Report on Transparency and Disclosure 2019

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 consolidated basis, except those flagged at individual level, in RON equivalent, except those flagged in other currencies.

The institution subject to disclosure First Bank SA (“First Bank” or “the Bank”); the report includes Bank’s information and also information regarding the entities integrated in the consolidated prudential perimeter of First Bank (further described as “First Bank Group” or “the Group”).

As of 31 december 2019 First Bank was exercising direct control over the following subsidiaries:

Bank Leumi Romania SA (“Leumi” or “Subsidiary”), having its registered office at 45 Bd. Aviatorilor, District 1, Bucharest, Romania, provides banking services to legal entities and private individuals. The Bank had have a shareholding of 99,9235%% in Leumi since July 209.

The reference date is the date of 31 December 2019.

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 1,195,856,255,00 RON.

2.1 The shareholders structure

On 31.12.2019 the shareholders structure of First Bank SA was the following:

Name	Participation to the shared capital
- JCF IV Tiger Holdings S.à r.l.	99,99995%
- Natural persons	0,00005%
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 31.12.2019

- Nicolae Danila	Chairman
- Hendricus Charles Hubertus Paardekooper	President and Member
- Ilinca Rosetti	Vice-chairperson
- Andrea Secci	Member
- Bogdan Ciobotaru	Member
- Pedro Miguel Weiss	Independent member & Vice-chairperson
- Paul Nabavi	Member
- Richard Carrion	Member

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 31.12.2019 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.

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 31.12.2019

- Hendricus Charles Hubertus Paardekooper	President
- Madalina Otilia Teodorescu	Vice-president
- Robert Hadley	Vice-president
- Nikolaos Chaniotis	Vice-president
- Razvan Filcescu	Vice-president
- Cosmn Ciobanu	Vice-president

During 2019, the management bodies of First Bank SA had the following meetings:

Board of Directors: 26 meetings.

Executive Committee: 78 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.

- **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:**
    - IT 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 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 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 attributed to staff from all lines of activity and is not limited 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 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 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- Compliance Function cannot be outsourced, it is a different structure, independent of the business lines.

The Compliance Division works with the supervisory authorities and external auditors to ensure that the compliance requirements are adequately covered.

3.3 Internal Audit Function

The Internal Audit function is ensured by the Internal Audit Division. The Internal Audit Division reports directly to the Board of Directors, Audit Committee and inform as appropriate the Executive Committee about the results of the internal audit activities.

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 and is subordinated to an Executive Manager as defined in the Organizational Chart.

The Internal Audit Structure is organized and functioning according to the Corporate Governance Regulation and the Internal Audit Structure Charter.

Whistle Blowing

A basic and inviolable attribute of the Whistle Blowing 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 as a result of the related audit report issued.

Because the anonymous reports make the detailed investigation extremely difficult and sometimes impossible, due to the difficulty of provision of information by the anonymous complainant (e.g. discussion, meeting for provision of clarifications during the investigation), the complainant is encouraged to submit a named report.

The management of employees' confidential reports is undertaken by the Internal Audit Division of the Bank.

Within the above-mentioned framework, the Bank makes alternative ways of submitting reports available to the complainant. In any case, the complainant's report is submitted to the attention of the Audit Committee and the Head of the Internal Audit Division using the following methods:

- via phone (+40)21.303.69.89
- via e-mail that is available in Bank's Intranet (whistleblowing@firstbank.ro)

4 Selection and remuneration practices

As of 31.12.2019, First Bank had a total of 955 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 20,321 training hours were conducted with 8,676 participants (participants in more than one training event). The most important three categories of training were targeted at Banking & Financial technical training (21%), Business development skills (18%) and specialized training (27%). The technical training programs (banking and financial aspects, compliance and fraud, banking IT systems, specialized technical training) accounted for 82,31% of the total hours of training, while learning and development (business development, management and management skills) accounted for 17,69% of the total hours of training.

In 2019 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.

4.1 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.

Criteria for skills and professional experience, for all hierarchical levels, are detailed below:

Selection criteria / hierarchical level	Competences	Professional experience
Member of management body in its supervisory function (non-executive members of BoD - LM1 assimilated)	Extensive experience and specialized skills, knowledge, expertise and experience in various diversified business lines in the financial sector are requests for being part of the BoD of the Bank. In addition, skills such as strategic thinking, agility, assertiveness, judgment and creativity, are also being evaluated among the criteria in selection process. It represents an advantage previous proffessional activity and international exposure. A special attention will be given to their independence from the executive management of the Bank. Assessing the independence of a non-executive member of Board of Directors is an important step in meeting the local regulatory requirements. When assessing the independence of a non-executive member of BoD and in order to avoid potential conflict of interests, the members of the Nomination & Remuneration Committee take into account the following criteria: - Previous employment history is analysed in detailed to make sure that business relationships do not influence their objectivity in decisional process as non-executive member of BoD of the Bank. - Partnerships, significant shareholding or potential business relations with competing companies or partners of the Bank are also analysed to ensure the candidate's integrity as non-executive member of BoD of the Bank and the avoidance of potential conflicts of interest.	
Member of management body in its supervisory function and member of management body (executive members of BoD and members of ExCo - LM1)	Managerial competencies described in the Performance Management Policy are assessed during the selection process	**Minimum 12 years'** experience in credit institutions, financial institutions, insurance/ reinsurance companies, regulators and / or supervision authorities in the financial – banking domain, International financial-banking organizations, out of which **minimum 7 years** in similar positions, with managerial exposure and specific responsibilities in the allocated area within the Bank. Previous experience is proven by official documents issued by former employers.
Key positions on LM2	Managerial competencies described in the Performance Management Policy are assessed during the selection process	**Minimum 7 years** of financial - banking experience, out of which **minimum 3 years** in similar positions, with managerial exposure and specific responsibilities in the allocated area Previous experience is proven byofficial documents issued by previous employers (any certificate from former employers

Selection criteria / hierarchical level	Competences	Professional experience
Key positions on LM3	Managerial competencies described in the Performance Management Policy are assessed during the selection process	**Minimum 5 years** of financial - banking experience, out of which **minimum 3 years** in similar positions, with managerial exposure and specific responsibilities in the allocated area, Previous experience is proven byofficial documents issued by previous employers (any certificate from former employers
Managerial position - LM2	Managerial competencies described in the Performance Management Policy are assessed during the selection process	**Minimum 6 years** of financial - banking experience, out of which **minimum 2 years** in similar positions, with managerial exposure and specific responsibilities in the allocated area Previous experience is proven byofficial documents issued by previous employers (any certificate from former employers
Managerial position - LM3	Managerial competencies described in the Performance Management Policy are assessed during the selection process	**Minimum 4 years** of financial - banking experience, out of which **minimum 2 years** in similar positions, with managerial exposure and specific responsibilities in the allocated area, exception is allowed for Branch & Agency Manager position – **minimum 3 years** within financial-banking institutions, out of which **minimum 1 year** on same position or in coordinating a team. Previous experience is proven byofficial documents issued by previous employers (any certificate from former employers
Non-managerial positions (LM4), including Key positions	Non-managerial competencies described in the Performance Management Policy are assessed during the selection process	**For non-mangerial positions - minimum 2 years** of activity within financial-banking institutions on relevant activities for future position. For **key positions** minimum 3 years of activity within financial-banking institutions on relevant activities for future position. For **entry level** positions, previous experience is not required. Previous experience is proven by official documents issued by previous employers (any certificate from former employers
The representative of the internal control on the capital market (the person will exercises its function after prior approval of the FSA, respecting the provisions of Regulation 14/2015)	They are assessed during the selection process non-managerial competencies described in Performance Management Policy	Minimum 3 years in financial and banking institutions with professional experience relevant to the duties that will exercise them.

Criteria on educational level, foreign languages, specific criteria, general criteria for eligibility requirements, criteria for independence, material interest in transactions and other areas with impact on the Bank, for all hierarchical levels, are detailed below:

Selection criteria / hierarchical level	Educational level	Foreign languages	Specific criteria	General criteria regarding eligibility requirements, criteria for independence, material interest in transactions and other areas with impact on the Bank
Member of management body in its supervisory function (non-executive members of BoD - LM1 assimilated)	At least **Bachelor Degree**	**English language, very good level (fluent) -** assessed during the selection interview by sustaining the interview in English	n/a	Are evaluated based on Appendix 3 at Recruitment & Selection Policy. Criminal record certificate (in original) issued by the competent authorities
Member of management body in its supervisory function and member of management body (executive members of BoD and members of ExCo - LM1)	At least **Bachelor Degree in Law or Economics** proven by official documents . If graduated another institution of higher education completed by postgraduate studies in Economics, exceptions could be allowed.	**English language, very good level (fluent)** - assessed during the selection interview by sustaining the interview in English	Theoretical knowledge assessed in the selection process related to practices, policies, laws and regulations in the banking sector including but not limited to the regulatory frame of banking activity, internal control, risk administration, operating in prudent and safety conditions, money laundering activities.	Are evaluated based on Appendix 3 at Recruitment & Selection Policy. Criminal record certificate (in original) issued by the competent authorities

Selection criteria / hierarchical level	Educational level	Foreign languages	Specific criteria	General criteria regarding eligibility requirements, criteria for independence, material interest in transactions and other areas with impact on the Bank
Key positions on LM2	At least **Bachelor Degree** proven by official documents. Specific certifications mandatory according to legislation, are mentioned in individual job description.	**English level , very good level** (fluent) - assessed during the selection process	Are mentioned in individual job description.	Are evaluated based on Appendix 3 at Recruitment & Selection Policy. Criminal record certificate (in original) issued by the competent authorities
Key positions on LM3	At least **Bachelor Degree** proven by official documents. Specific certifications mandatory according to legislation, are mentioned in individual job description.	**English level , very good level** (fluent) - assessed during the selection process	Are mentioned in individual job description.	Are evaluated based on Appendix 3 at Recruitment & Selection Policy. Criminal record certificate (in original) issued by the competent authorities*
Managerial position - LM2	At least **Bachelor Degree** proven by official documents. Specific certifications mandatory according to legislation, are mentioned in individual job description.	**English level , good level** - assessed during the selection process	Are mentioned in individual job description.	Criminal record certificate (in original) issued by the competent authorities is required *
Managerial position - LM3	At least **Bachelor Degree** proven by official documents. Specific certifications mandatory according to legislation, are mentioned in individual job description.	**English level , good level** - assessed during the selection process	Are mentioned in individual job description.	Criminal record certificate (in original) issued by the competent authorities is required *
Non-managerial positions (LM4), including Key positions	**At least Bachellor Degree**, preferably in Economics, proven by official documents.	*For key positions* - **English level, good** - assessed during the selection process For rest of positions, level of English is defined in the candidate profile	Are mentioned in individual job description.	Criminal record certificate (in original) issued by the competent authorities is required *
The representative of the internal control on the capital market (the person will exercises its function after prior approval of the FSA, respecting the provisions of Regulation 14/2015)	At least university degree in economics or law. Evaluation is done by submitting this request before the date of employment a copy of the diploma in question. Specific courses organized internal control function representative of an institution approved by ASF training and have passed the test on knowledge of specific legislation for the financial sector supervision course. The evaluation of this requirement is achieved by presenting the relevant certificate concerning professional training	English language, good level - assessed during the selection process	They are provided in the individual job description.	They are evaluated under Annex 3 to the Recruitment and Selection Policy. Criminal record certificate and fiscal record certificate in legal shelf life*

e competent authorities and fiscal record certificate in legal shelf life is required only if the legislation in force providesthis level of verification of the candidate, correlate

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.

4.2 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 specialised roles of great significance for the Bank's operation and growth, or cases of employee's 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 alignement of the employees' interests with those of the Bank and ensurance 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, dolus 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 shal not award variable remuneration in circumstances when regulatory requirements related to capital adequacy, including applicable capital buffers are not met and shall not pay varia ble remuneration awarded when such regulatory limits were not met, in accordance with art. 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 labour 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 clawback 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) andSREP 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 realised according to legal provisions in force related to the technical standards for qualititative 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 Bankbeing 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 organisation 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.

5 Risk management objectives and policies

5.1 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.

5.2 Types of significant risks

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

At First Bank level, the following risks are considered significant:

- Credit risk
- Risks associated with credit risk:
  - Counterparty risk
  - Risk of concentration
- Market risk:
  - Currency risk
- Interest rate risk for banking book activities
- Liquidity risk
- Operational risk
- Compliance risk
- Reputational risk
- Risk of excessive use of leverage
- Strategic risk
- Regulatory risk
- Capital adequacy

5.3 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
- the level of impact of interest rate fluctuations from activities outside the trading portfolio in terms of economic value (duration GAP) and profits (EaR)

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 2019 all the limits setup within the risk tolerance were respected.

6 Credit risk and related risks

6.1 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

6.2 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 2019, the Bank recorded exposures to affiliated parties representing 11.6% 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	11.26%
Entities in which First Bank owns stakes	0.17%
Shareholders of the bank	0.01%
Members of the management structure and persons with key functions within the bank	0.13%
The family of the members of the management structure	0.001%
TOTAL	**11.56%**

6.3 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.

6.4 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 factorsitems 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-sewttlement 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.

6.5 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.

6.6 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.

6.7 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.

7 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 through 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 Department. 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 2019, the limits for foreign exchange risk have been respected.

8 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 2019 is presented in the table below:

Currency and units (RON million)	31/03/2019 (Bank)		30/06/2019 (Bank)		30/09/2019 (Bank)		31/12/2019 (Bank)		31/12/2019 (Group)	
	Gross Amount	Weighted Amount	Gross Amount	Weighted Amount	Gross Amount	Weighted Amount	Gross Amount	Weighted Amount	Gross Amount	Weighted Amount
Stock of high quality liquid assets (HQLA)	**1,680.5**	**1,628.6**	**1,592.8**	**1,546.6**	**1,944.6**	**1,898.2**	**1,831.0**	**1,786.0**	**2,045.7**	**1,999.9**
Cash Outflows	6,061.7	1,335.9	5,613.0	1,267.9	5,633.2	1,341.0	5,330.6	1,213.6	6,033.8	1,335.3
Cash Inflows	704.4	156.4	858.3	201.0	983.3	354.4	775.0	260.2	950.6	433.5
Net cash outflows = MAX ((Outflows - Inflows), 25% Outflows)		**1,179.5**		**1,066.9**		**986.6**		**953.4**		**901.9**
Liquidity Coverage Ratio = HQLA / Net cash outflows		**138.1%**		**145.0%**		**192.4%**		**187.3%**		**221.8%**

9 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 auziliary 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.

10 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 attracts and retains 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.

11 Other risks

11.1 Interest rate risk for 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 2019, 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.The bank also captures the impact of early-termination rate for deposits and prepayment rates for loans.

On December 31, 2019, 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	Group
EUR	18.29	15.72
RON	18.06	15.91
CHF	-0.10	-0.10
USD	-0.14	-0.26
OTHER	0	0.02
Total	**36.60**	**32.01**

Per total, the potential variation of the bank's economic value accounted for 4.53% of its own funds (Bank) and 3.46% of own funds (Group), 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 31.12.2019, 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	-1.48
RON	-0.47
CHF	-0.47
USD	0.24
OTHER	0.02
Total	**2.30**

At consolidated level, the impact on profit due to the change in parallel to 100 basis points of interest rates over a one-year period registered the level of RON 5.49 million.

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.

11.2 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.

11.3 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.

11.4 Excesive 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

12 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 Basic Level 1 elements, Level 2 elements, as well as deductions made in accordance with Articles 36, 56, 66 and 79 CRRs.

000' RON

Position	Bank	Group
Shareholders' Equity	**722,284**	**818,602**
Adjustments		
Reserves fiscal impact	(4,373)	(4,373)
Intangible assets (net book value)	(52)	(54,884)
Subordinated loan	133,162	133,622
Transitory measures IFRS 9	(24,272)	31,521
Unrealized gains arising from the fair value measurement of the available for sale financial assets (AFS) (20%)	31,521	(95)
Non-controlling interests	(95)	(139)
Total own funds	**807,146**	**924,253**

The shareholders' equity component for regulatory purposes is detailed in the Bank's own funds report as of 31.12.2019 into Annex 437/1: Form for the Publication of Own Funds Information as of December 31st, 2019.

Capital instruments qualify as core 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 Level 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 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 2019, Tier 1 own funds of the Bank are in amount of RON 673,525 ths (2018: RON 587,911 ths), while for the Group are in amount of RON 790,632 (2018: -).

Tier 2 own funds

The tier 2 own funds of the Bank after deductions are in amount of RON 133,621 ths (2018: RON 167,666 ths), mainly consisting of subordinated loans. For the Group the tier 2 own funds are in amount of RON 133,621 ths (2018: RON -).

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 2019 the Bank(Group) registered a level of own funds of RON 807,146 ths (RON 924,253), which covered the capital requirement level (solvency ratio at 31 December 2019 being of approximately 20.52% (20.79%), above the regulatory limit):

- for the credit risk computed by the standard approach method (requirement at the level of RON 260,482 ths for the Bank and RON 310,328 ths for the Group);
- for the operational risk computed by the basic approach method (requirement at level of RON 54.092 ths for the Bank and RON 54.092 ths for the Group).

Overview of RWAs Amounts in RON			RWAs Bank		RWAs Consolidated		Minimum capital requirements Bank
			2019	2018	2019	2018	T
	1	**Credit risk (excluding CCR)**	**3,256,026,678**	**3,350,854,275**	**3,766,603,919**	**n/a**	**260,482,134**
Article 438(c)(d)	2	Of which the standardised approach	3,256,026,678	3,350,854,275	3,766,603,919	**n/a**	260,482,134
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	-	-	-	**n/a**	-
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	-	-	-	**n/a**	
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-	**n/a**	-
Article 107, Article 438(c)(d)	6	**CCR**	**2,072,298**	**9,286,251**	**2,072,298**	**n/a**	**165,784**
Article 438(c)(d)	7	Of which mark to market	-	-	-	**n/a**	-
Article 438(c)(d)	8	Of which original exposure	-	-	-	**n/a**	-
	9	Of which the standardised approach	-	-	-	**n/a**	-
	10	Of which internal model method (IMM)	-	-	-	**n/a**	-
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-	**n/a**	-
Article 438(c)(d)	12	Of which CVA	2,072,298	9,286,251	2,072,298	**n/a**	165,784
Article 438 (e)	13	Settlement risk	-	-	-	**n/a**	-
Article 449(o)(i)	14	Securitisation exposures in the banking book (after the cap)	-	-	-	**n/a**	-
	15	Of which IRB approach	-	-	-	**n/a**	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-	**n/a**	-
	17	Of which internal assessment approach (IAA)	-	-	-	**n/a**	-
	18	Of which standardised approach	-	-	-	**n/a**	-
Article 438 (e)	**19**	**Market risk**	-	-	-	**n/a**	-
	20	Of which the standardised approach	-	-	-	**n/a**	-
	21	Of which IMA	-	-	-	**n/a**	-
Article 438 (e)	22	Large exposures	-	-	-	**n/a**	-
Article 438(f)	**23**	Operational risk	676,154,038	643,251,838	676,154,038	**n/a**	**54,092,323.00**
	24	Of which basic indicator approach	676,154,038	643,251,838	676,154,038	**n/a**	54,092,323.00
	25	Of which standardised approach	-	-	-	**n/a**	-
	26	Of which advanced measurement approach	-	-	-	**n/a**	-
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-	**n/a**	-
Article 500	28	Floor adjustment	-	-	-	**n/a**	-
	29	**Total**	**3,934,253,014**	**4,003,392,364**	**4,444,830,255**	**n/a**	**314,740,241**

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

31.12.2019

Amounts in RON	Exposure value	RWAs
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3× multiplier)	-	-
(ii) SVaR component (including the 3× multiplier)	-	-
All portfolios subject to the standardised method	2,532,367	2,072,292
Based on the original exposure method	-	-
Total subject to the CVA capital charge	**2,532,367**	**2,072,292**

13 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

In situations where any principal, interest, or commission was not paid at maturity, the Bank will recognize this credit as delayed.

Where changes to the reimbursement schedule will be made, counting the delay days will be in line with the new modified payment schedule.

Where the credit agreement explicitly allows the debtor to change the maturity, suspend or postpone payments under certain conditions, and the debtor will act within the rights granted in the contract, modified, suspended or deferred installments will not be considered as overdue, but counting of delay days will count on the new maturity date once it is specified. However, if the borrower reaches its maturity date or suspends or defers payments, the Bank will consider the reasons for such a change and assess any indications of non-payment.

If the reimbursement of the obligation is suspended due to a law allowing this option or due to other legal restrictions, the countdown of past due days should also be suspended during this period. However, in such circumstances, the Bank will, wherever possible, analyze the reasons for exercising the option for such a suspension and will assess possible default indices of payment.

When the debtor changes as a result of an event such as a merger or acquisition of the debtor or any other similar transaction, the countdown of outstanding days should start from the moment another person or entity becomes obligated to pay the obligation. The countdown of days of delay is, however, unaffected by a change in the name of the debtor.

The calculation of all due amounts due to any debtor's credit obligation to the Bank should be performed at a frequency that allows timely identification of non-payers (usually daily).

The bank will ensure that the day-to-day and non-payout information is updated whenever it is used for decision-making, internal risk management, internal or external reporting, and own funds requirements.

b) Considerations applicable to factoring facilities

In the case of factoring agreements where the Bank has exposures to the client's debtors without recourse, the calculation of late payment days should begin when the payment for a single claim becomes due.
In case of recourse factoring arrangements, counting of late days should begin after the expiration of the grace period granted to the adherents.

c) 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.

Threshold of materiality

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

Threshold for HHs exposures:

- 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 100 EUR or the equivalent of that in the national currency; and
- 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:

- 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 500 EUR or the equivalent of that in the national currency; and
- 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.

Credit Impaired

A financial asset is impaired when one or more events occur that have a negative impact on the estimated future cash flows of that financial asset. Evidence that a financial asset is impaired includes observable data about the following events:

a) Significant financial difficulty of the issuer or the borrower;
b) a breach of contract, such as an event of default or delay in payment;
c) the borrower (s) of the Borrower, for economic or contractual reasons related to the borrower's financial difficulty, who has granted the Borrower a concession (s) that the Lender (s) would not have taken into account;
d) the debtor is likely to enter into bankruptcy or other financial reorganization;
e) the disappearance of an active market for that financial asset due to financial difficulties; or
f) the acquisition or origination of a financial asset at a very large discount, reflecting the credit losses incurred. It is not always possible to identify a single discrete event - instead, the combined effect of several events makes the financial assets become impaired.

Specific credit risk adjustments (SCRAs)

For the purpose of defining the concept of improbability of payment referred to in Article 178 (3) (b) of Regulation (EU) No. 575/2013, the following specific credit risk adjustments (SCRAs) should be considered as the result of a significant decrease in the credit quality of a credit obligation and should therefore be treated as indications of the improbability of paying:

a) losses recognized in the income statement for instruments measured at fair value that represent a credit risk impairment;
b) losses due to current or past events that affect a significant individual exposure or exposures that are not individually significant and which are individually or collectively assessed.

Specific credit risk adjustments covering losses for which historical experience, adjusted on the basis of current observable data, indicates that the loss has occurred but the Bank does not yet know what individual exposure has suffered ("incurred but not reported losses"), should not be considered an indication of the unlikelihood of paying a particular debtor.

If the Bank treats an exposure as impaired, such a situation should be considered as an additional indication of the unlikelihood of payment, and therefore the borrower should be considered as non-reimbursable regardless of whether the SCRAs are assigned of this exposure.

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:

31.12.2019

Position	Bank		Group	
Amounts in RON	Net value of exposures at the end of the period	Average net value of exposures of the period	Net value of exposures at the end of the period	Average net value of exposures of the period
Central governments or central banks	2,184,696,961	2,185,711,379	2,698,708,099	-
Regional governments or local authorities	7,392,699	9,049,259	7,381,884	-
Public sector entities	977,058	2,957,658	565,759	-
Multilateral development banks	-	-	0	-
International organisations	-	-	0	-
Institutions	360,836,933	263,372,987	249,806,333	-
Corporates	390,762,021	590,274,794	588,370,596	-
Retail	773,651,507	853,429,851	677,775,945	-
Secured by mortgages on immovable property	2,761,367,531	2,938,714,950	2,446,514,776	-
Exposures in default	155,191,685	223,744,277	148,034,522	-
Items associated with particularly high risk	-	-	4,078,357	-
Covered bonds	-	-		-
Claims on institutions and corporates with a short-term credit assessment	-	-		-
Collective investments undertakings	-	-		-
Equity exposures	91,887,503	42,318,364	91,736,175	-
Other exposures	482,259,532	494,379,660	559,044,857	-
TOTAL	**7,209,023,430**	**7,603,953,179**	**7,472,017,302**	**-**

Geographic breakdown of net exposures

The table below shows the breakdown of Bank exposures by geographic area and exposure classes as of 31 December 2019 (amounts expressed in RON):

Exposure class	BRASOV	CLUJ	Constanta	TIMIS	Bucuresti	Other counties	Total
Central governments or central banks	-	-	-	-	2,184,696,961	-	2,184,696,961
Regional governments or local authorities	-	-	-	1,895,744	-	5,496,955	7,392,699
Public sector entities	27,046	38	97,584	153	691,673	160,564	977,058
Multilateral development banks	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-
Institutions	-	-	-	-	359,411,933	-	359,411,933
Corporates	4,370,919	8,874,295	32,601,538	3,029,872	282,006,845	59,878,552	390,762,021
Retail	16,784,413	22,173,924	30,903,770	29,586,026	368,927,663	305,275,711	773,651,507
Secured by mortgages on immovable property	91,234,614	58,331,999	114,935,664	154,377,236	1,297,263,058	1,045,224,960	2,761,367,531
Exposures in default	10,574,970	6,305,746	13,570,265	16,599,581	60,625,152	47,515,971	155,191,685
Items associated with particularly high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	91,887,503	-	91,887,503
Other exposures	4,540,775	4,699,117	11,347,253	10,872,068	384,965,198	65,835,121	482,259,532
TOTAL	**127,532,737**	**100,385,119**	**203,456,074**	**216,360,680**	**5,030,475,986**	**1,529,387,834**	**7,207,598,430**

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 2019 (amounts expressed in RON):

Exposure class	Industry sectors							
	Industry	Trade	Agriculture	Services	Construction	Other services	Individuals	Total
Central governments or central banks	-	-	-	499,504,404	-	1,685,275,492	-	2,184,779,896
Regional governments or local authorities	-	-	147	2,743,432	-	4,723,130	-	7,466,709
Public sector entities	-	-	428,054	-	-	556,665	-	984,719
Multilateral development banks	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-
Institutions	-	-	-	248,854,324	-	110,565,250	-	359,419,574
Corporates	82,634,092	168,991,673	26,939,317	68,319,681	34,273,273	11,712,246	1,057,850	393,928,132
Retail	39,244,157	106,755,845	13,936,276	37,341,457	46,112,047	52,587,497	491,914,067	787,891,346
Secured by mortgages on immovable property	330,083,221	379,824,512	212,953,065	329,329,418	373,706,361	134,892,656	1,022,435,526	2,783,224,759
Exposures in default	76,102,862	16,928,234	726,316	26,486,651	25,843,928	10,250,661	84,489,226	240,827,878
Items associated with particularly high risk	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	91,887,503	-	-	-	91,887,503
Other exposures	-	-	-	22,811	-	875,809,020	374,466	876,206,297
TOTAL	**528,064,369**	**672,500,264**	**254,983,133**	**1,304,490,686**	**479,935,609**	**2,886,371,617**	**1,600,271,135**	**7,726,616,813**

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	2,184,779,896	-	-	2,184,779,896
Regional governments or local authorities	4,292,957	2,922,327	251,425	7,466,709
Public sector entities	86,878	725,757	172,084	984,719
Multilateral development banks	-	-	-	-
International organisations	-	-	-	-
Institutions	359,415,474	-	4,100	359,419,574
Corporates	341,005,672	52,922,460	-	393,928,132
Retail	493,188,988	289,492,179	5,210,179	787,891,346
Secured by mortgages on immovable property	1,197,931,167	722,026,861	863,266,731	2,783,224,759
Exposures in default	240,165,778	300,434	361,666	240,827,878
Items associated with particularly high risk	-	-	-	-
Covered bonds	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-
Collective investments undertakings	-	-	-	-
Equity exposures	91,887,503	-	-	91,887,503
Other exposures	876,206,297	-	-	876,206,297
TOTAL	**5,788,960,610**	**1,068,390,018**	**869,266,185**	**7,726,616,813**

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	-	2,184,779,896	82,935	2,184,696,961
Regional governments or local authorities	-	7,466,709	74,010	7,392,699
Public sector entities	-	984,719	7,661	977,058
Multilateral development banks	-	-	-	0
International organisations	-	-	-	0
Institutions	-	360,844,574	7,641	360,836,933
Corporates	125,437,602	268,490,530	3,166,111	390,762,021
Of which: SMEs	-	-	-	0
Retail	71,341,416	716,549,930	14,239,839	773,651,507
Of which: SMEs	-	-	-	0
Secured by mortgages on immovable property	44,048,860	2,739,175,899	21,857,228	2,761,367,531
Of which: SMEs	-	-	-	0
Exposures in default	-	240,827,878	85,636,193	155191685
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	-	91,887,503	-	91887503
Other exposures	-	876,206,297	393,946,765	482,259,532
Total	**240,827,878**	**7,487,213,935**	**519,018,383**	**7,209,023,430**

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	76,102,862	451,961,507	21,571,132	506,493,237
Trade	16,928,234	655,572,030	12,174,382	660,325,882
Agriculture	726,316	254,256,817	2,361,305	252,621,828
Services	26,486,651	1,278,004,035	12,290,492	1,292,200,194
Construction	25,843,928	454,091,681	14,087,198	465,848,411
Individuals	84,489,226	1,515,781,909	54,506,574	1,545,764,561
Other services	10,250,661	2,877,545,956	402,027,300	2,485,769,317
TOTAL	**240,827,878**	**7,487,213,935**	**519,018,383**	**7,209,023,430**

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:

Amounts in RON *31.12.2019*

	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 adjustments due to credit risk				Collaterals and financial guarantees received	
		Performing exposures		non-performing exposures			On performing exposures		On non-performing			
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which defaulted	Of which impaired	Of which forborne	TOTAL	Of which forborne	TOTAL	Of which forborne	On non-performing exposures	Of which forborne exposures
Debt securities	1,639,553,789	-	-	-	-	-	43,224	-	-	-	-	-
Loans and advances	4,328,104,816	4,080,979,407	31,999,095	207,348,910	186,080,108	64,160,320	48,270,862	3,267,340	93,760,307	27,218,411	108,245,671	36,909,028
Off-balance-sheet exposures	764,002,343	-	-	21,831,409	-	-	-	-	1,565,468	-	-	-

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.

31.12.2019 (RON)

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	12,707	3,465,253	395,209	11,948,226	33,040,003	48,861,398
Past due 91-180 days	0	0	1,352,954	0	12,185,273	13,538,227
Past due >180 days	64,787	531,699	198,272	3,173,791	26,065,739	30,034,288
Impaired loans	77,494	3,996,952	1,946,434	15,122,017	71,291,015	92,433,912
Less: allowance for impairment	-68,864	-961,883	-29,706	-6,818,491	-33,401,902	-41,280,847
Net exposure	**8,630**	**3,035,069**	**1,916,728**	**8,303,525**	**37,889,113**	**51,153,065**
Fair value of collateral	0	544,126	192,217	3,213,522	24,407,664	28,357,529

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:

31.12.2019

	Accumulated specific credit risk adjustment	
Amounts in RON	Bank	Group
Opening balance	**(153,132,939)**	**(153,132,939)**
Increases due to origination and acquisition	(29,142,138)	(29,142,138)
Decreases due to derecognition	31,315,948	31,315,948
Changes due to change in credit risk (net)	(22,431,979)	(22,431,979)
Changes due to modifications without derecognition (net)	(6,164,599)	(6,164,599)
Changes due to update in the institution's methodology for estimation (net)	-	-
Decrease in allowance account due to write-offs	41,737,438	41,737,438
Other adjustments	(4,293,653)	(10,397,448)
Closing balance	**(142,111,922)**	**(148,215,717)**
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	61,353,065	64,174,271
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	-	-	680,684,544	-
Capital instruments	-	-	91,887,504	91,887,504
Debt securities	-	-	1,565,688,995	-
Loans and advances other than spot loans	73,725,436	73,725,436	3,437,900,272	1,565,688,995
Other assets	67,488,831	-	500,449,165	-
TOTAL	**141,214,267**	**73,725,436**	**6,276,610,480**	**1,657,576,499**

Group	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	-	-	905,729,724	-
Capital instruments	-	-	1,342,398	1,342,398
Debt securities	79,625,436	-	1,736,319,601	1,736,319,601
Loans and advances other than spot loans	406,025,572	-	3,934,723,854	-
Other assets	-	-	561,336,282	-
TOTAL	**485,651,008**	**-**	**7,139,451,859**	**1,737,661,999**

The encumbered assets of the Bank represented 2.2% of total assets held at the end of 2019. 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 that 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 1,339 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	Bank invidual			Bank consolidated		
Article 447 (b) to (c)	Carrying amount	Fair value	Market value	Carrying amount	Fair value	Market value
Capital instruments	**91,767**	**91,767**	**-**	**1,342**	**1,342**	**-**
Unlisted	91,767	91,767	-	1,342	1,342	-
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 31.12.2019, the Bank/Group recorded the following levels for the main monitored indicators:

Indicator	Bank	Group
Solvency ratio (total own funds ratio)	20.52%	20.79%
Leverage indicator according to the full definition of own-level Tier 1 funds	10.34%	10.11%
Short-term liquidity coverage ratio (LCR)	187,21%	221,75%
Non-performing loans and advances ratio	4.79%	4.38%

Form for Publishing Own Funds Information as of 31 December 2019

Amounts in RON

Rows	ID	Item	Bank	Group
			Amount	
10	1	OWN FUNDS	807,146,170	924,253,424
15	1.1	TIER 1 CAPITAL	673,524,581	790,631,835
20	1.1	COMMON EQUITY TIER 1 CAPITAL	673,524,581	790,631,835
30	1.1.1	Capital instruments eligible as CET1 Capital	1,246,647,198	1,246,647,198
40	1.1.1	Paid up capital instruments	1,246,647,198	1,246,647,198
45		Of which: Capital instruments subscribed by public authorities in emergency situations	-	-
50	1.1.1.1.2*	Memorandum item: Capital instruments not eligible	-	-
60	1.1.3	Share premium	-	-
70	1.1.4	(-) Own CET1 instruments	-	-
80	1.1.3.1	(-) Direct holdings of CET1 instruments	-	-
90	1.1.3.2	(-) Indirect holdings of CET1 instruments	-	-
91	1.1.3.3	(-) Synthetic holdings of CET1 instruments	-	-

Rows	ID	Item	Bank Amount	Group Amount
92	1.1.5	(-) Actual or contingent obligations to purchase own CET1 instruments	-	-
130	1.1.2	Retained earnings	(634,450,167)	(539,706,669)
140	1.1.5.1	Previous years retained earnings	(657,512,465)	(658,506,296)
150	1.1.5.2	Profit or loss eligible	23,062,298	118,799,627
160	1.1.5.1.1	Profit or loss attributable to owners of the parent	23,062,298	-
170	1.1.5.1.2	(-) Part of interim or year-end profit not eligible	-	118,799,627
180	1.1.3	Accumulated other comprehensive income	-	-
200	1.1.4	Other reserves	98,332,376	98,332,376
210	1.1.5	Funds for general banking risk	3,031,846	3,031,846
220	1.1.6	Transitional adjustments due to grandfathered CET1 Capital instruments	-	-
230	1.1.7	Minority interest given recognition in CET1 capital	-	-
250	1.1.9	Adjustments to CET1 due to prudential filters	4,254,869	5,689,984
260	1.1.8.1	(-) Increases in equity resulting from securitised assets	-	-
270	1.1.8.2	Cash flow hedge reserve	4,254,869	5,689,984
280	1.1.8.3	Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	-	-
285	1.1.8.4	Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	-	-
290	1.1.8.5	(-) Value adjustments due to the requirements for prudent valuation	-	-
300	1.1.10	(-) Goodwill	-	-
310	1.1.8.5.1	(-) Goodwill accounted for as intangible asset	-	-
320	1.1.8.5.2	(-) Goodwill included in the valuation of significant investments	-	-
330	1.1.8.5.3	Deferred tax liabilities associated to goodwill	-	-
340	1.1.11	(-) Other intangible assets	(51,540,492)	(54,883,989)
350	1.1.8.5.3.1	(-) Other intangible assets before deduction of deferred tax liabilities	(51,540,492)	(54,883,989)
360	1.1.8.5.3.2	Deferred tax liabilities associated to other intangible assets	-	-
370	1.1.12	(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-
380	1.1.13	(-) IRB shortfall of credit risk adjustments to expected losses	-	-

Rows	ID	Item	Bank Amount	Group Amount
390	1.1.14	(-)Defined benefit pension fund assets	-	-
400	1.1.13.1	(-)Defined benefit pension fund assets	-	-
410	1.1.13.2	Deferred tax liabilities associated to defined benefit pension fund assets	-	-
420	1.1.13.3	Defined benefit pension fund assets which the institution has an unrestricted ability to use	-	-
430	1.1.15	(-) Reciprocal cross holdings in CET1 Capital	-	-
440	1.1.16	(-) Excess of deduction from AT1 items over AT1 Capital	-	-
450	1.1.17	(-) Qualifying holdings outside the financial sector which can alternatively be subject to a 1250% risk weight	-	-
460	1.1.18	(-) Securitisation positions which can alternatively be subject to a 1250% risk weight	-	-
470	1.1.19	(-) Free deliveries which can alternatively be subject to a 1250% risk weight	-	-
471	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	1.1.21	(-) Equity exposures under an internal models approach which can alternatively be subject to a 1250% risk weight	-	-
480	1.1.22	(-) CET1 instruments of financial sector entites where the institution does not have a significant investment	-	-
490	1.1.23	(-) Deductible deferred tax assets that rely on future profitability and arise from temporary differences	-	-
500	1.1.24	(-) CET1 instruments of financial sector entities where the institution has a significant investment	-	-
510	1.1.25	(-) Amount exceeding the 17.65% threshold	-	-
520	1.1.26	Other transitional adjustments to CET1 Capital	35,229,453	31,521,089
524	1.1.27	(-) Additional deductions of CET1 Capital due to Article 3 CRR	-	-
529	1.1.28	CET1 capital elements or deductions - other	-	-
530	1.2	ADDITIONAL TIER 1 CAPITAL	-	-
540	1.1.28.1	Capital instruments eligible as AT1 Capital	-	-
550	1.2.1	Paid up capital instruments	-	-
560	1.1.2.1.2*	Memorandum item: Capital instruments not eligible	-	-

Rows	ID	Item	Bank Amount	Group Amount
570	1.2.3	Share premium	-	-
580	1.2.4	(-) Own AT1 instruments	-	-
590	1.2.3.1	(-) Direct holdings of AT1 instruments	-	-
620	1.2.3.2	(-) Indirect holdings of AT1 instruments	-	-
621	1.2.3.3	(-) Synthetic holdings of AT1 instruments	-	-
622	1.2.5	(-) Actual or contingent obligations to purchase own AT1 instruments	-	-
660	1.1.28.2	Transitional adjustments due to grandfathered AT1 Capital instruments	-	-
670	1.1.28.3	Instruments issued by subsidiaries that are given recognition in AT1 Capital	-	-
680	1.1.28.4	Transitional adjustments due to additional recognition in AT1 Capital of instruments issued by subsidiaries	-	-
690	1.1.28.5	(-) Reciprocal cross holdings in AT1 Capital	-	-
700	1.1.28.6	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	-	-
710	1.1.28.7	(-) AT1 instruments of financial sector entities where the institution has a significant investment	-	-
720	1.1.28.8	(-) Excess of deduction from T2 items over T2 Capital	-	-
730	1.1.28.9	Other transitional adjustments to AT1 Capital	-	-
740	1.1.28.10	Excess of deduction from AT1 items over AT1 Capital (deducted in CET1)	-	-
744	1.1.28.11	(-) Additional deductions of AT1 Capital due to Article 3 CRR	-	-
748	1.1.28.12	AT1 capital elements or deductions - other	-	-
750	ID.2	TIER 2 CAPITAL	133,621,589	133,621,589
760	1.1.28.12.1	Capital instruments and subordinated loans eligible as T2 Capital	133,621,589	133,621,589
770	1.1.28.12.1.1	Paid up capital instruments and subordinated loans	133,621,589	133,621,589
780	1.2.1.1*	Memorandum item: Capital instruments and subordinated loans not eligible	57,550,411	57,550,411
790	ID.2.3	Share premium	-	-
800	ID.2.4	(-) Own T2 instruments	-	-
810	ID.2.3.1	(-) Direct holdings of T2 instruments	-	-
840	ID.2.3.2	(-) Indirect holdings of T2 instruments	-	-
841	ID.2.3.3	(-) Synthetic holdings of T2 instruments	-	-
842	ID.2.5	(-) Actual or contingent obligations to purchase own T2 instruments	-	-

Rows	ID	Item	Bank Amount	Group Amount
880	1.1.28.12.2	Transitional adjustments due to grandfathered T2 Capital instruments and subordinated loans	-	-
890	1.1.28.12.3	Instruments issued by subsidiaries that are given recognition in T2 Capital	-	-
900	1.1.28.12.4	Transitional adjustments due to additional recognition in T2 Capital of instruments issued by subsidiaries	-	-
910	1.1.28.12.5	IRB Excess of provisions over expected losses eligible	-	-
920	1.1.28.12.6	SA General credit risk adjustments	-	-
930	1.1.28.12.7	(-) Reciprocal cross holdings in T2 Capital	-	-
940	1.1.28.12.8	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	-	-
950	1.1.28.12.9	(-) T2 instruments of financial sector entities where the institution has a significant investment	-	-
960	1.1.28.12.10	Other transitional adjustments to T2 Capital	-	-
970	1.1.28.12.11	Excess of deduction from T2 items over T2 Capital (deducted in AT1)	-	-
974	1.1.28.12.12	(-) Additional deductions of T2 Capital due to Article 3 CRR	-	-
978	1.1.28.12.13	T2 capital elements or deductions - other	-	-

14 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
	Excesive leverage risk
	Macroeconomic risk

The internal estimates of the necessary capital and available capital according to the ICAAP methodology at the end of 2019 are presented in the table below:

31.12.2019
RON million

Risk	Bank		Group	
	Pillar 1	Pillar 2	Pillar 1	Pillar 2
1. Credit risk and associeted risks	**260**	**279**	**301**	**351**
1.1 Credit risk	260	247	301	308
1.2 Residual risk	-	12	-	12
1.3 Risk stemming from FX lending activities	-	4	-	5
1.4 Concentration risk	-	16	-	17
1.5 Counterparty credit risk	0	0	0	0
2. Market risk	**0**	**2**	**0**	**2**
2.1 Foreign exchange risk	0	2	0	2
2.3 Credit value adjustment risk	0	0	0	0
3. Riscul operational	**54**	**77**	**54**	**81**
4. Other risks	**-**	**54**	**-**	**58**
4.1 Interest Rate Risk Banking Book	-	38	-	43
4.2 Liquidity risk	-	8	-	8
4.3 Reputational risk	-	6	-	6
4.4 Regulatory risk	-	1	-	1
4.5 Strategic risk	-	0	-	0
Total capital requirements	**315**	**412**	**355**	**494**
Own funds		**807**		**924**

Therefore, the Bank had enough capital surplus to cover the minimum regulatory capital requirements as well as the internal capital requirements. Also, the realized Overall Capital Ratio was above the minimum regulatory capital requirements (20.52% realized vs.17.52% regulatory limit).

FIRSTBANK

Declaration of Management Body of First Bank

on the adequacy of risk management framework in 2019

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 2019 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 on individual and consolidated level as of 31.12.2019:

Indicator	Bank	Group
Capital Adequacy		
Core Tier 1 ratio (Tier 1 Capital / Risk Weighted Assets)	17.12%	17.79%
Total capital ratio (Own funds / Risk Weighted Assets)	20.52%	20.79%
Leverage ratio	10.34%	10.11%
Financing and liquidity		
Liquidity Coverage Ratio	187.2%	221.8%
Net Stable Funding Ratio	162.3%	148.97%

Chairperson of Board of Directors,

Ilinca Rosetti