

BANCA COMERCIALĂ ROMÂNĂ

CORPORATE GOVERNANCE REPORT

FOR 2013

Prepared according to the requirements of the NBR Regulation no 18/2009 on governance arrangements of the credit institutions, capital adequacy assessment process and the conditions for outsourcing their activities.

27.02.2014

I. Introduction – rationale of the current report

The present Report is prepared according to the requirements of the National Bank of Romania's Regulation No 18/2009 on governance arrangements of credit institutions, internal adequacy assessment process and the conditions for outsourcing their activities as subsequently amended as regards ensuring an adequate level of transparency, by summarizing the principles related to the corporate governance framework and according to art 22 from this regulation provides the following information:

- Ownership structure – including major shareholders positions in the bodies having supervisory functions and in the bodies having management functions;
- Bodies covering the supervisory function – selection process, qualifications, criteria for independence, material interests in transactions and other matters affecting the credit institution;
- Bodies having management function – responsibilities, reporting lines;
- Organizational structure – remuneration policies, compensation of management structure/bodies members;
- The policies or ethic codes of business conduct governance arrangements code or policy, as well as the supervisory function self-assessment.

The provisions of NBR Regulation no. 5/2013, regarding prudential requirements for credit institution, respectively art. 680 lit b) and 680 (2), provides for the repealing of NBR Regulation no. 18/2009 provisions mentioned above, starting with 30.06.2014.

II. BCR – corporate governance structure

Based on the provisions of Commercial Companies Law no. 31/1990, with further amendments and completions and of the Government Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy with subsequent amendments and completions and as provided in its charter Banca Comercială Română (BCR) is organized in a two-tier corporate governance structure.

The management structure of the bank is aiming to ensure the following key objectives:

- to correspond to the size and complexity of the activity carried out;
- to allow for a clear separation of responsibilities between the supervisory function and the executive management function;
- clear, precise, well-defined and transparent allocations of responsibilities and competences within the business/reporting lines;
- to ensure an independent internal control system that properly cover its main functions: risk management, compliance, internal audit;
- to optimize the information flow, vertically, from top to bottom and vice-versa, as well as horizontally/cross functional, in view of ensuring a full, timely and relevant information for a proper fulfillment of each organizational structure responsibilities;

The BCR management structure is composed of the **Management Board** – representing the **management function**, which secures the operational management of the bank and the **Supervisory Board** – representing

the **supervision function**, which supervises, manages and coordinates the Management Board activity. Their competences and responsibilities are regulated by the BCR Charter, by each of the bodies' Internal Rules, as well as the BCR Operational Book.

The management framework organized in an efficient manner represents an element for assuring the bank stability and for maintaining appropriate standards of corporate governance and business conduct.

III. Shareholding – shareholding structure

On December 31st, 2013, the subscribed and paid in share capital of BCR amounted to RON 1.625.341.614,50, divided into 16.253.416.145 nominal shares, with a face value of 0,1 RON.

The shareholding structure of BCR SA, according to BCR shareholder's ledger on December 31st, 2013 is described in details on the bank's website – Investor Relations section.

- 1. EGB Ceps Holding GmbH** (company 100% owned by Erste Group Bank AG through EGB Ceps Beteiligungen GmbH), Graben 21,1010 Wien, owns 15.208.869.000 nominal shares, with a face value of 0,1 RON each, representing 93,5733% of the total share capital, namely, 1.520.886.900,00 RON – **BCR majority shareholder**;
- 2. “Oltenia” Financial Investment Company**, with the headquarters in Craiova, no. 1, Tufanele Str., Dolj county, owns 1.023.534.303 shares with a face value of 0,1 RON each, representing 6,2973 % of the total share capital, namely, 102.353.430,30 RON;
- 3. Corporate shareholders** own 240.503 shares with a face value of 0,1 RON each, representing 0,0015 % of the total share capital, namely, 24.050,30 RON;
- 4. Private individual shareholders** own 20.772.339 shares with a face value of 0,1 RON each, representing 0,1278 % of the total share capital, namely, 2.077.233,90 RON.

IV. The BCR management structure

According to the legal requirements, the management structure monitors, assesses and revises the efficacy of the management framework of the bank's activity and its related policies on a regular basis, in order to be aligned to any change of the internal or external factors affecting the bank.

1. The Supervisory Board (SB)

The Supervisory Board is composed of seven (7) members, appointed for three (3) years, with the possibility of being re-elected for another three (3) year- periods.

According to the provisions of Art. 23.3, letter a) of the BCR Charter, in force on December 31st 2013, the SB members are nominated by the shareholder who owns at least 50% plus one share of the Bank share capital. Thus, the SB members nominated by the majority shareholder - EGB Ceps Holding GmbH, are:

- Manfred Wimmer;
- Andreas Treichl;
- Herbert Juranek;
- Gernot Mittendorfer;
- Florin Pogonaru;
- Brian O'Neill;
- Tudor Ciurezu.

Considering that the Supervisory Board members' mandates expired on 23.04.2013, the General Meeting of Shareholders approved on 19.04.2013 to appoint new members and also, extend the mandates for some of the existing Supervisory Board members.

Also, on 23.10.2013, the Supervisory Board approved to modify the structure of the BCR SA Supervisory Board, namely to elect Mr. Manfred Wimmer in the position of Supervisory Board Chairman and Mr. Andreas Treichl in the position of Supervisory Board Deputy Chairman.

In 2013, the membership of the Supervisory Board had the following evolution:

➤ **1.01 - 22.04.2013 period:**

- **Andreas Treichl – Chairman of Supervisory Board**
- **Manfred Wimmer – Deputy Chairman of Supervisory Board**
- **Herbert Juranek - Member**
- **Bernhard Spalt - Member**
- **Florin Pogonaru - Member**
- **Mihai Fercala - Member**
- **Tudor Ciurezu – Member**

➤ **22.04 – 23.10.2013 period:**

- **Andreas Treichl – Chairman of Supervisory Board**
- **Manfred Wimmer – Deputy Chairman of Supervisory Board**
- **Herbert Juranek - Member**
- **Gernot Mittendorfer – Member (appointed by the Supervisory Board starting with 23.04.2013 and taking over the position starting with the NBR approval date, namely 18.10.2013)**
- **Florin Pogonaru - Member**
- **Brian O'Neill – Member (appointed by the Supervisory Board starting with 23.04.2013 and taking over the position starting with the NBR approval date, namely 18.10.2013)**
- **Tudor Ciurezu – Member**

➤ **23.10 – 31.12.2013 period:**

- **Manfred Wimmer – Chairman of the Supervisory Board**
- **Andreas Treichl – Deputy Chairman of the Supervisory Board**
- **Herbert Juranek – Member**
- **Gernot Mittendorfer – Member**
- **Florin Pogonaru – Member**
- **Brian O'Neill – Member**
- **Tudor Ciurezu – Member**

We underline the fact that the SB members are appointed by the General Meeting of Shareholders and the Chairman is elected by the SB, from its members, nominated by the shareholder owning at least 50% plus one share of the Bank share capital

The aspects regarding the **selection process, eligibility requirements, independence criteria of the SB members, as well as other fields with impact on the credit institution** are included in the **Policy for the selection and remuneration of the BCR Group management structure**, approved by the SB on 18.07.2013.

At the same time were presented the declarations of the SB members regarding their material interests in transactions and other fields with impact on the credit institution, as of 31.12.2013. The General Meeting of Shareholders approved on 19.04.2013 the **remuneration policy for 2013**, namely the compensations' level and their payment to the SB members..

The SB supervises and coordinates the Management Board's activity, as well as the observance of legal provisions, of the BCR Charter and of the General Meeting of Shareholders' resolutions within the Bank activity.

The Supervisory Board is convened quarterly or every time considered necessary and the calendar of the regular meetings for the ongoing year is established at the end of the previous year. In 2013, 39 SB meetings were held, organized according to the provisions of BCR Charter and of SB Internal Rules, out of which 7 were regular and the rest were held by correspondence.

In order to fulfill its responsibilities, the SB established the following committees:

- **The Audit and Compliance Committee** – reviews, reports to, advises and assists the SB in carrying out its tasks related to the internal control, compliance and audit, as well as to the quality and performance of Bank's internal accountants and auditors, to the accuracy of the Bank's financial information, and the adequacy of the financial controls and policies; in 2013 the Audit and Compliance Committee had 9 meetings, out of which 6 were regular ones;

- **The Compensation Committee** - reviews, reports to, advises, issues recommendations and assists the SB in carrying out its powers and responsibilities with respect to the compensation policy and, in particular, advises and monitors the remuneration, bonuses and benefits of the MB members; the Compensation Committee met in 2013 in 6 meetings, out of which 2 were regular ones;
- **The Risk Committee** – reviews, reports to, advises, issues recommendations and assists the SB in the implementation of the main internal procedures and regulations, lending and risk policies, as well as the set-up/delegation of approval competences for loans, assisting the SB in meeting its tasks in the risk management area; in 2013, 19 meetings of the Risk Committee were conducted, out of which 5 were regular ones.

The main competences and responsibilities of the Supervisory Board, as well as of its subordinated committees are presented in Annex 2 to the current report.

2. BCR organizational structure

During 2013, it was continued the complex reorganization process that was initiated in 2012 – Turnaround program - in order to address key strategic priorities, aiming to reflect the changed market environment and to improve the bank's performance, with five pillars in scope: improvement of asset quality, commercial capabilities, achieving financial excellence, operational leverage and risk remedial.

Under the Turnaround program a series of changes took place at the level of the BCR SA organizational structure, the most significant in 2013 being the following:

- Implementing, starting with April 2013, the Supervisory Board decision on the merger between the “Corporate Banking” and the “GLC & Capital Markets” functional lines;
- Setting up a new functional line “Remedial, Restructuring and Recovery” – approved by the Supervisory Board on 6.09.2013;
- Initiating the restructuring of the Risk functional line for a better positioning to the more strict regulatory environment including significant increase in the regulatory requirements.

On December 31st, 2013, BCR was organized in seven functional lines:

- Executive President,
- Operations and IT,
- Corporates & Markets,
- Retail and Private Banking,
- Financial,
- Risk,
- Remedial, Restructuring and Recovery

each of them being composed of clearly allocated functional entities. The functional entities within the head office ensure the organizational and procedural framework required for carrying out the bank activities, in a

prudent and profitable manner. The business lines (functional lines) are those presented in the Bank Organizational Chart as shown in Annex 11 to the current report.

3. The Management Board (MB)

According to the provisions of the Management Board Internal Rules, this body ensures the operational management of the Bank, acting as per the guidelines and instructions in force and the Bank Charter. For the Management Board members there are no specific legal or internal regulations regarding the positions occupied by the majority shareholder's representatives.

We mention that, according to the provisions of Art. 25.1, letter b) of the Charter, one of the main assignments of the Supervisory Board is to *“elect and revoke the president and the other members of the Management Board, to set up the powers of the Management Board, the terms and conditions of the mandate of its members, by establishing the duties of each member and approving their remuneration”*. Furthermore, in compliance with the provisions of Art. 28.1 of the Charter, the number of Management Board members is established by the Supervisory Board (on December 31st 2013, the Management Board had 7 members).

Thus, during 2013, there were no amendments of the MB members' number but there have been changes within the Management Board membership, namely the appointment of Mr. Jonathan Charles Locke (6.09.2013), which at 31.12.2013 were pending NBR approval (received on 17.01.2014).

Also, the mandate for Management Board membership of Mr. Mr. Wolfgang Schoiswohl ended on 31.12.2013.

The Management Board's membership on December 31st, 2013 was the following:

- **Tomas Spurny – Executive President – coordinating the executive president functional line;**
- **Bernd Mittermair – Executive Vice President – coordinating the financial functional line;**
- **Frank Michael Beitz - Executive Vice President – coordinating the risk functional line;**
- **Martin Skopek - Executive Vice President – coordinating the retail & private banking business line;**
- **Sergiu Manea - Executive Vice President - coordinating GLC & capital markets business lines;**
- **Paul Ursaciuc – Executive Vice-President – coordinating Operations and IT functional line;**
- **Jonathan Charles Locke – appointed as executive vice-president (approved by the Supervisory Board starting with 1.10.2013, taking over the position on the NBR approval date – 17.01.2014)**

The structure of the compensation packages of the management bodies' members is detailed in the **Policy for the selection and remuneration of BCR Group management structure** attached.

The MB is convened in weekly meetings or each time it is deemed necessary. During 2013, the Management Board met in 122 meetings, out of which 51 regular ones and 71 special ones.

In order to fulfill its assignments, the Management Board organized the following committees:

- **The Assets and Liabilities Management Committee - ALCO** – reviews, decides, reports to and assists the Management Board in meeting its assignments on assets and liabilities management, financing strategy, interest rates policy, liquidity policy; ALCO is an analysis and decision-making body, issuing decisions and recommendations according to its authority limits. ALCO is composed of all the Management Board members – President and Vice-presidents. The Committee meets in regular monthly meetings or in special meetings, whenever required.

- **The Credit Committee** - reviews, decides, reports to and assists the Management Board in fulfilling the responsibilities in the area of loan granting, amending the granting terms, using and/or guaranteeing conditions for previously granted loans, agreement signing, extending the agreements validity terms, issuing letters of guarantee, factoring operations and other activities. The Committee is an analysis and decision-making body, issuing decisions and recommendations according to its authority limits. The Committee meets in regular working meetings, usually held weekly, and in special meetings, whenever required. The Credit Committee carries out its activity on two separate business lines – the retail and the corporate business lines.
 - At 31.12.2013, **the Retail Credit Committee** was composed of two members, namely:
 - Chairman – the executive Vice-president of the risk functional line;
 - Member – the executive Vice-president of the retail & private banking business line.
 - At 31.12.2013, **the Corporate Credit Committee** is composed of three members, namely:
 - Chairman – the Executive Vice-President of the risk functional line;
 - Member – the Executive President;
 - Member – the Executive Vice-President of the Corporate & Markets business line;

- **Problem Assets Committee – PAC** – is operational starting with April 18th, 2013. This committee is responsible for activities performed and decisions regarding workout clients, namely it carries out activities in the following domains: (i) approves loan applications drafted by Remedial, Restructuring and Recovery (R Unit) functional entities, the team for transfer prices and subscriptions from Remedial, Restructuring and Recovery (R Unit) and/or the transfer pricing specialist from within the Risk Management Department/Risk Controlling Division; (ii) analyses, issues recommendations, endorses or submits for approval (to the Management Board/Supervisory Board) loan applications drafted by the employees of the Workout functional entities, the team for transfer prices and subscriptions from Workout and/or the transfer pricing specialist; (iii) drafts memos/monthly/quarterly/semi-annual report regarding the activities performed in order to send them to the Management Board. PAC is composed of 5 members and 2 permanent invited guests (with no voting rights). At 31.12.2013, the PAC members were the following: Chairman – vice-president, coordinator of the Risk Functional Line (CRO), Members – Executive President (CEO), Vice-president, coordinator of the Corporate & Markets functional line, Vice-president, coordinator of the

financial line (CFO) and General Director - CWO. The Committee meets in weekly regular meetings or whenever required, in special meetings.

- **The Operational Risk Management Committee – ORCO** - reviews, reports to and assists the Management Board in carrying out its responsibilities in the area of operational risk management and it represents an analysis and decision body, which issues resolutions and recommendations, according to its authority limits. It approves the methodology and the processes related to business continuity and recommends adequate measures to the Management Board. ORCO meets at least every three months, in regular meetings, and whenever required, in special meetings. The Operational Risk Management Committee is composed of 8 members and 7 permanent guests (having no voting right). At 31.12.2013, the ORCO members were the following:
 - Chairman – the Executive Vice-president of the risk functional line;
 - Deputy-chairman – the Executive Vice-president of the financial functional line;
 - Deputy-chairman – the Executive Vice-president of the Operations & IT functional line;
 - Member - the executive manager of the Controlling Risk Division;
 - Member – the executive manager of the Compliance and Financial Crime Division;
 - Member – the executive manager of the Security and Business Continuity Management Division;
 - Member - the executive manager of the IT Systems and Technology Division;
 - Member – the executive manager of the Service Delivery Division.

- **The Investments and Disposals Committee - IDC** – This committee carries out activities in the following domains: (i) projects prioritizing, approval and monitoring projects; (ii) defining the costs general framework; (iii) monitoring costs and investments; (iv) approving requests for general administrative and investment expenses (according to authority limits); (v) managing property of BCR and its subsidiaries; (vi) coordinating costs budgeting for BCR Group: general administrative expenses, investments, income related to property management activity, projects. IDC is composed of 3 members and 5 permanent guests (having no voting right). At 31.12.2013, the IDC members were the following: the chairman is the CFO and the CEO and Executive Vice-president of the operations and IT business line as members. IDC meets twice a month, in regular meetings, and whenever required, in special meetings.

- **Projects and IT Committee – PIC** – is operational starting with August 1st, 2013. This Committee is responsible for activities delegated by the Management Board regarding the approval of implementing initiatives with or without IT components, including projects and CRs, namely it carries out activities in the following domains: (i) monitoring the implementation of projects and CRs, (ii) approving projects implementation and reprioritization (iii) approving CRs implementation by approving IT releases scope. PIC is composed of all BCR Management Board members – President and Vice-Presidents.

The Committee meets in regular meetings once every two months and whenever required, in special meetings.

- **Know Your Customer Committee (KYCO)** – is operational starting with February 1st, 2013. This Committee is responsible for all activities delegated by the Management Board regarding the approval of the measures necessary for monitoring and controlling compliance risks by continuing/reducing/stopping business relationships with clients that present a risk from AML/CFT/KYC point of view, namely its carries out activities in the following domains: (i) deciding on the start/evolution of the business relations with high risk rated clients; (ii) reviewing and/or analyzing at least once per year, together with Compliance and Financial Crime Division, the opportunity of continuing/reducing/stopping business relationships with high risk rated clients; (iii) drafting reports and informing MB/SB on the decisions taken/endorsements given within the respective quarter (iv) monitoring the implementation of the KYCO decision with the aid of Compliance and Financial Crime Division. At 31.12.2013, KYCO was composed of 4 members, namely: Chairman – CEO BCR, Deputy Chairman – Vice-president, coordinator of the Risk Functional Line, Members – executive manager of the Compliance and Financial Crime Division and executive manager of the Legal Division. The Committee meets in regular meetings, once every three months or whenever required, in special meetings.

V. The Reward Policy

During 2013, the Selection and Reward Policy of the BCR Group Management structure, as well as the Reward Policy for BCR employees were updated and completed so that they reflect the new business requirements. The purpose of BCR Reward Policy is that of implementing a reward structure which allows BCR to attract, motivate and maintain among its employees the most valuable individuals, who will contribute to meeting the bank's aims and objectives.

BCR focuses on applying and promoting a performance payment philosophy, based on the following key elements:

- Creating a direct link between compensation (both fixed and variable) and performance;
- Increasing fixed component of the payment based on individual performance
- Annual variable component based on individual and bank performance
- Sales motivational schemes in order to ensure a balance between the key performance indicators in sales, risk indicators and client satisfaction indicators
- Bonuses strictly linked to performance

The BCR compensation package, comprises of the following elements:

- fixed compensation component (gross monthly base salary);
- variable compensation component:
 - short term rewards (performance bonus);

- long term rewards;
- benefits;
- recognition.

VI. The Code of Ethics

The **Code of ethics** was implemented in BCR, describing the set of values, principles and ethical norms needed to respect dignity, integrity and also to secure equitable relationships among BCR employees, in its relationship with clients, as well as in BCR's relationship with society as a whole. The Code of Ethics has the goal of promoting ethical values and principles in BCR, in order to enhance the quality of the services provided and to protect the company's reputation; it also has an educational, regulatory role and it seeks to impose promoted values.

The Code of ethics is based on the following **principles**:

- the Principle of Moral Integrity;
- the Principle of Objectivity;
- the Principle of Equity;
- the Principle of Corporate Social Responsibility;
- the Principle of Respecting Human Rights;
- the Principle of Professional Competence and Prudence;
- the Principle of a Professional Behavior.

BCR employees must know, apply and unconditionally adhere to the provisions of the Code of Ethics. To that extent, regular training sessions are held, along with sessions of testing the knowledge and comprehension of the principles and requirements of the Code; their non-observance may trigger disciplinary sanctions.

VII. The Policy regarding the activity of Corporate Governance and self – assessment carried out by the supervisory bodies as regards its performance. Internal control system

The Corporate Governance policy, as per the provisions of Regulation 18/2009, with subsequent amendments and completions, is based on the principles according to which the management structure as a whole and the supervision function in particular, is in charge of setting up, assessing and periodically and systematically reviewing the organization of the bank's activity, the collective and individual responsibilities, monitoring the implementation and enforcement of the whole set of regulations, flows and control keys, from the perspective of the assumed mission and vision, as well as meeting the objectives set up in the business plans and assuring an efficient risks management.

Based on the legal requirements, in order to monitor the Supervisory Board's performance in 2013, an individual and anonymous survey was drafted for self-assessment and was filled in by the SB members. The document was drafted considering the BCR particularities and was focused on topics such as: general information regarding the activity carried out during the analysed period, the subordinated committees or the SB working procedures. This approach was aimed at using the survey as a support tool for the SB members

in fulfilling their duties and creating a basis for identifying the steps which must be taken in order to improve the corporate governance framework at BCR level.

Its results were analysed and, based on the ratings level, the most relevant aspects were selected and presented to the Supervisory Board with the purpose of adopting adequate measures.

As regards the **internal control system**, being a component of the Corporate Governance, according to the provisions of NBR Regulation no.18/2009, with further amendments and completions, a separate report is to be drawn and submitted to NBR, as an independent document.

VIII. The Corporate Governance at BCR Group level

On December 31st 2013, BCR Group included the following member companies:

- BCR Leasing IFN SA;
- BCR Chisinau SA;
- BCR Banca pentru Locuinte SA;
- BCR Pensii SAFPP SA;
- BCR Partener Mobil SRL;
- BCR Finance BV;
- BCR Procesare SRL;
- Suport Colect SRL;
- BCR Real Estate Management SRL;
- BCR Payments Services SRL.
- Financiară SA

Also, BCR indirectly owns the following subsidiaries:

- BCR Fleet Management SRL;
- Bucharest Financial Piazza SRL.

The BCR Group membership, as well as the membership of the Boards of Directors/Supervisory Boards, pertaining to the companies within the Group, are on BCR web site.

In regard of the aspects concerning the internal control at the level of the BCR Group companies, we mention that they can be found within the BCR report regarding the internal control for 2013.

Throughout 2013, the BCR management structure focused on improving the Group's activity, securing the development of an adequate Corporate Governance, adapted to the legal requirements and to the specific conditions under which BCR carried out its activity and strengthening control, creating consolidated reports at BCR Group level, with a special emphasis on risk issues.

27.02.2014