All instruments in place for managing operational risk are equally applying to conduct risk;
- Internal losses are collected and included in the calculation of Operational risk capital requirement according with AMA methodology (both Pillar I & II).

The Bank cannot eliminate all operational risks, but can manage them 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.

The Risk Materiality Assessment Process in BCR identifies possible risk drivers classified by potential impact (low, moderate, high) for all types of operational risk (IT, Legal, vendor risk, fraud, model, conduct, employment, business disruption, execution). In case a risk was considered immaterial may be reclassified as material if there are evidence that the potential impact has changes.

Identification, and measurement/ assessment 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, business, 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, so that the bank is able to identify the main operational risk sources and undertake 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 2016;
  - 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 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. A new risk management process applies starting with 2016 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 (KRI), 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 a non-financial risk (such operational, conduct, model, compliance, and reputational, 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 case a product is changed or newly launched. Currently, in the Product Approval Process (PAP) analysis the RRD form applies for the residual risk assessment. Also during 2016, the RRD template was implemented in the Credit Application Approval Process (CAAP) within BCR.

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 Bank. 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 2016, the Bank 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).

BCR computes the capital requirements for operational risk considering the risk transfer mechanisms (insurances) used for mitigation purposes.

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 in the computation of the capital for covering operational risk (AMA) at BCR level.

In 2011 the Holding received FMA approval for capital charge calculation including the recognition of the mitigating effect of insurances.

In order to determine its capital requirement based on the advanced approach (AMA), BCR uses the statistic model elaborated at Erste Group level.

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 (FMA) 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.

Monitoring, controlling and reporting of operational risk

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 Bank 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 Bank's management 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 Bank'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 at BCR level, 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.

13 REPUTATIONAL RISK

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 Bank'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 Bank's reputation or reputation of the governing bodies and their members; practices, instruments, liquidity or Bank's solvability; other risks from Bank'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 administration

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 Bank'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 case a risk was considered immaterial may be reclassified as significant if there are evidence that the potential impact has changes.

In the case of reputational risk materialization, the communication policy for emergency and crisis situations with reputational impact for the Bank serves as guideline for aspects such whom of / what / when / how the Bank communicates during such a situation, depending on the complex evolutions determined by mass media reporting of specific incidents.

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 Bank's image.

14 EXPOSURES IN EQUITIES NOT INCLUDED IN THE TRADING BOOK (IFRS)

DISCLOSURE REQUIREMENTS COVERED: ART. 447 CRR

Additional details are presented in the Notes 18, 20 and 40 to the Consolidated and Separate Financial Statements as of 31 December 2016 for BCR (Group and Bank)

All equities held by the bank and not included into the trading book are classified as AFS ("available-for-sales"). For the listed securities the fair value presented in the tables below is given by the market price, while for the unlisted securities the fair value is determined by discounting the future expected cash-flows.

BCR Group		
Equity not included in the trading book	Available-for-sale financial assets	
in RON thds	**2015**	**2016**
Common Equity	266,258	197,435
Listed	138,391	144,670
Unlisted	127,867	52,765

BCR Bank		
Equity not included in the trading book	Available-for-sale financial assets	
in RON thds	**2015**	**2016**
Common Equity	266,036	197,214
Listed	138,391	144,670
Unlisted	127,645	52,544

Figure 16: *Equities not included in the trading book (BCR Group and BCR bank as of 31.12.2016)*

15 EXPOSURES TO SECURITISATIONS POSITIONS

DISCLOSURE REQUIREMENTS COVERED: ART. 409 and 449 CRR

The Bank does not hold securitisations positions in the portfolio.

16 REMUNERATION POLICY[5]

DISCLOSURE REQUIREMENTS COVERED: ART. 450 CRR

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.

[5] Remuneration data is subject to the bi-annual Disclosure Report with the observance of the legal provisions in place regarding the reporting of remuneration exercise for each respective performance year

- 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"). During 2016, the Remuneration Committee had the following membership structure:

- Mr. Andreas Treichl – Chairman;
- Mr. Manfred Wimmer – Deputy Chairman;
- Mr. Brian O'Neill – Member.

In 2016, the Remuneration Committee convened in eleven (11) regular and special meetings.

17 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 individual and consolidated levels, use 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 for determine the leverage ratio.

31.12.2016
BANCA COMERCIALA ROMANA
INDIVIDUAL (RON)

Table LR Sum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts
1	Total assets as per published financial statements	75,313,135,352
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
3	(Adjustment for fiduciary assets recognized 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	100,666,311
5	Adjustments for securities financing transactions "SFTs"	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-7,621,529,682
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	-237,618,497
8	Total leverage ratio exposure	67,554,653,484

Table 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)	64,280,691,596
2	(Asset amounts deducted in determining Tier 1 capital)	-531,638,359
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	63,749,053,237
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	75,480,790
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	98,671,249
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)**	174,152,040
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	8,067,469
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)**	8,067,469
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	11,244,910,421
18	(Adjustments for conversion to credit equivalent amounts)	-7,621,529,682
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	3,623,380,739
	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**	6,316,806,629
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	67,554,653,484
	Leverage ratio	
22	**Leverage ratio**	9.35%
	Choice on transitional arrangements and amount of derecognized fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional

EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

Table 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:	64,280,691,596
EU-2	Trading book exposures	1,090,792,338
EU-3	Banking book exposures, of which:	63,189,899,258
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	24,614,929,064
EU-6	Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns	3,951,968,992
EU-7	Institutions	721,553,011
EU-8	Secured by mortgages of immovable properties	6,597,090,219
EU-9	Retail exposures	10,485,361,846
EU-10	Corporate	8,816,852,037
EU-11	Exposures in default	931,443,348
EU-12	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	7,070,700,742

31.12.2016
BANCA COMERCIALA ROMANA
CONSOLIDATED (RON)

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

		Applicable Amounts
1	Total assets as per published financial statements	78,296,575,149
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
3	(Adjustment for fiduciary assets recognized 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	100,660,811
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)	-7,220,357,662
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	105,812,565
8	**Total leverage ratio exposure**	71,282,690,862

Table 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)	67,968,215,522
2	(Asset amounts deducted in determining Tier 1 capital)	-425,386,788
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	67,542,828,734
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	75,480,790
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	98,665,749
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)**	174,146,540
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	8,067,469
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)**	8,067,469
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	10,778,005,782
18	(Adjustments for conversion to credit equivalent amounts)	-7,220,357,662
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	3,557,648,120
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**	6,320,117,225
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	71,282,690,862
Leverage ratio		
22	**Leverage ratio**	8.87%
Choice on transitional arrangements and amount of derecognized fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

Table 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:	67,968,215,522
EU-2	Trading book exposures	1,090,792,338
EU-3	Banking book exposures, of which:	66,877,423,184
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	27,081,364,482
EU-6	Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns	3,963,846,384
EU-7	Institutions	725,909,684
EU-8	Secured by mortgages of immovable properties	6,663,872,756
EU-9	Retail exposures	11,159,521,301
EU-10	Corporate	9,167,426,953
EU-11	Exposures in default	1,164,589,845
EU-12	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	6,950,891,779

***Figure 17**: Leverage ratio BCR Group and BCR bank as of 31.12.2016*

18 USE OF CREDIT RISK MITIGATION TECHNIQUES

DISCLOSURE REQUIREMENTS COVERED: ART. 453 CRR

Policies and processes for collateral valuation and management

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

In order for an asset to be accepted by the bank as collateral for a loan it is necessary for that asset to fulfill 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 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:

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
6 Comfort letters	
	6.1. Insurance companies 6.2. Comfort commercial contracts

***Figure 18**: Main types of collateral*

Market or credit risk concentrations within the credit mitigation taken

BCR registers credit risk concentrations in its risk mitigation operations towards the Romanian state. Thus, on 31.12.2016, the total collaterals received from the Ministry of Public Finance used for credit risk mitigation purposes amounted to 3,529,883 thds. RON (out of witch “Prima Casa” is 91.11%).

19 ABBREVIATIIONS

ALCO	Asset and Liability Management Committee
AMA	Advanced Measurement Approach
BB	Banking book
BCR	Banca Comerciala Romana
CEO	Chief Executive Officer
CET1	Common Equity Tier-1
CFO	Chief Financial Officer
GDP	Gross Domestic Product
CCF	Credit Conversion Factor
CRR	Capital Requirement Regulation
DCF	Discounted cash flow
EBA	European Banking Authority
EC	Economic capital
ECA	Economic Capital Adequacy
ERM	Enterprise-wide Risk Management
EU	European Union
FS	Financial Statements
FX	Foreign exchange
HR	Human Resources
KRI	Key Risk Indicators
KYCO	Know Your Customer Committee
ICAAP	Internal Capital Adequacy Assessment Process
IRB	Internal Rating-based Approach
IRRBB	Interest rate risk in the banking book
IFRS	International Financial Reporting Standards
IT	Information Technology
LDA	Loss distribution approach
LGD	Loss given default
LR	Leverage Ratio
MB	Management Board
MTO	Medium Term Objective
NBR	National Bank of Romania

OLC	Operative Liquidity Committee
ORCO	Operational Risk Management Committee
ORX	Operational Risk Exchange
RAS	Risk Appetite Statement
RCC	Risk bearing capacity calculation
RCSA	Risk control self-assessment
RWA	Risk Weighted Assets
PAP	Product approval process
PD	Probability of default
PVBP	Present Value of a Basis Point
RCMB	Risk Committee of the Management Board
SB	Supervisory Board
SME	Small and medium size enterprises
TB	Trading book
VaR	Value at Risk
VAT	Value added tax
VP	Vice-president

20. LIST OF ANNEXES

Annex 1	Statement of BCR Management Board on the adequacy of Bank's risk management framework
Annex 2	Details of capital instruments

21 LIST OF GRAPHICS