
Corporate Governance - 2017

Corporate governance of the SSIF BRK Financial Group is the set of principles underlying the management framework by which the company is managed and controlled. Provided in internal regulations and procedures, these principles determine the effectiveness of the control mechanisms adopted to protect and harmonize the interests of all categories of participants in the company's activities - shareholders, directors, managers of various company structures, employees, customers, third-party business partners and collaborators, central and local authorities, etc.

4.1. Shareholders

In accordance with corporate governance principles, SSIF BRK Financial Group respects the rights of its shareholders, in the sense of conducting the activities of the company in their best interest. The company is constantly concerned with improving communication and relationship with shareholders, aiming at ensuring fair treatment. Through the company's Articles of Incorporation, the rights of shareholders with regard to the shares held and their exercise through participation in the General and Extraordinary Shareholders Meeting are regulated. Also, the company's Articles of Incorporation regulates the company's governing body and the way it is managed.

The relationship with shareholders is ensured at the level of executive management and the Board of Directors. The company's website provides complete and detailed information on the organization of the company, the conduct of business (products and services offered), financial statements in accordance with applicable standards, Ordinary and Extraordinary General Meetings, disputes involving the company and other relevant events for shareholders and investors, as well as for collaborators and / or clients. The company's website also includes information about Board members, audit reports, and company presentation documents. Most of the information for shareholders and investors is available in the sections "Investing Relationships" and "Why BRK Financial Group", which are also available in English. The company also made available to its shareholders an email address (actionariat@brkfinancialgroup.ro), to which they can submit questions, suggestions or opinions to the representatives of the company.

Along with the information available on the company's website, shareholders and investors can also view the reports and reports provided by the BRK Financial Group, the Bucharest Stock Exchange. The company provides the BSE annual financial reporting and reporting schedule, the OGMS and EGMS convocation and their decisions, current reports according to the BSE code and in accordance with the corporate governance principles applicable to listed companies on the BSE regulated market.

4.2. The Board of Directors

The management of BRK Financial Group was ensured in 2017 for most of the time by a Board of Directors consisting of four members (their normal number being 5), elected at the General Meeting of Shareholders.

Following the elections held at the Ordinary General Shareholder Meeting (OGMS) on December 19, 2016, a new Board of Directors was elected, consisting of five members: Mr. Laurentiu-Paul Baranga, Mr. Darie Moldovan, Mr. Catalin Mancaș, Mr. Dan Nicolae Gherghelas, Aurelian Madem, for which the necessary documents for authorization were sent to the Financial Supervisory Authority. They received the Financial Supervisory Authority approval in March 2017.

On April 28, 2017, Mr. Laurentiu-Paul Baranga presented his resignation as Administrator of BRK Financial Group, in his stead, as provisional administrator, Mr. Cristian Vasile But was appointed on 5 July 2017. In the OGMS held on 5/6 October 2017, Mr. But Cristian Vasile received the vote from the shareholders as an administrator, for a term equal to the other members. Currently, the number of independent members of the Board is 4.

During 2017, the Board of Directors of BRK Financial Group SA met 23 times, either through participation in the company's headquarters or by means of remote communication, and its activity complied with statutory and statutory provisions. Discussions were held on important topics and projects relevant to the company's activity, and decisions were made which looked at the many functional aspects of society. Among the subjects found in the Board of Directors' agenda, with a particular impact on current activity, were the approvals of internal rules and procedures that were updated to reflect changes made at the company.

The Board of Directors operates under its own operating regulation, which sets out how the Board works, how they convene and meet and the staff of the company that has to provide activity reports (leaders, representatives of the internal control, internal auditor, and economic director). In order to avoid any potential conflicts of interest, members of the Board of Directors through their published CVs, inform both the Board and shareholders and prospective investors about any professional engagements, including executive and non-executive positions in the Board of Companies and / or non-profit institutions, and all the information relating to direct or indirect holdings, individual holdings or as a result of the concerted action with third parties are disclosed by the statements provided to the Financial Supervisory Authority.

The remuneration of the members of the Board of Directors is approved by the General Meeting of Shareholders. The members of the Board of Directors do not carry out related activities that are directly or indirectly influenced by the activity of BRK Financial Group SA.

4.3. Board of Directors Committees

There are four committees in the Board of Directors of the BRK Financial Group: the Nomination Committee, the Audit Committee, the Risk Committee and the Remuneration Committee. Committees set up at the level of the Board of Directors function as Board working groups, their role being determined and established in accordance with the applicable legal provisions and to meet the needs of the company. The composition of the Council's committees has been based on the expertise of its members and the need to make the most of the experience they have gained in different areas of activity. According to the OGMS Resolution of December 2016, the members of the BOD revoked on the OGMS, were mandated to complete the Company's management documents until the Validity of the new Board of Directors by the Financial Supervisory Authority. As a result, the composition of the committees was ensured by the date of authorization of the new Board of Directors by the revoked members.

In 2017, the Risk Committee consisted of: Laurentiu-Paul Baranga, Mr. Darie Moldovan and Mr. Cătălin Mancaș, its role is mainly to monitor the risks that may impact society and to analyze and evaluate the reports sent by the designated person with risk management at the company level. The Risk Committee is informed on a monthly basis by the risk manager by a full activity report, the company's situation with respect to liquidity indicators and other risk indicators that are calculated in accordance with the Financial Supervisory Authority's regulations. After the resignation of Mr. Laurențiu-Paul Baranga, in the Risk Committee, the position was taken over by Mr. Cristian Vasile.

The Audit Committee was composed of three members of the Board of Directors: Darie Moldovan, Mr. Laurentiu-Paul Baranga and Mr. Catalin Mancaș, its role being to analyze and audit the financial statements of the company. The Audit Committee evaluates the company's periodic financial statements, the fairness of their preparation and the auditors' views on the financial statements. After the resignation of Mr. Laurențiu-Paul Baranga, the position was taken over by But Cristian Vasile within the Audit Committee.

The Remuneration Committee consists of: Darie Moldovan, Mr. Aurelian Madem and Mr. Dan-Nicolae Gherghelas, who is responsible for evaluating remuneration policies within the company, and proposes to the Board of Directors any update on these policies.

The Nomination Committee consists of: Aurelian Madem, Mr. Dan-Nicolae Gherghelas and Mr. Catalin Mancaș, and its role consists of evaluating the persons proposed for the management functions and key functions within the company, and also to analyze the proposals for persons who can represent the company on the Board of Directors of other entities.

4.4. External Auditor

According to the legal provisions, the financial statements and the operations of the BRK Financial Group are audited by an independent financial auditor who meets both the criteria established by the Financial Supervisory Authority and the Financial Audit Chamber of Romania.

At the beginning of August, the company was noticed by BDO Romania that, following the recruitment of a BRK Financial Group employee, the financial auditor's independence could not be ensured.

The election of the financial auditor Deloitte Audit SRL for the years 2017 and 2018 was approved on the OGMS held on 05.10.2017.

4.5. Internal Auditor

Throughout 2017, internal audit was provided by MBO Audit & Accounting SRL, which operates independently, in line with corporate governance recommendations. The internal audit reports were submitted to the Board of Directors of the company and the measures proposed in the audit reports were implemented by decisions of the Board of Directors. Internal audit reports aim at verifying the correlation of customer balances with analytical records, verifying capital adequacy reports, verifying the cash availability of customers and other relevant aspects of the company's activity.

4.6. Internal Control and Compliance

In accordance with the legal provisions, the Company has organized an Internal Control and Compliance Compartment (CCI) composed, throughout 2017, of personnel authorized by the Financial Supervisory Authority. The company also took steps to authorize additional staff within this compartment.

The Internal Control and Compliance Compartment reports monthly to the Board of Directors of the company, its directors and the internal auditor on the work carried out and the issues observed, if any. The CCI proposes to the management of the company measures to remedy the problematic issues, and the decision on the application of the proposed measures will be taken by the members of the Board of Directors and / or the executive management. The decision is to be brought to the attention of those involved by the representatives of the executive management.

Also, the CCI verifies the transmission to the capital market institutions of mandatory reporting according to the legislation in force, including the current reports deriving from the obligations assumed as an issuer traded on the Bucharest Stock Exchange - the Premium category. During 2017, the Internal Control and Compliance Compartment compiled 46 control reports that were conducted in accordance with the Annual Control Plan or at the request of the management. Control reports developed by the Internal Control and Compliance Compartment of BRK Financial Group S.A. were brought to the attention of the Board of Directors, executive management and internal auditor. As a result of the proposals made in the control reports drawn up in 2017, the management of the company took remedial measures by modifying certain procedures, adopting decisions.

4.7. Risk Management

Within the BRK Financial Group, in accordance with the legal provisions in force, a risk manager, employee with specific responsibilities for risk monitoring at the company level, was appointed. Activity-specific risk monitoring is conducted in accordance with the Risk Management Policies - Risk Assessment and Risk Management Rules and Mechanisms, approved by the Board of Directors.

In the process of identifying and assessing the financial risks, as well as the indicators used in risk management, the EU Regulation no. 575/2013 on prudential requirements for credit institutions and investment firms was taken into consideration, as required by the European legislator, as well as the regulations and legislation of the Financial Supervisory Authority.

Regarding the evaluation of the operational risks generated by the IT systems, it was taken into consideration aspects stipulated in the FSA Norm no. 6/2015 on the management of operational risks generated by computer systems used by regulated entities, authorized / approved and / or supervised by the Financial Supervisory Authority.

The risk management system, built according to the above regulations, includes a set of appropriate risk analysis and risk management mechanisms and procedures, as well as the presentation of the results of the financial risk identification and evaluation activity, as well as proposals for appropriate management and the diminishing of the effects of the risks related to the investment and general activity of the company.

In this respect, the following categories of potential or existing risks to which SSIF BRK Financial Group SA is exposed, are analyzed and evaluated:

1. Liquidity risks, with the following sub-categories: the risk of not meeting the current liquidity requirement, the risk of long-term assets financing from non-permanent resources and the liquidity risk of the financial asset portfolio held by SSIF BRK Financial Group SA;

2. Market risks, with the following sub-categories: position risk, foreign exchange risk, commodity risk and long-term interest rate risk;

3. Credit risks, with the following sub-categories: credit risk (related to the financial soundness dynamics of issuers of the financial assets held by SSIF BRK Financial Group SA and equity and debt securities), the counterparty credit risk from the loans granted by the company as a creditor, to the companies in which it holds qualifying holdings, the legal risk.

4. Operational risks analyzed from the perspective of the quantitative approach. Within this category are analyzed all the operational risks generated by the processes, systems and human resources that SSIF BRK Financial Group SA uses in the current activity;

5. The concentration risk, with the following sub-categories: high exposures to a debtor / issuer and high exposures to an economic sector. At the same time, the concentration risk is analyzed also by the exposures registered by the BRK Financial Group on different categories of financial assets and operations in the light of the requirements of the legislation in force;

6. Currency Risks, dealing with the positions held by the BRK Financial Group on cash and foreign currency deposits, foreign currency financial instruments, derivatives with foreign currency assets;

7. Position valuation and inclusion of BRK Financial Group's portfolio instruments.

In addition to these categories of financial and operational risks, the following risks / vulnerabilities are also analyzed in this risk report, to which the SSIF BRK Financial Group SA is exposed:

8. The actuarial risk (the possibility of occurrence of human error in the calculations and the quantification of the risk levels) to which SSIF BRK Financial Group SA is exposed. The materialization of this risk leads to the emergence of different vulnerabilities in the risk management policy and implicitly to the emergence of different residual risks that may have implications for the financial stability of the company;

9 The business risk, which takes into account the economic aspects that may affect the financial results of SSIF BRK Financial Group SA, set in the Income and Expense Budget. This risk category takes into account the risk associated with a low-interest business environment and the possibility of the economy entering a deflationary cycle.

10. The risk related to the political factor, considering the potential negative effects due to the modifications of the normative acts regulating the activity of the investment firms;

At SSIF BRK Financial Group SA, the financial, investment and operational risks were evaluated / quantified, monitored and treated in order to reduce their impact according to the above classification. When establishing this risk classification structure, the size of the impact of that risk was taken into account when it materialized on the levels of own funds held by SSIF BRK Financial Group SA.

The following principles and issues have been taken into account when establishing the quantitative limits for financial risks:

Principles:

- As a general principle, the risk profile of SSIF BRK Financial Group SA, the current structure of the portfolio, the possible dynamic of the assets, as well as the prudent liquidity and adequacy levels were taken into account in establishing the current quantitative levels of financial risks of the capital so as to include shock absorbers for possible crisis situations established by the European regulator;

Aspects to be considered:

- The level of liquidity needs, has been set so as to be prudent and able to cope at any time with any net cash outflow in the event of a crisis situation;
- The liquidity level of the assets in the portfolio has been set according to the characteristics of the portfolio, as well as ensuring a minimum level of liquidity to meet any need to reorient business policy;
- In determining the levels for market, credit, counterparty and operational risk, the solvency ratio determined as a ratio between the capital requirements of these financial risks and the equity (financial resources) of SSIF BRK Financial Group SA was at least three times the minimum required (existence of reserves), as stipulated in the EU Regulation no. 575/2013);
- The level of leverage was taken into account when establishing the current quantitative limits.

Thus, on 31.12.2017 the level of own funds of SSIF BRK Financial Group registered the value of 53.844.125,36 lei. Also, the value of the risk-weighted exposures at 31.12.2017 amounted to 124.941.330,56 lei.

4.8. Transparency and Financial Reporting

In order to ensure transparency of the activity and the financial statements, the SSIF BRK Financial Group makes available to all interested persons, by means of statements sent to BSE and through its own website, the annual, half-yearly and quarterly reports prepared in accordance with the applicable accounting standards (IFRS). The annual financial reports are presented both individually and consolidated, both preliminary and audited, together with the explanatory notes. Quarterly and semi-annual results are only presented in individual and unaudited reports. The company also publishes other current reports on all major events that have or may have an impact on society's image and activity. The company has published on its website the company's articles of incorporation and the CVs of the members of the Board of Directors.

4.9. Avoiding conflicts of interest

In order to avoid conflicts of interest, the company applies clear procedures that regulate the execution of client orders, priority in relation to the company's own orders. The priority of executing orders is contained in the company's internal procedures.

The Company reports all transactions made by individuals initiated with the BRK Financial Group to the Bucharest Stock Exchange in order to inform shareholders and other stakeholders. Under the regulations and rules in force, the Company reports the necessary transactions to the Financial Supervisory Authority.

BRK Financial Group has taken the necessary measures to avoid conflicts of interest and to segregate and separate operational activities where appropriate.

4.10. Social Responsibility

BRK Financial Group, through its Board of Directors and executive management, contributes to financial education among students in Cluj-Napoca, giving them the opportunity to conduct free of charge internships and documentation in the Romanian capital market.

4.11. Financial Calendar

February 15 th 2018	Preliminary Annual Financial Reports for 2017
April 24-25 th 2018	General Meeting of Shareholders for the approval of the Individual Financial Results for 2017
April 25 th 2018	Annual Activity Report and Individual Financial Results for 2017
May 15 th 2018	Financial Results for Q1 2018
August 14 th 2018	Financial Results for H1 2018
October 4-5 th 2018	General Meeting of Shareholders for approval of Consolidated Financial Results for 2017
October 5 th 2018	Report and Consolidated Financial Results for
November 15 th 2018	2017 Financial Results for Q3 2018