# BCR GROUP DISCLOSURE REPORT 2020

*Pursuant to NBR Regulation no. 11/2020 for the amendment and completion of the NBR Regulation no.5/2013 on prudential requirements for credit institutions and Part Eight of the Capital Requirements Regulation (EU) no.575/2013 on prudential requirements for credit institutions and investment firms*

*Incorporated in Romania*

*Trade Register J40/90/1991*

*Unique Registration Code 361757*

*Bank Register RB PJR*

*www.bcr.ro*

# Contents

BCR GROUP DISCLOSURE REPORT 2020

# List of Tables, Templates and Graphs

# 1 Introduction

The provisions of the National Bank of Romania's (NBR) Regulation no. 11/2020 for the amendment and completion of the NBR Regulation no. 5/ December 20, 2013 regarding prudential requirements for credit institutions and 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, as further amended, hereinafter referred to as the Capital Requirements Regulation (CRR) apply to BCR Group. This Report is prepared on a consolidated basis (IFRS) according to NBR's Regulations. All information herein is presented as of December 31st, 2020 unless otherwise stated.

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

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

The information covers mainly the following areas of interest:

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

# 2 Legislation and Overview on Disclosure Requirements

DISCLOSURE REQUIREMENTS COVERED: ART.431 (1) CRR

## Scope of disclosure requirements

The current Disclosure Report of BCR Group meets the disclosure requirements of Part Eight of the CRR, which took effect on 1 January 2014 as well as the provisions of the NBR Regulation no.11/2020 for the amendment and completion of the NBR Regulation 5/2013 on prudential requirements for credit institutions. Disclosures are also done in accordance with individual EBA regulations and guidelines on disclosure requirements. Consequently, the current Disclosure Report of BCR Group meets the following requirements:

- the general disclosure requirements as laid down in the EBA/GL/2016/11 1 "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013";
- for Own Funds disclosure purposes, Regulation no. 1423/2013, laying down implementing technical standards regarding disclosure of own funds requirements for institutions;
- for Leverage Ratio disclosure purposes, Regulation no. 200/2016, laying down implementing technical standards regarding disclosure of the leverage ratio for institutions;
- for encumbered and unencumbered assets disclosure purposes, the EBA/GL/2014/03 "Guidelines on disclosure of encumbered and unencumbered assets" and Regulation 2295/2017 with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets;
- for Liquidity Coverage Ratio disclosure purposes, the EBA/GL/2017/01 "Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013";
- for countercyclical capital buffer disclosure purposes, Regulation no.1555/2015, laying down technical standards regarding disclosure of countercyclical capital buffers for institutions;
- for remuneration disclosure purposes, the EBA/GL/2015/22 "Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013";
- for materiality, proprietary and the confidential nature and frequency of disclosures, the EBA/GL/2014/14 "Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013" and NBR Instructions from 28 October 2015 on materiality, proprietary and confidentiality and on disclosure frequency under articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013;
- for non-performing and forborne exposures, the EBA/GL/2018/10 "Guidelines on management of non-performing and forborne exposures"
- EBA/GL/2020/07- "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis"
- NBR Regulation No. 11/2020 amending and supplementing NBR Regulation No. 5/2013 on prudential requirements for credit institutions and Regulation No. 12/2020 on authorization of the credit institutions and the changes in their situation, both issued by the National Bank of Romania, entered into forced on 18 December 2020;
- ECB May 2020 for ESG risks disclosure "Guide on climate-related and environmental risks. Supervisory expectations relating to risk management and disclosure";
- EBA/ITS/2020/04 – "Guidelines on disclosure of non-performing and forborne exposures";
- EBA/GL/2020/14 – "Final Report - Guidelines on the specification and disclosure of systemic importance indicators";
- for COVID-19 reporting and disclosure purposes, the EBA/REP/2020/39 "EBA Report on the implementation selected COVID-19 policies";
- EBA/GL/2020/12 – Final Report - Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own

funds to ensure compliance with the CRR 'quick fix' in response to the COVID-19 pandemic EBA/REP/2021/02 - EBA Report on the implementation of selected COVID-19 policies.

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

## DISCLOSURE REQUIREMENTS COVERED: ART.431 (2) CRR

### Information on operational risk methodologies

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

## DISCLOSURE REQUIREMENTS COVERED: ART.431 (3) CRR

### Disclosure policy

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

## DISCLOSURE REQUIREMENTS COVERED: ART.432 CRR

### Non-material, proprietary or confidential information

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

## DISCLOSURE REQUIREMENTS COVERED: ART.433 CRR

### Frequency of disclosure

The main document is published once a year, while specific information is published more often (quarterly or semi-annually) pursuant to the NBR Instructions from 28 October 2015 on materiality, proprietary and confidentiality and on disclosure frequency under articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

## DISCLOSURE REQUIREMENTS COVERED: ART.434 CRR and ART. 97[68] of NBR Regulation No. 11/2020 for the amendment and completion of the NBR Regulation No.5/2013

### Means of disclosure

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

A number of CRR disclosure requirements are covered by BCR SA Consolidated and Separate Financial Statements for 31 December 2020 (hereinafter "BCR Group 2020 Annual Report"). The Financial Statements are available on the website of BCR Group (https://www.bcr.ro/en/investors/financial-reports). Disclosures afferent to material information about the financial and operational result as required by Art. 97(68) of NBR Regulation No.11/2020 for the amendment and completion of the NBR Regulation No.5/2013 are covered in this document.

Please note that references will be made to the BCR Group 2020 Annual Report throughout this document.

Please see below CRR disclosure requirements which are covered by reports other than this document or the BCR Group 2020 Annual Report.

## DISCLOSURE REQUIREMENTS COVERED: ART. 450 CRR and ART. 169 (1), (2), (3) of NBR Regulation no.11/2020 for the amendment and completion of the NBR Regulation no. 5/2013

### Remuneration Policy

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

## DISCLOSURE REQUIREMENTS COVERED: Art. 435 CRR and ART. 67 (a) (e) of NBR Regulation no. 11/2020 for the amendment and completion of the NBR Regulation no. 5/2013

### Corporate Governance

More details on the corporate governance framework are presented in the Corporate Governance Report for 2020 which is published annually on the BCR Group's web site under: https://www.bcr.ro/en/about-us/corporate-governance/principles-policies.

Please note that this report also contains information on the performance management process (formalized through the Performance and Professional Development Procedure - PDS Procedure) as required by Art. 67 (e) of NBR Regulation No.11/2020 for the amendment and completion of the NBR Regulation No.5/2013 as well as information concerning the compensation strategy, as required by Art. 67 (a) of NBR Regulation No.11/2020 for the amendment and completion of the NBR Regulation No. 5/2013 on prudential requirements for credit institutions.

# 3 Overview of Non-applicable Disclosures

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

## 1 Non-applicable CRR articles

| CRR article number | CRR article description | Disclosure requested in the CRR article | Reason for non-applicable disclosure | Non-applicable templates |
|---|---|---|---|---|
| 409, 449 | Securitisation | Exposure to securitisation positions. | BCR Group does not have any exposure to securitisations in its portfolio. | N/A |
| 436 (e) | Scope of application | If applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9. | In regards to Article 7, the competent authority does not waive the application of this article. The parent institution ( BCR Group) does not apply article 9 as the individual regulatory requirements refers only to BCR Bank and the consolidated requirements comprise all the subsidiaries. | N/A |
| 437 (1) (e) | Own funds | A description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply. | No restrictions applied to the calculation of own funds in accordance with Regulation 575. | N/A |
| 437 (1) (f) | Own funds | Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated. | BCR Group does not disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in the CRR. | N/A |
| 438 (b) | Capital requirements | Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU. | There is no demand from the relevant competent authority. | N/A |
| 438 (d) | Capital requirements | For institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Article 154(1) to (4) correspond. For the equity exposure class, this requirement applies to:<br>(i) each of the approaches provided in Article 155;<br>(ii) exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;<br>(iii) exposures subject to supervisory transition regarding own funds requirements;<br>(iv) exposures subject to grandfathering provisions regarding own funds requirements. | BCR Group does not apply the internal credit risk model. | Template EU CR8, Template EU CCR7 |
| 438 (c) (d) | Capital requirements | Information required by Article 438(c) and (d) on exposures that are risk-weighted in accordance with Part Three, Title II, Chapter 2 or Chapter 3 by specifying information regarding non-deducted participations risk-weighted under the above-mentioned requirements in the CRR, when they are allowed (in accordance with Article 49(1) of the CRR) to not deduct their holdings of own funds instruments of an insurance undertaking, a re-insurance undertaking or an insurance holding company. | BCR Group does not have participations in insurance and re-insurance undertakings or an insurance holding company. | Template EU INS1 |
| 438 (f) | Capital requirements | Provide quantitative disclosures of institutions' specialised lending and equity exposures using the simple risk-weighted approach. | BCR Group applies the standardised approach. | Template EU CR10 |
| 439 (c ) | Exposure to counterparty credit risk | A discussion of policies with respect to wrong-way risk exposures | BCR Group does not apply the internal model approach to determine the exposure value for Counterparty Credit Risk and therefore the wrong-way risk is not applicable | N/A |
| 439 (f) | Exposure to counterparty credit risk | In the application of Article 439(e) and (f), institutions should disclose the specific information specified in Template EU CCR8 on the exposures to derivatives with CCPs and their associated risk exposure amounts. | BCR Group does not have exposures towards central counterparties. | Template EU CCR8 |
| 439 (g) | Exposure to counterparty credit risk | The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure. | BCR Group has no credit derivatives in its portfolio. | Template EU CCR6 |
| 439 (h) | Exposure to counterparty credit risk | The notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group. | BCR Group has no credit derivatives in its portfolio. | Template EU CCR6 |
| 439 (i) | Exposure to counterparty credit risk | Estimate of α if the institution has received the permission of the competent authorities to estimate α. | The Group does not apply own estimates of the α parameter . | N/A |
| 441 | Indicators of global systemic importance | Values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article. | BCR is not a G-SII institution. | N/A |
| 444 | Use of ECAIs | Information related to ECAIs used for calculation of the RWA exposure amounts. | BCR does not use ECAIs for computing risk weighted exposure amounts. | Template EU CR5, Template EU CCR3 and Template EU CRD |
| 452 | Use of the IRB Approach to credit risk | Information related to the calculation of the risk-weighted exposure amounts under the IRB Approach. | BCR Group calculates the risk-weighted exposure amounts under Standardized approach. | Template EU CR6, Template EU CR7 , Template EU CR9, Template EU CCR4 and Template EU CRE |
| 453 (d) | Use of credit risk mitigation techniques | The main types of guarantor and credit derivative counterparty and their creditworthiness | BCR Group does not have credit derivatives in its portfolio within the scope of this article. | N/A |
| 455 | Use of Internal Market Risk Models | Information to be disclosed in accordance with Article 363 for capital requirement calculation. | BCR Group does not apply the internal market risk model. | Template EU MR2-A, Template EU MR2-B, Template EU MR3, Template EU MRB and Template EU MR4 |

# 4 Scope of Consolidation

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

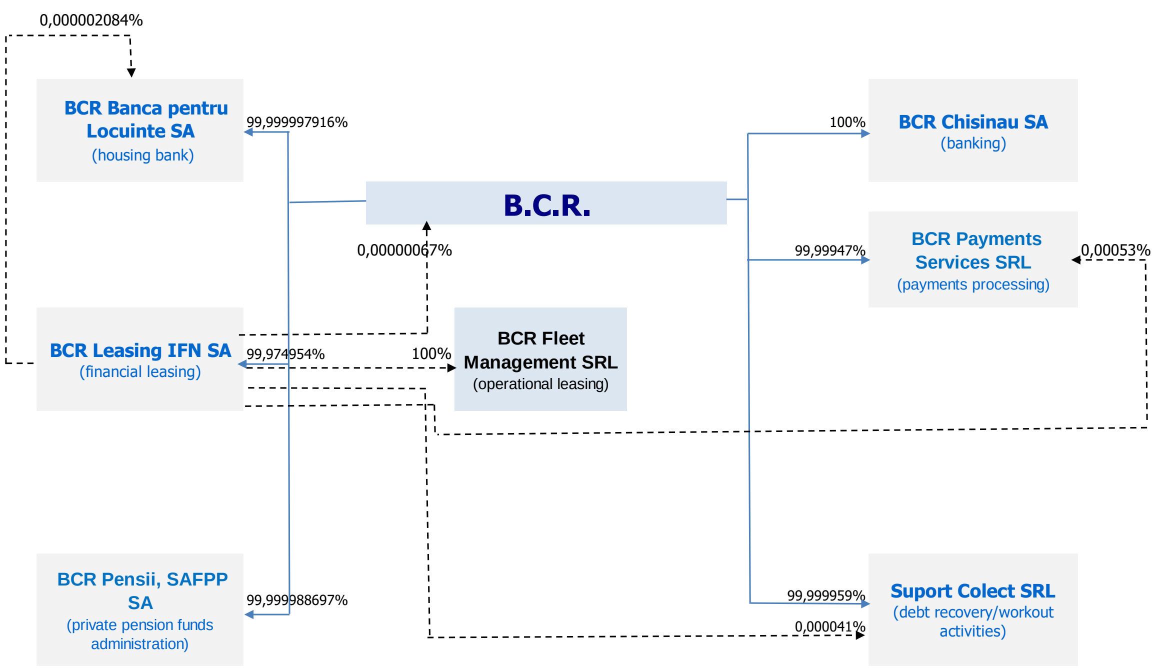
### Name of the institution

Banca Comerciala Romana SA ('the Bank' or 'BCR') is a joint-stock company administered under a dualist system, located in Calea Plevnei, 159, Business Garden Bucharest, building A, 6-th floor, sector 6 , Bucharest, Romania, registered with the Trade Registry under no.J40/90/1991 and a member of Erste Group which consists of banks and financial services companies.

The Bank together with its subsidiaries ('BCR Group' or 'the Group') provides retail, corporate banking and investment banking services mainly in Romania. As a result of the privatization process organized by the government of Romania, Erste Bank der oesterreichischen Sparkassen AG ('Erste Bank ') purchased 61.88% of the share capital of the Bank pursuant to a share purchase agreement dated 21 December 2005. Until 31 December 2020, Erste Bank purchased further 38.002% from minority shareholders of the Bank, adding up to 99.8828%. The ultimate parent of the Group is Erste Group Bank AG.

The BCR Group structure as of 31.12.2020 is presented in the chart below:

2 BCR Group structure as of 31 December 2020




BCR distinguishes 2 consolidation perimeters. BCR Fleet Management is not included in the prudential consolidation perimeter.

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

### Regulatory Requirements

Since 1 January 2014, BCR Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements have been implemented within the EU though the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV) as well as within various technical standards issued by European Bank Authority, which were enacted into national law by the National Bank of Romania, Regulation No. 11/2020 for the amendment and completion of the Regulation No 5/2013.

All requirements as defined in the CRR, the NBR Regulation No. 11/2020 for the amendment and completion of the NBR Regulation 5/2013 and the technical standards are applied by BCR Group for regulatory purposes and for the disclosure of regulatory information.

### Accounting Principles

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

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

### Comparison of consolidation for accounting purposes and regulatory purposes

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

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

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

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

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

- **Regulatory scope of consolidation**

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

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

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

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

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

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

Based on the above information, BCR distinguishes two consolidation perimeters.

## Consolidation methods

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

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

The principles of consolidation applied in BCR Group for regulatory purposes are different than those applied for the financial statements and the differences are presented in Template EU LI 1 in the columns "Carrying values as reported in published financial statements" and "Carrying values under scope of regulatory consolidation".

As of 31 December 2020, BCR Group comprised Banca Comerciala Romana SA and 7 subsidiaries presented in detail in Template EU LI 3 together with their specific method of consolidation, out of which 2 are credit institutions (BCR Chisinau SA and BCR Banca pentru Locuinte SA specialized on housing loans), 2 are non-financial companies (Suport Colect SRL- which provides workout activities, and BCR Fleet Management SRL – company which provides operational leasing) and the rest are other financial corporations (BCR Leasing IFN SA – company which provides financial leasing, BCR Pensii Societatea de Administrare a Fondurilor de Pensii Private SA – company pension fund, BCR Payments Services SRL – company which provides payments transactions), and two entities consolidated through the equity method: Fondul de Garantare al Creditului Rural IFN SA and BCR Social Finance IFN SA).

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

In BCR Group, the most significant part of the assets presented in financial statements are subject to credit risk framework (98.37% from the total exposure), followed by the exposure attributable to market risk (0.52%) and counterparty credit risk framework (0.62%). For BCR Group securitization framework is not applicable. The weight of the exposure not subject to capital requirements or subject to deduction from capital is 0.48%.

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

| RON thousands | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items: Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash balances | 10,538,199 | 10,538,199 | 10,538,199 | - | - | - | - |
| Financial assets held for trading | 1,248,822 | 1,248,822 | 0 | 39,891 | - | 1,208,931 | - |
| Derivatives | 39,891 | 39,891 | - | 39,891 | - | - | - |
| Other financial assets held for trading | 1,208,931 | 1,208,931 | 0 | - | - | 1,208,931 | - |
| Non-trading financial assets at fair value through profit or loss | 104,739 | 104,739 | 104,739 | - | - | - | - |
| Equity instruments | 75,033 | 75,033 | 75,033 | - | - | - | - |
| Debt securities | 27,781 | 27,781 | 27,781 | - | - | - | - |
| Loans and advances to customers | 1,925 | 1,925 | 1,925 | - | - | - | - |
| Financial assets at fair value through other comprehensive income | 7,536,126 | 7,536,126 | 7,536,123 | - | - | - | - |
| Equity investments | - | - | - | - | - | - | - |
| Debt securities | 7,536,126 | 7,536,126 | 7,536,123 | - | - | - | - |
| Financial assets at amortised cost | 57,990,947 | 58,244,973 | 56,435,023 | 1,809,944 | - | - | - |
| thereof pledged as collateral | 421,310 | 421,310 | 421,310 | - | - | - | - |
| Debt securities | 14,827,570 | 14,827,570 | 14,827,570 | - | - | - | - |
| Loans and advances to banks | 2,028,021 | 2,028,021 | 218,073 | 1,809,944 | - | - | - |
| Loans and advances to customers | 41,135,356 | 41,389,382 | 41,389,380 | - | - | - | - |
| Finance lease receivables | 1,301,380 | 1,326,615 | 1,326,615 | - | - | - | - |
| Property and equipment | 863,743 | 868,373 | 868,373 | - | - | - | - |
| Investment property | 171,860 | 171,860 | 171,860 | - | - | - | - |
| Intangible assets | 348,900 | 348,900 | - | - | - | - | 348,900 |
| Investments in joint ventures and associates | 39,031 | 52,780 | 52,780 | - | - | - | - |
| Current tax assets | 230,979 | 230,952 | 230,952 | - | - | - | - |
| Deferred tax assets | 173,378 | 174,332 | 174,332 | - | - | - | - |
| Assets held for sale | 625,253 | 192,247 | 192,247 | - | - | - | - |
| Trade and other receivables | 563,885 | 563,950 | 563,950 | - | - | - | - |
| Other assets | 249,430 | 224,312 | 224,312 | - | - | - | - |
| **Total Assets** | **81,986,672** | **81,827,180** | **78,419,504** | **1,849,835** | **-** | **1,208,931** | **348,900** |

| RON thousands | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items: Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | |
| Financial liabilities held for trading | 52,051 | 52,051 | - | - | - | - | - |
| Derivatives | 52,051 | 52,051 | - | - | - | - | - |
| Financial liabilities measured at amortised cost | 69,847,085 | 69,863,382 | - | - | - | - | - |
| Deposits from banks | 1,066,225 | 1,066,225 | - | - | - | - | - |
| Borrowings and financing lines | 1,453,289 | 1,453,289 | - | - | - | - | - |
| Deposits from customers | 64,876,774 | 64,892,275 | - | - | - | - | - |
| Debt securities issued | 614,801 | 614,801 | - | - | - | - | - |
| Subordinated loans | 1,087,260 | 1,087,260 | - | - | - | - | - |
| Other financial liabilities | 748,736 | 749,532 | - | - | - | - | - |
| Finance lease receivables | 428,737 | 433,725 | - | - | - | - | - |
| Provisions | 1,857,633 | 1,857,703 | - | - | - | - | - |
| Current tax liabilities | 2,985 | 2,985 | - | - | - | - | - |
| Deferred tax liabilities | 11,833 | 11,833 | - | - | - | - | - |
| Liabilities associated with disposal groups held for sale | 150,294 | - | - | - | - | - | - |
| Other Liabilities | 291,133 | 265,785 | - | - | - | - | - |
| Total equity | 9,344,921 | 9,339,717 | - | - | - | - | - |
| Share capital | 2,952,565 | 2,952,565 | - | - | - | - | - |
| Retained earnings | 4,630,443 | 4,626,310 | - | - | - | - | - |
| Other reserves | 1,761,913 | 1,197,466 | - | - | - | - | - |
| Attributable to non-controlling interest | 43 | 43 | - | - | - | - | - |
| Attributable to owners of the parent | 9,344,878 | 9,339,673 | - | - | - | - | - |
| **TOTAL LIABILITIES AND EQUITY** | **81,986,672** | **81,827,180** | **-** | **-** | **-** | **-** | **-** |

#### 4 Template EU LI2: Main sources of differences between regulatory exposure amounts and carrying values under scope of regulatory consolidation

| RON thousands | | Total | Items subject to | | | |
|---|---|---|---|---|---|---|
| | | | Credit risk framework | Counterparty credit risk framework | Securitisation framework | Market risk framework |
| 1 | Asset carrying value amount under scope of regulatory consolidation (as per template LI1) | 81,827,180 | 78,419,513 | 1,849,835 | - | 1,208,931 |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1) | 81,827,180 | - | - | - | - |
| 3 | Total net amount under regulatory scope of consolidation | - | 78,419,513 | 1,849,835 | - | 1,208,931 |
| 4 | Off-balance sheet amounts[1] | 16,217,224 | 4,754,905 | - | - | - |
| 5 | Differences in valuations[2] | 1,227 | - | 1,227 | - | - |
| 6 | Differences due to different netting rules, other than those already included in row 2 | - | - | - | - | - |
| 7 | Differences due to consideration of provisions[3] | 681 | 1,436 | (756) | - | - |
| 8 | Add-on for derivatives: future potential exposure[4] | 66,903 | - | 66,903 | - | - |
| 9 | Intangible assets subject to deduction from capital | (348,900) | - | - | - | - |
| 10 | Taxes afferent to intangible assets deducted[5] | 27,273 | 27,273 | - | - | - |
| 11 | Exposure amounts considered for regulatory purposes | 86,329,268 | 83,203,127 | 1,917,210 | - | 1,208,931 |

[1] Off-balance-sheet amounts subject to the regulatory framework, before (16,217,224 RON thousands) and after (4,754,905 RON thousands) the application of the credit conversion factors according to CRR;

[2] Difference in valuation due to CVA/DVA for derivative instruments;

[3] Differences triggered by different mechanisms used for accounting versus regulatory scope, in allocating the collective allowances;

[4] Difference pertaining to future potential exposure – for regulatory purposes the exposure of financial derivatives is calculated based on Mark to Market Method described in CRR, by adding at the replacement cost (current market value of the contract) the potential future credit exposure expressed as a percentage from the notional, based on the underlying asset and residual maturity, the last component not being taken into account for accounting purposes;

[5] Difference due to an add-on of taxes pertaining to intangible assets deducted from the own funds.

## Valuation Estimates

Disclosures in respect of trading book and banking book exposures:

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

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

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

#### 5 Additional valuation adjustments

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

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

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

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

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

The number of companies consolidated pursuant to IFRS were 10, and to regulatory capital requirements were 9 as of 31 December 2020.

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

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

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

### Own funds transfer

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

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

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

### Total capital shortfall of all subsidiaries not included in the consolidation

As of 31 December 2020, there was no capital shortfall at any of the companies of BCR Group included in the consolidation.

# 5 Statement of the Management Board

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (e) (f) CRR and ART. 67 (b) NBR Regulation no. 11/2020 for the amendment and completion of the NBR Regulation no. 5/2013

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 7 Key ratios and figures

| Key Ratios | Type | 31.12.2020 |
|---|---|---|
| Solvency Ratio | (%) | 21.44% |
| Tier 1 Ratio | (%) | 20.84% |
| Common Equity Tier 1 Ratio | (%) | 20.84% |
| Leverage Ratio | (%) | 9.24% |
| SPA | (bn EUR) | 1.85 |
| Liquidity Coverage Ratio | (mn EUR) | 3.79 |
| Net Stable Funding Ratio | (%) | 174% |
| Risk Earnings Ratio | (%) | 22% |

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

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

The related party transaction disclosure can be found in the BCR Group 2020 Annual Report, Chapter 37 "Related-party transactions and principal shareholders".

# 6 Risk Management in BCR Group

DISCLOSURE REQUIREMENTS COVERED: ART. 435(1) (a) (c) CRR and ART. 67 (a) (c) NBR Regulation no. 11/2020 for the amendment and completion of the NBR Regulation 5/2013

## Risk policies

The risk management policies implemented by the Group form 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. They also outline key aspects of the risk management process and identify the main reporting procedures. The risk policies are reviewed on a yearly basis as well as when material changes occur, in order to ensure that the risk management framework and responsibilities are up to date.
The Group developed a risk management policy framework that is consistent with its risk management strategy. Also, the risk policy framework defines risk management accountability and methodologies that meet the strategy requirements.

## Risk strategy

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

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

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

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

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

## Business strategy

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

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

## Risk and capital management

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

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

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

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

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

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

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

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

## Risk management principles

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

The relevant risk management principles are presented below:

- Core risk management responsibilities embedded in Management Board and appropriately delegated to 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 BCR Group's risk profile;
- Risk strategy defined 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 and RAS and holistic risk awareness of risks through limits monitoring;
- All material risks managed and reported in coordinated manner via risk management processes;
- Statistical models are implemented for quantifying risk and capital demand (where applicable), and regular validation in place;
- Data and effective systems, processes and policies as critical components of the risk management capability;
- Policy framework clearly defines key requirements related to creating, classifying, approving, implementing and maintaining policies across BCR Group;
- An integrated and institution-wide risk culture, based on a full understanding of the risks taken and how they are managed, considering BCR risk appetite / tolerance;
- The Bank has a risk management function independent from the operational functions and which has enough 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 extent, level of detail and sophistication of BCR Group subsidiaries' ICAAP framework is dependent on their size as well as business and risk profile. Therefore, subsequent implementation and application at the level of BCR subsidiaries requires an approach that considers differences in business structures, size, complexity and relevance. The Proportionality Principle sets classification categories, criteria and scope as well as process requirements for implementation, application and roll-out in the context of BCR Group ICAAP components in subsidiaries.

The subsidiaries set their own governance responsibilities and evaluate any of 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 Risk Appetite is defined as the aggregate level and types of risk that BCR Group is willing to assume within the limits of its risk capacity, according to its business model, in order to achieve its strategic 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 enough resources to support its business at any given point in time and absorb stress events;
- Set boundaries for the Group's risk-return target setting;
- Preserve and promote the market's perception of the Group's financial strength and the robustness of its systems and controls.

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

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

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

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

The Group RAS 2020-2024 was pre-approved by both the Management Board and the Risk Committee of the Management Board and approved by the Supervisory Board, as part of the increased role of the Supervisory Board in RAS setting and monitoring. Before the Supervisory Board approval, the document is also analysed and pre-approved by the Risk Management Committee of the Supervisory Board. The Group also developed an aggregated and consolidated risk appetite dashboard (RAS Monitor) illustrating the Groups' risk profile developments by comparing the risk exposure and risk limits.

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

## Portfolio and risk analytics

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

## Risk materiality assessment

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

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

The objective of the Risk Materiality Assessment is twofold:

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

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

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

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

## Risk profile

The risk profile is defined by the Bank as the assessment at a given point in time of gross and, where appropriate, net risk exposures (after considering risk mitigants), aggregated within and between each relevant risk category, based on current assumptions or anticipatory.

The risk profile is a result of the Risk Materiality Assessment process (described above) in combination with the boundaries set by the business strategy and the Risk Appetite Framework. The risk profile is a key input in setting the business objectives, policies, risk appetite and the internal control environment in the Bank.

## Risk concentration analysis

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

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

## Stress testing

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

### ▪ Scenarios

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

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

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

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

### ▪ Portfolios

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

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

### ▪ Methodologies

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

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

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

## Risk capacity

The risk-bearing capacity is defined as the maximum level of risk that Bank may assume, considering the applicable capital requirements, its own risk management and control capabilities, and its regulatory constraints.

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 Group 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 Group 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 Group 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 Group explicitly considers within the required economic capital via internal models.

## Risk planning and forecasting

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

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

## Risk-weighted asset management

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

## Capital planning and capital allocation

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

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

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

## Recovery plan

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

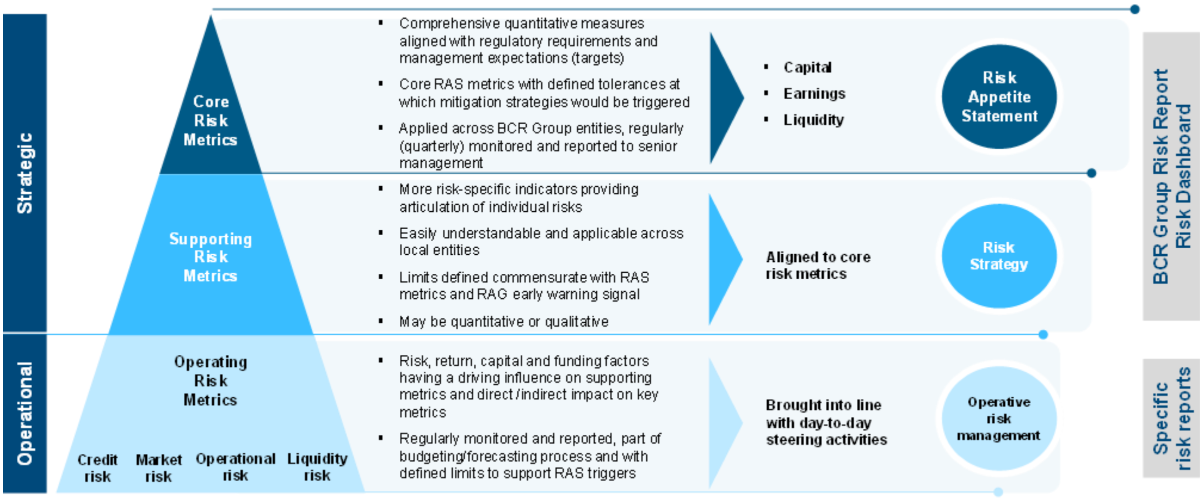
The BCR Recovery Plan sets a governance framework for the drawing up and the implementation of the plan as a main pillar of strengthening the financial resilience of BCR and restoring its financial position following a significant deterioration. The range of scenarios used in recovery plans identify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

## Risk monitoring and reporting

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

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

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




- ### Strategic oversight

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

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

- ### Operational oversight

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

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

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

## Strategies processes and mitigation of risks

For the disclosure regarding the mitigation of risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants please see the BCR Group 2020 Annual Report – Chapter 40 "Risk Management", Sub-chapter 40.5 "Credit Risk", "Collaterals" as well as the following chapters from this report:

Chapter 9.4.1. "Credit Risk" and Chapter 40.5 "Credit Risk Mitigation Techniques" from this document for strategies and mitigating techniques for credit risk.

Chapter 9.4.5 “Market Risk” from this document for strategies and mitigating techniques for market risk.

Chapter 9.4.6 “Liquidity Risk” from this document for strategies and mitigating techniques for liquidity risk.

Chapter 9.4.7. “Operational Risk” from this document for strategies and mitigating techniques for operational risk.

# 7 Material Risks at BCR Group

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

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

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

### Environmental, Social and Governance Risk

Today the society is confronted with demanding challenges. Environmental pollution, exploitation of natural resources and "climate change" are threatening of its well-being. If the negative trend cannot be stopped society will face severe problems - social as well as economic ones. Two very prominent transformative initiatives must be mentioned in this relation:

- The Global Risk Report 2020 of the World Economic Forum stated the first five most likely risk events connected to climate change or environmental degradation, driving the attention of many governments and supervisory bodies.

- The European Commission adopted Sustainable Finance Action plan provides an outlook for significant strengthening of prudential rules for climate and environmental risk management and supervision.

BCR Group, as one of the important financial institutions in Romania, has an inherent responsibility for broader sustainability and ESG risks toward the society. ESG risks identification like potential environmental damages, severe negative social consequences or poor governance have been always an integral part of BCR Group business and risk management framework. It has always been very natural to assess credit, market, liquidity, operational or residual risk in case of any identified major exposure of the client behaviour toward the mentioned ESG impacts.

ESG factors as environmental, social or governance characteristics may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual.

### ESG risk types

Environmental risks are those posed by the exposure to climate or environmental degradation related risk events.
Environmental risks usually materialize through physical risk or damages (like impact of extreme weather events), or through transitionary risk creating additional costs and capital expenditure need (by legislation, technology standards, or market conformity and customer preferences), or in some cases damages through liabilities (for negative impacts by products, policies or pollution events). Physical risks can demonstrate through events of acute physical risks (most prominently weather-related events or chronic physical risks (arise from longer-term changes in the climate, such as reduced water availability, biodiversity loss and changes in land and soil productivity).

Social risks are mostly those which materialize due to poor standards of respecting elementary rights, inclusiveness, or ineffective labour relations and unfair non-transparent or malleus customer practices. Social risks materialize mostly through damages in reputation, ineffective or even disrupting operations or loss of critical labour force, and finally through financial claims and liabilities due to improper practices.

Governance risks are prominently those related to poor or non-transparent company governance measures, missing or weak code of conduct including lack of substantiated polities on anti-money laundering, briberies and corruption, or tax citizenship. Governance risk can arise also from governance events from poor management of critical supply chain. Materializing governance risks can significantly damage faith and trust of customers and investors, and potentially leading to loss of revenue, higher funding costs or penalties and such affecting its ability to conduct business over the longer-term.

The risks identified by the Group for 2020 as being material were as follows:

9 Material risks for BCR Group as of 31 December 2020

| Category | Type of Risk |
|---|---|
| Credit Risk | Default Risk |
| | Residual Risk |
| | FX Induced Credit Risk |
| | Migration Risk |
| | Concentration Risk |
| | Model Risk - Credit Risk Related |
| Market Risk | Interest Rate Risk Banking Book |
| | Credit Spread Risk |
| Operational Risk | ICT Risk |
| | Fraud Risk |
| | Model Risk |
| | Legal Risk |
| | Staff Risk |
| | Security Risk |
| | Conduct Risk |
| | Execution Risk |
| Other Risks | Compliance Risk |
| | Reputational Risk |
| | Strategic Risk |
| | Business Risk |
| | Capital Risk |
| | Profitability Risk |
| | Political Risk |
| Transversal Risks | Macroeconomic Risk |
| | Inter-Concentration Risk |

# 8 Risk Management Function and Management Bodies

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

## Risk management function

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

The management of retail and corporate credit risk, market risk, operational risk, liquidity as well as reputational risk and strategic risk, the assessment of collaterals and other risk related activities are consolidated under the Risk Functional Line. The Compliance Division, which is in charge with managing of compliance risk is also reporting under Executive VP Risk Line and have a direct reporting line to the management bodies.

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

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

The main roles of the Risk Management function are:

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

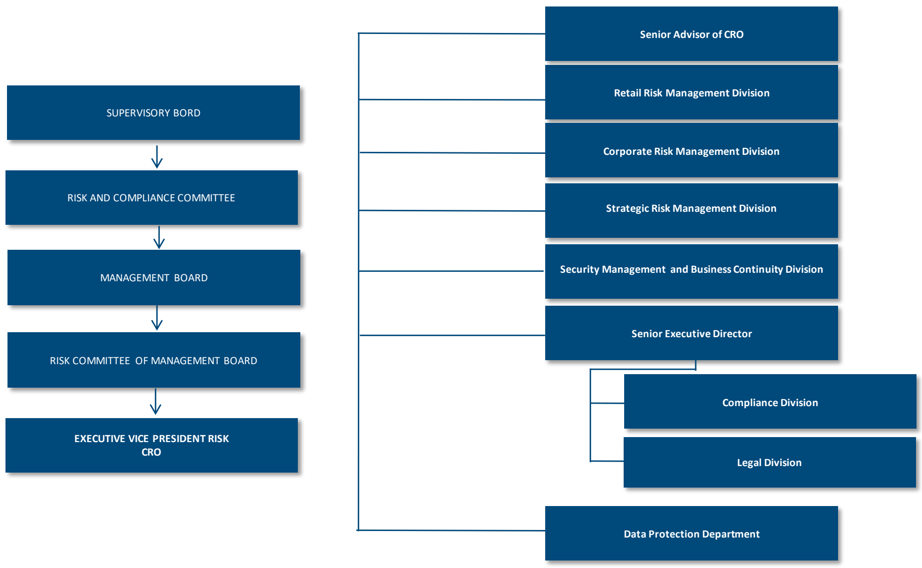
The Risk Management function performs regular reports both at individual material risk level and at bank-wide risk exposure level (i.e. complete view of the whole range of risks) to the Management Board, the Risk Committee of the Management Board, the Risk and Compliance Committee of the Supervisory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

Reports include information on aspects such as:

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

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

10 Organizational structure of the risk management function as of 31 December 2020




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

## DISCLOSURE REQUIREMENTS COVERED: ART. 67 (a) (d) NBR Regulation no. 11/2020 for the amendment and completion of the NBR Regulation 5 / 2013

### Management bodies

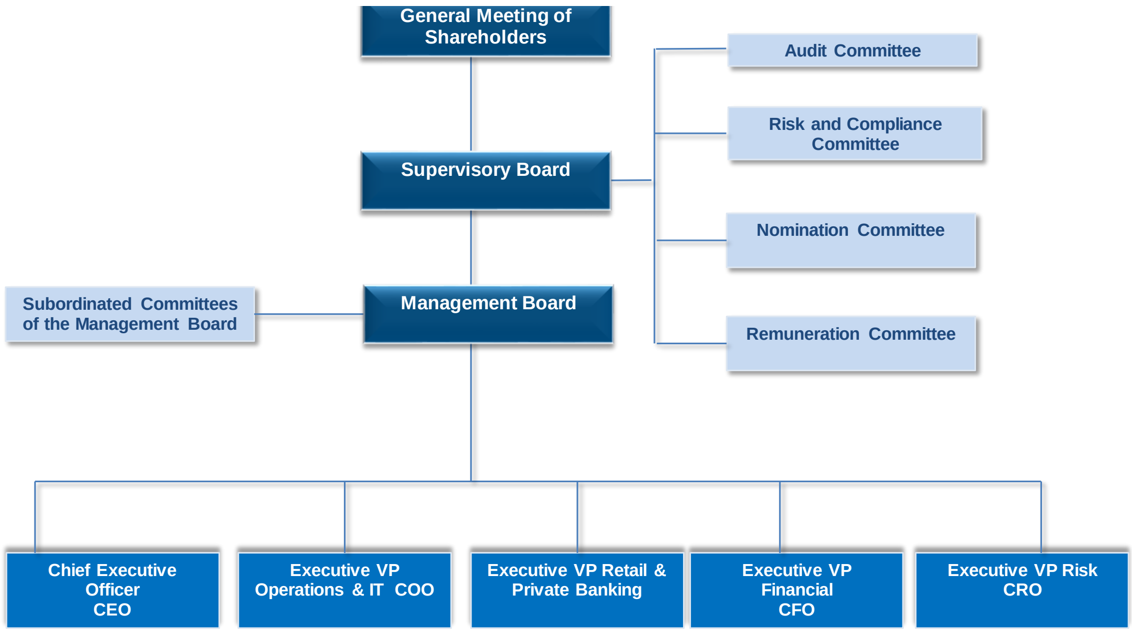
The management structure of BCR, both oversight function bodies and management bodies, is described in detail on the bank's website, Section: About us/Corporate Governance.

### Organizational chart

At the end of 2020, the Bank's central organization was divided into 5 functional lines, as follows: 1 functional line that is subordinated to CEO; 4 functional lines, covering the following areas: Operations & IT, Retail & Private Banking, Finance and Risk, which are composed of functional entities that are subordinated to 4 executive vice presidents.

The organizational chart of BCR management bodies as of 31 December 2020 is presented in the chart below:

### 11 Organizational chart of management bodies as of 31 December 2020




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

## BCR committees

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

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

The **Supervisory Board** (SB) approves and periodically reviews BCR's risk profile and the bank's overall strategy in respect of risk management with the goal of ensuring a responsible, prudent and profitable banking activity. The Supervisory Board is composed of minimum five and maximum nine members appointed by the Ordinary General Shareholders Meeting for a maximum three-year term, with the possibility of being re-elected for subsequent maximum three-year mandates.

The Supervisory Board membership structure throughout 2020 is presented in the below table:

### 12 Supervisory Board membership structure in 31 December 2020

| Name | Position |
|---|---|
| **01.01-20.02.2020** | |
| Manfred Wimmer | Chairman |
| Vacant position | Deputy Chairman |
| Hildegard Gacek | Member |
| Elisabeth Krainer Senger – Weiss | Member |
| Daniela Camelia Nemoianu Istocescu | Member |
| Vacant position | Member |
| Vacant position | Member |
| **21.02-25.02.2020** | |
| Manfred Wimmer | Chairman |
| Vacant position | Deputy Chairman |
| Hildegard Gacek | Member |
| Elisabeth Krainer Senger – Weiss | Member |
| Daniela Camelia Nemoianu Istocescu | Member |
| Alexandra Habeler Drabek | Member |
| Vacant position | Member |
| **26.02-8.03.2020** | |
| Manfred Wimmer | Chairman |
| Vacant position | Deputy Chairman |
| Hildegard Gacek | Member |
| Elisabeth Krainer Senger – Weiss | Member |
| Daniela Camelia Nemoianu Istocescu | Member |
| Alexandra Habeler Drabek | Member |
| Bernhard Spalt | Member |
| **9.03.2020-2.11.2020** | |
| Manfred Wimmer | Chairman |
| Alexandra Habeler Drabek | Deputy Chairwoman |
| Hildegard Gacek | Member |
| Elisabeth Krainer Senger – Weiss | Member |
| Daniela Camelia Nemoianu Istocescu | Member |
| Bernhard Spalt | Member |
| Vacant position | Member |
| **3.11.2020-31.12.2020** | |
| Manfred Wimmer | Chairman |
| Alexandra Habeler Drabek | Deputy Chairwoman |
| Hildegard Gacek | Member |
| Elisabeth Krainer Senger – Weiss | Member |
| Daniela Camelia Nemoianu Istocescu | Member |
| Bernhard Spalt | Member |
| Birte Quitt | Member |

Taking into consideration the (i) Supervisory Board membership structure as of December 31st, 2020, (ii) the information made available by each Supervisory Board member under the relevant Fit & Proper Affidavit and (iii) the Law no. 29/2015 for completion of EGO no. 99/2006 regarding credit institutions and capital adequacy, entered into force on March 15th, 2015, the mandates held by the Supervisory Board members are detailed below:

### 13 Number of mandates held by the Supervisory Board members as of 31 December 2020

| Name | Mandates |
|---|---|
| Manfred Wimmer | 4 non-executive memberships within Erste Group (counted as 1 mandate, according to Law no. 29/2015) |
| Bernhard Spalt | 5 non executive membership within Erste Group (counted as 1 mandate, according to Law no. 29/2015) and 1 executive position within Erste Group (counted as 1 executive mandate, according to Law no. 29/2015) |
| Hildegard Gacek | 1 non-executive membership within Erste Group |
| Elisabeth Krainer Senger Weiss | 2 non-executive membership within Erste Group (counted as 1 mandate, according to Law no. 29/2015), 2 non-executive membership within Gebruder Weiss Group and 1 executive position in Krainer Senger-Weiss Rechtsanwalts GmBH (counted as 1 executive mandate, according to Law no. 29/2015) |
| Daniela Camelia Nemoianu Istocescu | 1 non-executive membership within Erste Group (counted as 1 mandate, according to Law no. 29/2015), 1 non-executive membership within Holde Agri Invest SA and 1 executive position in Nemoianu Law firm |
| Alexandra Habeler Drabek | 3 non-executive membership within Erste Group (counted as 1 mandate, according to Law no. 29/2015), 1 non- executive membership with Prva stavebna sporitelna, a.s. and 1 executive membership within Erste Group (counted as 1 mandate, according to Law no. 29/2015) |
| Birte Quitt | 3 non executive membership within Erste Group (counted as 1 mandate according to Law no. 29/2015) and 1 executive membership within Erste Group (counted as 1 mandate, according to Law no. 29/2015) |

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 and Compliance Committee of the Supervisory Board (RCC) is a consultancy body which reviews, reports to, advises and assists the Supervisory Board in carrying out tasks related to risk management, internal control and compliance and issues recommendations within its authority limits.

Among the overall responsibilities, the Risk and Compliance Committee (RC Committee) must:

- oversee the implementation of a sound and consistent risk culture among the Bank and the Bank's staff members, based on the full understanding and holistic view of the risks faced by the Bank and how they are managed; for this purpose the Committee ensures that the bank develops a risk culture through policies, communication and staff training regarding the institutions' activities, strategy and risk profile, and adapts the communication and staff training to take into account staff's responsibilities regarding risk taking and risk management;
- ensure that the Bank's staff is fully aware of their responsibilities relating to risk management;
- carry out preparatory tasks and issues recommendations for topics to be raised and discussed, and for all decisions to be taken by the Supervisory Board which are related to the Risk and Compliance Committee's activity;
- evaluate risks critically, not exclusively relying on external inputs;
- monitor the Management Board's activity in the area of ensuring the security of computer systems and applications, and the contingency plans for processing financial information in the event of systems' breakdown (the back-up centre);
- analyse, together with the internal and external auditors and/or compliance function, any fraud, illegal acts, deficiencies in internal control or other similar issues;
- oversee procedures and internal controls consistent with the Bank's corporate governance structure, including evaluation of the work plans prepared by the Bank's compliance function and anti-money laundering responsible functional entity;

- evaluate the findings arising from the Bank's compliance function or from third parties' examinations and/or investigations (including the ones performed by any regulatory authority), in particular the inspection reports from the National Bank of Romania (NBR) and ensures that deficiencies identified by NBR related to compliance or risk management function or by any other regulatory authority are remedied within an appropriate time frame and that progress of necessary corrective actions are reported to the Supervisory Board;
- liaise, as required and/or recommended, with other Supervisory Board's committees to ensure that any decision falling within their duties is in line with sound and effective risk management and control and ensures their involvement in the decision-making process having an impact upon the risk management and control, and financial status of the Bank;
- receive and review regularly reports, ad hoc information, communications and opinions of head of internal control functions concerning the current risk profile of the Bank, its risk culture and its risk limits, as well as material breaches occurred, together with detailed information for corrective measures taken, and recommendations on measures needed to be taken or suggested to be taken regarding these;
- periodically review and decide on the content, format and frequency of the information on risk reported to it;
- where necessary, ensure the proper involvement of the internal control functions and other relevant functions (human resources, legal, finance) within their respective areas of expertise and seek expert advice;
- issue, upon request, opinions and/ or recommendations on risk management and control topics to other Supervisory Board's committees;
- inform the Management Board and the Supervisory Board on significant topics and matters which might impact Bank's risk profile;
- provide advice on the appointment of external consultants that the RC Committee and the Supervisory Board may decide to engage for advice or support, and oversees their activity, as well as of the internal or external auditors by assessing their recommendations and follow up on the appropriate implementation measures taken;
- in addition to its own assessment, shall take into account the external assessments (including external credit ratings or externally purchased risk models, if case) received from the Bank's advisors and consultant and to establish a clearly defined objective; and
- report on a half year basis to the Supervisory Board in relation to the RCC Committee's activity.

This Committee also issues recommendations for any internal regulation regarding risk or any other matter for which the Law or the National Bank of Romania requires the approval of the Supervisory Board.

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

According to the provisions of the Internal Rules, the Risk and Compliance Committee is composed of 3 members and 1 replacement member appointed from the members of the Supervisory Board.

During 2020, the membership of the Risk and Compliance Committee was the following:

**14 Risk and Compliance Committee of the Supervisory Board membership during 2020**

| Name | Position |
|---|---|
| **01.01-08.03.2020** | |
| Hildegard Gacek | Chair |
| Manfred Wimmer | Deputy Chair |
| Elisabeth Krainer Senger Weiss | Member |
| Vacant position | Replacement member |
| **09.03-31.12.2020** | |
| Hildegard Gacek | Chair |
| Alexandra Habeler – Drabek | Deputy Chair |
| Elisabeth Krainer Senger-Weiss | Member |
| Manfred Wimmer | Replacement member |

Until 31 December 2020, the Risk and Compliance Committee was convened in 33 ordinary sessions (5 with physical presence and 28 with other means of distance communication).

The **Audit Committee of the Supervisory Board** is a consultancy body, which reviews, reports to, advises and assists the Supervisory Board in carrying out its tasks related to internal control and audit, as well as on the quality and performance of Bank's internal accountants and auditors, the reliability of the Bank's financial information, and the adequacy of the Bank's financial controls and policies.

The main areas of analysis of the Audit Committee are: internal control, financial reporting, internal audit and external (financial) audit.

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

- monitor the areas of high financial risk and how they are managed or treated by the Management Board;
- ensure that Audit Committee members are familiar with significant accounting and reporting aspects, Management Board practices and estimates, including recent professional and regulatory decisions, and understand their impact on the Bank's financial statements;
- requests information from the Management Board, as well as from internal and external auditors about significant risks and exposures, and with plans to minimize these risks;
- monitors the statutory audit of the annual and consolidated financial statements, especially its performance, taking into account any findings and conclusions drawn by the NBR;
- revises the scope of the audit and the frequency of statutory audits of annual or consolidated accounts;
- oversees the establishment of accounting policies by the Bank;
- analyses any legal issues that could have a significant impact on the financial statements;
- supervises the financial audit process; and
- supervises and monitors the annual and interim financial reporting process and formulates recommendations to ensure integrity.

During 2020, the membership of the Audit Committee was the following:

#### 15 Membership of the Audit Committee throughout 2020

| Name | Position |
|---|---|
| **01.01-08.03.2020** | |
| Vacant position | Chair |
| Daniela Camelia Nemoianu-Istocescu | Deputy Chair |
| Hildegard Gacek | Member |
| Manfred Wimmer | Replacement member |
| **09.03-31.12.2020** | |
| Daniela Camelia Nemoianu-Istocescu | Chair |
| Bernhard Spalt | Deputy Chair |
| Hildegard Gacek | Member |
| Manfred Wimmer | Replacement member |

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

The Management Board develops the strategies, policies, processes and systems for the management of liquidity risk in accordance with the established risk tolerance and ensure that the Bank always maintains enough liquidity.

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, considering its risk tolerance/appetite and shall adopt the necessary measures for the monitoring and control of all significant risks according to its strategy on risk management.

The Management Board is composed of minimum three (3) members and maximum seven (7) members appointed by the Supervisory Board for a maximum four-year term, with the possibility of being re-elected for subsequent mandates of maximum four years. The Supervisory Board shall decide the number of members that will create the Management Board, which shall always be odd.

The following changes in the Management Board structure occurred throughout 2020:

### 16 Changes in the Management Board structure during 2020

| Name | Changes in MB structure in 2020 |
|---|---|
| Ilinka Kajgana | Took over the mandate as executie vicepresident of BCR, coordinator of the Risk Functional Line as of January 1, 2020 |
| Ryszard Druzynski | Mandate terminated on 31.12.2020 |

Throughout 2020 the Management Board structure was the following:

### 17 The Management Board structure as of 31 December 2020

| Name | Position |
|---|---|
| Sergiu Manea | Chairman - CEO |
| Elke Meier | Executive Vicepresident - CFO |
| Dana Dima | Executive Vicepresident - Retail&Private Banking |
| Ilinka Kajgana | Executive Vicepresident - CRO |
| Ryszard Druzynski | Executive Vicepresident - COO |

Taking into consideration the (i) Management Board membership structure as of December 31st, 2020 (ii) the information made available by each Management Board under the relevant Fit & Proper Affidavit and (iii) the Law no. 29/2015 for completion of EGO no. 99/2006 regarding credit institutions and capital adequacy, entered into force on March 15th, 2015, the mandates held by the Management Board members in other companies are detailed below:

### 18 Number of mandates held by the Management Board members as of 31 December 2020

| Name | Mandates |
|---|---|
| Sergiu Cristian Manea | 3 non-executive memberships within Erste Group (counted as 1 mandate, according to Law no. 29/2015) and 1 non-executive mandate outside Erste Group; |
| Elke Meier | 2 non-executive memberships within Erste Group (counted as 1 mandate, according to Law no. 29/2015) |
| Dana Dima | 2 non-executive memberships within Erste Group (counted as 1 mandate, according to Law no. 29/2015) and 1 non-executive mandates outside Erste Group |
| Ryszard Druzynski | 2 non-executive memberships within Erste Group (counted as 1 mandate, according to Law no. 29/2015) and starting with Q4 2020, 2 non -executive mandates: one in Erste Group and one in CIT One – outside Erste Group after the deconsolidation of this company following the change of the shareholder structure |
| Ilinka Kajgana | 5 non-executive memberships within Erste Group (counted as 1 mandate, according to Law no. 29/2015) |

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

Management Board committee's structure as of 31 December 2020:

19 Committees at the Bank level as of 31 December 2020

| Committees subordinated to the Management Board | | Other Work Committees/ Committees etablished at BCR level | |
|---|---|---|---|
| 1 | Assets and Liabilities Committee | 4 | Evaluation Committee |
| 2 | Credit Committee | 5 | Disciplinary Commission |
| 3 | Risk Committee of the Management Board | 6 | Labour Safety and Health Committee |
| | | 7 | Social Commission |

The **Risk Committee of the Management Board** (RCMB) is an analysis, advisory and decisional body, subordinated to MB, operational starting with September 29th, 2015 and consists of 3 members of the Management Board. The CRO is the RCMB Chairman, the CEO is the RCMB Deputy Chairman and the COO is the RCMB member.

The committee covers the following main responsibilities:

- approves operative risk limits cascaded down from the Bank Risk Appetite Statement;
- approves the litigation provisions / losses / corrections;
- approves the results regarding non-financial risk assessments (RCSAs, IT Risk Self – Assessment, outsourcing, Risk Return Decision, etc.);
- approves the operational risk scenarios results;
- approves the proposals related to the classification of data/ information;
- approves the necessary remedial actions for overrun.
- Analyses and reviews the following topics/documents which are approved by the Management Board:
  - methodology, related processes and models required to identify, assess, control and manage the operational risk as well as exposure limitation;
  - the risk mitigation actions within the thresholds (from capital impact perspective);
  - the setting and registering of litigation provisions;
  - proposals regarding non-financial risks presented as risk return decisions (RRD);
- acts as escalation body in case of disagreement between Operational Risk Department (DCRO) and functional entities regarding Risk and Control Self-Assessments (RCSAs) results or other situations related to operational risk;
- quarterly analyses of (i) the biggest non-financial risk loss events (operational risk and credit related cases over 1 mn EUR, excluding near miss and potential events) that BCR suffered and (ii) Erste Group relevant cases, based on Group request;
- analysis/acknowledges other topics submitted for information by DCRO or ad hoc non-financial risk topics that require a decision;
- analysis/acknowledges other topics presented for information by Compliance Division, whenever: (i) this division considers a certain topic impacting operational risk area need to be discussed also within RCC or (ii) as an outcome of the Internal Control Functions Jour Fixe;

Until December 31st, 2020, the Risk Committee of the Management Board convened in 10 meetings regular with physical presence and through other means of distance communication.

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

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

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

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

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

# 9 Other General Information

DISCLOSURE REQUIREMENTS COVERED: ART. 67 (c) NBR Regulation no. 11/2020 for the amendment and completion of the NBR Regulation 5 / 2013

## Macroeconomic risks forecasted

Details concerning the way in which BCR Group establishes its Business Strategy and Risk Strategy are presented in chapter 6 “Risk management in BCR Group”.

The Bank’s business and Risk Strategy are based on the expected market developments, which serve as a key input into the strategic planning process.

The assumptions considered in the strategic guidelines 2020-2025 are:

20 Macroeconomic assumptions for the 2020- 2025 strategy

**Macroeconomic trends for 2020-2025 Strategy**

| Key developments | Implications |
|---|---|
| Full-year economic growth was -3.9% in 2020. The impact of the second pandemic wave in terms of economic growth was almost inexistent due to milder restrictions compared to other countries. Full GDP recovery from the corona crisis might take place by late-2021/early-2022, sooner than previously expected. | The post-pandemic economic landscape will look different and some sectors, services mainly, will need many years to return to the pre-crisis situation. Others will not survive due to changed consumer behaviour. Stronger GDP growth is expected after 2022 on high inflows of EU recovery funds and also regular funds from the Multiannual Financial Framework, boosting investments. Labour market is going to be affected by the pandemic in 2021 as well. The end of the public support for the job market will reveal the true image of the damage inflicted by COVID-19. |
| The inflation rate stood at 2.1% y/y in December 2020, down from 4.0% y/y in December 2019. Adjusted Core 2 inflation (CPI less administered, volatile food and fuel, tobacco and alcohol prices) remained above headline inflation throughout 2020 and ended the year at 3.3% y/y. Inflation is likely to stay close to the upper range of the NBR's target of 2.5%±1pp in 2021 due to supply side disruptions. | NBR cut the key rate by 25bps to 1.25% in January 2021 and then kept its policy stance unchanged in mid-March 2021. We don't see any change in NBR monetary policy stance over the next couple of years, though more active communication is likely to be needed to keep inflation expectations anchored within its target range. |
| The budget deficit reached -9.8% of GDP in 2020. Rigid public spending represented by public wages plus social expenditures accounted for 94.3% of fiscal revenues and social insurance contributions in 2020, up from 81% in 2019. Public expenditures increased significantly faster than revenues (+14.8% vs +0.4%), as the government provided additional resources in the economy during the COVID-19 crisis. | Some fiscal adjustments are highly necessary after 2020 to bring the budget deficit closer towards the Maastricht criteria of 3% of GDP and preserve Romania’s investment grade. |
| We favor a gradual and modest depreciation outlook for the leu, close to 2-3% per year, due to pressure from elevated current account deficit. | |
| **Banking industry** | |
| Gross loan stock growth is expected to slow down in 2021 vs 2020, as the corporate sector is likely to stay cautious until the end of the pandemic. Higher inflows of EU funds could act as a catalyst for corporate lending after 2022, but Romania should strenghten its institutional capacity to attract EU money. The retail component of the lending market could be affected by slower wage growth and rising unemployment in 2021. Public moratorium ending by mid-2021 might reveal some weakness in credit portfolios. | |
| Customer deposits to decelerate into mid single digits in 2021. Companies expected to pay-back delayed installments, while consumers likely to change their saving vs. spending allocations once the mobility restrictions are lifted. | |

The turnover for BCR Group as of December 31st, 2020 is presented in the table below:

21 Turnover BCR Group as of 31 December 2020

| RON thousands | Amount |
|---|---|
| **BCR Group's Turnover** | **4,365,236** |
| out of wich: | |
| Romania | 4,328,345 |
| Moldova | 36,891 |

# 10 Recruitment Criteria

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

## Recruitment policy for the selection of members of the management body

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

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

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

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

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

In accordance to the legal provisions in force, the three main assessment criteria, as detailed in the Nomination Policy are:

- Reputation, honesty and integrity;
- Adequate knowledge, skills and experience; and
- Governance.

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 considered.

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

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

## Policy on diversity

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

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

The target ratio female/male for the Management Body (Management Board and Executive Managers) is 35%.

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 having 3 Management Board members from the underrepresented gender, namely Mrs. Elke Meier, Mrs. Ilinka Kajgana and Mrs. Dana Dima and 4Supervisory Board members, Mrs Elisabeth Krainer Senger Weiss, Mrs Hildegard Gacek,Mrs. Daniela Nemoianu and Mrs. Birte Quitt.

# 11 Organization of the Overall Internal Control Framework

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

### DISCLOSURE REQUIREMENTS COVERED: ART. 67 (e) NBR Regulation no. 11/2020 for the amendment and completion of the NBR Regulation5/2013

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

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

The internal control system in BCR involves:

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

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

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

The BCR Internal Control System is structured on three levels:

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

Controls in place for financial reporting process:

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

## DISCLOSURE REQUIREMENTS COVERED: ART. 67 (i) NBR Regulation no. 11/2020 for the amendment and completion of the NBR Regulation5/2013

The risk profile for Business Continuity remains at low level as a proper Business Continuity Plan is defined, reviewed and tested on a yearly basis. Moreover, the efficiency of the crisis management and business continuity internal framework was confirmed during real-time activation of the BCP in the context of Covid-19 pandemic, enabling a dynamic adjustment and proactive response to the crisis. Through a collective effort, BCR managed to continue the operations without interruptions, while ensuring a safe environment for employees and clients. Although the crisis is still in progress, at internal level from a business continuity perspective we expect that 2021 to be primarily stable given the adopted measures, focusing rather on defining and implementing the 'new normal' and incorporating the lessons learnt as basis for continuous improvement.

To achieve these objectives a set of activities cumulated in initiatives and business as usual tasks were developed.

# 12 Own Funds

DISCLOSURE REQUIREMENT COVERED BY: ART. 437 (1) (a), (b), (c), (d) CRR

## Group Own Funds

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

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

## CRR Statement of financial position

Starting with 31.03.2020, BCR Group distinguishes two consolidation perimeters:

- Prudential consolidation perimeter in accordance with Articles 18 and 19 of the CRR;
- Accounting consolidation perimeter in accordance with IFRS 10 Consolidated Financial Statements.

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

The amounts that are used as the basis for the calculation of own funds are based on the definition of the regulatory scope of consolidation pursuant to the CRR. Amounts that relate to the own share as well as to the minority interest in fully consolidated entities are therefore determined based on the regulatory scope of consolidation according to CRR.

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

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

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

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

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

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

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

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

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

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

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

| Total equity for the Group | | | | | | 31.12.2020 |
|---|---|---|---|---|---|---|
| in RON thousands | IFRS | CRR | Dividends | Regulatory Adjustments | Own funds | Own funds disclosure table - Reference |
| Subscribed capital | 2,952,565 | 2,952,565 | - | - | 2,952,565 | |
| Capital reserve | 395,483 | 395,483 | - | - | 395,483 | |
| **Capital instruments and the related share premium accounts** | **3,348,048** | **3,348,049** | **-** | **-** | **3,348,049** | **a** |
| Retained earnings | 3,816,292 | 3,816,901 | (325,955) | - | 3,490,946 | |
| Profit/loss in the period | 814,108 | 809,408 | (545,971) | (24,911) | 238,527 | |
| **Retained earnings** | **4,630,400** | **4,626,310** | **(545,971)** | **(350,865)** | **3,729,473** | **b** |
| **Other comprehensive income (OCI)** | **168,964** | **167,849** | **-** | **(8,838)** | **159,011** | |
| Cash flow hedge reserve net of tax | - | - | - | - | - | |
| Available for sale reserve | - | - | - | - | - | |
| unrealized gains acc. to Art. 35 CRR | - | - | - | - | - | d |
| unrealized loss acc. to Art. 35 CRR | - | - | - | - | - | |
| Fair value reserve | 155,693 | 155,696 | - | (8,838) | 146,857 | |
| Currency translation | (18,150) | (19,263) | - | - | (19,263) | |
| Remeasurement of net liability of defined benefit obligation | 67,002 | 67,002 | - | - | 67,002 | |
| Deferred tax | (35,581) | (35,585) | - | - | (35,585) | |
| Other reserves | 1,197,466 | 1,197,466 | - | (33,550) | 1,163,916 | c2 |
| **Equity attributable to the owners of the parent** | **9,344,878** | **9,339,673** | **-** | **(939,224)** | **8,400,449** | |
| Equity attributable to non-controlling interest | 43 | 43 | - | | - | |
| **Total equity** | **9,344,921** | **9,339,717** | **-** | **(939,268)** | **8,400,449** | |

Last column contains a letter to link the amount derived from the accounting figures to the related eligible amount as disclosed in the own funds template in section Own funds template.
Note: Retained earnings includes minority interest. The table may contain rounding differences.

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

Please see The Administrators Report for detail regarding the profit distribution Note 7.2 "Profit distribution".

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

**Intangible assets for the Group** — 31.12.2020

| in RON thousands | IFRS | CRR | Regulatory adjustments | Own funds | Own funds disclosure table - Reference |
|---|---|---|---|---|---|
| Intangible assets | 348,900 | 348,900 | - | 348,900 | f |
| **Intangible assets** | **348,900** | **348,900** | **-** | **348,900** | **-** |

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

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

**Deferred Taxes for the Group** — 31.12.2020

| in RON thousands | IFRS | CRR / Own Funds | Regulatory Adjustments | Own funds disclosure table - Reference |
|---|---|---|---|---|
| Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities | - | - | - | h |
| related DTA allocated on or after 1 January 2014 for which 100% deduction is required according to CRR transitional provisions | - | - | - | - |
| related DTA allocated before 1 January 2014 for which 10% deduction from CET 1 is required according to CRR transitional provisions | - | - | - | - |
| Deferred tax assets that rely on future profitability and arise from temporary differences net of associated tax liabilities * | 246,272 | 247,226 | 954 | k |
| Deferred tax assets that do not rely on future profitability | - | - | - | - |
| Other deferred tax liabilities | (84,727) | (84,727) | - | - |
| out of which deferred tax liabilities associated to other intangible assets | (27,273) | (27,273) | - | g |
| **Deferred tax assets** | **161,545** | **162,499** | **954** | |

* Based on the threshold definition according to Article 48 CRR Deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for BCR Group at year end 2020. In accordance with Article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk.
Note: The table may contain rounding differences.

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

**Subordinated liabilities for the Group** — 31.12.2020

| in RON thousands | IFRS | CRR | Regulatory adjustments | Own funds | Own funds disclosure table - Reference |
|---|---|---|---|---|---|
| Subordinated issues, deposits and supplementary capital | 1,087,260 | 1,087,260 | (855,097) | 232,163 | j |
| **Subordinated liabilities** | **1,087,260** | **1,087,260** | **(855,097)** | **232,163** | **-** |

Details regarding subordinated liabilities are disclosed in the Group Annual Report under Note 29 "Financial liabilities measured at amortized cost". In accordance with NBR Regulation 11/2020 for the amendment and completion of the NBR Regulation 5/2013, the subordinated liabilities with less than 5 years maturity, are amortized.

## Threshold calculations according to Articles 46 and 48 CRR

### 26 Group own funds threshold calculations

| Group treshold calculations according to Articles 46 and 48 of (EU) Regulation no.575/2013 | |
|---|---|
| **Non significant investments in financial sector entities** | **in RON thousands** |
| Threshold (10% of CET1) | 803,547 |
| Holdings in CET 1 | (87,236) |
| Holdings in AT 1 | - |
| Holdings in T 2 | - |
| **Distance to threshold** | **716,311** |
| **Significant investments in financial sector entities** | **-** |
| Threshold (10% of CET1) | 803,547 |
| Holdings in CET 1 | (39,030) |
| **Distance to threshold** | **764,517** |
| **Deferred tax assets** | **-** |
| Threshold (10% of CET1) | 803,547 |
| Deferred tax assets that are dependent on future profitability and arise from temporary differences | (247,226) |
| **Distance to threshold** | **556,321** |
| **Combined threshold for deferred tax assets and significant investments** | **-** |
| Threshold (17.65% of CET1) | 1,418,260 |
| Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment | (286,256) |
| **Distance to threshold** | **1,132,005** |

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

In applying article 437 (1) (c ) BCR publishes the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments together with its Disclosure Report under the section Capital Instruments on the website of BCR Group (https://www.bcr.ro/en/investors/transparency-and-public-disclosure).

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

## Group Own funds template

Own Funds under Basel 3 consist of CET1, AT1 and T2. In order to determine the capital ratios, each respective capital component, after consideration of all the regulatory deductions and filters, is compared to the total risk. According to the CRR, the minimum ratio for CET1 is 4.5%, which can be increased based on the buffer regime according to CRD IV. The minimum capital requirement for Tier 1 capital (CET1 plus AT1) and for total Own Funds are 6% and 8%, respectively. Additional capital buffers were applied for the year end 2020:

- 2.5% - capital conservation buffer;
- 2% - other systemically important institutions (O-SIIs);
- 0% - systemic risk buffer.

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

The table presents the current amount, references to the respective CRR articles and references to the above shown tables (equity, intangible assets, deferred tax assets and subordinated liabilities).

## 27 Own funds disclosure template

| in RON thousands | | Dec-20 | Regulation (EU) No 575/2013 Article Reference | Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) 575/2013 | References to reconciliation tables |
|---|---|---|---|---|---|
| **Common equity Tier 1 (CET1) capital: instruments and reserves** | | | | | |
| 1 | Common equity Tier 1 (CET1) capital: instruments and reserves | 3,348,049 | 26 (1), 27, 28, 29 | | |
| | of which: ordinary shares | 3,348,049 | EBA list 26 (3) | | a |
| 2 | Retained earnings | 3,729,473 | 26 (1) (c) | | b |
| 3 | Accumulated other comprehensive income (and any other reserves) | 1,322,927 | 26 (1) | | c1+c2 |
| **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | | **8,400,449** | - | | |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | - | - | | |
| 7 | Additional value adjustments (negative amount) | (7,220) | 34, 105 | | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | (321,627) | 36 (1) (b), 37 | | -(f+g) |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | - | 36 (1) (c), 38 | | -h |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | (2) | 33 (1) (b) (c) | | |
| | 'Deduction of insufficient coverage of non-performing exposures (EU 630/2019) | (36,130) | | | |
| 28 | Total regulatory adjustments to Common Equity Tier 1 (CET1) | (364,979) | - | | |
| **29** | **Common Equity Tier 1 (CET1) capital** | **8,035,470** | - | | |
| **Additional Tier 1 (AT1) capital: instruments** | | - | - | | |
| **36** | **Additional Tier 1 (AT1) capital before regulatory adjustments** | - | - | | |
| **Additional Tier 1 (AT1) capital: regulatory adjustments** | | - | - | | |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | - | - | | |
| **Excess of deduction from AT1 items over AT1** | | - | - | | |
| **44** | **Additional Tier 1 (AT1) capital** | - | - | | |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | **8,035,470** | - | | |
| **Tier 2 (T2) capital: instruments and provisions** | | - | - | | |
| 46 | Capital instruments and the related share premium accounts | 232,163 | - | | j |
| **51** | **Tier 2 (T2) capital before regulatory adjustment** | **232,163** | - | | |
| **Tier 2 (T2) capital: regulatory adjustments** | | | - | | |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | - | - | | |
| **58** | **Tier 2 (T2) capital** | **232,163** | - | | |
| **59** | **Total capital (TC = T1 + T2)** | **8,267,633** | - | | |
| **60** | **Total risk-weighted assets** | **38,558,744** | 92 (3), 95, 96, 98 | | |
| **Capital ratios and buffers** | | - | | | |
| **61** | **Common Equity Tier 1 (as a percentage of total risk exposure amount)** | **20.84%** | 92 (2) (a) | | |
| **62** | **Tier 1 (as a percentage of total risk exposure amount)** | **20.84%** | 92 (2) (b) | | |
| **63** | **Total capital (as a percentage of total risk exposure amount** | **21.44%** | 92 (2) (c) | | |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount) | 9.00% | CRD 128, 129, 140 | | |
| 65 | of which: capital conservation buffer requirement | 2.50% | | | |
| 66 | of which: countercyclical buffer requirement | 0.00% | | | |
| 67 | of which: systemic risk buffer requirement | 0.00% | | | |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | 2.00% | CRD 131 | | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 13.4% | CRD 128 | | |
| **Amounts below the thresholds for deduction (before risk-weighting)** | | - | | | |
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 87,236 | 36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70 | | |
| 73 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 39,030 | 36 (1) (i), 45, 48 | | |
| 75 | Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) | 247,226 | 36 (1) (c), 38, 48 | | k |

Note: The table may contain rounding differences.

Note: Row 68 is calculated as the CET 1 capital less any CET 1 items used to meet Tier 1 and Total capital requirements; this is before consideration of Pillar 2 SREP requirements.

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

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

## 28 Own funds Summary as of 31 December 2020

| Group | | 31.12.2020 | | 30.06.2020 | |
|---|---|---|---|---|---|
| in RON thousands | | Basel 3 | | Basel 3 | |
| | Article pursuant to CRR | Phased-in | Final | Phased-in | Final |
| **Common equity tier 1 capital (CET1)** | | | | | |
| Capital instruments eligible as CET1 | 26 (1) (a) (b), 27 to 30, 36 (1) (f), 42 | 3,348,049 | 3,348,049 | 3,348,048 | 3,348,048 |
| Own CET1 instruments | 36 (1) (f), 42 | | | - | - |
| Retained earnings | 26 (1) (c), 26 (2) | 3,490,946 | 3,490,946 | 3,477,635 | 3,477,635 |
| Profit of the period | 26 (2) | 238,527 | 238,527 | - | - |
| Accumulated other comprehensive income | 4 (1) (100), 26 (1) (d) | 159,011 | 159,011 | 101,830 | 101,830 |
| Other reserves | Art. 4 (117), Art. 26 (1) (e) | 1,163,916 | 1,163,916 | 1,142,991 | 1,142,991 |
| Transitional adjustments due to additional minority interests | 479, 480 | | | - | - |
| **Common equity tier 1 capital (CET1) before regulatory adjustments** | | **8,400,449** | **8,400,449** | 8,070,504 | 8,070,504 |
| Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities | 33 (1) (b) | (2) | (2) | (12) | (12) |
| Value adjustments due to the requirements for prudent valuation | 34, 105 | (7,220) | (7,220) | (11,388) | (11,388) |
| Regulatory adjustments relating to unrealised gains and losses | 467, 468 | - | - | - | - |
| Goodwill | 4 (1) (113), 36 (1) (b), 37 | - | - | - | - |
| Other intangible assets | 4 (1) (115), 36 (1) (b), 37 (a) | (321,627) | (321,627) | (322,147) | (322,147) |
| Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities | 36 (1) (c), 38 | - | - | - | - |
| **Other transitional adjustments CET1** | 469 to 472, 478, 481 | - | | - | - |
| Goodwill | | - | | - | - |
| Other intangible assets | | - | | - | - |
| Deferred tax assets that rely on future profitability and do not arise from temporary differences | | - | | - | - |
| Excess of deduction from AT1 items over AT1 | 36 (1) (j) | - | | - | - |
| **Common equity tier 1 capital (CET1)** | 50 | 8,035,470 | 8,035,470 | 7,574,758 | 7,574,758 |
| **Additional tier 1 capital (AT1)** | | - | | - | - |
| AT1 instruments of financial sector entities where the institution has a significant investment | 4 (1) (27), 56 (d), 59, 79 | | | - | - |
| **Other transitional adjustments AT1** | 474, 475, 478, 481 | - | | - | - |
| Goodwill | | | | - | - |
| Other intangible assets | | - | | - | - |
| Excess of deduction from AT1 items over AT1 | 36 (1) (j) | - | | - | - |
| **Additional tier 1 capital (AT1)** | 61 | **-** | | - | - |
| **Tier 1 capital - total of common equity tier 1 (CET1) and additional tier 1 (AT1)** | 25 | **8,035,470** | **8,035,470** | 7,574,758 | 7,574,758 |
| Tier 2 capital (T2) | | 232,163 | 232,163 | 338,218 | 338,218 |
| Other transitional adjustments tier 2 capital | 476, 477, 478, 481 | - | - | - | - |
| **Tier 2 capital (T2)** | **71** | **232,163** | **232,163** | 338,218 | 338,218 |
| **Short-term subordinated capital (tier-3)** | | | | - | - |
| **Total own funds** | **4 (1) (118) and T2** | **8,267,633** | **8,267,633** | 7,912,977 | 7,912,977 |

| Group | | 31.12.2020 | | 30.06.2020 | |
|---|---|---|---|---|---|
| in RON thousands | | Basel 3 | | Basel 3 | |
| | Article pursuant to CRR | Phased-in | Final | Phased-in | Final |
| Capital requirement | 92 (3), 95, 96, 98 | 3,084,699 | 3,416,365 | 3,083,861 | 3,396,724 |
| CET1 capital ratio | 92 (2) ( c) | 20.8% | 18.8% | 20% | 17.84% |
| Tier 1 capital ratio | 92 (2) ( c) | 20.8% | 18.8% | 20% | 17.84% |
| Total capital ratio | 92 (2) ( c) | 21.4% | 19.4% | 21% | 18.64% |

Note: The table may contain rounding differences.

## 29 Template on the comparison of institution’s own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

| | Quantitative template | 31.12.2020 | 30.09.2020 | 30.06.2020 | 31.03.2020 | 31.12.2019 |
|---|---|---|---|---|---|---|
| | **Available capital (amounts)** | | | | | |
| 1 | CET1 capital | 8,035,470 | 7,489,977 | 7,574,758 | 7,682,490 | 7,727,216 |
| 2 | CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 8,035,470 | 7,489,977 | 7,574,758 | 7,682,490 | 7,727,216 |
| 2a | CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied | 8,035,470 | 7,489,977 | 7,574,758 | 7,682,490 | 7,727,216 |
| 3 | Tier 1 capital | 8,035,470 | 7,489,977 | 7,574,758 | 7,682,490 | 7,727,216 |
| 4 | Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 8,035,470 | 7,489,977 | 7,574,758 | 7,682,490 | 7,727,216 |
| 4a | Tier 1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 8,035,470 | 7,489,977 | 7,574,758 | 7,682,490 | 7,727,216 |
| 5 | Total capital | 8,267,633 | 7,776,138 | 7,912,977 | 8,072,433 | 8,165,833 |
| 6 | Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 8,267,633 | 7,776,138 | 7,912,977 | 8,072,433 | 8,165,833 |
| 6a | Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 8,267,633 | 7,776,138 | 7,912,977 | 8,072,433 | 8,165,833 |
| | **Risk-weighted assets (amounts)** | | | | | |
| 7 | Total risk-weighted assets | 38,558,744 | 38,962,289 | 38,548,259 | 43,746,497 | 40,493,037 |
| 8 | Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 38,558,743 | 38,962,289 | 38,548,259 | 43,746,497 | 40,493,037 |
| | **Capital ratios** | | | | | |
| 9 | CET1 (as a percentage of risk exposure amount) | 20.84% | 19.22% | 19.65% | 17.56% | 19.08% |
| 10 | CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 20.84% | 19.22% | 19.65% | 17.56% | 19.08% |
| 10a | CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 20.84% | 19.22% | 19.65% | 17.56% | 19.08% |
| 11 | Tier 1 (as a percentage of risk exposure amount) | 20.84% | 19.22% | 19.65% | 17.56% | 19.08% |
| 12 | Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 20.84% | 19.22% | 19.65% | 17.56% | 19.08% |
| 12a | Tier 1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 20.84% | 19.22% | 19.65% | 17.56% | 19.08% |
| 13 | Total capital (as a percentage of risk exposure amount) | 21.44% | 19.96% | 20.53% | 18.45% | 20.17% |
| 14 | Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 21.44% | 19.96% | 20.53% | 18.45% | 20.17% |
| 14a | Total capital (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 21.44% | 19.96% | 20.53% | 18.45% | 20.17% |
| | **Leverage ratio** | | | | | |
| 15 | Leverage ratio total exposure measure | 86,971,043 | 82,255,261 | 80,248,442 | 82,406,156 | 78,767,340 |
| 16 | Leverage ratio | 9.24% | 9.11% | 9.44% | 9.32% | 9.81% |
| 17 | Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 9.24% | 9.11% | 9.44% | 9.32% | 9.81% |
| 17a | Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied | 9.24% | 9.11% | 9.44% | 9.32% | 9.81% |

BCR Group does not apply the transitory measures described in article 473a relate to IFRS 9. The full impact related to credit risk provisions calculated in accordance with IFRS 9 requirements is considered in the calculation of own funds, capital ratio and leverage ratio.

BCR Group does not apply the transitory measures described in article 468 related to unrealized gains and losses for financial assets measured at fair value through other comprehensive income. The full impact related to this is considered in the calculation of own funds, capital ratios and leverage ratio.

# 13 Capital Requirements

## DISCLOSURE REQUIREMENTS COVERED: ART. 438 (a) (e) CRR

### Capital requirements – Pillar I and Pillar II

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

### Pillar I

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

Solvency Ratio, CET1 Ratio and Tier1 Ratio, as of December 31st, 2020 are presented in the below table:

**30 Solvency ratio, CET 1 ratio and Tier 1 ratio for BCR Group as of 31 December 2020**

| Indicators (in RON thousands) | BCR Group |
|---|---|
| Common Equity Tier 1 (CET1) capital | 8,035,470 |
| Tier 1 capital | 8,035,470 |
| Tier 2 (T2) capital | 232,163 |
| Total capital (TC=T1+T2) | 8,267,633 |
| Common Equity Tier 1 ratio (as a percentage of total risk exposure amount) | 20.84% |
| Tier 1 ratio (as a percentage of total risk exposure amount) | 20.84% |
| Total capital ratio (as a percentage of total risk exposure amount) | 21.44% |

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 Risk Bearing Capacity Calculation (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 2020 includes also FX induced credit risk and business/strategic risk.

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

### 31 Internal models to quantify risks under Pillar II

| Type of risk | Model | Comment |
|---|---|---|
| Credit risk | Intrenal Rating Based Model Approach | Amount scaled to a confidence level of 99.92% |
| 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:<br>•MR Trading Book<br>•MR Banking Book<br>BCR determines a capital requirement for market risk as follows:<br>•VaR methodology (1 year, 99.92%) for the interest rate risk of the banking book (IRRBB)<br>•Standardized method for the FX position in the BB<br>•Internal model – Trading Book - VaR (1y, 99.92%) | Amount scaled to 1 year, 99.92% confidence level |
| Operational risk | Advanced Measurement Approach (AMA) at BCR Group level and by considering as risk transfer the entire insurance amount | Amount scaled to a confidence level of 99.92% |
| FX Induced Credit risk | Internal model impacting EAD, LGD and PD for FX exposures to unhedged borrowers.The FX scenario considers the most unfavorable rolling year on-year FX change over a period of 5 years | Amount scaled to a confidence level of 99.92% |
| Business / strategic risk | Internal model based on the deviations between realized and budgeted net operating result. The distribution of these deviations is modelled with a logistic distribution. | Amount scaled to a confidence level of 99.92% |

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

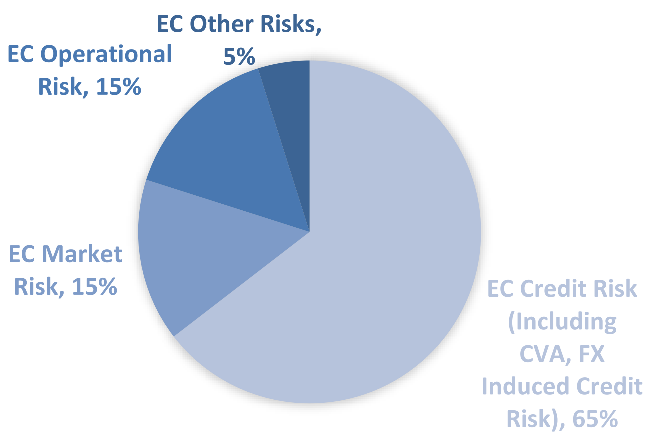
The economic capital requirement is compared to the capital held as coverage (broken down into equity, subordinated capital, reserves and retained earnings), thus determining the Group's ability to absorb these potential unexpected losses. The risk is calculated at a confidence level of 99.92%. The calculation of RCC is designed in accordance with the business strategy and risk profile of BCR Group and is accounted for in its risk appetite.

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

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

The following diagram presents the composition of the economic capital requirement according to type of risk as of 31 December 2020:

### 32 Economic capital allocation as of 31 December 2020 for BCR Group



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

### Other own funds requirements

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

The regulatory capital requirements computed as of December 31st, 2020, for the credit risk, market risk and operational risk were as follows:

#### 33 Template EU OV1 – Overview of RWAs

| | | | RWAs | | Minimum capital requirements | |
|---|---|---|---|---|---|---|
| in RON thousands | | | T | T-1 | T | T-1 |
| | 1 | **Credit risk (excluding CCR)** | **30,435,625** | **30,435,548** | **2,434,850** | **2,434,844** |
| Article 438(c)(d) | 2 | Of which the standardised approach | 30,435,625 | 30,435,548 | 2,434,850 | 2,434,844 |
| Article 438(c)(d) | 3 | Of which the foundation IRB (FIRB) approach | - | - | - | - |
| Article 438(c)(d) | 4 | Of which the advanced IRB (AIRB) approach | - | - | - | - |
| Article 438(d) | 5 | Of which equity IRB under the simple risk-weighted approach or the IMA | - | - | - | - |
| **Article 107, Article 438(c)(d)** | 6 | **CCR** | **78,030** | **437,583** | **6,242** | **35,007** |
| Article 438(c)(d) | 7 | Of which mark to market | 57,995 | 74,372 | 4,640 | 5,950 |
| Article 438(c)(d) | 8 | Of which original exposure | - | - | - | - |
| | 9 | Of which the standardised approach | 16 | 335,971 | 1 | 26,878 |
| | 10 | Of which internal model method (IMM) | - | - | - | - |
| Article 438(c)(d) | 11 | Of which risk exposure amount for contributions to the default fund of a CCP | - | - | - | - |
| Article 438(c)(d) | 12 | Of which CVA | 20,018 | 27,239 | 1,601 | 2,179 |
| **Article 438(e)** | 13 | **Settlement risk** | **1** | - | - | - |
| **Article 449(o)(i)** | 14 | **Securitisation exposures in the banking book (after the cap)** | - | - | - | - |
| | 15 | Of which IRB approach | - | - | - | - |
| | 16 | Of which IRB supervisory formula approach (SFA) | - | - | - | - |
| | 17 | Of which internal assessment approach (IAA) | - | - | - | - |
| | 18 | Of which standardised approach | - | - | - | - |
| **Article 438 (e)** | 19 | **Market risk** | **208,349** | **244,407** | **16,668** | **19,553** |
| | 20 | Of which the standardised approach | 208,349 | 244,407 | 16,668 | 19,553 |
| | 21 | Of which IMA | - | - | - | - |
| **Article 438(e)** | 22 | **Large exposures** | - | - | - | - |
| **Article 438(f)** | 23 | **Operational risk** | **7,836,738** | **7,844,750** | **626,939** | **627,580** |
| | 24 | Of which basic indicator approach | 324,604 | 352,824 | 25,968 | 28,226 |
| | 25 | Of which standardised approach | - | - | - | - |
| | 26 | Of which advanced measurement approach | 7,512,134 | 7,491,926 | 600,971 | 599,354 |
| **Article 437(2), Article 48 and Article 60** | 27 | **Amounts below the thresholds for deduction (subject to 250% risk weight)** | - | - | - | - |
| **Article 500** | 28 | **Floor adjustment** | - | - | - | - |
| | 29 | **Total** | **38,558,744** | **38,962,289** | **3,084,699** | **3,116,983** |

As this template has a quarterly frequency the T-1 period for this template is September 30th, 2020.

As at December 31st, 2020, the total RWA for BCR Group was 38,558,743 ths RON, with 403,546 ths RON lower as compared to September 30th, 2020 (38,962,289 ths RON) mainly due counterparty risks decrease. Credit risk RWA maintained at the approximatively the same level as at September 30th, 2020. Market risk RWA was lower with 36,058 ths RON due to decrease in TDI position.

The decrease in operational risk RWA with 8,012 ths RON was mainly triggered by decrease in BIA value for BCR subsidiaries.

# 14 Exposure to Counterparty Risk

DISCLOSURE REQUIREMENTS COVERED: ART. 439 CRR

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

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

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

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

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

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

Exposure values for derivative instruments arising from counterparty credit risk for BCR Group are as follows:

#### 34 Exposure from derivative instruments

| Type (RON thousands) | Jun-20 | Dec-20 |
|---|---|---|
| Exposure from Derivative Instruments | 163,403 | 108,021 |

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 (net of provisions) for Securities Financing Transactions arising from counterparty credit risk for BCR Group are as follows:

#### 35 Exposure from Securities Financing Transactions

| Type (RON thousands) | Jun-20 | Dec-20 |
|---|---|---|
| Exposure from Securities Financing Transactions | 64,805 | 1,809,300 |

The increase in December 2020 is due to a bigger amount of reverse repo transactions concluded with other credit institutions in order to manage the liquidity surplus of the Bank.

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

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

## A discussion of policies for securing collateral and establishing credit reserves

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

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

There are certain contracts concluded with a clause through which the minimum transfer amount is determined based on the rating of each counterparty, and the collateral transfer could be impacted through the change in this minimum threshold as a result of a credit downgrade of the bank. No such clauses were executed during the reporting period of 2020.

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

### 36 Template EU CCR1 – Analysis of CCR exposure by approach

| in RON thousands | | Notional | Replacement cost/ current market value | Potential future credit exposure | EEPE | Multiplier | EAD post CRM | RWAs |
|---|---|---|---|---|---|---|---|---|
| 1 | Mark to market | 8,336,736 | 41,118 | 66,903 | - | - | 108,021 | 57,995 |
| 2 | Original exposure | - | - | - | - | - | - | - |
| 3 | Standardised approach | - | - | - | - | - | - | - |
| 4 | IMM (for derivatives and SFTs) | - | - | - | - | - | - | - |
| 5 | Of which securities financing transactions | - | - | - | - | - | - | - |
| 6 | Of which derivatives and long settlement transactions | - | - | - | - | - | - | - |
| 7 | Of which from contractual cross-product netting | - | - | - | - | - | - | - |
| 8 | Financial collateral simple method (for SFTs) | 1,810,055 | - | - | - | - | 1,809,300 | 16 |
| 9 | Financial collateral comprehensive method (for SFTs) | - | - | - | - | - | - | - |
| 10 | VaR for SFTs | - | - | - | - | - | - | - |
| **11** | **Total** | **10,146,791** | **41,118** | **66,903** | **-** | **-** | **1,917,321** | **58,011** |

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

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

For the calculation of own funds requirements for CVA risk, BCR is using the standardized method in accordance with article 384 CRR.

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

37 Template EU CCR2 – CVA capital charge

| in RON thousands | | Exposure Value | RWAs |
|---|---|---|---|
| 1 | Total portfolios subject to the advanced method | - | - |
| 2 | (i) VaR component (including the 3× multiplier) | - | - |
| 3 | (ii) SVaR component (including the 3× multiplier) | - | - |
| **4** | **All portfolios subject to the standardised method** | **87,997** | **20,018** |
| EU 4 | Based on the original exposure method | - | - |
| **5** | **Total subject to the CVA capital charge** | **87,997** | **20,018** |

The table EU-CCR2 reflects the best estimate of the potential loss incurred on derivative transactions due to the default of the counterparty. Compared to year end 2019, there were no significant changes in respect of the CVA capital charge.

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

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

| in RON thousands | | Gross positive fair value or net carrying amount | Netting benefits | Netted current credit exposure | Collateral held | Net credit exposure |
|---|---|---|---|---|---|---|
| 1 | Derivatives | 39,891 | - | - | - | 39,891 |
| 2 | SFTs | - | - | - | - | - |
| 3 | Cross-product netting | - | - | - | - | - |
| 4 | **Total** | 39,891 | - | - | - | 39,891 |

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

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

| RON thousands | Collateral used in derivative transactions | | | | Collateral used in SFTs | |
|---|---|---|---|---|---|---|
| | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | Fair value of posted collateral |
| | Segregated | Unsegregated | Segregated | Unsegregated | | |
| Bonds | - | - | - | - | 1,809,218 | |
| **Total** | **-** | **-** | **-** | **-** | **1,809,218** | |

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

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

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

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

# 15 Countercyclical Capital Buffer

## DISCLOSURE REQUIREMENTS COVERED: ART. 440 CRR

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

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

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

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

| | General credit exposures | | Trading book exposure | | Securitisation exposures | | Own funds requirements | | | | Own funds requirement weights | Countercyclical capital buffer rate |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RON thousands | Exposure value for SA | Exposure value for IRB | Sum of long and short position of trading book | Value of trading book exposure for internal models | Exposure value for SA | Exposure value for IRB | Of which: General credit exposures | Of which: Trading book exposures | Of which: Securitisation exposures | Total | | |
| **Breakdown by country** | | | | | | | | | | | | |
| **(BG) Bulgaria** | 507 | - | - | - | - | - | 16 | - | - | 16 | 0.00 | 0.50% |
| **(CZ) Czech Republic** | 16 | - | - | - | - | - | 1 | - | - | 1 | 0.00 | 0.50% |
| **(LU) Grand Duchy of Luxembourg** | 276 | - | - | - | - | - | 14 | - | - | 14 | 0.00 | 0.25% |
| **(NO) Kingdom of Norway** | 247 | - | - | - | - | - | 7 | - | - | 7 | 0.00 | 1.00% |
| **(SK) Slovak Repuplic** | 17 | - | - | - | - | - | 1 | - | - | 1 | 0.00 | 1.00% |
| **(RO) Romania** | 44,956,837 | - | 1,309,144 | - | - | - | 2,202,078 | 4,144 | - | 2,206,222 | 0.99 | |
| **Other Countries** | 2,240,943 | - | 423,581 | - | - | - | 27,721 | 1,059 | - | 28,780.23 | 0.01 | |
| **Total** | **47,198,336** | **-** | **1,732,724** | **-** | **-** | **-** | **2,229,822** | **5,203** | **-** | **2,235,025** | **1.00** | |

### 41 Amount of institution-specific countercyclical capital buffer

| Ron thousands | 2020 |
|---|---|
| Total REA | 38,558,744 |
| Institution-specific countercyclical buffer rate | 0.00% |
| **Institution-specific countercyclical buffer requirement** | **3.47** |

# 16 Credit Risk

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

## Credit risk management strategies and processes

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

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

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

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

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

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

## Credit risk management structure and organization

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

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

### Credit risk reporting, monitoring and mitigation

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

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

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

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

# 17 Credit Risk Adjustments

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (a) CRR

## Definitions for accounting purposes of past due and impaired

### Past due definition

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

### Credit impaired definition

In respect of applying the credit-impaired concept of IFRS 9, BCR Group generally adopted the approach of aligning it with the regulatory concept of default for lending exposures. The default definition applied in the Group has been developed in accordance with EBA/GL/2016/07 'Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013'. Financial assets in Stage 3 or categorized as POCI (Purchased or Originated Credit Impaired) in default at the reporting date are considered as credit-impaired.
According to IFRS 9, a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- BCR, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may be not possible to identify a single discrete event—instead; the combined effect of several events may have caused financial assets to become credit-impaired.

### Default definition

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

- Unlikeliness to pay;
- Overdue amounts with more than 90 consecutive days above the materiality threshold[1] established internally;
- Distressed restructuring;
- Credit loss (debt sale or write off);
- Insolvency, bankruptcy, other procedures.

[1] a) Corporate and micro and Banks- the maximum between 2,5% of a BCR client's exposure and 250 EUR
b) Private individual and sole-trader (PFA) clients: the maximum between 2.5% of a BCR client's exposure and 100 EUR

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

The internal definition of forborne exposures in BCR is fully aligned with EBA's Technical Standards on forbearance included in Regulation (EU) 2015/227.

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

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

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

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

BCR has defined an internal regulatory framework regarding the incorporation of anticipatory information in the ECL level estimation process, which considers the transparent description of the process, the entities and their responsibilities, as well as the information and approval competencies regarding to the results of this process.

Forward looking information is incorporated into the statistical modelling process of the risk parameters used in the ECL level estimation process (eg, probability of default (PD) and loss given default (LGD)) and takes into account future forecasts regarding the evolution of a set of macroeconomic factors, among which are GDP, unemployment rate, wage level, inflation, exchange rate, interest rate.

The grouping of credit exposures by regulated exposure classes and rating methods is performed in accordance with the regulatory requirements of Regulation no. 575/2013 of the European Council and of the European Parliament of 26 June 2013 on prudential requirements for credit institutions and investment companies and of the NBR Regulation no. 11/2020 for the amendment and completion of the BNR Regulation 5/2013 regarding the prudential requirements for credit institutions.

All rating methods consider various customer and exposure / transaction information, financial information and behavioural information, in order to ensure a relevant assessment of customer characteristics and exposures, a relevant risk differentiation and an accurate and consistent estimation of parameters of risk.

In order to ensure the appropriate grouping of exposures into rating classes or risk groups, various quantitative approaches are used to analyse the homogeneity of exposures within each rating class or risk group, both when developing the respective rating method, as well as at the time of subsequent calibrations.

The results and consistency of these approaches are subject to a recurrent validation process, conducted by an independent entity.

For further details related to the definition of concession, the forbearance stages which can be attributed to a client and the upgrading criteria from forbearance, please consult the BCR Group 2020 Annual Report.

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

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

## DISCLOSURE REQUIREMENTS COVERED: ART. 442(b) CRR

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

The calculation of credit loss allowances is done on monthly basis, on exposure/asset level, in the currency of the base account exposure. To calculate the loss allowance, BCR applies an expected credit loss (ECL) model based on a three stages approach that either leads to a 12-months ECL or to a Lifetime ECL.

**A. Stage 1** – includes:

a. Financial assets which fulfil the low credit risk conditions.

b. Financial assets without significant increase in credit risk since initial recognition irrespective of their credit quality

In Stage 1 the credit risk loss allowances are calculated as 12-months ECL.

**B. Stage 2** - includes:

a. financial assets with a significant increase in credit risk.

b. financial assets not credit-impaired with forbearance performing type, workout or EW2/ EW3 at reporting date, no matter the initial recognition status

In Stage 2 the credit risk loss allowances are calculated as lifetime ECL.

**C. Stage 3** - includes financial assets which are credit-impaired at the reporting date.

In stage 3 the credit loss allowances are calculated as lifetime ECL.

The transfer criteria from stage 1 to stage 2 are based on the assessment of significant increase in credit risk from initial recognition date and are quantitative and qualitative criteria applied at both financial asset and portfolio level.

**<u>Criteria at the financial asset level</u>**

**1. Low credit risk**

Credit risk for a financial asset may be considered not to have increased significantly after initial recognition if it is determined that the financial instrument presents a low credit risk at the reporting date. The low credit risk threshold shall be approved by the Risk Committee or The Executive Committee and shall be updated at least once a year. Currently, the low credit risk threshold for BCR is zero (except for the Threshold for Sovereigns).

**2. Relative change of annualised lifetime probability of default (PD)**

The relative change in the probability of default over the lifetime refers to the comparison of the PD allocated at the reporting date with the PD allocated at the date of initial recognition. If the variation exceeds a certain threshold, then the asset will be transferred to Stage 2 and provisions (ECL) will be calculated over the life of the asset.

**3. Days past due (DPD)**

It is defined more than 30 days past due as a backstop indicator that lifetime expected credit losses should be recognised; it means financial asset is transferred into Stage 2.

Days past due shall be applied on financial asset level.

**Criteria defined on client level**

**4. Transfer of the client to workout department**
The transfer to workout department is considered as significant increase in credit risk. The criterion is not applied in case of financial assets of retail clients.

**5. Forbearance**
The forbearance status in conditions of financial difficulty, is considered as significant increase in credit risk since initial recognition. It means that all client's financial assets marked with forbearance status should be transferred into stage 2 if client is not in default, and lifetime expected credit losses should be recognized.

**6. Early warning signals (EW)**
The signals leading to client's inclusion to the watch list (EW2, EW3) are considered as significant increase in credit risk and lifetime expected losses should be recognized.

**Portfolio level criteria**

The performance of the assessment of significant increase in credit risk on portfolio level is necessary if the increase in credit risk on individual instrument level is only available with a certain time lag.

Events, which can trigger an unexpected increase in credit risk on portfolio level, are for example natural disasters (e.g. flood or earthquake in certain area), bankruptcy of the country etc.

The portfolio transfer is valid if the event isn't considered in the rating of the customer.

## DISCLOSURE REQUIREMENTS COVERED: ART. 442(c) CRR

This table provides the total and average carrying amount subject to credit risk based on IFRS accounting values according to the regulatory scope of consolidation as of 31st of December 2020. For on-balance sheet items the "Net value of exposure" is calculated by deducting the expected credit losses from the gross amount and for off-balance sheet, respective credit risk provisions have been deducted. The breakdown of exposure by exposure classes is done based on the standardized approach applied for BCR Group.

The average net values are calculated by considering all 4 quarters of 2020.

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

| RON thousands | | Net exposure at the end of the period | Average net exposure over the period |
|---|---|---|---|
| 1 | Central governments or central banks | - | - |
| 2 | Institutions | - | - |
| 3 | Corporates | - | - |
| 4 | Of which: Specialised lending | - | - |
| 5 | Of Which: SME | - | - |
| 6 | Retail | - | - |
| 7 | Secured by real estate property | - | - |
| 8 | SME | - | - |
| 9 | Non-SME | - | - |
| 10 | Qualifying Revolving | - | - |
| 11 | Other Retail | - | - |
| 12 | SME | - | - |
| 13 | Non-SME | - | - |
| 14 | Equity | - | - |
| 15 | Total IRB approach | - | - |
| 16 | Central governments or central banks | 26,394,020 | 27,116,422 |
| 17 | Regional governments or local authorities | 5,417,058 | 4,669,736 |
| 18 | Public sector entities | 662,735 | 573,814 |
| 19 | Multilateral Development Banks | 59,095 | 59,325 |
| 20 | International Organisations | - | - |
| 21 | Institutions | 1,061,121 | 1,686,765 |
| 22 | Corporates | 24,375,675 | 22,732,189 |
| 23 | of which: SME | 10,152,282 | 10,152,425 |
| 24 | Retail | 15,702,856 | 15,901,503 |
| 25 | of which: SME | 964,937 | 858,699 |
| 26 | Secured by mortgages on immovable property | 12,091,870 | 11,267,973 |
| 27 | of which: SME | 76,013 | 114,267 |
| 28 | Exposures in default | 652,434 | 596,344 |
| 29 | Items associated with particularly high risk | 2,225 | 3,044 |
| 30 | Covered bonds | - | - |
| 31 | STD - Securitisation positions | - | - |
| 32 | Claims on institutions and corporates with a short-term credit assessment | - | - |
| 33 | Collective investments undertakings (CIU) | - | - |
| 34 | Equity exposures | 176,684 | 126,288 |
| 35 | Other exposures | 8,030,286 | 6,123,540 |
| 36 | Total SA approach | 94,626,057 | 90,856,943 |
| **37** | **Total** | **94,626,057** | **90,856,943** |

## DISCLOSURE REQUIREMENTS COVERED: ART. 442(d) CRR

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

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

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

The credit risk exposure is concentrated in Core Market – Romania (98.5%), the market in which BCR, the parent of BCR Group, activates. The other geographical regions identified as significant do not exceed 1.5% from the total net credit risk exposure.

### 43 Template EU CRB-C: Geographical breakdown of exposures

| in RON thousands | Core Market - Austria | Core Market - Croatia | Core Market - Romania | Core Market - Serbia | Core Market - Slovakia | Core Market - Czech Republic | Core Market - Hungary | Core Market - Slovenia | Other EU Countries | Other Industrialized Countries | Emerging Markets - SE Europe/CIS | Emerging Markets - Asia | Emerging Markets - Latin America | Emerging Markets - Middle East/Africa | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Central governments or central banks | | | | | | | | | | | | | | | - |
| 2 Institutions | | | | | | | | | | | | | | | - |
| 3 Corporates | | | | | | | | | | | | | | | - |
| 4 Of Which: Specialised Lending | | | | | | | | | | | | | | | - |
| 5 Of Which: SME | | | | | | | | | | | | | | | - |
| 6 Retail | | | | | | | | | | | | | | | - |
| 7 Secured by real estate property | | | | | | | | | | | | | | | - |
| 8 SME | | | | | | | | | | | | | | | - |
| 9 Non-SME | | | | | | | | | | | | | | | - |
| 10 Qualifying Revolving | | | | | | | | | | | | | | | - |
| 11 Other Retail | | | | | | | | | | | | | | | - |
| 12 SME | | | | | | | | | | | | | | | - |
| 13 Non-SME | | | | | | | | | | | | | | | - |
| 14 Equity | | | | | | | | | | | | | | | - |
| 15 Total IRB approach | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 16 Central governments or central banks | - | - | 26,394,020 | - | - | - | - | - | - | - | - | - | - | - | 26,394,020 |
| 17 Regional governments or local authorities | - | - | 5,417,058 | - | - | - | - | - | - | - | - | - | - | - | 5,417,058 |
| 18 Public sector entities | - | - | 662,735 | - | - | - | - | - | - | - | - | - | - | - | 662,735 |
| 19 Multilateral Development Banks | - | - | - | - | - | - | - | - | 59,095 | - | - | - | - | - | 59,095 |
| 20 International Organisations | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 21 Institutions | 273,809 | - | 529,516 | - | 6 | - | - | - | 218,281 | 675 | - | 30,673 | - | 8,160 | 1,061,121 |
| 22 Corporates | 36,978 | - | 24,202,337 | 477 | - | 78 | 296 | - | 48,596 | 66 | - | 1,082 | 0 | 85,764 | 24,375,675 |
| 23 of which: SME | - | - | 10,151,738 | - | - | - | 296 | - | 248 | - | - | - | - | - | 10,152,282 |
| 24 Retail | 112 | 0 | 15,623,213 | 0 | 0 | 30 | 7 | 0 | 6,136 | 533 | 294 | 248 | 28 | 72,253 | 15,702,856 |
| 25 of which: SME | - | - | 964,937 | - | - | - | - | - | - | - | - | - | - | - | 964,937 |
| 26 Secured by mortgages on immovable property | 468 | - | 12,004,548 | - | - | - | 46 | - | 14,360 | 1,571 | 107 | - | 142 | 70,629 | 12,091,870 |
| 27 of which: SME | - | - | 76,013 | - | - | - | - | - | - | - | - | - | - | - | 76,013 |
| 28 Exposures in default | 1 | - | 629,209 | - | - | - | - | - | 20,280 | 0 | 1 | - | - | 2,942 | 652,434 |
| 29 Items associated with particularly high risk | - | - | 2,225 | - | - | - | - | - | - | - | - | - | - | - | 2,225 |
| 30 Covered bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 31 STD - Securitisation positions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 32 Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 33 Collective investments undertakings (CIU) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 34 Equity exposures | - | - | 87,637 | - | - | - | - | - | 955 | 88,092 | - | - | - | - | 176,684 |
| 35 Other exposures | 6,207 | - | 7,685,697 | - | - | - | - | - | 134 | - | - | 12 | - | 338,237 | 8,030,286 |
| 36 Total SA approach | 317,575 | 0 | 93,238,196 | 477 | 6 | 108 | 349 | 0 | 367,836 | 90,938 | 402 | 32,015 | 169 | 577,985 | 94,626,057 |
| **37 Total** | **317,575** | **0** | **93,238,196** | **477** | **6** | **108** | **349** | **0** | **367,836** | **90,938** | **402** | **32,015** | **169** | **577,985** | **94,626,057** |

## DISCOSURE REQUIREMENTS COVERED: ART. 442 (e) CRR

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

The breakdown of net credit risk exposure is done based on exposure classes under the standardized approach for BCR Group as of 31st of December 2020 and based on the industry segment by considering the first NACE Code of the immediate counterparties.

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

The greatest concentration is on Public Administration (30.3%) due to minimum required reserve deposited at the National Bank of Romania, followed by Financial and insurance services (7.5%) explained by the deal traded on short term with credit institutions in order to balance the liquidities. The wholesale and retail trade industry (6.6%) and manufacturing industry (6.7%) are on top industries segments in which BCR Group has significant exposures.

Still BCR Group is a retail-oriented group with an exposure towards private individuals of 34.5%. Please note that the following template is split into two sections.

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

| in RON thousands | | Agriculture, forestry and fishing | Mining and quarrying | Manufacturing | Electricity, gas, steam and air conditioning supply | Water supply | Construction | Wholesale and retail trade | Transport and storage | Accommodation and food service activities | Information and communication |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Central governments or central banks | | | | | | | | | | |
| 2 | Institutions | | | | | | | | | | |
| 3 | Corporates | | | | | | | | | | |
| 4 | Of which: Specialised lending | | | | | | | | | | |
| 5 | Of Which: SME | | | | | | | | | | |
| 6 | Retail | | | | | | | | | | |
| 7 | Secured by real estate property | | | | | | | | | | |
| 8 | SME | | | | | | | | | | |
| 9 | Non-SME | | | | | | | | | | |
| 10 | Qualifying Revolving | | | | | | | | | | |
| 11 | Other Retail | | | | | | | | | | |
| 12 | SME | | | | | | | | | | |
| 13 | Non-SME | | | | | | | | | | |
| 14 | Equity | | | | | | | | | | |
| 15 | Total IRB approach | - | - | - | - | - | - | - | - | - | - |
| 16 | Central governments or central banks | - | - | - | - | - | - | - | - | - | - |
| 17 | Regional governments or local authorities | - | - | - | - | - | - | - | - | - | - |
| 18 | Public sector entities | - | - | - | - | - | - | - | - | - | - |
| 19 | Multilateral Development Banks | - | - | - | - | - | - | - | - | - | - |
| 20 | International Organisations | - | - | - | - | - | - | - | - | - | - |
| 21 | Institutions | - | - | - | - | - | - | - | - | - | - |
| 22 | Corporates | 960,756 | 1,753,761 | 5,856,061 | 959,423 | 292,591 | 2,469,042 | 5,616,212 | 2,544,037 | 207,520 | 227,895 |
| 23 | of which: SME | 476,319 | 210,125 | 2,348,694 | 106,257 | 203,313 | 1,055,953 | 3,241,444 | 567,333 | 194,872 | 55,691 |
| 24 | Retail | 181,336 | 9,438 | 269,523 | 4,501 | 12,788 | 189,175 | 539,732 | 503,389 | 76,313 | 33,554 |
| 25 | of which: SME | 52,453 | 3,054 | 180,807 | 348 | 5,922 | 97,817 | 338,376 | 110,127 | 46,895 | 17,848 |
| 26 | Secured by mortgages on immovable property | 3,164 | 327 | 23,206 | - | 153 | 6,266 | 72,501 | 7,563 | 1,011 | 362 |
| 27 | of which: SME | 3,164 | 327 | 9,699 | - | 153 | 4,472 | 44,562 | 7,102 | 1,011 | 362 |
| 28 | Exposures in default | 10,804 | 20,759 | 151,087 | 18,046 | 4,179 | 70,550 | 19,842 | 21,308 | 6,068 | 628 |
| 29 | Items associated with particularly high risk | - | - | - | - | - | 2,225 | - | - | - | - |
| 30 | Covered bonds | - | - | - | - | - | - | - | - | - | - |
| 31 | STD - Securitisation positions | - | - | - | - | - | - | - | - | - | - |
| 32 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - |
| 33 | Collective investments undertakings (CIU) | - | - | - | - | - | - | - | - | - | - |
| 34 | Equity exposures | - | - | - | - | - | - | 1,350 | - | - | 955 |
| 35 | Other exposures | - | - | 539 | - | - | 78 | 426 | 282 | 0 | 162 |
| 36 | Total SA approach | 1,156,060 | 1,784,285 | 6,300,415 | 981,971 | 309,712 | 2,737,335 | 6,250,063 | 3,076,579 | 290,912 | 263,557 |
| **37** | **Total** | **1,156,060** | **1,784,285** | **6,300,415** | **981,971** | **309,712** | **2,737,335** | **6,250,063** | **3,076,579** | **290,912** | **263,557** |

| in RON thousands | | Financial and insurance services | Real estate activities | Professional, scientific and technical activities | Administrative and support service activities | Public administration and defence, compulsory social security | Education | Human health services and social work activities | Arts, entertainment and recreation | Other services | Private households | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Central governments or central banks | | | | | | | | | | | - |
| 2 | Institutions | | | | | | | | | | | - |
| 3 | Corporates | | | | | | | | | | | - |
| 4 | Of which: Specialised lending | | | | | | | | | | | - |
| 5 | Of Which: SME | | | | | | | | | | | - |
| 6 | Retail | | | | | | | | | | | - |
| 7 | Secured by real estate property | | | | | | | | | | | - |
| 8 | SME | | | | | | | | | | | - |
| 9 | Non-SME | | | | | | | | | | | - |
| 10 | Qualifying Revolving | | | | | | | | | | | - |
| 11 | Other Retail | | | | | | | | | | | - |
| 12 | SME | | | | | | | | | | | - |
| 13 | Non-SME | | | | | | | | | | | - |
| 14 | Equity | | | | | | | | | | | - |
| 15 | Total IRB approach | - | - | - | - | - | - | - | - | - | - | - |
| 16 | Central governments or central banks | 4,698,848 | - | - | - | 21,695,172 | - | - | - | - | - | 26,394,020 |
| 17 | Regional governments or local authorities | - | - | - | - | 5,417,058 | - | - | - | - | - | 5,417,058 |
| 18 | Public sector entities | - | - | 6,901 | - | 640,415 | 15,275 | 145 | - | - | - | 662,735 |
| 19 | Multilateral Development Banks | 59,095 | - | - | - | - | - | - | - | - | - | 59,095 |
| 20 | International Organisations | - | - | - | - | - | - | - | - | - | - | - |
| 21 | Institutions | 1,058,452 | - | - | - | - | - | - | - | 2,668 | - | 1,061,121 |
| 22 | Corporates | 760,043 | 1,493,159 | 233,904 | 547,054 | 93,083 | 233 | 273,068 | 8,154 | 74,422 | 5,257 | 24,375,675 |
| 23 | of which: SME | 178 | 1,478,416 | 67,247 | 79,882 | - | - | 1,033 | 10 | 65,516 | - | 10,152,282 |
| 24 | Retail | 11,512 | 14,793 | 96,150 | 59,147 | 435 | 6,095 | 19,556 | 17,652 | 29,468 | 13,628,297 | 15,702,856 |
| 25 | of which: SME | 21 | 4,704 | 48,777 | 30,673 | - | - | - | 10,968 | 16,147 | - | 964,937 |
| 26 | Secured by mortgages on immovable property | 2,306 | 227 | 2,464 | 3,004 | - | - | 1,618 | - | 322 | 11,967,378 | 12,091,870 |
| 27 | of which: SME | - | 22 | 2,085 | 2,795 | - | - | - | - | 260 | - | 76,013 |
| 28 | Exposures in default | 11,982 | 4,604 | 4,905 | 2,070 | 2,152 | 110 | 738 | 1,556 | 1,222 | 299,822 | 652,434 |
| 29 | Items associated with particularly high risk | - | - | - | - | - | - | - | - | - | - | 2,225 |
| 30 | Covered bonds | - | - | - | - | - | - | - | - | - | - | - |
| 31 | STD - Securitisation positions | - | - | - | - | - | - | - | - | - | - | - |
| 32 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - | - | - | - | - |
| 33 | Collective investments undertakings (CIU) | - | - | - | - | - | - | - | - | - | - | - |
| 34 | Equity exposures | 162,479 | - | - | 11,900 | - | - | - | - | - | - | 176,684 |
| 35 | Other exposures | 368,440 | - | 0 | 7,737 | 794,846 | 0 | 0 | - | 101,893 | 6,755,885 | 8,030,286 |
| 36 | Total SA approach | 7,133,157 | 1,512,783 | 344,324 | 630,912 | 28,643,160 | 21,713 | 295,125 | 27,362 | 209,995 | 32,656,638 | 94,626,057 |
| **37** | **Total** | **7,133,157** | **1,512,783** | **344,324** | **630,912** | **28,643,160** | **21,713** | **295,125** | **27,362** | **209,995** | **32,656,638** | **94,626,057** |

## DISCLOSURE REQUIREMENTS COVERED: ART. 442 (f) CRR

This template contains net values of on-balance-sheet exposures subject to credit risk framework split by exposure classes defined under the standardized approach and by residual maturity of the exposures as of 31st of December 2020.

The residual maturities are split into five buckets as follows:

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

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

No significant changes in the distribution of the exposures by residual maturity compared to previous year.

### 45 Template EU CRB-E: Maturity of exposures

| | | Net exposure value | | | | | |
|---|---|---|---|---|---|---|---|
| in RON thousands | | On demand | <= 1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total |
| 1 | Central governments or central banks | | | | | | - |
| 2 | Institutions | | | | | | - |
| 3 | Corporates | | | | | | - |
| 4 | Of which: Specialised lending | | | | | | - |
| 5 | Of Which: SME | | | | | | - |
| 6 | Retail | | | | | | - |
| 7 | Secured by real estate property | | | | | | - |
| 8 | SME | | | | | | - |
| 9 | Non-SME | | | | | | - |
| 10 | Qualifying Revolving | | | | | | - |
| 11 | Other Retail | | | | | | - |
| 12 | SME | | | | | | - |
| 13 | Non-SME | | | | | | - |
| 14 | Equity | | | | | | - |
| 15 | Total IRB approach | - | - | - | - | - | - |
| 16 | Central governments or central banks | 0 | 4,779,423 | 13,184,952 | 3,322,707 | 5,106,937 | 26,394,020 |
| 17 | Regional governments or local authorities | 38 | 107,120 | 516,348 | 4,793,220 | 332 | 5,417,058 |
| 18 | Public sector entities | 21,907 | 284,437 | 170,697 | 185,392 | 303 | 662,735 |
| 19 | Multilateral Development Banks | - | 58,163 | - | - | 932 | 59,095 |
| 20 | International Organisations | - | - | - | - | - | - |
| 21 | Institutions | 134,818 | 440,531 | 217,410 | 58,132 | 210,229 | 1,061,121 |
| 22 | Corporates | 3,941,288 | 6,028,698 | 8,695,404 | 5,689,460 | 20,826 | 24,375,675 |
| 23 | of which: SME | 1,845,629 | 1,929,384 | 3,364,962 | 3,011,313 | 993 | 10,152,282 |
| 24 | Retail | 6,499,446 | 1,085,195 | 1,926,953 | 6,181,287 | 9,975 | 15,702,856 |
| 25 | of which: SME | 148,613 | 535,859 | 262,095 | 18,065 | 305 | 964,937 |
| 26 | Secured by mortgages on immovable property | 50,834 | 30,388 | 214,286 | 11,796,363 | - | 12,091,870 |
| 27 | of which: SME | 31,476 | 22,770 | 13,179 | 8,589 | - | 76,013 |
| 28 | Exposures in default | 116,856 | 177,326 | 92,187 | 245,932 | 20,133 | 652,434 |
| 29 | Items associated with particularly high risk | - | 2,225 | - | - | - | 2,225 |
| 30 | Covered bonds | - | - | - | - | - | - |
| 31 | STD - Securitisation positions | - | - | - | - | - | - |
| 32 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - |
| 33 | Collective investments undertakings (CIU) | - | - | - | - | - | - |
| 34 | Equity exposures | - | - | - | - | 176,684 | 176,684 |
| 35 | Other exposures | 322,863 | 788,554 | 13,481 | 28,134 | 6,877,255 | 8,030,286 |
| 36 | Total SA approach | 11,088,049 | 13,782,060 | 25,031,717 | 32,300,625 | 12,423,606 | 94,626,057 |
| **37** | **Total** | **11,088,049** | **13,782,060** | **25,031,717** | **32,300,625** | **12,423,606** | **94,626,057** |

BCR GROUP DISCLOSURE REPORT 2020

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

Table EU CR1-A contains on-balance-sheet and off-balance-sheet gross exposures and the expected credit losses, subject to credit risk framework, as of 31st of December 2020, breakdown per exposure classes defined under the standardized approach.

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

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

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

| | | Gross carrying value | | Specific Credit Risk Adjustment | General Credit Risk Adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net Values |
|---|---|---|---|---|---|---|---|---|
| | in RON thousands | defaulted exposures | non-defaulted exposures | | | | | |
| 1 | Central governments or central banks | - | - | - | - | - | - | - |
| 2 | Institutions | - | - | - | - | - | - | - |
| 3 | Corporates | - | - | - | - | - | - | - |
| 4 | Of which: Specialised lending | - | - | - | - | - | - | - |
| 5 | Of Which: SME | - | - | - | - | - | - | - |
| 6 | Retail | - | - | - | - | - | - | - |
| 7 | Secured by real estate property | - | - | - | - | - | - | - |
| 8 | SME | - | - | - | - | - | - | - |
| 9 | Non-SME | - | - | - | - | - | - | - |
| 10 | Qualifying Revolving | - | - | - | - | - | - | - |
| 11 | Other Retail | - | - | - | - | - | - | - |
| 12 | SME | - | - | - | - | - | - | - |
| 13 | Non-SME | - | - | - | - | - | - | - |
| 14 | Equity | - | - | - | - | - | - | - |
| 15 | Total IRB approach | - | - | - | - | - | - | - |
| 16 | Central governments or central banks | - | 26,414,495 | 20,475 | - | - | 13,312 | 26,394,020 |
| 17 | Regional governments or local authorities | - | 5,429,832 | 12,774 | - | 105 | (1,154) | 5,417,058 |
| 18 | Public sector entities | - | 663,072 | 337 | - | - | 0 | 662,735 |
| 19 | Multilateral Development Banks | - | 59,099 | 4 | - | - | (0) | 59,095 |
| 20 | International Organisations | - | - | - | - | - | (0) | - |
| 21 | Institutions | 8 | 1,066,335 | 5,222 | - | - | 31,996 | 1,061,121 |
| 22 | Corporates | 3,740 | 24,932,320 | 560,385 | - | 859,302 | 291,790 | 24,375,675 |
| 23 | of which: SME | - | 10,422,919 | 270,637 | - | 53,475 | 115,779 | 10,152,282 |
| 24 | Retail | 33 | 16,117,051 | 414,229 | - | 528,531 | 357,973 | 15,702,856 |
| 25 | of which: SME | - | 1,006,514 | 41,577 | - | - | 5,006 | 964,937 |
| 26 | Secured by mortgages on immovable property | - | 12,288,859 | 196,988 | - | 92,974 | 94,180 | 12,091,870 |
| 27 | of which: SME | - | 78,511 | 2,498 | - | - | - | 76,013 |
| 28 | Exposures in default | 2,352,176 | 823 | 1,700,566 | - | - | - | 652,434 |
| 29 | Items associated with particularly high risk | 2,486 | - | 261 | - | 49,815 | (6,766) | 2,225 |
| 30 | Covered bonds | - | - | - | - | - | - | - |
| 31 | STD - Securitisation positions | - | - | - | - | - | - | - |
| 32 | Claims on institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - |
| 33 | Collective investments undertakings (CIU) | - | - | - | - | - | - | - |
| 34 | Equity exposures | - | 176,684 | - | - | - | - | 176,684 |
| 35 | Other exposures | 9,196 | 8,097,963 | 76,872 | - | 688 | (2,003) | 8,030,286 |
| 36 | Total SA approach | 2,367,639 | 95,246,531 | 2,988,113 | - | 1,531,417 | 779,328 | 94,626,057 |
| **37** | **Total** | **2,367,639** | **95,246,531** | **2,988,113** | **-** | **1,531,417** | **779,328** | **94,626,057** |
| 38 | Of which: Loans | 2,037,909 | 49,162,442 | 2,505,667 | - | 1,531,417 | 673,546 | 48,694,684 |
| 39 | Of which: Debt securities | 1,355 | 22,419,039 | 28,916 | - | - | 12,521 | 22,391,477 |
| 40 | Of which: off balance | 301,893 | 16,288,813 | 384,122 | - | - | 93,260 | 16,206,584 |

| Undisclosed Positions subject to other framework flags than credit risk (in RON thousands) | Gross exposure | CLA |
|---|---|---|
| Of which: Loans | 1,809,451 | - |
| Of which: Debt securities | 1,208,931 | - |
| Of which: off balance | 80,425 | - |

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

The on-balance gross carrying amount as of 31st of December 2020 is presented.

### 47 Template EU CR1-D: Ageing of past-due exposures

| in RON thousands | <= 30 days | > 30 days <= 60 days | > 60 days <=90 days | > 90 days <=180 days | > 180 days <= 1year | > 1year |
|---|---|---|---|---|---|---|
| 1 Loans | 50,138,551 | 203,653 | 88,979 | 93,438 | 108,771 | 567,562 |
| 2 Debt Securities | 22,420,394 | - | - | - | - | - |

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

The on-balance gross carrying amount as of 31st of December 2020 is presented.

### 48 Template EU CR1-E: Non-performing and forborne exposures

| in RON thousands | Gross Carrying Amount of performing and non-performing exposure | Of which performing but past due >30 and < 90 dpd | of which performing forborn | of which non-performing | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees received | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | PERFORMING EXPOSURE | | NONPERFORMING EXPOSURE | | | |
| | | | | Total | of which defaulted | of which impaired | of which forborn | Total | of which forborn | Total | of which forborn | Total | of which forborn |
| 010 Debt securities | 22,420,394 | - | - | 1,355 | 1,355 | 1,355 | - | (28,510) | - | (406) | - | - | - |
| 020 Loans and advances | 51,200,955 | 163,879 | 523,354 | 2,037,909 | 2,037,909 | 2,035,985 | 643,667 | (1,035,521) | (78,445) | (1,470,147) | (441,873) | 27,705,337 | 342,957 |
| 030 Off-balance sheet exposures | 16,590,677 | - | 78,140 | 301,893 | 301,893 | 84,071 | 12,910 | (147,285) | (5,596) | (236,837) | (8,010) | 3,778,645 | 15,081 |

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

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

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

During 2020, the non-performing exposure increased with 11% as compared to 2019, influenced by one Corporate default exposure registered in April 2020 and Retail NPL formation as a result of unlikely to pay assessment performed for clients with payment deferral measures under COVID-19 moratoria.

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

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

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

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

| | in RON thousands | Accumulated Specific credit risk adjustment | Accumulated General credit risk adjustment |
|---|---|---|---|
| 1 | **Opening balance** | **(1,219,448)** | |
| 2 | Increases due to amounts set aside for estimated loan losses during the period | (378,824) | |
| 3 | Decreases due to amounts reversed for estimated loan losses during the period | 160,431 | |
| 4 | Decreases due to amounts taken against accumulated credit risk adjustments | 179,172 | |
| 5 | Transfers between credit risk adjustments | (202,306) | |
| 6 | Impact of exchange rate differences | (9,578) | |
| 7 | Business combinations, including acquisitions and disposals of subsidiaries | - | |
| 8 | Other adjustments | - | |
| 9 | **Closing balance** | **(1,470,553)** | |
| 10 | Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | 283,489 | |
| 11 | Specific credit risk adjustments recorded directly to the statement of profit or loss | (27,575) | |

Note: Opening balance is as of 01.01.2020.

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

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

| | in RON thousands | Defaulted exposures | Comments |
|---|---|---|---|
| 1 | Opening stock | 2,109,809 | BoP = previous EOP |
| 2 | Exposures that have defaulted since the last reporting period | 977,888 | EOP figure |
| 3 | Returned to non-defaulted status | (129,188) | EOP figure |
| 4 | Amounts written off | (160,940) | See F12.x |
| 5 | Other changes | (494,037) | all other |
| 6 | Closing stock | 2,341,158 | EOP stock |

Note: Opening balance is as of 01.01.2020.

Defaulted loans and debt securities subject to the credit risk framework increased by 9% as compared to June 30th, 2020.

The new defaulted exposures during 2020 were entirely offset by cash recoveries corroborated with performed debt sales.

According to Part 1 of Annex V to Commission Implementing Regulation (EU) No 680/2014, tables NPL 01, NPL 03, NPL 04 NPL 05, NPL 06 and NPL 09 are based on the FINREP reporting requirements. The quantitative information included in the disclosures based on FINREP may differ from other tables due to exposures subject to other frameworks than credit risk.

The following table shows the credit quality of forborne exposure pertaining to loans and advances, debt securities and off-balance exposures.

As of December 31st, 2020, the share of performing forborne exposure amounted to 48%, stable as compared to June 30th, 2020.

BCR



## DISCLOSURE REQUIREMENTS COVERED: EBA GL/2020/07 Guideline on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis and NBR Instructions / 03.08.2020 on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis

**Template 1** presented below provides an overview of the credit quality of loans and advances subject to moratoria on loan repayments applied in the light of the COVID-19 crisis. The gross carrying amount and the related accumulated impairment or accumulated changes in fair value due to credit risk are disclosed broken down by counterparty, by performing / non-performing status and by forbearance status. Separate presentation is required for performing exposures with significant increase in credit risk since initial recognition (Stage 2) and for non-performing exposures that are unlikely to pay and that are not past-due or past-due <= 90 days. Inflows to non-performing exposures are also highlighted.

Share of stage 2 for loans under expired moratoria increased from 39% as of June 30th 2020 to 50% as of December 31st 2020. The evolution of NPL ratio pertaining to loans under granted EBA compliant moratoria was mainly driven by the unlikely to pay assessment performed in November and December for all clients with payment deferrals measures, registering an increase by 3bps, from 10% as of June 30th 2020 to 13% as of December 31st 2020.

### 51 Template 1: Information on loans and advances subject to legislative and non-legislative moratoria

| | | Gross carrying amount | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Performing | | | Non performing | | |
| in RON thousands | | | | Of which: exposures with forbearance measures | Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2) | | Of which: exposures with forbearance measures | Of which: Unlikely to pay that are not past-due or past-due <= 90 days |
| **1** | **Loans and advances subject to moratorium** | **5,446,161,633** | **4,712,214,805** | **30,691,809** | **2,737,744,940** | **733,946,828** | **97,428,943** | **699,776,318** |
| 2 | of which: Households | 3,414,161,148 | 3,146,344,967 | 25,562,162 | 1,549,780,740 | 267,816,181 | 80,047,358 | 236,300,275 |
| 3 | of which: Collateralised by residential immovable property | 1,876,368,485 | 1,727,813,780 | 11,353,359 | 899,022,578 | 148,554,705 | 47,372,175 | 145,105,270 |
| 4 | of which: Non-financial corporations | 1,940,824,731 | 1,474,694,084 | 5,129,647 | 1,177,505,407 | 466,130,647 | 17,381,585 | 463,476,043 |
| 5 | of which: Small and Medium-sized Enterprises | 631,593,269 | 568,005,199 | 4,634,961 | 398,938,556 | 63,588,070 | 13,167,454 | 62,057,102 |
| 6 | of which: Collateralised by commercial immovable property | 996,606,042 | 935,372,763 | 1,691,947 | 877,588,542 | 61,233,279 | 4,955,932 | 61,233,279 |

| | | Accumulated impairment, accumulated negative changes in fair value due to credit risk | | | | | | | Gross carrying amount |
|---|---|---|---|---|---|---|---|---|---|
| | | | Performing | | | Non performing | | | |
| in RON thousands | | | | Of which: exposures with forbearance measures | Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2) | | Of which: exposures with forbearance measures | Of which: Unlikely to pay that are not past-due or past-due <= 90 days | Inflows to non-performing exposures |
| **1** | **Loans and advances subject to moratorium** | **(808,238,222)** | **(315,165,186)** | **(4,543,822)** | **(305,070,267)** | **(493,073,036)** | **(56,213,603)** | **(469,770,290)** | **184,400,524** |
| 2 | of which: Households | (363,682,913) | (200,873,514) | (3,751,415) | (194,382,166) | (162,809,399) | (45,818,777) | (141,442,368) | 184,400,524 |
| 3 | of which: Collateralised by residential immovable property | (190,368,092) | (103,145,524) | (930,206) | (100,973,782) | (87,222,568) | (27,575,172) | (85,437,884) | 134,589,967 |
| 4 | of which: Non-financial corporations | (444,333,769) | (114,070,133) | (792,407) | (110,560,872) | (330,263,636) | (10,394,826) | (328,327,922) | 63,513,064 |
| 5 | of which: Small and Medium-sized Enterprises | (80,886,646) | (36,833,739) | (787,180) | (34,959,456) | (44,052,907) | (9,931,576) | (43,079,939) | 49,810,556 |
| 6 | of which: Collateralised by commercial immovable property | (128,655,008) | (88,878,068) | (140,885) | (88,413,466) | (39,776,940) | (937,652) | (39,776,940) | 46,199,641 |

### Legislative and Non-legislative Moratorium

In light of the spread of COVID-19, a variety of measures have been taken by the Romanian government aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such measures include legislative / public moratorium on repayment of loans, overdraft facilities and mortgages. Further, BCR is offering renegotiations of repayment schedules and payment deferrals to customers facing liquidity shortages as part of the non-legislative / private moratorium at the level of the Romanian Banking Association.

The legislative moratorium addressed through GEO 37/ 30.03.2020, applicable during 30th of March – 15th of June 2020, offered borrowers affected directly or indirectly by the COVID-19 lockdown the possibility to opt-in for full payment postponement – principal, interest and fees – for a period up to 9 months, however the last suspended instalment cannot exceed the 31st of December 2020. The public moratorium is applicable to both, Retail and Corporate customers and to all types of loans granted by banks and non-banking financial entities. For mortgage loans the accrued interest is covered 100% by state guarantee and is repayable in 60 equal amounts after the moratorium ends; the accrued interest for mortgage loans is not capitalized. For all other loan types, the accrued interest is capitalized at the end of the suspension period, resulting amount being rescheduled until the new maturity (adding the suspension period, if the case).

According to EBA GL/2020/07 exposures covered by the moratorium should not automatically be classified as forborne under Article 47b of Regulation (EU) No 575/20133 (Capital Requirements Regulation – CRR) and, consequently, would not have to be automatically assessed as distressed restructuring under the definition of default. However, BCR continued to monitor the development of the portfolio affected by COVID-19 lockdown and ensured that credit issues, both in the prudential, but also accounting framework, were recognised.

In March 2020, risk management function together with business divisions started a joint initiative aiming to quickly provide a harmonised guidance for a focused industry approach within BCR, reflecting the changed economic environment. Industries and sub-industries were categorised into high, medium and low expected impacts due to COVID-19 based on a combination of research material, feedback collected from client meetings and single name analyses.

Main drivers for assigning corresponding low, medium and high-risk industry classification was the assessment of both, short-term as well as medium-term impacts of the crisis on the specific sub-industry. A respective business and risk strategy for the sub-industries was formulated based on the assessment.

In Q4-2020 BCR performed additional portfolio review in order to assess the unlikeliness-to-pay for all clients with payment deferrals measures under granted EBA compliant moratoria (NPL formation of RON +125mn and RON +64mn in terms of risk cost impact for Retail portfolio; rating downgrades for Corporate portfolio, impact of RON +21mn).

**Effect on Expected Credit Loss (ECL)**

An increase of the expected credit losses (ECL) might result from a reassessment of the credit risk parameters and a migration to worse stages either via significant increase in credit risk (SICR - significant increase in credit risk since initial recognition) or a default.

Reliefs offered to credit owners in form of payment deferrals under public and private moratorium did not result in an automatic transfer from Stage 1 to Stage 2. However, BCR continues to perform individual assessments whether there are other circumstances that would lead to forbearance or default classification.

Additional credit losses were recognized as BCR applied updated forward-looking information shifts due to the COVID-19 macroeconomic situation to the point-in-time risk parameters used in ECL calculation.

BCR has addressed expected SICR by introducing COVID-19 portfolio overlays. The portfolio subject to public and private moratorium was treated separately based on the client's segment: private individuals (PIs) and non-private individuals (non-PIs). The customers were assessed by taking into account any COVID-19 related relieve measure granted as well as the internal industry heat-map and corresponding probabilities of default (PD) levels. Based on this assessment and individual reviews, customers were migrated to stage 2, i.e. lifetime ECL measure. The industry heat map and the portfolio overlays are subject to regular reviews.

**52 Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria**

| in RON thousands | | Number of obligors | Gross carrying amount | Of which: legislative moratoria | Of which: expired | Residual maturity of moratoria: <= 3 months | > 3 months <= 6 months | > 6 months <= 9 months | > 9 months <= 12 months | > 1 year |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **Loans and advances for which moratorium was offered** | **322,429** | **5,662,257,127** | | | | | | | |
| 2 | **Loans and advances subject to moratorium (granted)** | **320,570** | **5,446,161,633** | **3,292,895,767** | **5,446,161,633** | - | - | - | - | - |
| 3 | of which: Households | | **3,414,161,148** | **1,581,226,383** | **3,414,161,148** | - | - | - | - | - |
| 4 | of which: Collateralised by residential immovable property | | **1,876,368,485** | **1,234,827,477** | **1,876,368,485** | - | - | - | - | - |
| 5 | of which: Non-financial corporations | | **1,940,824,731** | **1,710,620,831** | **1,940,824,731** | - | - | - | - | - |
| 6 | of which: Small and Medium-sized Enterprises | | **631,593,269** | **569,210,519** | **631,593,269** | - | - | - | - | - |
| 7 | of which: Collateralised by commercial immovable property | | **996,606,042** | **805,854,240** | **996,606,042** | - | - | - | - | - |

COVID-19 **Template 2** provides details on EBA-compliant moratorium (legislative and non-legislative) for loans and advances that meet the requirements described in paragraph 10 of the EBA Guidelines on moratorium. The template provides information on the number of obligors and gross carrying amount of loans and advances subject to different statuses of EBA-compliant moratorium (requested/granted). In addition, the template contains a breakdown by the residual maturity of EBA-compliant moratorium and information on the gross carrying amount of legislative moratorium as per the definition of the EBA Guidelines on moratorium.

The legislative moratorium was applicable between 30th of March 2020 and 15th of June 2020. The non-legislative moratorium was initially applicable until 30th of June 2020 and subsequently the Romanian Banking Association extended the applicability of the Code of Conduct in line with EBA guideline until the 30th of September 2020. BCR adhered as well to the extended period of applicability for private moratorium with unchanged eligibility criteria for borrowers affected by COVID-19 pandemic.

All payments deferrals that meet the requirements described in the EBA Guidelines on moratorium have expired as of December 31st, 2020.

## 53 Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

| in RON thousands | | Gross carrying amount | of which: forborne | Maximum amount of the guarantee that can be considered: Public guarantees received | Gross carrying amount: Inflows to non-performing exposures |
|---|---|---|---|---|---|
| 1 | **Newly originated loans and advances subject to public guarantee schemes** | **744,027,932** | **1,003,969** | **571,812,961** | **506,778** |
| 2 | of which: Households | - | | | - |
| 3 | of which: Collateralised by residential immovable property | - | | | - |
| 4 | of which: Non-financial corporations | 743,698,276 | **1,003,969** | **571,515,961** | 506,778 |
| 5 | of which: Small and Medium-sized Enterprises | 743,698,276 | | | 506,778 |
| 6 | of which: Collateralised by commercial immovable property | 19,702,571 | | | - |

COVID-19 **Template 3** provides details on newly originated loans and advances as referred to in paragraph 15 of EBA GL 2020 07 that are subject to public guarantee schemes that the Romanian State introduced in response to the COVID-19 crisis. In the case of refinancing of previous debt with a new loan or of repackaging of several debts into a new loan, the new loan recognised in the financial statements is reported in this template if it is covered by a public guarantee scheme related to the COVID-19 crisis (). The template provides a breakdown of the gross carrying amount, the forbearance measures and the amount of public guarantees related to loans and advances and the inflows to non-performing exposure.

The Romanian Government issued in June 2020 the “SME Invest Program” allowing the SME clients significantly affected by COVID-19 crisis to secure their necessary liquidity to perform the current activities or for investment needs by accessing one or more loans for investment and/or one or more loans/credit lines for working capital, guaranteed by FNGCIMM on behalf of and the account of the Romanian State, through the Ministry of Public Finance. For 2020, the total ceiling of guarantees that can be granted under the program in Romania is 20 billion RON.

The state can cover up to 90% of the value of the loans access through one of the partner banks. The borrowers will not pay any interest, guarantee fees or other granting costs. Financing costs are subsidised 100% from the state budget for 8 months from the date of loan origination. The borrowers are also exempted from any early repayment fee. The maximum amount that can be granted through this program is capped at 10,000,000 RON for investment loans and 5,000,000 RON for working capital.

The borrowers applying for SME Invest Program are treated under the business as usual approval flow for new lending, therefore no exceptions from the Bank's lending policies regarding the eligibility criteria of the customers is performed.

### 54 Template NPL 01 - Credit quality of forborne exposures

| | NPL.01 - Credit quality of forborne exposures | Gross carrying amount/nominal amount of exposures with forbearance measures | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | Collateral received and financial guarantees received on forborne exposures | |
|---|---|---|---|---|---|---|---|---|---|
| | | Performing forborne | Non-performing forborne | | | On performing forborne exposures | On non-performing forborne exposures | | Of which collateral and financial guarantees received on non-performing exposures with forbearance measures |
| | | | | Of which defaulted | Of which impaired | | | | |
| 1 | **Loans and advances** | 523,354 | 643,667 | 643,667 | 641,742 | (78,445) | (441,873) | 342,957 | 135,190 |
| 2 | Central banks | - | - | - | - | - | - | - | - |
| 3 | General governments | 143,146 | 12,631 | 12,631 | 12,631 | (2,528) | (11,960) | 648 | 605 |
| 4 | Credit institutions | - | - | - | - | - | - | - | - |
| 5 | Other financial corporations | - | 9,852 | 9,852 | 9,852 | - | (9,317) | 200 | 200 |
| 6 | Non-financial corporations | 296,228 | 345,409 | 345,409 | 343,484 | (68,691) | (239,304) | 246,621 | 82,774 |
| 7 | Households | 83,980 | 275,774 | 275,774 | 275,774 | (7,226) | (181,292) | 95,487 | 51,611 |
| 8 | **Debt Securities** | - | - | - | - | - | - | - | - |
| 9 | **Loan commitments given** | 78,140 | 12,910 | 12,910 | 12,910 | (5,596) | (8,010) | 15,081 | 800 |
| 10 | **Total** | **601,494** | **656,577** | **656,577** | **654,652** | **(84,041)** | **(449,883)** | **358,038** | **135,990** |

The table below shows performing and non-performing exposure broken down by past due age structure and default status, financial instrument and counterparty.

As of December 31st, 2020, total BCR Group NPL ratio was 2.5% and NPL ratio pertaining to loans and advances stood at 3.8%.

### 55 Template NPL 03 - Credit quality of performing and non-performing exposures by past due days

| | NPL.03 - Credit quality of performing and non-performing exposures by past due days | Gross carrying amount/nominal amount | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Performing exposures | | | Non-performing exposures | | | | | | | | |
| | | | Not past due or past due ≤ 30 days | Past due > 30 days ≤ 90 days | | Unlikely to pay that are not past due or are past due ≤ 90 days | Past due > 90 days ≤ 180 days | Past due > 180 days ≤ 1 year | Past due > 1 year ≤ 2 years | Past due > 2 years ≤ 5 years | Past due > 5 years ≤ 7 years | Past due > 7 years | Of which defaulted |
| 010 | **Loans and advances** | **50,972,497** | **50,808,619** | **163,879** | **2,037,909** | **1,268,139** | **93,438** | **108,770** | **222,609** | **175,942** | **70,107** | **98,903** | **2,037,909** |
| 020 | Central banks | **4,883,178** | 4,883,178 | - | - | - | - | - | - | - | - | - | - |
| 030 | General governments | **3,587,522** | 3,587,518 | 3 | **14,362** | 5,792 | - | - | 8,133 | 35 | - | 401 | 14,362 |
| 040 | Credit institutions | **2,437,057** | 2,437,057 | - | - | - | - | - | - | - | - | - | - |
| 050 | Other financial corporations | **246,623** | 246,433 | 190 | **10,007** | 48 | - | 116 | - | 9,843 | - | - | 10,007 |
| 060 | Non-financial corporations | **14,817,363** | 14,773,900 | 43,463 | **966,868** | 732,517 | 27,567 | 22,307 | 34,053 | 98,346 | 28,311 | 23,767 | 966,868 |
| 070 | Of which SMEs | **6,215,599** | 6,195,832 | 19,767 | **332,717** | 210,350 | 21,469 | 20,637 | 27,646 | 16,582 | 14,753 | 21,281 | 332,717 |
| 080 | Households | **25,000,755** | 24,880,533 | 120,222 | **1,046,674** | 529,782 | 65,871 | 86,348 | 180,422 | 67,719 | 41,796 | 74,735 | 1,046,674 |
| 090 | **Debt securities** | **22,419,039** | **22,419,039** | **-** | **1,355** | **1,355** | **-** | **-** | **-** | **-** | **-** | **-** | **1,355** |
| 100 | Central banks | **24,608** | 24,608 | - | - | - | - | - | - | - | - | - | - |
| 110 | General governments | **22,308,852** | 22,308,852 | - | **1,355** | 1,355 | - | - | - | - | - | - | 1,355 |
| 120 | Credit institutions | **51,712** | 51,712 | - | - | - | - | - | - | - | - | - | - |
| 130 | Other financial corporations | **27,781** | 27,781 | - | - | - | - | - | - | - | - | - | - |
| 140 | Non-financial corporations | **6,085** | 6,085 | - | - | - | - | - | - | - | - | - | - |
| 150 | **Off-balance-sheet exposures** | **16,369,208** | | | **301,893** | | | | | | | | **301,893** |
| 160 | Central banks | - | | | - | | | | | | | | - |
| 170 | General governments | 3,927,225 | | | 120 | | | | | | | | 120 |
| 180 | Credit institutions | 627,146 | | | - | | | | | | | | - |
| 190 | Other financial corporations | 399,761 | | | 4 | | | | | | | | 4 |
| 200 | Non-financial corporations | 10,101,496 | | | 297,738 | | | | | | | | 297,738 |
| 210 | Households | 1,313,580 | | | 4,031 | | | | | | | | 4,031 |
| 220 | **Total** | **89,760,744** | **73,227,657** | **163,879** | **2,341,158** | **1,269,494** | **93,438** | **108,770** | **222,609** | **175,942** | **70,107** | **98,903** | **2,341,158** |

In the following table, detailed split of gross credit exposure, accumulated impairment, write-offs and allocated collateral are presented, by financial instrument and counterparty. The figures are also broken down by IFRS stages.

Credit loss allowances (all stages combined) covered 124.67% of the reported non-performing on-balance and off-balance credit risk exposure as of December 31st, 2020.

### 56 Template NPL 04 - Performing and non-performing exposures and related provisions

| NPL.04- Performing and non-performing exposures and related provisions | | Gross carrying amount/nominal amount | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | | | Accumulated partial write-off | Collateral and financial guarantees received | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Performing exposures | | | Non-performing exposures | | | Performing exposures – accumulated impairment and provisions | | | Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | On performing exposures | On non-performing exposures |
| | | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | | |
| 010 | **Loans and advances** | **50,972,497** | **40,630,616** | **10,341,881** | **2,037,909** | **-** | **2,035,985** | **(1,035,521)** | **(189,777)** | **(845,743)** | **(1,470,147)** | **-** | **(1,470,147)** | (137,804) | **26,625,956** | **368,829** |
| 020 | Central banks | 4,883,178 | 4,883,178 | - | - | - | - | (333) | (333) | - | - | - | - | - | - | - |
| 030 | General governments | 3,587,522 | 3,074,721 | 512,801 | 14,362 | - | 14,362 | (10,949) | (3,599) | (7,350) | (12,514) | - | (12,514) | - | 312,609 | 648 |
| 040 | Credit institutions | 2,437,057 | 2,394,810 | 42,247 | - | - | - | (4,306) | (2,195) | (2,111) | - | - | - | - | 1,842,343 | - |
| 050 | Other financial corporations | 246,623 | 2,394,810 | 29,836 | 10,007 | - | 10,007 | (2,039) | (1,464) | (575) | (9,428) | - | (9,428) | (78) | 65,664 | 210 |
| 060 | Non-financial corporations | 14,817,363 | 216,787 | 4,531,287 | 966,868 | - | 964,943 | (472,465) | (121,220) | (351,245) | (678,358) | - | (678,358) | (71,107) | 7,682,927 | 223,100 |
| 070 | Of which SMEs | 6,215,599 | 10,286,075 | 1,833,660 | 332,717 | - | 332,717 | (201,651) | (67,918) | (133,733) | (219,746) | - | (219,746) | (35,181) | 3,477,775 | 84,205 |
| 080 | Households | 25,000,755 | 4,381,939 | 5,225,710 | 1,046,674 | - | 1,046,674 | (545,428) | (60,967) | (484,462) | (769,846) | - | (769,846) | (66,619) | 16,722,414 | 144,870 |
| 090 | **Debt securities** | **22,419,039** | **22,339,781** | **51,476** | **1,355** | **-** | **1,355** | **(28,510)** | **(27,321)** | **(1,188)** | **(406)** | **-** | **(406)** | - | **-** | **-** |
| 100 | Central banks | 24,608 | 24,608 | - | - | - | - | (1,105) | (1,105) | - | - | - | - | - | - | - |
| 110 | General governments | 22,308,852 | 22,263,462 | 45,391 | 1,355 | - | 1,355 | (26,798) | (26,212) | (585) | (406) | - | (406) | - | - | - |
| 120 | Credit institutions | 51,712 | 51,712 | - | - | - | - | (4) | (4) | - | - | - | - | - | - | - |
| 130 | Other financial corporations | 27,781 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 140 | Non-financial corporations | 6,085 | - | 6,085 | - | - | - | (603) | - | (603) | - | - | - | - | - | - |
| 150 | **Off-balance-sheet exposures** | **16,369,208** | **9,616,118** | **1,838,106** | **301,893** | - | **84,071** | **(147,285)** | **(39,686)** | **(61,069)** | **(236,837)** | - | **(61,775)** | | **3,739,070** | 25,402 |
| 160 | Central banks | - | - | - | - | - | - | - | - | - | - | - | - | | - | - |
| 170 | General governments | 3,927,225 | 2,101,155 | 173,339 | 120 | - | - | (7,979) | (2,004) | (665) | (113) | - | - | | **1,435,380** | 7 |
| 180 | Credit institutions | 627,146 | 4,974 | - | - | - | - | (998) | (8) | 0 | - | - | - | | **488,232** | - |
| 190 | Other financial corporations | 399,761 | 180,597 | 200,562 | 4 | - | 4 | (3,793) | (632) | (3,067) | (2) | - | (2) | | **87,100** | - |
| 200 | Non-financial corporations | 10,101,496 | 6,122,487 | 1,362,812 | 297,738 | - | 80,431 | (129,303) | (35,547) | (53,781) | (235,360) | - | (60,585) | | **1,722,377** | 25,163 |
| 210 | Households | 1,313,580 | 1,206,906 | 101,393 | 4,031 | - | 3,637 | (5,212) | (1,495) | (3,556) | (1,362) | - | (1,187) | | **5,981** | 232 |
| 220 | **Total** | **89,760,744** | **72,586,515** | **12,231,463** | **2,341,158** | **-** | **2,121,411** | **(1,211,315)** | **(256,785)** | **(908,001)** | **(1,707,390)** | **-** | **(1,532,328)** | (137,804) | **30,365,026** | **394,231** |

Table below presents on-balance, off-balance sheet exposures, accumulated impairment and related provisions on off-balance-sheet commitments and financial guarantees given by significant geographical areas based on country of residence of the counterparty. Geographical areas are defined by the operating country markets based on locations of the banking and other financial institution participations.

### 57 Template NPL 05 - Quality of non-performing exposures by geography

| NPL.05 - Quality of non-performing exposures by geography | | Gross carrying/nominal amount | | | | Accumulated impairment | Provisions on off-balance-sheet commitments and financial guarantees given | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
|---|---|---|---|---|---|---|---|---|
| | | | Of which non-performing | | Of which subject to impairment | | | |
| | | | | Of which defaulted | | | | |
| 010 | **On-balance-sheet exposures** | **75,430,800** | **2,039,264** | **2,039,264** | **75,401,094** | **(2,534,583)** | | **-** |
| 020 | Core Market - Austria | 267,921 | 12 | 12 | 267,920 | (2,218) | - | - |
| 030 | Core Market - Croatia | 0 | - | - | 0 | (0) | - | - |
| 040 | Core Market - Czech Republic | 1 | - | - | 1 | (0) | - | - |
| 050 | Core Market - Hungary | 93 | - | - | 93 | (6) | - | - |
| 060 | Core Market - Romania | 72,488,181 | 1,993,642 | 1,993,642 | 72,487,395 | (2,480,000) | - | - |
| 070 | Core Market - Serbia | 0 | - | - | 0 | (0) | - | - |
| 080 | Core Market - Slovakia | 23 | - | - | 23 | (0) | - | - |
| 090 | Emerging Markets | 542,752 | 10,545 | 10,545 | 541,595 | (17,492) | - | - |
| 100 | Other EU Countries | 1,978,612 | 35,060 | 35,060 | 1,978,631 | (34,705) | - | - |
| 110 | Other Industrialized Countries | 153,217 | 6 | 6 | 125,436 | (162) | - | - |
| 120 | **Off-balance-sheet exposures** | **16,671,102** | **301,893** | **301,893** | | | **(384,122)** | |
| 130 | Core Market - Austria | 148,058 | 20,000 | 20,000 | | | (8,593) | - |
| 140 | Core Market - Croatia | - | - | - | | | - | - |
| 150 | Core Market - Czech Republic | 108 | - | - | | | (0) | - |
| 160 | Core Market - Hungary | 15,489 | - | - | | | (203) | - |
| 170 | Core Market - Romania | 15,709,451 | 143,410 | 143,410 | | | (252,987) | - |
| 180 | Core Market - Serbia | 487 | - | - | | | (10) | - |
| 190 | Core Market - Slovakia | - | - | - | | | - | - |
| 200 | Emerging Markets | 126,550 | - | - | | | (1,682) | - |
| 210 | Other EU Countries | 612,499 | 138,484 | 138,484 | | | (120,611) | - |
| 220 | Other Industrialized Countries | 58,460 | - | - | | | (38) | - |
| 230 | **Total** | **92,101,902** | **2,341,158** | **2,341,158** | **75,401,094** | **(2,534,583)** | **(384,122)** | **-** |

The table below shows the breakdown of exposure pertaining to loans and advances to Non-financial corporations by significant industries. Industry breakdown is based on the NACE codes.

The industry with the largest concentration remained Manufacturing with a share of 26%, followed by Wholesale and retail trade (20%) and Transport and storage (13%).

## 58 NPL 06 - Credit quality of loans and advances by industry

| | NPL.06: Credit quality of loans and advances by industry | Gross carrying amount | | | | Accumulated impairment | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
|---|---|---|---|---|---|---|---|
| | | | Of which non-performing | | Of which loans and advances subject to impairment | | |
| | | | | Of which defaulted | | | |
| 1 | A Agriculture, forestry and fishing | 950,010 | 30,743 | 30,743 | 950,010 | (46,642) | - |
| 2 | B Mining and quarrying | 124,698 | 20,944 | 20,944 | 124,698 | (1,499) | - |
| 3 | C Manufacturing | 4,143,843 | 535,571 | 535,571 | 4,143,843 | (520,701) | - |
| 4 | D Electricity, gas, steam and air conditioning supply | 370,324 | 37,662 | 37,662 | 370,324 | (62,155) | - |
| 5 | E Water supply | 274,207 | 6,434 | 6,434 | 274,207 | (7,294) | - |
| 6 | F Construction | 1,725,344 | 163,200 | 163,200 | 1,725,344 | (176,280) | - |
| 7 | G Wholesale and retail trade | 3,112,709 | 48,077 | 48,077 | 3,112,709 | (101,939) | - |
| 8 | H Transport ans storage | 2,034,687 | 43,825 | 43,825 | 2,033,027 | (57,496) | - |
| 9 | I Accommodation and food service activities | 263,251 | 12,589 | 12,589 | 263,251 | (39,681) | - |
| 10 | J Information and communication | 142,983 | 11,880 | 11,880 | 142,983 | (14,756) | - |
| 11 | K Financial and insurance activities (*1) | 27,669 | 3,592 | 3,592 | 27,669 | (65) | - |
| 12 | L Real estate activities | 1,534,702 | 28,991 | 28,991 | 1,534,702 | (73,712) | - |
| 13 | M Professional, scientific and technical activities | 190,342 | 8,744 | 8,744 | 190,342 | (10,089) | - |
| 14 | N Administrative and support service activities | 507,452 | 3,792 | 3,792 | 507,187 | (11,281) | - |
| 15 | O Public administration and defence, compulsory social security | 125 | - | - | 125 | (1) | - |
| 16 | P Education | 5,683 | 329 | 329 | 5,683 | (447) | - |
| 17 | Q Human health services and social work activities | 254,682 | 1,802 | 1,802 | 254,682 | (8,028) | - |
| 18 | R Arts, entertainment and recreation | 27,304 | 3,560 | 3,560 | 27,304 | (4,138) | - |
| 19 | S Other services | 94,214 | 5,133 | 5,133 | 94,214 | (14,617) | - |
| 20 | **Total** | **15,784,230** | **966,868** | **966,868** | **15,782,306** | **(1,150,823)** | **-** |

The gross value of collateral obtained by taking possession and execution process and related impairment is presented in the below table by collateral type, the highest share being residential property at 68%.

## 59 Template NPL 09 - Collateral obtained by taking possession and execution processes

| | NPL.09 - Collateral obtained by taking possession and execution processes | Collateral obtained by taking possession | |
|---|---|---|---|
| | | Value at initial recognition | Accumulated negative changes |
| 010 | Property, plant and equipment (PP&E) | - | - |
| 020 | Other than PP&E | 160,641 | (84,918) |
| 030 | Residential immovable property | 105,266 | (59,621) |
| 040 | Commercial Immovable property | 46,411 | (24,804) |
| 050 | Movable property (auto, shipping, etc.) | 8,964 | (493) |
| 060 | Equity and debt instruments | - | - |
| 070 | Other | - | - |
| 080 | **Total** | **160,641** | **(84,918)** |

The gross value of collateral obtained by taking possession and execution process and related impairment is presented in the below table by collateral type, the highest share being residential property at 66%.

# 18 Encumbered and unencumbered assets

## DISCLOSURE REQUIREMENTS COVERED: ART. 443 CRR

BCR Group is obliged to report encumbered and unencumbered assets at Group level based on the CRR scope of consolidation in the manner set out in the EBA guidelines on disclosure of encumbered and unencumbered assets. The median value of the fair value of encumbered assets that are notionally eligible to the qualification of Extremely High-Quality Liquid Assets (EHQLA) and of High-Quality Liquid Assets (HQLA) are presented.

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

### 60 Templates on encumbered and unencumbered assets

Model A

| | Template A- Encumbered and unencumbered assets | Carrying amount of encumbered assets | | Fair value of encumbered assets | | Carrying amount of unencumbered assets | | Fair value of unencumbered assets | |
|---|---|---|---|---|---|---|---|---|---|
| | | | of which notionally eligible EHQLA and HQLA | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA | | of which EHQLA and HQLA |
| | Details | 010 | 030 | 040 | 050 | 060 | 080 | 090 | 100 |
| 010 | **Assets of the reporting institution** | **509,853** | **509,853** | **-** | **-** | **77,307,669** | **25,596,276** | **-** | **-** |
| 030 | **Equity instruments** | **-** | **-** | **-** | **-** | **56,723** | **-** | **56,723** | **-** |
| 040 | **Debt securities** | **509,853** | **509,853** | **510,650** | **510,650** | **21,540,261** | **21,340,294** | **21,505,454** | **21,397,468** |
| 050 | of which: covered bonds | - | - | - | - | - | - | - | - |
| 060 | of which: asset-backed securities | - | - | - | - | - | - | - | - |
| 070 | of which: issued by general governments | 509,853 | 509,853 | 510,650 | 510,650 | 21,423,166 | 21,266,963 | 21,388,091 | 21,323,870 |
| 080 | of which: issued by financial corporations | - | - | - | - | 87,605 | 51,031,128 | 87,780 | 51,299,495 |
| 090 | of which: issued by non-financial corporations | - | - | - | - | 4,961 | - | 4,961 | - |
| 120 | **Other assets** | **-** | **-** | **-** | **-** | **55,710,686** | **-** | | **-** |

Model B

| | Template B- Collateral received | Fair value of encumbered collateral received or own debt securities issued | | Unencumbered<br>Fair value of collateral received or own debt securities issued available for encumbrance | |
|---|---|---|---|---|---|
| | | | of which notionally eligible EHQLA and HQLA | | of which EHQLA and HQLA |
| | Details | 010 | 030 | 040 | 060 |
| 130 | **Collateral received by the reporting institution** | **-** | **-** | **720,123** | **637,336** |
| 140 | Loans on demand | - | - | - | - |
| 150 | Equity instruments | - | - | - | - |
| 160 | Debt securities | - | - | 720,123 | 637,336 |
| 170 | of which: covered bonds | - | - | - | - |
| 180 | of which: asset-backed securities | - | - | - | - |
| 190 | of which: issued by general governments | - | - | 564,328 | 503,461 |
| 200 | of which: issued by financial corporations | - | - | - | - |
| 210 | of which: issued by non-financial corporations | - | - | 155,795 | 133,875 |
| 220 | Loans and advances other than loans on demand | - | - | - | - |
| 230 | Other collateral received | - | - | - | - |
| 240 | **Own debt securities issued other than own covered bonds or asset-backed securities** | **-** | **-** | **-** | **-** |
| 241 | **Own covered bonds and asset-backed securities issued and not yet pledged** | **-** | **-** | **-** | **-** |
| 250 | **TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED** | **509,853** | **509,853** | **-** | **-** |

Model C

| | Template C- Sources of Encumbrance | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---|---|---|---|
| | Details | 010 | 030 |
| 010 | **Carrying amount of selected financial liabilities** | **331,855** | **467,084** |
| 020 | Derivatives | - | - |
| 030 | of which: Over-The-Counter | - | - |
| 040 | Deposits | 331,855 | 467,084 |
| 050 | Repurchase agreements | 46,616 | 43,068 |
| 060 | of which: central banks | - | - |
| 070 | Collateralised deposits other than repurchase agreements | 285,240 | 424,016 |
| 080 | of which: central banks | - | - |
| 090 | Debt securities issued | - | - |
| 100 | of which: covered bonds issued | - | - |
| 110 | of which: asset-backed securities issued | - | - |
| 120 | Other sources of encumbrance | - | 59,193 |
| 130 | **Nominal of loan commitments received** | **-** | **-** |
| 140 | Nominal of financial guarantees received | - | - |
| 150 | Fair value of securities borrowed with non cash-collateral | - | - |
| 160 | Other | - | 59,193 |
| 170 | **TOTAL SOURCES OF ENCUMBRANCE** | **331,855** | **526,277** |

In 2020 RON 509mn (in 2019 RON 739mn) of BCR Group's own and received assets were identified as being encumbered based on the EBA definition. Main sources of encumbrance in BCR Group consist of collateralised funding from International Financial Institutions (BEI) for BCR Bank.

Asset classes used for the above-mentioned purposes are debt securities made up of assets both being central bank eligible collateral as well as qualifying as HQLA under the LCR Delegated Act. As a result of the total unsecured funding position, predominantly made up of customer savings and current accounts, the median amount of encumbered assets is low in proportion to the total assets of BCR Group at around 0.66% over 2020 (compared to 1.02% for 2019).

There is material intragroup encumbrance in BCR Group which does not affect the external encumbrance level. The intra-group encumbrance is driven by collateralized transactions (Repo with BpL Romania S.A. in average amount of RON 1.1bn in 2020) for the purpose of liquidity optimization across BCR Group. The transfer of financial assets as a result of repurchase agreements agreed within BCR Group were eliminated based on consolidated reporting at BCR Group level.

The actual BCR Group level of asset encumbrance is reviewed quarterly by the Asset Liability Committee (BCR ALCO) of BCR Romania S.A, where material changes are discussed and potential steering measures approved, and also by the Management Board of BCR Romania S.A. To further ensure proper management of asset encumbrance throughout the group, an internal governance framework is in place, which includes a BCR Group-wide policy on reporting, steering and limiting the level of asset encumbrance on BCR Group and individual entity level. Furthermore, asset encumbrance is an integral part of the BCR Group's ALM and Risk Strategies. The prevailing as well as projected encumbrance levels (BCR Group and its Entities) are taken into consideration when setting up the BCR Group's and individual entities funding plans and the respective liquidity risk profiles during the yearly budgeting process.

# 19 Market Risk

### DISCLOSURE REQUIREMENTS COVERED: ART. 435

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

## Governance

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

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

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

**Strategic Risk Management Division (SRM)** is responsible for the group wide coordination of market, liquidity, credit, operational risk management.

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

Regarding market risk, MLRM is performing the following main functions:

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

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

## Identification of market risks

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

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

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

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

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

## Market risk management strategies and processes

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

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

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

**Trading Book (TB)**

For Trading Book portfolio BCR uses the following measures:

- Value-at-Risk (VaR) is calculated on a daily basis using a horizon of 1 day and a confidence level of 99% for TB portfolio.
- Total TB VaR is used in the calculation of Pillar II capital requirements, after scaling for a period of one year using the square root of the time, and after changing the confidence level from 99% to 99.92%.
  The quality of VaR models implemented by the bank for the Trading Book portfolio is assessed using back-testing. This exercise is performed on a daily basis by testing the VaR figure calculated on the previous day. Because VaR is an estimate of the potential maximum loss (with a given confidence level) for the next day, the back-testing compares the actual variation of the market value of the TB portfolio with the calculated potential loss (VaR). In order for the two figures (actual variation of the TB market value and the calculated VaR) to be comparable, the underlying portfolio has to be kept constant.
- Present value of a Basis Point (PVBP) which measures the sensitivity of a financial instrument to a 1 bps parallel shift of the interest rate curve and is computed for TB Fixed Income portfolio and for Money Market portfolio.

**Banking Book (BB)**

For Banking Book portfolio, the Bank uses the following measures:

- Value-at-Risk (VaR) is calculated on a monthly basis using a time horizon of 1 year and a confidence level of 99.92% 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. 11/2020 for the amendment and completion of the NBR Regulation No. 5/2013 which takes into account all positions that are not included in the trading book portfolio, classified by currency (EUR, RON and at an aggregated level for all other currencies) and maturity (residual maturity for fixed interest rate instruments and the residual period until the next re-pricing date in case of products with variable interest rate). The standard shock applied to the bank's relevant yield curves is 200 basis points, in both directions;
- NII ratio shows the change in net interest income for a time horizon of 1 year following standard interest rate shocks based on 1st / 99th percentile of the Hull-White model for EUR and USD and a sudden +/-200 bps parallel shift for RON;

- EVE measures the change in the economic value of equity after applying standard interest rate shocks, according to EBA/GL/2018/02. The sensitivity of EVE is reported in relation to Tier 1 and Tier 2 capital for standard +/- 200 basis points shock and in relation to Tier 1 capital for 6 shock scenarios.

**Stress Test for TB and BB portfolios**

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

Two scenarios with different degrees of severity were defined (stress scenario, worst case scenario). These scenarios describe the evolution of the interest rates projected on a 5-year horizon.

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

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

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

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

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

## Market risk reporting, monitoring and mitigation

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

BCR market risk limit system includes:

- VaR Limits: Trading Book portfolio, Banking Book portfolio.
- Position Limits represents the upper limit admitted for the size of the exposure. BCR has specific position limits for foreign exchange risk.
- Present Value of a Basis Point (PVBP) limit which is defined for bucket maturities on Trading Book Portfolio. Total PVBP is defined as the sum of all sensitivities per bucket, while the curve limit is the maximum between (i) the absolute value of all negative sensitivities and (ii) all positive sensitivities.
- Stop/Loss (S/L) limit is set to stop the loss registered in a transaction. BCR has defined S/L limits for total Trading Book Portfolio.
- MVoE limit is defined in BCR as a regulatory limit in compliance with NBR Regulation no. 11/2020 for the amendment and completion of the NBR Regulation No. 5/2013 on prudential requirements for credit institutions.
- NII limit is defined for the change in net interest income over a time horizon of one year due to standard interest rate shocks based on 1st / 99th percentile of the Hull-White model for EUR and USD and a sudden +/-200 bps parallel shift for RON.
- EVE limit for the worst change in economic value after applying the 6 scenarios, reported to Tier 1.

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

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

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

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

## DISCLOSURE REQUIREMENTS COVERED: ART. 445

### Exposure to market risk

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

**61 Template EU MR1: Market risk under the standardized approach**

| | in RON thousands | RWA | Capital requirement |
|---|---|---|---|
| | **Outright products** | | |
| 1 | Interest rate risk (general and specific) | 208,349 | 16,668 |
| 2 | Equity risk (general and specific) | - | - |
| 3 | Foreign exchange risk | - | - |
| 4 | Commodity risk | - | - |
| | **Options** | - | - |
| 5 | Simplified approach | - | - |
| 6 | Delta-plus method | - | - |
| 7 | Scenario approach | - | - |
| 8 | Securitisation (specific risk) | - | - |
| **9** | **Total** | **208,349** | **16,668** |

As of December 2020, the capital requirement reached a level of RON 26,707 thousand in comparison with RON 18,714thousands recorded as of December 2019. The increase in capital requirement is explained by a higher requirement for the TDI portfolio due to an increase in bond position. All the limits for TB portfolio are monitored daily and their utilization degree is presented in the daily Market Risk report.

# 20 Liquidity Risk

DISCLOSURE REQUIREMENTS COVERED: ART. 435

## Liquidity risk management strategies and processes

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

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

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

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

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

## Liquidity risk management structure and organization

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

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

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

The organizational structure must provide the segregation of duties between:

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

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

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

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

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

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

## Liquidity risk reporting, monitoring and mitigation

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

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

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

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

**Regulatory:**

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

**Internal:**

- Survival Period Analysis;
- Structural Liquidity Ratio.

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

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

- Internal Liquidity Adequacy Assessment Process (ILAAP) – this policy provides a description of BCR's Internal Liquidity Adequacy Assessment Process, summarizing the liquidity and funding risk management framework, methodologies and processes and providing links to more detailed information on individual components of the ILAAP.
- Methodology Handbook for Survival Period Analysis: - The Survival Period Analysis represents a key instrument for assessing the insolvency risk; it targets a short-time horizon – within one year – and uses the dynamic stress testing methodology. SPA measures the period an entity is able to survive in case of a predefined liquidity crisis scenario. The net funding gap indicates the surplus of liquid assets that are still available after a crises period.
- BCR Funds Transfer Pricing (FTP) Policy: - The BCR Group's FTP system covers all liquidity-relevant pricing components to ensure all liquidity risks are adequately transfer-priced to business lines across major subsidiaries and currencies.
- BCR Group Asset Encumbrance Management Policy: - The primary objective of the BCR Group Asset Encumbrance Management Policy is to provide an overarching framework on governance, responsibilities and principles for managing, monitoring and reporting asset encumbrance in BCR Group. This policy shall ensure that within the process of steering asset encumbrance in BCR Group all risks related to the encumbering of assets are adequately assessed and monitored.
- BCR Group Liquidity Management Policy: - The main objective of this policy is to describe requirements that would ensure an appropriate liquidity management by establishing a robust liquidity management framework and requirements that should be applied to all entities within its scope. The document was created in compliance with the local regulatory requirements set out in the local legislation (e.g. NBR Regulation No. 11/2020 for the amendment and completion of the NBR Regulation No. 5/2013 regarding prudential requirements for credit institutions, as further amended and completed) and standards/ principles defined in Group Liquidity Management Policy, which is the master policy document for establishing the liquidity management framework in Erste Group (EGB).

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

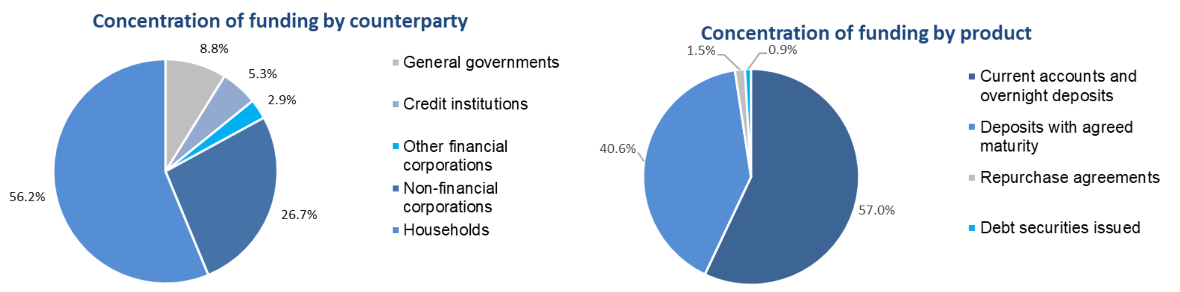
## Template on qualitative information on LCR

### Concentration of funding

- By counterparty and by product:

Compared with December 2019, the percentage of funding from households increased in 2020 from 55.4% to 56.2%, while the funding provided by non-financial corporations decreased from 27.9% to 26.7%. Also, in the same period, the percentage of funding from deposits with agreed maturity decreased from 44.9% to 40.6%, while funding received from current accounts and overnight deposits increased from 51.4% to 57.0%%.

62 Concentration of funding sources (as of 31 December 2020, for BCR Bank)

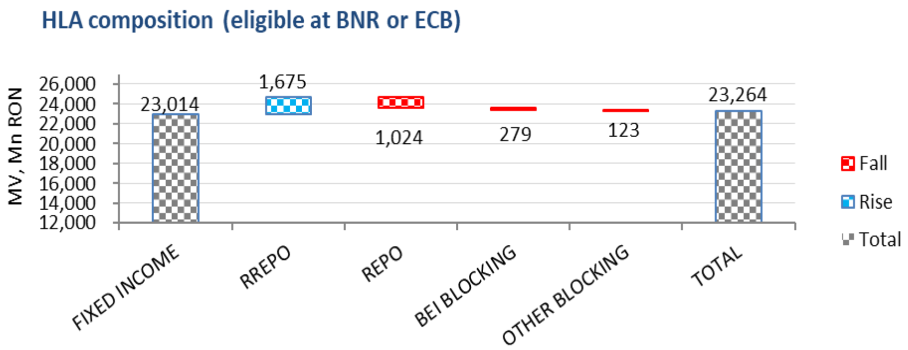


- By top 10 funding providers: - the weight of first 10 funding providers in total funding is equal to 13.0%

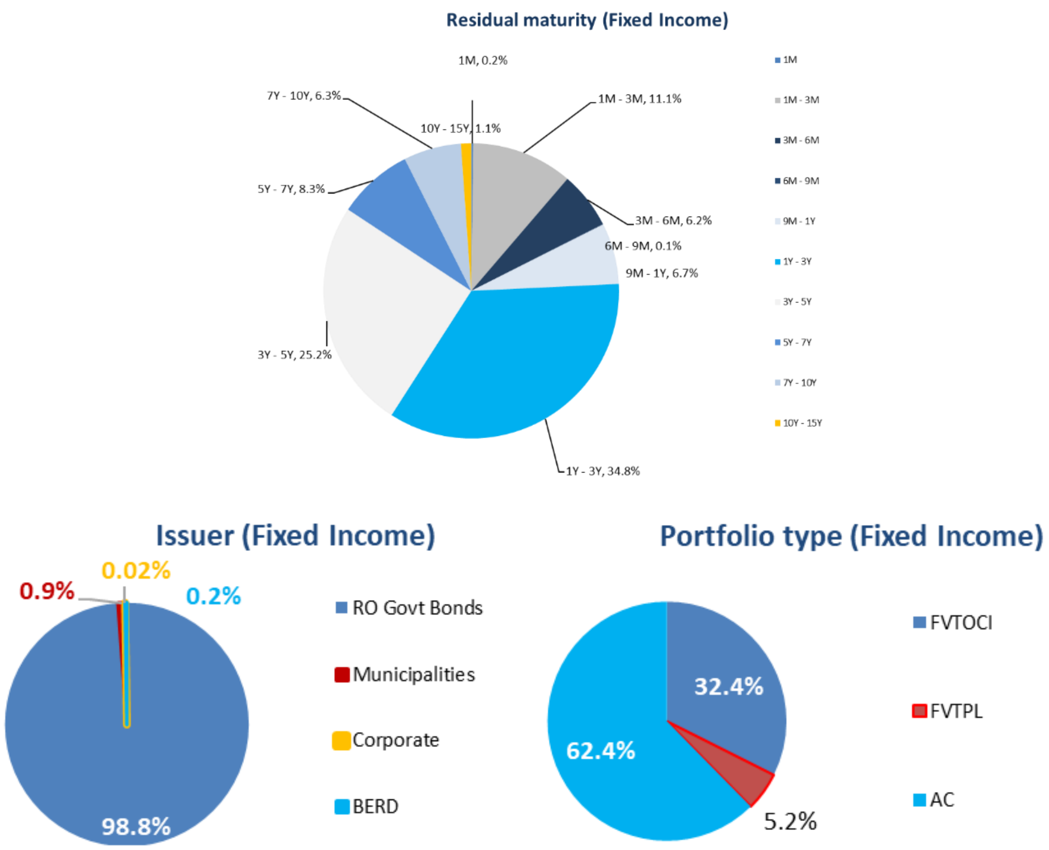
**Concentration of liquidity sources:**

Compared with December 2019, the total eligible fixed income portfolio increased from RON 19,174,653 thousand to RON 23,264,127thousand.

63 HLA Composition for BCR Standalone




64 Portfolio split based on residual maturity, issuer and type (accounting) as of 31 December 2020 for BCR Standalone



In addition to fixed income portfolio in amount of RON 23,264,127 thousand, the liquidity buffer contains a stock of cash in amount of RON 5,083,286 thousand.

## Derivative exposures and potential collateral calls

Derivatives in Trading Book are closed back-to-back with Erste Group Bank, except for FX swaps for which the bank can maintain open positions. At the end of 2020, there was an open position of RON 11 mn, mainly coming from transactions for liquidity management purposes (Banking Book positions). The derivatives exposure as of 31.12.2020 is presented in the following table:

### 65 Derivative exposures as of 31 December 2020

| As of 31.12.2020 | TB/BB | Long (Assets) | | Short (Liabilities) | | Net Exposure |
|---|---|---|---|---|---|---|
| in RON thousands | | Notional | MtM | Notional | MtM | MtM |
| IRS | | 1,448,833 | 26,279 | 1,433,001 | 26,059 | 219 |
| | TB | 1,435,438 | 26,034 | 1,433,001 | 26,059 | (26) |
| | BB | 13,395 | 245 | - | - | 245 |
| CIRS | BB | - | - | - | - | - |
| FX Swap | | 1,833,499 | 9,805 | 2,507,796 | 21,175 | (11,370) |
| | TB | 925,186 | 9,243 | 998,227 | 14,487 | (5,244) |
| | BB | 908,313 | 562 | 1,509,569 | 6,688 | (6,126) |
| FX Option | TB | - | - | - | - | - |
| IR Option | TB | 740,423 | 1,481 | 133,645 | 1,481 | - |
| Forward | TB | 105,100 | 3,552 | 105,065 | 3,336 | 215 |
| **Total Exposure** | | **4,127,854** | **41,117** | **4,179,506** | **52,052** | **(10,935)** |

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

## Currency mismatch in the LCR

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

The distribution of the liquidity buffer in foreign currency is monitored monthly in order to ensure that net cash outflows in significant currencies (RON and EUR) are fully covered by liquid assets denominated in the same currency. The composition of liquidity buffer for major currencies as of 31.12.2020 is presented in the following table:

### 66 Composition of liquidity buffers as of 31 December 2020

| | BCR Bank | | BCR Group | |
|---|---|---|---|---|
| * weighted amounts, ths RON | RON | EUR | RON | EUR |
| Liquidity buffer | 18,313,964 | 8,931,915 | 19,980,650 | 8,941,819 |
| Coins and banknotes | 2,505,515 | 1,343,995 | 2,505,515 | 1,353,900 |
| Withdrawable central bank reserves | 123,781 | 5,071 | 123,781 | 5,071 |
| Central bank assets | 1,908 | 161 | 1,908 | 161 |
| Central government assets | 15,566,741 | 5,907,612 | 17,233,428 | 5,907,612 |
| Multilateral development bank and international organisations assets | 51,725 | - | 51,725 | - |
| Extremely high quality covered bonds | - | - | - | - |
| Regional government / local authorities or Public Sector Entity assets (Member State, RW20%) | 62,973 | 1,540,933 | 62,973 | 1,540,933 |
| Corporate debt securities (CQS2/3) | - | 134,143 | - | 134,143 |
| Shares (major stock index) | 1,320 | - | 1,320 | - |
| Net liquidity outflow | 8,423,795 | 4,515,000 | 8,496,117 | 4,478,675 |

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

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

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

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

### 67 Composition of liquidity buffers as of 31 December 2020 (regulation-based template)

| Scope of consolidation (consolidated) | | Total unweighted value | | | | Total weighted value | | | |
|---|---|---|---|---|---|---|---|---|---|
| Currency and units (RON million) | | | | | | | | | |
| Quarter ending on (DD Month YYY) | | 31-Mar-2020 | 30-Jun-2020 | 30-Sep-2020 | 31-Dec-2020 | 31-Mar-2020 | 30-Jun-2020 | 30-Sep-2020 | 31-Dec-2020 |
| Number of data points used in the calculation of averages | | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| HIGH-QUALITY LIQUID ASSETS | | | | | | | | | |
| 1 | Total high-quality liquid assets (HQLA) | | | | | 23,863 | 24,115 | 25,028 | 26,689 |
| CASH-OUTFLOWS | | | | | | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 37,997 | 38,828 | 39,690 | 40,775 | 2,887 | 2,959 | 3,031 | 3,121 |
| 3 | *Stable deposits* | 21,352 | 21,688 | 22,090 | 22,624 | 1,068 | 1,084 | 1,104 | 1,131 |
| 4 | *Less stable deposits* | 16,645 | 17,140 | 17,600 | 18,151 | 1,820 | 1,875 | 1,926 | 1,990 |
| 5 | Unsecured wholesale funding | 18,867 | 18,897 | 18,903 | 19,165 | 8,445 | 8,418 | 8,290 | 8,317 |
| 6 | *Operational deposits (all counterparties) and deposits in networks of cooperative banks* | - | - | - | - | - | - | - | - |
| 7 | *Non-operational deposits (all counterparties)* | 18,847 | 18,876 | 18,884 | 19,151 | 8,424 | 8,398 | 8,271 | 8,303 |
| 8 | *Unsecured debt* | 20 | 20 | 19 | 14 | 20 | 20 | 19 | 14 |
| 9 | Secured wholesale funding | | | | | | | | |
| 10 | Additional requirements | 1,941 | 2,292 | 2,406 | 2,524 | 1,703 | 2,263 | 2,389 | 2,512 |
| 11 | *Outflows related to derivative exposures and other collateral requirements* | 1,648 | 2,244 | 2,377 | 2,505 | 1,648 | 2,244 | 2,377 | 2,505 |
| 12 | *Outflows related to loss of funding on debt products* | - | - | - | - | - | - | - | - |
| 13 | *Credit and liquidity facilities* | 293 | 49 | 29 | 18 | 56 | 19 | 11 | 7 |
| 14 | Other contractual funding obligations | 341 | 317 | 563 | 628 | 148 | 176 | 418 | 483 |
| 15 | Other contingent funding obligations | 12,473 | 12,809 | 13,523 | 14,545 | 603 | 613 | 613 | 629 |
| 16 | **TOTAL CASH OUTFLOWS** | | | | | 13,785 | 14,429 | 14,741 | 15,062 |
| CASH-INFLOWS | | | | | | | | | |
| 17 | Secured lending (eg reverse repos) | 1,403 | 1,116 | 1,051 | 1,298 | 49 | 36 | 103 | 110 |
| 18 | Inflows from fully performing exposures | 1,264 | 1,785 | 1,989 | 2,030 | 870 | 1,349 | 1,543 | 1,572 |
| 19 | Other cash inflows | 1,655 | 2,247 | 2,377 | 2,504 | 1,655 | 2,247 | 2,377 | 2,504 |
| EU-19a | (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies) | | | | | | | | |
| EU-19b | (Excess inflows from a related specialised credit institution) | | | | | | | | |
| 20 | **TOTAL CASH INFLOWS** | 4,323 | 5,149 | 5,416 | 5,832 | 2,575 | 3,633 | 4,023 | 4,186 |
| EU-20a | ***Fully exempt inflows*** | - | - | - | - | - | - | - | - |
| EU-20b | ***Inflows Subject to 90% Cap*** | - | - | - | - | - | - | - | - |
| EU-20c | ***Inflows Subject to 75% Cap*** | 4,323 | 5,149 | 5,416 | 5,832 | 2,575 | 3,633 | 4,023 | 4,186 |
| | | | | | | TOTAL ADJUSTED VALUE | | | |
| **21** | **LIQUIDITY BUFFER** | | | | | 23,863 | 24,115 | 25,028 | 26,689 |
| **22** | **TOTAL NET CASH OUTFLOWS** | | | | | 11,210 | 10,796 | 10,719 | 10,876 |
| **23** | **LIQUIDITY COVERAGE RATIO (%)** | | | | | **213%** | **223%** | **233%** | **245%** |

# 21 Operational Risk

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

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

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

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

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

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

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

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

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

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

### Operational risk management strategies and processes

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

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

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

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

The management of operational risks in BCR consists of:

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

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

- The quantitative analysis of operational risk includes the identification, collection, analysis and control of internal and external data on loss-generating operational risk events. BCR developed and maintained a comprehensive framework for the identification and collection of information referring to operational risk losses, whereby the entire bank's personnel have the responsibility to completely, correctly and in due time inform on operational risks topics. The information obtained is reconciled and compared, for verification or completeness purposes, with information obtained from alternative sources, such as accounting, internal or external audit reports etc.
- For the qualitative analysis, the Bank has elaborated a methodology for:
    - Risk and Control Self-Assessment (RCSA). RCSAs are performed regularly (one-year cycle), so that the Bank is able to identify the main operational risk sources and undertakes the adequate risk mitigation measures, preventing or mitigating the losses stemming from the emergence of high operational risks points where controls are not adequate or efficient. No high residual risks have been identified during the risk and control self-assessments performed in 2020 for the entire Bank;
    - Risk assessment in case of new products, activities, processes and systems. The Product Approval Process (PAP) sets minimum standards to ensure that adequate risk assessment procedures are executed prior to the development and/or launch of new or significant modified products. The PAP ensures that adequate controls are put in place to manage the inherent risks associated with new products, related processes and system implementation, and other initiatives;
    - Risk assessment in case of new outsourced activities ensuring a proper control of the risk associated to the activities provided by service providers which have been classified as outsourcing as per legal requirements. Also, an annual risk assessment process take place at Bank level including all outsourced activities in place aiming to re-evaluate all outsourced activities by using a formalized methodology defined at Erste Group level.
- The monitoring and regular reporting of operational risk indicators, enabling the bank to detect any change in its exposure to operational risk in due time. The Key Risk Indicators (KRI) are monitored and reported on quarterly basis to BCR Management Board. The reports present the KRIs level and, in case of breaching the limits, adequate mitigation measures are implemented in order to reduce the level of risk.
- Scenarios analysis on the probability of future occurrence of significant losses is performed on a yearly basis. The results of the scenario analysis are presented to BCR Management Board for approval.

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

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

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

In order to determine its capital requirements based on the Advanced Measurement Approach for operational risk (AMA), BCR uses the statistic model elaborated at Erste Group level.

AMA is based on 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 it is used;
- External data: Operational Risk Exchange (ORX) data is 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.

## Operational risk reporting, monitoring and mitigation

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

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

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

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

# 22 Exposures in Equities Not Included in the Trading Book (IFRS)

DISCLOSURE REQUIREMENTS COVERED: ART. 447 (a) CRR

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

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

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

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

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

DISCLOSURE REQUIREMENTS COVERED: ART. 447 CRR (b)

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

There is no difference between the book value and fair value for these instruments, as equities not included in the trading book are registered at Fair Value. Additionally, there are no differences between quoted prices and prices considered by BCR when performing the evaluation of exchange traded equities.

DISCLOSURE REQUIREMENTS COVERED: ART. 447 CRR (c)

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

**68 BCR Group portfolio of equities not included in the trading book as of 31 December 2020**

| Type (RON thousands) | Common Shares | Preferred Shares | Total market value |
|---|---|---|---|
| Listed | 3,990 | 38,086 | 42,076 |
| Not Listed | 32,722 | - | 32,722 |
| **Total** | **36,712** | **38,086** | **74,798** |

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

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

As at 31st December 2020, no equities not included in trading book were held by the Bank and therefore no realized/ unrealized gains were registered.

# 23 Exposure to Interest Rate Risk Not Included in the Trading Book

## DISCLOSURE REQUIREMENTS COVERED: ART. 448 CRR

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

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

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:

### 69 MVoE BCR Group and BCR bank as of 31 December 2020

**BCR Bank**

| RON thousands | 31-Dec-19 | 31-Dec-20 |
|---|---|---|
| Own funds | 8,023,237 | 8,089,786 |
| The potential decline of the economic value: | - | - |
| % of own funds | 4.19% | 6.20% |
| total absolute value, of which: | 335,984 | 501,199 |
| RON | 148,806 | 157,812 |
| EUR | 94,616 | 237,016 |

**BCR Group**

| RON thousands | 31-Dec-19 | 31-Dec-20 |
|---|---|---|
| Own funds | 8,165,833 | 8,267,633 |
| The potential decline of the economic value: | - | - |
| % of own funds | 4.31% | 5.72% |
| total absolute value, of which: | 352,183 | 472,802 |
| RON | 173,314 | 136,814 |
| EUR | 86,760 | 230,156 |

The increase in MVoE figure is mainly due to the inflows of EUR and RON demand deposits during 2020. The evolution on liabilities side caused a switch from a weighted long net position for RON (2019) to a short position (2020), while for EUR the weighted short net position from 2019 further increased in 2020.

NII ratio shows the change in net interest income for a time horizon of 1 year following standard interest rate shocks based on 1st / 99th percentile of the Hull-White model for EUR and USD and a sudden +/-200 bps parallel shift for RON for BCR Bank.

### 70 NII BCR Bank as of 31 December 2020

| RON thousands | As of Dec-2019 | | | | As of Dec-2020 | | | |
|---|---|---|---|---|---|---|---|---|
| Scenario | EUR | RON | USD | Total | EUR | RON | USD | Total |
| Upward rate shocks | 73,292 | 52,622 | 17,602 | 143,516 | 114,072 | 140,451 | 29,501 | 284,024 |
| Downward rate shocks | (27,432) | (93,021) | (36,238) | (156,690) | (22,100) | (193,855) | (3,889) | (219,844) |
| Budgeted NII 2019/2020 (BGT 2nd cut) | | | | 2,348,453 | | | | 2,271,408 |
| NII ratio | | | | 6.67% | | | | 9.68% |

The increase in NII sensitivity in 2020 vs 2019 is explained by the balance sheet growth on the liability side driven by inflows of demand deposits (which are less interest sensitive). The asset side of the balance sheet shows more interest rate sensitivity. This faster repricing of assets vs liabilities has a positive effect on the net interest income of the bank in case of an increase in interest rates.

# 24 Remuneration Policy

DISCLOSURE REQUIREMENTS COVERED: ART. 450 CRR and ART. 67 (a) NBR Regulation no. 11/2020 for the amendment and completion of the NBR Regulation 5/2013

## Remuneration policies and practices, remuneration structure and bonus payment

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

The remuneration policies are approved by the Supervisory Board of BCR, following the review of the Remuneration Committee and of the Risk and Compliance Committee. The Remuneration Committee and Risk and Compliance Committee are advisory bodies that support the BCR Supervisory Board in fulfilling its obligations/ duties in respect to the BCR's global compensation system.

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 would cause the violation of the BCR's Risk Appetite Statement.
- 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 the general result of the bank's performance. For individual performance assessment, both financial (quantitative commercial) and non-financial (qualitative) criteria (individual skills, leadership skills, contribution to team performance, compliance with the applicable rules, fair treatment of customers and quality of service provided to customers etc.) are being taken into account.
- The assessment of performance is set in a multi-year framework to ensure that the assessment process is based on long-term performance and that actual payment of performance-based remuneration components covers a period that takes into account the bank's business cycle and the specific risks of the bank's activity.
- 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 to the long-term interests of 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/ activity (as granting date) provided that the credit institution has solid and adequate equity capital.
- Fixed and variable components of total remuneration are properly balanced so that the remuneration structure does not favour the interests of the bank and/ or of the relevant persons to the detriment of the client's interests. The fixed component will represent a sufficiently high proportion of total remuneration in order to allow the operation of a fully flexible variable remuneration policy, including the possibility to pay no variable remuneration.
- The variable remuneration shall only be paid out to the extent that the ratio between fixed and variable component remains reasonable. The ratio variable/ fixed remuneration should not exceed 100%.
- Payments related to the early termination of a contract will reflect performance achieved over time and are designed in a way that does not reward failure or misconduct.
- The variable remuneration (including deferred payments) 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 for all Staff 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 to employees based on individual performance measured using both quantitative and qualitative criteria.

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

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

- The minimum performance criteria 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 and liquidity adequacy ratios according to Risk Appetite Statement (as part of the risk alignment process) and is applicable to all Staff. The minimum local performance requirements are annually proposed by the Remuneration Committee and by the Risk and Compliance Committee and are 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 the 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 mechanisms used by BCR are malus and 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 bonds, which must be retained for one year.

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

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

During 2020, the membership of the Remuneration Committee was the following:

**71 Remuneration Committee structure during 2020**

| Name | Position |
|---|---|
| **1.01-8.03.2020** | |
| Vacant position | Chair |
| Vacant position | Deputy Chair |
| Elisabeth Krainer Senger-Weiss | Member |
| Manfred Wimmer | Replacement member |
| **9.03-31.12.2020** | |
| Elisabeth Krainer Senger-Weiss | Chair |
| Bernhard Spalt | Deputy Chair |
| Daniela-Camelia Nemoianu-Istocescu | Member |
| Manfred Wimmer | Replacement member |

During 2020, the Remuneration Committee held 7 meetings (2 regular and 6 per rollam or by other distance means of communications).

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

# 25 Leverage

## DISCLOSURE REQUIREMENTS COVERED: ART. 451 CRR

### Information about leverage ratio

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

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

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

The slight decrease in leverage ratio as at year-end 2020 compared to year-end 2019 is due to lower increase of Tier 1 capital as compared to the increase in total leverage ratio exposure.

**72 LRSum: Summary reconciliation of accounting assets and leverage ratio exposures**

| RON thousands | | Applicable Amounts |
|---|---|---|
| 1 | Total assets as per published financial statements | 81,827,180 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | - |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR") | - |
| 4 | Adjustments for derivative financial instruments | 68,130 |
| 5 | Adjustments for securities financing transactions "SFTs" | 123 |
| 6 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 5,403,778 |
| 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 | (328,168) |
| **8** | **Total leverage ratio exposure** | **86,971,043** |

## 73 LRCom: Leverage ratio common disclosure

| | RON thousands | 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) | 79,978,670 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | (328,849) |
| 3 | Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2) | 79,649,821 |
| **Derivative exposures** | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 41,118 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) | 66,903 |
| 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) | 108,021 |
| **Securities financing transaction exposures** | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 1,809,300 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | - |
| 14 | Counterparty credit risk exposure for SFT assets | 123 |
| 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) | 1,809,422 |
| **Other off-balance sheet exposures** | | |
| 17 | Off-balance sheet exposures at gross notional amount | 16,217,224 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (10,813,445) |
| 19 | Other off-balance sheet exposures (sum of lines 17 to 18) | 5,403,778 |
| **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 | 8,035,470 |
| 21 | Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | 86,971,043 |
| **Leverage ratio** | | |
| 22 | Leverage ratio | 9.24% |
| **Choice on transitional arrangements and amount of derecognised fiduciary items** | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | Final |
| EU-24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013 | |

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

| RON thousands | | CRR leverage ratio exposures |
|---|---|---|
| EU-1 | Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which: | 79,978,670 |
| EU-2 | Trading book exposures | 1,208,931 |
| EU-3 | Banking book exposures, of which: | 78,769,739 |
| EU-4 | Covered bonds | - |
| EU-5 | Exposures treated as sovereigns | 27,501,449 |
| EU-6 | Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns | 3,596,822 |
| EU-7 | Institutions | 530,209 |
| EU-8 | Secured by mortgages of immovable properties | 12,110,607 |
| EU-9 | Retail exposures | 13,920,108 |
| EU-10 | Corporate | 13,057,098 |
| EU-11 | Exposures in default | 587,381 |
| EU-12 | Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 7,466,065 |

BCR Group manages the risk of excessive leverage through its Risk Appetite Statement and limit framework, which are used to provide quantitative direction for the overall risk-return steering. The leverage ratio is a core Risk Appetite metric monitored through a traffic light system to provide early warnings signals for potential management actions with a formalized escalation mechanism in case of any breaches. Additionally, the Group proceeds to evaluate the risk of excessive leverage through the Risk Materiality Assessment (RMA). The RMA is an annual process with the purpose of systematically identifying new and assessing existing material risks for the Group. The RMA determines the materiality of risk types and consequently the risk profile across BCR Group by assigning them risk grades to individual risk drivers and identifying those risks which are significant and have to be addressed within the ICAAP framework, as described in chapter 6.

Furthermore, as part of the planning process, risk relevant key indicators, including the leverage ratio, are forecasted in order to ensure the adequate reflection of risks and capital within the steering and management process of the Group.

# 26 Credit Risk Mitigation Techniques

DISCLOSURE REQUIREMENTS COVERED: ART. 453 CRR

## Policies and processes for collateral valuation and management

The Group does not take into consideration netting effects in the scope of credit risk mitigation within the reporting period.

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

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

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

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

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

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

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

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

## Description of the main types of collateral taken by BCR

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

### 75 Main types of collateral

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

## Market or credit risk concentrations within the credit mitigation taken

BCR registers credit risk concentrations in its risk mitigation operations towards the Romanian state. At 31 December 2020, the total collaterals received from the Romanian state used for credit risk mitigation purposes amounted to 5,078,268 thousands RON (out of witch “Prima Casa” is 72.35 %).

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

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

| | in RON thousands | Exposure unsecured | Exposure secured | Exposure secured by collateral | Exposure secured by financial guarantees | Exposure secured by credit derivatives |
|---|---|---|---|---|---|---|
| 1 | Central governments or central banks | 27,476,079 | - | - | - | |
| 2 | Regional government or local authorities | 5,211,253 | 205,804 | - | 205,804 | |
| 3 | Public sector entities | 243,670 | 418,274 | 418,274 | - | |
| 4 | Multilateral development banks | 59,099 | - | - | - | |
| 5 | International organisations | - | - | - | - | |
| 6 | Institutions | 1,059,414 | - | - | - | |
| 7 | Corporates | 21,823,409 | 2,604,625 | 1,183,656 | 1,420,969 | |
| 8 | Retail | 12,372,254 | 3,300,463 | 51,104 | 3,249,359 | |
| 9 | Secured by mortgages on immovable property | 11,451,651 | 669,739 | 1,297 | 668,442 | |
| 10 | Exposures in default | 602,645 | 49,792 | 6,170 | 43,622 | |
| 11 | Higher-risk categories | 2,225 | - | - | - | |
| 12 | Covered bonds | - | - | - | - | |
| 13 | Institutions and corporates with a short term credit assessment | - | - | - | - | |
| 14 | Collective investment undertakings | - | - | - | - | |
| 15 | Equity | 141,609 | - | - | - | |
| 16 | Other items | 6,973,330 | - | - | - | |
| **17** | **Total** | **87,416,638** | **7,248,697** | **1,660,502** | **5,588,196** | |

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

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

| | in RON thousands | Exposures before CCF and CRM | | Exposure post CCF and CRM | | RWA and RWA density | |
|---|---|---|---|---|---|---|---|
| | Asset classes | On balance | off balance | On balance | off balance | RWA | RWA density |
| 1 | Central governments or central banks | 27,476,079 | - | 32,120,041 | 217,050 | 1,188,982 | 4% |
| 2 | Regional government or local authorities | 3,436,814 | 1,980,243 | 3,231,010 | 960,946 | 1,007,192 | 24% |
| 3 | Public sector entities | 160,008 | 501,936 | 160,008 | 30,208 | 190,216 | 100% |
| 4 | Multilateral development banks | 52,644 | 6,455 | 366,729 | 97,141 | - | - |
| 5 | International organisations | - | - | - | - | - | - |
| 6 | Institutions | 530,209 | 529,205 | 535,056 | 135,240 | 213,621 | 32% |
| 7 | Corporates | 13,057,098 | 11,370,936 | 12,154,507 | 1,842,991 | 12,924,479 | 92% |
| 8 | Retail | 13,920,108 | 1,752,609 | 10,698,178 | 668,794 | 8,451,443 | 74% |
| 9 | Secured by mortgages on immovable property | 12,110,607 | 10,783 | 11,440,950 | 5,670 | 4,019,892 | 35% |
| 10 | Exposures in default | 587,381 | 65,056 | 543,478 | 20,913 | 616,110 | 109% |
| 11 | Higher-risk categories | 2,225 | - | 2,225 | - | 3,337 | 150% |
| 12 | Covered bonds | - | - | - | - | - | - |
| 13 | Institutions and corporates with a short term credit assessment | - | - | - | - | - | - |
| 14 | collective investment undertakings | - | - | - | - | - | - |
| 15 | Equity | 141,609 | - | 141,609 | - | 200,154 | 141% |
| **16** | **Other items** | 6,973,330 | - | 7,054,321 | 775,951 | 1,620,199 | 21% |
| **17** | **Total** | **78,448,112** | **16,217,224** | **78,448,112** | **4,754,905** | **30,435,625** | **37%** |

# 27 Other and Transversal Risks

## Reputational risk

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

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

## Reputational risk management strategies and processes

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

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

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

## Reputational risk reporting, monitoring and mitigation

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

- Overview of the Group's reputational risk level;
- Actions performed to address the reputational risk profile;
- High risk indicators evolution;
- 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, medium, high) for reputational risk. In the case of reputational risk materialization, the communication policy for emergency and crisis situations with reputational impact for the Group serves as guideline for aspects such whom of / what / when / how the Group communicates during such a situation, depending on the complex evolutions determined by mass media reporting of specific incidents.

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

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

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

## Business and strategic risk

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

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

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

## Business and strategic risk management strategies and processes

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

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

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

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

### Business and strategic risk reporting, monitoring and mitigation

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

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

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

## Capital Risk

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

### Capital risk management strategies and processes

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

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

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

### Capital risk reporting, monitoring and mitigation

BCR continuously monitors its capital position through:

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

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

## Political Risk

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

### Political risk management strategies and processes

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

### Political risk reporting, monitoring and mitigation

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

### Compliance risk

Compliance risk is the current or future risk of impairment of profits and capital resulting from breaches or breaches of the legal and regulatory framework, agreements, best practices or ethical standards. It may lead to fines, sanctions or restrictions on activities or improved reporting requirements or damages and / or annulment of contracts or which may affect the reputation of an institution.

### Compliance risk management strategies and processes

The Bank is committed to a high level of compliance with relevant legislation, regulations, industry codes and standards as well as internal policies and sound governance principles. The Bank has no appetite for deliberate or purposeful violations of legislative or regulatory requirements. In order to ensure an adequate compliance risk management BCR has organized its compliance framework as follows:

- **Active Supervisory Board overseeing the management of the compliance risk**. The Supervisory Board is the key for an effective compliance risk management process through decision taking in key areas (establishing a permanent and effective compliance function by approving the Policy regarding Compliance Function and Statute within BCR Group, the annual Compliance Program and other compliance regulations/reviews). Furthermore, the Supervisory Board through support committee (Audit Committee and Risk and Compliance Committee) oversees compliance activity and ensures that compliance issues are resolved effectively and expeditiously by Management Board with the assistance of the compliance function.
- **Assigned responsibility of Management Board in effectively managing compliance risk** (with Compliance Function support), through implementing the Compliance Policy that contains the basic principles to be followed by management and staff and explains the main processes by which compliance risks are to be identified and managed through all levels of the organisation. With the assistance of the compliance function, the main compliance risk issues facing the bank are identified, assessed and the planned to be managed.
- **Adequate resources ensuring an effective Compliance Function**. Compliance staff has necessary qualifications, experience and professional and personal qualities enabling them to carry out their specific duties.
- **Effective regulation in place**: Compliance risk management regulations are clearly defined and consistent with the nature and complexity of BCR's activities.
- **Compliance risk analysis and controls**: BCR uses appropriate tools in compliance risk analysis such as self-assessment, compliance risk maps, process flows, key indicators and audit reports, which enables an effective system of internal controls.
- **Effective compliance monitoring and reporting**: BCR provides timely reports so that to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the bank's compliance with its obligations.
- **Testing**: Independent testing is conducted to verify that compliance-risk mitigation activities are in place and functioning as intended throughout the organization.

### Compliance risk reporting, monitoring and mitigation

The Bank ensures the mitigation and monitoring of compliance risk through the following actions:

- Training: Induction training program for all new employees related Compliance topics (Capital markets, Ethics and AML/CFT/KYC); new AML/CFT/KYC and ethics training program for onboarding;
- Performing monitoring actions so that to ensure the annual review of BCR regulations, implementing escalation actions to B-1 management level in case of delays;
- Carrying out internal regulatory review for ensuring compliance with legal framework;
- Ensuring that all NBR & ASF findings are adequately addressed or, when not possible in timely manner (only for findings from action plan), ensure that deadline postponement is notified to NBR/ ASF; ensuring timely answers to all request from authorities;
- Continuously assess the performance of KPI for compliance risk and adjust the methodology so that ensure an adequate warning system on compliance issues at bank level;
- Performing compliance tests in different areas of activity (including financial services compliance);
- Ongoing implementation of controls for mitigation of conflict of interest related management;
- Sponsorship process review (for anticorruption and conflict of interest).

## Macroeconomic Risk

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

### Macroeconomic risk management strategies and processes

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

### Macroeconomic risk reporting, monitoring and mitigation

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

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

## Inter- concentration risk

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

### Inter- concentration risk management strategies and processes

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

### Inter- concentration risk reporting, monitoring and mitigation

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

# 28 Abbreviations

ABS Asset-Backed Security

AC Asset Control

AE Asset Encumbrance

AFS Available for Sale

AG Aktiengesellschaft

AIRB Advanced IRB

ALCO Asset and Liability Management Committee

ALM Asset and Liability Management

ALMM Additional Liquidity Monitoring Metrics

AMA Advanced Measurement Approach

AML Anti - Money Laundering

AML/CFT/KYC Anti-money laundering/ Combating financial terrorism/Know your customer

AMM Additional Liquidity Monitoring Metrics

ANAF National Agency for Fiscal Administration

ANEVAR The National Association of Authorized Evaluators

ANPC National Authority for Consumer Protection

ARB Romanian Association of Banks

art article

AT1 Additional Tier 1

ATP Advanced Persistent Threat

AV Accepted Value of the guarantee

AVA Additional Valuation Adjustment

B/ B-1/B-2 Management Board members/ Heads of divisions/ Heads of departments

B/S Balance-sheet

BB Banking Book

BCBS Basel Committee on Banking Supervision

BCP Business Continuity Plan

BCR Banca Comerciala Romana

BCR HQ BCR Head-quarter

BEI European Investment Bank

BFP Bucharest Financial Plazza

BFRS Bank Financial Strength Note

bln billion

BOP Beginning of Period

BOR Borrowing rate

BpL Banca pentru Locuinte

BPM Business Process Management

BRiTA Banking Book Risk Infrastructure Target Architecture

BRRD Bank Recovery Resolution Directive

BS Balance-sheet

BSM Balance-Sheet Management

C/A Current account

CAAP Credit Application Approval Process

CBC Cumulated Counterbalancing Capacity

CCF Credit Conversion Factor

CCP Central Counterparty Clearing House

CCR Counterparty Credit Risk

Cctv Closed circuit TV

CDMS Central Data Market System

CDS Credit Default Swap

CEE Central and Eastern Europe

CEO Chief Executive Officer

CET1 Common Equity Tier 1

CFO Chief Financial Officer

CFP Contingency Funding Plan

CFT Combating Financial Terrorism

CIRS Cross-currency Interest Rate Swap

CIU Collective investments undertakings

CMO Crisis manager officer

CMS Collateral Management System

COO Chief Operational Officer

CORALLSTAND Rating method for corporate

CORPALL Rating method for corporate

CP Coverage Potential

CR Capital Requirement

CRD Capital Requirement Directive

CRM Customer Relationship Management

CRM Credit Risk Mitigation

CRO Chief Risk Officer

CRR Capital Requirement Regulation

CUSIP Committee on Uniform Security Identification Procedures

CVA Credit Valuation Adjustment

DCF Discounted Cash Flow

DMS Data Management System

DMS Document Management System

DPD Date past due

DR Disaster recovery

DR Default rate

DSCR Debt service coverage ratio

DTA Deferred Tax Assets

DTI Debt to income ratio

DVA Debt valuation adjustment

E2E End-to-end process

EAD Exposure at Default

EaSI Employment and Social Innovation

EBA European Banking Authority

EC Economic Capital

EC/CP Economic Capital/Coverage Potential

ECA Economic Capital Adequacy

ECAI External Credit Assessment Institution

ECB European Central Bank

ECL Expected credit loss

EEPE Effective Expected Positive Exposure

EES Employee Engagement Survey

EGB Erste Group Bank

EGO Emergency Government Ordinance

EHQLA Extremely High-Quality Liquid Assets

EIB European Investment Fund

ELA Extended Liquidity Assistance

EOP End of Period

EOY End of year

ERM Enterprise-wide Risk Management

ESG Environmental, Social and Governance

EU European Union

EUR European currency

EVE Economic value of equity

EWS Early Warning Signal

FC Foreign currency

FI Fixed Income

FI Financial Institutions

FIRB Foundation IRB

FMA Austrian Financial Market Authority

FMS Flow Management System

FNGCIMM Guarantee Fund for Small and Medium-sized Enterprises

FS Financial Statements

FTP Funds Transfer Pricing

FV Fair Value

FVTOCI Fair value through other comprehensive income

FVTPL Fair value through profit and loss

FX Foreign Exchange

FXiCR FX Induced Credit Risk

GBP Great Britain pound

GC General Collateral

GCA Gross Carrying Amounts

GCC Group of Connected Clients

GCM Erste Bank Global Capital Markets Division

GCM Global Capital Markets Division

GDP Gross Domestic Product/Group Data Pool

GDPR General Data Protection Regulation

GEO Government Extraordinary Ordinance

GL Guideline

GLC Group Large Corporate

GO Government Ordinance

G-SII Global Systemically Important Institutions

H High

HHI Herfindahl - Hirschmann Index

HLA High Liquid Assets

HO Head-office

HQ Head-quarter

HQLA High Quality Liquid Assets

HR Human Resources

HTM Held to Maturity

IAA Internal Assessment Approach

IAM Identity and access management

IAS International Accounting Standard

ICAAP Internal Capital Adequacy Assessment Process

ICT Information Communication and Technology

IFC International Finance Corporation

IFI International Financial Institution

IFN Non-banking financial institution

IFRS International Financial Reporting Standards

ILAAP Internal Process for Assessing the Liquidity Adequacy

iLEAD Leadership Program

IMA Internal Model Approach

IMF International Monetary Fund

IMM Internal Model Method

IMX Factoring Application

IPV Independent Price Verification

IR Interest Rate

IRB Internal Rating-based Approach

IRRBB Interest Rate Risk in Banking Book

IRS Interest Rate Swap

ISIN International Securities Identification Number

IT Information Technology

ITC IT and Communication Technology

Itraxx Market indicator

ITS Implementing Technical Standards

JST Joint Supervisory Team

KO Knock out

KPI Key Performance Indicators

KRI Key Risk Indicators

Krimi Kredit RIsiko Management Instrumentarium

KTP Kondor Trade Processing

KVaR Kondor Value at Risk

KYC Know Your Customer

KYC/AML/CFT Know Your Customer/Anti-money laundering/Combating financing terrorism

KYCO Know Your Customer Committee

L Low

LAS Loan approval system

LC Large Corporates

LCMO Local Crisis Manager Officer

LCR Liquidity Coverage Ratio

LCY Local Currency

LDA Loss Distribution Approach

LEAD Leadership Feedback

LGD Loss Given Default

LIC Loan impairement calculation

LIP Loss Identification Period

LLL Legal Lending Limit

LLSFR Loan-to-local Stable Funding Ratio

LMP Limit Management Policy

LORO Loro account

LOS Loan Origination System

LR Leverage Ratio

LtD Loans to deposits

LTV Loan to Value

MB Management Board

MC Market crisis

MDB Multilateral Development Banks

MH Medium high

MiFID2 Markets in Financial Instruments Directive

mio Million

MIS Management Information System

MLL Maximum lending limit

MLL/OLL Maximum Lending Limit/Operational Lending Limit

MLRM Market and Liquidity Risk Management Department

MM Money Market

MMR Minimum mandatory reserve

mn Million

MoM Month on Month

MR Market Risk

MREL Minimum Requirement for own funds and Eligible Liabilities

MtM Month to Month

MtM Mark to market

MTO Medium Term Objective

MV Market Value

MVoE Market Value of Equity

N/A not available

NACE Nomenclature generale des Activites economiques dans les Communautes Europeenne

NBR National Bank of Romania

NCO Net cash outflow

N-E North-east

NFSR Net Stable Funding Ratio

NGO Non-Government Organization

NII Net Interest Income

No number

NOSTRO Nostro account

NPE Non performing exposure

NPL Non-performing Loans

NSFR Net Stable Funding Ratio

N-V North-west

O/N On balance-sheet

OCI Other Comprehensive Income

OFF BS Off Balance-sheet

OLC Operative Liquidity Committee

OLL Operational lending limit

OOR Other operating result

ORCA Operational Risk Collection Application

ORX Operational Risk Exchange

O-SII Other Systemically Important Institutions

OUG Government Emergency Ordinance

OVD Overdraft

P&L Profit and Loss Account

PAP Product Approval Process

PD Probability of Default

PDS Performance and Development System

PFA Self-employed person

PFE Potential Future Exposure

PI Private Individuals

PIT Point in time

POCI Purchased or originated credit-impaired financial asset

PPI Pre-tax provision income

PR Public Relationship

PSD Payment Services Directive

PSE Public Sector Entities

PSOC Physical Security Operations Center

PVBP Present Value of a Basis Point

QE Quantitative easing

QRM Quantitative Risk Management

RAF Risk Appetite Framework

RAG Red-amber-green

RAS Risk Appetite Statement

RbLL Rating based lending limit

RC Risk Committee

RCA Risk Concentration Analysis

RCC Risk-bearing Capacity Calculation

RCMB Risk Committee of the Management Board

RCSA Risk and Control Self-Assessment

RCSB Risk Committee of the Supervisory Board

REA Risk Exposure Amount

RER Risk Earning Ratio

RETNATP Rating method for retail

RICOS Limit monitoring application

RMA Risk Materiality Assessment

RCCSB Risk and Compliance Committee of the Supervisory Board

ROBOR Romanian Interbank Offer Rate

ROE Return on equity

RON Local currency

RORAC Return on Risk Adjusted Capital

RoW Rest of the world

RPA Robotics Processes Automation

RRD Risk return decision

RW Risk Weight

RWA Risk Weighted Assets

S/L Stop loss

SA Standard Approach

SA or STA Standardized Approach

SB Supervisory Board

| | |
|---|---|
| S-CET1 | Stressed Common Equity Tier 1 |
| SCI | Sector Concentration Index |
| SCO | Support Collect |
| S-E | South-east |
| S-ECA | Stressed ECA |
| SFA | Supervisory Formula Approach |
| SFT | Securities Financing Transactions |
| Sibcor | Bank core system |
| SME | Small and Medium-sized Enterprises |
| SOC | Security Operation Centre |
| SOVZEN | Rating method for sovereigns |
| SPA | Survival Period Analysis |
| SREP | Supervisory Review and Evaluation Process |
| SRM | Strategic Risk Management |
| SSI | System Stability Index |
| S-Solvency | Stressed Solvency |
| ST | Stress Test |
| STA | Standard |
| STD | Standard |
| STEP | Stress test expert panel |
| S-Tier 1 | Stressed Tier 1 |
| STRL | Structural Liquidity Ratio |
| sub-IG | Sub-investment grade |
| S-V | South-west |
| SVAR | Stressed VAR |
| T1 | Tier1 |
| T2 | Tier 2 |
| TB | Trading book |
| T-BILLS | Treasury bills |
| T-bonds | Treasury bonds |
| TC | Total Capital |
| TDI | Traded Debt Instruments |
| TRD | Held for Trading |
| TSC | Total SREP Capital |
| TSCR | Total SREP Capital Requirement |
| UAT | User Acceptance Test |
| Ucoin | Unique Counterparty Identification |
| VaR | Value at Risk |
| VAT | Value added Tax |
| VDI | Virtual Desktop Infrastructure |
| VP | Vice-president |
| WO | Workout |
| YE | Year end |
| yoy | Year on year |
| YtD | Year-to-date |

# 29 List of annexes