BCR GROUP DISCLOSURE REPORT

H1 2017

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

Incorporated in Romania

Trade Register J40/90/1991

Unique Registration Code 361757

Bank Register RB-PJR-40-008/18.02.1999

www.bcr.ro

1 INTRODUCTION

As per Part Eight of the 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, the Bank must publish the required information at least on an *annual basis.*

In compliance with NBR Instructions from 28 October 2015 on materiality, proprietary and confidentiality and on disclosure frequency under articles 432(1), 432(2) and 433(3) 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, BCR will publish information *more frequently than annually.*

Considering the stipulations of the following documents:

- Art. 433 from 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;
- Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under articles 432(1), 432(2) and 433(3) of Regulation (EU) No. 575/2013, EBA/GL/2014/14 from 23 December 2014;
- BIS Standards Revised Pillar III disclosure requirements from January 2015;
- Art. 18 point a) from EBA/GL/2014/14 – *"The Bank should especially assess their need to publish information more frequently than annually when the institution is one of the three largest institution in its home Member State",*

BCR decided on a *semi-annual* publication of the interim disclosures.

The interim disclosures are focused on relevant, material changes since the prior annual period. This allows stakeholders to quickly identify new information and then decide whether it is relevant to their decision-making.

The Bank selected the following information to be disclosed semi-annually, but not limited to:

- Capital amounts & structure
- Capital adequacy (RWA, capital requirements, Pillar I and Pillar II)
- Capital ratios; adjustments of ratios (Tier 1, Tier 2, Total capital)
- Leverage ratio (exposure, ratios)
- Risk relevant exposures
- Credit mitigation techniques – overview
- Counterparty credit risk.

The Bank may include in the interim disclosures any other items prone to rapid change.

By its interims, the Bank describes the differences from the most recent annual disclosures and explains how the financial position and results of operations for interim period relate to the entire year. The interim disclosure requirements are presented on a consolidated basis (BCR Group).

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

2 RISK MANAGEMENT OF BCR GROUP

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

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

2.1. Risk policies, risk strategy and business strategy

Risk policies

The risk management policies implemented by the Bank forms part of the internal control and corporate governance arrangements. The risk policies underline the approach to risk management, and documents the roles and responsibilities of the management board and other key parties. It also outlines key aspects of the risk management process, and identifies the main reporting procedures.
The Bank developed a risk management policy framework that is consistent with its risk management strategy. Also the risk policy framework defines risk management accountability and methodologies that meet the strategy requirements.

Risk Strategy

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

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

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

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

Business Strategy

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

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

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

2.2. Risk management organisation

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

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

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

The main roles of the Risk Management function are:

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

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

Reports include information on aspects such as:

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

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

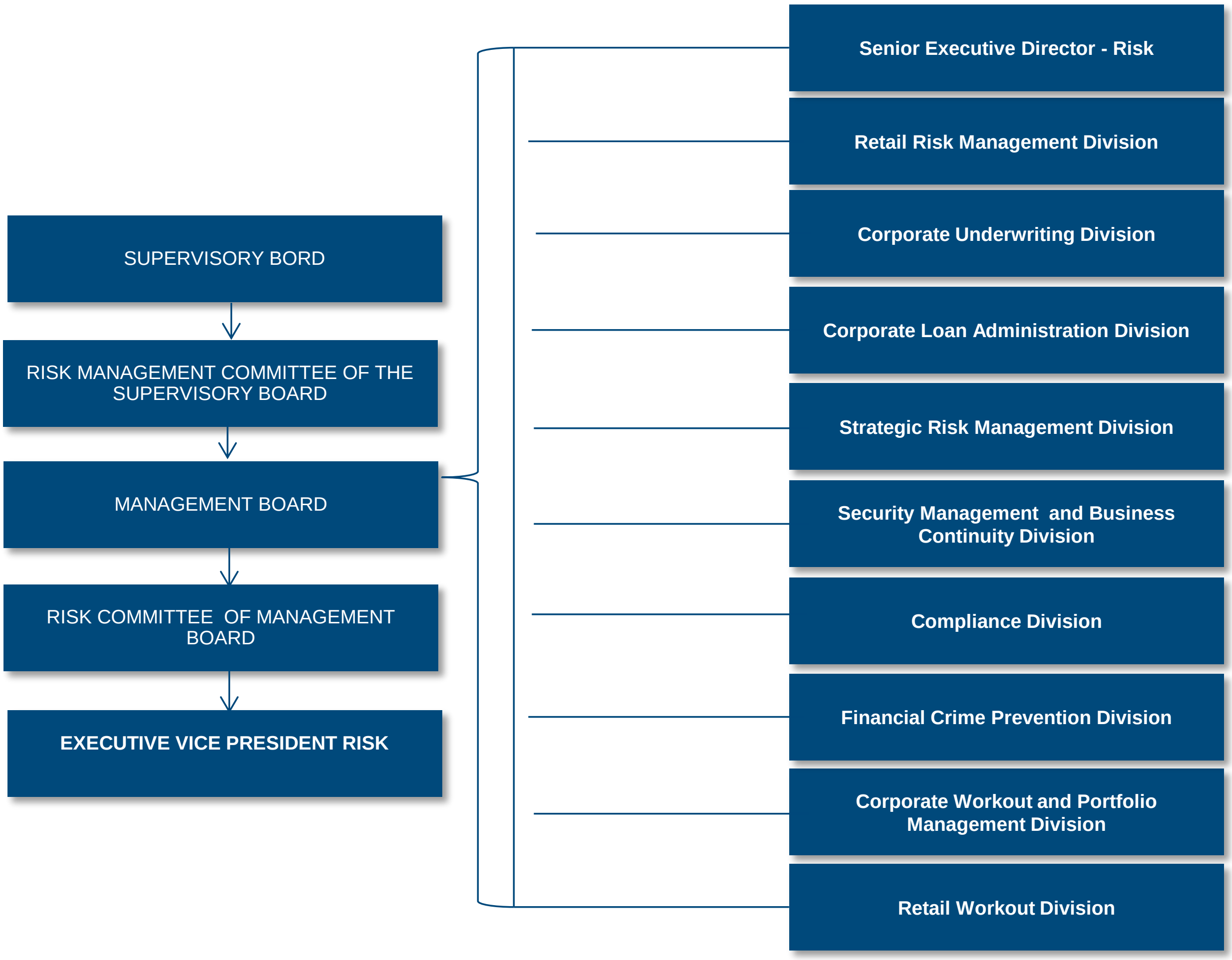

Figure 1*: Organizational structure of Risk Management function as of 30.06.2017*

2.3. Risk and capital management

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

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

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

ERM drives key strategic cross-risk initiatives to establish greater cohesion between the risk strategy including the risk appetite and limit steering. ERM involves all risk functions and key divisions to strengthen risk oversight group-wide, covering capital (RWA and ICAAP), credit, liquidity (ILAAP), market, operational and business risk.

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

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

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

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

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

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

2.4. Risk Management Principles

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

The relevant risk management principles are presented below:

- Core risk management responsibilities embedded in Management Board and appropriately delegated to designated committees to ensure execution and oversight. Also, the Supervisory Board regularly monitors risk profile;
- Risk management governance ensures full oversight of risk and sound execution of risk strategy including appropriate monitoring and escalation of issues materially impacting the Group's risk profile;
- Risk strategy based on Risk Appetite and Strategic Guidelines to ensure full alignment of risk, capital and performance targets;
- Stress testing and concentration risk analysis conducted to ensure sound risk management in line with risk strategy & RAS and holistic risk awareness;
- All material risks managed and reported in coordinated manner via risk management processes;
- Modelling and measurement approaches for quantifying risk and, where applicable, capital demand as well as regular validation;
- Data, effective systems, processes and policies as critical components of the risk management capability; and
- Policy framework clearly defines key requirements related to creating, classifying, approving, implementing and maintaining policies across the Group;
- An integrated and institution-wide risk culture, based on a full understanding of the risks taken and how they are managed, taking into account BCR risk appetite / tolerance;
- The Bank has a risk management function independent from the operational functions and which must have sufficient authority, 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.

2.5. Proportionality Principles

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

Risk management principles, concepts and processes are generally designed, developed and implemented to address over-arching organizational needs across the Group reflecting a high degree of granularity and detail. The proportionality principle is an integral part of the Group's overall risk framework and strategy. The Risk Strategy is presented both on an individual basis (for BCR, hereinafter the Bank) and on a consolidated basis (the Group).

The subsidiaries set their own governance responsibilities and evaluate any the Group decisions or practices to ensure that they do not put the subsidiary in breach of regulatory provisions.

2.6. Risk appetite

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

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

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

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

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

The RAS horizon covers 5 years to ensure a stronger interplay with the other strategic processes such as long-term planning, budgeting. The remuneration program was also directly linked to the Group RAS to reinforce the risk culture and risk awareness within the Group. In that light, the determination of the annual bonus pool must consider if the relevant core metrics are within the Group RAS. The Group also developed an aggregated and consolidated risk appetite dashboard (RAS Monitor) illustrating the Groups' risk profile developments by comparing the risk exposure and risk limits.

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

2.7. 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.

2.8. Risk materiality assessment

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

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

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

2.9. Risk Profile

The risk profile is represented by the aggregated actual and potential risk exposures of the Bank. As part of its risk strategy, the Group analyses its actual risk profile and determines a target risk profile based on its strategic goals. The risk profile is a result of the risk assessment process in combination with the boundaries set by the business strategy and the risk appetite framework. The risk profile is a key input in setting the business objectives, policies, risk appetite and the internal control environment in the Bank.

2.10. Risk concentration analysis

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

2.11. Stress testing

Stress testing is a key risk management tool which supports the Bank in taking a forward-looking view in risk management as well as in strategic, business, risk, capital and liquidity planning. In this sense, stress testing is a vital element of the bank's Enterprise Risk Management (ERM) framework.

Stress testing the Bank's vulnerability to severe but plausible future deteriorations of the economic environment provides key insight in the sustainability and robustness of the bank and helps regarding timely preparation and execution of contingency plans and mitigating actions.

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

Based on forward – looking hypothetical severe macroeconomic scenarios, BCR performs a yearly comprehensive stress testing exercise which seeks to identify any potential vulnerabilities of the bank and provide further robustness to the measuring, steering and management system.

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

2.12. Risk Capacity

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

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

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

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

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

2.13. Risk planning and forecasting

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

The Bank ensures that there is a strong link between the capital planning, budgeting and strategic planning processes.

The Bank responsibility for risk management includes ensuring sound risk planning and forecasting processes. The risk planning and forecasting process includes both a forward- and backward-looking component, focusing on both portfolio and economic environment changes.

2.14. 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.

2.15. Capital planning and capital allocation

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

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

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

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

Sound capital planning is critical for determining the prudent amount, type and composition of capital that is consistent with the Bank long-term strategy of being able to pursue business objectives, while also withstanding a stressful event.

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

2.16. Recovery plan

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

The BCR Recovery Plan sets a governance framework for the drawing up and the implementation of the plan as a main pillar of strengthening the financial resilience of BCR and restoring its financial position following a significant deterioration.

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

2.17. Material risks for BCR Group

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

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

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

The risks identified by the Bank as of 30.06.2017 as being material were as follows:

Risk type	Material risk
Credit risk	
	Default risk
	Concentration risk
	Residual risk
	FX induced credit risk
Market risk	
	Interest rate risk in banking book
Operational risk	
	IT risk
	Legal risk
	Fraud risk
	Model risk
	Staff risk
	Security risk
	Conduct risk
	Execution & processing risk
	Compliance risk
Other risks	
	Strategic risk
	Reputational risk
	Political risk
Transversal risks	
	Macroeconomic risk
	Inter-concentration risk

Figure 2: *Material risks for BCR Group as of 30.06.2017*

2.18. Risk Monitoring

Strategic oversight vs. Operational oversight

Risks will constantly change and will therefore need to be reviewed in a timely and appropriate manner.
Risks and the progress in implementing recommendations to reduce risks, are kept under review and any new practices are evaluated. This enables the Bank to monitor if the actions have had the desired effect of reducing risk, and creating a more stable environment for its activity.

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

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

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

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

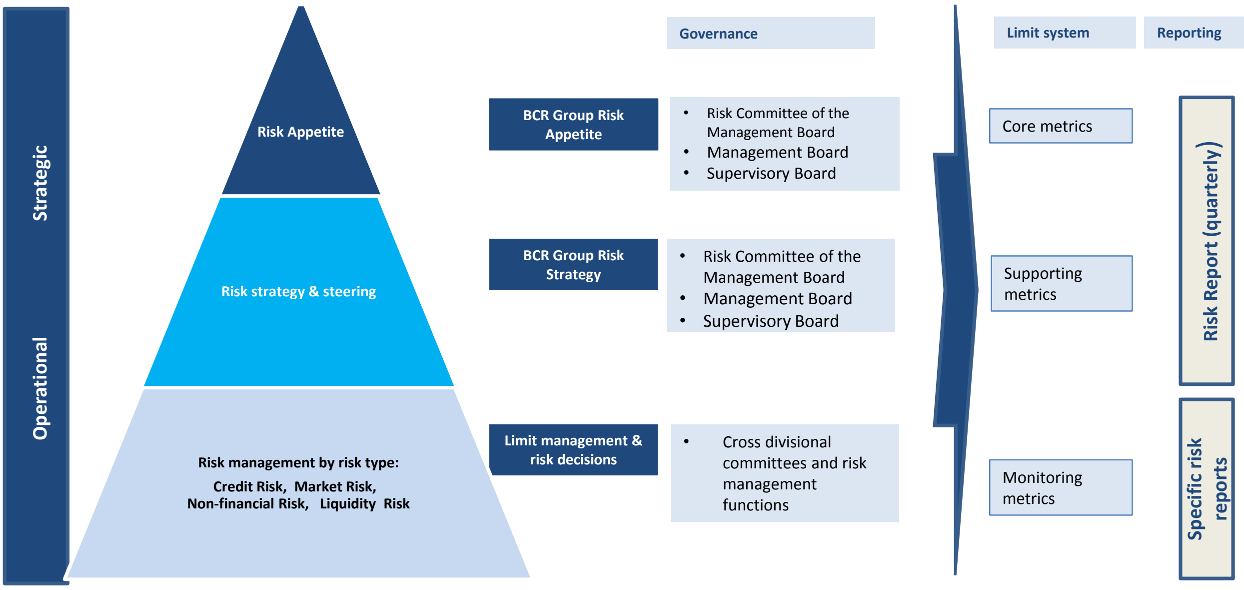

Figure 3: *Strategic and operational oversight*

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

Strategic oversight

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

The RAS sets the boundary for the maximum risk that BCR Group is willing to accept in order to pursue its business objectives. This includes a set of core steering metrics with triggers levels providing strategic guidelines for risk management and planning.

This Risk Strategy sets strategic limits and targets based on the RAS and target risk profile. It also provides a balanced risk-return view considering strategic focus & business plans.

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

Operational oversight

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

Risk management by risk type ensures that the risk specific profile remains in line with the risk strategy and operational limits support achievement of the strategic limits and targets. The development of the specific risk profile (i.e. retail credit, corporate credit, operational risk, etc.) is reported through dedicated risk reports in a more granular way and supports risk decision making of the dedicated risk functions to ensure the risk profile remains within the risk strategy (i.e. retail risk report). These reports also include specific monitoring metrics that provide an early warning signal for adverse developments of portfolio quality (client, segment, countries and industries) or risk drivers. In instances where certain risk portfolios or events are identified as potentially in distress, these are closely monitored by the dedicated risk functions to manage the risk impact and to develop effective strategies to minimize potential losses. This process facilitates early risk detection and reaction.

2.19. Macroeconomic forecasted risks

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

Economic growth: Economy is likely to pick up to 5.1% in 2017 driven mainly by domestic demand; external trade will likely hold back the economic advance although the drag could be somewhat softer than in the previous year, as exports growth will be perky. Private consumption will remain a solid driver as wage & real disposable income will continue to feature a double-digit growth in 2017. However that budget execution will be strained by the expansionary fiscal policy, imposing some corrective measures which would constrain growth momentum in 2018.

Inflation & monetary policy: After a modest rebound in early 2017, annual inflation is likely to grow a bit faster later on ending the year at around 1.9%. Central bank could keep key rate on hold at 1.75% throughout 2017, while external low yield environment & late budget deficit reckoning makes a tightening of the interest rate corridor less likely until after the ECB makes a tapering announcement in late 2017.

Budget: Broad fiscal easing and loose public wage legislation will weigh on the budget deficit starting 2017, amid significant deviation from the structural target assumed through the Fiscal Compact, whereas the nominal budget deficit is likely to widen to more than 3% of GDP. However, in order to avoid a larger fiscal slippage, the government could decide to push back part of the wage hikes in the public sector to the next years. Putting the public finances back on a consolidation track could also require tax hikes or spending cuts, while public investments outlook is likely to remain overcast.

3 MANAGEMENT BODIES

Information on governance arrangements

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

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

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

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

Organizational chart

At 30.06.2017, the Bank's central organization is divided into 5 (five) functional lines, as follows:

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

The organizational chart of BCR Head Office as of 30.06.2017 is presented in the chart below:

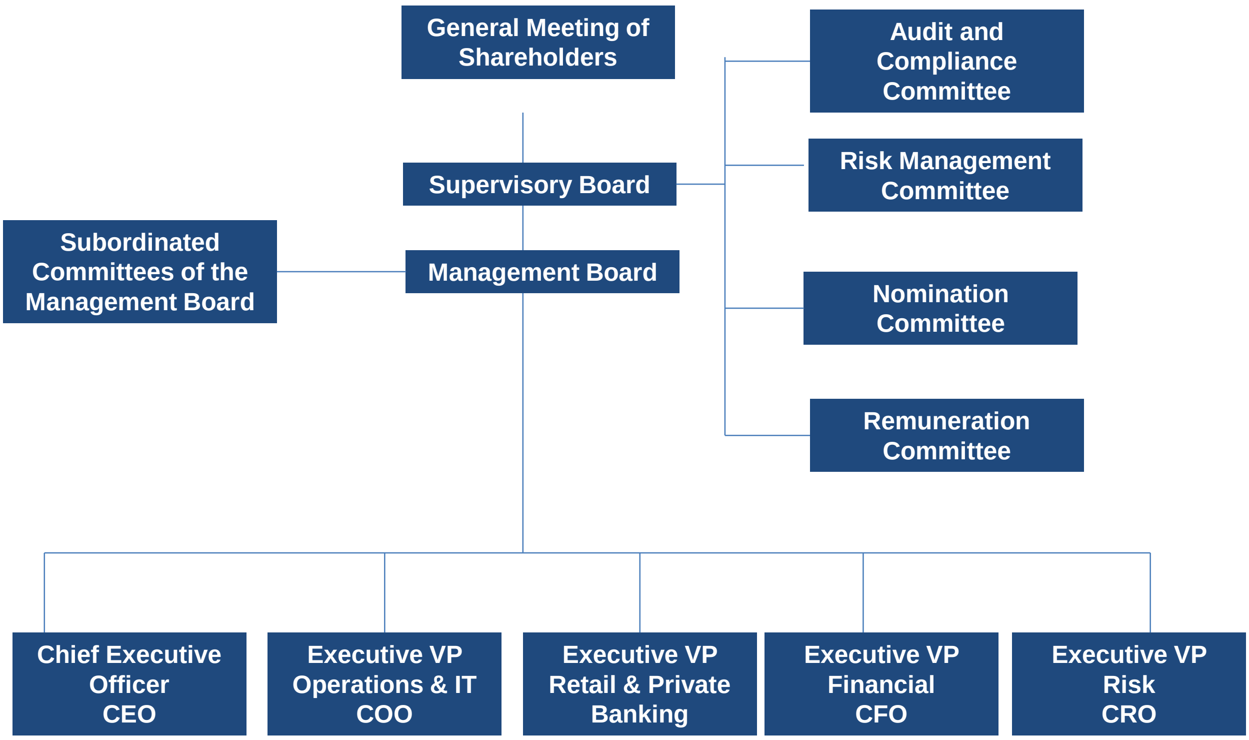

Figure 4: *Organizational chart Head-Office as of 30.06.2017*

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

COMMITTEES AND GROUP STRUCTURE

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

Management Board committees' structure between **01.01.2017 – 30.06.2017:**

Committees subordinated to the Management Board	
1	Assets and Liabilities Management Committee
2	Credit Committee
3	Cost and Investment Committee
4	Risk Committee of the Management Board
Other Work Committees / Committees established at BCR level	
5	Litigations Committee
6	Complaints Committee
7	The Evaluation Committee
8	Disciplinary Committee
9	Labour Safety and Health Commission
10	Social Commission

Figure 5: *MB committee's structure between 01.01.2017-30.06.2017*

On October 24th 2016, BCR's Supervisory Board appointed Mr. Bernhard Spalt as member of BCR Management Board, coordinator of Risk functional line starting with January 1st 2017. Mr. Bernhard Spalt took over his position as of **January 20th 2017**, after receiving the NBR approval.

Also, in February 2017, BCR's Supervisory Board appointed Mr. Ryszard Druzynski as member of BCR Management Board, coordinator of Operations and IT functional line starting with March 1st, 2017. Mr. Ryszard Druzynski took over his position as of **April 6th, 2017**, after receiving the NBR approval.

BCR Group structure

The BCR Group structure as of 30.06.2017 is presented in the chart below:

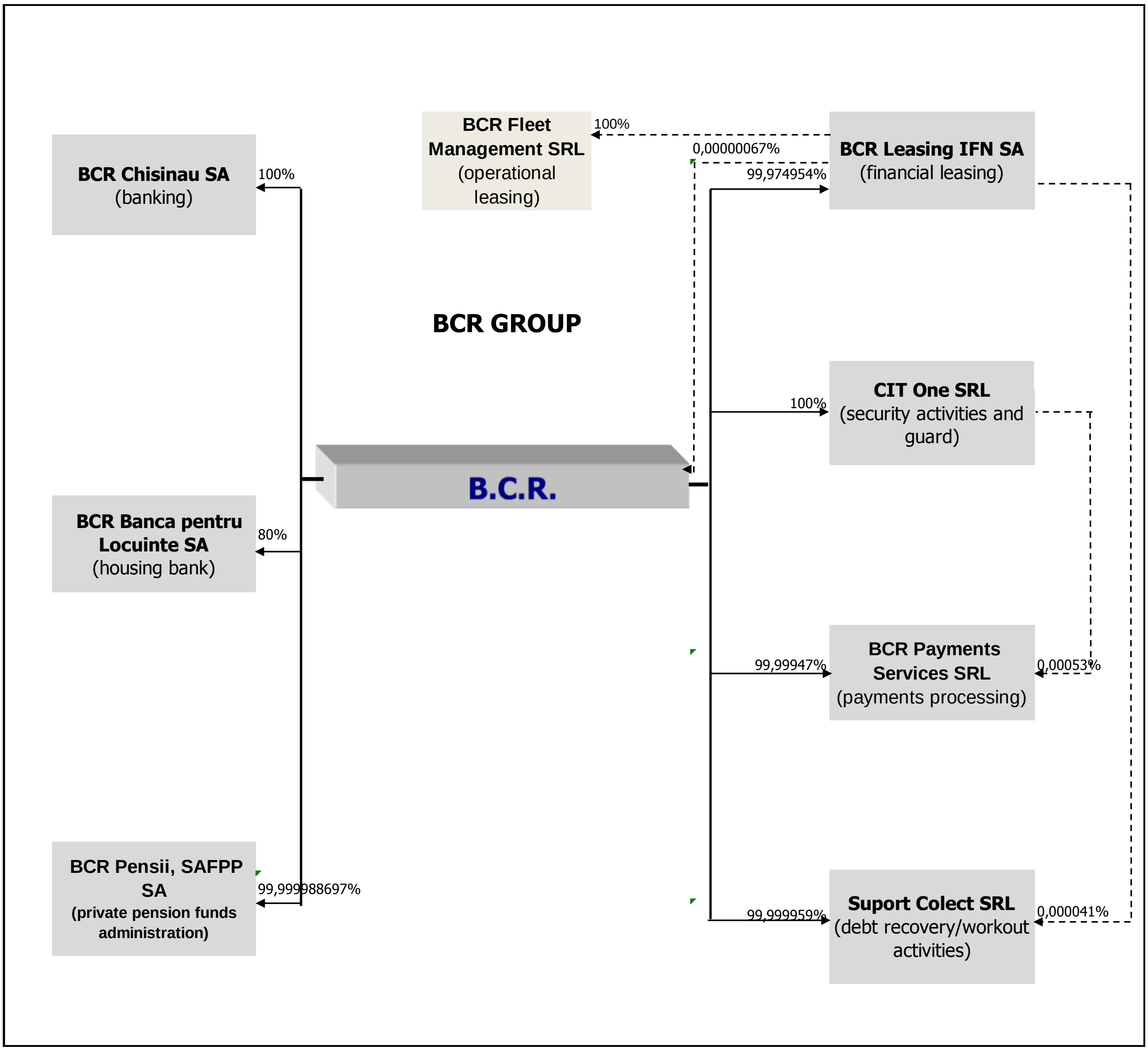

Figure 6: *BCR Group structure as of 30.06.2017*

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

The two-tier governance structure consists in a *Supervisory Board* (representing the supervisory function, which ensures the supervision and coordination of the Management Board activity) and a *Management Board* (representing the management function, which ensures the operational management of the Bank) as management bodies. Their membership, position and number of mandates are presented in the following section.

Their competencies and responsibilities are regulated through the Charter, the Internal Rules of each structure and also through the BCR Operational Book.

The **Supervisory Board** approves and periodically reviews BCR's risk profile and the bank's overall strategy in respect of risk management with the goal of ensuring a responsible, prudent and profitable banking activity.

The Supervisory Board consists of seven (7) members, appointed by the Bank's General Meeting of Shareholders and their mandate is of maximum three (3) years with the possibility of being re-elected for subsequent maximum three (3) years mandates.

Supervisory Board membership

Period 01.01.2017 - 30.06.2017	
Name	**Position**
Manfred Wimmer	Chairman
Andreas Treichl	Deputy Chairman
Gernot Mittendorfer	Member
Tudor Ciurezu	Member
Brian O'Neill	Member
Hildegard Gacek	Member
Wilhelm Koch	Member

Figure 7: *SB structure between 01.01.2017-30.06.2017*

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

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

Until June 30^{th}, 2017, the Risk Management Committee convened in 5 meetings (2 regular meetings and 3 meetings by correspondence).

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

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

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

MB membership as of 30.06.2017	
Name	**Position**
Sergiu Manea	CEO
Adriana Jankovicova	Executive Vice-President, CFO
Bernhard Spalt	Executive Vice-President, CRO
Ryszard Druzynski	Executive Vice-President, COO
Dana Luciana Demetrian	Executive Vice-President, Retail & Private Banking

Figure 8: *MB structure as of 30.06.2017*

The Risk Committee of the Management Board (RCMB)

The Risk Committee of the Management Board is operational since 2015 and consists of all members of the Management Board. The CRO is the RCMB Chairman and the CEO is the RCMB Deputy Chairman.

The competencies and responsibilities of the RCMB cover the main topics of risk management.

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

- approves the stress test timeline and stress test scenarios;
- approves ICAAP timeline;
- approves operative risk limits (including MLL/RbLL/OLL) cascaded down from the Bank Risk Appetite Statement;
- analyses the findings and actions related to the model validation reports (credit, market and liquidity risks, operational risk), fallback customers status, IRB use and experience test, roll out & governance, improvement of key processes, approve the related action plans and further submits the monitoring of their implementation to the Management Board.
- approves the litigation provisions in amounts established in the internal regulations;
- approves provisions and Profit & Loss registration of the amounts previously reimbursed according with the internal regulations;
- approves the registration of operational risk expenses that were analyzed by RC and underwent proper mitigations actions, in amounts established in the internal regulations;
- approves the results of RCSAs and risk re-assessment of outsourced activities;

- approves the operational risk scenarios results;
- approves the proposals related to the classification of data/ information;
- approves the results of the IT Risk Self-Assessment (including the IT Risk Catalogue);
- approves proposals regarding non-financial risks presented as risk return decisions (RRD) according with internal procedure B01444 Risk Return Decisions.

- Analyses and reviews the following topics/ documents which are pre-approved / approved by the Management Board (summary of the already approved/ to be approved topics/ documents), such as: (i) the BCR risk strategy, the Risk Appetite Statement (RAS), the Risk Materiality Assessment results, the stress testing results and the Risk reports; (ii) Risk related policies (such as: ICAAP related policies, the collateral management policy and the Retail and Corporate risk policies, including pouvoirs); (iii) the annual review of the limits for countries and sovereign entities, and of the limits for banks and financial institutions affiliated to banking groups); (iv) methodology, related processes and models required to identify, assess, control and manage the operational risk as well as exposure limitation; (v) the risk mitigation actions within the thresholds (from capital impact perspective) established by the internal regulations; (vi) the setting and registering of litigation provisions in amounts established in the internal regulations, and so on;
- regularly analyses, monitors and assesses the overall credit risk development and propose measures (volume trends, quality changes and concentrations of credit portfolio, development of non-performing loans, provisions, NPL coverage, standard risk costs, risk margins, forbearance);
- regularly analyses, monitors and assesses the development of credit risk-weighted assets and risk parameters;
- regularly analyses, monitors and assesses the market and liquidity risk development as presented in the quarterly risk report;
- analyses and reviews the Recovery plan and represents the BCR Recovery Steering body for the initiation and implementation of recovery measures as established in the BCR Recovery plan; If necessary and upon the decisions of the committee members the necessary mitigation measures related to the risk and financial impact will be further submitted to the relevant management bodies within the bank;
- monitors the lending policies use and ensures there are sufficient controls applied in the processes;
- monitors the general compliance of BCR credit risk rules and procedures with risk guidelines of Erste Group and with prudential regulations;
- receives each semester for information the BCR GAP lists versus the Erste Group risk regulations;
- regularly analyses, monitors and assesses the effectiveness of collateral as risk mitigant and haircut adjustments based on regular reports;
- regularly analyses, monitors and assesses models and parameters performance on credit risk, market risk, liquidity risk, collaterals;

- analyses the internal audit and regulatory findings and actions related to the Internal Rating based Approach (IRB) and monitors their implementation;
- monitors the development of the main projects of risk and business which are risk related.

Until June 30th, 2017, the Risk Committee of the Management Board convened in 10 regular and special meetings.

4 SCOPE OF CONSOLIDATION AND OWN FUNDS

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

The information related to the scope of consolidation and own funds (respectively the Disclosure requirements according to Art. 436 and 437 from CRR) were disclosed in the Banca Comerciala Romana SA Consolidated and Separate Financial Statements as of 31 December 2016.

There is no difference in the scope of consolidation between 30 June 2017 and 31 December 2016. BCR publishes only annual detailed information related own funds according to CRR.

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

Own funds transfer

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

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

Total capital shortfall of all subsidiaries not included in the consolidation

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

As of 30 June 2017 there was no capital shortfall at any of the companies of BCR Group included in consolidation.

5 CAPITAL REQUIREMENTS

Capital requirements – Pillar I and Pillar II

DISCLOSURE REQUIREMENTS COVERED: ART. 438(a) CRR

Pillar I

The Bank monitors the solvency ratios, at individual and consolidated level, according to Basel III requirements, based on financial statements prepared in accordance with International Financial Reporting Standards (IFRS), also taking into consideration 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.

Total capital ratio, CET1 Ratio and Tier1 Ratio, as of 30 June 2017, are presented in the below table:

Indicator(in RON thousands)	BCR Group	BCR Bank
Common Equity Tier 1 (CET1) capital	6,309,827.55	6,413,340.02
Tier 1 capital	6,309,827.55	6,413,340.02
Tier 2 (T2) capital	1,239,676.27	1,219,528.00
Total capital (TC=T1+T2)	7,549,503.81	7,632,868.02
Common Equity Tier 1 (as a percentage of total risk exposure amount)/*	18.59%	19.92%
Tier 1 ratio (as a percentage of total risk exposure amount)/*	18.59%	19.92%
Total capital ratio (as a percentage of total risk exposure amount)/*	22.29%	23.75%

/ after applying NBR Order 119/2012 and NBR Order 34/2014 (76,158.05 thds. RON)*

Figure 9: *Capital ratios as of 30.06.2017*

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

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

Pillar II

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

The risk side of the calculation serves to determine the economic capital requirement from unexpected losses in respect of credit, market and operational risk. Besides credit, market and operational risk, the economic capital requirement for 30.06.2017 includes also FX induced credit risk and business/strategic risk.

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

Type of risk	Model	Comment
Credit risk	Credit risk is computed as 8% of RWA percentage, in compliance with the Basel regulations	Amount scalled to a confidence level of 99.9%
Market risk	For market risk, due to the individual characteristics of various products and exposure types, the Bank differentiates between the following market risk types: ▪MR Trading Book ▪MR Banking Book BCR determines a capital requirement for market risk as follows: ▪VaR methodology (1 year, 99.9%) for the interest rate risk of the banking book (IRRBB) ▪Standardized method for the FX position ▪Internal model – Trading Book - VaR (1y, 99.9%)	Amount scalled to 1 year, 99.9% confidence level
Operational risk	Advanced Measurement Approach (AMA) at BCR Group level and by considered as risk transfer the entire insurance amount	Amount scalled to 1 year, 99.9% confidence level
FX Induced Credit risk	Internal Model impacting EAD, LGD and PD for FX exposures to unhedged borrowers.The FX scenario considers the most unfavorable rolling year on-year FX change over a period of 5 years	Amount scalled to 1 year, 99.9% confidence level
Business / strategic risk	Internal model based on extreme value theory (EVT) and relies on the application of the Generalized Pareto Distribution (GPD) to the tails of the data	Amount scalled to 1 year, 99.9% confidence level

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

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

The economic capital requirement is compared to the capital held as coverage (broken down into equity, subordinated capital, reserves and retained earnings), thus determining the Bank's ability to absorb these potential unexpected losses. The risk is calculated at a confidence level of 99.9%. The calculation of RCC is designed in accordance with the business strategy and risk profile of BCR Group and is accounted for its risk appetite. The Risk Appetite Framework defines, from a strategic perspective, the risk level that BCR Group is willing to be exposed to and specifies restrictions and limits required for daily operations.

To determine the BCR Group's capital adequacy, BCR Group uses a forward-looking traffic light system. In this way, the management body may asses at any time the extent to which the economic capital adequacy of BCR Group is appropriate and sufficient. The process enables the management body to respond in time to changes, and, if necessary, to take the adequate measures on the risk side or on the coverage potential side.

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

The below diagram presents the composition of the economic capital requirement for BCR Group and BCR Bank according to risk type, under Pillar II, as of 30 June 2017:

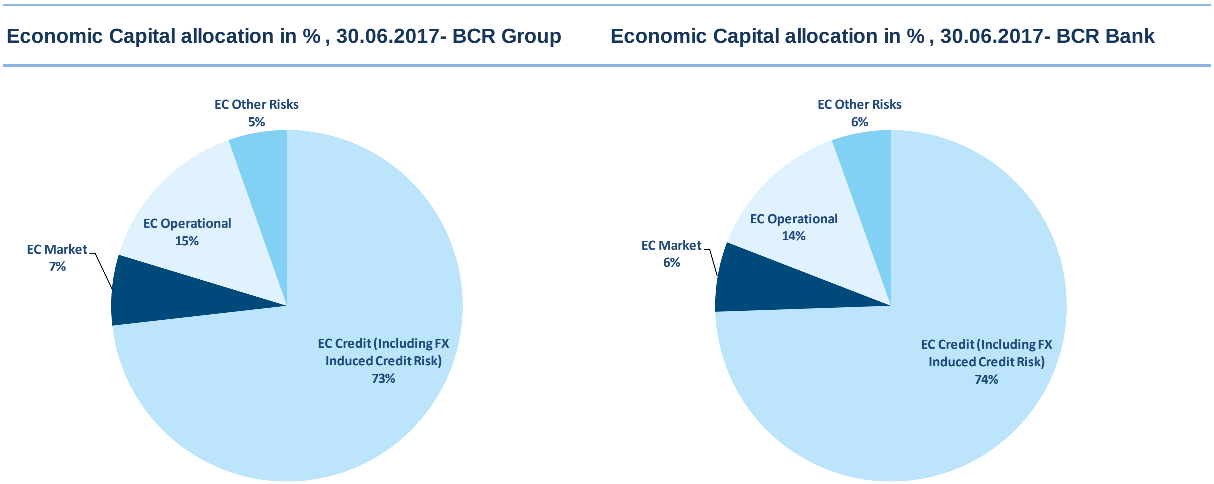

Figure 11: *Capital requirement as of 30.06.2017 (BCR Group and BCR Bank)*

Throughout the first half of 2017 the Economic Capital Adequacy Ratio (ECA Ratio) for the Group has maintained well within the Risk Appetite limits established through the Risk Appetite Statement.

Other own funds requirements

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

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

The regulatory capital requirements computed based on the Bank's final financial statements as of 30.06.2017 for the credit risk, market risk and operational risk were as follows:

30.06.2017 (ths RON)	Bank IFRS with prudential filters	Group BCR (IFRS)
TOTAL CAPITAL REQUIREMENTS	2,544,971.65	2,682,064.32
Credit risk - standard approach	1,866,202.35	1,963,952.14
Central governments or central banks	27,109.30	40,328.87
Regional governments or local authorities	77,362.11	77,364.15
Public sector entities	3,741.02	3,741.02
Multilateral Development Banks	0.00	0.00
International Organisations	0.00	0.00
Institutions	33,025.65	20,383.50
Corporates	774,384.98	829,234.98
Retail	447,963.20	485,945.21
Secured by mortgages on immovable property	210,465.72	213,721.49
Exposures in default	72,003.29	83,202.83
Items associated with particular high risk	54,192.82	54,226.25
Covered bonds	0.00	0.00
Claims on institutions and corporates with a short-term credit assessment	0.00	0.00
Collective investments undertakings (CIU)	0.00	0.00
Equity	49,399.47	5,426.24
Other items	116,554.79	150,377.60
Securitisation positions SA	0.00	0.00
Settlement/delivery risk	0.24	0.24
Settlement/delivery risk in the non-Trading book	0.24	0.24
Position, foreign exchange and commodity risks under standardised	10,784.11	16,512.32
Position risk afferent to traded debt instruments	6,320.16	6,320.16
Position risk afferent to equity	0.00	0.00
FX risk	4,463.95	10,192.16
Operational risk	665,824.51	699,439.19
Basic approach	0.00	33,614.67
Advanced assessment approach	665,824.51	665,824.51
Capital requirements for credit valuation	2,160.43	2,160.43
Standardised method	2,160.43	2,160.43

Figure 12: *Other own funds requirements as of 30.06.2017*

6 EXPOSURE TO COUNTERPARTY CREDIT RISK

DISCLOSURE REQUIREMENTS COVERED: ART. 439 CRR

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

The Bank implemented prudent and proper credit limits for counterparty exposures, consistent with the risk appetite, risk profile and soundness of the Bank's capital. The Bank manages credit risk by placing limits on the level of risk acceptable in relation to its counterparty credit exposures. Such risks are monitored on a regular basis and are subject to an annual or more frequent review when considered necessary.

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

Measures for exposure value

The Bank determines the exposure value for derivatives instruments arising from counterparty credit risk using the mark-to-market method as described in the Regulation no. 575/2013, art. 274.

Exposure values for derivative instruments arising from counterparty credit risk for BCR for 31.12.2016 and 30.06.2017 are presented in the below tables:

in RON thds	31.12.2016	30.06.2017
Exposure from Derivatives Instruments	174,152	151,056

Figure 13: *Exposure values for derivatives instruments*

The exposure 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, art. 222.

Exposure values for Securities Financing Transactions arising from counterparty credit risk for BCR for 31.12.2016 and 30.06.2017 are presented in the below tables:

in RON thds	31.12.2016	30.06.2017
Exposure from Securities Financing Transactions	8,067	8,137

Figure 14: *Exposure values for Securities Financing Transactions*

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

7 CREDIT RISK ADJUSTMENTS

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (a) CRR

Definitions for accounting purposes of past due and impaired

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

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

DISCLOSURE REQUIREMENTS COVERED: ART. 442(b) CRR

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

The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. The details about the impairment assessment are presented in the Note 39.5 from the Consolidated and Separate Financial Statements as of 31 December 2016 for BCR (Group and Bank).

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (c) CRR

Exposures amount

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

	BCR Standalone		BCR Group	
in RON thousands	2016	H1 2017	2016	H1 2017
Sovereign	29,130,118	27,649,292	31,553,378	29,824,252
Institutions	816,868	857,368	769,165	656,639
Corporates	17,582,675	16,863,150	18,076,757	17,485,179
Retail	20,386,094	20,607,845	21,270,953	21,542,379
Total	**67,915,756**	**65,977,655**	**71,670,252**	**69,508,449**

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (d) CRR

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

BCR Standalone				2017 H1
in RON thousands	Sovereign	Institutions	Corporate	Retail
South - West	68,790	10,024	960,016	1,353,437
North - East	663,188	288	851,590	1,968,905
South	414,410	47,119	965,881	1,979,480
West	338,647	24	515,585	1,751,917
Center	255,595	81	1,540,508	2,151,628
South - East	55,765	20	1,325,560	2,008,292
North - West	321,124	46	1,776,910	2,224,990
Bucharest - Ilfov	25,531,773	799,766	8,927,103	7,169,194
Total	**27,649,292**	**857,368**	**16,863,150**	**20,607,845**

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (e) CRR

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

BCR Group					H1 2017
in RON thousands	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture, forestry and fishing	212,436	289,840	39,219	73,364	614,859
Mining and quarrying	1,228,849	4,501	8	258,177	1,491,535
Manufacturing	2,047,281	1,801,447	208,921	1,150,173	5,207,823
Electricity, gas, steam and air conditioning supply	321,497	257,000	59,639	74,277	712,412
Water supply	171,741	52,720	11	27,232	251,703
Construction	1,069,051	811,805	197,301	483,760	2,561,917
out of which: Development of building projects	406,730	15,326	5	94,374	516,436
Wholesale and retail trade	2,141,992	787,278	61,840	405,745	3,396,854
Transport and storage	1,107,106	196,143	3,896	67,618	1,374,764
Accommodation and food service activities	39,306	7,999	16,985	32,276	96,568
Information and communication	78,156	151,398	2,409	30,336	262,299
Financial and insurance services	5,603,454	47,179	37,229	41,252	5,729,114
out of which: Holding companies	290,443	0	-	35	290,479
Real estate activities	624,121	98,511	13,920	139,265	875,818
Professional, scientific and technical activities	139,540	93,706	3,403	16,018	252,667
Administrative and support service activities	148,479	14,830	796	4,376	168,481
Public administration and defence, compulsory social security	24,980,227	232,658	20,677	36,940	25,270,502
Education	12,423	265	337	287	13,312
Human health services and social work activities	93,919	69,613	42	2,399	165,972
Arts, entertainment and recreation	3,101	1,614	1,032	212	5,961
Other services	40,647	4,123	1,100	3,582	49,451
Private households	15,132,622	4,294,896	116,433	1,462,474	21,006,424
Others	-	0	-	13	13
Total	**55,195,946**	**9,217,527**	**785,199**	**4,309,776**	**69,508,449**

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (f) CRR

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

BCR Standalone				2017 H1
in RON thousands	Sovereign	Institutions	Corporate	Retail
< 3 months	7,133,312	53,674	2,420,540	479,789
3 months <= X < 1 year	289,635	55,805	4,862,020	481,848
1 year <= X < 2,5 years	0	78,129	2,739,428	845,525
2,5 years <= X < 5 years	8,057,823	179,607	2,642,322	3,566,976
5 years <= X < 10 years	8,831,085	4,821	2,288,590	882,959
10 years <= X < 15 years	2,743,927	32,075	796,258	1,342,424
15 years <= X < 20 years	579,688	870	672,446	2,691,365
20 years <= X	13,823	452,386	441,545	10,316,959
Total	**27,649,292**	**857,368**	**16,863,150**	**20,607,845**

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (g) CRR

The following table shows the total credit risk exposure, as well as the past-due and impaired exposures, broken down by counterparty types[1]:

BCR Group										H1 2017
in RON thousands	Gross carrying amount	of which: perfoming			of which: non-perfoming					
		Not past due or Past due <= 30 days	Past due > 30 days <= 60 days	Past due > 60 days <= 90 days	Unlikely to pay that are not past-due or past-due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year	Of which: defaulted	Of which: impaired
Loans and advances	**40,897,393**	**36,567,212**	**255,175**	**119,282**	**1,461,308**	**190,177**	**166,448**	**2,137,789**	**3,846,169**	**3,864,254**
Central banks	4,635,677	4,635,677	-	-	-	-	-	-	-	-
General governments	3,970,046	3,930,055	3,574	26	33,597	778	7	2,009	20,840	21,161
Credit institutions	182,053	182,053	-	-	-	-	-	-	-	-
Other financial corporations	291,810	250,332	25	2	8,224	9,405	23,583	238	41,207	41,369
Non-financial corporations	12,302,063	9,780,198	73,441	13,770	839,258	89,392	44,726	1,461,278	2,409,432	2,420,379
Of which: Small and Medium-sized Ente	4,290,000	3,628,313	6,594	6,252	275,765	7,725	26,848	338,504	630,416	644,175
Of which: Commercial real estate	5,781,433	4,183,652	600	1,553	334,162	62,521	8,497	1,190,449	1,594,921	1,583,773
Households	19,515,744	17,788,897	178,135	105,484	580,230	90,602	98,132	674,264	1,374,691	1,381,345
Of which: Residential mortgage loans	14,189,176	13,157,924	152,475	84,241	402,635	55,147	48,890	287,864	737,209	736,352
Of which: Credit for consumption	4,742,855	4,264,704	19,738	14,445	123,907	32,145	44,317	243,599	433,101	440,591
Debt instruments	**21,298,483**	**21,295,053**	**-**	**-**	**3,430**	**-**	**-**	**-**	**3,430**	**3,430**
Central banks	46,060	46,060	-	-	-	-	-	-	-	-
General governments	21,252,423	21,248,993	-	-	3,430	-	-	-	3,430	3,430
Credit institutions	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-
Off-balance sheet instruments	**10,697,353**									
Loan commitments given	**7,463,334**									
Financial guarantees given	**2,915,169**									
Other commitments given	**318,851**									
Positive fair value of derivative instruments	**56,418**									

The accumulated impairment and accumulated changes in fair value due to credit risk and provisions for past-due and impaired exposures, broken down by counterparty types[2] are shown below:

BCR Group							H1 2017
in RON thousands	Accumulated impairment, accumulated changes in fair value due to credit risk and provisions	on performing exposures	on non-performing exposures				
			Total	Unlikely to pay that are not past-due or past-due <= 90 days	Past due > 90 days <= 180 days	Past due > 180 days <= 1 year	Past due > 1 year
Loans and advances	**-3,642,469**	**-689,282**	**-2,953,187**	**-823,672**	**-138,779**	**-130,242**	**-1,860,493**
Central banks	0	0	0	0	0	0	0
General governments	-33,287	-25,102	-8,184	-6,626	-237	-7	-1,314
Credit institutions	-439	-439	0	0	0	0	0
Other financial corporations	-37,688	-2,867	-34,821	-6,511	-9,405	-18,676	-230
Non-financial corporations	-2,171,558	-384,118	-1,787,440	-440,645	-69,764	-35,842	-1,241,190
Of which: Small and Medium-sized Ente	-546,837	-122,362	-424,475	-165,587	-5,189	-20,185	-233,513
Of which: Commercial real estate	-1,384,601	-105,455	-1,279,146	-192,472	-48,066	-6,065	-1,032,544
Households	-1,399,498	-276,757	-1,122,741	-369,890	-59,374	-75,717	-617,760
Of which: Residential mortgage loans	-744,180	-200,939	-543,241	-231,101	-36,947	-32,341	-242,852
Of which: Credit for consumption	-475,368	-72,709	-402,659	-98,184	-20,790	-41,158	-242,526
Debt instruments	**-5,086**	**-4,520**	**- 566**	**- 566**	**-**	**-**	**-**
Central banks	0	0	-	-	-	-	-
General governments	-5,086	-4,520	- 566	- 566	-	-	-
Credit institutions	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-
Off-balance sheet instruments	**237,983**	**68,192**	**169,790**	**-**	**-**	**-**	**-**
Loan commitments given	**20,582**	**17,414**	**3,168**	**-**	**-**	**-**	**-**
Financial guarantees given	**217,394**	**50,772**	**166,623**	**-**	**-**	**-**	**-**
Other commitments given	**6**	**6**	**0**	**-**	**-**	**-**	**-**
Positive fair value of derivative instruments							

[1] &[2] Based on FINREP counterparty types

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (h) CRR

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

BCR Standalone				2017 H1
in RON thousands	Past-due amounts that are not impaired	Allowances for past-due but not impaired exposures	Impaired amounts	Allowances for impaired exposures
South - West	174,864	-10,644	110,147	-83,621
North - East	261,337	-16,813	221,002	-173,068
South	246,201	-14,335	329,872	-224,601
West	226,871	-11,795	220,696	-164,054
Center	230,943	-14,528	354,602	-265,018
South - East	240,266	-15,720	521,253	-350,170
North - West	333,456	-24,812	1,065,747	-989,347
Bucharest - Ilfov	868,069	-41,742	754,466	-501,254
Total	**2,582,009**	**-150,390**	**3,577,784**	**-2,751,132**

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

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

								2017 H1	Group
in RON thousands	Opening balance (-)	Allocations*	Uses*	Releases*	Interest income from impaired loans	Exchange-rate and other changes (+/-)	Closing Balance (-)	Recoveries on written-off loans and sale of loans*	Direct write-offs of loans and receivables*
Specific allowances									
Loans and receivables	**(2,993,897)**	**(304,574)**	**52,553**	**403,519**	**26,072**	**(136,859)**	**(2,953,186)**	**20,107**	**(102,051)**
General governments	(24,687)	(334)	-	17,911	407	(1,481)	(8,184)	71	-
Other financial corporations	(22,553)	(13,251)	285	582	348	(232)	(34,821)	-	-
Non-financial corporations	(1,809,316)	(119,448)	18,905	221,288	12,907	(111,776)	(1,787,440)	14,143	(99,375)
Households	(1,137,341)	(171,541)	33,363	163,738	12,410	(23,370)	(1,122,741)	5,893	(2,676)
Collective allowances									
Loans and receivables	**(599,550)**	**(153,218)**	**-**	**70,733**	**-**	**(6,809)**	**(688,844)**		
NC (open balance)	-	-	-	-	-	-	-		
General governments	(27,458)	-	-	2,679	-	(323)	(25,102)		
Other financial corporations	(6,478)	(24)	-	3,710	-	(75)	(2,867)		
Non-financial corporations	(235,051)	(152,652)	-	6,295	-	(2,710)	(384,118)		
Households	(330,563)	(542)	-	58,049	-	(3,701)	(276,757)		
Total	**(3,593,447)**	**(457,792)**	**52,553**	**474,252**	**26,072**	**(143,668)**	**(3,642,030)**		

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

*) The allocations, releases, recoveries and direct written-offs of loans and receivables represent the P&L impact. Uses are the use of adjustments for impairment of sold loans or written off.

2017 H1 | Bank

in RON thousands	Opening balance (-)	Allocations*	Uses*	Releases*	Interest income from impaired loans	Exchange-rate and other changes (+/-)	Closing Balance (-)	Recoveries on written-off loans and sale of loans*	Direct write-offs of loans and receivables*
Specific allowances									
Loans and receivables	**(2,793,616)**	**(274,592)**	**37,347**	**289,338**	**25,793**	**(35,402)**	**(2,751,132)**	**8,805**	**(3,081)**
General governments	(24,687)	(334)	-	17,911	407	(1,481)	(8,184)	71	-
Other financial corporations	(22,057)	(13,207)	-	541	348	(232)	(34,607)	-	-
Non-financial corporations	(1,723,092)	(90,383)	8,939	107,995	12,683	(10,752)	(1,694,610)	4,594	(515)
Households	(1,023,780)	(170,668)	28,408	162,891	12,355	(22,937)	(1,013,731)	4,140	(2,566)
Collective allowances									
Loans and receivables	**(576,546)**	**(144,180)**	**-**	**63,878**	**-**	**(6,784)**	**(663,632)**		
NC (open balance)	-	-	-	-	-	-	-		
General governments	(27,454)	-	-	2,678	-	(323)	(25,099)		
Other financial corporations	(6,353)	-	-	3,673	-	(74)	(2,754)		
Non-financial corporations	(214,948)	(144,180)	-	-	-	(2,531)	(361,659)		
Households	(327,791)	-	-	57,527	-	(3,856)	(274,120)		
Total	**(3,370,162)**	**(418,772)**	**37,347**	**353,216**	**25,793**	**(42,186)**	**(3,414,764)**		

2016 | Bank

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

*) The allocations, releases, recoveries and direct written-offs of loans and receivables represent the P&L impact. Uses are the use of adjustments for impairment of sold loans or written off.

8 MARKET RISK

DISCLOSURE REQUIREMENTS COVERED: ART. 448 CRR

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

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

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

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

ths RON - BCR Bank	**31.12.2016**	**30.06.2017**
Own funds	7,655,941	7,632,868
The potential decline of the economic value:		
% of own funds	**10.47**	**11.96**
total absolute value, of which:	801,506	913,115
RON	593,326	501,470
EUR	131,096	323,165

ths RON - BCR Group	**31.12.2016**	**30.06.2017**
Own funds	7,777,782	7,549,504
The potential decline of the economic value:		
% of own funds	**10.94**	**12.13**
total absolute value, of which:	850,756	915,709
RON	650,659	509,645
EUR	123,524	317,877

Figure 15: *MVoE as of 30.06.2017 (individual and consolidated)*

9 LIQUIDITY RISK

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

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

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

The liquidity risk monitoring system of BCR includes (but is not limited to) Liquidity Coverage Ratio (LCR); Net Stable Funding Ratio (NSFR); Survival Period Analysis (SPA).

Liquidity Buffer

BCR has two approaches for the calculation of the Liquidity Buffer:

- the regulatory approach applied for LCR calculation (following Reg. 575/2013 and Delegated Act);
- the internal approach applied under the Survival Period Analysis, which is more conservatory than the regulatory approach, because it take into consideration additional haircuts for bonds issued by EU Member States in order to account for adverse market price variations.

The liquidity buffer as of June 2017 according to the internal approach was RON 21.40 bn, that is almost the same with the value from December 2016 (RON 0.022 bn. lower), comprising mainly fixed income instruments (75.3%).

The fixed income instruments from the liquidity buffer are denominated in RON (72.2%) and EUR (27.8%); thus, the level of bonds denominated in EUR is sufficient to cover the net cash outflows denominated in EUR.

Liquidity Coverage Ratio (LCR)

Liquidity coverage ratio (LCR) represents the adequate level of high-quality liquid assets (HQLA) to be converted into cash to meet liquidity needs for 30 days under a liquidity stress scenario. The level of LCR (individual and consolidated) as of June 2017 in comparison to December 2016 is presented in the following tables:

Liquidity Coverage Ratio (LCR) - BCR Bank	31.12.2016	30.06.2017
High quality liquid assets - mil RON	23,146	23,067
Total net cash outflows - mil RON	6,428	6,428
LCR- BCR Bank	360%	359%

Liquidity Coverage Ratio (LCR) - BCR Group	31.12.2016	30.06.2017
High quality liquid assets - mil RON	25,758	25,235
Total net cash outflows - mil RON	6,598	6,697
LCR- BCR Group	390%	377%

Figure 16: *Liquidity Coverage Ratio (LCR) for as of 30.06.2017 (individual and consolidated)*

Survival Period Analysis (SPA)

The Survival Period Analysis (SPA) represents a key instrument for assessing the insolvency risk; it targets a short-time horizon – within one year – and uses the dynamic stress testing methodology. SPA measures the period an entity is able to survive in case of a predefined liquidity crisis scenario.

The RAS limit and warning level for SPA are applied to the net funding gap for one month. The net funding gap indicates the surplus of liquid assets that are still available after a crises period.

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

Net Stable Funding Ratio (NSFR)

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

The level of NSFR (individual and consolidated) as of June 2017 is presented in the following tables:

Net Stable Funding Ratio (NSFR) - BCR Bank	31.12.2016	30.06.2017
Available amount of stable funding - mil RON	48,840	46,936
Required amount of stable funding - mil RON	25,142	23,814
NSFR- BCR Bank	194%	197%

Net Stable Funding Ratio (NSFR) - BCR Group	31.12.2016	30.06.2017
Available amount of stable funding - mil RON	51,998	49,814
Required amount of stable funding - mil RON	26,401	24,684
NSFR- BCR Group	197%	202%

Figure 17: *Net Stable Funding Ratio (NSFR) as of 30.06.2017 (individual and consolidated)*

10 OPERATIONAL & REPUTATIONAL RISK

DISCLOSURE REQUIREMNTS COVERED: ART. 446 and 454 CRR

1.1. Operational risk

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

The Key Risk Indicators (KRI) are regularly monitored and reported on a quarterly base 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.

In order to assess the level of operational risk across the Bank, both in terms of inherent and residual risks (including the evaluation of existing controls), Risk and Control Self-Assessment (RCSA) analysis were conducted according with the initial approved plan. For the RCSA performed until end of June 2017, no high residual risks have been identified.

Outsourcing activities are continuously monitored at BCR level, according with internal procedures in place. As of H1 2017, adequate ratings were granted by outsourced managers and no relevant breaching of the indicators was identified.

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 (RRD) template presents in one document all relevant aspects from both sides: risks (probability and severity - financial, legal and reputational impact) and returns (income or cost reduction). It should be applied once business areas (acting as first line of defense) identify a non-financial risk (such operational, compliance, reputational, security, legal, and Information and Communication Technology risks) and is willing to accept the risk. The risk-return decisions approved from the implementation were within defined the Risk Appetite Statement and starting with 2016 this instrument (RRD) applies also within the Product Approval Process and Credit Application Approval Process.

Most of these evaluation forms performed during H1 2017, were identified with minor or important risks and accepted, but due to wide range of various regulatory requirements and other influenced factors Risk Return Decisions are becoming very useful and reliable in the process of makers decision.

1.2. Reputational risk

Reputational risk has been mainly triggered by the litigations' provisions for cross portfolio risk with the allegedly abusive clauses within the credit contracts registered at the end of 2016 and the uncertain and unpredictable legislative framework in the financial and banking field with a high impact on the banking system. Reputational risk continues to score as one of the top risks in banking sector which only pose pressure to internal governance, strong alignment with business objective, consistent policies and procedures and comprehensive training and preparedness.

It is important that reputational risk to be avoided by having all employees well trained and empowered to address both the issue and the customer's emotional state.

BCR continues its efforts in pursuing an integrated and balanced approach to preventing and treating reputational risk exposure and operating transparently and accountably, employing a simplified, rapid and innovative grant-making process.

11 LEVERAGE

DISCLOSURE REQUIREMENTS COVERED: ART. 451 CRR

Information about leverage ratio

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

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

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 un-weighted on- and off-balance-sheet positions considering valuation and risk adjustments as defined within the CRR.

The information about leverage ratio (individual and on a consolidated basis) for 30 June 2017 are presented in the table below:

30.06.2017
BANCA COMERCIALA ROMANA
INDIVIDUAL

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

		Applicable Amounts (RON)
1	Total assets as per published financial statements	73,691,958,886
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	
4	Adjustments for derivative financial instruments	94,637,536
5	Adjustments for securities financing transactions "SFTs"	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-7,537,238,560
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	-278,386,475
8	**Total leverage ratio exposure**	65,970,971,386

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures (RON)
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	62,730,060,932
2	(Asset amounts deducted in determining Tier 1 capital)	-366,170,633
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	62,363,890,299
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	57,978,276
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	93,077,500
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)**	151,055,776
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	8,136,859
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	8,136,859
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	10,985,127,013
18	(Adjustments for conversion to credit equivalent amounts)	-7,537,238,560
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	3,447,888,452
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
Capital and total exposures		
20	**Tier 1 capital**	6,413,340,023
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	65,970,971,386
Leverage ratio		
22	**Leverage ratio**	9.72%
Choice on transitional arrangements and amount of derecognized fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

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

		CRR leverage ratio exposures (RON)
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	62,730,060,932
EU-2	Trading book exposures	643,805,087
EU-3	Banking book exposures, of which:	62,086,255,846
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	23,464,813,997
EU-6	Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns	3,847,814,887
EU-7	Institutions	287,947,036
EU-8	Secured by mortgages of immovable properties	7,175,415,695
EU-9	Retail exposures	10,329,524,770
EU-10	Corporate	8,783,943,383
EU-11	Exposures in default	828,832,957
EU-12	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	7,367,963,121

30.06.2017
BANCA COMERCIALA ROMANA
CONSOLIDATED (RON)

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

		Applicable Amounts (RON)
1	Total assets as per published financial statements	76,504,937,770
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	
4	Adjustments for derivative financial instruments	94,637,536
5	Adjustments for securities financing transactions "SFTs"	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-7,107,193,768
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	-229,198,718
8	**Total leverage ratio exposure**	69,263,182,819

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures (RON)
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	66,107,475,097
2	(Asset amounts deducted in determining Tier 1 capital)	-357,171,910
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	65,750,303,187
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	57,978,276
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	93,077,500
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)**	151,055,776
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	8,136,859
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Counterparty credit risk exposure for SFT assets	
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	8,136,859
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	10,465,120,174
18	(Adjustments for conversion to credit equivalent amounts)	-7,111,433,176
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	3,353,686,999
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
Capital and total exposures		
20	**Tier 1 capital**	6,309,827,546
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	69,263,182,819
Leverage ratio		
22	**Leverage ratio**	9.11%
Choice on transitional arrangements and amount of derecognized fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

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

		CRR leverage ratio exposures (RON)
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	66,107,475,097
EU-2	Trading book exposures	643,805,087
EU-3	Banking book exposures, of which:	65,463,670,010
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	25,681,180,254
EU-6	Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns	3,847,942,305
EU-7	Institutions	193,776,891
EU-8	Secured by mortgages of immovable properties	7,258,752,714
EU-9	Retail exposures	11,004,952,805
EU-10	Corporate	9,223,097,031
EU-11	Exposures in default	942,841,799
EU-12	Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	7,311,126,211

Figure 18: *Leverage ratio (consolidate and individual) as of 30.06.2017*

12 USE OF CREDIT RISK MITIGATION TECHNIQUES

DISCLOSURE REQUIRMENTS COVERED ART. 453 CRR

Policies and processes for collateral valuation and management

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

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

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

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

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

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

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

The accepted value is an internal view on collateral risk, which serves to show the most probable recovery amount of the collateral in case of its liquidation.

The valuation report is the document in which the market value is estimated.

Description of the main types of collateral taken by BCR

The Collateral Management Policy sets out the requirements necessary to the provisions of a uniform framework for collateral management. The Collateral Catalogue is an integral part of the policy.

The main aspects covered are the following:

- end-to-end process and responsibilities for the lifecycle of collateral in the lending business;
- basic principles of setting up the allocated value for a collateral and also the flow to monitor and update the collateral haircuts;
- high-level requirements a collateral has to fulfill to be considered eligible under Basel III;
- requirements for collateral reporting.

The Collateral Catalogue (Annex to the Policy) describes all collateral types used within BCR, together with their corresponding minimum acceptance/ eligibility criteria, valuation requirements and applicable haircuts/valuation rate. Collateral Management Policy and Collateral Catalogue are aligned with Group Collateral Management Policy/Group Collateral Catalogue.

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

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

Figure 19: *Main types of collateral*

Market or credit risk concentrations within the credit mitigation taken

BCR registers credit risk concentrations in its risk mitigation operations towards the Romanian state. Thus, on 30.06.2017, the total collaterals received from the Ministry of Public Finance used for credit risk mitigation purposes amounted to 3,708,468 ths RON (out of witch “Prima Casa” is 86.85%).

13 LIST OF FIGURES