

Report on Transparency and Disclosure 2020

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1 Introduction

This report has been prepared to meet the transparency and disclosure requirements of the Romanian National Bank Regulation no. 5/2013 on prudential requirements for credit institutions, as subsequently amended and supplemented, and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

The quantitative data are presented on individual level, in RON equivalent, except those flagged in other currencies.

The institution subject to disclosure is First Bank SA ("First Bank" or "the Bank") and the reference date is the 31 December 2020.

2 Corporate governance

First Bank SA is a private legal entity having a unitary system, with registered office in Bucharest, District 1, 29-31 Nicolae Titulescu Boulevard, registered with the Trade Register under no. J40/1441/1995, with the unique registration number: 7025592, registered in the Register of Banks under No. RB-PJR-40-026/18.02.1999, with a share capital of 1,196,088,695,00 RON.

2.1 The shareholders structure

On 31.12.2020 the shareholders structure of First Bank SA was the following:

Name	Participation to the shared capital
- JCF IV Tiger Holdings S.à r.l.	99,980513
- Natural persons	0.019487% %
Total	100%

2.2 The Management body

First Bank SA has a Board of Directors as supervisory body and Executive Committee as management body.

The responsibilities and competences of the management bodies are regulated by the Article of Association, by the internal procedures, and also by the Corporate Governance Regulation.

The Board of Directors members shall be independent to make the best decisions for the interest of the Bank, upon the information received and any other relevant elements.

The Board of Directors members shall clearly understand their role and exercise their own professional judgment to make and document their decisions.

The independence criteria for the members of the Board of Directors are provided by the Recruitment & Selection Policy.

The composition of the Board of Directors as of 31.12.2020

- | | |
|-------------------|-----------------|
| - Ilinca Rosetti | Chairman |
| - Richard Carrion | Vice - Chairman |

- | | |
|---|--|
| - Hendricus Charles Hubertus Paardekooper | President and Member |
| - Andrea Secci | Member |
| - Bogdan Ciobotaru | Member |
| - Paul Nabavi | Member |
| - Oana Petrescu | Independent Member |
| - Richard Simon Wilson | Independent Member (<i>under NBR approval</i>) |
| - Nicholas John Tesseyman | Independent Member (<i>under NBR approval</i>) |

Under the Board of Directors, First Bank SA has a **Board Audit Committee, a Board Risk Management Committee, a Board Remuneration and Nomination Committee, a Board Credit Committee and a Board Transformation Committee.**

The Executive Committee members

As of 31.12.2020 the management of the Bank was undertaken by seven Executive Managers, organized as the Executive Committee (ExCo), according to the responsibilities set by the law, the empowerments set by the Article of Association and the decisions and the delegation of authority set forth by the GMS and the Board of Directors. Namely, the Executive Managers are: The President and six Vice-Presidents.

The responsibilities of the ExCo are reflected in the ExCo Charter.

The Executive Managers are granted with management powers, to make the best decisions for the interest of the Bank, upon the information received and any relevant element. The Executive Managers shall clearly understand their role and exercise their own professional judgment to make and document their decisions.

The Executive Managers shall exercise their duties, according to the applicable legislation, regulatory framework and the Corporate Governance System of the Bank.

The Executive Committee members as of 31.12.2020

- | | |
|---|----------------|
| - Hendricus Charles Hubertus Paardekooper | President |
| - Madalina Otilia Teodorescu | Vice-president |
| - Nikolaos Chaniotis | Vice-president |
| - Răzvan Filcescu | Vice-president |
| - Cosmin Ciobanu | Vice-president |

During 2020, the management bodies of First Bank SA had the following meetings:

Board of Directors: 31 meetings

Executive Committee: 87 meetings

2.3 Committees set-up to support the Executive Committee

The committees' set-up to support the Executive Committee assist ExCo in performing its attributions on various business lines and on the operational activity of the Bank.

These committees meet in operational meetings in accordance to their Charters mandates or whenever is necessary.

The members of these committees are: the Executive Managers and the management of the impacted structures.

These committees are:

- **Assets and Liabilities Committee (ALCO)**

The mission of the ALCO Committee is to manage and decide on the Bank's assets and liabilities, in order to maintain the Bank's competitiveness and productivity, depending on the economic environment, by assuming risks within limits defined in the risk strategy.

- **Credit Committees and Recovery Banking Committee**

- The Credit Committees has as main purpose analyzing and approving or rejecting the loans or other engagements. At the Bank level are established the following Credit Committees: Corporate Credit Committee, SME Credit Committee, Micro & PFA Credit Committee, Retail Credit Committee.
- The mission of the Recovery Banking Committee is to overview and coordinate the activities related to Early Warning, Recovery, Workout and Real Estate Owned assets as they are executed by the related structures and recovery and workout committees The Corporate Recovery Committee, SME-Micro&PFA Recovery Committee, Senior Workout Committee and Workout Committee are subordinated to the Recovery Banking Committee

- **Internal Control Framework Committee (ICF)**

The mission of the ICF Committee is to fulfill requirements regarding the establishment and amendments of the internal regulations, assessing the adequacy and efficiency of the internal control framework.

- **Risk Management Committee – Executive Level (ERMC)**

The mission of the Risk management Committee at Executive Level is the management of significant risks the Bank is exposed to through continuous monitoring and control of these risks.

- **Procurement Committee**

The mission of the Procurement Committee is to ensure that the procurement process and tenders are conducted in a fair and ethical manner and that no conflict of interest exists with any employee connected to the procurement process.

- **Other committees:**

- Project Management Committee, Data Management Committee, Client Acceptance Committee, Work Security and Health Committee.

3 Internal control framework

The aim of the ICF is to continuously ensure the achievement of the performance objectives (efficiency and effectiveness of the performed activities), information (credibility, integrity and in due time providing of information to the management) and of compliance (with laws and regulatory framework and with the internal policies and procedures). The following structures are an integral part of the ICF and act as **independent control functions**:

1. Risk Management
2. Compliance

3. Internal Audit

The ICF refers also to organizing the accounting, management of information, risks assessment and the systems in place to measure them.

The control environment sets the tone of the Bank in order to influence the control consciousness of its people. It is the foundation for providing discipline and structure.

In order to meet the objectives of the internal control, the Bank set up an ICF, applicable to all structures and all levels, composed of:

- Roles and responsibilities of the management structures regarding the internal control
- Risks identification and assessment
- Controls and segregation of duties
- Information and communication
- Monitoring and remedy of deficiencies

3.1 Risk management function

In order to manage the significant risks at a centralized level, First Bank's internal control system includes a risk management function. This function is organized at the level of the distinct division - the Risk Management Division. At the same time, the Bank recognizes that responsibility for risk management rests entirely on its own, from risk-taking to control and supervision.

The following structures are primarily and directly involved in the risk planning, monitoring and management process as well as in assessing capital adequacy in relation to the level and types of risks assumed:

- The Board Risk Management Committee, which has been assigned by the Board of Directors with risk management responsibilities, resulting in the effective coverage of all types of risk for the entire range of the bank's activities, the successful control of the risks as a whole, the assumption specialized risk management, and the necessary coordination at the Bank level.
- The Executive Risk Management Committee is directly involved in ensuring the maintenance of a sound Risk Management System, by endorsing the internal Risk Management framework, ensuring the implementation of stress tests, ICAAP and ILAAP processes and informing the Board and Board Risk Management Committees accordingly. The Risk Management Division, which is responsible for the planning, development and implementation of the Bank's risk management and capital adequacy policy, in accordance with the provisions of the Board of Directors, covering all types of risk for the entire range of activities of the bank.
- The Credit Division, which performs an in-depth assessment of credit risk tolerance in accordance with the approval procedure and are responsible for creating and maintaining credit policy.
- The Asset and Liability Management Committee (ALCO), which is responsible for implementing the bank's assets and liabilities consolidation strategy in relation to the related qualitative and quantitative information and changes in the business environment in order to ensure high competitiveness and efficiency, while maintaining the risks assumed within the predefined limits.
- The Operational Risk Assessment Team (ORAT), made up of members of Human Resources, Risk Management, Internal Audit, Compliance, IT and Organization, Project & Process Management Division.

This team evaluates and validates the results of the process of self-assessment and operational risk control.

The general objectives of the risk management function in First Bank Romania are as follows:

- Adopt best practices, which will correspond to the size, risk profile and business strategy of the Bank.
- Ensure compliance of supervisory authorities with risk management and capital adequacy in order to avoid any sanctions.
- Ensure efficiency and reduce operational costs by minimizing operational overlap and avoiding inappropriate or obsolete policies, methodologies, processes, models, controls and systems.
- Enhance Banking decision-making by incorporating the required guidance on risk management and relevant methodologies in areas such as product and service price development and pricing, performance appraisal, budgeting and business planning.
- Support optimal capital distribution and risk-adjusted performance for each business / client structure.
- To support the achievement of business objectives and the functioning of business structures.
- Establish risk limits that keep exposure to risk at acceptable levels, according to the Bank's risk appetite
- Contribute to the improvement of the corporate governance standards of the Bank.
- Develop risk awareness and promote risk-oriented attitudes at each hierarchical level of the Bank.

The Board of Directors of the Bank bears full responsibility for the development and supervision of the risk management framework. Taking steps to cover all types of risk, their specialized and timely assumption, and the necessary coordination, the Board of Directors has designated the Board Risk Management Committee to be responsible for implementing and overseeing both the principles and policies of the risk management function.

Risk Management Division of First Bank is responsible for developing, specializing and implementing the risk management framework according to the Board Risk Management Committee's guidelines and the Board of Directors. The division's activities are independently supervised by the Internal Audit Department, which assesses the adequacy and effectiveness of risk management procedures.

The Risk Management Division is headed by a Manager that is subordinated to the Chief Risk Officer. The Risk Management Coordinator is a person with relevant experience in the field, whose responsibility is to lead the activity of identification, evaluation, monitoring, control and reporting of risks, as well as the activity of the risk management function.

Responsibility for risk management is allocated to staff from all lines of activity and is not limited only to the Risk Management Division. The risk management function ensures that all employees of the Bank are aware of their responsibilities for risk identification and reporting, as well as other responsibilities that may arise for risk management purposes.

The Risk Management Division is independent of the lines of activity it monitors and controls, as well as other internal control structures, and reports directly to the Chief Risk Officer, the Executive Committee, the Executive Risk Management Committee, the Board Risk Management Committee and the Board of Directors.

The Risk Management Division prepares reports to provide appropriate information to the Board of Directors, the Board Risk Management Committee, the Executive Risk Management Committee, the Executive Committee and the Chief Risk Officer.

3.2 Compliance function

The Compliance Function advises the management body on the provisions of the legal and regulatory framework and the standards that the Bank has to meet in order to comply with the provisions of the applicable legislative and regulatory framework.

Compliance Division establishes and manages the policies and procedures framework referring to the Compliance risk management and ensures the supervision and checking of the efficiency with which the Business Lines manage their risks.

The Principles of First Bank's Compliance Policy are:

- Integrity and Reputation - First Bank, by its management, is profoundly engaged to ensure that the services, products and business relationships are professional, ethical and comply with the regulations in force.
- Management Commitment (Tone at the Top) - The Management of First Bank engages to give a good example and to take the necessary measures so that all the employees of the Bank behave, in their professional activity, in an ethical and consistent manner with the laws and regulations in force.
- Compliance is everybody's obligation - Compliance is every employee obligation, regardless the function they hold.
- Compliance Function is independent - The Compliance Function is a distinct structure, independent of the business lines that it is supervising. Operational tasks can be outsourced with the agreement of the management body and only with the prior express agreement from the National Bank of Romania. In case of outsourcing operational tasks of the Compliance Function, the Bank will make sure that those entity/entities have the capacity and professional ability to efficiently complete said tasks and will make sure that those entity/entities are part of organizations that are subject to some forms of supervising/control from competent authorities. When operational tasks of the Compliance Function are fully or partially outsourced, the Head of Compliance and management body are still responsible for those particular tasks and for maintaining the Compliance Function within the credit institution.
- The Compliance Division works with the supervisory authorities and external auditors to ensure that the compliance requirements are adequately covered.

Conflicts of Interests Policy

The Conflict of Interests Policy was issued at the level of the Compliance Division, having the objective of establishing the standards and principles that lay at the base of identifying, evaluating, managing, mitigating or remedying potential or real cases of conflict of interests.

Also, the Conflict of Interests Policy includes obligations that must be upheld by both the members of the management body of the Bank, that is, members of the Board of Directors and of the Executive Committee, and the employees of each structure.

Moreover, within this Policy there are described the procedures, measures, requirements related to documentation and responsibilities for identifying, preventing and evaluating the significance of conflicts of interests and taking action for mitigating said conflicts.

Thus, taking into consideration the current legislative framework applicable, international practices, current internal policies and procedures, through the Conflict of Interests Policy there are stipulated the guidelines, regarding the responsibilities of the Bank's personnel to actively participate in ensuring that the Bank is protected against any and all breaches that might affect its reputation or that might bring about damages as a result of the materialization of such risks. In this regard, the requirement for the Bank's personnel to promptly communicate to the Compliance Division any situation that could generate or has generated a conflict of interests – for example, the improper performance of a task, not abiding by the duty of not performing certain tasks –, remains an essential part when it comes to efficiently managing potential risks.

3.3 Internal Audit Function

The Internal Audit function is ensured by the Internal Audit Division who reports directly to Board of Directors and for administrative purpose to a Vice President according to Bank Organisational Chart. Internal Audit has unlimited access to management body, Audit Committee and all relevant information and documentation. Audit findings and recommendations are presented to management body, Audit Committee and Risk Management Committee. Internal Audit assess the effectiveness and efficiency of the internal control framework and compliance with internal policies and procedures (including compliance and risk management functions). Also, assess if the policies and procedures are suitable and according to the legislation in force. The Head of the Internal Audit Division is responsible for the appropriate coordination of the Internal Audit function according to regulatory requirements, industry and best practices. The Internal Audit Structure is organized and functioning according to the Corporate Governance Regulation and the Internal Audit Structure Charter.

Whistleblowing

A basic and inviolable attribute of the Whistleblowing Policy is the protection of the anonymity and the confidentiality principle, the data of individuals submitting such reports, as well as, the assurance that their current position and their future professional development shall not be affected because of the related audit report issued.

Bank employees may send legitimate issues/concerns regarding bank governance framework, any aspects identified/ not complying with internal and/or national regulations, including potential conflicts of interest. In this respect, all bank employees can send their referrals/concerns to an anonymous e-mail address whistleblowing@firstbank.ro, managed by Internal Audit. The reported issues together with the investigation reports are presented to the Management Body.

4 Business Continuity Framework

First Bank S.A. recognizes existing threats to its ability to continue normal business operations following a serious unexpected disruptive incident caused by natural disasters, or human actions. Also, because the organization has a high level of dependency upon its automated systems and processes those particular risks need to be mitigated.

The organization further recognizes the need to recover from disruptive incidents in the minimum possible time. This necessity, to ensure a fast restoration of services, requires a significant level of advance planning and preparation.

To ensure the appropriate management of business continuity issues caused by a disaster and to keep the risk profile to a minimum level for business continuity, First Bank S.A. has developed "Business Continuity Plan". The Measures are developed on the basis of impact and risk analysis to address most threats that may arise (generated by human, third party or natural activities).

Each employee has the obligation to comply with the prevention, mitigation and emergency measures mentioned in the Business Continuity Plan, depending on his/her position in the bank, in order to accomplish the following objectives

- Protect the human life.
- Minimize the losses caused by potential disasters or other unexpected events.
- Ensure continuous delivery of services to customers.
- Resume the business activities in an organized and structured manner regardless of the disaster or event.

First Bank S.A. employees are required to be familiar with all business continuity procedures that must be performed in an emergency situation:

- Mitigation Procedures – the purpose of mitigation procedures is to instruct employees for the measures that must be taken to limit the damage of a disaster and on how and when such an incident occurs.
- Alternate Activities – are developed by each business unit to formulate on how to operate in emergency situations, when critical resources are not available to perform the business activities.
- Back-up and recovery actions - are developed to protect all critical assets and to restore as soon as possible if those assets are affected by a disaster.

The plan is maintained, adapted and updated in accordance with any changes to the organization's operating processes, at least once a year or every time is necessary. The plans are tested at least once a year or every time is necessary, in accordance with any changes in the organization's operating processes. Responsible for maintaining and updating the Business Continuity Plan, as well as the testing scenarios of the Plan is the Department of IT Security under the coordination of the Chief Operation Officer.

In the context of the COVID-19 pandemic, starting with the spring of 2020, a scenario and an additional framework were generated to test the efficiency of the business continuity plan, First Bank undertook measures aimed to minimize the disruptive effects of the pandemic on daily activity of the organization. Among the measures taken, First Bank managed to test the capacity of the organization but also of its IT infrastructure to maintain its normal activity in these conditions. An important attention has been placed on maintaining staff security by providing optimal conditions and a high level of information security in telework. Groups and communication channels have also been set up internally to properly manage pandemic control actions and to continuously inform employees about the measures they need to take or comply with. Through all these actions, First Bank has managed to continue its business without interruption and in safety for its employees and customers, but at the same time recognizes the need to maintain the process of adapting to the new challenges generated by the increased digitization process fueled by the effects of the pandemic.

5 Selection and remuneration practices

As of 31.12.2020, First Bank had a total of 994 employees. We want our employees to be motivated, allowing them to make better decisions and respond effectively to the needs of our customers. In this sense, we have created an environment where every employee can have access to a variety of development opportunities.

Attracting talent is a challenge for most industries; therefore, we have developed policies that promote an objective evaluation of internal and external candidates according to the established selection criteria. Priority is given to existing employees as part of the Bank's efforts to support and promote its own human resources. In this respect, all new opportunities are announced to employees and are encouraged to apply. There are transparent selection criteria and clear definitions of job categories and hierarchical levels, as well as potential career development.

The recruitment process is based on appropriate procedures, without discrimination, through the use of specific selection systems for candidates using modern assessment and selection tools. These tools may vary depending on the level of training and experience of the candidate and include both proficiency tests and professional tests.

To provide excellent services to our clients, we need to make sure that our employees have the skills and knowledge they need. We develop training courses for our people, including training programs, classroom and e-learning. These programs offer employees the opportunity to develop their skills to create and support high-performance teams and overcome the challenges they may face in their work.

As in previous years, special attention is paid to technical training in compliance, fraud prevention and risk management, in order to raise employees' awareness of such issues.

A total of 28.267 hours of training have been delivered in 2020 to 9.544 participants (participation in each training was counted, not individual participants). The most relevant 3 categories of training focused on banking and financial technical specialization (23,54%), technology (17,14%) and specialized training for each function 30,47%. The technical curricula (banking and finance, conformity and anti-fraud, banking IT systems, technical specialized training) represented 90,15% of the total training hours while upskilling and managerial development made up 9,85% of the total training hours.

In 2020 we continued to improve our incentive systems related to sustainable results, which is consistent with the business strategy, objectives, values and long-term interests of the Bank.

Remuneration policy aims to create a framework for remuneration and supports performance-based culture that brings Bank's objectives in line with stakeholders' goals (employees, leadership and shareholders) and motivates employees to continue acting in the Bank's interest.

The Bank offers equal opportunities to its employees and applies similar policies irrespective of gender, race, color, religion, sexual orientation, nationality, physical skills, etc. Equal opportunities refer to unitary, fair and impartial treatment for all employees and the development of working conditions, to the consolidation and respect of diversity, to the assurance of dignity at work, to a wider society. These principles have been complemented by the Collective Labor Agreement which entered into force at the end of 2017. Besides the Collective Labor Agreement, the human resources activity is regulated by a series of procedural policies such as the Human Resources Regulation and the Code of Conduct, Training Policy and Procedure, Remuneration

Policy and Procedure, Employee Performance Management Policy and Procedure, Recruitment and Selection Policy and Procedure, Benefits and job-related business tools Policy, Promotion and Internal Transfer Policy and Procedure, Personnel Administration Procedure.

5.1 Selection practices

The scope of the recruitment & selection process is the successful and objective assessment of internal and external candidates according to the selection criteria established. Priority is given to existing employees as part of the Bank's efforts to support and promote its own human resources. Selection criteria used during selection process vary based on the hierarchical level of the specific position, respectively: competences, professional experience, educational level, foreign languages, specific criteria, general criteria for eligibility requirements, criteria for independence, material interests in transactions and other areas with impact on the Bank.

The BoD non-executive members, the employees on a key position from hierarchical levels LM1-LM3 as well as the representative of the internal control on capital market compartment provide upon engagement and on an annual basis a signed statement related to the eligibility criteria, independence, material interest in transactions and other areas of impact at the Bank level.

The rest of the employees, who do not belong to the above categories, are signing at the employment date and declare annually, conflicts of interest in which they could find out. Conflict of interests is the situation or circumstance in which the personal interest, directly or indirectly, of the staff and members of the Bank's management structure is contrary to the interest of the Bank in such a way that it affects or may affect their independence and impartiality in making decisions or fulfilling them in a timely manner objectivity of their duties in the exercise of their duties.

5.2 Remuneration practices

Remuneration Policy is consistent with the business strategy, objectives, values and long-term interests of the Bank. It aims to create a framework for the remuneration and supports performance-driven culture, which brings the Bank's objectives in line with the stakeholder's objectives (employees, management and shareholders) and also motivates employees to continue acting on the Bank's best interest.

The remuneration process is based on the following principles: performance maximization, attracting and retaining talents, aligning remuneration and rewards to profitability, risk, capital adequacy, risk to liquidity and sustainable growth, compliance with the regulatory framework, internal transparency and equity, incorporates measures to avoid conflicts of interest.

Thus, as regards the remuneration of the staff responsible with the assessment of the clients' repayment capacity, the following principles will also apply:

- a) they are not encouraged to take risks exceeding the Bank's risk tolerance level, thus pursuing a healthy and effective risk management;
- b) the remuneration of this staff category does not depend on the number of accepted credit applications or on the weight of the credit applications accepted out of the total number of credit applications, for avoiding in this way conflicts of interest.

Thus, as regards the remuneration of the staff responsible with the promotion and selling of retail banking services, the following principles will also apply:

- a) Remuneration of this category of staff is not solely link to a quantitative target for the offer or provision of banking products and services
- b) This category of staff does not promote the offer or provision of a specific product or category of products over other products, such as products which are more profitable for the institutions or for a relevant person, to the detriment of the consumer.

The Remuneration Policy covers all types of remuneration. General structure of remuneration includes fixed and variable (if the case) parts, thus ensuring that remuneration is linked to short and long-term business efficiency.

The **fixed remuneration** is considered the base pay and other types of salary income and represents the guaranteed income of an employee, such as: overtime, night hours, untaken vacation days.

Fixed components of the remuneration aim at rewarding employees on the basis of their level of responsibility, education, professional experience and skills which are required for the execution of their role's duties.

Base pay is the standard income of an employee according to provisions of his/her employment contract, and in any case shall not fall below the minimum salary level set by the Collective Agreement.

When establishing the base pay, the Bank takes into account the principle of salary differentiation determined by:

- internal fairness within the Bank – base salary is different depending on the importance of each activity, relevant level of education, expertise and skills of the person and does not discriminate in terms of gender, nationality, age. Employees in positions of similar importance receive comparable fixed remuneration
- external fairness within banking market – the Bank monitors compensation levels in the local banking market, using salary surveys; the aim is to ensure a remuneration level at least at the market median, as it is reflected in salary surveys.

Higher remuneration is provided for specialized roles of great significance for the Bank's operation and growth, or cases of employees with distinguished academic background cumulated with previous relevant work experience for the Bank, as well as for exceptional performance.

The **variable remuneration** is linked to rewarding performance, incentives and target/objectives achievement (e.g: bonuses / rewards paid based on incentive schemes or due to completion of specific projects, annual performance bonuses).

Variable components of remuneration are linked to the performance of the individual, and with the financial performance of the Bank, respectively if the Bank registers profit in the previous financial year, the variable remuneration is paid in the current year, based on quantitative and qualitative criteria, so as to exactly reflect the nature of the target and at the same time to achieve maximum alignment with the medium and long term strategy of the Bank.. At the same time, the combination of these criteria achieves the alignment of the employees' interests with those of the Bank and ensure the avoidance of orientation to short-term gain.

According to legal framework in place, other type of variable remuneration is the severance payments (early termination payments) in order to avoid a potential labor conflict or in cases of cessation agreements required

by the Bank. These payments shall reflect performance achieved over time and not reward failure or misconduct and will take into account also feedback from internal control functions on the existence of evidence/ information on failure/ misconduct, in order to conclude that there was no obvious failure which lead to the cancellation of the contract.

Other types of severance pay which do not fall within the categories presented above (which are calculated based on predefined formulas and meeting the fixed remuneration criteria) shall be classified as variable remuneration and specific limitations may apply. Depending on the Bank's strategic objectives, variable payment schemes are designed and implemented to support the achievement of these objectives. These schemes can be permanent or short-term/ medium-term or project based. These schemes support objectives connected with the Bank's medium or long term strategy. The criteria used are both quantitative and qualitative.

In the framework of accomplishing the Bank's annual goals, and always on the basis of the annual budget and of the current business plan, the Bank may consider the possibility of provisioning the annual variable remuneration to employees. In any case the provision for annual variable remuneration will be in line with the current legal and regulatory framework.

In case of violations of regulations/procedures, malus or other equally serious cause, whereby the Bank was misled and awarded variable remuneration, the Bank shall be entitled to use any and all legal means available to claim the return of such amounts from the employees receiving undue payments.

In case the regulatory thresholds for capital adequacy are breached the Bank will suspend the variable remuneration payments, including the unvested part, in line with the provisions of Article 292 of Regulation 5/2013. The Bank shall not award variable remuneration in circumstances when regulatory requirements related to capital adequacy, including applicable capital buffers are not met and shall not pay variable remuneration awarded when such regulatory limits were not met, in accordance with Article 292 of NBR Regulation 5/2013.

The total variable remuneration must not limit the ability of the Bank to strengthen its capital base. The variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial situation of the Bank as a whole, and justified on the basis of the performance of the Bank, the business unit and the individual concerned.

Without prejudice to the general principles of national contract and labor law, the total variable remuneration may be vested or not paid where subdued or negative financial performance of the Bank occurs, taking into account both current remuneration and reductions in payouts of amounts previously awarded, including through malus or claw back arrangements.

When assessing if variable remuneration (awarded/ paid out or vesting) could impair the capital basis soundness, at least the impact over the following should be taken into account:

- Liquidity Coverage Ratio (LCR), Total Capital Ratio (CAD) and Tier 1 Ratio subject of non-breaching the triggers stipulated in the Recovery Plan of the Bank and by reference to regulatory (including capital buffers) and SREP ratios;
- Cost to Income Ratio (CIR)
- Any limitation arising from applicable capital buffers and/ or restrictions on distributions; and
- The result of the internal capital adequacy assessment process.

The impact of variable remuneration - both upfront and deferred amounts – is considered in capital and liquidity planning and in the overall internal capital adequacy assessment process.

Upon defining the rate of variable remuneration the Bank considers any limitations on the maximum amount that may be used for performance-based remuneration by reference to the Bank's capital position and the expected financial performance.

For roles that have material impact on the Bank's risk profile, further called "identified personnel", the local and European legislation in force, is respected. Identification of personnel whose professional activities have a material impact on Bank's risk profile, is realized according to legal provisions in force related to the technical standards for qualitative and quantitative criteria.

The variable component should not exceed 100% of the fixed component of the total remuneration for each individual. When determining the ratio, the sum of all variable components of remuneration that could be awarded are considered divided by the sum of all fixed components of remuneration to be awarded in relation to the same performance year. Some of the fixed remuneration components may be omitted, where they are not material.

Non-executive members of the Board of Directors are not entitled to variable remuneration, only to fixed remuneration, as approved by the General Shareholder Meeting, the payments made by the Bank being assimilated to salary incomes.

The amount of variable remuneration paid depends on the performance achieved by reference to a series of quantitative and qualitative criteria. Such criteria incorporate Bank's medium-term and long-term strategy, are conducive to the alignment of the employees' interests to those of the organization and the shareholders, and ensure that no excessive risks will be assumed or no priority will be given to short-term profits.

When setting the performance measures for variable remuneration the Bank considers the application of risk alignment mechanism through the use of an appropriate combination of quantitative and qualitative performance measures as follows:

- Absolute performance measures: set by the Bank on the basis of its own strategy, including its risk profile and risk appetite.
- Relative performance measures: set to compare performance with peers, either 'internal' peers (i.e. within the organization) or 'external' (i.e. similar institutions).
- Multi-annual performance measures: are used to assess performance in a multi-year framework when the assessment process is based on longer-term performance and that the actual payment of performance-based components of remuneration is spread over a period which takes account of the underlying business cycle of the Bank and its business risks.

Performance measurement indicators used to allocate variable remuneration components or pools of variable remuneration components which include adjustments for all types of current and future risks and take into account the cost of the capital and the liquidity required (i.e. capital and liquidity indicators).

The individual criteria are divided into quantitative criteria and qualitative criteria. Quantitative criteria are role dependent and should:

- cover a period which is long enough to properly capture the risk taken by staff members, business units and the Bank, and
- be risk adjusted and include economic efficiency measures.

Operating efficiency indicators (e.g. profits, revenues, productivity, costs, and volume metrics) which may not incorporate explicit risk adjustment and provide a short term perspective and thus not capture sufficiently all risks of the staff member's activities, shall be supplemented within balance scorecards by risk adjustments/ risk indicators.

Qualitative criteria take into account behaviors by reference to Bank values), respectively: customer first, passion for sustainable results, teamwork, innovation, etc.

Quantitative and qualitative criteria and the processes related to their application should be transparent and as much as possible pre-defined. Both quantitative and qualitative criteria may partly rely on judgment but in such cases they are clearly explained to the staff members.

The risk alignment process within performance measurement is transparent to staff, including any judgmental elements. For judgmental approaches the key consideration on which the judgment will be based are documented and communicated to the staff member both at the point of goal setting and subsequently at performance assessment.

6 Risk management objectives and policies

6.1 Risk management strategy and processes

First Bank recognizes its exposures to bank risks arising from day-to-day operations, as well as from achieving its strategic objectives. Effective bank risk management is considered vital by the Bank in order to achieve strategic objectives and to ensure the quality of shareholders' benefits on a continuing basis. In this context, the Bank's strategy on significant risk management provides the framework for identifying, evaluating, monitoring and controlling these risks in order to maintain them at acceptable levels based on the Bank's risk appetite and its ability to cover (absorb) those risks.

The overall objectives of the significant risk management strategy are as follows:

- Determine the significant risks that may occur in the normal course of the credit institution's activity and formalize a robust framework for their management and control, according to the objectives of the Bank's general business strategy, by adopting best practices, adapted to the size, risk profile and risk tolerance of the Bank.
- Developing a risk mapping that facilitates their identification at the transaction and portfolio level and which structure and rank them according to the possible impact on the Bank's current activity;
- The delimitation of the accepted risk level for each significant activity and for the Bank's overall activities, in relation to the overall strategic lines and the profit and capital targets set at the level of the management body;
- Promoting a culture of risk awareness and management at all levels of the Bank.
- Providing support for decision-making processes at the Bank level by providing a risk perspective.
- Reaching the Bank's strategic objectives.

- Adopt best practices that correspond to the bank's risk size, risk profile and risk strategy and align the risk and capital management practices with legal requirements.
- Supporting operational units in improving operations and meeting business objectives.
- Setting limits that keep the risk within acceptable limits depending on the Bank's risk appetite.
- Contributing to the continuous improvement of the corporate governance model.

General principles for taking and managing risks:

- In order to manage risk on a prudential basis, the Bank will enter into business relationships whose risk profile is fully understood.
- The Bank ensures that processes and systems are in place to ensure the efficiency and effectiveness of operations, adequate risk control, prudent business development, adequate internal and external reporting, and compliance with internal and external rules.
- The Bank will fund inventions and innovations with the utmost caution, under strict conditions, and will also grant credits and treasury operations only in the main quoted currencies (no exotic currency operations will be performed).
- First Bank pays particular attention to the granting of credit facilities to entities whose headquarters, business premises and / or activities are generally located outside Romania or for which the risk is centered outside Romania
- In order to determine the risks that may affect the activity of the Bank, the significant activities as well as the risks related to these activities have been identified.
- In line with the Bank's risk profile, the Bank has identified a number of controllable risks that it intends to take. The Bank intends to reduce / limit the level of these risks using a number of control processes / tools that are found in the specific procedures for each product or activity.
- In the process of risk management, the Bank has developed policies and procedures through which it is possible to identify, evaluate, monitor and control or mitigate significant risks. This framework is periodically reviewed, based on the risk profile and risk appetite, as well as changes in legislation, internal / external changes or good practices.
- Any new activity or product(s) will be issued on the basis of appropriate control procedures and tools to identify all significant risks.
- The entire staff of the Bank must be aware of the risks that may arise in the activity carried out, as well as its responsibilities in the management of these risks and have a suitable qualification in this respect. Thus, the Bank must ensure, maintain and develop a robust and consistent risk culture across all structures.

6.2 Types of significant risks

Identifying significant risks is essential to defining the risk management framework.

At First Bank level, the following risks were considered significant in 2020:

- Credit risk
- Risks associated with credit risk:
 - Counterparty risk
 - Country risk

- Concentration risk
- Residual risk
- Settlement risk
- Market risk:
 - Exchange rate risk
 - Interest rate risk
- Liquidity risk
- Operational risk
- Compliance risk
- Reputational risk
- Risk of excessive use of leverage
- Strategic risk
- Regulatory risk
- Capital adequacy

6.3 Risk Strategy parameters

The Bank's mission is to strengthen its position on the Romanian financial market through high quality services offered to its clients, promoting an environment conducive to capitalizing on human resources and protecting the shareholders' interests by creating value for them. Achieving these goals largely depends on effective risk management.

The Bank's risk strategy is based on three parameters:

- Risk profile
- Risk appetite
- Risk tolerance (risk-bearing capacity)

The risk appetite is determined not to exceed the risk tolerance given the current business conditions and to ensure the operational continuity of the Bank, the implementation of its strategic objectives, and the achievement of satisfactory performance. At the same time, it ensures that risk tolerance can absorb unexpected losses and / or commitments in adverse conditions from the business environment and the macroeconomic context (crisis scenarios), guaranteeing a minimum level of solvency as well as the interests of depositors.

The risk profile is defined as the level of risk exposure at any given time for each type of risk identified by the Bank in view of its business activities. The risk profile, evaluated according to the risk matrix, is not a static measure, but an evolutionary risk assessment with a predetermined frequency. Its role is to determine the size of each significant risk and the overall risk level, based on relevant indicators.

In determining the risk profile, the Bank's strategic objectives and risk appetite have been taken into account.

Risk tolerance is the effective ability of the Bank to absorb the risks resulting from the projected structure and size of the balance sheet.

Thus, the Bank's risk tolerance has the following dimensions:

- internal capital (available)

- the liquidity buffer level

Internal capital (available) is the source of covering / absorbing the unexpected loss from the materialization of all the risk categories to which the Bank is exposed. At First Bank level, the internal capital is limited to the amount of Tier 1 and Tier 2 own funds. The Bank's objective is to maintain the available internal capital at a level that allows for the coverage of internal capital requirements.

The liquidity buffer represents the available liquidity, which covers the additional liquidity needs that can occur over a short time horizon defined in crisis conditions. The Bank's objective is to cover immediate liquidity withdrawals, in line with the scenarios defined in the Procedure regarding Liquidity Risk Management.

The impact of interest rate fluctuations from banking book activities is quantified through two indicators:

- The duration GAP is intended to determine the potential losses resulting from the exposure to the interest rate risk from non-trading activities
- Earning at Risk for activities outside the trading portfolio, measuring the impact of the change in the term structure of interest rates on net interest income.

In 2020 all the limits setup within the risk tolerance were respected.

7 Credit risk and related risks

7.1 Credit risk

The Bank's activity and profit are closely related to credit risk taking.

Credit risk is considered the primary risk to which the Bank is exposed, and effective monitoring and management is a priority for the Bank's management.

The Bank's credit risk strategy is defined according to: exposure type, economic sector, form of ownership, counterparty category, residence, geographical area, currency, initial duration, and considering estimated profitability and special exposure categories.

In order to diminish / control the credit risk, the Bank undertakes a series of actions:

- Separation of credit analysis and approval activities, credit drawing and tracking and recovery, so that they take place in separate organizational structures;
- Allocation of the bank's activities on the lines of activity and identification of the organizational structures involved in the respective activities;
- Identifying the lines of activity at which the impact of credit risk can be materialized and defining the internal risk control framework;
- Development of detailed policies and procedures for the credit categories granted by the Bank, which refer to and treat all the risks on the flow, resulting from the lending activity;
- Maintaining specialized personnel in credit and risk management activities;
- Specialization of these personnel on distinct areas of lending activities, namely analysis, tracking, recovery of credits, etc;
- Providing training specific to each area of lending activity;

- Approval of large exposures (exceeding 10% of the Bank's own funds) by an appropriate level of competence in accordance with the provisions of the regulatory framework and the Bank's internal governance principles;
- Use of credit limits for managing, controlling and diminishing credit risk

Credit risk is assessed using the following tools:

- Analysis of the structure and evolution of the loan portfolio.
- Analyzing the indicators defining the credit risk profile and monitoring their evolution in relation to the established limits.
- Qualitative analysis of credit portfolios (retail, corporate and SME):
 - depreciated assets and nonperforming assets
 - coverage rate with provisions (performing and non-performing loans)
 - the degree of concentration of non-performing assets
 - coverage with collaterals
- Analysis of the credit portfolio concentration.
- Analysis of large exposures and exposures to affiliated parties
- Calculation of the regulatory capital requirement - according to the Standard approach.
- Calculation of the internal capital requirements
- Stress tests

7.2 Concentration risk

The Bank has clear policies and procedures with regard to exposure to concentration risk and an appropriate framework for measuring, managing and mitigating concentration risk in accordance with policies and limits set.

Concentration risk is assessed using the following tools:

- Calculation and monitoring of the indicators defining the concentration risk profile, in relation to the limits established by the Risk Profile.
- Analysis of exposure by economic sectors, by counterparty category, by main currencies and by territorial profile.
- Exposures by type of guarantee. Depending on the type of exposure guarantee - the loan portfolio covered by collateral is segmented according to its type as follows:
 - Real guarantees
 - Personal Guarantees
 - Assignments of contracts
- Analysis of exposures to protection providers. Depending on the protection provider against which there is an indirect credit exposure; the loan portfolio for which the Bank constituted eligible personal or bank guarantees is segmented according to the protection provider.
- Analysis of exposures to affiliated parties and large exposures.
- Calculation of internal capital requirements covering the concentration risk.

Affiliated parties transactions

Pursuant to the provisions of Regulation No. 5/2013 on prudential requirements for credit institutions, First Bank has appropriate policies and processes for identifying individual exposures to and / or transactions with affiliated parties to determine the total amount of such exposures, such as and for monitoring and reporting those exposures through an independent process of verifying or auditing credit activity. As at 31 December 2020, the Bank recorded exposures to affiliated parties representing 0.290% of its own funds, within the limits provided for in Art. 399-403 of Reg (UE) 575/2013. The structure of these exposures according to the relationship type is as follows:

Type of relationship	Net exposure (% of Own funds)
Subsidiaries or other entities that the bank has control	-
Entities in which First Bank owns stakes	0.160%
Shareholders of the bank	0.005%
Members of the management structure and persons with key functions within the bank	0.124%
The family of the members of the management structure	0.000%
TOTAL	0.290%

7.3 Counterparty risk

Exposures by category of counterparty are assumed under a set of limits applicable to transactions in order to control the risk. Thus, there are limitations on the counterparty for:

- exchange rate transactions (forward, swap)
- transactions with fixed income securities
- daily settlement limit.

The measurement, assessment and monitoring of the counterparty risk is achieved by:

- The risk profile, through a relevant indicator and corresponding limits;
- Monthly monitoring of exposures exceeding 10% of First Bank's own funds level in the process of identifying, monitoring and reporting large exposures (according to the specific procedure).
- Calculation of the capital requirements for exposures to counterparty risk using the mark-to-market method according to Art. 274 of EU Regulation 575/2013.

7.4 Other risks related to credit risk

Residual risk

The residual risk monitoring takes into account the following components of credit risk treatment:

- As a result of using the standardised approach for credit risk, the Bank does not recognize as risk mitigation factors items that may be subject to significant impairment.
- As a result of using the standardised approach to counterparty credit risk, the Bank uses volatility adjustments and exchange rate adjustments, according to the Financial Collateral Comprehensive Method.

As a result of the above, the residual risk is considered insignificant for the Bank's activity.

However, as a further measure of control, according to the provisions of the NBR Regulation no. 5/2013, the Bank determines internal capital requirements to cover residual risk.

Macroeconomic risk

Macroeconomic risk is an uncontrollable and quantifiable risk, mentioning that its impact is indirect (it acts by worsening the impact of other risks). According to its internal evaluation, its impact potential falls within the category of "insignificant in observation".

In order to counteract the risks related to economic instability, the Bank has taken the measure of introducing internal rating systems for credit applicants. At the same time, the Bank has assigned specific tasks for the analysis and daily monitoring of the economic variables, so that it can adapt its business decisions to their evolution at any time.

The risk arising from FX lending activity of debtors exposed to foreign exchange risk

Following the process of identifying borrowers exposed to foreign exchange risk at business department level, they are subject to an additional risk assessment process. The assessment of the risks arising from the foreign currency lending activity of borrowers exposed to foreign exchange risk pursues two aspects:

- Including in the price of a risk premium for foreign currency loans
- Evaluation of the additional capital requirement in ICAAP to cover risks from foreign currency borrowers exposed to foreign exchange risk.

Settlement risk

Settlement risk is very similar to the counterparty credit risk - CCR (which is also known as "pre-settlement risk"), the difference being that the settlement risk occurs after the maturity date of the contract (between maturity date and date settlement).

In order to implement an effective counterparty risk framework, First Bank continuously monitors and measures both pre-settlement and settlement risk. Prior to any transaction with a counterparty, a thorough credit analysis is performed and limits (Daily Settlement Limits (DSL)) are established. The DSL limit is defined as the maximum daily trading amount with a counterparty. Additionally, the Bank has full and applicable legal contracts with counterparties, such as the International Swap Derivatives Association (ISDA) framework agreement, used to reduce CCR and settlement risk by clearing payments.

The settlement risk is diminished by prudently selecting banks that offer custody services or by making special transactions in accordance with trading system specifications. The bank considers the settlement risk to be insignificant.

Country risk

According to the principles outlined in the Risk Strategy, country risk is assessed as insignificant for the Bank, and materiality is irrelevant to the creation of additional capital requirements.

7.5 Monitoring

The monitoring of credit risk and related risks, according to processes, methodologies, models and limits, has the role to identify and signal the necessities of improving the internal control system, as well as to ensure

compliance with the policies regarding credit risk and related risks with the Bank's structures, respectively by lines of activity.

With respect to credit risk and / or related risks, the Bank monitors:

- The risk evolution - based on analyzes on the structure of exposures and risk indicators.
- Framing within certain variation intervals - according to the objectives of the Risk Strategy and the Business Plan for the current year.
- Compliance with the specific limits at the operation / transaction level - specific to the portfolio exposed to counterparty risk.
- Ranking within an assessment scale - specific to concentration risk.
- Observing the prudential and risk limits - established in accordance with the prudential regulatory framework and the provisions of the Bank's risk strategy and policies.

7.6 Mitigation and control

The Bank has implemented a range of control tools to limit credit risk / related risks, in line with prudential principles and the level of risk accepted by the management structure. Such instruments refer to (but not limited to):

- Defining an internal regulatory framework
- Defining processes of the risk taking and related attributions
- Defining exposure limits and competence limits
- Defining the proper control instruments (systems, models, methodologies, etc.)
- Evaluation and monitoring of credit risk and related risks, according to processes, methodologies, models and limits to identify and signal the need for improvement of the internal control system.
- Ensure compliance with the credit risk and related risks policies at the level of the Bank's structures, respectively by business lines.

7.7 Reporting

The results of analyzes and monitoring of credit risk and related risks are presented periodically to the management of the Bank through the Executive Committee and the Board Risk Management Committee, which informs the Board of Directors.

8 Market risk

First Bank has clear policies and procedures to ensure active market risk management as well as adequate market risk measurement and assessment systems, being prepared to cope with regulatory challenges and the banking environment.

Any activity that expose the Bank to market risk, namely currency risk, is adequately reflected in the system, while new products are reviewed before launch.

The Bank periodically evaluates the time horizon that allows any material market risk to be covered or positions closed (periodic market liquidity assessment).

The Credit Value Adjustment Risk (CVA) framework clearly addresses the CVA calculation procedure for the derivative portfolio and the roles and responsibilities of all the entities involved. The Bank monitors CVA administration for both accounting and regulatory purposes. The main purpose of CVA is to consider counterparty credit risk within the derivative portfolio.

Foreign exchange risk

The Bank has set as a strategic goal the establishment of an effective risk management related to exchange rate developments, as well as the optimal ratio between the desired profits and the risks assumed.

The exchange rate strategy provides for the following:

- Definition of an indicator measuring the diminishing of the income caused by the adverse change of the exchange rate: the loss from foreign exchange activities;
- Establishment of trading limits in accordance with the Risk Profile, namely:
 - intraday;
 - O/ N;
 - Daily and monthly Stop-loss;
- Monitor the limits thus set by the Back Office Department and the Risk Management Division. Thus, the limit for the individual currency position for EUR and RON, the limit for the individual currency position for the other currencies, the O/N for the aggregate net position, the intraday limit for the aggregate net position, the daily stop loss limit and the monthly stop loss limit;
- Creating stress scenarios to calculate the impact of the abrupt change in the exchange rate on the Bank's income;
- Implementation of an internal Value-at-Risk model within the internal capital adequacy assessment process (ICAAP);
- Regularly informing management on compliance or breach of limits, and how to fit into the approved risk profile

During 2020, the limits for foreign exchange risk have been respected.

9 Liquidity risk

The liquidity risk management strategy includes the following objectives:

- Monitoring and reporting the position of the Bank in terms of liquidity;
- Maintaining an alternative liquidity management plan
- Monitoring a set of Early Warning Indicators (Quick Liquidity, Liquidity Indicator, Customer Loans vs. Customer Deposits, Liquidity Coverage Ratio, Net Stable Funding Ratio).
- Monitoring the liquidity position based on scenarios;
- Maintaining a stable relationship with the suppliers of funding sources (clients, counterparties, etc.) ensuring the adequate diversification of sources and avoiding the funding concentration, on a short, medium and long term;
- Promotion of attractive saving products and proper marketing;
- Use by the Bank of assets eligible for reversible sales (REPO with NBR) or for accessing the overnight credit facility (Lombard credit);

- Monthly analysis of the liquidity risk profile, as well as the monitoring of intraday liquidity positions, but also for longer periods of time;
- Preventing and managing crisis situations.
- Informing the management body about the liquidity situation.

Monitoring and reporting

First Bank uses a liquidity monitoring system that provides different types of restrictions incorporated into risk indicators and limits or alert levels.

If a risk limit is exceeded or if a warning level is activated, the Risk Management Division investigates the event that caused the overrun, and activates the escalation and reporting of information to the competent committees to analyze / solve the situation.

The reports sent to the regulator (National Bank of Romania) are: LCR (coverage liquidity needs), NSFR (stable funding), ALMM (Additional Liquidity Monitoring Metrics), Liquidity Indicator and Quick Liquidity.

The evolution of the LCR indicator in 2020 is presented in the table below:

Currency and units (RON million)	31/03/2020		30/06/2020		30/09/2020		31/12/2020	
	Gross Amount	Weighted Amount	Gross Amount	Weighted Amount	Gross Amount	Weighted Amount	Gross Amount	Weighted Amount
Stock of high quality liquid assets (HQLA)	1,982.2	1,944.9	2,096.2	2,051.2	2,097.7	2,052.1	2,235.2	2,189.6
Cash Outflows	6,445.8	1,248.2	6,275.6	1,306.0	6,468.2	1,328.1	6,349.8	1,311.6
Cash Inflows	819.0	381.8	949.8	512.1	993.5	531.0	1,058.4	566.8
Net cash outflows = MAX (Outflows - Inflows), 25% Outflows)		866.4		793.9		797.1		744.8
Liquidity Coverage Ratio = HQLA / Net cash outflows		224.5%		258.4%		257.4%		294.0%

10 Operational risk

The Bank recognizes operational risk as a distinct category of risk and sets out principles for its management:

- Establish an appropriate framework for operational risk management through appropriate policies, procedures, methodologies and limits, ensuring consistent and effective operational risk management across all entities of the Bank. The framework includes the following processes / tools: self-assessment and operational risk control, extreme scenario analysis, key risk indicators, action plans, incident and loss collection, VaR and capital calculation, operational risk appetite, and reporting operational risk.
- A common culture and attitude regarding the management of operational risk is cultivated within all Bank's functions / structures through continuous training and communication with a vast network of operational risk correspondents
- The Bank's operating model pursues the standardization and application of policies and procedures within the Bank's support activities and functions, thus improving operational efficiency and effectively mitigating operational risks.

- An internal control system, consisting of a wide range of internal controls and processes, covers all the Bank's activities and ensures efficient and secure operation. The Bank systematically updates its internal control system and implements improvements directly.
- The Business Continuity Plan (BCP) aims to eliminate any negative impact that may arise in crisis situations within the Bank's business.
- The risk of conduct is directly managed in all phases (identification, evaluation, monitoring, reporting) in the operational risk management framework.
- An IT Security Framework, aimed at reducing the risk of ICT and cyber risks, has been developed by the Bank's IT Security Officer. The Bank recognizes and calculates the necessary provisions for the potential loss of claims for the damages caused by the counterparties (and / or third parties).

The Bank has developed the following operational risk strategy:

- Identification of operational risk events, Risk profile and internal operational risk / policy;
- Collecting and reporting operational risk data;
- the use of a risk matrix to ensure continuous monitoring of the occurrence of operational risk events;
- Hierarchy of events depending on the probability of occurrence and the financial impact on the Bank;
- Maintaining a historical database and collecting all operational risk events and losses;
- Implementing a corporate governance model that assigns roles and responsibilities to those involved in managing operational risk;
- Running a process of self-evaluation and control of operational risk in all organizational structures of the Bank;
- Implement a set of action plans to minimize and eliminate the most critical operational risk events.
- Use of specific key operational and operational risk indicators as well as acceptable tolerance levels (low, medium and high) following the process of self-assessment and operational risk control;
- Use of relevant operational risk indicators, as well as ratings established through the Risk Profile.

At the same time, the Bank has implemented a number of control tools for each category of risk event in order to minimize operational risks. These are formalized within the Operational Risk Management Policy, but also within the policies and procedures specific to the various structures or lines of activity.

First Bank periodically monitors the implementation of the approved action plans in order to formalize all the Bank's shares through the issuance of rules and procedures. At the same time, the Bank has formalized a plan for the resumption of business and for unforeseen situations.

Regarding outsourced activities, the Bank has developed a Policy on the outsourcing of auxiliary or related activities of the Bank which aims to:

- establishing outsourced activities;
- analyzing and evaluating outsourcing opportunities;
- use of documentation that includes the criteria for evaluating and selecting the entity to which outsourcing is to be performed;
- implementation of a risk monitoring and control system resulting from the outsourcing of activities;
- reporting to the Bank's management of the risk situations arising from the outsourcing contracts.

11 Reputational risk

First Bank acknowledges that the critical and complex macroeconomic developments, the public interest in the financial sector and the increased flow of information and news on critical issues (liquidity, capital adequacy, deposit guarantees, prospects) may affect the reputation and therefore the Bank's ability to attract and retain depositors and investors.

The Bank acts on two main pillars:

- To strengthen the name and reputation in the market
- For efficient management of possible events that may give rise to reputational risk.

Regarding the efficient management of events that may give rise to reputational risk, the Bank considers:

- Permanent identification of potential situations generating reputational risk;
- Monitoring the specific indicators in the Risk Profile that commensurate with the level of this risk category;
- Maintaining structures within the Bank to deal with the identification of situations that may generate reputational risk, identifying appropriate crisis management measures, coordinating the actions of key people in settling and extinguishing potential crisis situations, implementing the management's provisions Bank;
- Ensuring the continuity of the activity, respectively plans for its resumption in unforeseen situations;
- Monitoring the Bank's image in the media in order to identify any rumors that could generate reputational risk, especially with impact on the Bank's liquidity.

12 Other risks

12.1 Interest rate risk from banking book

The Bank included interest rate risk from banking book into the significant risks category. For this purpose, First Bank:

- distinctively recognizes trading and banking book activities; at the end of 2020, the bank had only banking book activities.
- tracks the potential impact of interest rate changes on the banking book activities;
- Include in the interest rate risk strategy objectives on the interest rate risk associated with banking book activities.

The main sources of interest rate risk from banking book activities are the imperfect correlations between the re-pricing/maturity date of cash flows (for fixed-interest interest-bearing assets and liabilities), the adverse evolution of the yield curve (the unparalleled evolution of interest rate yields of interest-bearing assets and liabilities) and / or the imperfect correlation between interest rate changes for placements and deposits for instruments with similar rate redevelopment features of interest.

In order to assess the interest rate risk from banking book, the Bank implemented the methodology proposed by the National Bank of Romania in Regulation 5/2013, which calculates the variation in the Bank's economic value following a +/- 200bps shock on rates interest rate..

On December 31, 2020, the variation in the bank's economic value for the main currencies for the Bank held open positions at the interest rate risk was as follows:

Potential change of economic value (RON million)

Currency	Bank
EUR	6.61
RON	32.27
CHF	0.28
USD	0.42
OTHER	0
Total	39.57

Per total, the potential variation of the bank's economic value accounted for 4.68% of its own funds, well below the 20% limit.

To capture the impact of the change in the term structure of interest rates on net interest income, the Bank uses the Earning at Risk for the banking book portfolio (EaR).

As of 31.12.2020, the impact on profit due to the change in parallel to 100 basis points of interest rates over a one-year period was:

Currency	Bank
EUR	0.94
RON	2.93
CHF	0.07
USD	0.22
OTHER	0.04
Total	4.20

At the same time, the interest rate risk for banking book activities is addressed in the Internal Capital Adequacy Process (ICAAP), using the methodology proposed by EBA/GL/2018/02 - annex III - The standardised interest rate shock scenarios.

12.2 Strategic risk

Strategic risk is uncontrollable and quantified by using an internal methodology. Strategic risk is assessed by monitoring the risk limits and parameters related to the achievement of the strategic business objectives from the point of view of risk taking, according to the Risk Strategy, correlated with the Bank's Business Plan. In order to limit / avoid strategic risk, the management body will establish rational strategic objectives, will permanently adopt a prudential policy and will keep track of the market evolution in relation to the budgeted activities. In addition, business strategy and, implicitly, the Bank's budget are defined taking into account the risk appetite and risk tolerance, as well as the risk profile of the Bank.

12.3 Regulatory risk

The regulatory risk is uncontrollable and is quantified using an internal methodology. From a qualitative point of view, the reduction of regulatory risk will be achieved by adapting policies, procedures to changes within the regulatory framework and by reducing the level of activities where appropriate.

12.4 Excessive leverage risk

The Bank monitors the risk associated with the excessive leverage under the NBR Regulation no. 5/2013.

The main strategic objectives with potential impact on the risk of excessive leverage are:

- Maintaining the equity at the pre-existing level;
- Organic growth of capital by restoring profitability;
- to cover the additional capital requirement by the surplus resulting from the relaxation of the prudential filters.

Managing the risk of excessive leverage is achieved by:

- define risk indicators and include them in the risk profile. According to the internal methodology for assessing and identifying significant risks, the risk of excessive leverage is not significant; its inclusion in the Bank's risk profile is based on prudential considerations;
- measuring and monitoring these indicators, as well as their evolution and impact on the Bank's risk profile;
- balanced management of the balance sheet structure and the planning and protection of the capital base.

First Bank's management body has approved a statement confirming that the Bank's risk management systems, methods, and techniques are in line with its risk profile, ensuring that it operates under appropriate prudential, as well as a sustainable development of the Bank.

Also, a statement was approved by which the Management Body confirms that the Bank's risk profile is consistent with the risk appetite and assumed through the Risk Management Strategy.

The two documents are attached to this report.

The Risk Management Division periodically presents appropriate risk management information to the Board Risk Management Committee and the Executive Committee, including, but not limited to:

- risk appetite;
- risk profile;
- risk tolerance;
- capital requirements;
- liquidity position;
- concentration risk;
- stress tests result;
- exposures to affiliated parties and large exposures; exposures that represent a particular risk; any exceptions thereto;
- the state of the bank's assets portfolio, including the classification of loans,

- the level of provisioning and the main problematic assets
- ranks within the risk limits and the impact of limit and / or overruns on the Bank's risk profile
- the indicators in the Recovery Plan and inform the Executive Committee of their evolution

13 Own funds and capital requirements

In order to calculate the required own funds to cover the risks, the Bank applies Regulation 5/2013 of the National Bank of Romania on prudential requirements for credit institutions and Regulation (EU) 575/2013 on the prudential requirements for credit institutions and investment companies, with subsequent amendments and completions.

The following table provides a reconciliation of the elements of the IFRS Equity position with Common Equity Tier 1 elements, Tier 2 elements, prudential filter in accordance with Article 32-25 of CRR, as well as deductions made in accordance with Articles 36, 56, 66 and 79 of CRR.

<i>Position</i>	<i>31.12.2020 000' RON</i>
Shareholders' Equity	753,269
Adjustments	
Reserves fiscal impact	(4,546)
Intangible assets (net book value)	(49,607)
Subordinated loan	97,121
Transitory measures IFRS 9	-
Unrealized gains arising from the fair value measurement of the available for sale financial assets (AFS) (20%)	50,289
Non-controlling interests	(132)
Total own funds	846,394

The shareholders' equity component for regulatory purposes is detailed in the Bank's own funds report as of 31.12.2020 into Annex 437/1: Form for the Publication of Own Funds Information as of December 31st, 2020.

Capital instruments qualify as Common Equity Tier 1 instruments if the eligibility conditions listed below are met:

- Instruments are issued directly by the institution with the prior consent of the institution's shareholders or, if so allowed, under the national law applicable to the governing body of the institution;
- Instruments are paid and their purchase is not funded directly or indirectly by the institution; are classified as equity within the meaning of the applicable accounting framework;
- The instruments are clearly and distinctly presented in the balance sheet in the financial statements of the institution;
- The instruments are perpetual;
- Instruments meet the following distribution requirements:
- There is no preferential distribution treatment with regard to the order of performance of the indemnities, including in relation to other basic level 1 own funds instruments, and the conditions governing the instruments do not give preferential rights to distribution;
 - Distributions to instruments holders can only be made from distributable items;
 - The conditions governing the instruments do not include a minimum level or other maximum distribution limit;

- The level of distributions is not determined on the basis of the purchase price of the instruments at issue;
- The conditions governing the instruments do not include any obligation for the institution of distribution to their holders and the institution is not otherwise subject to such an obligation;
 - Failure of distribution is not a default for the institution;
 - Annual distributions do not impose restrictions on the institution

Subordinated loans qualify as Tier 2 own funds instruments if the eligibility conditions listed below are met:

- Subordinated loans are acquired and fully paid;
- Subordinated loans are not granted by a subsidiary or an associate;
- Subordinated loans are not funded directly or indirectly by the institution;
- The claim on the principal subordinated loans, under the provisions governing subordinated loans, is wholly subordinated to the debts of all unsubordinated creditors;
- Subordinated loans have an initial maturity of at least five years;
- The provisions regulating subordinated loans do not include any incentive for the principal to be reimbursed or, as the case may be, repaid by the institution before maturity;
- Subordinated loans can be recognized as Tier 2 own fund items if, in the opinion of the National Bank of Romania, they meet the eligibility conditions listed above.

The main components of own funds

Tier 1 own funds

Tier 1 own funds comprise of CET 1 plus additional Tier 1 (AT1) own funds, less deductions from core Tier 1 own funds, mainly consisting of intangible assets and a prudential filter.

At the end of 2020, Tier 1 own funds of the Bank were in amount of RON 749,272 ths (2019: RON 673,525 ths).

Tier 2 own funds

The tier 2 own funds of the Bank after deductions are in amount of RON 97,121 ths (2019: RON 133,621 ths), mainly consisting of subordinated loans.

The amount of Tier I of own funds and the Capital Requirements for credit risk, market risk and operational risk.

The Bank calculates risk-weighted assets (RWAs) in accordance with the provisions laid down in Regulation (EU) 575/2013 of the European Parliament and the European Council using the Standardized Approach. The risk-weighted exposure amount is calculated using the regulated fixed risk weights and depends on the type of debtors (companies / retail) and the external rating (if available).

At the end of 2020 the Bank registered a level of own funds of RON 846,394 ths, which covered the capital requirement level (solvency ratio at 31 December 2020 being at the of 23.19%, above the regulatory limit):

- for the credit risk computed by the standard approach method (requirement at the level of RON 235,808 ths for the Bank);
- for the operational risk computed by the basic approach method (requirement at level of RON 56.046 ths for the Bank).

Overview of RWA Amounts in RON			RWA		Minimum Capital Requirements
			2020	2019	2020
	1	Credit Risk (excluding CCR)	2,947,612,224	3,256,026,678	235,808,978
Article 438 (c) and (d)	2	Of which the standardized approach	2,947,612,224	3,256,026,678	235,808,978
Article 438 (c) and (d)	3	Of which the foundation IRB (FIRB) approach	-	-	-
Article 438 (c) and (d)	4	Of which the advanced IRB (AIRB) approach	-	-	-
Article 438 (d)	5	Of which equity IRB under the simple risk-weighted approach of the IMA	-	-	-
Article 107, Article 438 (c) and (d)	6	CCR	2,312,058	2,072,298	184,965
Article 438 (c) and (d)	7	Of which mark the market	-	-	-
Article 438 (c) and (d)	8	Of which original exposure	-	-	-
	9	Of which the standardized approach	-	-	-
	10	Of which internal model method (MMI)	-	-	-
Article 438 (c) and (d)	11	Din care valoarea expunerii la risc pentru Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-
Article 438 (c) and (d)	12	Of which CVA	2,312,058	2,072,298	184,965
Article 438 (e)	13	Settlement risk	-	-	-
Article 449 (o) and (i)	14	Securitisation exposures in the banking book (after the cap)	-	-	-
	15	Of which IRB approach	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-
	18	Of which standardized approach	-	-	-
Article 438 (e)	19	Market risk	-	-	-
	20	Of which standardized approach	-	-	-
	21	Of which IMA	-	-	-
Article 438 (e)	22	Large Exposures	-	-	-
Article 438 (f)	23	Operational risk	700,587,000	676,154,038	56,046,960
	24	Of which basic indicator approach	700,587,000	676,154,038	56,046,960
	25	Of which standardized approach	-	-	-
	26	Of which advanced measurement approach	-	-	-
Article 437 (2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
Article 500	28	Floor adjustment	-	-	-
	29	Total	3,650,511,282	3,934,253,014	292,040,903

Risk-weighted assets and business activities

Under Basel III, total risk-weighted assets (RWA) are the sum of the following components:

- Credit risk weighted assets (Bank Portfolio RWA + Counterparty risk RWA)
- The equivalent of market risk weighted assets
- Equivalent of assets weighted at operational risk

CVA capital charge

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<i>Amounts in RON</i>	Exposure value	RWAs
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3x multiplier)		-
(ii) SVaR component (including the 3x multiplier)		-
All portfolios subject to the standardised method	2,958,167	2,312,058
Based on the original exposure method	-	-
Total subject to the CVA capital charge	2,958,167	2,312,058

14 Quantitative and qualitative information concerning credit risk and concentration risk

Definitions of credit quality

Past due: A financial asset is past due if a counterparty did not make a payment when the payment was due by contract.

Countdown of delay days:

- a) General considerations on counting days of delay

Where any amount of principal, interest or fee has not been paid at the date it was due, the Bank recognizes this as credit obligation past due.

Where there are modifications of the schedule of credit obligations, the counting of days past due will be based on the modified schedule of payments.

Where the credit arrangement explicitly allows the debtor to change the schedule, suspend or postpone the payments under certain conditions and the debtor acts within the rights granted in the contract, the changed, suspended or postponed installments will not be considered past due, but the counting of days past due will be based on the new schedule once it is specified. Nevertheless, if the debtor changes the schedule, suspends or postpones the payments, the Bank will analyze the reasons for such a change and assess the possible indications of unlikelihood to pay.

Where the repayment of the obligation is suspended because of a law allowing this option or other legal restrictions, the counting of days past due should also be suspended during that period. Nevertheless, in such situations, the Bank will analyze, where possible, the reasons for exercising the option for such a suspension and will assess the possible indications of unlikelihood to pay.

Where the debtor changes due to an event such as a merger or acquisition of the debtor or any other similar transaction, the counting of days past due should start from the moment a different person or entity becomes obliged to pay the obligation. The counting of days past due is, instead, unaffected by a change in the debtor's name. If one of the events mentioned above occurs, these provisions are only used for the initial recognition of a non-performing exposure and not as a criteria for getting out of the state of non-performance.

The calculation of the sum of all amounts past due that are related to any credit obligation of the debtor to the Bank should be performed with a frequency allowing timely identification of default (usually on daily basis). The Bank will ensure that the information about the days past due and default is up-to-date whenever it's being used for decision making, internal risk management, internal or external reporting and the own funds requirements calculation processes.

b) Considerations applicable to overdrafts and credit cards

For overdrafts, days past due commence once the debtor has breached an advised limit, has been advised a limit smaller than current outstandings, or has drawn credit without authorization. An advised limit comprises any credit limit determined by the Bank and about which the debtor has been informed.

Days past due for credit cards commence on the minimum payment due date.

c) Technical past due situations

A technical past due situation should only be considered to have occurred in any of the following cases:

- where the Bank identifies that the defaulted status was a result of data or system error, including manual errors of standardised processes but excluding wrong credit decisions;
- where the Bank identifies that the defaulted status was a result of the non-execution, defective or late execution of the payment transaction ordered by the debtor or where there is evidence that the payment was unsuccessful due to the failure of the payment system;
- where due to the nature of the transaction there is a time lag between the receipt of the payment by the Bank and the allocation of that payment to the relevant account, so that the payment was made before the 90 days and the crediting in the client's account took place after the 90 days past due;
- in the specific case of factoring arrangements where the purchased receivables are recorded on the balance sheet of the Bank and the materiality threshold is breached but none of the receivables to the debtor is past due more than 30 days.

Technical past due situations should not be considered as defaults. All detected errors that led to technical past due situation should be rectified by the Bank in the shortest timeframe possible

Threshold of materiality

The Bank applies the following material materiality thresholds for overdue credit obligations:

Threshold for households exposures that need to be fulfilled simultaneously:

- a) an absolute component set as a limit to the sum of all past due amounts related to the credit obligations of the debtor towards the Bank, equal to 150 RON or equivalent ; and
- b) a relative component set as a ratio, expressed as a percentage, of the credit obligation past due versus the total amount of all on-balance sheet exposures to the debtor equal to 1%.

Threshold for legal entities exposures that need to be fulfilled simultaneously:

- a) an absolute component set as a limit to the sum of all past due amounts related to the credit obligations of the debtor towards the Bank, equal to 1,000 RON or equivalent; and
- b) a relative component set as a ratio, expressed as a percentage, of the credit obligation past due versus the total amount of all on-balance sheet exposures to the debtor equal to 1%.

The calculation of days past due starts when the materiality threshold is breached.

Definition of default

The definition of default is based on the “past-due” criterion and the “unlikely-to-pay” criterion.

Therefore, defaulted exposures are those that satisfy either or both of the following criteria:

1. material exposures which are more than 90 days past-due;
2. the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

The definition of default is assessed on debtor level for the entire portfolio.

“Past due” criterion

A default shall be considered to have occurred with regard to a particular debtor when the debtor is past due more than 90 days on any material credit obligation to the Bank.

“Unlikely-to-pay” criterion

In contrast with triggers relating to past-due payments, the triggers relating to unlikeliness to pay as rely less on quantitative criteria but define some events that trigger the default classification.

Considering that generally, the “unlikely-to-pay” criterion gives some leeway for interpretation, the Bank has defined internal criteria to identify indicators of unlikeliness to pay (UTP):

- a) Non-accrual status
- b) Write-offs: those exposures where the writing off measures implies a reduction of financial obligation higher than a 5% threshold.
- c) Sales of credit obligations at a material credit-related loss, i.e. higher than a threshold of 5%.
- d) Distressed restructuring - those forbore exposures where the forbearance measures result in a diminished financial obligation having associated a loss of NPV higher than a 2.5% threshold. Starting with 1st of January 2021, the threshold will be set to 1%.
- e) Bankruptcy or insolvency procedures filled by the debtor, by the Bank or by a third party.
- f) Loan is accelerated or called.
- g) Lawsuit, execution or enforced execution in order to collect debt.
- h) The Bank has called any collateral / guarantee.
- i) Out-of-court negotiations for settlement or repayment (e.g. stand-still agreements) which may result in losses higher than a 2.5% threshold.
- j) Fraud cases.
- k) Loans notified by customers under the law 77/2016 regarding the giving in payment of immovable property.
- l) Restructured exposures for which either the restructuring measures have been extended or have registered more than 30 DPD during 24 months' period.

Total and average net exposures

The following table shows the total and average net amounts of exposures over the period, depending on the class of exposures:

<i>Amounts in RON 31.12.2020</i>		
Position	Bank	
	Net value of exposures at the end of the period	Average net value of exposures of the period
Central governments or central banks	2,702,521,060	2,671,217,222
Regional governments or local authorities	3,470,128	4,449,177
Public sector entities	492,081	506,555
Multilateral development banks	-	
International organisations	-	
Institutions	654,290,153	543,632,365
Corporates	290,745,510	246,890,840
Retail	665,605,809	620,508,547
Secured by mortgages on immovable property	2,458,456,098	2,470,323,366
Exposures in default	127,180,714	131,668,083
Items associated with particularly high risk	-	
Covered bonds	-	
Claims on institutions and corporates with a short-term credit assessment	-	
Collective investments undertakings	-	
Equity exposures	1,352,591	23,992,991
Other exposures	451,381,375	502,634,413
TOTAL	7,355,495,519	7,215,823,559

Geographic breakdown of net exposures

The table below shows the breakdown of Bank exposures by geographic area and exposure classes as of 31 December 2020 (amounts expressed in RON):

Exposure class	Brasov	Cluj	Constanta	Timis	Bucuresti	Other counties	Total
Central governments or central banks	-	-	-	-	2,702,521,060	-	2,702,521,060
Regional governments or local authorities	-	-	-	1,850,939	38	1,619,151	3,470,128
Public sector entities	7	113	11	191	487,978	3,781	492,081
Multilateral development banks	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-
Institutions	-	-	-	-	654,290,153	-	654,290,153
Corporates	2,304,340	17,282,193	8,918,017	3,994,462	190,422,445	67,824,053	290,745,510
Retail	22,369,622	17,469,877	27,000,814	35,281,577	309,700,460	253,783,459	665,605,809
Secured by mortgages on immovable property	51,542,769	67,586,015	89,743,529	108,087,515	1,472,525,014	668,971,256	2,458,456,098
Exposures in default	10,683,285	10,236,578	3,888,216	10,524,724	31,242,472	60,605,439	127,180,714
Items associated with particularly high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	1,352,591	-	1,352,591
Other exposures	1,571,242	1,861	90,097	5,374	431,673,501	18,039,300	451,381,375
TOTAL	88,471,265	112,576,637	129,640,684	159,744,782	5,794,215,712	1,070,846,439	7,355,495,519

Concentration of exposures by economic sectors or counterparty types

The table below shows the breakdown of Bank gross exposures by type of business or counterparty and exposure classes as of December 2020 (amounts expressed in RON):

Exposure class	Industry sectors							Total
	Industry	Trade	Agriculture	Services	Construction	Other services	Individuals	
Central governments or central banks	-	-	-	625,389,350	-	1,873,379,231	-	2,498,768,581
Regional governments or local authorities	465	-	436	3,685,299	-	-	-	3,686,200
Public sector entities	-	-	374,580	100,479	-	527,680	-	1,002,739
Multilateral development banks	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-
Institutions	-	-	-	614,705,952	-	82,146,778	3,493,793	700,346,523
Corporates	57,471,666	195,701,976	32,165,774	155,962,778	94,220,535	18,152,046	1,324,889	554,999,664
Retail	76,835,564	175,546,810	18,786,099	112,800,509	51,896,738	2,594,058	462,375,238	900,835,016
Secured by mortgages on immovable property	256,098,747	417,221,711	105,021,332	548,879,127	529,946,583	49,981,264	1,195,109,406	3,102,258,170
Exposures in default	50,106,757	37,706,748	1,074,483	31,267,653	25,608,951	4,794,626	111,532,382	262,091,600
Items associated with particularly high risk	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	1,352,591	-	-	-	1,352,591
Other exposures	16,235,823	6,853,530	251	2,367,825	13,576,202	830,595,709	6,581,038	876,210,378
TOTAL	456,749,022	833,030,775	157,422,955	2,096,511,563	715,249,009	2,862,171,392	1,780,416,746	8,901,551,462

Exposures maturity

The table below shows the breakdown of Bank gross exposures by residual maturity and exposure classes (amounts expressed in RON):

Exposure class	Residual maturity			
	< 1 year	1-5 years	> 5 years	Total
Central governments or central banks	2,498,768,581	-	-	2,498,768,581
Regional governments or local authorities	1,779,240	1,906,960	-	3,686,200
Public sector entities	441,531	371,057	190,151	1,002,739
Multilateral development banks	-	-	-	-
International organisations	-	-	-	-
Institutions	700,346,523	-	-	700,346,523
Corporates	406,083,961	148,911,603	4,100	554,999,664
Retail	542,123,030	356,138,500	2,573,486	900,835,016
Secured by mortgages on immovable property	1,141,370,410	895,355,947	1,065,531,813	3,102,258,170
Exposures in default	262,002,898	29,394	59,308	262,091,600
Items associated with particularly high risk	-	-	-	-
Covered bonds	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-
Collective investments undertakings	-	-	-	-
Equity exposures	1,352,591	-	-	1,352,591
Other exposures	876,210,378	-	-	876,210,378
TOTAL	6,430,479,143	1,402,713,461	1,068,358,858	8,901,551,462

Exposure credit quality by exposure class

The following table shows the Bank credit exposures (gross values), adjustments and exposure-related provisions and net exposure broken down by exposure classes (amounts expressed in RON);

Exposure class	Gross carrying values of			
	Non-defaulted exposures	Adjustments and exposure-related provisions	Net values	Non-defaulted exposures
Central governments or central banks	-	2,498,768,581	107,102	2,702,521,060
Regional governments or local authorities	-	3,686,200	62,148	3,470,128
Public sector entities	-	1,002,739	12,269	492,081
Multilateral development banks	-	-	-	0
International organisations	-	-	-	0
Institutions	-	700,346,523	86,026	654,290,153
Corporates	6,377,838	548,621,826	11,293,830	290,745,510
Of which: SMEs	5,295,416	389,289,371	8,902,146	219,760,840
Retail	52,823,556	848,011,460	27,523,289	665,605,809
Of which: SMEs	22,646,637	415,813,963	12,354,038	261,209,540
Secured by mortgages on immovable property	202,890,206	2,899,367,964	55,726,972	2,458,456,098
Of which: SMEs	85,076,810	1,744,671,170	35,201,494	1,406,035,200
Exposures in default	-	262,091,600	126,399,392	127,180,714
Items associated with particularly high risk	-	-	-	0
Covered bonds	-	-	-	0
Claims on institutions and corporates with a short-term credit assessment	-	-	-	0
Collective investments undertakings	-	-	-	0
Equity exposures	-	1,352,591	-	1,352,591
Other exposures	-	876,210,378	424,829,003	451,381,375
Total	262,091,600	8,639,459,862	646,040,031	7,355,495,519

The credit quality of the exposures according to the sector of activity

The table below shows the breakdown of Bank exposures according to the types of activity sectors and the credit quality, both in gross amounts, as well as the adjustments and exposure-related provisions and net exposure (amounts expressed in RON):

Sectors of activity	Gross carrying values of			
	Defaulted exposures	Non-defaulted exposures	Adjustments and exposure-related provisions	Net values
Industry	50,106,757	406,642,265	32,189,364	357,813,139
Trade	37,706,748	795,324,027	35,785,898	521,103,962
Agriculture	1,074,483	156,348,472	2,896,827	126,257,133
Services	31,267,653	2,065,243,910	36,523,867	2,028,677,993
Construction	25,608,951	689,640,058	24,087,795	459,766,899
Individuals	111,532,382	1,668,884,364	85,254,556	1,450,280,898
Other services	4,794,626	2,857,376,766	429,301,724	2,411,595,495
TOTAL	262,091,600	8,639,459,862	646,040,031	7,355,495,519

Nonperforming and restructured exposures

The table below shows non-performing and restructured exposures (gross book value) in accordance with Implementing Regulation (EU) 680/2014 of the Commission:

	Gross carrying values of performing and non-performing exposures	Gross carrying values of performing and non-performing exposures					Accumulated impairment and provisions and negative fair value adjustment due to credit risk				Collaterals and financial guarantees received	
		Performing exposures		Non-performing exposures			Performing exposures		Non-performing exposures		On non-performing exposures	Of which forborne exposures
		Of which performing but past due > 30 days <= 90 days	Of which performing forborne	Of which default	Of which impaired	Of which forborne	Total	Of which forborne	Total	Of which forborne		
Debt Securities	1,825,048,337	-	-	-	-	-	176,304	-	-	-	-	-
Loans and advances	4,211,263,138	25,795,434	92,364,276	235,296,143	-	58,939,940	102,514,144	34,874,087	135,772,574	29,552,770	96,625,869	29,286,567
Off-balance-sheet exposures	960,876,836	-	-	8,768,314	4,164,004	-	2,006,310	-	603,157	-	-	-

Loans and advances individually impaired

Individually impaired loans are loans with respect to which the Bank considers that difficulties may occur in collecting the principal and interest due according to the contractual terms of the loan agreement.

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Grades	Loans to individuals			Loans to corporate entities		
	Consumer unsecured	Consumer secured	Mortgages	Small/ medium entities	Large corporate entities	Total loans and advances to customers
Past due 0-90 days	991,689	1,518,346	2,434,937	3,227,972	16,748,556	24,921,499
Past due 91-180 days	-	-	-	-	-	-
Past due >180 days	988,219	619,360	1,689,465	4,069,315	58,599,118	65,965,476
Impaired loans	1,979,908	2,137,706	4,124,401	7,297,286	75,347,674	90,886,976
Less: allowance for impairment	(1,951,521)	(2,137,706)	(4,124,401)	(7,297,286)	(75,347,674)	(90,858,589)
Net exposure	28,387	-	-	-	-	28,387
Fair value of collateral	-	2,131,270	3,448,942	6,811,071	60,777,505	73,168,789

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- significant value decrease of the guarantees made by the debtor;
- significant decrease of the borrower's turnover; or
- debtor operates in an industry facing major financial difficulties.

The estimated period between a loss occurring and its identification is determined by the management for each identified portfolio.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (e.g. on the basis of the industry and product type). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on

which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Written-off loans

The primary requirement for a credit to be written-off is when the likely prospects of generating future cash flows from the loans have disappeared and therefore total related loan outstanding exposure was fully covered with provisions for impairment calculated in accordance with IFRS.

The Bank continues however the legal actions against the debtors in order to collect the outstanding loans. Subsequent recoveries of amounts previously written off are recognised in the period in which they occur and decrease the amount of the impairment charge for credit losses in profit and loss.

Changes in the stock of general and specific credit risk adjustments

The table below shows movements in accumulated specific and general credit risk adjustment:

31.12.2020

<i>Amounts in RON</i>	Accumulated specific credit risk adjustment
Opening balance	151,260,687
Increases due to origination and acquisition	93,132,101
Decreases due to derecognition	(73,464,905)
Changes due to change in credit risk (net)	67,164,021
Changes due to modifications without derecognition (net)	10,731,140
Changes due to update in the institution's methodology for estimation (net)	-
Decrease in allowance account due to write-offs	(10,504,845)
Other adjustments	144,823
Closing balance	238,463,022

<i>Amounts in RON</i>	Accumulated specific credit risk adjustment
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	33,153,682
Amounts written-off directly to the statement of profit or loss	-

The status of the encumbered and unencumbered assets is presented as follows:

Bank	The book value of assets burdened by tasks	The fair value of assets burdened by tasks	The book value of non-burdened assets	The fair value of non-burdened assets
Spot loans	-		1,034,168,133	
Capital instruments	-	-	1,352,592	1,352,592
Debt securities	25,168,279	25,168,279	1,799,703,753	1,799,703,753
Loans and advances other than spot loans	290,352,618		3,682,623,052	
Other assets	-		482,399,297	
TOTAL	315,520,898	25,168,279	7,000,246,826	1,801,056,345

The encumbered assets of the Bank represented 4.31% of total assets held at the end of 2020. The encumbered active portfolio and the related sources include mainly:

- Pledged government securities in settlement systems for payments guarantee;
- Government securities used by the Bank for repo transactions;
- Collateral deposits at banks

For financial institutions exposures, the Bank uses the ratings provided by the rating agencies Moody's, Standard & Poors and Fitch.

To the financial institutions exposures for which a rating provided by an external credit assessment institution is not available, it will be assigned the highest risk weighting ratio between exposures to the central government of the State in which the institution is established and the risk weight established on the basis of the external credit quality assessment method. This method differentiates the exposures by effective maturity, respectively less than or equal to 3 months.

For establishing the risk weight, it is used the correlation table between the level of the credit quality assessment scale and the risk weight made by the NBR.

Where two or three ratings provided by different rating agencies are available for an exposure, the next steps are followed:

- two ratings are available: It is used the rating that leads to the highest risk;
- three ratings are available: there are taken into account those two ratings that lead to the lowest risk weights. If the percentages of risk are different, it is applied the highest risk weight, and if they are identical, the respective weighting risk is applied.

In order to calculate the required capital for market risk, the bank uses the standardized approach for all three risks, respectively for:

- position risk for traded debt securities (MKR SA TDI)
- position risk for equity securities (MKR SA EQU)
- foreign exchange (MKR SA FX).

When calculating the required capital for market risk, the bank applies provisions of EU Regulation no. 575/2013.

Foreign exchange risk - calculating capital requests for this risk is performed only if the value of total net position on currency and gold exceeds 2% of its total personal funds. In this situation, capital requests are calculated by applying 8% over the value of net currency and gold position.

In order to determine capital requests for foreign exchange, we use a calculation in two stages:

- 1) Firstly, the open net position of the institution is calculated on each of them, which is formed of the following elements (positive or negative):
 - net spot position (all asset elements except for elements representing debts, on corresponding currency)
 - net forward position (respectively, all receivable amounts except for amounts paid in forward transactions on currency and principal for currency swap which is not reflected in position spot)
- 2) Secondly, long and short net positions on each currency, other than reporting currency, are transformed in reporting currency. After transforming in reporting currency, they are collected separately to form total short net positions and respectively total long net positions. The highest of the two totals represents total net currency position.

The capital requirement for operational risk is determined in accordance with Regulation no. 575/2013 of the European Parliament and of the Council of the European Union on prudential requirements for credit institutions and investment firms.

The Bank determines the regulatory capital requirement to cover operational risk in line with the Basic Indicator Approach (BIA).

Bank aims to meet a medium level risk profile in respect of the exposure to operational risk.

The own funds requirement for operational risk is equal to 15% of the average over three years of the relevant indicator. The average for three years is calculated based on the last three annual observations performed at the end of each financial exercise.

The relevant indicator is calculated before deduction of provisions, as sum of the following elements:

- Income receivable and similar income,
- Interest payable and similar charges
- Income from shares and other fixed/variable yield securities
- Commissions/ fees receivable
- Commission/ fees payable
- Net profit or net loss from financial operations
- Other operating income

According to Art. 316 from EU Reg 575/2013, the Bank does not include in the calculation of the relevant indicator the following elements:

- Realized profits/ losses from the sale of non-trading book items
- Income from extraordinary or irregular items
- Income derived from insurance

The Bank's placements in the non-marketable equity instruments on the open market in the amount of RON 1,352 thousand are classified in the non-trading financial assets mandatorily at fair value through profit or loss (equity instruments). The conditions in the domestic capital market do not offer the possibility to obtain a market value for these investments (shares).

Thousand RON			
Article 447 (b) to (c)	Carrying amount	Fair value	Market value
Capital instruments	91,767	91,767	-
Unlisted	91,767	91,767	-
Investments in associates and joint ventures	-	-	-
Unlisted	-	-	-

The leverage effect is the excessive exposures accumulation in a bank portfolio in relation to its own funds. Leverage indicator can be considered a simplified solvency indicator because it measures the volume of risk unweighted assets versus Tier 1.

The management of the risk of excessive leverage is achieved by:

- definition of risk indicators and their inclusion in the risk profile;
- measuring and monitoring these indicators, as well as their evolution and impact on the Bank's risk profile;
- balanced management of the balance sheet structure and the planning and protection of the capital base.

On 31.12.2020, the Bank recorded the following levels for the main monitored indicators:

Indicator	Bank
Solvency ratio (total own funds ratio)	23.19%
Leverage indicator according to the full definition of own-level Tier 1 funds	9.97%
Short-term liquidity coverage ratio (LCR)	293,97%
Non-performing loans and advances ratio	4.49%

Form for Publishing Own Funds Information as of 31 December 2020

Amounts in RON

Rows	ID	Item	Amount
10	1	OWN FUNDS	846,394,430
15	1.1	TIER 1 CAPITAL	749,272,954
20	1.1.1	COMMON EQUITY TIER 1 CAPITAL	749,272,954
30	1.1.1.1	Capital instruments eligible as CET1 Capital	1,246,879,638
40	1.1.1.1.1	Paid up capital instruments	1,246,879,638
45	1.1.1.1.1*	Of which: Capital instruments subscribed by public authorities in emergency situations	-
50	1.1.1.1.2*	Memorandum item: Capital instruments not eligible	-
60	1.1.1.1.3	Share premium	-
70	1.1.1.1.4	(-) Own CET1 instruments	-
80	1.1.1.1.4.1	(-) Direct holdings of CET1 instruments	-
90	1.1.1.1.4.2	(-) Indirect holdings of CET1 instruments	-
91	1.1.1.1.4.3	(-) Synthetic holdings of CET1 instruments	-
92	1.1.1.1.5	(-) Actual or contingent obligations to purchase own CET1 instruments	-
130	1.1.1.2	Retained earnings	(613,154,582)
140	1.1.1.2.1	Previous years retained earnings	(542,387,605)
150	1.1.1.2.2	Profit or loss eligible	(70,766,977)
160	1.1.1.2.2.1	Profit or loss attributable to owners of the parent	(70,766,977)
170	1.1.1.2.2.2	(-) Part of interim or year-end profit not eligible	-

Rows	ID	Item	Amount
180	1.1.1.3	Accumulated other comprehensive income	-
200	1.1.1.4	Other reserves	98,159,156
210	1.1.1.5	Funds for general banking risk	3,031,846
220	1.1.1.6	Transitional adjustments due to grandfathered CET1 Capital instruments	-
230	1.1.1.7	Minority interest given recognition in CET1 capital	-
240	1.1.1.8	Transitional adjustments due to additional minority interests	-
250	1.1.1.9	Adjustments to CET1 due to prudential filters	13,675,403
260	1.1.1.9.1	(-) Increases in equity resulting from securitised assets	-
270	1.1.1.9.2	Cash flow hedge reserve	13,675,403
280	1.1.1.9.3	Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	-
285	1.1.1.9.4	Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-
290	1.1.1.9.5	(-) Value adjustments due to the requirements for prudent valuation	-
300	1.1.1.10	(-) Goodwill	-
310	1.1.1.10.1	(-) Goodwill accounted for as intangible asset	-
320	1.1.1.10.2	(-) Goodwill included in the valuation of significant investments	-
330	1.1.1.10.3	Deferred tax liabilities associated to goodwill	-
340	1.1.1.11	(-) Other intangible assets	(49,607,014)
350	1.1.1.11.1	(-) Other intangible assets before deduction of deferred tax liabilities	(49,607,014)
360	1.1.1.11.2	Deferred tax liabilities associated to other intangible assets	-
370	1.1.1.12	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-
380	1.1.1.13	(-) IRB shortfall of credit risk adjustments to expected losses	-
390	1.1.1.14	(-) Defined benefit pension fund assets	-
400	1.1.1.14.1	(-) Defined benefit pension fund assets	-
410	1.1.1.14.2	Deferred tax liabilities associated to defined benefit pension fund assets	-
420	1.1.1.14.3	Defined benefit pension fund assets which the institution has an unrestricted ability to use	-
430	1.1.1.15	(-) Reciprocal cross holdings in CET1 Capital	-
440	1.1.1.16	(-) Excess of deduction from AT1 items over AT1 Capital	-
450	1.1.1.17	(-) Qualifying holdings outside the financial sector which can alternatively be subject to a 1250% risk weight	-
460	1.1.1.18	(-) Securitisation positions which can alternatively be subject to a 1250% risk weight	-
470	1.1.1.19	(-) Free deliveries which can alternatively be subject to a 1250% risk weight	-

Rows	ID	Item	Amount
471	1.1.1.20	(-) Positions in a basket for which an institution cannot determine the risk weight under the IRB approach, and can alternatively be subject to a 1250% risk weight	-
472	1.1.1.21	(-) Equity exposures under an internal models approach which can alternatively be subject to a 1250% risk weight	-
480	1.1.1.22	(-) CET1 instruments of financial sector entities where the institution does not have a significant investment	-
490	1.1.1.23	(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences	-
500	1.1.1.24	(-) CET1 instruments of financial sector entities where the institution has a significant investment	-
510	1.1.1.25	(-) Amount exceeding the 17.65% threshold	-
520	1.1.1.26	Other transitional adjustments to CET1 Capital	50,288,507
524	1.1.1.27	(-) Additional deductions of CET1 Capital due to Article 3 CRR	-
529	1.1.1.28	CET1 capital elements or deductions - other	-
530	1.1.2	ADDITIONAL TIER 1 CAPITAL	-
540	1.1.2.1	Capital instruments eligible as AT1 Capital	-
550	1.1.2.1.1	Paid up capital instruments	-
560	1.1.2.1.2*	Memorandum item: Capital instruments not eligible	-
570	1.1.2.1.3	Share premium	-
580	1.1.2.1.4	(-) Own AT1 instruments	-
590	1.1.2.1.4.1	(-) Direct holdings of AT1 instruments	-
620	1.1.2.1.4.2	(-) Indirect holdings of AT1 instruments	-
621	1.1.2.1.4.3	(-) Synthetic holdings of AT1 instruments	-
622	1.1.2.1.5	(-) Actual or contingent obligations to purchase own AT1 instruments	-
660	1.1.2.2	Transitional adjustments due to grandfathered AT1 Capital instruments	-
670	1.1.2.3	Instruments issued by subsidiaries that are given recognition in AT1 Capital	-
680	1.1.2.4	Transitional adjustments due to additional recognition in AT1 Capital of instruments issued by subsidiaries	-
690	1.1.2.5	(-) Reciprocal cross holdings in AT1 Capital	-
700	1.1.2.6	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	-
710	1.1.2.7	(-) AT1 instruments of financial sector entities where the institution has a significant investment	-
720	1.1.2.8	(-) Excess of deduction from T2 items over T2 Capital	-
730	1.1.2.9	Other transitional adjustments to AT1 Capital	-
740	1.1.2.10	Excess of deduction from AT1 items over AT1 Capital (deducted in CET1)	-
744	1.1.2.11	(-) Additional deductions of AT1 Capital due to Article 3 CRR	-
748	1.1.2.12	AT1 capital elements or deductions - other	-

Rows	ID	Item	Amount
750	1.2	TIER 2 CAPITAL	97,121,476
760	1.2.1	Capital instruments and subordinated loans eligible as T2 Capital	97,121,476
770	1.2.1.1	Paid up capital instruments and subordinated loans	97,121,476
780	1.2.1.2*	Memorandum item: Capital instruments and subordinated loans not eligible	97,654,524
790	1.2.1.3	Share premium	-
800	1.2.1.4	(-) Own T2 instruments	-
810	1.2.1.4.1	(-) Direct holdings of T2 instruments	-
840	1.2.1.4.2	(-) Indirect holdings of T2 instruments	-
841	1.2.1.4.3	(-) Synthetic holdings of T2 instruments	-
842	1.2.1.5	(-) Actual or contingent obligations to purchase own T2 instruments	-
880	1.2.2	Transitional adjustments due to grandfathered T2 Capital instruments and subordinated loans	-
890	1.2.3	Instruments issued by subsidiaries that are given recognition in T2 Capital	-
900	1.2.4	Transitional adjustments due to additional recognition in T2 Capital of instruments issued by subsidiaries	-
910	1.2.5	IRB Excess of provisions over expected losses eligible	-
920	1.2.6	SA General credit risk adjustments	-
930	1.2.7	(-) Reciprocal cross holdings in T2 Capital	-
940	1.2.8	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	-
950	1.2.9	(-) T2 instruments of financial sector entities where the institution has a significant investment	-
960	1.2.10	Other transitional adjustments to T2 Capital	-
970	1.2.11	Excess of deduction from T2 items over T2 Capital (deducted in AT1)	-
974	1.2.12	(-) Additional deductions of T2 Capital due to Article 3 CRR	-
978	1.2.13	T2 capital elements or deductions - other	-

15 The Internal Capital Adequacy Assessment Process (ICAAP)

The Internal Capital Adequacy Assessment Process (ICAAP) is an indispensable part of Basel III, Pillar II. Through ICAAP, the Bank ensures that it has sufficient capital to cover all material risks to which it is or might be exposed on a continuing basis.

The purpose of the internal capital adequacy assessment process is to identify and measure all major risks to which the Bank is currently exposed, without being limited to those addressed under Pillar I, building on existing capabilities and developing more advanced methodologies, and provide sufficient capital availability to cover all risks according to risk profile and risk appetite. Additionally, capital adequacy is evaluated forward-looking through basic and stressful scenarios in line with the business plan in place.

Thus, the ICAAP framework includes key aspects of the capital adequacy assessment process, namely:

- Key regulatory requirements
- Internal governance and structures involved
- Risk coverage within ICAAP
- Integration with risk appetite and recovery plan
- Integrate with the Bank's business planning process
- The ICAAP process
- Approaches used in assessing capital adequacy

ICAAP ensures the priority of quantitative risk management aspects and capital requirement estimation without neglecting the importance of qualitative aspects of risk management and control. Therefore, there is a clear relationship between capital requirements, on the one hand, and the robustness and efficiency of internal governance, risk management, control systems, and existing procedures, on the other.

The Bank has adopted clear, effective and comprehensive strategies and processes to continually assess capital requirements and to maintain internal capital at a level deemed appropriate to cover the nature and extent of the risks to which the Bank is or might be exposed.

ICAAP extends to risk types as defined in the SREP guide (EBA/GL/2014/13) and defined in the Bank's risk strategy. The risk types presented in the table below are evaluated in the ICAAP:

Primary risk categories	Risks sub-categories
Credit risk	Credit risk
	FX lending risk
	Concentration risk
	Counterparty risk
	Country risk
	Settlement risk
	Residual risk
Market risk	FX risk
	Credit value adjustment (CVA)
Operational risk	Operational risk(including legal risk and compliance risk)
Other risks	Interest rate banking book risk
	Liquidity risk
	Reputational risk
	Regulatory risk
	Strategic risk
	Excessive leverage risk
	Macroeconomic risk

The internal estimates of the necessary capital and available capital according to the ICAAP methodology at the end of 2020 are presented in the table below:

31.12.2020
RON million

Risk	Bank	
	Pillar 1	Pillar 2
1. Credit risk and associated risks	236	308
1.1 Credit risk	236	273
1.2 Residual risk	-	15
1.3 Risk stemming from FX lending activities	-	3
1.4 Concentration risk	-	17
1.5 Counterparty credit risk	0	0
2. Market risk	0	2
2.1 Foreign exchange risk	-	2
2.3 Credit value adjustment risk	0	0
3. Operational risk	56	90
4. Other risks	-	80
4.1 Interest Rate Risk Banking Book	-	64
4.2 Liquidity risk	-	9
4.3 Reputational risk	-	7
4.4 Regulatory risk	-	0
4.5 Strategic risk	-	-
Total capital requirements	292	480
Own funds	846	

Therefore, the Bank had sufficient capital surplus to cover the minimum regulatory capital requirements as well as the internal capital requirements.

**Declaration of Management Body of First Bank
on the adequacy of risk management framework in 2020**

According with the requirements of art. 435, par. (1) (e) of Reg. EU 575/2013, First Bank SA's Management Body confirms that First Bank's risk management systems, methods and techniques are in line with the bank's risk strategy and risk profile, ensuring that it operates under appropriate prudential conditions, as well as sustainable development.

The risk management framework is one of the core components of the Bank's management framework, being adapted to the business carried out, as well as to the nature and complexity of the risks generated by the business model.

The Bank focuses on effective risk monitoring and management in order to maintain its stability, financial soundness and continuity of operations. In this context, the risk management framework includes all the strategies, policies, procedures, governance and systems developed and implemented by the Bank to identify, measure, monitor, control and mitigate the risks arising from its operations.

Chairperson of Board of Directors,

Ilinca Rosetti

**Declaration of the Management Body of First Bank
on 2020 overall risk profile of the Bank**

According with the requirements of art. 435, par. (1) (f) of EU Regulation 575/2013, First Bank SA's Management Body confirms that the risk profile of the bank is consistent with the risk appetite assumed through its risk management strategy and risk profile policy.

The management of the Bank's significant risks is a process focused on the analysis of the risk profile in order to optimize the Bank's risk-to-profit ratio in different areas of activity.

The risk profile aims to assess if the significant risks (potential losses) accepted at the Bank's level are in line with its risk appetite and risk tolerance.

The risk profile is defined as the level of the exposure at risk, at a given point in time and per each risk type, which considers all the business activities of the Bank. The risk profile, assessed through the risk matrix, is not a mere static measure, but must provide a dynamic assessment of the evolution of risks. The purpose of the risk profile is to determine the dimension of each significant risk and the total level of risk, based on key risk indicators.

We present below the key risk indicators as of 31.12.2020:

Indicator	Bank
Capital Adequacy	
Core Tier 1 ratio (Tier 1 Capital / Risk Weighted Assets)	20.53%
Total capital ratio (Own funds / Risk Weighted Assets)	23.19%
Leverage ratio	9.97%
Financing and liquidity	
Liquidity Coverage Ratio	294%
Net Stable Funding Ratio	170%

Chairperson of Board of Directors,

Ilinca Rosetti