# BRD - Groupe Société Générale

# REPORT ON TRANSPARENCY AND DISCLOSURE REQUIREMENTS

according to 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

**2019**

BRD
GROUPE SOCIETE GENERALE

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# Introduction

### THE SCOPE OF THE REPORT

BRD's Report on Transparency and Disclosure Requirements is prepared according to 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, the Guidelines on disclosure requirements in Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11), the Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10).

BRD applies article 13 (1) of Regulation (EU) No 575/2013, according to which significant subsidiaries of EU parent institutions and those subsidiaries which are of material significance for their local market shall disclose the information specified in articles 437 (own funds), 438 (capital requirements), 440 (capital buffers), 442 (credit risk adjustments), 450 (remuneration policy), 451 (leverage) and 453 (credit risk mitigation techniques) on an individual or sub-consolidated basis. Additionally, as per the Guidelines on disclosure requirements in Part Eight of Regulation (EU) No 575/2013, BRD also discloses information according to article 435 point 2 (governance arrangements) and article 443 (unencumbered assets).

### CONSOLIDATION PERIMETER

As BRD is parent credit institution in Romania and, at the same time, subsidiary of Société Générale, the prudential consolidation perimeter is applied for the purpose of this report.

For the scope of prudential consolidation, the BRD Group includes the following entities:

- BRD - Groupe Société Générale SA;
- BRD Sogelease IFN SA;
- BRD Finance IFN SA.

Amounts are in RON thousand at December 31, 2019, unless otherwise stated.

### LOCATION OF PILLAR 3 DISCLOSURES

This report complements and/or details information provided in BRD's Annual Board of Directors Report for the year 2019 and the Consolidated and Separate Financial Statements as at December 31, 2019. The documents are available electronically at www.brd.ro.

The disclosure index below provides information on where information required in Part Eight of Regulation (EU) No 575/2013 can be found.

## Table 1: Disclosure index

| CRR article number | CRR article description | Reference to the chapter in the present document | Reference to external documents |
|---|---|---|---|
| 435 (2) | Governance arrangements | Chapter 1: Governance arrangements<br>✓ the number of directorships held by members of the management body;<br>✓ the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise;<br>✓ the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved;<br>✓ whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;<br>✓ the description of the information flow on risk to the management body. | Annual Board of Directors Report for 2019:<br>✓ Chapter 2: Corporate Governance<br>✓ Chapter 6: Risk Management |
| 437 | Own Funds | Chapter 2: Own Funds<br>✓ Accounting and Regulatory Balance Sheet reconciliation with cross reference to Own Funds disclosure template<br>✓ Capital instruments' main features template<br>✓ Own Funds disclosure template | Annual Board of Directors Report for 2019 - Chapter 7: Capital Management and Adequacy<br>Consolidated and separate financial statements, as at Dec 31, 2019 – Note 41 - Capital management |
| 438 | Capital requirements | Chapter 3: Capital requirements<br>✓ Capital requirements – regulatory and SREP<br>✓ **EU OV1** – Overview of RWA | Annual Board of Directors Report for 2019 - Chapter 7: Capital Management and Adequacy<br>Consolidated and separate financial statements, as at Dec 31, 2019 – Note 41 - Capital management |
| 440 | Capital buffers | Chapter 4: Capital buffers | Annual Board of Directors Report for 2019 - Chapter 7: Capital Management and Adequacy |
| 442 | Credit risk adjustments/ NPLs | Chapter 5: Credit risk adjustments/NPLs (non-performing loans)<br>✓ **EU CRB-A** – Additional disclosure related to the credit quality of assets<br>✓ **EU CRB-B** – Total and average net amount of exposures<br>✓ **EU CRB-C** – Geographical breakdown of exposures<br>✓ **EU CRB-D** – Concentration of exposures by industry or counterparty types<br>✓ **EU CR1-A** – Credit quality of exposures by exposure class and instrument<br>✓ **EU CR1-C** – Credit quality of exposures by geography<br>✓ **Template 1 -** Credit quality of forborne exposures<br>✓ **Template 3** - Credit quality of performing and non-performing exposures by past due days<br>✓ **Template 4 -** Performing and non-performing exposures and related provisions<br>✓ **Template 9 -** Collateral obtained by taking possession and execution processes<br>✓ **EU CR2-A** – Changes in the stock of general and specific credit risk adjustments for impaired loans and advances | Consolidated and separate financial statements, as at Dec 31, 2019 – Note 40 – Risk management and Note 9 – Loans and advances to customers |

| | | | |
|---|---|---|---|
| | | ✓ **EU CR2-B** – Changes in the stock of defaulted and impaired loans and debt securities and off-balance-sheet exposures | |
| 443 | Unencumbered assets | Chapter 6: Unencumbered assets | |
| 450 | Remuneration policy | Chapter 7: Remuneration policy<br>✓ Information on the decision-making process used for determining the remuneration policy, including the number of meetings held by the Remuneration Committee<br>✓ Link between pay and performance<br>✓ Most important design characteristics of the remuneration system<br>✓ Ratios between fixed and variable remuneration<br>✓ Performance criteria on which the entitlement to shares, options or variable remuneration is based<br>✓ Main parameters and rationale for the variable component scheme | Annual Board of Directors Report for 2019 – Chapter 3: Human Resources |
| 451 | Leverage ratio | Chapter 8: Leverage ratio<br>✓ **LRQua** - Description of the processes used to manage the risk of excessive leverage and of the factors that had an impact on the leverage ratio<br>✓ **LRSum** - Summary reconciliation of accounting assets and leverage ratio exposures<br>✓ **LRCom** - Leverage ratio common disclosure | Annual Board of Directors Report for 2019 - Chapter 7: Capital Management and Adequacy |
| 453 | Use of credit risk mitigation techniques | Chapter 9: Credit risk mitigation techniques<br>✓ **EU CRC** – Qualitative disclosure requirements related to CRM techniques<br>✓ **EU CR3** – CRM techniques – Overview<br>✓ **EU CR4** – Standardised approach – Credit risk exposure and CRM effects | |

# 1 Governance arrangements

BRD-Groupe Société Générale adopted a unitary management system that is fully consistent with the principles of good corporate governance, transparency of relevant corporate information, protection of shareholders and of other categories of concerned persons (stakeholders), as well as of an efficient operation on the banking market.

The internal governance of BRD-Groupe Société Générale S.A. is aligned with that of the parent company, Société Générale. BRD has adopted, and applies, on a voluntary basis, the provisions of Corporate Governance Code of the Bucharest Stock Exchange (BSE) and reports annually the compliance with its provisions.

The structure, the size and the skills of the management body (in its supervisory function - Board of Directors and the senior management - Management Committee) are well suited for the dimension and the complexity of the Bank's activity.

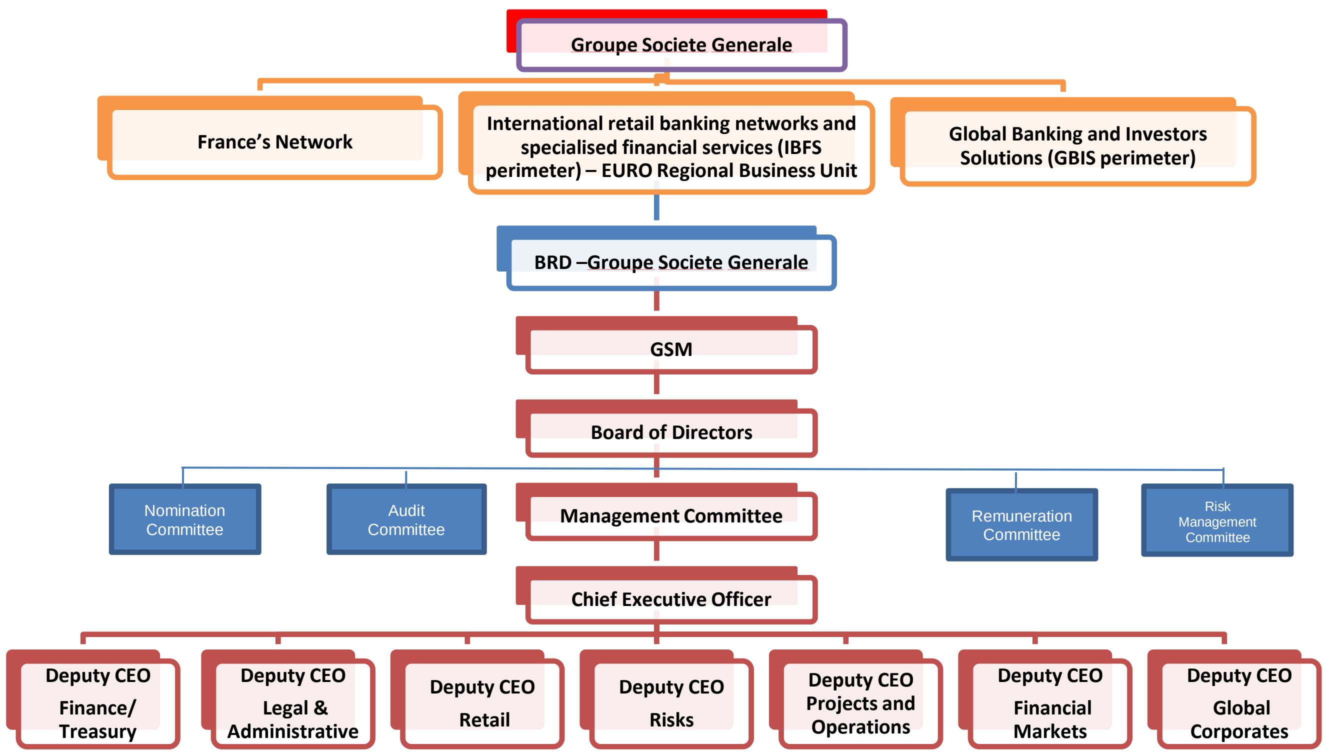
The members of the management body commit sufficient time to their responsibilities as stipulated by the law and the statutory bodies.

The members of the management body have the necessary expertise to carry out their responsibilities and take decisions independently.

The management body promotes both high ethical and professional standards, as well as a strong culture of internal control.

An overview of the organizational chart of the Bank is presented in the chart below.

**Table 2: BRD-Groupe Societe Generale Organizational Chart**



The structure and organization of the management body are presented in Chapter 2 - Corporate governance of BRD’s Annual Board of Directors‘ Report and also in BRD's Corporate Governance Code in Chapter 2 “Corporate governance structures” and in BRD’s Articles of Incorporation, documents, available to the interested parties on the institutional site in the section: Investors and shareholders.

At the same time, information on the professional experience of members of the Bank's management body can be found on the institutional site at: https://www.brd.ro/en/about-brd/about-us/about-brd/management.

All members of the management body comply with the legal provisions on the cumulative mandate established by the applicable law in force. Information on the number of directorships held by each member of the management body are presented in BRD’s Annual Board of Directors’ Report 2019 (Chapter 2 - Corporate Governance) and can be consulted on the institutional site at: https://www.brd.ro/_files/pdf/170320/BoD_Report_2019_EN.pdf.

BRD’s Annual Board of Directors Report 2019 (Chapter 2 - Corporate Governance) contains information on the main changes in the management body on 2019 and the year of expiry of the current mandates of BRD’s members of Board of Directors.

In order to support the Board of Directors and the Management Committee activity, several committees are set up and operate within the Bank.

The mission, the structure, the rules regarding the organization and functioning of the committees supporting the Board of Directors and the Management Committee are presented in BRD's Corporate Governance Code, Chapter 2 “Corporate governance structures” and also in BRD’s Annual Board of Directors’ Report, Chapter 2 - Corporate Governance, available on the institutional site at: Investors and shareholders.

### THE ATTENDANCE OF THE MEMBERS OF THE MANAGEMENT BODY TO THE MEETINGS IN 2019

BRD’s Annual Board of Directors’ Report 2019, Chapter 2 - Corporate Governance, that can be consulted on the institutional site at: https://www.brd.ro/_files/pdf/170320/BoD_Report_2019_EN.pdf, contains details regarding the meetings, their frequency and the subjects discussed.

As at December 31, 2019, the members of the Board of Directors had a 98% attendance rate to the Board meetings, while members of the Management Committee had a 93.42% attendance rate.

### THE RECRUITMENT POLICY FOR THE SELECTION OF MEMBERS OF THE MANAGEMENT BODY

The Bank has a policy setting out the criteria, processes and measures applied by the Bank for the selection, assessment of adequacy (monitoring) and succession planning of members of the Board of Directors and the Management Committee. The responsibility for the process of selection, monitoring and planning of the succession of the members of the management body rests to the Nomination Committee. The Nomination Committee actively contributes to those processes.

The criteria for nominating candidates are at least the following:

- to have a good reputation;
- to have the professional experience adequate to the nature, extent and complexity of the banking business and of the entrusted responsibilities;
- to ensure collective competence of the management body by the co-optation of the new member, as well as the balance of knowledge, skills, diversity and experience of the Management Body for an efficient and performant management of the Bank's activity;
- to ensure diversity within the Management Body in terms of skills and competences, to ensure that the Management Body's decision-making process is not dominated by any person or small group of persons in a way that is detrimental to the Bank’s interests, the diversity in terms of age, experience, etc .;
- to ensure a sufficient number of independent directors at the level of the Board of Directors and of the Committees set up to support of the activity of the Board of Directors;
- to achieve the gender target.

The main objective of the selection process is to ensure suitable candidates for the vacant positions in the Management Body or to ensure the succession of the existing members.

The selection of the candidates excludes any discrimination on gender, age, ethnicity or any other kind of discrimination, stipulated by the law.

Criteria such as reputation, theoretical and practical professional experience in specific areas of BRD–Groupe Société Générale's activities, as well as diversity of the management body, ensure a suitable structure of the management body.

The selection of independent directors is subject to compliance with the criteria stipulated by the Companies' Law no. 31/1990, NBR Regulation no. 5/2013 on prudential requirements for credit institutions (article 7 paragraph 4), EBA Guidelines on the assessment of the suitability of members of the management body and key function holders and by the Bucharest Stock Exchange Code of Corporate Governance.

The exercise of the responsibilities by members of the Management Body is subject to obtaining NBR approval.

### THE DIVERSITY POLICY

According to the Nomination Committee Report on assessing that the adequacy of the management body and its members, size, structure and balance of knowledge, skills and experience are adequate to the responsibilities of the management body:

- the number of directors (9) and executive officers (8)[1] is appropriate to the size, complexity and nature of the Bank's activity;
- the structure of the Board of Directors ensures a proper balance between executive and non-executive members (8 non-executive members and 1 executive member)[2];
- the Board of Directors has 3 independent directors[3];
- the structure of the management body ensures age, gender and geographical diversity;
- the professional experience of the members of the management body in areas such as: financial-banking, capital markets, risk, audit / control, retail, their access to international information and, also, the academic experience of some members, offers professional diversity

### THE INFORMATION FLOW ON RISK TO THE MANAGEMENT BODY

The information flow on risk to the management body is detailed in ''BRD's Annual Board of Directors' Report 2019'' in Chapter 6 - Risk management, subchapter Risk management governance, document that can be consulted on the institutional site at:
https://www.brd.ro/_files/pdf/170320/BoD_Report_2019_EN.pdf.

[1] Starting June 28, 2019;

[2] Starting March 1, 2019;

[3] Starting November 22, 2019;

# 2 Own funds

**CONSOLIDATION PERIMETER**

The basis for calculation of own funds is the consolidated prudential perimeter.

BRD Group consolidation perimeter for prudential purposes is defined in accordance with Regulation (EU) No 575/2013 (CRR), Part One, Title II, Chapter 2, Section 3.

The consolidated entities for prudential scope are identified based on the criteria as per Articles 4 (1) (3), (16) to (27), 18 and 19 of CRR. According to Article 4 of CRR, entities consolidated in the prudential reporting must have one of the following types of activity: credit institution, investment firm, ancillary services undertaking and/or other financial institution. In contrast, in accordance with IFRS financial statements, all entities controlled directly or indirectly (including non-financial entities, insurance companies, etc.) are fully consolidated.

Additional exclusion of subsidiaries from prudential consolidation perimeter is based on criteria from Article 19 of CRR.

Based on the above, the prudential consolidation perimeter of BRD Group includes the parent company BRD - Groupe Société Générale S.A and two of its subsidiaries:

- BRD Sogelease IFN S.A.
- BRD Finance IFN S.A.

**Table 3: EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)**

| Name of the entity | Method of accounting consolidation | Method of regulatory consolidation | | Description of the entity |
|---|---|---|---|---|
| | | Full consolidation | Recognised under the equity method | |
| BRD Sogelease IFN SA | Full consolidation | X | | Financial lease company |
| BRD Finance IFN SA | Full consolidation | X | | Financial institution |
| BRD Asset Management SAI SA | Full consolidation | | X | Fund administration company |

**OWN FUNDS**

BRD Group regulatory own funds as at December 31, 2019 amounted to RON 7,559 million (RON 5,956 million as at December 31, 2018) and consist of common equity capital (CET1).

The basis for calculating own funds is the prudential consolidation perimeter as presented above. The reconciliation of consolidated balance sheet according to IFRS financial statements and the balance sheet prepared for prudential consolidation purposes is presented in Table 4. The structure of own funds is presented in Table 5.

Common Equity Capital (CET1) includes:

- Eligible Capital includes the nominal share capital and the hyperinflation adjustment of share capital accounted until December 31, 2003. As at December 31, 2019, the share capital amounted to RON 696.9 million, unchanged versus previous periods. The hyperinflation adjustment amounted to RON 1,819 million.
- Eligible Reserves include:
  - Retained earnings, which represent the undistributed profits of previous periods and retained earnings arising from adjustments from IFRS implementation as accounting basis, starting with January 1, 2012;

    - Other reserves: legal reserves, reserves for general banking risks or other reserves established by the law and defined pension plan reserve.

- Other comprehensive income (OCI) includes unrealized gains and losses from changes in the fair value of debt instruments at fair value through other comprehensive income and from re-measurement of defined benefit liability arising from the post-employment benefit plan.

Regulatory deductions from CET 1 applicable as at December 31, 2019 essentially involved the following elements:

- Goodwill and intangible assets net of associated tax – deducted 100% from CET 1.
- Contingent or any foreseeable tax charges related to CET 1 reserves taxable upon utilization to cover losses or risks.

As at December 31, 2019 and December 31, 2018 the Bank had no Additional Tier 1 or Tier 2 capital instruments issued and outstanding.

Further details on own funds are presented in Table 5 - Regulatory own funds and solvency ratios.

A description of the main features of regulatory capital instruments is provided in Table 6 - Own funds disclosure template.

## Table 4: Reconciliation of consolidated balance sheet as per IFRS financial statements and consolidated balance sheet within prudential scope

| | Consolidated balance sheet | Prudential restatements (1) | Accounting balance sheet within the prudential scope | *Cross ref. Table 5* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash in hand | 2,077,373 | 0 | 2,077,373 | |
| Due from Central Bank | 4,765,273 | 0 | 4,765,273 | |
| Due from banks | 3,409,594 | 0 | 3,409,594 | |
| Derivatives and other financial instruments held for trading | 1,244,032 | 0 | 1,244,032 | |
| Loans, gross | 31,883,889 | 0 | 31,883,889 | |
| Impairment allowance for loans | -1,591,020 | 0 | -1,591,020 | |
| Loans and advances to customers | 30,292,869 | 0 | 30,292,869 | |
| Finance lease receivables | 992,665 | 0 | 992,665 | |
| Financial assets at fair value through profit and loss | 108,054 | 0 | 108,054 | |
| Financial assets at fair value through other comprehensive income | 12,958,113 | -20,679 | 12,937,434 | |
| Investments in associates and subsidiares | 85,574 | 23,098 | 108,672 | |
| Property, plant and equipment | 1,193,499 | -1,401 | 1,192,098 | |
| Investment property | 17,818 | 0 | 17,818 | |
| Goodwill | 50,130 | 0 | 50,130 | *1* |
| Intangible assets | 185,289 | -292 | 184,997 | *2* |
| Current tax assets | 136 | -136 | 0 | |
| Deferred tax asset | 88,955 | -200 | 88,755 | |
| Other assets | 301,130 | 2,509 | 303,639 | |
| **Total assets** | **57,770,504** | **2,899** | **57,773,403** | |
| | | | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Due to banks | 421,112 | 0 | 421,112 | |
| Due to customers | 45,898,751 | 6,163 | 45,904,914 | |
| Borrowed funds | 1,696,495 | 0 | 1,696,495 | |
| Current tax liability | 15,117 | 0 | 15,117 | |
| Deferred tax liability | 0 | 0 | 0 | |
| Other liabilities | 1,345,580 | -3,258 | 1,342,322 | |
| **Total liabilities** | **49,586,585** | **2,905** | **49,589,490** | |
| Share capital | 2,515,622 | 0 | 2,515,622 | *3* |
| Other comprehensive income | 179,152 | 0 | 179,152 | *4* |
| Retained earnings and other reserves | 5,441,456 | -6 | 5,441,450 | *5* |
| Non-controlling interest | 47,689 | 0 | 47,689 | |
| **Total equity** | **8,183,919** | **-6** | **8,183,913** | |
| **Total liabilities and equity** | **57,770,504** | **2,899** | **57,773,403** | |

*(1) Prudential restatements refers to treatment differences of subsidiaries excluded from prudential consolidation scope.*

**Table 5: Regulatory own funds and solvency ratios**

| REGULATORY OWN FUNDS | Fully Loaded | *Cross ref. Table 4* | *Cross ref. Table 6* |
|---|---|---|---|
| ***Common Equity Tier 1 (CET1): instruments and reserves*** | | | |
| Eligible capital | 2,515,622 | *3* | *1* |
| Reserves and accumulated profits | 3,778,481 | *5* | *2* |
| Other comprehensive income | 179,152 | *4* | *3* |
| Funds for general banking risk | 170,762 | *5* | *3a* |
| Accounting minority interest | - | | *5* |
| Current year result (net of any foreseeable charge or dividend) | 1,492,212 | *5* | *5a* |
| ***Common Equity Tier 1 (CET1) capital before regulatory adjustments*** | **8,136,229** | | |
| Additional value adjustments (negative amount) | (71,172) | | |
| Intangible assets (net of related tax liability) | (230,885) | *1,2* | *8* |
| Foreseeable tax charges relating to CET1 items | (275,078) | | *25b* |
| Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment | - | | |
| - of which related to OCI gains | - | | |
| - of which related to minority interest eligibility | - | | |
| ***Total regulatory adjustments to Common equity Tier 1 (CET1)*** | **(577,135)** | | |
| **Common Equity Tier 1 (CET1) capital** | **7,559,094** | | |
| **Tier 1 capital (T1 = CET1 + AT1)** | **7,559,094** | | |
| **Total capital (TC = T1 + T2)** | **7,559,094** | | |
| **Total risk weighted aseets** | **31,045,405** | | |
| **Common Equity Tier 1 Ratio** | **24.35** | | |
| **Tier 1 Ratio** | **24.35** | | |
| **Total capital ratio** | **24.35** | | |

## Table 6: Own Funds disclosure template

| Ref | OWN FUNDS DISCLOSURE TEMPLATE | | REGULATION (EU) NO 575/2013 ARTICLE REFERENCE |
|---|---|---|---|
| | **Common Equity Tier 1 capital: instruments and reserves** | | |
| 1 | Capital instruments and the related share premium accounts | 2,515,622 | 26 (1), 27, 28, 29, EBA list 26 (3) |
| | of which: Instrument type 1 | 2,515,622 | EBA list 26 (3) |
| | of which: Instrument type 2 | - | EBA list 26 (3) |
| | of which: Instrument type 3 | - | EBA list 26 (3) |
| 2 | Retained earnings and other reserves | 3,778,481 | 26 (1) (c) |
| 3 | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 179,152 | 26 (1) |
| 3a | Funds for general banking risk | 170,762 | 26 (1) (f) |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | - | 486 (2) |
| | Public sector capital injections grandfathered until 1 January 2018 | - | 483 (2) |
| 5 | Minority Interests (amount allowed in consolidated CET1) | - | 84, 479, 480 |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | 1,492,212 | 26 (2) |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **8,136,229** | |
| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | |
| 7 | Additional value adjustments (negative amount) | -71,172 | 34, 105 |
| 8 | Intangible assets (net of related tax liability) (negative amount) | -230,885 | 36 (1) (b), 37, 472 (4) |
| 9 | Empty Set in the EU | - | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | - | 36 (1) (c), 38, 472 (5) |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | - | 33 (a) |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | - | 36 (1) (d), 40, 159, 472 (6) |
| 13 | Any increase in equity that results from securitised assets (negative amount) | - | 32 (1) |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | - | 33 (b) |
| 15 | Defined-benefit pension fund assets (negative amount) | - | 36 (1) (e) , 41, 472 (7) |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | - | 36 (1) (f), 42, 472 (8) |
| 17 | Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | 36 (1) (g), 44, 472 (9) |
| 18 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount) | - | 36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10) |
| 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 (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11) |
| 20 | Empty Set in the EU | - | |
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | - | 36 (1) (k) |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | - | 36 (1) (k) (i), 89 to 91 |
| 20c | of which: securitisation positions (negative amount) | - | 36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258 |
| 20d | of which: free deliveries (negative amount) | - | 36 (1) (k) (iii), 379 (3) |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount) | - | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) |
| 22 | Amount exceeding the 15% threshold (negative amount) | - | 48 (1) |
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | - | 36 (1) (i), 48 (1) (b), 470, 472 (11) |
| 24 | Empty Set in the EU | - | |
| 25 | of which: deferred tax assets arising from temporary differences | - | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) |
| 25a | Losses for the current financial year (negative amount) | - | 36 (1) (a), 472 (3) |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount) | -275,078 | 36 (1) (l) |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment | - | |
| 26a | Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468 | - | |
| | Of which: … filter for unrealised loss 1 | - | 467 |
| | Of which: … filter for unrealised loss 2 | - | 467 |
| | Of which: … filter for unrealised gain - reserves from reevaluation of avaible for sale asset | - | 468 |
| | Of which: … filter for unrealised gain - reserves from defined pension plan | - | 468 |
| 26b | Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR | - | 481 |
| | Of which: … | - | 481 |
| 27 | Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount) | - | 36 (1) U) |
| **28** | **Total regulatory adjustments to Common equity Tier 1 (CET1)** | **-577,135** | |
| **29** | **Common Equity Tier 1 (CET1) capital** | **7,559,094** | |

| | | | |
|---|---|---|---|
| | **Additional Tier 1 (AT1) capital: Instruments** | | |
| 30 | Capital instruments and the related share premium accounts | - | 51, 52 |
| 31 | of which: classified as equity under applicable accounting standards | - | |
| 32 | of which: classified as liabilities under applicable accounting standards | - | |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | - | 486 (3) |
| | Public sector capital injections grandfathered until 1 January 2018 | - | 483 (3) |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties | - | 85, 86, 480 |
| 35 | of which: instruments issued by subsidiaries subject to phase out | - | 486 (3) |
| 36 | **Additional Tier 1 (AT1) capital before regulatory adjustments** | | |
| | **Addltlonal Tier 1 (AT1) capltal: regulatory adjustments** | | |
| 37 | Direct and indirect holdings by an institution of own AT1 Instruments (negative amount) | - | 52 (1) (b), 56 (a), 57, 475 (2) |
| 38 | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | 56 (b), 58, 475 (3) |
| 39 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short posi- lions) (negative amount) | - | 56 (c), 59, 60, 79, 475 (4) |
| 40 | Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the insti- tution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount) | - | 56 (d), 59, 79, 475 (4) |
| 41 | Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts) | - | |
| 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 | - | 472, 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a) |
| | Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc | - | |
| 41b | Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013 | - | 477, 477 (3), 477 (4) (a) |
| | Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc | - | |
| 41c | Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR | - | 467, 468, 481 |
| | Of which: … possible filter for unrealised losses | - | 467 |
| | Of which: … possible filter for unrealised gains | - | 468 |
| 42 | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) | - | 56 (e) |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **0** | |
| **44** | **Additional Tier 1 (AT1) capital** | **0** | |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | **7,559,094** | |
| | **Tier 2 (T2) capltal: Instruments and provisions** | | |
| 46 | Capital instruments and the related share premium accounts | - | 62, 63 |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 | - | 486 (4) |
| | Public sector capital injections grandfathered until 1 January 2018 | - | 483 (4) |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | - | 87, 88, 480 |
| 49 | of which: instruments issued by subsidiaries subject to phase out | - | 486 (4) |
| 50 | Credit risk adjustments | - | 62 (c) & (d) |
| 51 | Tier 2 (T2) capital before regulatory adjustments | - | |
| | **Tier 2 (T2) capltal: regulatory adjustments** | | |
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | - | 63 (b) (i), 66 (a), 67, 477 (2) |
| 53 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | 66 (b), 68, 477 (3) |
| 54 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | 66 (c), 69, 70, 79, 477 (4) |
| 54a | Of which new holdings not subject to transitional arrangements | - | |
| 54b | Of which holdings existing before 1 January 2013 and subject to transitional arrangements | - | |
| 55 | Direct and indirect 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 (net of eligible short positions) (negative amount) | - | 66 (d), 69, 79, 477 (4) |
| 56 | Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regu- lation (EU) No 575/2013 (i.e. CRR residual amounts) | - | |
| 56a | Residual amounts deducted from Tier 2capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013 | - | 472 , 472(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a) |
| | Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc | - | |
| 56b | Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regu- lation (EU) No 575/2013 | - | 475, 475 (2) (a), 475 (3), 475 (4) (a) |
| | Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non significant investments in the capital of other financial sector entities , etc | - | |
| 56c | Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR | - | 467, 468, 481 |
| | Of which: … possible filter for unrealised losses | - | 467 |
| | Of which: filter for unrealised gain - reserves from reevaluation of avaible for sale asset | - | 468 |
| | Of which: filter for unrealised gain - reserves from defined pension plan | - | 468 |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | **-** | |
| **58** | **Tier 2 (T2) capital** | **-** | |
| **59** | **Total capital (TC = T1 + T2)** | **7,559,094** | |

| | | | |
|---|---|---|---|
| 59a | Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/ 2013(i.e. CRR residual amounts) | - | |
| | Of which: ... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability , indirect holdings of own CET1, etc) | - | 472 , 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b) |
| | Of which: ... items not deducted from AT1 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non- significant investments in the capital of other financial sector entities, etc.) | - | 475, 475 (2) (b), 475 (2) (c), 475 (4) (b) |
| | Items not deducted from T2 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc) | - | 477, 477 (2) (b), 477 (2) (c), 477 (4) (b) |
| **60** | **Total risk weighted assets** | **31,045,405** | |
| | **Capital ratios and buffers** | | |
| 61 | Common Equity Tier 1 (as a percentage of risk exposure amount) | 24.35 | 92 (2) (a), 465 |
| 62 | Tier 1 (as a percentage of risk exposure amount) | 24.35 | 92 (2) (b), 465 |
| **63** | **Total capital (as a percentage of risk exposure amount)** | **24.35** | 92 (2) (c) |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conser- vation and countercyclical buffer requirements , plus systemic risk buffer, plus the systemically important institution buffer (G-SII or 0-SII buffer), expressed as a percentage of risk exposure amount) | 3.50 | CRD 128, 129, 130 |
| 65 | of which: capital conservation buffer requirement | 2.500 | |
| 66 | of which: countercyclical buffer requirement | 0.01 | |
| 67 | of which: systemic risk buffer requirement | 1.00 | |
| 67a | of which: Global Systemically Important Institution (G-811) or Other Systemically Important Institution (0-811) buffer | 1.00 | CRD 131 |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 11.29 | CRD 128 |
| 69 | [non relevant in EU regulation] | | |
| 70 | [non relevant in EU regulation] | | |
| 71 | [non relevant in EU regulation] | | |
| | **Amounts below the thresholds for deduction (before risk weighting)** | | |
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 68,709 | 36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4) |
| 73 | Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the insti- tution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 83,736 | 36 (1) (i), 45 , 48, 470, 472 (11) |
| 74 | Empty Set in the EU | | |
| 75 | Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) | 91,329 | 36 (1) (c), 38, 48, 470, 472 (5) |
| | **Applicable caps on the inclusion of provisions in Tier 2** | | |
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap) | - | 62 |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | - | 62 |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | - | 62 |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | - | 62 |
| | **Capital Instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)** | | |
| 80 | Current cap on CET1 instruments subject to phase out arrangements | - | 484 (3), 486 (2) & (5) |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | - | 484 (3), 486 (2) & (5) |
| 82 | Current cap on AT1 instruments subject to phase out arrangements | - | 484 (4), 486 (3) & (5) |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | - | 484 (4), 486 (3) & (5) |
| 84 | Current cap on T2 instruments subject to phase out arrangements | - | 484 (5), 486 (4) & (5) |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | - | 484 (5), 486 (4) & (5) |

## Table 7: Capital instruments main features template

| Ref | Heading | |
|---|---|---|
| 1 | Issuer | BRD-Groupe Societe Generale |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement) | ROBRDBACNOR2 |
| 3 | Governing law(s) of the instrument | Romanian law |
| | Governing law(s) of the instrument | Romanian law |
| 4 | Transitional CRR rules | CET1 |
| 5 | Post-transitional CRR rules | CET1 |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary Shares |
| 8 | Amount recognised in regulatory capital (RON million, as of most recent reporting date) | 2,516 |
| 9 | Nominal amount of instrument | 10 |
| 9a | Issue price | N/A |
| 9b | Redemption price | N/A |
| 10 | Accounting classification | Capital |
| 11 | Original date of issuance | NA |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | N/A |
| 15 | Optional call date, contingent call dates and redemption amount | N/A |
| 16 | Subsequent call dates, if applicable | N/A |
| | Coupons / dividends | |
| 17 | Fixed or floating dividend/coupon | Floating |
| 18 | Coupon rate and any related index | N/A |
| 19 | Existence of a dividend stopper | N/A |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Full discretion |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Ful discretion |
| 21 | Existence of step up or other incentive to redeem | N/A |
| 22 | Noncumulative or cumulative | N/A |
| 23 | Convertible or non-convertible | N/A |
| 24 | If convertible, conversion trigger(s) | N/A |
| 25 | If convertible, fully or partially | N/A |
| 26 | If convertible, conversion rate | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A |
| 28 | If convertible, specify instrument type convertible into | N/A |
| 29 | If convertible, specify issuer of instrument it converts into | N/A |
| 30 | Write-down features | N/A |
| 31 | If write-down, write-down trigger(s) | N/A |
| 32 | If write-down, full or partial | N/A |
| 33 | If write-down, permanent or temporary | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | The most subordinated claim in case of liquidation |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | N/A |

# 3 Capital requirements

### MINIMUM CAPITAL REQUIREMENTS

From a regulatory perspective, capital requirements cover:

- credit risk, in respect of all business activities, but excluding the trading book business
- operational risk, foreign exchange risk and settlement risk in respect of all business activities
- position risk in trading book and
- credit valuation adjustment risk of OTC derivative instruments.

The calculation of credit risk capital requirement takes into account the transaction risk profile and is computed according to the standardized approach (CRR Part 3, Title 2, Chapter 2) using the Financial Collateral Comprehensive Method and information regarding credit assessments performed by external credit assessment institutions (ECAI).

The capital requirement for general position risk is calculated using the Maturity-based method. Capital requirement for credit valuation adjustment is determined using the standardized method.

The capital requirement for operational risk is calculated according the CRR, Part 3, Title 2, Chapter 4, using advanced measurement approaches (AMA). BRD, as a member of the Société Générale Group, uses AMA to measure operational risk since 2008 based on the SG internal methodology and calculation. The allocation of operational risk capital requirements to the sub-consolidated entities is based on net banking income and history of operational risk losses.

An overview of RWA and minimum capital requirements is presented below.

**Table 8: EU OV1 – Overview of RWAs**

| | RWAs | Minimum capital requirements |
|---|---|---|
| **Credit risk (excluding CCR)** | **27,527,864** | **2,202,229** |
| Of which the standardised approach | 27,527,864 | 2,202,229 |
| **CCR** | **284,412** | **22,753** |
| *Of which mark to market* | 163,968 | 13,117 |
| *Of which the standardised approach* | 163,968 | 13,117 |
| *Of which CVA* | 120,444 | 9,636 |
| **Market risk** | **319,641** | **25,571** |
| *Of which the standardised approach* | 319,641 | 25,571 |
| **Operational risk** | **2,913,487** | **233,079** |
| *Of which advanced measurement approach* | 2,913,487 | 233,079 |
| Amounts below the thresholds for deduction (subject to 250% risk weight) | 441,830 | 35,346 |
| Floor adjustment | 0 | 0 |
| **Total** | **31,045,405** | **2,483,632** |

### SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) REQUIREMENTS

On top of the total regulatory ratio of 8% set by Art 92 from CRR, starting 2016, based on NBR requirements, BRD Group maintained additional own funds to cover risks resulting from internal assessment and SREP (supervisory review and evaluation process) amounting to 5.18% of RWA during 2019 (5.06% during 2018). Thus, the TSCR ratio (total SREP capital requirements) requirement for BRD Group was 13.18% for 2019 (vs. 13.06% during 2018).

Overall capital requirements (OCR) represent the total of SREP requirements and capital buffers, namely:

- A Conservation Buffer in CET 1 capital intended to absorb losses during periods of stress, phased in by 0.625% of total RWA yearly starting 1 January 2016. The buffer is mandatory and fully effective from 1 January 2019 and amounts to 2.5% of total RWA.

- A Countercyclical Buffer that may be imposed during periods of excessive credit growth when system-wide risk is building up and is capped at 2.5% of total RWA. Starting with 1 January 2016, according to NBR Order 12/2015 the level of countercyclical buffer was established at 0% for credit exposures in Romania.

- Other systemically important institutions (O-SIIs) identified by NBR which have been authorized in Romania, may be subject to an O-SII Capital Buffer of up to 2% of the total RWA. BRD was identified as O-SII by NBR and O-SII Capital Buffer is 1% starting with 1 January 2016.

- A Systemic Risk Buffer was imposed, according to NBR Order 4/2018, starting with 30 June 2018, with the aim of supporting the adequate management of credit risk and enhancing banking sector resilience to unanticipated shocks, amid unfavourable structural circumstances. The buffer is applied to all exposure and is calibrated at 0%, 1% or 2%, depending on the past 12-months averages of the non-performing loans ratio and the coverage ratio. The value applicable for BRD for 2019 was 1%. To be noted that the capital requirement for structural buffers is determined as the max of O-SII buffer and systemic risk buffer.

### INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

In accordance with Article 148 of the Emergency Ordinance no. 99/2006 on credit institutions and capital adequacy, as subsequently amended and NBR Regulation no. 5/2013 on prudential requirements for credit institutions, BRD has in place a process for internal assessment of capital adequacy to risks.

The Bank performs periodically an evaluation of internal capital adequacy to risks by comparing the available own funds with internal capital requirements. The general framework for ICAAP is updated annually and the capital adequacy monitoring is performed on a quarterly basis.

A risk assessment is performed annually, and involves the evaluation of all risks to which the Bank may be exposed and the identification of the significant risks.

The internally evaluated capital requirement is determined using „Pillar 1 plus” approach, where the capital requirements for the following risks are added to the regulatory capital requirements:

- Credit risk concentration, residual risk from usage of credit risk mitigation techniques, risk related to foreign currency lending to unhedged borrowers and risks arisen from applying less sophisticated approaches
- Interest rate risk in banking book
- Funding risk
- Strategic risk
- Other significant risks: reputational risk, compliance risk, model risk

For the purposes of the internal capital adequacy assessment, the available own funds are considered equal to the regulatory own funds.

Based on the Business and Risk Management Strategy and on the Risk Appetite, the Bank makes projections of the own funds and capital requirements on a three years horizon in order to ensure their adequacy, both in normal course of business and under stress situations.

# 4 Capital buffers

In accordance with NBR requirements, the countercyclical buffer for credit exposure in Romania as at 31 December 2019 is 0%. The institution specific countercyclical buffer requirement was 4.5 million RON at 2019 end (0.018% of relevant risk exposure amount).

# 5 Credit risk adjustments

According to Article 442 of Regulation (EU) No 575/2013, credit institutions should disclose information regarding credit quality of assets. Qualitative comments as per Table EU CRB-A – Additional disclosure related to the credit quality of assets, are presented below.

The definitions of 'past due' and 'impaired' used by the Bank for accounting purposes are presented below:

- **Past due**

Past due exposures include all receivables (outstanding principal, interest and past due amounts) that are not individually impaired but are at least one day past due. The past due status is measured in number of days passed since the due date. For the purpose of default classification (further explained), the reference to number of days past due envisages clearly defined materiality thresholds (considering principal, interest, fees and other obligations related to loans and commitments), by type of client: Retail and Non-Retail.

- **Impaired assets**

According to IFRS 9, a financial asset is considered “credit-impaired financial asset” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The concepts of *impairment* for accounting purposes and *default* for regulatory purposes are convergent, comprising of the following events:

- past due event (more than 90 days past due on any material credit obligation)
- indications of unlikeliness to pay (such as: severe alteration in the counterparty’s financial standing leading to a high probability of it being unable to fulfil its overall commitments, recovery actions initiated by the Bank, ongoing legal procedures that may lead to avoiding or deferring the payment of a credit obligation, restructuring under the circumstances of financial hardship experienced by the debtor)

The Bank assesses on an forward-looking basis the expected credit losses (“ECL”) for the following categories of financial assets: loans and placed deposits measured at amortised cost, debt instruments measured at fair value to other comprehensive income, loan commitments and financial guarantee contracts, contract assets and trade receivables.

Financial assets subject to loss allowances are classified in Stage 1, Stage 2, Stage 3 or POCI, as described below:

- ***Stage 1*** when there is insignificant or no impairment of credit quality since initial recognition; Loss allowance shall be equal to 12 months ECL
- ***Stage 2*** when a financial asset shown significant increase in credit risk since initial recognition, though not impaired; Loss allowance shall be equal to lifetime expected credit losses (“LTECL”)
- ***Stage 3*** financial assets classified as impaired; Loss allowance is represented by LTECL
- ***POCI*** financial assets that are credit impaired on initial recognition. Loss allowance shall be equal to LTECL. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

The Bank established criteria to perform the assessment of significant increase in credit risk since initial recognition considering both relative and absolute thresholds.

The approaches adopted by the Bank for determining credit risk adjustments are described below:

**Stages 1 and 2**

ECL for non-defaulted financial assets (Stages 1 and 2) are computed collectively, based on homogenous groups. The Bank groups financial assets on the basis of similar credit risk characteristics (type of client, client rating, type of product, type of collateral) that are indicative of the debtors' ability to pay all amounts due, according to the contractual terms.

The key elements of ECL calculation are outlined below:

- PD - *Probability of Default* models are based on a two-step approach: building of the through-the-cycle (TTC) marginal PD curve and Adjustment of the TTC curve to incorporate point in time and forward looking information;

Two different PDs are needed:

  - 12-month PD (exposures in Stage 1): estimated probability of default for the next 12 months horizon (or over the remaining life of the financial instrument, if less than 12 months);
  - Lifetime PD (LT PD - exposures in Stage 2): estimated probability of default over the remaining life of the financial instrument.

- LGD - *Loss Given Default* model takes into account cashbacks, portfolio sales and collateral recoveries;
- EAD - *Exposure at Default* estimation at each time step is based on internally modelled Credit Conversion Factors ("CCF");
- Point in time and forward looking transformation for ECL parameters.

**Stage 3 ECL**

ECL for impaired financial assets is measured either individually or collectively (based on homogenous groups). The **individual assessment** entails the assessment of the counterparty risk (translated into a rating / classification based on debtor's financial position and its economic perspectives) and the estimation of the possible recoveries: the analysis shall identify and quantify the future cash flows, which will be used for a total or partial reimbursement of the obligations towards the Bank. The cash flow estimation relies on the capacity of the client/business to generate revenues, the proceeds resulting from sale of collaterals, or other clearly identified sources of repayment. An impaired financial asset is classified as individually significant if the total exposure exceeds a predefined materiality limit.

For impaired financial assets that are not individually significant the ECL is computed for **homogeneous pools of receivables** and estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Statistical methods are used to determine impairment losses at homogeneous group level, considering the cash flows for the remaining life of an asset.

**Overlays**

The inputs and models used for calculating ECL may not always capture all characteristics of the market at reporting date. To reflect this, the Bank assesses the need/ opportunity for additional amounts of provisions in the form of overlays, in order to address:

- Sector of activity specific risks (adjustment of ECL on sectors that have a different default behaviour from the whole calibration segment)
- Visible macroeconomic threat impossible to be captured by the models (typically, when the predicted stress did not occur in the observed past serving as a base for models)

The table below shows the year-end and average net exposures to credit risk (excluding CCR) by exposure class (on-balance-sheet and off-balance-sheet exposures). The end-of-period exposure is further broken down by geographical areas and by sectors of activity and moreover, an overview on credit quality for these exposures is presented, by exposure class and geographical areas.

**Table 9: EU CRB-B – Total and average net amount of exposures**

| | Net value of exposures at the end of the period | Average net exposures over the period |
|---|---|---|
| Central governments or central banks | 18,926,603 | 17,004,835 |
| Regional governments or local authorities | 938,768 | 997,541 |
| Institutions | 3,792,699 | 3,874,522 |
| Corporates | 21,218,732 | 20,674,456 |
| *Of which: SMEs* | *4,818,373* | *4,408,462* |
| Retail | 17,401,673 | 17,724,647 |
| *Of which: SMEs* | *987,884* | *997,969* |
| Secured by mortgages on immovable property | 6,923,912 | 6,414,945 |
| *Of which: SMEs* | *402,807* | *324,510* |
| Exposures in default | 553,422 | 574,478 |
| Collective investments undertakings | 18,666 | 17,516 |
| Equity exposures | 177,382 | 203,783 |
| Other exposures | 3,682,547 | 3,553,255 |
| ***Total standardised approach*** | ***73,634,405*** | ***71,039,980*** |

The table below presents the breakdown of on-balance-sheet and off-balance-sheet net exposures to credit risk (excluding CCR) by geographical areas and exposure classes. BRD Group's exposure is focused on Romania (91%).

**Table 10: EU CRB-C – Geographical breakdown of exposures**

| | Net value | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | European countries | Romania | Germany | Switzerland | Austria | Belgium | France | Other European countries | Other geographical areas | Total |
| Central governments or central banks | 18,926,603 | 18,350,379 | 0 | 0 | 0 | 333,545 | 242,610 | 68 | 1 | 18,926,603 |
| Regional governments or local authorities | 938,768 | 938,768 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 938,768 |
| Institutions | 3,675,085 | 144,955 | 1,526,207 | 232,091 | 938,477 | 391,336 | 211,412 | 230,606 | 117,614 | 3,792,699 |
| Corporates | 21,123,199 | 19,034,146 | 58,808 | 1,304,825 | 0 | 33,448 | 147,247 | 544,725 | 95,533 | 21,218,732 |
| Retail | 17,396,275 | 17,376,116 | 3,447 | 755 | 529 | 1,012 | 2,822 | 11,593 | 5,399 | 17,401,673 |
| Secured by mortgages on immovable property | 6,922,883 | 6,910,947 | 1,717 | 423 | 0 | 568 | 3,226 | 6,001 | 1,028 | 6,923,912 |
| Exposures in default | 553,332 | 550,596 | 14 | 2,211 | 6 | 3 | 334 | 169 | 90 | 553,422 |
| Collective investments undertakings | 18,666 | 18,666 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 18,666 |
| Equity exposures | 177,382 | 177,382 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 177,382 |
| Other exposures | 3,682,547 | 3,682,547 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,682,547 |
| ***Total standardised approach*** | ***72,621,577*** | ***67,184,504*** | ***1,590,193*** | ***1,540,305*** | ***939,012*** | ***759,912*** | ***607,651*** | ***793,163*** | ***219,665*** | ***73,634,405*** |

Exposures to non-financial entities (31% of the total net exposure at year end) split by industry and exposure classes are shown below. The most representative sectors are wholesale and retail trade (21%), manufacturing (17%) and electricity & gas (17%).

Table 11: EU CRB-D – Concentration of exposures by industry or counterparty types

| | Agriculture, forestry and fishing | Mining and quarrying | Manufacturing | Electricity, gas, steam and air conditioning supply | Water supply | Construction | Wholesale and retail trade | Transport and storage | Accommodation and food service activities | Information and communication | Real estate activities | Professional, scientific and technical activities | Administrative and support service activities | Public administration and defence, compulsory social security | Education | Human health services and social work activities | Arts, entertainment and recreation | Other services | Financial and insurance activities | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Corporates | 763,237 | 505,494 | 3,824,976 | 3,934,902 | 224,929 | 1,352,520 | 4,428,984 | 614,186 | 131,969 | 1,399,570 | 546,679 | 303,720 | 153,837 | 4 | 3,963 | 135,711 | 13,867 | 227,027 | 2,653,156 | 21,218,732 |
| Retail | 223,025 | 4,579 | 97,460 | 954 | 4,037 | 88,398 | 215,507 | 99,229 | 29,137 | 19,061 | 7,160 | 100,918 | 25,769 | 931 | 2,155 | 48,463 | 4,812 | 10,756 | 2,079 | 982,350 |
| Secured by mortgages on immovable property | 4,682 | 85 | 67,690 | 1,228 | 1,013 | 17,321 | 110,605 | 150,979 | 72,277 | 2,812 | 89,359 | 11,778 | 2,624 | 0 | 0 | 18,925 | 0 | 81 | 98 | 551,460 |
| Exposures in default | 8,825 | 140 | 19,196 | 1,968 | 1,671 | 204,644 | 18,925 | 3,670 | 16,655 | 453 | 23,523 | 2,859 | 644 | 3,303 | 67 | 1,057 | 701 | 401 | 120 | 308,702 |
| ***Total standardised approach*** | ***999,769*** | ***510,298*** | ***4,009,322*** | ***3,939,052*** | ***231,649*** | ***1,662,883*** | ***4,774,021*** | ***868,064*** | ***250,038*** | ***1,421,897*** | ***666,722*** | ***419,276*** | ***182,873*** | ***4,238*** | ***6,185*** | ***204,156*** | ***19,380*** | ***238,264*** | ***2,655,453*** | ***23,061,244*** |

The table below presents the credit quality of exposures by material exposure class and instrument (on-balance-sheet and off-balance-sheet exposures) at December 31, 2019. Credit risk charges refer to IFRS provision charges booked during 2019.

### Table 12: EU CR1-A – Credit quality of exposures by exposure class and instrument

| | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|
| | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges of the period | Net values |
| | Defaulted exposures | Non-defaulted exposures | | | | | (a+b-c-d) |
| Central governments or central banks | 0 | 18,926,905 | 301 | 0 | 0 | -375 | 18,926,603 |
| Regional governments or local authorities | 0 | 953,262 | 14,494 | 0 | 0 | -10,431 | 938,768 |
| Institutions | 0 | 3,792,699 | 0 | 0 | 0 | 6 | 3,792,699 |
| Corporates | 0 | 21,356,073 | 137,341 | 0 | 0 | -130,827 | 21,218,732 |
| Retail | 0 | 17,784,033 | 382,360 | 0 | 0 | 85,082 | 17,401,673 |
| Secured by mortgages on immovable property | 0 | 7,061,280 | 137,368 | 0 | 0 | 6,511 | 6,923,912 |
| Exposures in default | 1,974,108 | 0 | 1,420,685 | 0 | 4,504,698 | 153,542 | 553,422 |
| Collective investments undertakings | 0 | 18,666 | 0 | 0 | 0 | 0 | 18,666 |
| Equity exposures | 0 | 177,382 | 0 | 0 | 0 | 0 | 177,382 |
| Other exposures | 27,207 | 3,747,425 | 92,084 | 0 | 0 | 0 | 3,682,547 |
| ***Total standardised approach*** | ***2,001,314*** | ***73,817,726*** | ***2,184,635*** | ***0*** | ***4,504,698*** | ***103,508*** | ***73,634,405*** |

The table below shows the credit quality of on-balance-sheet and off-balance sheet credit risk exposures (excluding CCR) by geographical areas.

### Table 13: EU CR1-C – Credit quality of exposures by geography

| | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|
| | Gross carrying values of | | Specific credit risk adjustment | General credit risk adjustment | Accumulated write-offs | Credit risk adjustment charges | Net values |
| | Defaulted exposures | Non-defaulted exposures | | | | | (a +b-c-d) |
| European countries | 2,000,927 | 73,598,066 | 2,184,253 | 0 | 4,502,969 | 103,282 | 73,414,740 |
| Romania | 1,990,008 | 67,368,125 | 2,173,629 | 0 | 4,496,136 | 105,356 | 67,184,504 |
| Germany | 45 | 1,590,343 | 195 | 0 | 19 | -38 | 1,590,193 |
| Switzerland | 3,357 | 1,538,146 | 1,199 | 0 | 1 | -218 | 1,540,305 |
| Austria | 26 | 939,006 | 19 | 0 | 7 | 12 | 939,012 |
| Belgium | 6 | 759,940 | 35 | 0 | 0 | -32 | 759,912 |
| France | 1,357 | 607,750 | 1,456 | 0 | 52 | -230 | 607,651 |
| Other European countries | 6,127 | 794,756 | 7,720 | 0 | 6,753 | -1,568 | 793,163 |
| *Other geographical areas* | *387* | *219,659* | *382* | *0* | *1,729* | *227* | *219,665* |
| ***Total*** | ***2,001,314*** | ***73,817,726*** | ***2,184,635*** | ***0*** | ***4,504,698*** | ***103,508*** | ***73,634,405*** |

Starting December 31, 2019 the Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) are in force. According to this guideline, all credit institutions are required to disclose a set of templates on non-performing and forborne exposures and foreclosed assets. The Gross NPL ratio, computed according to article 13 of the guideline, reached 4% (at BRD Group level), as of December 2019 end, therefore Templates 1, 3, 4 and 9 are prepared in compliance with the above mentioned guideline.

The table below presents the gross carrying amount of forborne exposures and the related accumulated impairment, provisions, accumulated negative change in the fair value due to credit risk, and collateral and financial guarantees received on forborne exposures.

**Table 14: Credit quality of forborne exposures (Template 1)**

| | Gross carrying amount/nominal amount of exposures with forbearance measures | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | Collateral received and financial guarantees received on forborne exposures | |
|---|---|---|---|---|---|---|---|---|
| | Performing forborne | Non-performing forborne | | | On performing forborne exposures | On non-performing forborne exposures | | Of which collateral and financial guarantees received on non-performing exposures with forbearance measures |
| | | | Of which defaulted | Of which impaired | | | | |
| Loans and advances | 63,005 | 436,680 | 436,680 | 436,680 | (4,554) | (337,028) | 141,326 | 83,518 |
| *Central banks* | - | - | - | - | - | - | - | - |
| *General governments* | - | - | - | - | - | - | - | - |
| *Credit institutions* | - | - | - | - | - | - | - | - |
| *Other financial corporations* | - | 1 | 1 | 1 | - | (1) | 0 | 0 |
| *Non-financial corporations* | 1,644 | 280,867 | 280,867 | 280,867 | (87) | (236,520) | 20,828 | 19,271 |
| *Households* | 61,361 | 155,812 | 155,812 | 155,812 | (4,467) | (100,507) | 120,498 | 64,247 |
| Debt Securities | - | - | - | - | - | - | - | - |
| Loan commitments given | - | 518 | 518 | 518 | - | (361) | 157 | 157 |
| ***Total*** | **63,005** | **437,197** | **437,197** | **437,197** | **(4,554)** | **(337,389)** | **141,482** | **83,675** |

## Table 15: Credit quality of performing and non-performing exposures by past due days (Template 3)

| | Gross carrying amount/nominal amount | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Performing exposures | | | Non-performing exposures | | | | | | | | |
| | | Not past due or past due ≤ 30 days | Past due > 30 days ≤ 90 days | | Unlikely to pay that are not past due or are past due ≤ 90 days | Past due > 90 days ≤ 180 days | Past due > 180 days ≤ 1 year | Past due > 1 year ≤ 2 years | Past due > 2 years ≤ 5 years | Past due > 5 years ≤ 7 years | Past due > 7 years | Of which defaulted |
| **Loans and advances** | **39,459,706** | **38,999,189** | **460,518** | **1,463,502** | **662,573** | **151,927** | **160,449** | **151,197** | **202,017** | **64,701** | **70,639** | **1,463,502** |
| *Central banks* | 4,765,273 | 4,765,273 | - | - | - | - | - | - | - | - | - | - |
| *General governments* | 576,679 | 576,677 | 1 | 14,930 | 14,775 | - | 138 | - | 16 | - | - | 14,930 |
| *Credit institutions* | 3,427,232 | 3,427,232 | - | 22 | 22 | - | - | - | - | - | - | 22 |
| *Other financial corporations* | 712,301 | 712,203 | 98 | 1,356 | 1,222 | 86 | 3 | 4 | 25 | - | 15 | 1,356 |
| *Non-financial corporations* | 8,329,135 | 8,231,708 | 97,427 | 615,473 | 365,070 | 7,840 | 44,676 | 20,312 | 75,823 | 42,504 | 59,249 | 615,473 |
| *Of which SMEs* | 3,882,759 | 3,833,912 | 48,847 | 514,574 | 314,393 | 7,840 | 8,447 | 20,292 | 64,163 | 41,086 | 58,354 | 514,574 |
| *Households* | 21,649,086 | 21,286,095 | 362,991 | 831,721 | 281,483 | 144,000 | 115,632 | 130,881 | 126,153 | 22,197 | 11,375 | 831,721 |
| **Debt securities** | **13,395,551** | **13,395,551** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| *Central banks* | - | - | - | - | - | - | - | - | - | - | - | - |
| *General governments* | 13,395,551 | 13,395,551 | - | - | - | - | - | - | - | - | - | - |
| *Credit institutions* | - | - | - | - | - | - | - | - | - | - | - | - |
| *Other financial corporations* | - | - | - | - | - | - | - | - | - | - | - | - |
| *Non-financial corporations* | - | - | - | - | - | - | - | - | - | - | - | - |
| **Off-balance-sheet exposures** | **16,096,701** | | | **537,591** | | | | | | | | **537,591** |
| *Central banks* | 6,954 | | | - | | | | | | | | - |
| *General governments* | 18,624 | | | - | | | | | | | | - |
| *Credit institutions* | 425,508 | | | - | | | | | | | | - |
| *Other financial corporations* | 1,819,769 | | | - | | | | | | | | - |
| *Non-financial corporations* | 12,185,302 | | | 523,583 | | | | | | | | 523,583 |
| *Households* | 1,640,544 | | | 14,008 | | | | | | | | 14,008 |
| ***Total*** | **68,951,958** | **52,394,740** | **460,518** | **2,001,093** | **662,573** | **151,927** | **160,449** | **151,197** | **202,017** | **64,701** | **70,639** | **2,001,093** |

## Table 16: Performing and non-performing exposures and related provisions (Template 4)

| | Gross carrying amount/nominal amount | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | | | Accumulated partial write-off | Collateral and financial guarantees received | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Performing exposures | | | Non-performing exposures | | | Performing exposures – accumulated impairment and provisions | | | Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | On performing exposures | On non-performing exposures |
| | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | Of which stage 1 | Of which stage 2 | | Of which stage 2 | Of which stage 3 | | | |
| **Loans and advances** | **39,459,706** | **33,694,701** | **5,765,005** | **1,463,502** | **-** | **1,463,502** | **(625,020)** | **(215,747)** | **(409,273)** | **(1,125,162)** | **-** | **(1,125,162)** | **-** | **27,927,663** | **314,301** |
| *Central banks* | 4,765,273 | *4,765,273* | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *General governments* | 576,679 | *495,449* | *81,230* | 14,930 | - | 14,930 | (13,300) | (2,564) | (10,736) | (11,610) | - | (11,610) | - | 509,219 | 3,301 |
| *Credit institutions* | 3,427,232 | *3,427,232* | - | 22 | - | 22 | (510) | (510) | - | (22) | - | (22) | - | - | - |
| *Other financial corporations* | 712,301 | *708,856* | *3,445* | 1,356 | - | 1,356 | (2,853) | (2,631) | (222) | (1,237) | - | (1,237) | - | 334,297 | 84 |
| *Non-financial corporations* | 8,329,135 | *7,316,492* | *1,012,643* | 615,473 | - | 615,473 | (110,036) | (35,707) | (74,329) | (531,132) | - | (531,132) | - | 7,197,358 | 78,108 |
| *Of which SMEs* | 3,882,759 | 3,129,196 | *753,563* | 514,574 | - | 514,574 | (56,323) | (16,651) | *(39,672)* | (411,455) | - | (411,455) | - | 3,930,416 | 66,836 |
| *Households* | 21,649,086 | *16,981,398* | *4,667,688* | 831,721 | - | 831,721 | (498,321) | (174,335) | (323,986) | (581,163) | - | (581,163) | - | 19,886,789 | 232,808 |
| **Debt securities** | **13,395,551** | **13,395,551** | **-** | **-** | **-** | **-** | **(3,649)** | **(3,649)** | **-** | **-** | - | - | **-** | - | **-** |
| *Central banks* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *General governments* | 13,395,551 | 13,395,551 | - | - | - | - | (3,649) | (3,649) | - | - | - | - | - | - | - |
| *Credit institutions* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *Other financial corporations* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *Non-financial corporations* | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Off-balance-sheet exposures** | **16,096,701** | **15,047,793** | **1,048,908** | **537,591** | - | **537,591** | **(45,576)** | **(12,357)** | **(33,219)** | **(330,796)** | - | **(330,796)** | **-** | **4,523,527** | **112,731** |
| *Central banks* | 6,954 | 6,954 | - | - | - | - | - | - | - | - | - | - | - | - | - |
| *General governments* | 18,624 | 17,716 | 908 | - | - | - | (115) | (47) | (68) | - | - | - | - | 18,509 | - |
| *Credit institutions* | 425,508 | 425,508 | - | - | - | - | (40) | (40) | - | - | - | - | - | 408,559 | - |
| *Other financial corporations* | 1,819,769 | 1,817,270 | 2,499 | - | - | - | (635) | (635) | - | - | - | - | - | 54,008 | - |
| *Non-financial corporations* | 12,185,302 | 11,349,019 | 836,283 | 523,583 | - | 523,583 | (41,373) | (9,847) | (31,526) | (328,770) | - | (328,770) | - | 3,558,721 | 112,575 |
| *Households* | 1,640,544 | 1,431,326 | 209,218 | 14,008 | - | 14,008 | (3,414) | (1,789) | (1,625) | (2,025) | - | (2,025) | - | 483,729 | 155 |
| ***Total*** | ***68,951,958*** | ***62,138,045*** | ***6,813,913*** | ***2,001,093*** | ***-*** | ***2,001,093*** | ***(674,245)*** | ***(231,753)*** | ***(442,492)*** | ***(1,455,958)*** | ***-*** | ***(1,455,958)*** | ***-*** | ***32,451,190*** | ***427,032*** |

## Table 17: Collateral obtained by taking possession and execution processes (Template 9)

| | Collateral obtained by taking possession | |
|---|---|---|
| | Value at initial recognition | Accumulated negative changes |
| Property, plant and equipment (PP&E) | - | - |
| Other than PP&E | 17,401 | (1,860) |
| *Residential immovable property* | 14,235 | (881) |
| *Commercial Immovable property* | - | - |
| *Movable property (auto, shipping, etc.)* | 3,166 | (979) |
| *Equity and debt instruments* | - | - |
| *Other* | - | - |
| ***Total*** | **17,401** | **(1,860)** |

**Table 18: EU CRD2 A - Changes in the stock of general and specific credit risk adjustments for impaired loans and advances**

| | Accumulated specific credit risk adjustment | Accumulated general credit risk adjustment |
|---|---|---|
| **Opening balance** | **-1,560,972** | **-** |
| New assets originated or purchased | -25,787 | - |
| Assets derecognised or repaid (excluding write offs) | 165,491 | - |
| Movements not resulting from changes in classification | 24,070 | - |
| Movements due to change in classification | -194,345 | - |
| Amounts written off | 476,831 | - |
| Foreign exchange adjustments | -10,450 | - |
| **Closing balance** | **-1,125,162** | - |
| Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | 311,520 | **-** |
| Specific credit risk adjustments directly recorded to the statement of profit or loss | -65,883 | - |

**Table 19: EU CR2-B – Changes in the stock of defaulted and impaired loans and advances and off-balance sheet exposures**

| | Gross carrying value defaulted exposures |
|---|---|
| **Opening balance** | **2,373,304** |
| Loans and advances and debt securities that have defaulted or impaired since the last reporting period | 722,408 |
| Returned to non-defaulted status | -135,683 |
| Amounts written off | -325,147 |
| Other changes | -633,790 |
| **Closing balance** | **2,001,093** |

# 6 Unencumbered assets

The level of asset encumbrance is low for BRD’s activity (encumbered assets represented 0.1% of total assets in 2019) and refers mainly to repo (repurchase agreements) and reverse repo with governmental securities.

# 7 Remuneration policy

BRD's Remuneration Committee is a permanent consultative committee that supports the Board of Directors in performing their responsibilities regarding the elaboration and supervision of the implementation of the Remuneration Policy.

Beginning of 2019, the Committee consisted of 3 non-executive directors, of which one is independent: Mr. Philippe Heim (Chairman), Mr. Jean-Luc André Joseph Parer (Member) and Mr Jean Pierre Vigroux (Independent member).

At the end of 2019, Mr. Philippe Heim renounced at his mandate and was replaced in 2020 by Mr Benoit Ottenwaelter, who took over the responsibilities of President of the Remuneration Committee.

The Remuneration Committee meets annually, or whenever necessary. In 2019, 4 meetings of the Remuneration Committee took place.

The members attended to the Remuneration Committee's meetings as follows: Mr Philippe Heim 3 meetings, Mr. Jean-Luc André Joseph Parer 4 meetings and Mr. Jean Pierre Vigroux 4 meetings.

The Remuneration Committee analyses the Bank's remuneration policy which it submits to the Board of Directors for approval; it submits proposals regarding the individual remuneration of non-executive directors and the additional individual compensation of the directors entrusted with specific functions within the Board as well as the remuneration of the officers; it supervises directly the remuneration of the coordinators of the risks management and compliance functions; and it supervises the application of the principles of the staff remuneration policy and informs the Board of Directors in this respect.

During 2019, the Remuneration Committee did not use external consultants, basing their decisions on their expertise and that of the Human Resources Department.

Variable remuneration – reflects sustainable and risk-adjusted performance as well as the performance that exceeds the necessary performance to fulfil the duties provided for in the employee's Job Description as part of the employment terms.

Variable remuneration:

- It is not guaranteed or carried forward automatically from one year to another. The variable component distribution mechanisms do not guarantee the granting of sums over several years. Thus, the variable remuneration is subject to a fair annual review process;
- The guaranteed bonuses are prohibited. BRD personnel is not overly dependent on bonuses;
- It does not limit the Bank's ability to strengthen its capital base;
- It is not paid through means or methods that facilitate the circumvention of the regulations in force;
- It does not encourage taking risks which influence the Bank's risk profile;
- It also takes into consideration all current or future risks;
- Payments relating to the early termination of a contract reflect performance achieved over time and do not reward failure or misconduct.

The Bank may decide to reduce partially of completely the granting of variable remuneration if it cannot be supported in accordance with the overall financial situation of the Bank, of the structure in which the activity is carried out and the employee concerned.

The variable remuneration is considerably reduced if the Bank records a poor or negative financial performance, taking into account both the current remuneration as well as the reductions in payments related to the sums due, as previously determined, including malus or clawback agreements signed. Up to 100% of the variable remuneration is subject to malus or clawback signed agreements.

For different types of jobs, it is possible to use different schemes for granting the variable remuneration. There is a maximum limit defined for the variable component, which may not exceed 100% of the fixed component of the total remuneration.

For sales staffs, commercial objectives are set to take into account the rights and interests of the consumers, so:

- Sales process is in the client's interest;

- Do not promote the provision of a specific product/ service or a category of products/ services over others products/ services such as products/ services which are more profitable for the institution or for an employee, to the detriment of the consumer.

The special principles applicable to the categories of identified staff are:

- The variable remuneration may decrease or not even be paid at all.
- The personnel members are paid, or receive the rights related to the variable remuneration, including the deferred part thereof only if the variable remuneration can be supported in accordance with the Bank's overall financial situation and if it can be justified in accordance with the performance of the Bank, the structure in which the activity is carried out and the individual concerned.
- The personnel members receive the rights of the deferred part of the variable remuneration, subject of the fulfillment of the minimum performance requirements.
- A major part, which, in all cases, accounts for at least 40% of the variable remuneration component, is deferred for a period of at least three years. For identified staff, at least 50% of any variable remuneration shall consist of shares or equivalent, which are subject to an appropriate retention policy, designed to harmonize the incentives with the Bank's long-term interests.
- The personal strategies for risk hedging or insurance policies related to remuneration and liability to counteract the risk alignment effects stipulated in the personnel remuneration agreements are prohibited. One may insure against the currency risk using derivatives.

For Executive Committee members, 60% of the variable remuneration is deferred for a period of 5 years.

For Identified Staff not members of the Executive Committee, between 40 and 60% of the variable remuneration is deferred for a period between 3 and 5 years.

The Ratio between fix and variable remuneration in BRD is maximum 1:1, in line with NBR's Regulation no 5/2013.

Aggregate financial information regarding remuneration for 2019 are presented below.

**Table 20: Information about the remuneration of the employees (consolidated prudential perimeter)**

| | Total |
|---|---|
| Total number of employees, in FTE equivalent* | 8,007 |
| Total Remuneration (in euro) | 168,843,700 |
| out of which variabile remuneration (in euro) | 15,621,448 |

*BRD, BRD Sogelease and BRD Finance

## Table 21: Information related to remuneration of Identified Staff

| Identified Staff | Total | Members of the Management Body in its supervisory function | Members of the Management Body in its executive function | Investment Banking | Retail Banking | Asset Management | Corporate functions | Independent Control functions | All Others |
|---|---|---|---|---|---|---|---|---|---|
| Identified Staff Number, FTE equivalent | **29** | - | - | 1 | 10 | - | 8 | 10 | - |
| Identified Staff Number who are members of the Executive Committee | **23** | 17 | 10 | - | - | - | - | - | - |
| Fix Remuneration (in euro), out of which: | **5,936,564** | 243,228 | 2,270,809 | 128,562 | 1,266,685 | - | 1,058,795 | 968,485 | - |
| - cash | **5,936,564** | 243,228 | 2,270,809 | 128,562 | 1,266,685 | - | 1,058,795 | 968,485 | - |
| - shares and related instruments | - | - | - | - | - | - | - | - | - |
| - other instruments | - | - | - | - | - | - | - | - | - |
| Variable remuneration (in euro), out of which: | **2,302,422** | - | 1,448,057 | 59,609 | 301,163 | - | 278,753 | 214,840 | - |
| - cash | **1,514,404** | - | 883,602 | 47,609 | 221,971 | - | 210,659 | 150,563 | - |
| - shares and related instruments | **788,018** | - | 564,455 | 12,000 | 79,192 | - | 68,094 | 64,277 | - |
| - other instruments | - | - | - | - | - | - | - | - | - |
| Variable remuneration granted in year N and deferred (in euro), out of which: | **777,078** | - | 590,450 | 12,000 | 67,958 | - | 55,418 | 51,252 | - |
| - cash | **263,869** | - | 234,334 | - | 8,984 | - | 10,137 | 10,414 | - |
| - shares and related instruments | **513,209** | - | 356,116 | 12,000 | 58,974 | - | 45,281 | 40,838 | - |
| - other instruments | - | - | - | - | - | - | - | - | - |
| Other information on variable remuneration | | - | | | | | | | |
| Art. 450 (1) lit.h) pct.(iii) from Regulation (UE) no. 575/2013<br>- Total amount of outstanding deferred variable remuneration granted in previous years (in euro) | **2,178,470** | - | 1,891,327 | - | 138,494 | - | 85,485 | 63,164 | - |
| Ex-ante performance-based adjustments applied in year N to remuneration granted in previous years (in euro) | - | - | - | - | - | - | - | - | - |
| Number of beneficiary of guaranteed variabile remuneration | - | - | - | - | - | - | - | - | - |
| Total guaranteed variabile remuneration (in euro) | - | - | - | - | - | - | - | - | - |
| Number of beneficiary of severance payments | **1** | - | 1 | - | - | - | - | - | - |
| Total severance payments grante din year N (in euro) | **390,280** | - | 390,280 | - | - | - | - | - | - |
| Art. 450 alin.(1) lit. h) pct.(vi) of Regulation (UE) no. 575/2013<br>- biggest severance payment granted to one employee (in euro) | - | - | - | - | - | - | - | - | - |
| Number of beneficiaries for discretionary retirement benefits for year N | - | - | - | - | - | - | - | - | - |
| Total amount of discretionary retirement benefits for year N | - | - | - | - | - | - | - | - | - |
| Variable remuneration granted for multianual periods that are not revised on an yearly basis (in euro) | - | - | - | - | - | - | - | - | - |

# 8 Leverage ratio

Following CRD IV implementation, BRD computes and reports leverage ratio which is designed specifically to limit the risk of excessive leverage in credit institutions and was introduced as a complementary tool to the regulatory capital adequacy ratio.

The leverage ratio reached 11.84% as at 31 December 2019, versus 9.65% at 31 December 2018 and well above the 3% minimum requirement tested by the Basel Committee during the parallel run period.

The sustainable level of leverage ratio results from the strong capital base, namely high level Common Equity Tier 1 capital and a balance-sheet structure specific to the universal bank business model with core focus on retail activities.

Table 22: **LR Sum - Summary reconciliation of accounting assets and leverage ratio exposures**

| Summary reconciliation of accounting assets and leverage ratio exposures | | Applicable Amount 31-Dec-2019 |
|---|---|---|
| 1 | Total assets as per published financial statements | 57,770,504 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 2,694 |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013) | 0 |
| 4 | Adjustments for derivative financial instruments | 140,602 |
| 5 | Adjustment for securities financing transactions (SFTs) | 0 |
| 6 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 6,245,071 |
| EU-6a | (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013) | 0 |
| EU-6b | (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013) | 0 |
| 7 | Other adjustments | -302,057 |
| **8** | **Leverage ratio total exposure measure** | **63,856,815** |

## Table 23: LR Com - Leverage ratio common disclosure

| | | |
|---|---|---|
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 57,646,145 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | -302,057 |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)** | **57,344,088** |
| **Derivative exposures** | | **0** |
| 4 | Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin) | 116,710 |
| 5 | Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method) | 150,946 |
| EU-5a | Exposure determined under Original Exposure Method | 0 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 |
| **11** | **Total derivatives exposures (sum of lines 4 to 10)** | **267,655** |
| **SFT exposures** | | **0** |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 0 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 0 |
| 14 | Counterparty credit risk exposure for SFT assets | 0 |
| EU-14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013 | 0 |
| 15 | Agent transaction exposures | 0 |
| EU-15a | (Exempted CCP leg of client-cleared SFT exposure) | 0 |
| **16** | **Total securities financing transaction exposures (sum of lines 12 to 15a)** | **0** |
| **Other off-balance sheet exposures** | | **0** |
| 17 | Off-balance sheet exposures at gross notional amount | 16,595,265 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | -10,350,194 |
| 19 | Other off-balance sheet exposures (sum of lines 17 and 18) | 6,245,071 |
| **Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)** | | |
| EU-19a | (Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| EU-19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| **Capital and total exposure measure** | | **0** |
| **20** | **Tier 1 capital** | **7,559,094** |
| **21** | **Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)** | **63,856,815** |
| **Leverage ratio** | | **0** |
| **22** | **Leverage ratio** | **11.84%** |
| **Choice on transitional arrangements and amount of derecognised fiduciary items** | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | Fully-loaded |
| EU-24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013 | |

# 9 Use of credit risk mitigation techniques

### MAIN TYPES OF SECURITIES ACCEPTED

BRD has a cash flow based lending approach, as the Bank expects the debt to be serviced primarily through the future cash flow (legal entities)/ income (individuals) generated by the debtor.

Credit risk mitigation techniques, in the form of collateral (funded protection) or guarantee (unfunded protection), are accepted merely to mitigate credit risk and they cannot serve as a substitute for the borrower's ability to meet obligations. Their scope is to minimize the loss in case of debtor default through lowering the credit losses with the collateral execution proceeds or through transferring the risk to the guarantee issuer.

The Bank accepts the following **main types of securities**:

- Financial collateral (cash, deposits, Romanian Government bonds, shares, agricultural warehouse receipts, bill of lading)
- Non-financial collateral (real estate, machinery and equipment, inventories, intangibles, receivables, payment instruments)
- Guarantees (surety ship contracts, letters of guarantee, letters of comfort, financial guarantees issued by guarantee funds and Eximbank, sovereign guarantees, endorsements, credit risk insurance)

The most frequent type of accepted collateral is represented by real estate assets.

**Policies and processes for collateral/ guarantees valuation and management**

In order to reduce its credit risk-taking, BRD pursued an active management of securities by:

- Following a collateral policy structured along the following dimensions:
  - strict criteria for validation, acceptance and eligibility of collateral/ guarantees
  - common principles governing the management of securities, as well as of the roles and responsibilities in the process of their management
- Revaluation of the collateral portfolio, in order to reduce the discrepancies between the market value of collaterals and the value used by the Bank in its internal processes (monitoring, provisioning etc.)
- Estimation of the collateral recovery value by applying discount coefficients to its market value, when determining the level of provisions on individual assessment basis
- Regular monitoring through specific risk indicators

During the credit approval process, an assessment is performed on the value of guarantees and/ or collateral, their legal enforceability and the guarantor's ability to meet its obligations. This process also ensures that the collateral or guarantee successfully meets the minimum criteria.

Risk management centralized function is responsible for approving the operating procedures for regular valuation of guarantees and collateral, whether during the approval phase for a new loan or upon the annual renewal of the credit application. The risks associated with the valuation activity are monitored via implemented internal controls.

The Bank has also implemented a set of risk management principles regarding concentration on credit risk mitigations techniques and, in order to ensure an appropriate monitoring, concentration limits defined on single protection provider.

For ***Real Estate collaterals*** the market value is estimated by external or internal certified evaluators. Valuation is performed in accordance with the International Valuation Standards and ANEVAR Standards and Recommendations. Real estate valuations are verified by the competent units, independently from the credit approval process. The Bank uses the market approach and income approach as valuation methods for real estate. Revaluation is performed yearly for commercial / industrial / agricultural real-estate, plots of land, at least once every 3 years for residential real estate or with higher frequency if the real estate market displays a significant negative evolution.

***Movable assets collaterals*** (machinery & equipment, inventory, other movables) are appraised based on the value recognized for financial or other related purposes (balance sheet, insurance etc.). The Bank monitors the movable assets market value on a frequent basis, but at least yearly. If the market is subject to significant changes, market value is monitored more frequently.

Before a ***guarantee*** is accepted, the protection provider is assessed in order to measure its solvency and risk profile, using the same principles as for direct credit exposures towards BRD's clients/ counterparties. The credit risk mitigation effect of guarantees is closely linked to the guarantor's creditworthiness and the secured amount must be reasonably proportionate to the economic performance capabilities of the protection provider. The main guarantor for BRD's clients is the Romanian State, which intervenes to sustain credit activity by national wide guarantee programs implemented through intermediation of Guarantee Funds (FNGCIMM or FGCR) or Eximbank, mainly "Prima Casa" program.

**The table below shows the amount of unsecured loans and secured loans, either by collateral (64% of secured loans) or financial guarantees.**

**Table 24: EU CR3 – Eligible CRM techniques – Overview**

| | Exposures unsecured – Carrying amount | Exposures secured – Carrying amount | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|---|---|---|---|---|---|
| Total loans | 23,080,970 | 11,638,836 | 7,323,670 | 4,315,167 | 0 |
| Total debt securities | 13,391,902 | 0 | 0 | 0 | 0 |
| Total exposures | 61,675,885 | 11,958,520 | 7,632,715 | 4,325,805 | 0 |

The breakdown of net exposures to credit risk (excluding CCR) by exposure class before and post CCF and CRM is presented below.

**Table 25: EU CR4 – Standardised approach – Credit risk exposure and CRM effects**

| | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|
| Exposure classes | On-balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density |
| Central governments or central banks | 18,917,045 | 9,558 | 23,158,341 | 4,768 | 1,653,651 | 7.14% |
| Regional government or local authorities | 922,863 | 15,905 | 941,027 | 7,371 | 365,738 | 38.56% |
| Multilateral development banks | 0 | 0 | 9,349 | 16 | 0 | 0.00% |
| Institutions | 3,330,889 | 461,810 | 3,340,591 | 275,003 | 754,038 | 20.86% |
| Corporates | 7,586,735 | 13,631,997 | 7,029,768 | 3,826,867 | 10,546,896 | 97.15% |
| Retail | 15,627,255 | 1,774,418 | 11,392,816 | 862,682 | 9,032,923 | 73.71% |
| Secured by mortgages on immovable property | 6,805,467 | 118,445 | 6,805,467 | 62,198 | 2,668,440 | 38.86% |
| Exposures in default | 346,411 | 207,011 | 321,724 | 94,146 | 439,858 | 105.77% |
| Collective investment undertakings | 18,666 | 0 | 18,666 | 0 | 18,666 | 100.00% |
| Equity | 177,382 | 0 | 177,382 | 0 | 302,986 | 170.81% |
| Other items | 3,682,547 | 0 | 3,682,547 | 0 | 1,744,667 | 47.38% |
| ***Total*** | ***57,415,260*** | ***16,219,145*** | ***56,877,678*** | ***5,133,050*** | ***27,527,864*** | ***44.39%*** |

# List of Tables