REPORT 2014
on transparency and public disclosure requirements

As per NBR Regulation no. 5/2013 on prudential requirements for credit institutions and Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms

Banca Comercială Română SA

Incorporated in Romania

Trade Register J40/90/1991

Unique Registration Code 361757

Bank Register RB-PJR-40-008/18.02.1999

www.bcr.ro

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1 Introduction

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

The data and information provided are in compliance with the provisions foreseen in the Emergency Ordinance no.99/03.12.2006 on credit institutions and capital adequacy modified by the Law 29/2015 for the Government Emergency Ordinance approval no. 113/2013 related to budget measure and for the completion and amendment of the Government Emergency Ordinance related to credit institutions and capital adequacy.

The Report incorporates information complementary to the Financial Statements 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.

Complementary information will cover the following areas of interest:

- the Bank governance structures and policies, including its objectives, organizational structure, internal governance arrangements, structure and organization of the management body, including attendances to the meetings thereof, and the incentive and remuneration scheme of the institution
- the nature, extent, purpose and economic substance of transactions with affiliates and affiliated parties, if they have a material impact on the institution
- how the Bank business and risk management strategy is set (including the involvement of the management body) and foreseeable risk factors
- the Bank established committees and their mandates and membership
- the Bank internal control framework and how its control functions are organized, the major tasks they perform, how their performance is monitored by the management body and any planned material changes to these functions and
- material information about its financial and operating results
- the strategies and processes to manage those risks
- the structure and organization of the relevant risk management function including information on its authority and statute, or other appropriate arrangements
- the scope and nature of risk reporting and measurement systems
- the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants
- a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy **(Annex 1).**
- the Bank's overall risk profile associated with the business strategy, including the key ratios and figures providing external stakeholders with a comprehensive view of the Bank's management of risk, including how the risk profile interacts with the risk tolerance set by the management body.

This Report is prepared on a stand-alone and consolidated basis (IFRS) according to NBR's Regulations. All information herein is presented as of December 31, 2014 unless otherwise stated.

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

There are no differences between financial and prudential consolidation. Banca Comerciala Romana uses the full consolidation method for subsidiaries and the equity method for the associate.

1.1 Management structure and organizational structure of Banca Comerciala Romana SA

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.*

Relevant and comprehensive information with regard to the functions and responsibilities of these bodies along with the corporate governance principles and policies, Code of Ethics and the Charter of the Bank, are found in this sub-section.

The BCR's territorial network as of 31.12.2014 is grouped according to the two main customer segments, i.e. retail and corporate.

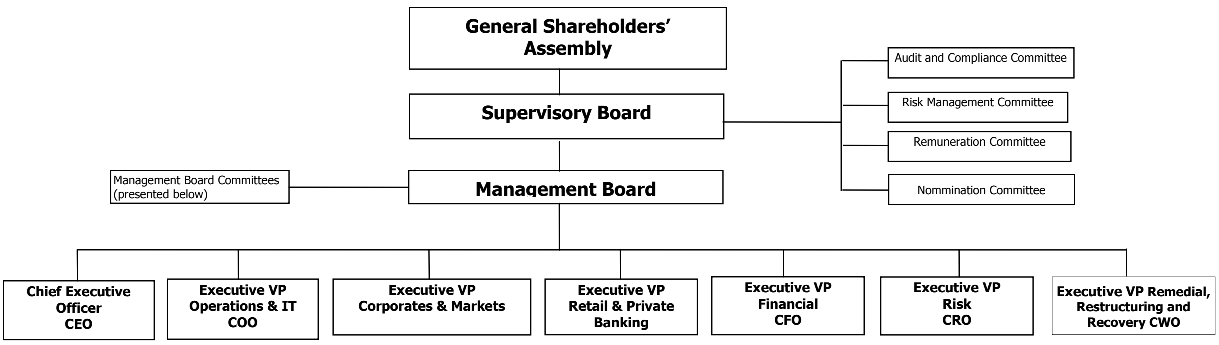
The retail segment is structured into 12 geographical areas and it comprises a total number of 538 territorial units out of which: 168 branches and 370 agencies which support individuals, freelancers and micro-enterprises.

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

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

Organizational chart of BCR Head Office

- 31 December 2014 –



The Management Board committees are presented in the table below:

Committees subordinated to Management Board	
1	Assets and Liabilities Management Committee
2	Corporate Credit Committee
3	Problem assets Committee
4	Projects and IT Committee
5	Operational Risk Management Committee
6	Investments and Disposals Committee
7	Know Your Customer Committee
8	Self-Banking Equipment Management Committee
9	Financial Steering Group Committee
10	Retail Pricing Committee
11	Corporate and Micro Pricing Committee

Organization of BCR's territorial network

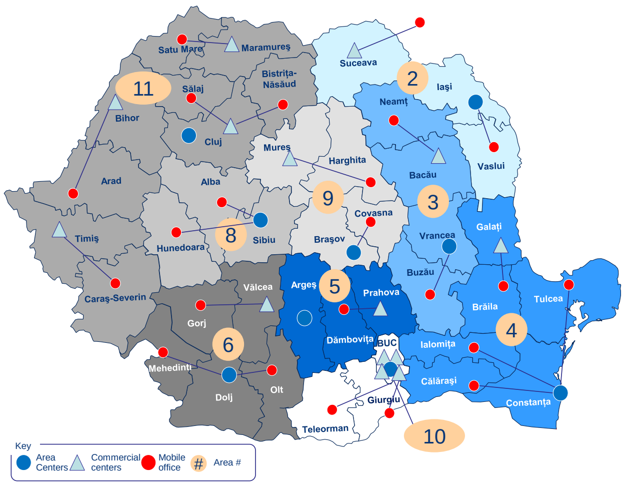
Retail Segment as of 31 December 2014:

Area	No. Agencies	No. Branches
Area 1	44	14
Area 2	37	14
Area 3	31	13
Area 4	32	18
Area 5	36	17
Area 6	29	13
Area 7	43	12
Area 8	30	15
Area 9	25	15
Area 10	20	12
Area 11	22	11
Area 12	21	14

Retail network map as of 31.12.2014

Corporate Segment as of 31 December 2014:

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

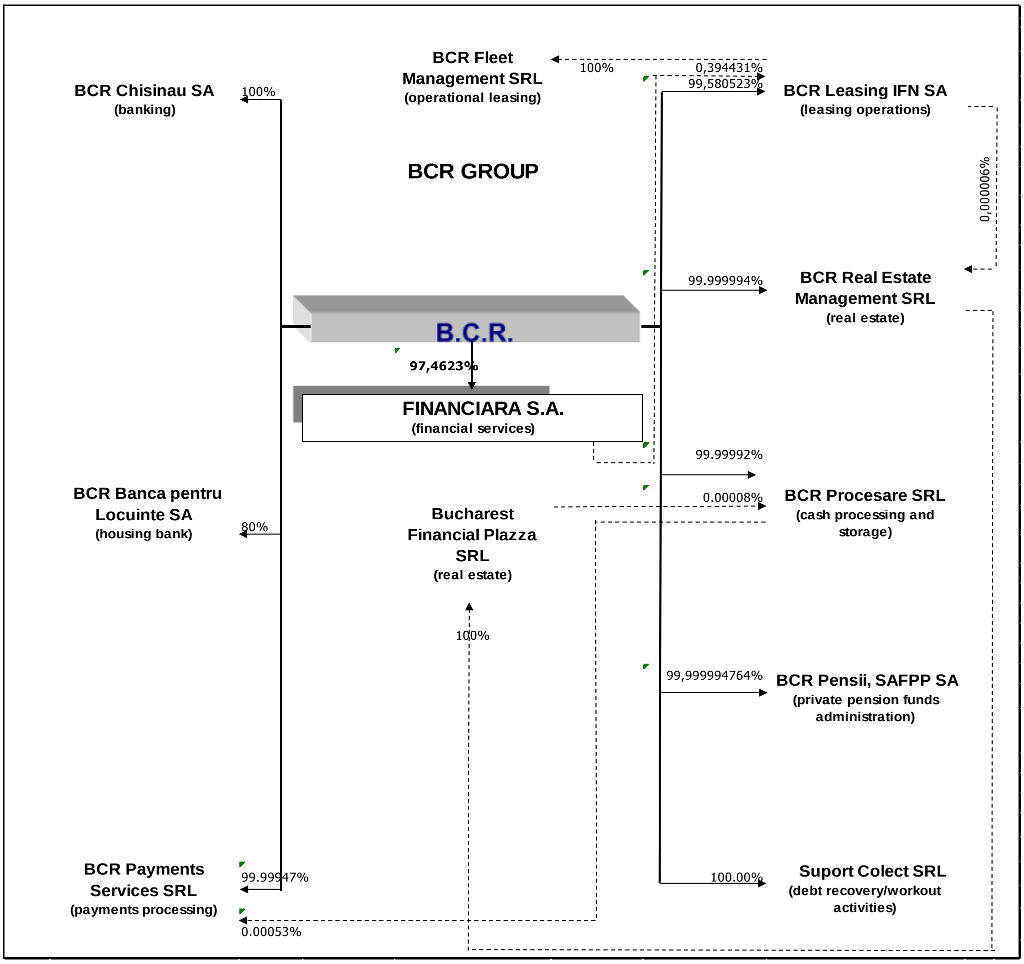


Corporate network map as of 31.12.2014

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

BCR Group structure

31 December 2014



Turnover

As of 31.12.2014 the turnover for BCR Bank and BCR Group are presented in the table below:

RON ths	Amount
BCR Group's Turnover	3,467,408
Out of which	
Romania	3,450,467
Moldova	16,941
BCR Bank's Turnover	3,333,216

1.2 Remuneration and recruitment practices

Remuneration policies and practices, remuneration structure and bonus payment

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

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

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

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

- The Remuneration Policy applicable in BCR allows and promotes a sound and effective risk management, without encouraging risk-taking that exceeds the bank's risk tolerance level.

- The Remuneration Policy is designed in accordance with the culture, business strategy, goals, values and long-term interests of BCR and includes measures to avoid conflicts of interest.

- The total remuneration in BCR is based on a combination between individual performance, performance of the business unit and bank's performance. For individual performance assessment, both financial and non-financial criteria (individual skills, leadership skills, contribution to team performance etc.) are taken into account.

- The assessment of performance is set in a multi-year framework to ensure that the evaluation process is based on long-term performance and that the actual payment of performance-based remuneration components covers a period that takes into account the bank’s business cycle and specific risks.

- The total variable payment does not limit the bank's ability to strengthen its capital base.

- The guaranteed variable remuneration is not consistent with sound risk management or the pay-for-performance principle and is not part of prospective remuneration plans. The guaranteed variable remuneration is exceptional, may be granted only when hiring new staff and is limited to the first year of employment (as granting date).

- Fixed and variable components of total remuneration are properly balanced. The fixed component will represent a sufficiently high proportion of total remuneration in order to allow the operation of a fully flexible variable remuneration policy, including the possibility to pay no variable remuneration.

- The variable component shall not exceed 100% of the fixed component of the total remuneration for each individual part of the Management Board or other Identified Staff in BCR.

- Payments related to the early termination of a contract will reflect performance achieved over time and are designed in a way that does not reward failure.

- Performance measurement used to calculate the components of variable remuneration includes an adjustment for all current and potential types of risk and takes into account the cost of capital.

- The variable remuneration is paid or vests only if it is sustainable according to the financial situation of the credit institution as a whole, and justified according to the performance of the credit institution, the business unit and the individual concerned. Otherwise, the variable component of remuneration shall not be awarded or it shall be awarded only in a limited amount.

The reward package of BCR comprises the following elements:

- Fixed component;
- Variable component.

The variable pay is conditioned by performance; specifically, it is granted annually based on the achievement rate of the performance indicators and on the evaluation of individual competencies.

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

BCR paid the following amounts for 2014[2]:

(ths RON)

Staff category	Total amount of remuneration	Of which total amount of variable remuneration
Retail banking	262,028	27,049
All other categories	213,335	19,906
Total	475,363	46,955

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

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

- The minimum performance criteria approved for 2014 is composed of the following two conditions: target level set for BCR Group Operating Result and Solvency ratio (JRAD);

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

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

The payout of the deferral part for each year (cash and instrument) is subject to reaching the minimum performance criteria set for the respective year.

Quantitative information on the remuneration of the Management Board members and other Identified Staff for the year 2014 is detailed below:

[2] The presented figures do not include the remuneration of the Management Body.

(ths RON)

Identified Staff	Total
Total number of employees (FTE)	42
Number of employees in category top management	6
Total amount of fix pay (incl. allowances, overtime)	25,495
of which in cash	21,327
of which in shares or other shares related instruments	-
of which in other non-cash instruments	4,168
Total amount of variable pay	2,592
of which in cash	1,568
of which in shares or other shares related instruments	1,023
of which in other non-cash instruments	-
Total amount of variable deferred pay	818
of which in cash	409
of which in shares or other shares related instruments	409
of which in other non-cash instruments	-
Additional information on the total amount of variable pay	
Total amount of outstanding deferred variable remuneration granted in previous years	2,633
Reduction of deferred payments of previous years based on performance adjustments	-
Number of employees who received a guaranteed bonus payment (sign-on bonus)	2
Total amount of guaranteed variable remuneration (sign-on bonus)	137
Number of employees which received a severance payment due to early termination	1
Total amount of severance payments due to early termination	408
Highest severance payment to a single person due to early termination	408
Number of employees who received voluntary pension payments	-
Total amount of voluntary pension payments awarded	-
Total amount of variable remuneration awarded for multi-year periods under programs which are not revolved annually	-

Recruitment and selection

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

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

The selection and nomination of the Management Body is under the responsibility of the Nomination Committee. The selection of the Key Function Holders (except for the coordinator of the audit function) follows the principles provided by the Recruitment and Selection Policy and is under the responsibility of Management Board.

The selection and nomination of the coordinator of audit function is made by the Supervisory Board, with advice from the Audit and Compliance Committee.

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

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

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

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

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

The current composition of the Management Body meets the experience requirements regarding theoretical and practical experience and skills necessary for Supervisory

Board and Management Board position holders, as attested by obtaining all necessary approvals and authorizations from regulatory authorities.

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

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

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

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

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

Taking into consideration the current composition of the Management Body, the diversity principle has been promoted by the nomination of two new members from the underrepresented gender, namely Mrs. Adriana Jankovicova and Mrs. Dana Demetrian.

1.3 Organization of the internal control system's functions

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

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

The internal control system in BCR involves:

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

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

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

The BCR Internal Control System is structured on three levels:

1. First-level or line controls is designed to ensure that transactions are carried out correctly. Controls are performed by the entities that take risks and incorporated in specific procedures. The responsibility of this area is allocated to the Business Management.

2. Second-level or risk management controls are the responsibility of the Risk Management Functions (Retail Risk Management Division, Corporate Underwriting Division, Corporate Loan Administration Department, Risk Governance and Project Division, Security Management and Business Continuity Division, Strategic Risk Management/ Risk Controlling Division) and the Compliance Function.

3. Third-level controls are performed by the Internal Audit Function, which assesses and regularly checks the completeness, functionality and adequacy of the internal control system. Internal audit is independent of both first and second-level control units.

2 The nature and the extent of the bank's affiliated parties transactions

BCR entered into a number of banking transactions with affiliated parties in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates.

Parties are considered to be affiliated if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

In considering each possible affiliated party relationship, attention is directed to the substance of the relationship, not merely its legal form.
Transactions were entered into with affiliated parties during the regular course of business at market rates.

The nature of the affiliated party relationship for those affiliated parties with whom BCR entered into significant transactions or had significant balances outstanding at 31 December 2014 are detailed below:

2.1 Transactions with shareholders

The following transactions were carried out with Erste Group Bank AG:

in RON thousands	2013	2014
Financial assets	**172,101**	**324,227**
Cash and cash equivalents	42,312	60,847
Derivative financial instruments	46,802	102,751
Equity instruments	2,241	1,285
Loans and advances	**80,746**	**159,344**
Loans and advances with credit institutions	80,746	159,344
Financial liabilities	**13,364,799**	**12,462,425**
Deposits	**12,220,919**	**11,866,415**
Deposits by banks	12,220,919	11,866,415
Derivative financial instruments	**1,143,880**	**596,010**
Loans commitments, financial guarantees and other commitments given [notional amount]	**1,908**	**2,518**
Loan commitments, financial guarantees and other commitments received	**2,372,009**	**448,219**
Derivatives [nominal amount]	**12,025,432**	**8,133,439**

2.2 Transactions with management

in RON thousands	2013	2014
Financial assets	**837**	**153**
Loans and advances	**837**	**153**
Loans and advances with customers	837	153
Financial liabilities	**3,750**	**1,017**
Deposits	**3,750**	**1,017**
Deposits by customers	3,750	1,017
Loans commitments, financial guarantees and other commitments	**-**	**60**
Loan commitments, financial guarantees and other commitments received	**59**	**-**

2.3 Transactions with other affiliated parties

in RON thousands	2013	2014
Financial assets	**63,251**	**77,926**
Equity instruments	-	8,851
Loans and advances	**63,251**	**69,075**
Loans and advances with credit institutions	7,241	-
Loans and advances with customers	56,010	69,075
Financial liabilities	**68,652**	**142,520**
Deposits	**68,652**	**142,520**
Deposits by banks	4,206	132,542
Deposits by customers	64,446	9,978

2.4 Transactions with subsidiaries

in RON thousands	2013	2014
Financial assets	**1,659,226**	**1,460,699**
Loans and advances	**1,659,226**	**1,460,699**
Loans and advances with credit institutions	147,494	39,257
Loans and advances with customers	1,511,732	1,421,442
Financial liabilities	**446,677**	**693,103**
Deposits	**446,677**	**693,103**
Deposits by banks	69,049	548,913
Deposits by customers	377,628	144,190
Loans commitments, financial guarantees and other commitments given [notional amount]	**203,707**	**412,113**
Loan commitments, financial guarantees and other commitments received	**2,357,311**	**-**

Affiliated Parties are described in Note 37 of the Financial Statements (consolidated and bank) as of 31.12.2014.

3 Capital Management

3.1 BCR individual original own funds as of 31.12.2014

The Bank monitors the solvency ratios, at individual and consolidated level, according to Basel 3 requirements, based on financial statements prepared in accordance with International Financial Reporting Standards (IFRS), also taking into consideration the local provisions. Starting with 2014, considering the new Basel 3 requirements, the Bank also monitors the CET1 Ratio, both at an individual and consolidated level.

Solvency Ratio, CET1 Ratio and Tier1 Ratio, as of 31 December 2014 were:

Indicator (thds. RON)	BCR Group	BCR Bank
Common Equity Tier 1 (CET1) capital	4,123,779	3,997,765
Tier 2 (T2) capital	2,200,270	1,851,144
Total capital (TC = T1 + T2)	6,324,049	5,848,909
Common Equity Tier 1 (as a percentage of total risk exposure amount)	12.67%	13.25%
Total capital (as a percentage of total risk exposure amount)	19.65%	19.60%

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 80% in 2014 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 for individual level (BCR standalone); for consolidated level (BCR Group) only the IFRS provisions are considered.

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

During 2013 and 2014, the capital requirements for Group and Bank were fulfilled.

BCR calculates the level of own funds at an individual and consolidated level, in accordance with UE Regulation no 575/2013 and BNR Regulation no 5/2013, and the disclosures required by UE Regulation no 1423/2013, are presented in the **Annex 2** of this report.

3.2 Observing the requirements regarding credit institutions and capital adequacy[3]

The ICAAP must address all material risks faced by the Bank as they relate to the adequacy of capital, including all risks explicitly captured in minimum regulatory capital requirements as well as risks that are not fully captured under minimum regulatory capital requirements. The techniques used in assessing material risks must be commensurate with the scope and complexity of the institution's risk taking activities.

Starting with 2010, BCR uses the Internal Capital Adequacy Assessment Process (ICAAP), in compliance with the NBR regulations and Group's standards to determine on a regular basis the amount, constitution and the distribution of capital necessary for the quantitative and qualitative coverage of all material risks entailed by banking transactions and banking operations.

In 2014, BCR has continued to enhance the implementation of ERM (Enterprise Risk Management Principles) roll-out plan, based on EBG standards and NBR regulations.

Economic Capital is the amount of capital needed to cover all the bank's risks using economic measures (rather than accounting or regulatory approaches) to ensure its sustainability.

In particular, it is defined as the sum of capital required for Credit Risk, Market Risk, Operational Risk and other risks, all calculated over a time horizon of one year and taking into consideration a confidence level that reflects the default probability of BCR Group's targeted credit rating (99.9%).

Credit risk is computed as 8% of RWA percentage, in compliance with the Basel regulations. In order to assess credit risk, BCR uses the standardized method for statutory reports. For ICAAP purposes, as of Q1 2011, BCR uses the IRB method to determine its capital requirement for credit 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

The impact of various market risk factors is analysed separately for each one of the two categories above.

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%)

Economic Capital requirement for **operational risk** of BCR Group consists of two elements:

[3] as per National Bank of Romania's (NBR) Regulation no. 5 / December 20, 2013 regarding the prudential requirements for credit institutions and 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

- the advanced measurement approach (AMA) for BCR standalone
- the basic indicator approach (BIA) for BCR Group subsidiaries not covered in the advanced measurement approach.

The **Economic Capital Adequacy (ECA)** is defined as percentage ratio as result of economic capital over coverage potential.

The **Coverage Potential (CP)** / Internal capital is the amount of capital including capital like components according to internal definitions which together form the gross amount available to cover the bank's risks.

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 31.12.2014 for the credit risk, market risk and operational risk were as follows:

31.12.2014 (ths RON)	Bank IFRS with prudential filters	Group BCR (IFRS)
TOTAL CAPITAL REQUIREMENTS	**2,333,090**	**2,519,616**
Credit risk- standard approach	***1,891,287***	***2,044,204***
Central governments or central banks	44,778	60,104
Regional administrations or local authorities	103,552	103,570
Administrative bodies and entities with non lucrative purposes	457	457
Institutions	27,427	29,887
Companies	735,026	722,800
Retail	482,729	506,952
Collateralized with real estate assets	171,545	175,057
Overdue	214,728	288,254
Items associated with particular high risk	-	-
Equity	64,636	6,048
Other assets	46,407	151,075
Position, foreign exchange and commodity risks under standardised	***11,606***	***19,176***
Position risk afferent to traded debt instruments	3,799	3,799
Position risk afferent to equity	688	688
FX risk	7,119	14,689
Operational risk	***425,761***	***451,800***
Basic approach	-	38,169
Advanced assessment approach	425,761	413,630
Capital requirements for credit valuation	***4,436***	***4,436***
Standardised method	4,436	4,436

4 Risk management

4.1 General overview

The Bank aims to ensure that all risks assumed in the context of the bank's business are recognized at an early stage and properly managed. This is achieved by fully integrating risk management into daily business activities and strategic planning and developing the business consistently with the defined risk appetite. This allows the bank to achieve sustainable growth and bring value to shareholders in a controlled environment.

The diversity of the Bank's business model requires to identify, measure, aggregate and manage risks effectively and to allocate capital among the businesses appropriately. Risk and capital are managed via a framework of relevant principles, organizational structures and measurement and monitoring processes that are closely aligned with the activities of the divisions and business units.

Risks are managed through a process of on-going identification, measurement and monitoring, subject to risk limits, approval authorities (pouvoirs), separation of responsibilities and other controls.

In order to manage the risks that could affect its activity and financial performance, the Bank undertakes the necessary steps to identify risk sources, to assess and monitor its exposures and to set up risk limits for different counterparties such as countries, sovereigns, banks, financial institutions affiliated to the banking groups, corporate customers/groups of clients (including risk limits for banking groups of affiliated customers), market risk limits, liquidity limits, etc.

BCR has implemented a comprehensive limit management framework, which assures compliance with NBR regulations regarding the limits development, monitoring and reporting process and is in line with the Bank's Risk Appetite.

The limit management framework describes the methodological aspects as regards the limit development, roles and responsibilities, the processes and tools used.

Significant risks are identified and assessed for the entire bank at all organizational levels, for all transactions and activities.

For a proper management of significant risks, the bank uses:

- A **system of procedures for the** authorization of operations affected by the respective risks, consisting in the drawing up of credit approval competences/ pouvoirs for the granting of loans and credit-type products, interbank placements and operations with derivatives
- A limit system on countries, sovereign entities, banks, financial institutions affiliated to banking groups, GCC (groups of connected clients), as well as economic sectors, geographical regions, specific bank products, unsecured portfolios, market and liquidity limits
- A **risk exposure reporting system**, as well as additional aspects related to these risks and to the proper management levels (reports on the bank's exposure to significant risks, the compliance with the risk limits drawn up by the bank, etc.)

- A **system of responsibilities, policies, norms and procedures** on internal control at bank level
- A policy for the **administration of outsourced activities**
- A system for the management of **judicial (legal) risk** and compliance risk
- Criteria for the **recruitment** and **remuneration** of personnel, including criteria drawn up in order to avoid conflicts of interest, which should stipulate high training, experience and integrity standards
- Personnel **training** programs
- Risks are assessed by BCR specialists who have no direct responsibilities in fulfilling commercial and financial targets, assuring **no conflict of interests** through a separation of duties
- The bank properly assigns responsibilities to all its organizational levels, making sure that the personnel does not have responsibilities which might lead to conflicts of interest (e.g. dual responsibilities for one individual, such as: performing both front-office and back-office activities, approval of fund drawings and performing the respective drawings, the assessment of the credit documentations and the monitoring of the client after the latter has obtained the loan).

BCR set up an appropriate **segregation of responsibilities** for the entire bank's organizational levels, in order to avoid the conflict of interest in front office, risk management and back office activities.

4.2 BCR risk management policies and objectives, risk appetite and risk profile

In order to lower its credit risk profile rating the Bank has targeted through its risk strategy for 2014 the following directions:

- Protecting the credit portfolio quality and maintaining a diversified portfolio, with moderate concentration risk on industries, groups and clients
- Focus on a better rating distribution of customers across all products and segments via new lending and the reduction of exposures to worse rated customers. The Bank refined, updated and improved its statistically validated scorings, ratings and financial analysis applications
- Increasing the efficiency of the selection process of the industries/sub-industries/client segments towards which the bank was exposed itself (specifically lower risk infrastructure financing, increasing exposure to Corporate sector exporters, focusing on domestic currency lending across all Retail customers)
- Maintaining and selectively increasing credit exposure to existing BCR customers with good historical relations (e.g. current account active, turnover, loans) in order to reduce credit risk and increase volumes within the investment grades
- Maintaining appropriate levels of collateralization via the use of unsecured limits policy. The Bank reviewed and improved its collateral management policy such that it is aligned with its commercial and risk objectives.

In order to protect the interests of its shareholders, depositors and other clients, BCR targets to lower its risk profile across all activities and objectives, policies and exposure to each significant (material) risk, including its outsourced activities. BCR adopts policies, practices and procedures in its lending and other activities consistent with the targeting of this risk profile.

The bank overall risk profile, which was determined by the individual risk profiles, was correlated with the bank risk appetite statement (which defined the respective risks levels the bank was willing to take from a strategic point of view).

The Bank risk appetite was consistent with the Bank strategy, business development and stakeholders' requirements and targeted an optimal allocation with respect to the risks involved and capital requirements.

The Bank Risk Strategy included the risk appetite and risk profile for the significant risks in the context of the overall business strategy and has defined, for each main risk type, business line and local entity, the current and the targeted risk profile.

The main organizational changes in 2014 were in Strategic Risk Management /Risk Controlling Division and Risk Corporate segment. The re-organization allowed a better segregation of responsibilities, while the resources could be efficiently allocated to each sub-department and team.

4.3 Risk management structure and responsibilities

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 Shareholders' Meeting and their mandate is of maximum three (3) years with the possibility of being re-elected for subsequent maximum three (3) years mandates.

During 2014, the Supervisory Board had the following membership structure evolution:

01.01 – 30.11.2014

Name	Position
1. Manfred Wimmer	Chairman
2. Andreas Treichl	Deputy Chairman
3. Herbert Juranek	member
4. Gernot Mittendorfer	member
5. Florin Pogonaru	member (resignation starting with December 1st, 2014)
6. Brian O'Neill	member
7. Tudor Ciurezu	member

01.12 – 31.12.2014

Name	Position
1. Manfred Wimmer	Chairman
2. Andreas Treichl	Deputy Chairman
3. Herbert Juranek	member
4. Gernot Mittendorfer	member
5. Brian O'Neill	member
6. Tudor Ciurezu	member
7. Vacant position	member

Taking into consideration the following:

- Supervisory Board membership structure as of **June 15th, 2015** and
- the information made available by each Supervisory Board member under the relevant Fit & Proper Affidavit and
- the Law no. 29/2015 for completion of EGO no. 99/2006 regarding credit institutions and capital adequacy, entered into force on March 15th, 2015,

the mandates held by the Supervisory Board members in other companies are detailed below:

- **Mr. Manfred Wimmer** holds 2 non-executive mandates within Erste Group;

- **Mr. Andreas Treichl** holds 1 executive mandate and 5 non-executive mandates within Erste Group (counted as 1 mandate, according to Law no. 29/2015), 2 non-executive mandates in VIG Group (counted as 1 mandate, according to Law no. 29/2015) and 4 mandates in non-profit organizations (not counted, according to Law no. 29/2015);

- **Mr. Gernot Mittendorfer** holds 3 executive mandates and 6 non-executive mandates within Erste Group (counted as 1 mandate, according to Law no. 29/2015);

- **Mr. Brian O'Neill** holds 2 non-executive mandates within Erste Group (counted as 1 mandate, according to Law no. 29/2015), other 3 non-executives mandates and 2 mandates in non-profit organizations (not counted, according to Law no. 29/2015);

- **Mr. Tudor Ciurezu** holds 1 executive mandate and 2 non-executive mandates.

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

The Risk Management Committee of the Supervisory Board has an advisory role, being established for the purpose of assisting the Supervisory Board of the Bank in carrying out its roles and responsibilities in respect of risk management. The Risk Management Committee is responsible for reviewing, prior submission to the Supervisory Board's approval, the main risk strategic documents and/or transactions, annual reports on the conditions based on which internal control is performed, 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.

In 2014, the Risk Management Committee convened in ten (10) regular and special meetings.

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 case of 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.

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

The Management Board consists of seven (7) members appointed by the Supervisory and their mandate is for a maximum of four (4) years with the possibility of being re-elected for subsequent of maximum four (4) years mandates.

During 2014, the Management Board membership structure evolution was the following:

01.01 – 30.06.2014

Name	Position
Tomas Spurny	CEO
Bernd Mittermair	Executive Vice-president
Frank Michael Beitz	Executive Vice-president (mandate was terminated on 30.06.2014)
Martin Skopek	Executive Vice-president
Sergiu Cristian Manea	Executive Vice-president
Paul Ursaciuc	Executive Vice-president
Jonathan Charles Locke	Executive Vice-president (approved by NBR starting with 17.01.2014)
Adriana Jankovicova	Appointed Executive Vice-president (approved by NBR starting with 11.07.2014)

01.07 – 30.09.2014

Name	Position
Tomas Spurny	CEO
Bernd Mittermair	Executive Vice-president
Martin Skopek	Executive Vice-president (mandate was terminated on 30.09.2014)
Sergiu Cristian Manea	Executive Vice-president
Paul Ursaciuc	Executive Vice-president
Jonathan Charles Locke	Executive Vice-president
Adriana Jankovicova	Executive Vice-president (approved by NBR starting with 11.07.2014)

01.10 – 31.12.2014

Name	Position
Tomas Spurny	CEO
Bernd Mittermair	Executive Vice-president
Sergiu Cristian Manea	Executive Vice-president
Paul Ursaciuc	Executive Vice-president
Jonathan Charles Locke	Executive Vice-president
Adriana Jankovicova	Executive Vice-president
Dana Demetrian	Executive Vice-president (under NBR authorization procedure)

Taking into consideration the following:

- Management Board membership structure as of **June 15th, 2015** and
- the information made available by each Management Board and
- the Law no. 29/2015 for completion of EGO no. 99/2006 regarding credit institutions and capital adequacy, entered into force on March 15th, 2015,

the mandates held by the **Management Board** members in other companies are detailed below:

- **Mr. Tomas Spurny** holds 1 executive mandate (CEO BCR) and 1 non-executive mandate within BCR Group (all counted as 1 mandate, according to Law no. 29/2015);

- **Mrs. Adriana Jankovicova** holds 1 executive mandate (CFO BCR) and 9 non-executive mandates within BCR Group (all counted as 1 mandate, according to Law no. 29/2015);

- **Mr. Jonathan Charles Locke** holds 1 executive mandate (CRO BCR) and 5 non-executive mandates within BCR Group (all counted as 1 mandate, according to Law no. 29/2015);

- **Mrs. Dana Demetrian** holds 1 executive mandate (BCR Executive Vice-president Retail and Private Banking) and 4 non-executive mandates within BCR Group (all counted as 1 mandate, according to Law no. 29/2015);

- **Mr. Sergiu Manea** holds 1 executive mandate (Executive Vice-president Corporates and Markets), 6 non-executive mandates within BCR Group (all counted as 1 mandate, according to Law no. 29/2015), 1 non-executive mandate in non-profit organizations (not counted, according to Law no. 29/2015) and 1 non-executive mandate outside BCR Group;

- **Mr. Bernd Mittermair** holds 1 executive mandate (CWO BCR) and 2 non-executive mandates within BCR Group (all counted as 1 mandate, according to Law no. 29/2015);

- **Mr. Paul Ursaciuc** holds 1 executive mandate (COO BCR) and 5 non-executive mandates within BCR Group (all counted as 1 mandate, according to Law no. 29/2015).

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

The Operational Risks Management Committee (ORCO)

ORCO unfolds its activities in the following domains: significant operational risk administration which the bank is facing in the developed activity, endorsing and approving the necessary measures to identify, asses, monitor, control and manage the operational and compliance risks.

The competence of the Operational Risks Management Committee (ORCO) is to decide on the implementation of corrective measures and risk mitigation actions to proactively manage operational risk.

The Committee also provides advisory opinions regarding the strategic decisions of BCR which may have a significant impact on the operational risk exposure.

Risk Functional Line

The management of retail and corporate credit risk, market risk, operational risk, liquidity as well as reputational risk and other risks types, the assessment of collaterals and other risk related activities are consolidated under the Risk functional line in several divisions. Compliance and Financial Crime Division, in charge with compliance risk and fraud risk management is reporting under CEO Functional Line.

Internal Audit

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

4.4 Types of risks

The risks identified in 2014 by the Bank as being significant:

- Credit risk and related risks to credit risk: residual risk, un-hedged borrower, concentration
- Market risk including market risk in the trading book, FX risk in the banking book, interest rate risk in the banking book
- Operational risk including reputational, legal, IT and model
- Liquidity risk
- Other risks referring to compliance, strategic and macroeconomic risk.

4.5 Risk factors that can be forecasted

The bank is subject to all the risks faced by its customers. Risk factors mainly stem from the on-going macroeconomic climate, as well as from the microeconomic climate (industrial branch risks) and the customer's own risks (business risk, financial risk, etc.).

Real GDP is expected to rise 3.2% in 2015 and 3.5% in 2016. Stronger gross fixed capital formation in 2015 will provide better support for GDP, but this should be seen as more of a modest revival after two years of severe decline. Household consumption is also forecasted to be stronger than before, due to strengthening consumer confidence amid improving labor market conditions and a significant VAT cut on all food products, which should lift disposable income in 2H15. The contribution of net exports to real GDP in 2015 is likely to be negative.

The announcement of the VAT cut prompted us to revise the inflation forecast for December 2015 to 0.1% (from 1.7%). Annual inflation could be negative between June and November 2015 and hover around zero in the first half of 2016. Monetary easing could continue with prudent cuts in minimum reserves on RON and FX liabilities in the remainder of 2015. Additional liquidity released into the market by the central bank could be used by local banks to boost lending in the local currency, repay part of the external funding lines and buy government bonds. Budget execution after the cut in the VAT rate for food in June will be closely monitored by investors and any potential deterioration of the fiscal position could weaken confidence in the local fixed income market.

The Bank 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.

As output of the risk materiality analysis process, the Bank has identified the significant risks for 2014, considered to have major impact on the bank patrimonial and / or bank reputation. The risk materiality assessment defines the risk profile.

The material risks are assessed by the Bank on a quarterly basis.

Within the bank risk-bearing capacity calculation, the risks are covered directly by capital or in the stress test exercise, or are covered by management and control process.

5 Credit risk

5.1 Description of the approaches and methods adopted for determining value adjustments and provisions (IFRS)

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each loan of the individually significant clients - means clients with On and Off balance exposure higher than 400,000 EUR equivalent or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensure, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances to clients that are not individually significant - meaning clients with On and Off balance exposure lower than 400,000 EUR equivalent (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet identified evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: observed historical losses on the portfolio, number of months since default, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Breakdown of past due exposure and not covered by specific allowances by risk category is based on the internal rating.

The following criteria is used for mapping four different risk grades categories:

- Low risk – Typically regional customers with well-established and rather long-standing relationships with the Bank or large internationally recognized customers. Strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category;
- Management attention – Vulnerable non-retail clients that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders. These clients typically have good recent histories and no current delinquencies;
- Sub-standard - The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialized risk management departments;
- Loss - One or more of the default criteria under Basel 3 are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realization of a loan loss, or initiation of bankruptcy proceedings.

5.2 “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 amortised 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”.

Impairment of financial assets

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Non-financial assets depreciation

Assessments are done at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired.

If any such indication exists, or when annual impairment testing for an asset is required, an estimate of the asset's recoverable amount is made. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

5.3 The total amount of exposures (IFRS)

The maximum credit risk exposure without taking into consideration any collateral or other credit enhancements is shown in the table below:

	BCR Bank		BCR Group	
ths. RON	2013	2014	2013	2014
Total in Balance Sheet, out of which:	60,559,901	55,547,948	62,979,116	57,664,069
Loans and advances to customers w/o provisions	37,960,217	32,937,273	38,002,389	32,566,066
Total off Balance Sheet	6,371,830	5,574,928	6,198,960	5,580,289
Total credit risk exposure	**67,591,857**	**61,122,876**	**69,091,695**	**63,244,358**

The credit risk exposure and loans and advances to customers split by risk category is presented below:

BCR Bank 2014 (ths. RON)	Total credit risk exposure	Loans and advances to customers
Low risk	45,354,724	22,743,351
Mgmt attention	12,067,911	6,990,497
Substandard	1,027,102	847,401
Non-performing	9,505,594	9,186,348
TOTAL	**67,955,330**	**39,767,597**

BCR Group 2014 (ths. RON)	Total credit risk exposure	Loans and advances to customers
Low risk	46,766,131	21,872,708
Mgmt attention	12,350,549	7,318,902
Substandard	1,044,388	864,687
Non-performing	10,791,484	10,376,838
TOTAL	**70,952,551**	**40,433,136**

Note: Gross amount (without allowances).

Exposures presented in the tables above represent gross carrying amounts (not impacted by allowances). Loans and advances to customers contain only on-balance sheet amounts. The split was made using NPE EBA definition.

Other items such as: financial assets designated at fair value through profit and loss, trading assets and financial investments are described in detail in *BCR Consolidated and Separate Financial Statements 2014, note 40. Risk Management.*

5.4 The geographical distribution of exposures (IFRS)

The geographical distribution of the Retail portfolio and the SME as well as Small Municipalities portfolio is presented below:

BCR Bank ths. RON	Retail	SME + Small Municipalities
Geographical area	**31.12.2014**	
Bucharest	6,239,947	909,169
Centre	2,056,878	760,883
North East	2,076,590	742,523
North West	2,316,941	715,281
South	1,944,226	525,345
South West	1,419,686	261,689
South East	2,019,923	514,653
West	1,560,847	338,666
Total	**19,635,036**	**4,768,207**

5.5 Retail and Corporate risk segments

The Retail and Corporate segment portfolio both account for approximately 50% out of the total loans to customers, the main share being allocated towards the Individuals (47%) and GLC (19%) segments.

BCR Bank ths. RON	Total loans 31.12.2014	Percentage in total
GLC	7,605,007	38%
RE	2,444,460	12%
Public sector	4,963,194	25%
SME + Small Municipalities	4,768,207	24%
TOTAL Corporate	**19,780,868**	**50.18%**
Micros	1,048,269	5%
Individuals	18,586,767	95%
TOTAL Retail	**19,635,036**	**49.82%**
GRAND TOTAL	**39,415,905**	**100%**

Note: GLC, RE and Large Municipalities are centrally managed.

5.6 The distribution of exposure by industry

Economic Sector	BCR Bank		BCR Group	
	Net maximum exposure IFRS (ths. RON)			
	2013	2014	2013	2014
Private households	6,036,053	7,268,793	6,083,020	7,376,990
Banking and insurance	10,412,958	7,596,475	9,189,296	8,908,944
Manufacturing	2,505,330	1,726,300	2,458,128	1,745,386
Construction	1,644,606	1,470,892	1,574,980	1,481,101
Public administration	19,298,210	19,419,590	21,289,852	19,525,809
Trade	900,888	976,441	866,580	1,001,943
Transport and communication	351,244	53,260	347,283	57,122
Agriculture and forestry	895,836	779,658	900,787	790,976
Other service activities	253,049	994,087	231,553	994,989
Health and social work	57,194	141,935	64,017	141,838
Real estate and other business activities	41,525	27,448	2,808	34,452
Energy and water supply	760,250	621,066	764,097	622,799
Hotels and restaurants	32,888	-	29,132	789
Mining	347,697	377,393	352,271	383,244
Other	1,031,591	10	615,466	216,915
TOTAL	**44,569,319**	**41,453,348**	**44,769,270**	**43,283,297**

Net maximum exposure represents the gross exposure adjusted with provisions and / or collateral. The impact of collateral was considered on an individual basis and was capped at the level of exposure.

5.7 The reconciliation of changes in the value adjustments and provisions for impaired exposures (IFRS)

Allowances for impairment losses:

thds RON	Bank		Group	
	2013	2014	2013	2014
Opening balance [current year] (-)	-7,049,448	-7,781,513	-8,415,064	-9,105,438
Allocations*	-4,284,880	-4,740,686	-4,500,231	-5,363,883
Uses*	1,089,644	4,288,522	1,125,291	5,067,477
Releases*	2,501,600	952,104	2,628,817	1,042,776
Interest income from impaired loans	540,032	345,453	628,544	391,506
Exchange-rate and other changes (+/-)	-578,461	105,796	-572,795	100,492
Closing Balance	-7,781,513	-6,830,324	-9,105,438	-7,867,070

5.8 Credit risk mitigation techniques

5.8.1 Market or credit risk concentrations in credit mitigation operations

BCR registers credit risk concentrations in its risk mitigation operations towards the Romanian state. Thus, on 31.12.2014, the total collaterals received from the Ministry of Public Finance used for credit risk mitigation purposes amounted to 3,219,706,032 RON.

5.8.2 Total exposure value covered by eligible financial collaterals and by other eligible physical collaterals used for credit mitigation purposes:

31.12.2014 (ths RON)	Bank IFRS with prudential filters	Group IFRS
Total exposures covered by physical eligible collaterals	**8,235,868**	**7,101,241**
***Financial collaterals**, of which on exposure categories:*	***2,062,452***	***830,660***
Institutions	23,990	114,396
Companies	1,920,600	540,151
Retail	108,901	154,967
Collateralized with real estate assets	770	3,569
Overdue	8,192	17,576
Exposures covered by residential real estate	***6,173,416***	***6,270,580***

Note: Segmentation according to Basel 3

5.8.3 Total exposure value covered by personal collaterals:

31.12.2014 (ths RON)	Bank IFRS with prudential filters	Group IFRS
Total exposures covered by personal collaterals, *of which on exposure categories* ***:***	**3,221,927**	**3,226,781**
Regional administrations or local authorities	313,650	313,650
Companies	206,638	206,638
Retail	2,654,328	2,654,950
Collateralized with real estate assets	325	325
Overdue	46,986	51,218

Note: Segmentation according to Basel 3

5.9 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 fulfil the provisions of the NBR regulations, EU regulations, as well the national, legal and internal requirements. In that perspective an asset must be valuated to determine the market value and the bank's accepted value beforehand.

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

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

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

The valuation report for BCR clients must observe the models elaborated by the bank, sent to the external valuer 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.

5.9.1 Description of the main types of collateral taken by BCR:

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 Liquidity risk – the residual maturity breakdown of exposures

Liquidity & funding management

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

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

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

The evolution of the ratio of liquid assets to customers (banking and non-banking customers) liabilities analysed according to when they are expected to be recovered or settled both for the Group and the BCR for financial years 2013 and 2014 are presented in the *BCR Consolidated and Separate Financial Statements 2014, Note 45. Analysis of remaining maturities.*

7 Market risk

The main market risk affecting the bank's investments portfolio is the interest rate risk in the Trading Book (TB) and Banking Book (BB) portfolios. The market risk factors of the TB portfolio are interest rate changes, equity price movements and FX rates changes.

BCR's Market Risk Rulebook establishes the bank's specific framework for identifying market risk factors, determining market risk exposure limits, monitoring compliance with the set limits, as well as the reporting processes (including procedures in case of limit breaches).

7.1 Exposure to interest rate risk on positions not included in the trading book

BCR calculates and reports to NBR the potential change in economic value (MVoE) caused by sudden and unexpected changes in the levels of interest rates, using the standard methodology described in NBR Regulation no. 5/2013. This report is submitted on a quarterly basis on an individual level (BCR Bank), and bi-annually on a consolidated level (BCR Group).

The standard shock applied to the bank's relevant yield curves is 200 basis points, in both directions, regardless of the currency is used.

The end of year potential decline of the economic value based on the MVoE methodology is presented in the table below:

thds RON	31-Dec-13	31-Dec-14
Own funds	4,284,515	5,848,909
The potential decline of the economic value:		
Absolute value	379,828	495,654
% of own funds	8.87	8.47

7.2 The system of market risk exposure limits

7.2.1 The structure of the market risk limits system in the TB portfolio:

- Limits on the FX position:
    - Position limits:
        a. total open FX position;
        b. EUR and USD open position;

c. open position on all other currencies except EUR and USD;
    - VaR limit on the total TB open FX position, calculated over a 1-day time horizon, with a 99% confidence level
- Limits on the Fixed Income Trading Book portfolio
    - PVBP limit for the RON denominated fixed income portfolio
    - VaR limit for TB FI, calculated over a 1-day time horizon, with a 99% confidence level
    - Stop Loss (S/L) limits – monthly and annual.
- Limits on the common stock trading portfolio (TB Eq):
    - Position limits
    - VaR limit for TB Eq, calculated over a 1-day time horizon, with a 99% confidence level
    - Stop Loss (S/L) limits – monthly and annual.
- Limits on the MM portfolio:
    - PVBP Limits
    - VaR limit for MM, calculated over a 1-day time horizon, with a 99% confidence level
- Aggregated VaR limits for the TB:
    - VaR limit for TB FI and MM, calculated over a 1-day time horizon, with a 99% confidence level
    - VaR limit for the total TB, calculated over a 1-day time horizon, with a 99% confidence level

7.2.2 The structure of the market risk limits system in the BB portfolio:

- Limits on the BB Fixed Income portfolio:
    - PVBP limits, per denomination currency
    - VaR limit, calculated over a 1-day time horizon, with a 99% confidence level

All the limits mentioned at point 7.2 are monitored on a daily basis and their utilization degree is the object of a daily report.

BCR also has an IRRBB VaR limit for the total BB portfolio, which it monitors on a monthly basis.

7.3 Exposures in equities not included in the trading book (IFRS)

Financial investments available for sale:

	Group	
in RON ths	2013	2014
Bonds and other interest-bearing securities	5,180,091	7,507,529
Listed	3,194,904	5,566,196
Unlisted	1,985,187	1,941,333

	Bank	
in RON ths	2013	2014
Bonds and other interest-bearing securities	4,423,386	6,498,139
Listed	2,455,008	4,575,060
Unlisted	1,968,378	1,923,079

Equity related securities were eliminated for both 2013 and 2014 being considered by Auditors not bearing risk. They are described in Note 20 to the Financial Statements.

Financial investments held to maturity:

	Group	
in RON ths	2013	2014
Bonds and other interest-bearing securities	10,235,256	9,578,176
Listed	9,037,282	8,806,761
Unlisted	1,197,974	771,415

	Bank	
in RON ths	2013	2014
Bonds and other interest-bearing securities	9,009,939	8,429,417
Listed	7,864,020	7,744,141
Unlisted	1,145,919	685,276

8 Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

The bank cannot eliminate all operational risks, but can manage them by setting an adequate internal control framework, by promptly identifying them, and through continuous monitoring, adequate control and reporting, with the aim to implement adequate corrective measures.

The control framework includes effective segregation of duties, access procedures, authorization and reconciliation, personnel training, assessment processes, and the use of internal audit.

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

The management of operational risks in BCR consists of:

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

8.1 The identification and measurement/ assessment of operational risks

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

- The **quantitative analysis** of operational risk, which includes the identification, collection, analysis and control of internal and external data on loss-generating operational risk events.

  BCR developed and maintained a comprehensive framework for the identification and collection of information referring to operational risk losses, whereby the entire bank's personnel has the responsibility to completely, correctly and in due time inform on operational risks topics. The information obtained is reconciled and compared, for verification or completeness purposes, with information obtained from alternative sources, such as accounting, internal or external audit reports etc.

- For the **qualitative analysis**, the bank has elaborated a methodology for the risk and control self-assessment (RCSA). RCSAs are performed regularly, so that the bank is able to identify the main operational risk sources and undertake the adequate risk mitigation measures, preventing or mitigating the losses stemming from the emergence of operational risks.

- **The monitoring and regular reporting** of operational risk indicators (KRI), enabling the bank to detect any change in its exposure to operational risk in due time.
- **Scenarios analysis** on the probability of future occurrence of significant losses is performed on a yearly basis.

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

The regulatory capital requirement for operational risk is reported as maximum between the capital requirement obtained using the Advance Measurement Approach (AMA) and 75% of the capital requirement calculated using the Basic Indicator Approach.

Under the Pillar II framework, BCR uses the internal model elaborated by Erste Group, following the approval granted by Austrian Financial Market Authority, join decision with National Bank of Romania, in June 2009.

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

- ✓ Internal data: for the assessment of the parameters of the LDA model, a set of historical data covering the last 5 years is used;
- ✓ External data: Operational Risk Exchange (ORX) data are used in addition to internal data, supplementing the latter for specific value intervals for which there is insufficient history;
- ✓ Scenario analysis: used to supplement the data regarding the losses generated by operational risk; they refer to events that could have major impact and low frequency;
- ✓ Business environment and control factors: factors reflecting changes in the business environment or Bank's risk profile, monitored via Risk and Control Self Assessments (RCSAs) and Key Risk Indicators (KRIs), are incorporated in the LDA model via scenario analyses.

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

At the beginning of October 2010, the Austrian Financial Market Authority (FMA), in collaboration with the National Bank of Romania (NBR), approved the application of the Advanced Approach in the computation of the capital requirement for operational risk (AMA) at BCR level.

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

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

8.2 The monitoring, controlling and reporting of operational risk

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

Operational risk reporting to bank's management is a major component of the risk management framework.

Reporting is essential in the process of acknowledging the losses generated by operational risk and the bank's exposure to this risk type, enabling the institution to perform an adequate management of operational risk.

Regular reporting provides detailed information on operational risk at BCR level, both at local management level (Operational Risk Management Committee; Management Board; Risk Committee of the Supervisory Board) and at Erste Group level.