

19 DEC. 2018

**Report regarding the Subordinated Term Loan agreed between Patria Bank SA and Mr. Horia Manda as at the 28 November 2017**

To: PATRIA BANK SA

***Introduction***

We have performed the procedures agreed with you in the engagement letter dated 8 February 2018 between PricewaterhouseCoopers Audit SRL (“PricewaterhouseCoopers”) and Patria Bank SA (“Patria” or the “Bank”) for the purpose of reporting in accordance with the Financial Supervisory Authority Regulation No.5/2018 (the “Engagement Letter”).

The Management of the Bank is responsible for reporting any legal document signed with the shareholders, directors and other key management personnel in the amount equal to or more than EUR 50,000 (or equivalent RON) to the Financial Supervisory Authority (“FSA”).

We performed the procedures in relation to the Subordinated Term Loan agreed between Patria and Mr. Horia Manda dated 28 November 2017 (the “Subordinated Loan” or the “Loan”) amounting of EUR 2,000,000, the details of these procedures being included in Appendix 1 to this report. The scope of our work was defined in paragraph 5 of the Engagement Letter.

***Subordinated Loan – background and approval process***

On the 27 November 2017, according to the decision no. 703 taken by the Board of Directors of Patria Bank SA, it was decided to conclude the agreement named as the Subordinated Term Loan Agreement between Mr. Dragos Horia Manda (Chairman of Patria Bank’s Board of Directors) and Patria Bank S.A., of EUR 2,000,000 for a period of 6 years.

Patria Bank’s Board of Directors concluded that the loan was required considering their analysis of the Bank’s equity ratios and mainly because of not compliance with the total SREP capital requirement (TSCR) of 10.41%, plus the capital shock absorber (in Romanian - Amortizorul de conservare al capitalului) of 1.25% (in total of 11.66%) imposed by the National Bank of Romania (“NBR”), through Order no. 55 from 6 September 2017. The solution was first proposed in the Decision no. 33 from the Risk Management Committee that took place on the 17 November 2017, being one of various options considered, most probably the fastest to achieve and approved in the Decision no. 1506/27.11.2017 of the Management Committee.

In the assessment made by the Bank, presented in the Board of Directors’ decision mentioned

above, in order to place a proposal to Mr. Horia Manda, the Bank took into account three scenarios for the fixed margin, as follows:

1. Scenario 1, based on:
  - a. the yield for national securities in EUR issued by Romania with a maturity of 5 years;
  - b. subordinated debt premium (calculated as EEAF Financial Services BV subordinated debt margin - European Investment Fund); and,
  - c. Patria Bank risk premium (management estimate).
  
2. Scenario 2:
  - a. Interest Rate Swap (IRS) for 5 years;
  - b. CDS (RO);
  - c. subordinated debt premium; and,
  - d. Patria Bank risk premium.
  
3. Scenario 3:
  - a. the yield for national securities in RON issued by Romania, with a maturity of 5 years;
  - b. Cross Currency Swap;
  - c. CDS (RO);
  - d. subordinated debt premium
  - e. Patria Bank risk premium.

### ***Subordinated Loan – our observations***

The Subordinated Loan agreement signed between the Bank and Mr. Horia Manda in the amount of **EUR 2,000,000** was concluded at the interest rate of **5.85% p.a. + 6m EURIBOR**. The Loan agreement is appropriately approved by the executive management and the Board of Directors of the Bank as described in the "Subordinated Loan – background and approval process" section above.

The interest margin of other borrowings of the Bank is generally lower (i.e. 4% p.a.), although we note that, prior to approval of the Loan, the management assessed the appropriateness of the fixed margin by reference to various external sources. In addition, the management explained the fact that this Loan has been obtained from an individual person, and, as a subordinated loan, it ranks after other debts in case of a liquidation. Further the interest rate on the Loan reflected the risk profile of Patria Bank at the time the Loan was originated, which had increased since the Bank's other borrowings were originated since the Bank's need to comply with NBR imposed capital requirements. Hence setting a fixed margin above that on the Bank's other significant borrowing does not seem inappropriate



### ***Other information***

For the purposes of issuing this report, we have not carried out anything in the nature of an audit nor, except where otherwise stated, have we subjected the financial or other information contained in this report to checking or verification procedures. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of the information in this report, except where otherwise stated.


Due to the limited scope of our work and because the procedures are not intended to constitute either an audit or a review or any other form of assurance engagement performed in accordance with applicable auditing, review or other assurance standards, we do not express any form of assurance on the Subordinated Loan in a form of an opinion or overall conclusion.


PricewaterhouseCoopers is not responsible for determining the sufficiency of the procedures specified in this report either for the purpose for which these procedures have been requested or for any other purpose.

For the above reasons, this report may not have identified all matters that might be of concern to you.

Had we performed additional procedures or had we performed an audit or review or other assurance procedures in accordance with applicable auditing, review or other assurance standards, other matters might have come to our attention that would have been reported to you.

You may not make copies of this report available to other parties except as described in the engagement letter dated 8 February 2018, and subject to the conditions described therein. We will not accept any duty of care (whether in contract, tort (including negligence) or otherwise) to any person other than you, except under the arrangements described in the engagement letter.

Paul Facer   
Statutory auditor registered with  
the Chamber of Financial Auditors of Romania under no 3371/17 February 2010

On behalf of   
PricewaterhouseCoopers Audit SRL  
Audit firm registered with  
the Chamber of Financial Auditors of Romania under no 6/25 June 2001

Bucharest, 18 December 2018





#### Appendix 1: Procedures performed

1. Obtaining the report related to the Subordinated Loan prepared by the Bank and submitted to the FSA;
2. Examining the terms of the Subordinated Loan;
3. Examining the approval procedure of the Subordinated Loan including how the terms were benchmarked against external market data; and
4. Issuing a report including our findings on these procedures.