BANCA ROMÂNEASCĂ S.A.
Member of the NBG Group

REPORT

on transparency and public information

2017

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

Incorporated in Romania
Registered office: BoC Building, 1st, 2nd and 3rd floors, 3 George Constantinescu Street,
Sector 2, 020339, Bucharest, Romania
Paid-in Share Capital: RON 748,648,220
Register of Credit Institutions: RB-PJR-40-017/18.02.1999
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www.banca-romaneasca.ro

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1. INTRODUCTION

This document was issued in accordance with the requirements of:

- Regulation (EU) No. 575/2013 of the European Parliament on prudential requirements for credit institutions and investment firms;
- National Bank of Romania Regulation no. 5/2013 on prudential requirements for credit institutions;
- National Bank of Romania Instructions from 29.12.2017 regarding the disclosure of the Liquidity Coverage Ratio, for the supplementation of the information regarding the liquidity risk management under art. 435 from Regulation (EU) No. 575/2013;
- National Bank of Romania Instructions from 29.12.2017 regarding the disclosure requirements under Part Eight of Regulation (EU) No. 575/2013 and for the amendment of Regulation (EU) no. 648/2012

and concerns the disclosure framework developed by Banca Romaneasca S.A. Member of NBG Group (Bank).

The purpose of this Report is to ensure compliance with the regulatory requirements 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.

Non-material, proprietary or confidential information
The Bank's Policy regarding the disclosure of information formalizes the treatment of information considered to be immaterial, proprietary or confidential.
Under these circumstances, the Bank complies in principle with all the disclosure requirements with no exceptions of materiality, proprietary and confidentiality.

Frequency of disclosure
Transparency Report is published once a year, pursuant to the NBR Instructions from 28 October 2015 on materiality, proprietary and confidentiality and on disclosure frequency under articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, taking into consideration the scale of operations and range of activities developed by the bank.

2. MANAGEMENT FRAMEWORK

2.1 General presentation

The policy regarding the management framework of the Bank defines the key principles which should be applied in order to ensure an adequate management and supervision, corresponding to the structure, activity and risks related to the Bank and considering the nature, the dimension and the complexity of the risks the Bank is exposed.

The management framework of the Bank refers to the responsibilities of the management body concerning:

- Set-up of business objectives;
- Set-up risks strategies and risk profile ;
- Set-up the Bank activity management, by including adequate responsibilities and limits of authority, reporting lines;
- Set-up of the Internal Control framework;

The general framework of the Bank is organized according to, but not limited to:

- The Government Emergency Ordinance No. 99/2006 regarding credit institutions and capital adequacy (the Banking Law), approved by Law No 227/2007, as subsequently amended and supplemented;
- The Law No. 31/ 1990 regarding companies, republished, with further amendments and supplementations;
- Articles of Association of the Bank;
- The NBR Regulation No. 5/2013 on prudential requirements for credit institutions.

For running its operations under the management framework, the Bank operates by means of a specific internal regulations system (strategies, policies, norms, procedures, etc).
The management framework of the Bank includes at least the following:

A. the organisational structure of the Bank and the allocation of the functional responsibilities within it, as well as its position within the NBG Group from the perspective of the relevant structures and their reporting lines;
B. the responsibilities of the management body of the Bank;
C. the internal control framework of the Bank;
D. the internal regulatory framework of the Bank.

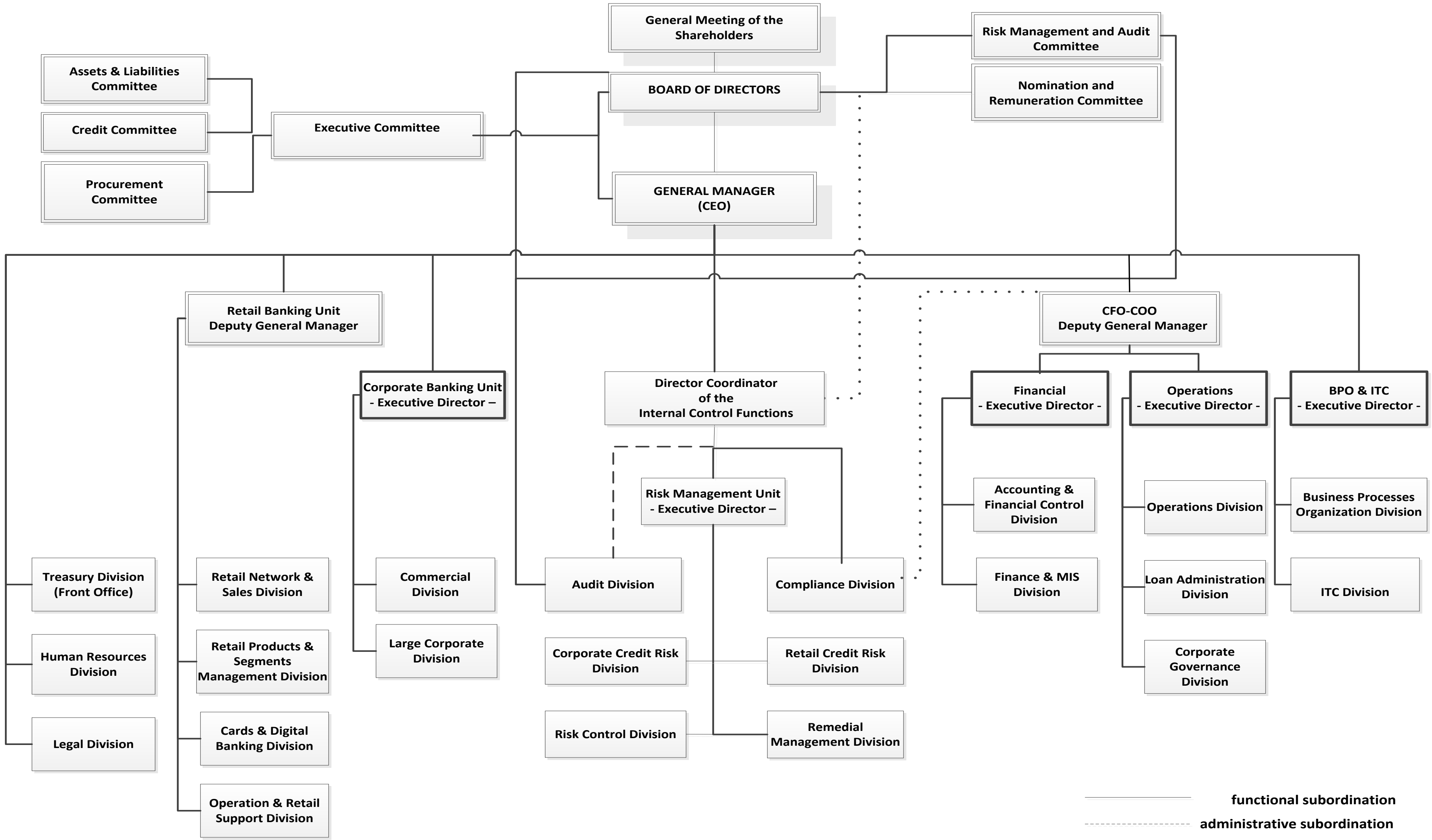
2.2 Description of the information flow on risk to the management body

One of the Bank's main goals is the timely, accurate and effective risk reporting to the management body which is an integral part of a strong risk management framework. The bank has implemented mechanisms for periodical and transparent reporting with respect to risks, in order to provide timely, accurate, comprehensible and relevant reports to the management body and the relevant structures for the exchange of relevant information on risk identification, measurement, assessment and monitoring. The Board of Directors and its committees (including the Audit Risk Management Committee) and the Executive Committee requests reports on a regular basis with the status of risks to support their oversight of the Bank's risks management.

The reports also include alerts when significant changes are detected in the risk level. Therefore, the Bank has implemented a monthly, quarterly and yearly comprehensive reporting framework that consists of dashboards and heat maps for the relevant risk types to Executive Committee and Board of Directors.

Both the Executive Committee and Board of Directors were involved in defining the content of the reports submitted to them by establishing the template in which they are presented.

2.2 Organisational structure



2.3 Remuneration policy and practices

Remuneration policy

BROM's Remuneration policy presents the general framework and basic principles for determining the remuneration and is aligned with the applicable labor legislation, with the Collective Labor contract and with the provisions of NBR Regulation 5/2013.

The remuneration policy is deemed appropriate for the size and organization of the Bank, as well as for the nature, range and complexity of its business activities.

By applying the Remuneration policy, the Bank aims at retaining and leveraging employees of the highest professional, educational and moral caliber - qualities which generate added value for the Bank, motivating and encouraging its staff, so as to optimize individual and collective work-related performance, consolidating a culture of objective evaluation of individual endeavor and reward for performance, ensuring consistency between remuneration and the business strategy, risk policy, values and long-term targets of the Bank.

The remuneration policy is aligned to the current business strategy, particularly regarding the principles and values, conduct and risk assumption policy and observes principles that seek to harmonize the individual interests of the Senior Managers and of the employees with the Bank's business targets, especially on a long-term basis, through the evaluation of performance over time.

The policy allows and promotes a healthy and effective risk management, without encouraging risk taking which exceeds the risk tolerance level, thus preventing incentives granting for excessive risk taking and for other behaviors contrary to the interests of the credit institution.

The remuneration policy covers the personnel from all levels of the organizational structure (including the members of the management body) within the Bank.

The principles of the remuneration policy cover both the fixed component and the variable component of the remuneration of the entire personnel.

The members of the personnel are remunerated or receive rights associated with the variable remuneration, including the deferred part of the variable remuneration, only if the variable remuneration is sustainable in accordance with the Bank's overall financial situation and if it can be justified according to the performance of the Bank, of the structure where the employee's activity is carried out and of the individual performance of the respective employee.

The evaluation criteria refer to both individual and collective performance, specifically for a length of time sufficient to indicate real performance, as well as evaluation of individual performance during the period concerned, not only under financially measurable criteria but also under qualitative criteria, including, but not limited to, knowledge of the field of work, managerial skills, efficiency and general professional conduct, level of interest in and contribution to the work produced, compliance with the Bank's policies and so on.

The personnel remuneration consists of the following components:

A. Financial component, which includes the **Fixed remuneration**, meaning the base salary/ indemnity taking into consideration the local market conditions, the level of expertise and experience and the **Variable remuneration**, which is granted for achieving the objectives and depends on the achievement of BROM and NBG Group goals, as well as based on the evaluation of the financial and non-financial performance criteria. Variable remuneration may include bonuses, rewards and other benefits.

The fixed and variable components of the total remuneration will be properly balanced, the fixed component representing a sufficiently high proportion of the total remuneration to allow the implementation of a flexible policy regarding the components of variable remuneration.

The level of the variable part of the remuneration of the identified personnel is established as a maximum percentage from the level of the total annual remuneration, depending on the performance and the results obtained as compared to the assigned objectives, correlated with the risk taking level, with the potential impact of the risk on medium and long term and with best practices in the field.

The annual objectives established by the Board of Directors, through the Bank's Business Strategy, will be correlated with specific indicators, as they are stipulated in the Strategy regarding significant risks management and other relevant strategies and policies, in order to discourage the excessive risk taking.

The bonuses granted to the identified personnel, depending on the rating obtained at the annual performance evaluation will comprise an immediate component representing a percentage out of the total granted bonus, which will be paid in the year following the year for which the evaluation was done, after the approval of the financial year statements and a deferred component representing the remaining bonus that will be paid in 3 years from the granting of the immediate component.

During the period of deferral, there will be a yearly performance assessment made for the specific activity for which the variable remuneration has been granted, in line with the bonus schemes and the overall financial performance of the bank.

The Bank has the right to adjust the bonus granted to an employee in the identified personnel category, depending on the performance.

B. Non-financial component, which may include different non-financial instruments, depending on the financial results of the Bank and according to the policies of the Bank and of the NBG Group.

The implementation, review and amendment of the remuneration policy are monitored by the Bank's Committee for Nomination and Remuneration.

The remuneration policy is assessed, in respect of its implementation, by the competent Regulatory and Supervisory Authorities.

Remuneration practices

For 2017 no bonuses/incentives have been paid to the bank’s management or employees, except for those paid to the territorial units’ employees for exceeding the sales targets.

For the management body members and identified personnel, quantitative information regarding 2017 remuneration are presented below:

(thousand lei)

Identified personnel	Total
Number of members (whole-time)	33
Total fix remuneration, out of which:	7,850
cash	7,850
Total variable remuneration	-
Total amount of the variable postponed remuneration	-

2.4 Code of Ethics

The Code of Ethics sets out the values, core principles and rules of the Bank based on which the management and all employees act and perform their duties, contributing to the achievement of the BANK and Group business goals.

The general principles underlying the Code of Ethics embody the corporate governance standards and reflect the values of integrity and honesty, respect and sincerity for the Bank clients, personnel of high caliber and high quality services, teamwork, proactive attitude, transparency in relationships, corporate engagement, high level of corporate governance and compliance and social corporate responsibility.

By the acknowledgement and application of the Code provisions, all staff members contribute in creating and maintaining an impeccable image of the BANK, in all respects, as well as in creating and maintaining an internal working environment which should allow exceptional results to be obtained both personally and by the organization.

The sanctions for the breach of the provisions of the Code of Ethics will be applied in compliance with Law 53/2003 – Labor Code, the approved Collective Labor Contract and the provisions of the Internal Regulation. More about the Code of Ethics on www.brom.ro/ about us/.

2.5 Total number of employees - 1093

3. MANAGEMENT BODY STRUCTURE AND ORGANIZATION

3.1 Board of Directors

3.1.1 Structure / number of mandates

	Name	Position in BROM Board of Directors	No. of consecutive mandates in BROM	No. of management positions (including BROM)
1	Marinis Stratopoulos	Chairman	2	4 non-executive
2	Konstantinos Bratos	Deputy-Chairman	2	4 non-executive
3	Ioannis Kougionas	Member	1	1 executive 3 non-executive
4	Petru Rares	Member	6	2 non-executive
5	Ion Stancu	Member	4	1 non-executive
6	Nicolaos Argyris Stamboulias Stamboulis	Member (independent)	3	1 non-executive
7	Nikolaos Christodoulou	Member	2	1 non-executive

According to the legal and regulatory framework, when appointing the independent member of the Board, the General Meeting of the Shareholders considered the following criteria:

a) he is not the director of the company or of a company controlled by it and he has not had a similar position during the last 5 years;
b) he has not been an employee of the company or of a company controlled by it, or has not had similar working relations during the last 5 years;
c) he does not receive or has not received from the company or from a company controlled by it an additional remuneration or other advantages, other than those corresponding to his capacity of non-executive administrator;
d) he is not a significant shareholder of the company;
e) he does not have or has not had during the last year business relations with the company or a company controlled by it, either personally, or as partner, shareholder, administrator, director or employee of a company that has such relations with the company concerned, if, by their substantive nature, these relations may affect his objectivity;
f) he is not or has not been during the last 3 years a financial auditor or an associate which is also an employee of the current financial auditor of the company or of a company controlled by it;
g) he is director in another company where a director of the company is a non-executive administrator;
h) he has not been a non-executive administrator of the company for more than 3 mandates;
i) he has not family relationships with a person in one of the instances referred to in lets. a) and d).

3.1.2 Attendance to the Board meetings

The Board of Directors held 8 meetings during 2017.

Date of the Board of Directors meeting	Number of participants members / total appointed members
24.01.2017	6/7
31.03.2017	7/7
06.04.2017	6/7
31.05.2017	7/7
28.06.2017	7/7
29.09.2017	6/7
27.10.2017	6/7
20.12.2017	7/7

3.1.3 Board of Directors Committees

Audit and Risk Management Committee

- Structure

1	*Nicolaos Argyris Stamboulias Stamboulis*	*Chairman (independent)*
2	*Konstantinos Bratos*	*Member*
3	*Ion Stancu*	*Member*

- Responsibilities

The main objective of the Audit and Risk Management Committee is to assist the Board of Directors in fulfilling its duties in the audit and risk management areas in order to develop and maintain good management practices.
On the risk management side, the committee shall also advise the management body (Bank's Senior Managers and Board of Directors) on the overall current and future risk appetite and strategy and assist the management body in overseeing the implementation of that strategy by the Bank's Senior Managers.

Audit and Risk Management Committee held 7 meetings during 2017.

Nomination and Remuneration Committee

- Structure

1	Marinis Stratopoulos	Chairman
2	Konstantinos Bratos	Member
3	Nicolaos Argyris Stamboulias Stamboulis	Member (independent)

- Responsibilities

The main objective of the Nomination and Remuneration Committee is to assist the Board of Directors (the Board) in fulfilling its duties in the nomination and the remuneration areas in order to develop and maintain the best corporate governance practices.

In the nomination area, the committee shall contribute actively also to the fulfillment of responsibilities concerning the adoption of appropriate internal policies on assessment of the suitability of the members of the management body (Bank's Senior Managers and Board of Directors) and of key function holders.

In the remuneration area, the committee will exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity. When performing its duties in the remuneration area, the committee:

- takes into consideration the long-term interests of the shareholders and investors of the Bank or the Bank's Group;
- focuses on:
    - the long-term sound and good management of the Bank or the Bank's Group and
    - the elimination or minimization of any conflicts of interest that could have a negative impact on the said management.

3.2 Senior Management

3.2.1 Membership

1. Mr. Ioannis Kougionas – General Manager (CEO)
2. Mrs. Elena Ana Cernat – Deputy General Manager (Retail)

3.2.2 Executive Committee

The Executive Committee ensures the performance of the Bank's current activity, within the limits of the duties listed in the Articles of Associations, as well as of other competencies given by the Board of Directors or set up through the legal and regulatory framework.

The Executive Committee has also some specific responsibilities as per the regulatory provisions regarding the management framework in line with NBR Reg. No 5/2013 on prudential requirements for credit institutions.

Participation to the Executive Committee meetings

The Executive Committee held 60 meetings during 2017 with the participation of the appointed members of this committee.

3.2.3 Other Bank' Committees – composition and duties

Credit Committee

- Objective

  The main objective is to oversee the development of the bank's loan portfolio according to the bank strategy, lending policy and regulations in place.

- Membership

  The CC consists of 3 voting members as follows:
  - Chairman – General Manager (CEO)
  - Member – Executive Director – Corporate Banking Unit
  - Member – Executive Director – Risk Management Unit

  The Chairman of the Committee is the General Manager of the Bank (CEO), or in its absence the Executive Director – Risk Management Unit.

Assets and Liabilities Committee (ALCO)

- Objective

  ALCO operates according to the Bank's Strategies and Policies. Through its activity, ALCO maximizes the return of the assets and other off balance sheet items by managing effectively and efficiently the resources of the bank.

- Membership

  The ALCO consists of 5 members as follows:
  - Chairman – General Manager (CEO)
  - Member – Deputy General Manager (Retail)
  - Member – Executive Director – Corporate Banking Unit
  - Member – Executive Director – Risk Management Unit
  - Member – Head of Treasury Division

  The Chairman of the Committee is the General Manager of the Bank. (in case of absence, will be substituted by the Deputy General Manager (Retail))

Procurement Committee (ProCO)

- Objective

  Through its activity, ProCO ensure that the bank procurement activity is carried on following straight-through operational flows and clear working procedures

- Membership

  The ProCO includes 4 voting members as follows:
  - Chairman – BPO & ITC Executive Director
  - Member – Deputy General Manager (Retail)
  - Member – Operations Executive Director
  - Member – Head of Accounting and Financial Control Division

  In case of the absence of the committee's chairman, the meetings will be headed by the Deputy General Manager (Retail)

AML/CFT Committee

- Objectives
  - The implementation of the regulatory framework of NBG Group in AML/CFT area (NBG Group AML/CFT Policy and NBG Group AML/CFT Policy for cross-border correspondent banking) and of AML/CFT legal framework (NBR Regulation no. 9/2008 regarding customer due diligence in order to prevent money laundering and terrorism acts financing with further modifications, Law 656/2002 for prevention and sanctioning money laundering, as well as for the implementation of some measures for prevention and fighting against terrorist financing, republished, Government Decision no. 594/2008 for application of Law no 656/2002),
  - Takes relevant decisions and provides recommendations to the Executive Committee regarding the AML/CFT area and to the Change Management Team regarding the priority of projects from the AML/CFT area

- Membership

  - Chairman – Director Coordinator of the Internal Control Functions
  - Permanent Member – Head of Retail Products & Segments Management Division/ Executive Director Corporate Banking Unit/Deputy Head of Commercial Division/Head of Operations Division
  - Permanent Member – Head of Legal Division
  - Permanent Member – Head of Business Processes and Organization
  - Permanent Member – Head of IT Division

3.3 Policy regarding the management body – selection, diversity and target

The policy for selection, monitoring and succession planning of management body members sets the general framework regarding the selection, monitoring and succession planning for the members of the management body and ensures that the members of the management body have the adequate reputation, knowledge, skills and professional experience to fulfill their responsibilities.

The management body of the Bank, in its supervisory function is represented by the Board of Directors.

The top management is represented by the Senior Managers of the Bank, respectively the General Manager and Deputy General Managers, who are empowered with the current management of the Bank and are accountable for the way of accomplishing this activity in front of management body.

The general rules taken into consideration regarding the selection, suitability assessment and re-assessment of the members of the management body consider both the supervisory function and the management function of the management body within the Bank and refer to:

a) The management body has to have an adequate number of members, including the independent members of the management body in its supervisory function, as well as an adequate constituency, taking into consideration the attributions and responsibilities of the body, in the supervisory function and in the management function
b) It is the Bank's responsibility to assess the suitability of each and every member of the management body, on the occasion of the appointment as a member of the management body and to do the suitability re-assessment ongoing, according to the legal provisions
c) The suitability assessment of the management body members will also take into consideration that the management body be collectively suitable, in terms of the balance regarding the knowledge, skills, diversity, independence and existing/ necessary experience
d) The suitability assessment of the members of the management body will be done, as a general rule, before they hold the respective positions, according to the legal provisions in force
e) The requirement concerning a good reputation of the members of the management body applies regardless the nature, size and complexity of the activity or the position of the respective member in the management body
f) The general criteria for the assessment of the experience of the management body members will take into consideration the nature, size and complexity of the activity, as well as the responsibilities of the respective position, and also the fact that the level, and the nature of the experience required for a member of the management body in the management function may differ from those required for a member of the management body in the supervisory function
g) The selection of the management body members will also take into consideration that they have to be able to act objectively, critically and independently and they must also have the capacity to dedicate time and sufficient effort in accomplishing the attributions they were assigned in an efficient way

The Nomination and Remuneration Committee is responsible for the identification of potential candidates to be appointed as Board of Directors members, for the assessment of the proposed candidates' suitability or the re-assessment of the appointed management body members, as well as for the evaluation and informing of the Board of Director each year regarding the possible instruction needs of the management body members.

The appointment and revocation of the Board of Directors members is the General Meeting of Shareholders' (GMS) responsibility.

The appointment and revocation of the Bank's Senior Managers, is the Board of Directors responsibility.

The appointed members of the management body will be notified to National Bank of Romania (NBR) to be authorized, the exercise of the assigned responsibilities being allowed only after the NBR authorization is obtained.

If following the suitability assessment it is concluded that the person is not suitable to be appointed as a member of the management body, the respective person will not be appointed, or if the member is already appointed, the Bank will take adequate measures to replace the respective member, excepting the case when the Bank has already taken appropriate measures to ensure the suitability of the respective member in a timely manner.

The instruction of the management body members of the Bank refers to their participation in the induction program and in specific instruction programs adapted to the needs of each member.

The instruction programs may be dedicated to each and every member of the management body or to the whole management body, if this is the case.

The diversity policy of the Bank is aligned to the requirements of the national and international regulatory framework and takes into account also the alignment to the NBG Group diversity policy.

In order to ensure the diversity regarding the Board of Directors and the Senior Managers of the Bank, the proposed target is that the female gender to be represented in a ratio of 1/3, taking into consideration the structure and number of the Board of Directors members and of the Senior Managers of the Bank.

For the Board of Directors members and for the Senior Managers whose mandates expire between 2015 - 2017 and for the new members/ Senior Managers to be appointed in the mentioned period of time, the policy refers to the identification of female gender persons having adequate knowledge, experience and competencies to be appointed as Board of Directors members/ Senior Manager.

This target was achieved until the end of 2017 in respect to the Senior Managers, while no candidates were identified as potential candidates for the position of member of the Board of Directors, considering also the diversity criteria stipulated by the policy.

4. INTERNAL CONTROL FRAMEWORK

The internal control implies:
a) the existence of a sound internal control framework;
b) the existence of independent control functions.

The bank has developed and maintains a sound and comprehensive internal control framework, including independent specific control functions with an appropriate authority for them to be able to fulfill their duties. The internal control framework covers the bank as a whole, including the activities of all business units, support and control functions. The internal control framework shall be appropriate for bank’s business, with sound administrative and accounting procedures.
In order to implement a sound internal control framework in all areas of the bank, business units and support functions bear the main responsibility for establishing and maintaining adequate internal control procedures.

Independent control functions
An appropriate internal control framework needs also the verification by the independent control functions of the compliance with policies and procedures.

Thus, the following 3 functions have been implemented:

- **Risk Management function** that identifies, measures, assesses, controls and reports the significant risks (and, within it, the risk control function that ensures compliance with risk policies);

- **Compliance function** that identifies, assesses, measures and monitors compliance risk, performs controls and reports about the compliance risk; this function has a specific charter approved by the Board of Directors;

- **Internal Audit function** that assesses the adequacy and effectiveness of the internal controls and provides relevant reasonable assurance to the management body; this function has a specific charter approved by the Board of Directors.

The internal control is a continuous process, meant to provide a reasonable assurance regarding the fulfilment of at least the following objectives:

- **performance objectives** – the effectiveness and the efficiency of the activities carried out;

- **informing objectives** – the credibility, the integrity and the timely provision of the financial information and the information necessary to the management;
- **compliance objectives** - the compliance with legal and regulatory framework and agreements, recommended practices and ethical standards related to banking activities, as well as with the internal policies and procedures.

For the purpose of ensuring the achievement of the objectives mentioned above, the Bank sets up an internal control framework, applicable to the level of each organizational structure, corresponding to the structure, activity and taking into consideration the nature, dimension and complexity of the different risks to which the Bank is exposed, made up of the following elements which are tightly related to each other:

a) the role and the responsibilities of the management body concerning the internal control;
b) the identification and the evaluation of the significant risks;
c) the control activities and the separation of the responsibilities;
d) informing and communication;
e) the activities regarding the monitoring and the correction of deficiencies.

a) The role and the responsibilities of the management body

The role and the responsibilities which are incurred by the management body of the Bank concerning the internal control are described within the specific Regulations.

b) The identification, evaluation and monitoring of the significant risks

In order to identify and evaluate the significant risks, the Bank applies a group of measures (rules, methods, procedures and specific instruments) having as a purpose the measurement and assessment of the phenomena, the factors and the events which have a negative influence over the Bank's objectives.

The identification and the evaluation of the significant risks are carried out both at the level of the bank as a whole, and at the level of each organisational structure within the Bank, covering all the activities and taking into account the appearance of new activities.

For this purpose, the bank shall take into account:

- **the internal factors** – the complex nature of the organisational structure, the nature of the activities carried out, the quality of the personnel and its fluctuation, etc.;
- **the external factors** – economic conditions, legal changes or linked to the competitive environment in the banking sector, technological progress, etc.;

The process of assessing the risks includes the identification both of the risks which can be controlled by the Bank and the ones that cannot be controlled. For the risks that can be controlled, the Bank establishes appropriate control procedures. For the risks that cannot be controlled, the Bank decides if it accepts or if it eliminates or reduces the level of the activities affected by these risks.

The evaluation and the control of the risks within the bank are mainly carried out with the help of certain specialized organisational structures which do not have responsibilities over the business line / activities of the bank. The manner of identifying, evaluating and controlling the risks is described within strategies, policies, codes, norms and internal procedures.

c) The control activities and the segregation of responsibilities

The control activities are defined for each organisational level of the bank and they involve two stages:

- the setting up of the control policies and procedures;

- observing the compliance to the control policies and procedures set up.

The internal control activities represent an integral part of the daily activities of the Bank and include at least the following:

1. examinations at the level of the management bodies;
2. operative examinations at the level of bank' structures;
3. physical controls for limiting the access to assets (for example: securities, cash – limiting the access to the clients' accounts etc.);
4. analysis of the risk exposure – whether it falls within the required limits and tracking the manner in which the non-compliance cases are solved;
5. approvals and authorizations regarding the operations which exceed certain amount thresholds;
6. checks – ***the four-eyes principle***: segregation of duties, cross-checking, dual control of the assets, dual signature;
7. checks of the transactions carried out and reconciliations, especially where there are differences between the evaluation methodologies or systems used by the structures which undertake the initiation of the transactions (front office) and the structures which undertake the recording and the monitoring of the initiated transactions (back office).

Concerning the segregation of the responsibilities, the Bank (depending on the size and complexity of the risks) must ensure that the following requirements are met:

- a proper segregation of responsibilities, having as a purpose the prevention of the conflicts of interest;
  The activities which could be affected by the potential conflicts of interest shall be identified and subject to an independent monitoring;
- the establishment of a clear decision-making process, both transparent and formal, and a clear assignment of the responsibilities and the competences, so that the compliance with the internal decisions and procedures should be ensured;
- the development of internal control mechanisms corresponding to the activity carried out by the Bank and which should include the strict administration and accounting procedures;
- the implementation of certain policies and procedures meant to promote the integrity and the professional behaviour (for example: the codes of conduct or ethics, anti-corruption policy, whistleblowing policy, etc.);
- the implementation of certain policies which properly forbid or, where applicable, limit the activities, relations or circumstances which could reduce the quality of the administration framework, such as: the conflicts of interest, the granting of credits to the employees, the members of the management body or the shareholders, the provisions of a discriminating treatment to persons having special relations;
- the setting up of policies which should ensure that the activities which can lead to conflicts of interest are carried out with a sufficient level of independence towards each other, for example by establishing certain barriers on the route of the flow of information between different activities, establishing hierarchical relations and separate controls.

d) **Information and communication**

Information

The Bank is provided with reliable information systems which cover all of its activities. For this purpose, the bank organizes the management of the information, at the same time observing the respective legal provisions.

The Bank ensures the existence of certain financial, operational and compliance data, which is proper and complete, in order to ensure its operations. In this context, the Bank observes the organisational and internal control requirements linked to the electronic processing of the information and ensures the existences of a proper audit trail.

The Bank should have information regarding the market in which it operates concerning the events and conditions which are relevant for decision making. The information should be credible, relevant, complete, suitable, and accessible and provided in a consistent format.

The information systems of the Bank, including the ones which keep and use data in electronic format should be secure, independently monitored and supported by corresponding alternative plans which should ensure the continuity of its activity when unpredicted events occur. The replication of the critical IT systems is ensured by the existence of certain back-up systems located in the back-up centre located in another location and/or via an external service provider.

The operation of the alternative plans is periodically tested by simulating the operations on the back-up systems.

The Bank controls the risks involved by the use of the IT systems both by carrying out general controls at the level of the entire IT system and by carrying out controls at the level of each IT application which is part of it.

Communication

The organisational structure ensures the flow of information via clear well-defined reporting lines, with a clear indication of the responsibilities within all organizational structures.

In addition, the Bank implements a proper internal alert procedure which can be used by each employee beyond the reporting lines, in order to draw attention to any substantial issue related to the management of the Bank's activity. The procedure ensures the protection of the staff, without disclosing the person's identity.

e) The activities regarding the monitoring and the correction of deficiencies

The monitoring of the effectiveness of the internal control is the responsibilitiy of each employee, in accordance with their job description, and also of the following functions: the risk control function, the compliance function and the internal audit function.

The monitoring of the effectiveness of the internal control is an integral part of the daily activities of the Bank and also includes separate evaluations by the Internal Audit Division of the internal control as a whole.

The deficiencies detected concerning the internal control are immediately communicated to the heads of the organisational structures, who should take action in order to promptly remedy such problems.

The major deficiencies of the internal control should be reported to the management body, for the purpose of taking action so that the respective deficiencies could be solved.

5. REGULATORY VS. ACCOUNTING CAPITAL

Banca Romaneasca issued for the year 2017 the stand-alone financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

At 31 December 2016 the Bank held 93.57% of the share capital of NBG leasing IFN S.A. and thus prepared consolidated financial statements for the financial year ended on 31 December 2016. Considering that during 2017, the significant shareholding was sold, at 31 December 2017 the Bank prepared stand-alone financial statements, not being required to prepare consolidated financial statements.

6. REGULATORY OWN FUNDS AND CAPITAL ADEQUACY

6.1 Own Funds' structure

Regulatory capital is classified under two main categories: Tier I (divided in CET1 and AT1) and Tier II capital, according to the National Bank of Romania Regulation no. 5/2013 regarding prudential requirements for credit institutions and also EU Regulation 575/2013.

Tier I capital includes the Bank's shareholders equity, net result, capital premium and eligible reserves. The following main items are deducted from Tier I capital as prudential adjustments:

- Net intangible assets
- 20% Prudential filters for credit risk provisions (net of taxes) - 50%, as remaining deduction is allocated to Tier II capital
- 20% Unrealized gains for available for sales reserves (net of taxes)
- Deferred tax assets that rely on future profitability

Tier II capital includes the subordinated loan from National Bank of Greece less following prudential adjustments:

- 20% Prudential filters for credit risk provisions (net of taxes), remaining 50%, which is not allocated to Tier 1 deductions

RON thousands

	31.12.2017	**31.12.2016**
Total Regulatory Capital	883,900	737,461
of which: *share capital & subordinated loans*	1,138,220	1,130,511
(-) Deductions	-59,411	-201,935
Tier 1	602,440	497,358
(+) share capital	835,339	835,339
(+) Retained earnings	-253,297	-271,811
(+) Reserves and other comprehensive income	58,388	80,696
(-) Deductions	-37,990	-146,867
Minority interest	0	0
Tier II	281,460	240,103
(+) Subordinated loan	302,881	295,172
(-) Deductions	-21,421	-55,068

Own funds disclosure (annexes IV and VI of Commission implementing regulation (EU) No 1423/2013)

RON thousands

		Phased-in 31.12.2017	Fully-loaded 31.12.2017
	Common Equity Tier 1 capital : instruments and reserves		
1	Capital instruments and the related share premium accounts	835,339	835,339
2	Retained earnings	-253,297	-253,297
3	Accumulated other comprehensive income	23,626	23,626
3a	Funds for general banking risk	34,762	34,762
5	Minority interests (amount allowed in consolidated CET1)	0	0
	Common Equity Tier 1 (CET1) capital before regulatory adjustments	**640,430**	**640,430**
	Common Equity Tier 1 capital : regulatory adjustments		
7	Additional value adjustments (negative amount)	-792	-792
8	Intangible assets (net of related tax liability)	-12,009	-12,009
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	-2,879	-2,879
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
26a	Regulatory adjustments relating to unrealized gains and losses pursuant to Articles 467 and 468	-889	0
	Of which: unrealized gains for AFS Instruments	-889	0
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution	-21,421	0
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-37,990**	**-15,680**
29	**Common Equity Tier 1 (CET1) capital**	**602,440**	**624,750**
	Additional Tier 1 (AT1) capital: instruments		
	Additional Tier 1 (AT1) capital: regulatory adjustments		
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	21,421	0
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre CRR	-21,421	0
45	**Tier 1 capital (T1=CET1+AT1)**	**602,440**	**624,750**
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	302,881	302,881
51	**Tier 2 (T2) capital before regulatory adjustments**	**302,881**	**302,881**
	Tier 2 (T2) capital: regulatory adjustments		

55	Direct and indirect synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities		
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	-21,421	0
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-21,421**	**0**
58	**Tier 2 (T2) capital**	**281,460**	**302,881**
59	**Total capital (TC=T1+T2)**	**883,900**	**927,631**

The reconciliation of the items of own funds with audited financial statements

RON thousands

	31 December 2017
Own Funds elements in the Annual Financial Statements	**Bank**
Share capital	835,339
Revaluation reserve for available for sale investments & Defined benefit obligations	2,547
Retained earnings	-272,944
Other reserves (statutory reserves and general banking risk reserve)	55,844
Current year result	19,646
Total Own Funds Elements in Audited Financial Statements	**640,432**
CET 1 regulatory adjustments	**-37,990**
Income tax and penalties for reserves	0
Intangible assets (reconciled in the below table)	-12,009
Deferred tax assets	-2,879
BROM participation in NBG Leasing	0
Unrealized gain from AFS reserve (40%)	-889
Prudential filters	-21,421
Other CET 1 capital adjustments	0
Value adjustments due to the requirements for prudent valuation	-792
CET 1 Capital	**602,440**
Tier 1 Capital	**602,440**
Subordinated Loans received (reconciled in the below table)	302,881
Tier 2 regulatory adjustments	**-21,421**
Subordinated loan granted by Banca Romaneasca to NBG Leasing	0
Prudential filters	-21,421
Tier 2 Capital	**281,460**
Total Own Funds	**883,900**

RON thousands

	31 December 2017
	Individual level
Subordinated loans (Financial Statements)	303,153
Accruals, amortized amount related to subordinated loans	-272
Amortization of subordinated loans according to Article 4 of Regulation 575/2013	0
Subordinated loans included in Own Funds	**302,881**

RON thousands

Individual level					
	IFRS	**CRR**	**Deferred tax related to intangible assets**	**Prudential adjustments**	**Own Funds***
Total intangible assets	12,805	12,805	-797	-	12,009

**Intangible assets are deducted 100% of CET 1*

The main characteristics and contractual terms and conditions of the subordinated loan from National Bank of Greece SA, the main shareholder of the Bank (the Creditor), are the following:

- Loan amount: EUR 65,000,000 (sixty-five million euro)
- Granting date: 31 October 2006
- Interest rate: 3 months EURIBOR + 0.75% per annum
- Interest payment: quarterly (on 15th April, July, October, January)
- Repayment:
  - The subordinated loan is available to the Bank for an unlimited period of time
  - The Bank has the obligation to fully repay the subordinated loan (including any interest due) on the anniversary of 5 years from the date of the Creditor's repayment request
  - Prepayments are not allowed

- Subordination clauses:
  - In case the Bank enters into liquidation, is declared bankrupt or the settlement is permitted by court, the principal amount and interest of the subordinated loan will be repaid to the Creditor only after full payment of all the Bank's obligations towards depositors and other creditors with the exception of obligations towards those creditors whose claims are bound by a similar subordination clause
  - The Creditor's claim related to the subordinated loan may not be set off against its obligations towards the Bank.

The subordinated loan is not secured

6.2 Capital adequacy

6.2.1 Own Funds requirements

The table below presents the risk weighted exposure amount of Banca Romaneasca as of 31.12.2017, in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and NBR Regulation no.5/2013 regarding prudential requirements of credit institutions. For credit risk the bank uses standardized approach according to Regulation (EU) No 575/2013 and for operational risk the basic indicator approach, in accordance with Regulation (EU) No 575/2013. In case of market risk the bank computes own funds requirements for foreign exchange risk, in accordance with Regulation (EU) No 575/2013.

RON thousands

Credit risk & Counterparty Credit Risk (Standardized Approach)	Risk Weighted Exposure Amount* 31.12.2017 (individual)
Asset Class	
Central governments or central banks	0
Regional governments or local authorities	236
Public sector entities	194
Multilateral development banks	0
International organizations	0
Institutions, out of which:	400,880
- *counterparty credit risk*	2,127
Corporates	376,219
Retail	966,982
Secured by mortgages on immovable property	630,494
Exposures in Default	337,615
Items associated with particularly high risk	20,267
Covered bonds	0
Institutions and corporates with a short-term credit assessment	0
Units or shares in collective investment undertakings ('CIUs')	0
Equity	882
Other items	60,718
Total Credit Risk & Counterparty Risk	**2,794,488**
Market Risk	**0**
Foreign exchange	0
CVA	**0**
Operational Risk	**451,016**
Total Risk Weighted Exposure Amount	**3,245,504**

*Own Funds Requirements are 8% of the presented risk weighted exposure amounts

RON thousands

Capital Adequacy Ratios	Individual 31.12.2017
Tier 1 Capital	602,440
Total Own funds	883,900
Total Risk Weighted Exposure Amount	3,245,504
Tier I Capital Adequacy Ratio	**18.56%**
Total Capital Ratio**	**27.23%**

For December 2017 the capital conservation buffer (1.25%) was applied for individual. The indicators of global systemic importance were not applicable for Banca Romaneasca.

6.2.2 Leverage ratio

Risk of Excessive Leverage is a risk associated to tier 1 own funds in relation to bank assets. Possible events which might increase this risk include deterioration of tier 1 capital as result of negative events affecting Bank P&L (e.g. losses, increase of provisions) and/or excessive increase in the bank's assets.
The leverage ratio limit is monitored thorough the Risk Strategy to ensure maintenance within medium risk profile of the Bank.

The table below presents the leverage ratios and total leverage ratio exposures of Banca Romaneasca as of 31.12.2017, computed in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms.

RON thousands

Summary reconciliation of accounting assets and leverage ratio exposures	**Individual level**
Total assets as per published financial statements	6,428,437
Adjustments for derivative financial instruments	0
Adjustment for off-balance sheet items conversion to credit equivalent amounts of off-balance sheet exposures)	-217,695
Other adjustments	121,161
Total leverage ratio exposure	**6,331,903**

RON thousands

Leverage ratio common disclosure	**Individual level**
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	6,242,127
(Asset amounts deducted in determining Tier 1 capital)	37,990
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**6,204,138**
Replacement cost associated with all derivatives transactions (e.g. net of eligible cash variation margin)	0
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	0
Total derivative exposures	**0**
Counterparty credit risk exposure for SFT assets	**4,968**
Off-balance sheet exposures at gross notional amount	340,492
(Adjustments for conversion to credit equivalent amounts)	-217,695
Other off-balance sheet exposures	**122,797**
Tier 1 capital	**602,440**
Total leverage ratio exposures	**6,331,903**
Leverage ratio	**9.51%**

RON thousands

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	**Individual level**
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**6,282,042**
Trading book exposures	**0**
Banking book exposures, of which:	**6,242,127**
Covered bonds	0
Exposures treated as sovereigns	1,267,057

Exposures to regional governments, MDB, international organizations and PSE NOT treated as sovereigns	1,310
Institutions	524,998
Secured by mortgages of immovable properties	1,804,372
Retail exposures	1,760,439
Corporate	329,162
Exposures in default	288,499
Other exposures (e.g. equity, securitizations, and other non-credit obligation assets)	266,290

6.2.3 Internal Capital Adequacy Assessment Process ("ICAAP")

According to Basel III Capital Adequacy Framework, Pillar I sets the ways of measuring risks, especially credit, market and operational risks and aims to the alignment of the capital requirements with the risks undertaken.
The above rules are completed by Pillar II, which sets the requirements for monitoring, assessing and controlling all material risks to which credit institutions are exposed. Those requirements are associated with the Internal Capital Adequacy Assessment Process (ICAAP) applied by credit institutions.

The Bank recognizes the importance of an effective Internal Capital Adequacy Assessment Process (ICAAP). The development and implementation of ICAAP aims at ensuring the adequacy of the credit institutions' own funds for covering the various types of material risks which they are exposed to, as a result of their business activities.

The ICAAP objectives are:
- the proper identification, measurement, control and overall assessment of all material risks;
- the development of the appropriate systems for the measurement and management of those risks;
- the internal evaluation of the capital required for the mitigation of risks ("internal capital").

In this respect, the bank has developed an internal regulatory framework respectively the Policy and Methodology for the Internal Capital Adequacy Assessment Process (ICAAP).

The bank performed the ICAAP exercise for the year 2017 by estimating the relevant internal capital for all major risk types. The ICAAP contains the following:
- Risk profile assessment
- Risk measurement and internal capital adequacy assessment
- Stress testing development, analysis and evaluation
- ICAAP reporting framework
- ICAAP documentation

Banca Romaneasca has recognized and analyzed under the ICAAP the following risks to which it is exposed, including also the regulatory risks (for which the capital requirement may be adjusted/differently approached): credit risk, including credit concentration risk, residual risk and FX on lending, operational risk including legal risk, market risk – FX risk, credit valuation adjustment risk, interest rate risk in the banking portfolio, liquidity risk, country risk, reputation risk, strategic risk, risk of excessive leverage and external uncontrollable risks.

Internal capital requirements are computed per each risk type, then summed up for all the risks and compared with the assessed internal capital. Calculations were based on the methodologies that have already been developed in the ICAAP Framework. Results showed that the bank has sufficient capital to cover the material risks that it is exposed to in its business activities, registering a comfortable level of the internal capital ratio (17.73% at individual level), higher than the regulatory limit or minimum requirement requested by NBR. Also, further the capital planning performed for 2018, it resulted that the bank will not be in need for additional funding.

7. RISK MANAGEMENT FRAMEWORK

The bank acknowledges the need for enhanced risk management and risk control and has established the Risk Management Unit to properly measure, analyse, manage and control the risks entailed in all its business activities.
The main responsibilities of Risk Management Unit are:

- In the area of risk management:
    - On-going risk monitoring and management of the lending portfolio;
    - Monitoring, evaluating risks undertaken by the business units and ensuring adequate risk management tools.
- In the area of risk control, part of risk management function:
    - Ensure the compliance with risk policies, by taking into consideration all risks identified through the risk assessment process.

The Risk Management Unit is headed by the Risk Executive Director, including the following structures, which address all types of risks: Corporate Credit Risk Division, Retail Credit Risk Division, Risk Control Division and Remedial Management Division.

7.1 Credit Risk

According to the bank's Strategy for the Management of Significant Risks, the credit granting processes refers to:

- Sound, well-defined credit-granting criteria based on the particular target market, the borrower or counterparty, as well as the purpose and structure of the credit and its source of repayment.
- Credit limits that aggregate in a comparable and meaningful manner different types of exposures, at various levels: individual borrowers and counterparties, groups of connected borrowers and counterparties, industry limits, product limits
- Clearly established procedures for approving new credits as well as the amendment, renewal and re-financing of existing credits.

The Bank's objective is to maintain appropriate on-going credit administration, measurement and monitoring processes, including in particular:

- Sufficient and fully documented credit risk policies, ensuring consistency across the Bank and acknowledging key regulatory requirements.
- Information systems and analytical techniques that enable measurement and monitoring of credit risk inherent in all relevant activities, providing adequate information/reports on the composition of the loan portfolio and its evolution, including identification of any specific risks (like for example concentration risk).

The Bank follows adequate internal controls over the credit risk related processes, including:

- Proper management of the credit-granting functions ensuring that credit exposures are within set limits.
- Periodical early remedial actions on deteriorating credits, managing problem credits and similar workout situations.
- Independent, on-going assessment of the credit risk management processes by Internal Audit, covering in particular the credit risk systems/models employed by the Bank.

7.1.1 Credit Policy for the Corporate Portfolio

The bank's Corporate Credit Policy provides with the fundamentals in managing credit risk in the Corporate Banking Portfolio regarding identification, measurement, approval, monitoring and reporting credit risk. The credit policy establishes the principles to be followed in the credit granting activity in order to ensure sound practices and a good quality corporate loan portfolio. The policy has been designed in accordance with the current best practice standards and in compliance with the regulatory framework in place. The control of the credit risk is performed in accordance with the provisions of the policy and in conjunction with the Lending Norm, the Risk Management Strategy for Significant Risks and other relevant procedures.

7.1.2 Credit Policy for the Retail Portfolio

The bank undertakes and manages retail credit risk, but the achievement of predetermined targets has to be corroborated with satisfying the clientele's needs and maintaining simultaneously a healthy portfolio. The credit policy has a fundamental role in the achievement of this triple balance.
The Credit Policy for the Retail Banking Portfolio sets the credit criteria, the policies and procedures which determine the framework for managing and minimizing the retail credit risks undertaken by the bank. The Policy serves to establish a common approach for managing retail banking risk and to set the framework for the basic credit criteria. The basic aim is to approach clients in accordance with the rules and the risk appetite of the Bank.

7.2 Market Risk

To implement the targets set in its periodic business plans, with a view to maximizing performance within acceptable risk levels, BROM invests its available funds in authorized financial instruments, maintaining satisfactory liquidity levels in compliance, at all times, with the supervisory authorities' requirements. In order to provide for an adequate framework for managing the resulting market risk from these transactions, the Bank adopted the Market Risk Policy and the Market Risk Monitoring Procedure.

The main objectives of the market risk management framework are:
- designation of specific risk limits and responsibilities for, and evaluation of the performance of, every BROM unit involved in market risk management
- ongoing market risk monitoring and control, ensuring that BROM's risk profile remains within the limits approved by the Board of Directors
- setting up appropriate IT systems for evaluating and monitoring the risks taken
- setting up comprehensive reporting and internal control systems.

In order to meet the above objectives, the Bank's Management takes the steps necessary to provide for:
- efficient market risk management
- appropriate market risk control procedures and processes
- all the means necessary for market risk assessment
- BROM's market risk measuring, monitoring and controlling units have formal and documented frameworks of authorities and responsibilities, are fully independent from the risk-taking unit and report directly to the Management.

At the same time:
- the Risk Management Unit is responsible for determining a framework for estimating, analyzing, monitoring and controlling counterparty risk for interbank market transactions with credit institutions, in accordance with the guidelines set by the NBG Group Market and Operational Risk Management Division
- the Internal Audit Division is responsible for regular independent review and evaluation of BROM's internal control system relating to market risk
- the Management provides for the maintenance of an adequate level of capital (regulatory and economic) against the MR undertaken by BROM
- the Management provides for the disclosure of information regarding the type and level of the MR assumed by BROM.

Market risk measurement, monitoring and control activities include at least:
- systems or methodologies for estimating market risk, including Value at Risk (VaR) for the Open Currency Position (OCP) of the Bank
- systems or methodologies for valuating positions of BROM's Trading portfolio (if such a portfolio exists)
- identification by the Risk Management Unit of the risks inherent in new products, ensuring that they are subject to adequate assessment and control procedures before BROM undertakes any activity with respect thereto
- estimating by the Risk Management Unit of potential loss in stress testing and setting up stress test limits where appropriate.

The most significant type of Market Risk to which the Bank is exposed to is Foreign Exchange (FX) Risk.

Foreign Exchange Risk arises from the bank's Open Currency Position ("OCP"). In order to ensure the correct estimation and the efficient management and monitoring of the Market Risk that derives from the bank's activities, the Risk Management Unit calculates on a daily basis the Value-at-Risk of the Open Currency Position. The Bank performs spot, forward and foreign currency swap transactions. Transactions may be performed only with pre-approved counterparties. The Open Currency Position Risk monitoring is assured through the observance of the internally defined limits.

Market risk was limited during 2017 as the Bank was not involved in trading activities. All the securities – treasury bills, certificates of deposit issued by NBR and bonds issued by the Romanian Government – were booked in the available for sale portfolio due to lack of any transaction activity and intention of transaction further to their acquisition on the primary or secondary market.

7.3 Liquidity Risk

In order to provide for an adequate framework for managing liquidity risk, the Bank adopted the Liquidity Risk Policy, the Liquidity Strategy, the Liquidity Risk Monitoring Procedure and the Plan for Liquidity Management under Crisis Conditions.

The main objectives of the liquidity risk management framework are:

- designation of specific liquidity risk limits and responsibilities for every BROM unit involved in liquidity risk management
- ongoing liquidity risk monitoring and control, ensuring that BROM's risk profile remains within the limits approved by the Board of Directors
- setting up appropriate systems for evaluating and monitoring liquidity risk
- setting up comprehensive reporting and internal control systems.

The Bank's framework for managing liquidity risk encompasses:

- operating standards relating to liquidity risk, including appropriate policies, procedures and resources for controlling and limiting liquidity risk
- maintenance of an appropriate stock of liquid assets which can be readily converted into cash without incurring undue capital losses
- measurement, control and scenario testing of funding requirements, as well as access to funding sources
- information systems and other systems which identify, measure, monitor, and control liquidity risk
- alternative plans which contain solutions for properly managing liquidity in crisis conditions
- liquidity risk limits taking into account the existing regulatory limits
- liquidity ratios, with limits established by the Board of Directors or Executive Committee.

For monitoring the impact of the liquidity risk, the bank employs the following tools:

- monitors the Liquidity Gap Report
- monitors regulatory and internal liquidity indicators
- monitors the Large Providers of Funds.

7.4 Operational Risk

Banca Romaneasca has implemented the Operational Risk Management Framework, in order to address operational risks effectively and meet the requirements of regulatory compliance. The Bank has a consistent and effective Operational Risk Management Framework for identification, measurement, monitoring and control of operational risk and is documented through policies and procedures and is applicability to the level of entire bank. Through this framework four methodologies for monitoring the operational risk exist:

- RCSA - risk and controls self-assessment. RCSA process is performed annually and involves identification and evaluation of operational risk as well as major risk detection at process level;
- KRIs - key risk indicators are monthly monitored and reported so Bank can detect on time its exposure to high operational risk;
- Loss Event Data Collection – a database for all operational losses is implemented at Bank's level.

- Action Planning – the bank develops action plans in order to mitigate / control the causes that lead to operational risk events.

Banks' Operational Risk Management Framework is oriented on activities and processes aiming to proactive and reactive management of operational risks.

The Bank's Operational Risk Management governance structure is based on the "three lines of defence" model:
- The 1st Line of Defense includes all the structures of the Bank, each one directly responsible for controlling and minimizing the operational risk within their business activities in compliance with the Bank's standards and policies.
- The 2nd Line of Defense includes the Risk Management Unit, which is primarily responsible for developing and providing the Operational Risk Management methodologies, tools and guidance to be used at the structure level for the management of operational risk, supported by other specialized structures such as Compliance, Legal, Business Processes & Organization, Human Resources, Security, IT etc. Furthermore, monitoring of operational risk and assisting in mitigation actions also belong to this line of defense.
- The 3rd Line of Defense is Internal Audit Division, which is responsible for independently ensuring that the Operational Risk Management Framework is effective, appropriate and functioning with integrity.

Bank's policy regarding operational risk management includes:
- Identify, measure and assessment of operational risk;
- Monitoring, controlling and reporting of operational risk.

Risk Management Unit develops and maintains the ORM Framework and oversees its successful implementation and operation across the Bank, as well as its continuous review and enhancement. Also reviews and monitors the bank's operational risk profile on an ongoing basis, developing and implementing appropriate action plans with a view to ensuring that the necessary measures are in place for preventing or mitigating operational risks.
Main responsibilities of Risk Management Unit are:
- monitoring operational risk events, reporting to and updating the operational loss database, computing and reporting synthetic data to the management of the bank,
- performs appropriate stress testing on an annual basis,
- monitoring and assessing the outsourced activities,
- monitoring the fraud suspicious transactions and the evolution of the implementation of actions related to cases of fraud,
- testing and maintaining "Business Continuity and Crisis Management Framework Procedure".

For operational risk mitigation and in order to reduce the impact of operational loss, the bank has concluded insurance policies, as follows:
- Bankers Insurance and Electronic and Computer Crime Insurance
- Directors' and Officers' Liability and Company Indemnity Policy

7.5 Capital Adequacy

In order to ensure the Bank's compliance with the regulatory framework as well as to provide the Bank's Management with consistent risk management information, Risk Management Unit is responsible for reporting capital requirements and capital adequacy, large exposures and leverage ratio (Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms).

For the calculation of capital adequacy, a specialized software application is configured and used in order to calculate risk-weighted assets according to the bank's approach on each portfolio, in accordance with the current "Basel III" framework.
Risk Management Unit submits regularly and consistently all the required reports to the National Bank of Romania.

8. CREDIT RISK

8.1 Definitions and general information

For accounting purposes, “past due” exposures are those amounts which are past due for at least 1 day, other than those “impaired” while “impaired” exposures are those exposures for which individual and collective provisions are computed and registered.

8.2 Provisions calculation

8.2.1 Credit risk provisions

As of 2017, credit risk provisions were calculated according to International Financial Reporting Standards ("IFRS") principles. The bank has elaborated its own policy regarding impairment of financial assets for the purposes of preparing BROM’s individual and consolidated financial statements in accordance with IFRS.
The Policy applies to:

(a) All loans (including leasing receivables) that are subject to impairment assessment, in accordance with IAS 39.58. It applies to all loans that are carried at amortised cost, including loans that have been designated as hedge items in a fair value hedge of interest rate risk (see also IAS 39.IG.E.4.4). The Policy does not apply to loans that have been designated as at fair value through profit or loss because they are directly measured at fair value, which includes credit losses.

(b) Other receivables and prepayments

(c) Off-Balance sheet items (e.g. letters of credit, letters of guarantee and commitments to extend credit),

(d) Investments in debt and equity securities, classified as Available-for-Sale ("AFS"), Held-to-Maturity ("HTM"), or Loans and Receivables ("LAR").

In order to ensure the compliance with the regulatory framework, the Bank also calculated, as of December 31, 2017, prudential provisions.
The prudential provisions were calculated in compliance with NBR Regulation no. 16/2012. For the computation of provisions, the loan portfolio is split into 5 categories of classification (Standard, Watch, Substandard, Doubtful and Loss) by applying simultaneously the following three criteria: debt service, financial performance of the client (from A to E), initiation of legal procedures.
If legal procedures have been initiated the loans are classified into Loss 2 category.
If no legal procedures have been initiated, the loans are classified according to the matrix below:

Financial performance Debt service	A	B	C	D	E
0 –15 days	Standard	In observation	Substandard	Doubtful	Loss 1
16 – 30 days	In observation	Substandard	Doubtful	Loss 1	Loss 1
31 – 60 days	Substandard	Doubtful	Loss 1	Loss 1	Loss 1
61 – 90 days	Doubtful	Loss 1	Loss 1	Loss 1	Loss 1
minimum 91 days	Loss 2	Loss 2	Loss 2	Loss 2	Loss 2

In case no legal procedures have been initiated and in case all amounts of that loan register a debt service of maximum 90 days, the gross exposures are diminished by related collaterals considered as deductible.
In case legal procedures have been initiated or in case the client registers a debt service of more than 90 days (Loss 2 category), the eligible collaterals to be deducted are adjusted by applying a 0.25 coefficient. The collaterals related to the loan’s interest are not taken into account the coefficient applied having zero value.

The net exposure resulted after the deduction of collaterals is provisioned with following percentages:

Loan classification category	Provisioning coefficient for loans (others than the loans denominated in foreign currency or indexed at the exchange rate of a foreign currency, granted to unhedged individuals*)	Provisioning coefficient for loans denominated in foreign currency or indexed at the exchange rate of a foreign currency, granted to unhedged individuals*)
Standard	0	0,07
In observation	0,05	0,08
Substandard	0,2	0,23
Doubtful	0,5	0,53
Loss 1 / Loss 2	1	1

* The term of„unhedged individual" means individual which does not generate positive net inflows denominated in the same currency as the loan, which would allow them to repay on time each rate (balance and interest).

The prudential provisions will no longer be computed starting with 2018.

In order to comply with the upcoming requirements of IFRS 9, important analysis and working projects were started during 2017. The new regulation will enter into force in 2018 and will have a significant change and impact on the business model and credit risk assessment.

8.2.2 T-bills & Bonds

T-bills and the Bonds are classified depending on the initial intention in securities held for trading, securities available for sale (placements securities) and securities held until maturity. As per our current strategies, securities are held neither for trading and neither until maturity, being classified as available for sale securities. A fair value is calculated, using the traditional bond pricing (present value of future cash flows discounted using interest rates derived from firm/informative quotes from market makers).

The following tables present the analysis of the bank's exposures by asset classes, by geographical region, by economic sector and by remaining maturity:

Total gross exposures per asset classes before credit mitigation techniques

RON thousands

	2017 Average	31.12.2017
Asset Class		
Exposures to central governments or central banks*	1,333,661	1,267,850
Exposures to regional governments or local authorities	1,623	1,181
Exposures to public sector entities	878	787
Exposures to multilateral development banks	-	-
Exposures to international organizations	-	-
Exposures to institutions**, out of which:	404,568	535,810
- counterparty credit risk	15,903	10,635
Exposures to corporates	547,581	509,343
Retail exposures	1,999,233	1,927,797
Exposures secured by mortgages on immovable property	1,840,167	1,805,919
Exposures in default***	493,186	542,248
Exposures associated with particularly high risk	30,200	30,561
Exposures in the form of covered bonds	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures in the form of units or shares in collective investment undertakings	-	-

('CIUs')		
Equity exposures	882	882
Other items	389,463	398,408
Total Gross Exposure	**7,041,443**	**7,020,786**

* Includes T-bills and Bonds issued by the Romanian Government

** Are included exposures to banks (nostro accounts, placements with other banks and counterparty credit risk)

*** According to the default definition from Regulation (EU) No 575/2013 of The European Parliament And Of The Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

Total loan portfolio by type of client and economic sector

RON thousands

RON thousands	**Individuals**	**Public Sector**	**Corporate:**	***out of which SME***
Loan portfolio, out of which:	**3,725,352**	**1,969**	**1,005,184**	**315,765**
AGRICULTURE, FORESTRY AND FISHING	-	-	46,549	20,875
MINING AND QUARRYING	-	-	136	136
FOOD,BEVERAGES AND TOBACCO	-	-	98,572	10,124
TEXTILE INDUSTRIES	-	-	6,153	4,102
WOOD AND PAPER INDUSTRIES	-	-	6,351	6,351
CHEMICAL INDUSTRIES	-	-	84,459	23,711
MACHINERY AND EQUIPMENT	-	-	20,858	14,487
ENERGY- WASTE MANAGEMENT	-	-	121,996	1,178
SALE & REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	-	-	49,742	12,137
WHOLESALE TRADE	-	-	94,669	66,391
RETAIL TRADE	-	-	76,702	27,812
TRANSPORTATION-STORAGE	-	1,181	28,933	20,300
HOTEL AND RESTAURANTS	-	-	14,100	10,470
INFORMATION AND COMMUNICATION	-	-	4,047	4,047
FINANCIAL AND INSURANCE ACTIVITIES	-	-	56,764	181
REAL ESTATE ACTIVITIES	-	-	58,700	15,159
BUSINESS ACTIVITIES	-	-	71,985	24,703
PUBLIC ADMINISTRATION AND DEFENCE -EDUCATION	-	-	307	307
HUMAN HEALTH	-	0	319	319
ARTS, ENTERTAINMENT AND RECREATION	-	648	2,088	2,088
OTHER SERVICE ACTIVITIES			275.21	181

	-	129		
BUILDING AND GENERAL CONSTRUCTION ACTIVITIES	-	-	99,007	33,735
PUBLIC INFRASTRUCTURE WORKS	-	-	27,500	5,610
ACTIVITIES OF HOUSEHOLDS AS EMPLOYERS UNDIFFERENTIATED GOODS- AND SERVICES-PRODUCING	-	10	-	-
ACTIVITIES OF EXTRATERRITORIAL ORGANISATIONS AND BODIES	-	0	72	72
FACTORING	-	-	34,901	11,287
Total	**4,732,504**			

Total loan portfolio by type of client and geographical area

RON thousands

31.12.2017	Total loan portfolio: out of which:	Retail	Public Sector	Corporate:	*of which SME*
BUCURESTI	1,898,525	1,346,099	415	552,010	*102,210*
BANAT	411,291	390,394	0	20,897	*20,896*
CRISANA	496,520	383,196	233	113,091	*29,386*
MOLDOVA	554,753	506,747	129	47,877	*34,680*
MUNTENIA	556,542	425,830	0	130,712	*51,086*
OLTENIA	399,220	346,273	1,181	51,766	*25,263*
TRANSILVANIA	409,643	320,803	10	88,830	*52,244*
- non residents	6,011	6,011	0	0	*0*
- N/A	0	0	0	0	*0*
TOTAL	**4,732,504**	**3,725,352**	**1,969**	**1,005,184**	***315,765***

Total assets by remaining maturity

Total assets at December 31, 2017 and December 31, 2016 are analyzed over the remaining period to maturity in the tables below

		RON Thousands					
	December 31, 2017	**Net exposure value**					
		On demand	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No Stated maturity**	**Total**
1	Central governments or Central Banks	-	745,019	500,214	22,617	-	1,267,850
2	Regional governments or local authorities	-	1,180	-	-	-	1,180
3	Institutions	388,132	352,828	-	-	-	740,960
4	Corporates	-	292,118	189,598	108,692	-	590,407
5	Retail	-	237,602	869,337	2,472,747	-	3,579,686
6	Equity exposures	-	-	-	882	-	882
7	Other exposures	588	-	-	-	72,229	72,817
8	Total standardized approach	388,720	1,628,747	1,559,149	2,604,937	72,229	6,253,782

		RON Thousands					
	December 31, 2016	**Net exposure value**					
		On demand	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No Stated maturity**	**Total**
1	Central governments or Central Banks	-	704,046	787,325	23,112	-	1,514,483
2	Regional governments or local authorities	-	2,360	-	-	-	2,360
3	Institutions	261,728	245,128	-	-	-	506,855
4	Corporates	-	216,649	98,059	179,326	-	494,034
5	Retail	-	271,273	850,199	2,588,531	-	3,710,004
6	Equity exposures	-	-	-	67,860	-	67,860
7	Other exposures	652	177	-	-	80,486	81,315
8	Total standardized approach	262,379	1,439,633	1,735,584	2,858,829	80,486	6,376,912

Total loan portfolio, impaired exposures and past due amounts by economic sector

RON thousands

31.12.2017	**Total loan portfolio*, out of which:**	**Total outstanding (principal only)**	**Impaired exposures****	**Total Provisions**	**Past due amounts*****
Total loan portfolio, out of which:	**4,732,504**	**4,401,550**	**556,744**	**280,227**	**312,730**
Individuals	3,725,352	3,697,456	280,526	132,605	130,106
Agriculture, Forestry And Fishing	46,549	37,629	5,754	4,463	4,814
Mining And Quarrying	136	134	0	0	-
Food, Beverages And Tobacco	98,572	91,947	19,833	16,613	18,478
Textile Industries	6,153	4,482	1,574	1,133	1,572
Wood And Paper Industries	6,351	4,584	460	390	472
Chemical Industries	84,459	64,452	21,224	17,130	20,782
Machinery And Equipment	20,858	15,411	10,425	6,239	9,415
Energy- Waste Management	121,996	91,431	84,321	6,698	4,996
Sale & Repair Of Motor Vehicles And Motorcycles	49,742	30,994	7,329	5,560	6,597
Wholesale Trade	94,669	70,479	39,791	31,766	34,202
Retail Trade	76,702	22,437	13,389	11,349	13,320
Transportation-Storage	30,114	24,126	8,451	7,225	8,464
Hotel And Restaurants	14,100	10,475	4,437	2,026	3,080
Information And Communication	4,047	2,361	2,034	1,626	2,034
Financial And Insurance Activities	56,764	56,741	0	323	-
Real Estate Activities	58,700	45,352	27,047	15,348	25,809
Business Activities	71,985	49,522	6,750	5,781	6,848
Public Administration And Defense -Education	307	304	0	3	-
Human Health	319	273	0	2	-
Arts, Entertainment And	2,736	1,384	1,432	1,233	1,432

Recreation					
Other Service Activities	404	188	0	1	-
Building And General Construction Activities	99,007	46,063	21,079	11,970	19,353
Public Infrastructure Works	27,500	4,988	886	664	885
Activities Of Households As Employers Undifferentiated Goods- And Services-Producing	10	-	-	-	-
Activities Of Extraterritorial Organizations And Bodies	72	0	0	0	-
Factoring	34,901	28,339	-	79	73
T-bills & Bonds	792,228	792,228	-	-	-
TOTAL	**5,524,732**	**5,193,778**	**556,744**	**280,227**	**312,730**

Total loan portfolio contains on balance sheet exposure, undrawn committed, undrawn uncommitted for corporate only and contingent exposure
** Impaired exposures represent exposures for which individual or collective provisions are registered (covering partially/entirely the exposure)
*** Past due amounts represent amounts with at least 1 day of delay, but for which no provisions were registered. Past due exposures for which individual or collective provisions were constituted are included in the impaired exposures.

Geographical concentration of total loan portfolio, impaired exposures and past due amounts (excluding T-bills and Bonds)

RON thousands

31.12.2017	Total loan portfolio*, out of which:	Total outstanding (principal only)	Impaired exposures**	Past due amounts***
BUCURESTI	1,898,525	1,700,369	224,810	85,379
BANAT	411,291	402,853	30,784	21,247
CRISANA	496,520	485,401	33,155	14,884
MOLDOVA	554,753	542,999	67,466	40,474
MUNTENIA	556,542	512,587	105,462	85,204
OLTENIA	399,220	385,460	41,101	28,191
TRANSILVANIA	409,643	366,378	52,553	36,435
- non residents	6,011	5,503	1,412	917
- N/A	0	0	0	0
TOTAL	**4,732,504**	**4,401,550**	**556,744**	**312,730**

* Total loan portfolio contains on balance sheet exposure, undrawn committed, undrawn uncommitted for corporate only and contingent exposure
** Impaired exposures represent exposures for which individual or collective provisions are registered (covering partially/entirely the exposure)
*** Past due amounts represent amounts with at least 1 day of delay, but for which no provisions were registered. Past due exposures for which individual or collective provisions were constituted are included in the impaired exposures.

Impairment allowance of loans and advances granted to customers is presented below:

RON thousands

	2017	2016
Impairment allowance balance at the beginning of period - individuals	**-124,257**	**-260,563**
Impairment allowance charge	-10,692	-69,894
Impairment allowance used – derecognised loans	13,925	209,011
Foreign exchange rate differences	2,960	-2,811
At the end of the year - individuals	**-118,064**	**-124,257**

	2017	2016
Impairment allowance balance at the beginning of period – corporate	**-113,360**	**-176,300**
Impairment allowance charge	-9,911	-6,254
Impairment allowance used – derecognised loans	11,212	64,275
Foreign exchange rate differences	-1,627	4,919
At the end of the year - corporate	**-113,686**	**-113,360**

8.3 Portfolio under the Standardized Approach

The following External Credit Rating Institutions ("ECAI") are used to risk weight exposures under the Standardized Approach:

- Standard & Poor's
- Moody's
- Fitch

The asset classes for which ECAI ratings are used are the following: Exposures to Central Governments and Central Banks and Exposures to Financial Institutions.

The table below presents the exposure amounts, before and after credit risk mitigation, as of 31.12.2017, allocated to the credit quality steps.

Exposures to Financial Institutions

RON thousands

Credit quality step	Exposure amount before Credit Risk mitigation	Exposure amount after Credit Risk mitigation
1	232	232
2-3	299,974	299,974
4-5	923	923
6	223,869	223,869
Total	**524,998**	**524,998**

8.4 Credit risk mitigation techniques

In accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, Banca Romaneasca accepts the following instruments for mitigation of credit risk:
- Unfunded credit protection (guarantees) from: central administrations and central banks, regional administrations and local authorities, credit institutions;
- Funded credit protection: cash deposits, debt securities and material collaterals: residential and commercial real estate properties, other physical collaterals.

8.4.1 Revaluation of material collaterals

The estimation of the market value of the collaterals accepted by the bank is performed according to the stipulations of the "Guide for evaluation of collaterals on lending" issued by ANEVAR (Romanian National Valuators Association) and the provisions of International Financial Reporting Standards, in compliance with the requirements from NBR regulations (Regulation no. 16/2012 and Regulation no.5/2013 with its further amendments).

The estimation of the market value (equal to the fair value) of collaterals is performed periodically in order to:

- deduct the collaterals value from the exposure within the computation of necessary credit risk provisions;

- recognize the value of collaterals that can be taken into account as credit risk mitigation, when determining the risk weighted value of exposures, in order to compute the minimum capital requirements for credit risk.

The values of the collaterals have to be monitored frequently as follows:

a) in case of residential real estates the valuation has to be performed at least once at every three years and for the commercial real estates the valuation has to be performed once per year.
   In case that the evolution of the prices on the real estate market, according to the data disclosed by National Statistical Institute, reflect a decrease over 20%, end of year N versus end of year N-1, the bank will perform a new valuation of the real estate collaterals that have the previous evaluation older than 12 months.
b) in case of tangible goods the valuation has to be performed at least once per year.

In addition, valuation of collaterals may be necessary during the validity of the loan in certain specific cases (when are analyzed operations of replacing existing exposures or when are analyzed new operations having joint collaterals with other existing loans), according to Bank's regulations. The valuation of collaterals is performed by external valuators or internal valuators of the bank, members of ANEVAR (Romanian National Valuators Association).

Total exposure covered by **cash collateral deposits** and **guarantees received from banks and local public administration** as of 31.12.2017.

RON thousands

Exposure class	**Cash collateral deposits (Eligible financial collateral)**	**Guarantees received from banks / central government / local public administration (eligible guarantees)**
Corporate	7,772	8,232
Retail	7,450	487,331
Administrative organizations / PSE	446	0
Default exposures	889	481
Regulatory high-risk categories	-	-
Total	**16,557**	**496,044**

The rest of the exposures are covered by other types of collaterals.

9. COUNTERPARTY CREDIT RISK

For the efficient management of counterparty risk, the Bank has established a framework of counterparty limits. The list with counterparties is maintained and updated by the Risk Management Unit. For the implementation of new limits to counterparties or the increase of the existing limits, the endorsement of the NBG Risk Management Division is required. The monitoring of the limits is performed by the Risk Management Unit which also reports in this respect to the management of the Bank and to NBG Risk Management Division.

Counterparty limits are set based on the credit rating of the financial institutions. The credit ratings are provided by well-known external ratings assessment institutions and more specifically by Moody's, Standard & Poor's and Fitch. The limits framework is revised according to the business needs of the bank and the prevailing conditions in the financial markets.

For capital requirements calculation purposes the Bank calculates the exposure amount for derivatives by applying the Mark-to-Market ("MTM") methodology (Regulation (EU) No 575/2013). The exposure value is represented by the sum of current replacement cost and the potential future credit exposure. As of 31.12.2017 the Bank had no exposure at risk computed for OTC derivatives transactions subject to counterparty credit risk. The derivatives would have been represented by forward foreign exchange contracts.

Also for capital requirements calculation purposes the Bank calculates the exposure amount for secured funding/lending transactions (repos/reverse repos) by applying the Financial Collateral Simple Method. As of 31.12.2017 the Bank's exposure at risk computed for secured funding/lending transactions subject to counterparty credit risk is in amount of RON 10,634,741.

RON thousands

31.12.2017	Exposure value	RWA	Capital requirements
Forward FX contracts	0	0	0
Repo transactions	10,635	2,127	170

10. MARKET RISK

Banca Romaneasca does not have a Trading Book currently in place. Consequently, the Bank does not calculate capital charges against the market risk of the Trading Book. The only market risk related capital charges are the ones for the open currency position which are calculated according to Regulation (EU) No 575/2013. As of 31.12.2017 the market risk capital requirements for foreign exchange risk is RON 0.

The Bank uses the Value-at Risk methodology for monitoring the foreign exchange risk. The VaR estimates are used internally, as a risk management tool. The Bank's Risk Management Unit calculates on a daily basis the VaR of the Bank's Open Currency Position, using a 99% confidence interval and 1-day or 10-day holding periods. The calculation of the VaR relies on the assumption that the returns on individual risk factors (exchange rates) follow a normal distribution.

11. LIQUIDITY RISK

Banca Romaneasca is subject to regulatory limits regarding liquidity risk. In this respect, BROM calculates and reports the Liquidity Coverage Ratio (LCR) to the National Bank of Romania in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and Delegated Regulation (EU) 2015/61. Please find below the related data (amounts in **thousands** RON) as of 2017.

Individual Thousands RON		TOTAL ADJUSTED VALUE			
		Q1 2017	**Q2 2017**	**Q3 2017**	**Q4 2017**
21	**LIQUIDITY BUFFER**	1,101,353.77	1,096,781.10	1,057,594.74	1,024,846
22	**TOTAL NET CASH OUTFLOWS**	569,760.84	515,608.55	453,961.48	392,452
23	**LIQUIDITY COVERAGE RATIO (%)**	**212.65%**	**230.72%**	**268.32%**	**347.02%**

12. EQUITY EXPOSURES NOT INCLUDED IN THE TRADING BOOK

Investments in shares that are not included in the trading portfolio are included in the available for sale portfolio. The available for sale investments in shares are recognized at cost, as approximation to fair value, as follows:

Security	Issuer	Currency (thousand)	Acquisition Cost	Fair Value
Shares	SNCDDVM	RON	3	3
Shares	RI Monitor	RON	10	10
Shares	Transfond S.A.	RON	472	472
Shares	Biroul de Credit	RON	281	281
Shares	Master Card International	USD	26	26
Shares	SWIFT	EUR	90	90

13. INTEREST RATE RISK IN THE BANKING BOOK

For monitoring and reporting the potential interest rate risk impact, Risk Management Unit has the responsibility of producing the Interest Rate Gap Report. The report estimates the interest rate risk for the entire balance sheet both from an earnings perspective (unrealized gain/loss in the event of a yield curve shift across time buckets for every meaningful currency in the balance sheet) and from a valuation perspective (Economic Value of Equity).
The Earnings at Risk Indicator for each time bucket is calculated by applying the shift in the yield curve for each time bucket.

For measuring the Earnings at Risk indicator under normal conditions, the following upward / downward shift in the yield curve assumptions are used: RON – 100 bps, all other currencies – 50 bps. The Earnings at Risk Indicator is calculated for the up-to-1 year interval and for the entire balance sheet, excluding any Trading Book positions.

For measuring the Earnings at Risk indicator under stress conditions the following upward / downward shift in the yield curve assumptions are used: RON – 200 bps, all other currencies – 100 bps.

Please find below the computation as of 31.12.2017 for EaR indicator:

RON k

Adjusted Earnings at Risk	Normal conditions		Stress Conditions	
	Total Balance Sheet	**12 Months**	**Total Balance Sheet**	**12 Months**
	± 9,862	± 6,497	± 19,725	± 12,994

The change in the Economic Value of Equity is calculated based on the methodology provided by the National Bank of Romania in Regulation 5/2013. It assumes a parallel shift (up and down) of 200 bps in interest rates for all maturities.

As of 31.12.2017 the change in the Economic Value stands at +4.89% of the Bank's Own Funds assuming a downward move in interest rates and -4.89% of the Bank's Own Funds assuming an upward move in interest rates.

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14. UNENCUMBERRED ASSETS

Please find below the value of BROM's unencumbered assets as of 31 December, 2017 considered based on European Banking Authority reporting standards.

Please note that with respect to assets encumbrance, during 2017 the main sources of encumbrance were represented by secured funding transactions and collateral agreements.

RON thousand

A - Assets				
	Carrying amount of encumbered assets	**Fair value of encumbered assets**	**Carrying amount of non-encumbered assets**	**Fair value of non-encumbered assets**
Assets of the reporting institution, out of which:	44,677		6,208,610	
Equity instruments	0		882	882
Debt securities	44,677	44,677	747,551	747,551

B - Collateral received		
	Fair value of encumbered collateral received or own debt securities issued	**Fair value of collateral received or own debt securities issued available for encumbrance**
Collateral received by the reporting institution	0	0
Equity instruments	0	0
Debt securities	0	0
Other collateral received	0	0
Own debt securities issued other than own covered bonds or ABSs	0	0

C – Encumbered assets/collateral received and contingent liabilities		
	Matching liabilities, contingent liabilities or securities lent	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**
Carrying amount of selected financial liabilities	28,141	33,688

Appendix 1 – Statement regarding the risk management framework adequacy

In line with Reg. no. 5/ 20.12.2013 regarding credit institutions prudential framework and Reg. no. 575/ 2013 of the European Parliament and Council from 26.06.2013, regarding credit institutions prudential framework and investment companies, art. 435, letter e.), through this statement the Management Body of Banca Romaneasca SA certifies that existing risk management systems are adequate taking into account the risk profile and strategy of the institution.

In the same time, we mention that in compliance with the information published through Pillar III Disclosure Report, in Banca Romaneasca SA the risk management framework is one of the key components of the bank management framework, being structured to take into account the activity, as well as the complexity and nature of the risks generated by the business model of the bank. This ensures the effective and prudent management of the bank, and, in the same time, the fulfilment of risk strategic objectives with the goal to keep the bank within the established risk profile limits.

Appendix 2 – Statement regarding the risk profile

The general risk profile the bank has assumed through its risk strategy in correlation with its business strategy is medium. The risk profile is established annually based on risk tolerance and appetite established by the Bank. The information included in the Pillar III Disclosure Report approved by the management body and posted on the bank's web-site, describes briefly the general risk framework of the bank connected with the bank's business strategy and includes a short description of the key ratios and data which are offering to the stakeholders a comprehensive general view over the bank's risk management, as well as over the way in which the bank's risk profile is interconnected with the risk tolerance established by the management body.

The monitoring of observance of medium risk profile is performed based on a set of limits associated with certain indicators which cover the following risk types: credit risk, concentrare risk, rezidual risk, market risk, interest rate risk outside of trading book risk, liquidity risk, operational risk, reputational risk and external uncontrollable risks.

An orientative set of indicators, without being limitative, is presented below:

Indicator	**Individual Level (December 2017)**
Capital adequacy ratio	27.23%
Leverage ratio	9.51%
Liquidity coverage ratio (LCR)	550%

Appendix 3 – Management Body statement regarding the verification of disclosures

In line with National Bank of Romania Instructions from 29.12.2017 regarding the disclosure requirements under Part Eight of Regulation (EU) No. 575/2013 of the European Parliament on prudential requirements for credit institutions and investment firms and for the amendment of Regulation (EU) no. 648/2012, through this statement the Management Body of Banca Romaneasca S.A. Member of the National Bank of Greece certifies that the Report on transparency and public information for 2017 including the disclosures provided according to Part Eight of the Regulation (EU) No. 575/2013 has been appropriately reviewed and has been prepared in accordance with the internal control processes agreed upon at the management body level.

By establishing and maintaining an effective internal control structure over the bank's disclosures, including disclosures provided according to Part Eight of the Regulation (EU) No. 575/2013, we also ensure that an appropriate review of the information disclosed by the bank took place.